International Journal of
Finance
(IJF)

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF MOBILE SERVICE PROVIDERS IN KENYA: A CASE OF AIRTEL KENYA LTD

Adan Billow Mohamed and Mr. Gerald Atheru

CARI Journals

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017
www.carijournals.org

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF MOBILE SERVICE PROVIDERS IN KENYA: A CASE OF AIRTEL KENYA LTD

[1*] Adan Billow Mohamed

[1*]Postgraduate student: Kenyatta University

[*]Corresponding Author's Email: adanbillow@gmail.com

[2] Mr. Gerald Atheru

Lecturer, Kenyatta University

Abstract

Purpose: The purpose of the study was to determine the effect of corporate governance on financial performance of mobile service providers in Kenya in the case of Airtel Kenya.

Methodology: The study adopted a descriptive research design where a case study was conducted. The target population comprised of all the 96 employees in the top and middle level management working with Airtel Kenya Ltd within Nairobi. The study used primary data collected using a questionnaire. The study used multiple regression analysis. The statistical software used to run the multiple regression was SPSS.

Results: The study findings revealed that board members' experience, their educational qualifications and board ethnic diversity had a positive and significant effect on the financial performance of the firm. Board size, however was found to have a negative but significant effect on the financial performance of the firm. Board gender diversity though had a positive effect on the financial performance of the firm; this effect was found to be insignificant. Financial leverage was also found to moderate the relationship between corporate governance and financial performance of the firm.

Unique contribution to theory, practice and policy: Based on the responses given by the individuals in the two management levels participating in the study, it was recommended that if Airtel Kenya Ltd was to improve their financial performance which had not been impressive, they needed to place key emphasis on the characteristics of their board for efficiency and effectiveness. The management had to ensure that they limited the amount of debts of the firm.

Keywords: *corporate governance, board characteristics, financial performance, mobile service providers*

1.0 INTRODUCTION

Corporate governance is a concept that involves practices that entail the organization of management and control of companies (Brownbridge, 2007). Amos (2003) defines corporate governance as corporate decision making and controls in particular the board structure of an organization and its working procedures. On the other hand, Hermes, (2004) and Jenifer, (2000) refer it as a set of interlocking rules which help govern the behavior corporations, shareholders as well as the management. In each country, this is a combination of a legal system that sets some common standards of governance and systems of behavior determined by firm themselves. A more encompassing definition is given by OECD (1999) which defines corporate governance as the system through which organizations are directed and controlled. According to De Nicolo and Loukoianova (2007), corporate governance comprises of board ownership, board composition, and board size as well as board effectiveness. A definition that encompasses the concept of risk management and resource utilization is given by CIPS (2007) which define it as laid down responsibilities and practices that are exercised by the board and executive management with an aim of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the enterprise‘s resources are used responsibly.

Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat & Black, 2002). The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to firm’s financial performance. According to Demsetz and Villalonga (2002), a well-functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance. It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable.

Claessens et al. (2002) also posits that better corporate framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. They argue that weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises like the 1997 East Asia crisis. Other researchers contend that good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003). According to Ogbulu and Emini (2012), an effective corporate governance decentralizes powers and creates room for checks and balances which most times ensures that managers invest in positive net present value projects thus helping the relationship between management and shareholders to be characterized by transparency and fairness.

Financial devastation of many corporations such as those of USA, South East Asia and Europe have been premised on the failure of corporate governance; high profile scandals throughput the world such as Enron and World.Com in the United States, Transmile, Megan Media and Nasioncom in Malaysia brought about the importance of good corporate governance to limelight. Each of these corporate cases was directly linked to corporate governance failures (Hussin & Othman 2012; Abdul-Qadir & Kwambo, 2012). In Nigeria banking sector with 26 banks liquidated in 1997 and the falsification of the company and financial statement in Cadbury Nigeria Plc. in 2006 and more recent events in 2009 post consolidation banking crises when ten banks were declared insolvent and eight (8) executive management teams of the banks removed by the Central Bank of Nigeria (CBN, 2010).

Literature review and previous empirical studies from overseas have been referenced to develop a research framework and to develop research hypotheses in relation to the relationship between corporate governance and a firm’s performance. Previous studies have indicated that corporate governance can be measured through the following elements: (i) board size;(ii) presence of female board members;(iii) duality of the CEO;(iv) education level of board members;(v) board working experience;(vi)independent (outside)directors;(vii) board compensation;(viii) board ownership; and (ix) block holders. In addition, a firm's performance is measured by the return on asset, known as the ROA ratio (Vo & Phan, 2013).

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit and loss account. Quarden (2004) argued that financial performance analysis helps in short-term and long term forecasting and growth can be identified with the help of financial performance analysis. The analysis of financial performance is a process of evaluating the relationship between the component parts of financial statement to obtain a better understanding of the firm's position and performance. This analysis can be undertaken by management of the firm or by parties outside the namely, owners, creditors, investors illustrated by Chenn (2011). Financial performance measurement ratios such as asset utilization/efficiency ratios, liquidity ratio, leverage/financial efficiency ratios, profitability ratios, solvency ratios and coverage ratios to can be used to evaluate a firm's financial performance (Bekana, 2011).

The traditional and common measures of financial performance of firms are Return on Assets (ROA) and Return on Equity (ROE). Other important measures of performance are Return on Asset and Return on Equity. ROA gives an idea as to how efficient management is at using its assets to generate earnings. ROA is calculated by dividing a company's annual earnings by its total assets. ROA is displayed as a percentage. Sometimes this is referred to as "return on investment". Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing. On the other hand Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is expressed as a percentage.

According to OECD (1990) performance indicators for telecommunications are network size, penetration rates, revenues and traffic. However, it is hard to avoid the conclusion that size matters in telecom. It is an expensive business contenders need to be large enough and produce sufficient cash flow to absorb the costs of expanding networks and services that become obsolete seemingly overnight. Transmission systems need to be replaced as frequently as every two years. Big companies that own extensive networks especially local networks that stretch directly into customers' homes and businesses are less reliant on interconnecting with other companies to get calls and data to their final destinations. For smaller operators hoping to grow big someday, the financial challenges of keeping up with rapid technological change and depreciation can be monumental (Kinuthia, 2014).

The genesis of the telecommunication industry in Kenya can be traced back in 1948 when the East African Posts and Telecommunication Corporation was set up to offer Kenya, Uganda and Tanzania both telecommunication and postal services. This continued until the breakup of the East African Community in 1977 thereby spawning the Kenya Posts and Telecommunication Corporation (Mugo, 2013). This state corporation was the first entity to offer mobile telephony which was quiet expensive in the early 1990's. To address this challenge, Safaricom Kenya Ltd was set up in 1997 and was a joint venture between Telkom Kenya Ltd and Vodacom Kenya Ltd a subsidiary of Vodacom group Plc. Thereafter Kencell was licensed in the year 2000 and presently operates as Airtel Networks Kenya Ltd after having changed ownership several times.

Currently, according to Communications Commission of Kenya (2013) there are two additional tier one network facilities providers namely Telkom Kenya Ltd (trading under the brand name Orange) and Essar Telecom Kenya (trading under the brand name YU). All the four telecommunication companies offer voice, data, texts and money services. According to Communications Commission of Kenya (2013), the number of mobile subscribers rose to 30.7 million (quarter 2of the financial year 2012/2013) in Kenya. Out of this, Safaricom has subscriber base of 19.81million, Airtel Networks (K) Ltd has 5.20 million subscribers, Essar Telecom has 3.22 million and Telkom Kenya (Orange) has 2.48 million subscribers. The market share as measured by 7the number of subscribers means that Safaricom accounts for 64.5%, Airtel Networks 16.9%, Essar Telecoms 10.5% and finally Telkom Kenya(Orange) 8.1%.During this period under review, the population that had access to mobile telephony services(mobile penetration) stood at 78.0 per 100 inhabitants.

