Do Board Processes Affect Firm Performance of State Owned Sugar Companies in Kenya? Exploring the Role of Use of Knowledge and Skills

1Simiyu Peter & 2Mwengei K. B. Ombaba
1 MBA Student, Jomo Kenyatta University of Agriculture and Technology
2Department of Business Management University of Eldoret

Type of the Paper: Research Paper.
Type of Review: Peer Reviewed.
Indexed in: worldwide web.
Google Scholar Citation: IJFAE

How to Cite this Paper:

International Journal of Finance, Accounting and Economics (IJFAE)

A Refereed International Journal of OIRC JOURNALS.
© Oirc Journals.

This work is licensed under a Creative Commons Attribution-Non Commercial 4.0 International License subject to proper citation to the publication source of the work.

Disclaimer: The scholarly papers as reviewed and published by the OIRC JOURNALS, are the views and opinions of their respective authors and are not the views or opinions of the OIRC JOURNALS. The OIRC JOURNALS disclaims of any harm or loss caused due to the published content to any party.

Simiyu and Ombaba (2018)
Do Board Processes Affect Firm Performance of State Owned Sugar Companies in Kenya? Exploring the Role of Use of Knowledge and Skills

Simiyu Peter & Mwengei K. B. Ombaba
1 MBA Student, Jomo Kenyatta University of Agriculture and Technology
2 Department of Business Management University of Eldoret

Abstract

Firms with strong financial performance are able to survive in the dynamic business environment. Financial stability of firms enables them to compete globally. Corporate governance is plays a significant role on the financial stability of firms. Thus, state owned Sugar Companies in Kenya to financially stable in order for the firms to beat competition from both private firms and international inflow of sugar produce need effective boards. Therefore, this study looked at the effect of use of knowledge and skills on financial performance of state owned sugar companies in Kenya. The study was guided by Resource dependence theory. The study employed a descriptive survey design that used both quantitative and qualitative approach. The target population was all the 38 board members of state owned sugar companies in Kenya. The study used both primary and secondary data. The primary data was collected using questionnaires while secondary data was collected using the data collection schedule. Data was analyzed using both descriptive and inferential statistics. Descriptive statistics included frequencies, mean, variances and standard deviation while inferential statistics included Pearson’s product moment of correlation and multiple regression analysis. Tables and figures were used to present the analysis output. Inferential statistical regression and correlation was done to establish the effect of board governance processes on financial performance of state owned sugar companies in Kenya. The findings of the study established that use of knowledge and skills positively and significantly affect financial performance (β=.280; p<0.05). The results of the study is of great significance to policy making and practice since it will help to develop polices for the firms to use to enhance corporate governance and therefore financial performance. The study will also be of help in theory and literature by providing updated empirical literature regarding board processes from the developing countries perspective on sugar industry in particular. Lastly, the study will form a basis for further studies on corporate governance more so on board processes in future.

1.0 Introduction

The board of directors is tasked with monitoring management and providing advice and counsel by facilitating access to information and other resources. The monitoring role of boards has dominated research, the advising and counseling role remains under researched (Hillman and Dalziel 2003, Tuggle, Schnatterly & Johnson 2010). Anderson and Reep (