Airtel Networks Kenya Limited is part of the larger Bharti conglomerate which started its telecom services business by launching mobile services in Delhi (India) in 1995. The Bharti group comprises of companies like Bharti Infratel Ltd, Bharti AXA Life Insurance Company, Telecom Seychelles Ltd, Comviva Technologies Ltd, and Centum Learning Ltd amongst others. Airtel Networks Kenya Limited was launched in Kenya in 2000 as Kencell, rebranded as Celtel then rebranded to Zain in 2008 and finally Airtel in 2010(Cephas, 2013). The core products offered by Airtel are voice and SMS. In addition to that, Airtel also offers other value added services including; Airtel Money, One Network, blackberry devices and services, International roaming, local and international text messaging, 24-hour customer care centre, Internet access, directory enquires, SMS information services, mobile top up and Me2U service (Muhura, 2012). As a result of its innovativeness, Airtel Kenya has been registering growth in its customer base and according to the CCK (2011) report; the company market share had grown to 15.4% from 10.6% the same period in 2010. According to the management in the organization, they expect the impressive growth to continue being witnessed in the short term period.

One of the challenges Airtel is currently facing is the low market rate as depicted by the CCK sector report for Jan –April 2013. This report indicates that out of the 29,849,336 subscribers in the country, Airtel has only 5,052,069, a 17% market share. The same report indicates that Airtel's voice market share for the same period is 11.5%; short message sent (SMS) market share is 3.9%while its data market share is 11.2%. Airtel's sales force's quota achievement are directly linked to its market share in terms of voice market share as well as SMS market share which are a precedent for revenue generation to the organization (Cephas, 2013).

1.1 Statement of the Problem

According to CIPS (2007), corporate governance is the as laid down responsibilities and practices that are exercised by the board and executive management with an aim of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the enterprise's resources are used responsibly. A well-functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance. It is believed that good governance generates investor goodwill and confidence. In this regard, it has been noted that well governed

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017

firms largely perform better and that good corporate governance is of essence to firm's financial performance (Demsetz & Villalonga, 2002). Financial devastation of many corporations such as those of USA, South East Asia and Europe have been premised on the failure of corporate governance; high profile scandals throughput the world such as Enron and World.Com in the United States, Transmile, Megan Media and Nasioncom in Malaysia brought about the importance of good corporate governance to limelight. Each of these corporate cases was directly linked to corporate governance failures (Hussin & Othman, 2012; Abdul-Qadir & Kwambo, 2012).

Up to date there are four mobile operators in Kenya namely Safaricom Ltd, Airtel Networks Kenya Ltd, Essar Telecom Kenya Ltd and Telkom Kenya Ltd (Orange). According to the mobile subscription and profitability Safaricom Ltd was still in the top position among the four operators (CAK, 2008-2014). In the recent past there were few high profile failures in the telecoms sector as well as restructuring, takeovers mergers and acquisitions. The prime examples would be Telkom Kenya and Airtel which has seen them making losses year in year out. The concern is whether corporate governance is either being totally ignored or there are no strict rules being imposed and monitored by the regulatory authorities.

According to the CCK 2011 report, Airtel Kenya had been registering growth in its customer base and the company market share had grown to 15.4% from 10.6% the same period in 2010. According to the management in the organization, they expected the impressive growth to continue being witnessed in the short term period. However, one of the challenges Airtel was currently facing was the low market rate as depicted by the CCK sector report for Jan –April 2013. This report indicates that out of the 29,849,336 subscribers in the country, Airtel has only 5,052,069, a 17% market share. The same report indicated that Airtel's voice market share for the same period was 11.5%; short message sent (SMS) market share was 3.9%while its data market share was 11.2%.

On the contrary, Krishna and Sah (2010) assert that the main company had very high subscription in other countries such as India and Bangladesh. According to study by Oteri et al. (2015) among the operators at the end of June 2014, Safaricom had the highest subscriber at (68%) while Airtel was second 16% of the total subscriber base. During the period under the review, the three other mobile operators recorded positive gains in subscriptions. However, Airtel Networks Kenya Limited lost 130,005(-3.5% growth). In addition, the review of the profits of the firms shows that there has been great fluctuations majorly decline. For instance the company recorded a profit of 4.9M in 2009 which was followed by a major increase to 10.4M in 2010. However, in the year 2011 and 2012, there was a decrease to 7.194M and 7.192M respectively. In 2013, these profits declined to 5.843M which is an indication of poor performance. In general, the latest industry statistics showed that Safaricom controls all segments of the market — voice (75.6 per cent), SMS (93 per cent), mobile data (70 per cent) and mobile money (66.7 per cent) even after the introduction of several innovative products by Airtel Kenya. The above performance could therefore be linked to corporate governance and the above therefore motivated this study.

A review of current literature showed that none of the studies sought to analyze the link between corporate governance and the performance of Airtel Kenya individually. For instance, a studies by Mose (2014) and Kinuthia (2014) focused on the effect of Corporate Governance on Financial

Performance of telecommunication Firms in Kenya. Kinuthia focused on board size and board composition while Mose (2014) focused on board size, board structure, CEO duality and board independence. This current study sought to assess the effect of board size, board gender diversity, board ethnic diversity and board members' education and skills on the financial performance of mobile service providers in Kenya with a particular focus on Airtel Kenya.

1.2 Research Objectives

i. To investigate the effect of board size on the financial performance of Airtel Kenya Ltd
ii. To find out the effect of board gender composition on the financial performance of Airtel Kenya Ltd
iii. To determine the effect of board ethnic diversity on the financial performance of Airtel Kenya Ltd
iv. To examine the effect of board members' education and skills on the financial performance of Airtel Kenya Ltd
v. To establish the effect of board members' experience on the financial performance of Airtel Kenya Ltd

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Stewardship Theory

As a result of the omission that was found in the agency theory which focused on shareholders as the only interest group of a corporate entity, the stakeholders' theory was developed. According to Sanda, Garba and Mikailu (2011), the agency problem has been expanded to incorporate multiple principals within the framework of this theory. The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. According to the stakeholders' theory, firms have a social responsibility that requires them to put into consideration the interest of all the parties that are affected by their actions. The original proponent of this theory suggested that there was a need to restructure the theoretical perspectives that went beyond the owner-manager employee position and recognized the numerous interest groups. Freeman, Wicks and Parmar (2004), suggested that if organizations wanted to be effective, they would pay attention to all and only those relationships that could affect or be affected by the achievement of the organization's purpose.

Donaldson and Davis (1991) noted that, stewardship theory focused less on the differences between owners and agents, and more on their shared fate. The stewardship theory had its roots from psychology and sociology (Letting et al, 2012). The theory focuses on and highlights the various forms of motivation for managers that is drawn from organizational theory. In this case, the managers are perceived as loyal to the firm and their aim is achieving high performance. The principal motive behind the accomplishment of their jobs is normally their desire to perform excellently. Specifically, managers are seen as being motivated by the desire to achieve, to gain intrinsic satisfaction through successfully performing inherently challenges work to exercise responsibility and authority thereby gaining recognition from their peers and bosses. Therefore, the stewardship theory indicates/implies that there are non-financial motivators for managers (Hamid, 2011).

The directors were the stewards of company assets and were carrying out the business of the firm according to the interest of the shareholders. Unlike agency theory, stewardship theory stresses on the role of top management being as stewards, integrating their goals with those of the organization. Firms that embraced stewardship placed the CEO and chairman responsibilities under one executive, with a board comprised mostly of in-house members. This allowed for intimate knowledge of organizational operation and a deep commitment to success (Flynn, 2013). The model had proved to be adaptable to prevailing changing situations (McGregor, 2000). The shareholders were selecting the directors to act as stewards. The directors needed to identify the interests of the shareholders in order to serve them. Though the directors had to consider the interests of the employees, customers, suppliers and other legitimate stakeholders, shareholders were their first priority. This theory is relevant to the study as it shows how the board of directors who act on behalf of the company undertake their activities either for the common good or bad of the company and how various characteristics embedded in them such as experience affects the firm through decisions made.

2.1.2 Agency Theory

The Agency theory has its roots in economic theory having been exposited by Alchian and Demsetz in 1972 and further developed by Jensen and Meckling in 1976. The Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform the work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents (Clarke, 2004). Meanwhile, Daily, Dalton and Canella (2003) argued that two factors could influence the prominence of agency theory. First, the theory is conceptual and simple theory that reduces the corporation to two participants of managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested. The agency theory states that shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000).

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per "agency theory", i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon & Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed.

Some corporate governance scholars (Carter & Lorsch, 2004; Leblanc & Gillies, 2005) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research. This theory is relevant in explaining how the motivation behind the actions of board members can affect the financial performance of the company.

2.1.3 Resource Dependency Theory

Resource dependency theory emphasizes that resources required by organizations need to be acquired through a network of contacts and the efficiency and effectiveness in bridging network gaps will determine the quality of corporate performance. Resource dependency theory describes organizational success as the ability to maximize power by accessing scarce and essential resources (Pfeffer, 1972). BODs can assist firms in gaining access to important resources that might otherwise be beyond the firms' reach (Brown, 2005). Boards are considered important in securing the necessary resources, such as knowledge, capital, and venture partnering arrangements. Diversity of corporate board members has been found to be an important element in this theory since it can lead to broader corporate networks and improve financial performance (Waddock & Graves, 1997).

Whilst the stakeholder theory focuses on relationships with many groups for individual benefits, resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm (Abdullah & Valentine, 2009). According to this theory the primary function of the board of directors is to provide resources to the firm. Directors are viewed as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like. According to Abdullah and Valentine, directors bring resources to the firm, such as information, skills, business expertise, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007).

The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals (Wang, 2009). The agency theory concentrated on the monitoring and controlling role of board of directors whereas the resource dependency theory focused on the advisory and counseling role of directors to a firm management. This theory is relevant in explaining the importance of various characteristics of the board such as educational qualifications and skills act as intangible resources to the firm and how they could be deployed to influence the performance of the firm.

2.1.4 Stakeholder Theory

According to Wheeler et al, (2002), this theory was derived from a combination of the sociological and organizational disciplines. Stakeholder theory can be defined as any group or individual who can influence or is affected by the attainment of the firm's goals. According to stakeholder theorists, managers in firms are presented with a network of relationships that they have to serve which include the suppliers, employees and business partners. These networks are crucial other than owner manager employee relationship as in the agency theory. Sundaram and

Inkpen (2004) assert that this theory attempts to address the group of stakeholders deserving and requiring management's attention.

Stakeholder theory emphasizes that the organization is a part of a broader social system where in the organization impacts on, and is impacted by, other groups within society (Freeman & Reed 1983; Deegan 2002). The specific groups within society -called 'stakeholder groups'-will have different views about the way an organization should conduct its operation. They also have power to push the organization to comply with their expectations. Hasnas (1998 cited in Nordberg 2008) also states that boards should manage the business for the benefit of all stakeholders. A firm's diversified board would be in a better position to understand societal needs and thereby create a positive image about the firm which could help enhance the wealth of stakeholders and stimulate a firm's awareness of social responsibility to the community in which it operates (Nordberg 2008). Consequently, gender diversity on firm boards becomes relevant from the perspective of the stakeholder theory as well. Particularly, based on the stakeholder theory board members are expected to exercise several roles in relation to social responsibility.

According to Hung (2011), these roles include managing the interests of the stakeholders of the organization. This role is called an organization-oriented role. Secondly, board members assist in protecting the interests of their organization as stakeholders in society (a society-centered role). The organization-centered roles consist of direction-setting roles which reflect the performance dimension and guardian roles as the conforming dimension. Then, the society-centered roles accommodate the social networking role at the inner circle, and the social participation role in the outer circle. Board members who are able to administer these roles adequately are likely to enhance organizational, societal and environmental welfare (Hung, 2011). This theory is relevant in explaining how various actions undertaken by the board affects various stakeholders attached to the firm and how they influence the performance of the firm.

2.2 Empirical Review

Kinuthia (2014) conducted a study whose main objective was to establish the effect of corporate governance on the financial performance of telecommunication firms in Kenya. The study findings indicated that there was significant negative relationship between board size and ROA and implied that big board size led to low ROA of the firms under study. Moreover the same was observed in ratio of growth. The study concluded that for boards to be effective in performing their roles there is need to review the numbers of board members to avoid having large boards for all of the telecommunication firms in Kenya as well as other firms not under the study.

Vo and Phan (2013) sought to quantify the relationship between corporate governance and the performance of firms in Vietnam. The findings of this study indicated board size has a negative effect on the performance of firms. The findings of this study were in line with that of a study conducted by Ranti (2011) on the relationships that existed between governance mechanisms and financial performance in the Nigerian consolidated banks. The study found a significant negative effect of board size on the financial performance of the listed banks. The findings therefore showed that a large board size could lead to the free rider problem where most of the board members play a passive role in monitoring the firm. Furthermore, the board members would tend to be involved in dysfunctional conflicts where the board is not cohesive (board members were not working optimally to achieve a single goal) deteriorating the value of a firm. Large boards in

Nigerian banks were likely to be less effective and easier for a CEO to control. Also, when a board got too big, it becomes difficult to coordinate and process.

In contrast, other researchers reported that increased board size impacts the firm performance positively. Larmou and Vafeas (2010) found that when the board size increases the market responds favorably. In their study they report that large boards provide better monitoring for companies with poor operating performance due to their diversity of backgrounds and communications skills. Sanda et al. (2005) studying a sample of 93 Nigerian listed firms during the period 1996 to 1999, found a positive correlation between the board size and the firm profitability as measured by return on equity (ROE). Their results support that large boards have better access than smaller ones to the external environment by offering better chances to have wide resource for finance and raw materials.

Haider et al. (2015) sought to find out the influence and relationship between corporate governance practices and firm financial performance in Islamic banking sector. Main purpose of this study is to find or identify various factors or variables that affected the firm financial performance. The study found a positive relationship between board size and financial performance. According to the study, large board was beneficial to defend and protect the rights of shareholders which exist in minorities. The study idealized the resource dependent theory which emphasized on large board that encouraged and appreciated accountability, transparency to maximize the firm performance. However it was hard to manage large board size in firms due to accruing different sort of costs and become reason of postponement in execution of vital decision.

Vob (2015) analysed the impact of gender diverse boards on firm financial performance in Norway. The analysis revealed no significant evidence that firm financial performance is positively impacted by gender diverse boards of directors. For Tobin´s Q, there even was a negative relationship of gender diversity of boards of directors and firm financial performance. Neither was the relationship significantly moderated by independent directors, multiple directorships or education. As the Q-ratio is a market-based measure of financial performance, this finding might indicate that increased gender diversity on the boards of directors is not perceived favorable by financial markets. Daunfeldt and Rudholm (2012) investigated whether increasing gender diversity on the board of directors improves firm performance, using a data-set of 20,487 limited companies in Sweden during 1997-2005. More gender diversity in the boardroom was found to have a negative impact on returns on total assets after two years.

Drawing on the business case for gender diversity, Marinova et al., (2010) examined whether board gender diversity had a positive effect on firm performance, based on evidence from the Netherlands and Denmark. The study findings indicate that there was no effect of board gender diversity on firm performance. This implied that the business case for board gender diversity was not supported for this particular sample. The findings are in line with that of Alvarado et al., (2011) who examined the relationship between gender diversity on boards of directors and business success. The results showed that there are few women in decision making positions, and gender diversity and business success are not related.

Ethnic diversity implies heterogeneity in (mother) languages, religions, races and cultures (Alesina & La Ferrara, 2005). It is commonly measured based on country of birth, of the individual or of his/her parents. It coincides with a variety of norms, information sets, knowledge and ability levels (Morga & Vardy, 2009). This variety affects the formation and performance of teams. Ethnic diversity would benefit team performance due to a more diverse pool of skills and knowledge that leads to complementary and mutual learning. For example, due to complementarities and learning opportunities, ethnically diverse teams are associated with more creativity and innovation (Alesina & La Ferrara, 2005; Lee & Nathan, 2011; Ozgen et al., 2011b). On the other hand, the costs associated with more ethnic diversity would be related to more difficult communication and coordination (Morgan & Vardy, 2009).

Marimuthu (2008) empirically examined the relationship between ethnic diversity on boards of directors with firm financial performance in Malaysia. The study findings revealed that increased ethnic diversity (board diversity) on boards of directors would lead to higher firm financial performance. The study concluded that being a multi-racial country, Malaysian companies should make fullest use of this opportunity as increased ethnic diversity offered greater innovativeness, greater creativity, quality decision making and eventually greater financial performance. The findings were in line with that of Abdullah and Ismail (2013) who examined board diversity of the top 100 non-financial Malaysian firms, specifically directors' gender, ethnicity and age and their effects on firm performance. Data are collected from the 2007 annual reports of the sample firms. The evidence indicated the lack of diversity of the Malaysian boards of directors. Results from the multivariate analyses revealed that ethnic diversity was positively associated with ROA.

Carter et al. (2010) examined the business case for the inclusion of women and ethnic minority directors on the board. Specifically, they investigated the relationship between the number of women directors and the number of ethnic minority directors on the board and important board committees and financial performance measured as return on assets and Tobin's Q. The study did not find a significant relationship between the gender or ethnic diversity of the board, or important board committees, and financial performance for a sample of major US corporations. The evidence also suggested that the gender and ethnic minority diversity of the board and firm financial performance appeared to be endogenous. Hausman tests revealed the existence of endogeneity in the single equation fixed effect models which suggested the need to estimate the hypothesized relationships with 3SLS regression. The results of the 3SLS regressions provided no support for a link between either the gender or ethnic minority diversity of the board and board committees and financial performance.

Girbina et al. (2012) after analyzing board members education based on public information posted on listed companies websites and their annual reports found a positive association between the proportion of board members holding a postgraduate degree in financial fields and market based performance measured by Tobin q. The study also found that the proportion of Board members holding degrees in financial fields was higher in bigger firms and firms with more concentrated ownership. This could be explained by the complexity of bigger firms businesses and their attention to attract financial literate members in the Board. The results also showed that firms with a more important main investor appointed board members with higher financial education in order to monitor the management. This could involve that the market appreciated that firms that had board members with superior education in financial fields as better performers than those with less educated ones. It could also imply that more educated board members undertook strategies to attract good investors. These findings were also in line with that of Okon (2014) who examined the relationship between board characteristics and company performance in Nigeria using secondary data from 90 companies listed on the Nigerian Stock Exchange over a period of three years from 2010 - 2012. The study found that when measured by turnover, board education was positively and significantly related to firm performance.

Darmadi (2011) examined board members' education and firm performance in the context of Indonesia, a developing country that adopts a two-tier board system. Using annual reports to collect information on the educational qualification of board members, the study employed a sample consisting of 160 firms listed on the Indonesia Stock Exchange (IDX). The study used four measures of educational qualification namely postgraduate degrees, degrees obtained from prestigious domestic universities, degrees obtained from developed countries, and degrees in financial disciplines. The study provided evidence that the educational qualifications of board members and CEO matter, to a particular extent, for either return on assets (accounting-based performance) or Tobin's Q (market-based performance). For example, CEOs holding degrees from prestigious universities performed significantly better than those without such qualifications. The study concluded that even though intellectual competence should appear to be one of the considerations in the appointment of board members, the education qualification is not always a good proxy for superior advising or managerial quality. There may be many other factors that need to be considered, such as experiences, managerial skills, networks, and other skills obtained outside schools.

According to Vo and Phan (2013) it is argued that board members with a higher age average will have much more experience compared to a younger age average. This experience is expected to positively contribute to the better performance of a firm. However, older-age board member appears to be more aggressive and dictatorial with decisions. These characteristics of board members may result in risky decision making, which may undermine a firm's performance (Carlson and Karlsson, 1970). In addition, board members with a higher age average may face more limited pressures to a changing business environment and this may hinder the implementation of more strategic decisions (Child, 1975).

Padilla (2015) sought to determine if the experiences of directors, disclosed in company filings, correlated with the financial results of companies. The results of this ex-post facto, correlational study were an addition to the collective knowledge on corporate governance regarding evidence of the relationship between director experiences and the financial performance of two types of businesses listed in the S&P 500: regulated and non-regulated. The study found that director experience had the greatest correlation with financial performance. However, there was not a significant connection between boards diverse in experiences and the financial performance of the company.

Al-Tally (2014) investigated the effect of the debt and equity mix, as measured by financial leverage, on a firm's financial performance. The study focused on profitability, specifically in the Saudi Arabian capital market. The overall results of this study were that, in the long term, in the absence of acute economic downturns, lower leverage levels tend to led to higher profit margins and returns on both assets and equity. It also provided evidence to recommend that, under normal economic conditions, Saudi Arabian firms could attempt to improve their financial performance by balancing their zakat liabilities with their leverage borrowing levels

Kale, (2014) set out to investigate the impact of financial leverage on firm performance of the non-financial blue chip companies listed under the NSE 20 share index. It took performance measures in a wider perspective using ROA, ROE and Tobin's Q. The results revealed that there was a significant negative relationship between leverage and return on assets. The result was also buttressing that profitable firms used pecking order theory in its financing, the more profitable a firm was, the more likely they were going to reduce its debts hence internal financing was preferred. Findings from the Tobin's Q model indicated that large firms had a positive insignificant relationship between financial leverage and firm performance while the older firms showed an increase in its market value; this is an indication of investors' confidence on the older firms who have built their reputation over a long period.

Omondi et al. (2013) concluded based on their research findings that company size has a significant positive effect on financial performance. The large companies are found to have a competitive advantage over small firms as large firms have a wide array of resources and also enjoy economies of scale, hence are in a better position to compete in the market. However, for firms that become extremely large, the effect of size could be negative due to bureaucracy and other reasons. This is consistent with Pervan and Visic (2012) who posits that the influence of firm size and profitability is affected by the neoclassical view of the firm and the concept of economies of scale. Accordingly, economies of scale may occur for various reasons such as financial (a large firm can get a better interest rate and also a better discount rate due to a large quantity that it buys); organizational reason (specialization and division of labour); technical reason (division of high fixed costs across large number of units) etc. In line with this concept, a positive relationship between firm size and profitability is expected. Opposite to this, a conceptual framework that advocates a negative relationship between firm size and profitability is noted in the alternative theories of the firm, which suggest that large firms come under the control of managers pursuing self-interested goals and therefore profit maximization as the firm's objective function may be replaced by managerial utility maximization function.

3.0 RESEARCH METHODOLOGY

Descriptive research design was used. The target population for this study comprised of all the 96 employees of Airtel Kenya Ltd in the middle and top management within Nairobi County. Since the population was small and easily accessible to the researcher, all these employees were involved in the study hence a census. The two categories of employees were chosen since they had a better understanding of corporate governance issues in the firm than those in low level management. The study used primary data collected using questionnaires. The study used multiple regression analysis conducted using SPSS to show the relationship between the variables.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires administered was 96. A total of 67 questionnaires were properly filled and returned. This represented an overall successful response rate of 69.79%

4.2 Descriptive Statistics

4.2.1 Board Size

The first objective of the study was to investigate the effect of board size on the financial performance of Airtel Kenya Ltd. The respondents were presented with some statements on board size. Results in Table 1 show that a majority of the respondents, 58.2% (35.80%+22.40%), agreed that board size affected the growth of the firm. Similarly, a majority of the respondents, 64.2%, also agreed that board size affected the firm's equity value. The study findings revealed that 60.2% of the respondents were in agreement that board size affected the market response for the firm, 22.40% had neutral opinion while 17.4% of the respondents were in disagreement with the statement. On whether board size affected accountability and transparency in the firm, 68.7% of the respondents were of the opinion that it does, 11.90% had a neutral opinion while 19.40% of the respondents were in disagreement with the statement. The results showed that a majority of the respondents, 76.2%, agreed that board size affected effective decision making in the firm. On a five point scale, the average mean of the responses was 3.63 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.14. The respondents also noted that board size affected the access of the firm to the external environment, the quality and timeliness of decision making as well as the way shareholder rights were defended and protected. The main challenge stated was the monitoring and control of the board members behaviors and activities.

Table 1: Board Size

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Board size affects the growth of the firm	3.00%	17.90%	20.90%	35.80%	22.40%	3.57	1.12
Board size affects firm's equity value	13.40%	11.90%	10.40%	47.80%	16.40%	3.42	1.28
Board size affects market response for the firm	4.50%	12.90%	22.40%	34.30%	25.90%	3.58	1.14
Board size affects accountability and transparency in the firm	4.50%	14.90%	11.90%	43.30%	25.40%	3.70	1.14
Board size affects effective decision making in the firm	3.00%	9.00%	11.90%	47.80%	28.40%	3.90	1.02
Average						**3.63**	**1.14**

4.2.2 Board Gender Diversity

The second objective of the study was to find out the effect of board gender composition on the financial performance of Airtel Kenya Ltd. The respondents were requested to respond to some statements on the presence of female board members in the firm's board. The results are presented in Table 2. The study findings revealed that 68.7% of the respondents representing a majority believed that having female board members affected valuable, unique diverse viewpoints in the boardroom. A majority of the respondents, 62.7%, also agreed that having female board members affected the return on equity for the firm. When asked whether having female board members affected the questioning and in-depth discussion of critical issues, 73.1% of the respondents, a majority were in agreement with the statement, 11.90% had a neutral opinion while 15% of the respondents disagreed. The results show that those who believed that having female board members affected the attention given to the organizational and teamwork performance were 68.6%, representing a majority of the respondents. 65.6% of the respondents believed that having female board members affected board dynamics and decision making in the firm, 11.90% had a neutral opinion while 22.30% disagreed. On a five point scale, the average mean of the responses was 3.57 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.296.The respondents stated that the board gender diversity also influence investor bias and female board members brought different experiences and skills in the board. The main influencing factor of the existing number of female board members was perceptions about women as well as the constitutional requirements for gender balance in the position.

Table 2: Board Gender Diversity

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Having female board members affects valuable, unique diverse viewpoints in the boardroom	10.40%	11.90%	9.00%	43.30%	25.40%	3.61	1.28
Having female board members affects return on equity for the firm	17.90%	11.90%	7.50%	47.80%	14.90%	3.30	1.36
Having female board members affects the questioning and in-depth discussion of critical issues	6.00%	9.00%	11.90%	40.30%	32.80%	3.85	1.16
Having female board members affects the attention given to the organizational and teamwork performance	16.40%	9.00%	6.00%	34.30%	34.30%	3.61	1.46
Having female board members affects board dynamics and decision making in the firm	11.90%	10.40%	11.90%	50.70%	14.90%	3.46	1.22
Average						**3.57**	**1.29**

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017
www.carijournals.org

4.2.3 Board Ethnic Diversity

The third objective of the study was to determine the effect of board ethnic diversity on the financial performance of Airtel Kenya Ltd. The respondents were required to respond to some statements on ethnic diversity in the board of a firm. As shown in Table 3, a majority of the respondents, 68.6%, agreed that ethnic diversity in the firm's board affected the diverse pool of relevant skills and knowledge. In addition, 65.7% of the respondents agreed that ethnic diverse groups affected creativity and innovation within the firm, 11.90% had a neutral opinion while 22.4% of the respondents disagreed to the statement. The results showed that 62.7% of the respondents, a majority, were in agreement that ethnic diversity in the board affected the quality of decision making in the firm. The findings also revealed that a majority of the respondents, 73.1%, agreed that ethnic diversity in the board affected the performance of the team and mutual learning. On a five point scale, the average mean of the responses was 3.64 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.19. The respondents expressed satisfaction with the existing ethnic diversity in the board and noted that it had created efficiency and diverse strategies. The main challenges though were associated with difficulties in communication as well as coordination which were an added cost to the firm.

Table 3: Board Ethnic Diversity

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Ethnic diversity in the firm's board affects the diverse pool of relevant skills and knowledge	6.00%	10.40%	14.90%	50.70%	17.90%	3.64	1.08
Ethnic diverse groups affect creativity and innovation within the firm	4.50%	17.90%	11.90%	49.30%	16.40%	3.55	1.1
Ethnic diversity in the board affects the quality of decision making in the firm	7.50%	16.40%	13.40%	35.80%	26.90%	3.58	1.26
Ethnic diversity in the board affects the performance of the team and mutual learning	10.40%	10.40%	6.00%	37.30%	35.80%	3.78	1.32
Average						**3.64**	**1.19**

4.2.4 Board Members Educational Qualifications and Skills

The fourth objective of the study was to examine the effect of board members' education and skills on the financial performance of Airtel Kenya Ltd.

Table 4: Board Members' Educational Qualifications and Skills

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
The educational qualifications of the board members affects efficiency in decision making in the firm	9.00%	9.00%	7.50%	41.80%	32.80%	3.81	1.25
The educational qualifications of the board members affects effective control or guidance of management in the firm	6.00%	16.40%	9.00%	44.80%	23.90%	3.64	1.19
The educational qualifications of the board members affects the seeking and interpreting appropriate information within the firm	4.50%	17.90%	13.40%	38.80%	25.40%	3.63	1.18
The educational qualification of the board members affects key strategies for attracting good investors	3.00%	20.90%	13.40%	40.30%	22.40%	3.58	1.14
Educational diversity among board members affects the knowledge of the firm's business	4.50%	16.40%	6.00%	43.30%	29.90%	3.78	1.18
Average						**3.69**	**1.19**

The respondents were asked to respond to some statements on board members' educational qualifications and skills. Results in Table 4 show that 74.6% of the respondents who were the majority agreed that the educational qualifications of the board members affected efficiency in decision making in the firm. 68.7% of the respondents agreed that the educational qualifications of the board members affected effective control or guidance of management in the firm, 9.0% had a neutral opinion while 22.40% disagreed to the statement. Those who agree that the educational qualifications of the board members affected the seeking and interpreting appropriate information within the firm were 64.2%, 13.40% had a neutral opinion while 22.4% of the respondents were in disagreement. The results also show that 62.7% of the respondents agreed that the educational qualification of the board members affected key strategies for attracting good investors, 13.40% were neutral while 23.90% of the respondents disagreed to the statement. A majority of the respondents, 73.2%, agreed that educational diversity among board members affected the knowledge of the firm's business. On a five point scale, the average mean of the responses was 3.69 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.19. Diverse educational qualifications were found to be an advantage since it brought about different perspectives of dealing with a wide range of problems within the firm.

4.2.5 Board Members' Experience

The fifth objective of the study was to establish the effect of board members' experience on the financial performance of Airtel Kenya Ltd. The respondents were asked to respond to some statements on board members' experience.

Table 5: Board Members' Experience

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
The presence of experienced board members affects better strategic decisions	10.40%	13.40%	6.00%	40.30%	29.90%	3.66	1.32
Having older board members affects the quality of decisions by the board	7.50%	19.40%	16.40%	32.80%	23.90%	3.46	1.26
Experience of board members affects the possession of knowledge and skills that contribute to an organization's goals	3.00%	9.00%	9.00%	53.70%	25.40%	3.90	0.99
Having experienced board members in the firm affects the chances of better outcomes	20.90%	13.40%	6.00%	37.30%	22.40%	3.27	1.48
Having board members who had served in the firm affects improvement in performance	16.40%	17.90%	4.50%	35.80%	25.40%	3.36	1.45
Average						**3.53**	**1.30**

As shown in Table 5, 70.20% of the respondents, a majority agreed that the presence of experienced board members affected better strategic decisions. It was found that 56.70% of the respondents were agreeing that having older board members affected the quality of decisions by the board, 16.40% were neutral while 26.90& of the respondents disagreed to the statement. The results show that a majority, 79.1% of the respondents agreed that experience of board members affected the possession of knowledge and skills that contributed to an organization's goals while 59.7% of the respondents, also a majority agreed that having experienced board members in the firm affected the chances of better outcomes. The findings also show that having board members who had served in the firm was found to affect improvement in performance by 61.2% of the respondents, 4.505 had neutral opinion while 34.3% disagreed to the statement. On a five point scale, the average mean of the responses was 3.53 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.30. The respondents noted that the experience of the members had been beneficial in ensuring quality strategies in dealing with various challenges within the firm.

4.2.6 Firm Size

The sought also sought to assess the effect of firm size on the financial performance of Airtel Kenya. The respondents were asked to respond to some statements on firm size.

Table 6: Firm Size

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Firm size affects the competitive edge of the firm in the market	9.00%	14.90%	1.50%	34.30%	40.30%	3.82	1.35
Firm size affects the cost of expanding our network and services	10.40%	13.40%	4.50%	34.30%	37.30%	3.75	1.36
Firm size affects the firm's profitability	7.50%	13.40%	6.00%	43.30%	29.90%	3.75	1.24
Firm size affects the economies of scale in the firm	9.00%	14.90%	3.00%	35.80%	37.30%	3.78	1.34
Firm size affects the level of diversification	13.40%	9.00%	7.50%	40.30%	29.90%	3.64	1.36
Average						**3.75**	**1.33**

The results are presented in Table 6. A majority of the respondents, 74.6%, agreed that firm size affected the competitive edge of the firm in the market. The results also show that 71.6% of the respondents also the majority agreed that firm size affected the cost of expanding the firm's network and services. Firm size was believed to affect the firm's profitability by 73.2% of the

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017

www.carijournals.org

respondents representing a majority while 73.1% of the respondents also agreed that firm size affected the economies of scale in the firm. Those agreeing that firm size affected the level of diversification were 69.29%, 7.5% were neutral while 22.40% of the respondents were in disagreement. On a five point scale, the average mean of the responses was 3.75 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.33. The respondents noted that firm size affected the competitive advantage of the firm and its access to an array of resources that enabled it to expand but at a lower cost.

4.2.7 Financial Leverage

The sought also sought to assess the effect of financial leverage on the financial performance of Airtel Kenya. The respondents were asked to respond to some statements on financial leverage. The results are presented in Table 7.

Table 7: Financial Leverage

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
Financial leverage affects management of earnings	11.90%	13.40%	13.40%	37.30%	23.90%	3.48	1.32
Financial leverage affects efficiency in the firm's operations	13.40%	11.90%	13.40%	44.80%	16.40%	3.39	1.28
Financial leverage affects the profitability of the firm	6.00%	13.40%	13.40%	47.80%	19.40%	3.61	1.13
Financial leverage affects the growth of the firm	10.40%	11.90%	9.00%	49.30%	19.40%	3.55	1.23
Average						**3.51**	**1.24**

The results show that a majority of the respondents, 61.2%, were in agreement that financial leverage affected the management of firm's earnings. The same number of respondents also agreed that financial leverage affected efficiency in the firm's operations. It was found that 67.2% of the respondents who were the majority were agreeing that financial leverage affected the profitability of the firm. On whether financial leverage affected the growth of the firm, 68.7% of the respondents were in agreement, 9.0% were neutral while 22.3% of the respondents were in disagreement. On a five point scale, the average mean of the responses was 3.5075 which means that majority of the respondents were agreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.24. The respondents noted that the financial performance of the firm had not been satisfactory within the last 5years despite the many strategies that had been put in place. The main change was the stiff competition within the market that had affected the growth the firm's customer base. The respondents noted that leverage also affected the return on assets as well as returns on equity of the firm.

4.2.8 Financial Performance

The study also sought to assess the financial performance of Airtel Kenya Ltd. The respondents were presented with some statement on financial performance. The results in Table 8 show that a majority of the respondents, 67.2%, disagreed that the market share of the firm had increased significantly. When asked whether the revenues from the firm's sales had increased significantly, 62.7% of the respondents also a majority disagreed to the statement. The study findings also showed that 74.6% of the respondents who were the majority disagreed to the statement that there had been a consistent positive growth in the firm's profits. 73.2% of the respondents representing the majority noted that the firm's control of major market segments had not grown significantly. Those who indicated that the penetration rates of the firm had not improved significantly were 74.6% and were the majority. On a five point scale, the average mean of the responses was 2.40 which means that majority of the respondents were disagreeing with most of the statements and that the responses were clustered around the mean as shown by a standard deviation of 1.20.

Table 8: Financial Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dvn
The market share of the firm has increased significantly	17.90%	49.30%	7.50%	16.40%	9.00%	2.49	1.22
The revenues from the firm's sales have increased significantly	19.40%	43.30%	6.00%	23.90%	7.50%	2.57	1.26
There has been a consistent positive growth in the firm's profits	17.90%	56.70%	4.50%	11.90%	9.00%	2.37	1.18
The firm's control of major market segments has grown significantly	28.40%	44.80%	7.50%	10.40%	9.00%	2.27	1.24
The penetration rates of the firm have improved significantly	19.40%	55.20%	3.00%	19.40%	3.00%	2.31	1.09
Average						**2.40**	**1.20**

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017

4.4 Inferential Statistics

Inferential analysis was conducted to generate correlation results, model of fitness, and analysis of the variance and regression coefficients.

4.4.1 Correlation Analysis

Table 9 presents the results of the correlation analysis. The results revealed that board size and financial performance of Airtel Kenya Ltd were negatively and significantly related (r=-0.421, p=0.000). The results further indicated that board gender diversity and financial performance of the firm were positively and significantly related (r=0.363, p=0.003). It was further established that board ethnic diversity and financial performance of the firm were positively and significantly related (r=0.376, p=0.002). Similarly, the results showed that board members' educational qualifications and skills and financial performance of the firm were positively and significantly related (r=0.492, p=0.000). It was found that board members' experience and the firm's financial performance were positively and significantly related(r=0.560, p=0.000). This implies that an increase in any unit of the variables led to an increase in the financial performance of the firm expect for board size which would lead to decreased financial performance.

Table 9: Correlation Matrix

		Performance	Board size	Board gender diversity	Board ethnic diversity	Board education	Board experience
Financial Performance	Pearson Correlation	1					
	Sig. (2-tailed)						
Board size	Pearson Correlation	-0.421	1				
	Sig. (2-tailed)	0.000					
Board Gender diversity	Pearson Correlation	0.363	-0.048	1			
	Sig. (2-tailed)	0.003	0.697				
Board Ethnic diversity	Pearson Correlation	0.376	-0.183	0.389	1		
	Sig. (2-tailed)	0.002	0.138	0.001			
Board education	Pearson Correlation	0.492	-0.201	0.334	0.152	1	
	Sig. (2-tailed)	0.000	0.103	0.006	0.220		
Board experience	Pearson Correlation	0.560	-0.250	0.258	0.130	0.318	1
	Sig. (2-tailed)	0.000	0.041	0.035	0.296	0.009	

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017

4.4.2 Regression Analysis

The results presented in Table 10 present the fitness of the regression model in explaining the study phenomena. Board size, board gender diversity, board ethnic diversity, board member education and skills and board members' experience were found to be satisfactory variables in explaining financial performance of Airtel Kenya Ltd. This was supported by coefficient of determination also known as the R square of 54.6%. This means that board size, board gender diversity, board ethnic diversity, board member education and skills and board members' experience explained 54.6% of the variations in the dependent variable which was the financial performance of the firm. These results also implied that the model applied to link the relationship of the variables was satisfactory.

Table 10: Model Fitness

Indicator	Coefficient
R	0.739a
R Square	0.546
Adjusted R Square	0.508
Std. Error of the Estimate	0.44721

In statistics significance testing using the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number is found to be less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; otherwise the model would be regarded as non-significant.

Table 11 provides the results of the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables were good predictors of financial performance of the firm. This was supported by an F statistic of 14.644 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

Table 11: Analysis of Variance

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.643	5	2.929	14.644	**0.000**
Residual	12.200	61	0.200		
Total	26.843	66			

Regression of coefficients results in Table 12 shows that board size and the financial performance of the firm were negatively and significantly related (r= -0.174, p=0.014). An increase in the unit change in the board size would lead to a decrease in financial performance of the firm by 0.174 units.

International Journal of Finance
ISSN 2520-0852 (Online)
Vol.2, Issue 6 pp 1 - 34, 2017
www.carijournals.org

Table 12: Regression of Coefficients

		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.468	0.479		0.976	0.333
	Board size	-0.174	0.068	-0.232	-2.537	0.014
	Board gender diversity	0.064	0.075	0.085	0.846	0.401
	Board ethnic diversity	0.179	0.08	0.212	2.229	0.029
	Board members' education	0.206	0.074	0.267	2.793	0.007
	Board members' experience	0.246	0.063	0.368	3.893	0.000

The results further indicate that board gender diversity and financial performance of the firm were positively and but insignificantly related (r=0.064, p=0.401). These results imply that an increase in the unit change in the number of female board members would lead to an increase in the financial performance of the firm by 0.064 units but this increase was not significant. It was further established that board ethnic diversity and financial performance of the firm were positively and significantly related (r=0.179, p=0.029). This shows that an increase in the unit change in the board ethnic diversity would lead to an increase in the financial performance of the firm by 0.179 units. It was also found that board members' education and skills as well as their experience were positively and significantly related to financial performance of the firm (r=0.206, p=0.007) and (r=0.246, p=0.000) respectively. This shows that an increase in the unit change in the board members' education and experience would lead to an increase in the financial performance of the firm by 0.206 and 0.246 units respectively.

Hence the optimal model for the study before moderation was;

Financial Performance= 0.468-0.174board size + 0.064 board gender diversity + 0.179 board ethnic diversity + 0.206 board members' education +0.246 board members' experience

4.4.3 Moderating Effect of Firm Size

Results in table 4.14 shows that firm size did not have any moderating effect on the relationship between corporate governance and financial performance of Airtel Kenya Ltd. This can be explained by the fact that the p value of 0.771 which is greater than the critical p value of 0.05 which meant that the null hypothesis was accepted. The null hypothesis was; Firm size does not moderate the effect of corporate governance on financial performance of Airtel Kenya Ltd. The alternative hypothesis was firm size does moderate the effect of corporate governance on financial performance of Airtel Kenya Ltd.

Table 13: Moderating Effect of Firm Size

	B	Std. Error	t	Sig.
(Constant)	0.979	0.370	2.646	0.010
Independent variables	0.243	0.173	1.411	0.161
Firm size(moderator)	0.276	0.109	2.543	0.013
Moderating effect of firm size	0.015	0.051	0.292	0.771

4.4.4 Moderating Effect of Financial Leverage

Results in table 14 shows that financial leverage had a moderating effect on the relationship between corporate governance and financial performance of Airtel Kenya Ltd. This can be explained by the fact that the p value of 0.003 was less than the critical p value of 0.05 hence the null hypothesis was rejected. The null hypothesis was; Financial Leverage does not moderate the effect of corporate governance on financial performance of Airtel Kenya Ltd. The alternative hypothesis was financial leverage does moderate the effect of corporate governance on financial performance of Airtel Kenya Ltd.

Table 14 Moderating Effect of Financial Leverage

Variables	B	Std. Error	t	sig
(Constant)	1.468	0.071	20.722	0.000
Independent variables	0.010	0.000	0.893	0.373
Financial Leverage (moderator)	0.347	0.030	1.541	0.333
Moderating effect of financial leverage	-0.532	0.000	-2.011	0.003

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The first objective of the study was to investigate the effect of board size on the financial performance of Airtel Kenya Ltd. The study findings showed that board size and the financial performance of the firm were negatively and significantly related. These findings were in line with that of Kinuthia (2014) who found that there was significant negative relationship between board size and ROA in that big board size led to low ROA of the telecommunication firms in Kenya.

The second objective of the study was to find out the effect of board gender composition on the financial performance of Airtel Kenya Ltd. The study established that board gender diversity had a positive but insignificant effect on this firm. The findings were consistent with that of Vob (2015) who analysed the impact of gender diverse boards on firm financial performance in Norway and found that no significant evidence that firm financial performance was positively impacted by gender diverse boards of directors.

The study also sought to determine the effect of board ethnic diversity on the financial performance of Airtel Kenya Ltd. The study findings revealed that board ethnic diversity had a positive and significant effect on the financial performance of the firm. The findings concurred with that of Marimuthu (2008) who found that increased ethnic diversity (board diversity) on boards of directors would lead to higher firm financial performance and that companies needed to make the fullest use of this opportunity as increased ethnic diversity offered greater innovativeness, greater creativity, quality decision making and eventually greater financial performance..

The study also examined the effect of board members' education and skills on the financial performance of Airtel Kenya Ltd. The findings revealed that the educational qualifications and skills of the board members affected the financial performance of the firm positively and that this effect was significant. The findings agree with that of Mitiku (2015) who found that educational qualification of the directors had a positive and significant effect on financial performance of as measured by ROA.

The fifth objective of the study was to establish the effect of board members' experience on the financial performance of Airtel Kenya Ltd. The study found that there was a positive and significant relationship between the board members' experience and financial performance of the firm. The study findings were consistent with that of Azar *et al.*, (2014) who found that the consideration of both board effectiveness and board experience characteristics played an essential role in better performance of companies.

The study also aimed at assessing whether firm size and financial leverage had a moderating effect on the relationship between corporate governance and the financial performance of Airtel Kenya Ltd. It was found firm size did not have any moderation effect on the relationship between corporate governance and the financial performance of the firm. Financial leverage was found to have a moderating effect on the two variables. This implied that on high financial leverage, corporate governance was associated with lower financial performance while on low financial leverage; corporate governance was associated with high financial performance.

5.2 Conclusions

The main purpose of this study was to assess corporate governance and financial performance of mobile service providers in Kenya in the case of Airtel Kenya. Based on the study findings, the study concluded that board size had a negative and significant effect on the financial performance of this firm. Similarly, the study concluded that board gender diversity affected the financial performance of this firm though the effect was insignificant. Board ethnic diversity, board members' education and experience also affected the financial performance of this firm in a positive and significant way. The study also concluded that even though firm size affected the financial performance of the firm, it did not have moderation effect on the relationship between corporate governance and financial performance of this firm. However, financial leverage affected the relationship between these two variables. Based on the responses given by the individuals in the two management levels participating in the study, it was concluded that if Airtel Kenya Ltd was to improve their financial performance which had not been impressive, they needed to place key emphasis on the characteristics of their board for efficiency and effectiveness. The management had to ensure that they limited the amount of debts of the firm

5.3 Recommendations

Based on the research findings, the study recommended that the firm needed to review the numbers of board members in order to avoid having large boards that constrained the effective performance of board roles and ensure that the free rider problem where some members played a passive role in monitoring the firm did not occur. There was a need to ensure that the board size filled the loopholes that could lead to dysfunctional conflicts especially where the board was not cohesive and ease the control of the board for enhance coordination and processes.

The study recommended that even though having increased number of female board members did not significantly influence the financial performance in the firm; there was a need to ensure that there was a balance of gender in the board in order tonsure compliance with better corporate governance principles and this would lead to a better financial performance. This would be through enhanced questioning and in-depth discussion of critical issues as well as increase the level of attention given to the organizational and teamwork performance which was associated with female members.

Based on the study findings, it was recommended that even though there were some costs related to diverse ethnic groups, the firm needed to expand its ethnic diversity in its board so as to reap the benefits of diverse pool of skills and knowledge that led to complementary and mutual learning as well as creativity and innovation. The firm also needed to ensure that there was a representation of ethnic minorities in the board to ensure that the dominance of one or two groups was suppressed for enhanced performance.

Based on the study findings, it was concluded that even though the educational qualifications of members were not always a good proxy for superior advising or managerial quality i.e. better outcomes, they needed to be a key consideration in the appointment of board members. However, this had to be accompanied by the consideration of other key factors such as their experiences, managerial skills, networks, and other skills obtained outside schools.

Based on the study findings, it was recommended that it was important to reconsider the perception that older board members were more effective and knowledge than young ones hence the firm could reconsider giving younger members a chance. The firm needs to ensure that the selected members had adequate experience in handling board roles and that they were knowledgeable about the industry dynamics for better strategies adoption.

Based on the study findings, it was recommended that the firm should also maintain manageable leverage as this would enhance its overall stand in terms of its size and better financial performance since a company's size affected its return on assets.

5.4 Areas for Further Studies

The study focused on the corporate governance and financial performance of Airtel Kenya Ltd. This analysis could be expanded to other firms which have had a series of poor performance or progression in key areas of their activities to establish whether the challenges are related to corporate governance. There also need to be comparisons on various corporate governance mechanisms adopted in diverse sectors and firms to assess which one worked better.

REFERENCES

Abdullah, S. N., & Ismail, K. N. I. (2013). Gender, ethnic and age diversity of the boards of large Malaysian firms and performance. *Jurnal Pengurusan*, 38, 27 – 40.

Abdullah, S. N., Ku Ismail, K., & Nachum, L. (2014). Does having women on boards create value? The impact of societal perceptions and corporate governance in emerging markets.

Abdul-Qadir, A., & Kwambo, M. L. (2012). Corporate governance and financial performance of banks in the post consolidation period in Nigeria. *International Journal of Social Science and Humanity Studies*, 4 (2) 27-36.

Alesina, A., & La Ferrara, E. (2005). Ethnic diversity and economic performance. *Journal of Economic Literature*, 43(3), 762-800.

Alvarado, N. R., Briones, J. L. & Ruiz, P. (2011). Gender diversity on boards of directors and business success and development in a wired world. *Investment Management and Financial Innovations*, 8(1), 199-209.

Ayuso, S. and Argandona, A., (2007). *Responsible corporate governance: towards a stakeholder board of directors?* Working paper IESE Business School-University of Navarra.

Azar, A., Rad, F. & Botyari, E. (2014). Board characteristics and firm performance: Malaysian evidence. *Journal of Research in Business and Management*, 2(6), 28-34.

Bennedsen, M., Kongsted, H., & Nielsen, K. (2006). Board size effects in closely held corporations. Working Papers 09-2004, Copenhagen Business School, Department of Economics.

Bhagat, S., & Black, B. (2002). The non-correlation between board independence and long-term firm performance.*Journal of Corporation Law*, 27, 231-237.

Bjarnadóttir, K. H. & Bartholdy, J. (2013). Gender diversity in boardrooms; does it matter for firms' financial performance? Evidence from Denmark and Norway.

Brown, L. D. Caylor, M. L. (2009). Corporate governance and firm operating performance. *Review of Quantitative Finance and Accounting*, 32 (2), 129-44.

CAK (2008-2014). Quarterly Sector Statistics Reports.

Carter, C. B., & Lorsch, J. (2004). *Back to the drawing board: Designing corporate boards for a complex world.* Harvard Business School Press, Boston, MA

Carter, D. A., D'Souza, F., Simkins, B. J., & Simpson, W. G. (2010). The gender and ethnic diversity of US boards and board committees and firm financial performance. *Corporate Governance: An International Review*, 18(5), 396–414.

Cephas, C. M. (2013). Effectiveness of training interventions and organizational characteristics on territory sales managers' performance at Airtel Kenya

Chartered Institute of Procurement and Supplies. (2007).

Clarke, T (2004). *Theories of corporate governance: The philosophical foundations of corporate governance*. New York: Routledge Publishing.

Daily, C. M., Dalton, D. R. & Canella, A. A. (2003). Corporate governance: Decades of dialogue and data. *Academy of Management Review;* 28(3), 371-382.

Darmadi, S. (2011). Board members' education and firm performance: Evidence from a developing economy.

Daunfeldt, S. & Rudholm, N. (2012). Does gender diversity in the boardroom improve firm performance?

Donaldson, L., & Davis, J. H. (1991). Boards and company performance –Research challenges the conventional wisdom. *Corporate Governance: An International Review*, 2 (3), 65–91.

Flynn, A. (2013). *Stewardship theory of corporate governance.* Business AzcentralGannett Company.

Fondas, N., & Sassalos, S. (2000). A different voice in the boardroom: How the presence of women directors affects board influence over management. *Global Focus*, 12(2), 13–22.

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and corporate objective revisited, *Organization Science*, 15 (3), 364-369.

Girbina, M. M., Albu, C. N., & Albu, N. (2012). Board members' financial education and firms' performance: empirical evidence for Bucharest Stock Exchange Companies.

Haider, N., Khan, N., & Iqbal, N. (2015). Impact of corporate governance on firm financial performance in Islamic Financial Institution. *International Letters of Social and Humanistic Sciences*, 51, 106-110.

Hamid, A. A. (2011). Corporate governance theories-stewardship theory; government-linked companies research centre.

Hermes, L., (2004). Managing brand consistent employee behavior: relevance and managerial control of behavioral branding. *Journal of Product and Brand Management*, 16 (5), 310 - 320.

Hoogendoorn, S., & van Praag, M. (2012). Ethnic diversity and team performance: A field experiment.

Hussin N., & Othman, R. (2012). Code of corporate governance and firm performance. *British Journal of Economics, Finance and Management Sciences*, 6(2).

Kavulya, P. W. (2011). The effects of corporate governance on Savings and Credit Co-Operatives (Saccos) financial performance in Kenya.

Keasey, K., Thompson, S., & Wright, M. (1997). *Corporate governance: Economic, management, and financial issues*. Oxford: Oxford University Press.

Kinuthia, J. W. (2014). The effect of corporate governance on financial performance of telecommunications firms in Kenya.

Kolandaisamy, I., & Marimuthu, M. (2009). Demographic diversity in top level management and its implications on firm financial performance: an empirical discussion. *International Journal of Business and Management*, 4(6), 179-188.

Krishna, R. J., & Sah, P. (2010). Bharti Airtel to Buy Warid Telecom for $300 Million - WSJ.com

Larmou, S., & Vafeas, N. (2010). The relation between board size and firm performance in firms with a history of poor operating performance. *Journal of Management and Governance*, 14(1), 61-85.

Leblanc, R., & Gillies, J. M. (2005). *Inside the boardroom: How boards really work and the coming revolution in corporate governance*. J. Wiley & Sons Canada, Toronto

Letting, N. K., Wasike, E. R., Kinuu, D., Murgor, P., Ongeti, W., & Aosa, E. (2012). Corporate governance theories and their application to board of directors; a critical literature review. *Prime Journal of Business Administration and Management*, 2(12), 782-787.

Mak, Y. T., & Kusandi, Y. (2002). Size really matters: Further evidence on the negative relationship between board size and firm value. Working Paper 575, May, National University of Singapore, NUS Business School.

Marimuthu, M. (2008). Ethnic diversity on boards of directors and its implications on firm financial performance. *The Journal of International Social Research,* 1(4), 432-445.

Marinova, J., Plantenga, J. & Remery, C. (2010). Gender diversity and firm performance: evidence from Dutch and Danish boardrooms.

Mitton, T. (2002). A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics*, 64, 215-241.

Mose, J. M. (2014). Effect of corporate governance on financial performance of telecommunication firms in Kenya.

Muhura, S. W. (2012). Organizational capabilities as a source of competitive advantage at Airtel Kenya.

Nordberg, D. (2008). The ethics of corporate governance. *Journal of General Management*, 33 (4), 35-52.

OECD. (1999). OECD Principles of corporate governance, Paris OECD

Ogbulu, O. M., & Emini, F. K. (2012). Corporate governance and bank performance: A conditional analysis. *Economic and Finance Review, 2(4), 14-23*

Olusola, A. J., Olugbenga, O. M., Adeoluwa, Z. O., & Oluwagbemiga, O. E. (2013). Accounting information on investment in Nigerian poultry agricultural sector. *Research Journal of Finance and Accounting*, 4(19).

Oteri, O. M., Kibet, L. P., & Ndung'u, E. N. (2015). Mobile subscription, penetration and coverage trends in Kenya's Telecommunication Sector. *International Journal of Advanced Research in Artificial Intelligence*, 4(1), 1-7.

Ozgen, C., Nijkamp, P., & Poot, J. (2011b). The impact of cultural diversity on innovation: Evidence from Dutch Firm-level data. IZA Discussion Papers.

Padilla, K. A. (2015). Disclosing board of director experiences and financial performance: Ex-post facto, correlational study.

Pearce II, J. A., & Zahra, S. A. (1991). The Relative Power of the CEOs and Boards of Directors: Associations with Corporate Performance. *Strategic Management Journal*, 12(2), 135–153.

Pfeffer, J. (1972). Size and composition of corporate boards of directors: The organization and its environment. *Administrative Science Quarterly*, 17 (2), 218–228.

Prihatiningtias, Y. W. (2012). Gender diversity in the boardroom and firm performance: evidence from Indonesian Publicly-Listed Financial Firms

Ranti, U. O. (2011). Corporate governance and financial performance of banks: A study of Listed Banks in Nigeria

Robinson, G., & Dechant, K. (1997). Building a business case for diversity. *Academy of Management Executive*, 11(3), 21-31.

Sanda, A., Mikailu, A., & Garba T. (2005). *Corporate governance mechanisms and firm financial performance in Nigeria:* African Economic Research Consortium, Research Paper, 149, Kenya regal press.

Shleifer, A., & Vishny, R. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 1131-1150.

Singh, V., & Vinnicombe, S. (2004). Why so few women directors in Top UK Boardrooms? Evidence and theoretical explanations. *Corporate Governance*; *an International Review*, 12(4), 479–488.

Solomon, J. & Solomon, A. (2004). *Corporate governance and accountability.* New York: John Wiley.

Sundaram, A. K., & Inkpen, A. C. (2004). The corporate objective revisited. *Organization Science,* 15(3), 350-363.

Vo, D. & Phan, T. (2013). Corporate Governance and Firm Performance: Empirical Evidence from Vietnam

Vob, J. (2015). The impact of gender diverse boards on firm financial performance in Norway

Waddock, S. A., & Grave, S. B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal, 18*(4); 303- 319.

Wang, L. (2009). Corporate governance, industry clustering and corporate performance. *The Business Review, Cambridge*, 12 (1).

Zelechowski. D. D., & Bilimoria, D. (2004). Characteristics of women and men corporate inside directors in the US. *Corporate Governance; an International Review*, 12(3), 337–342.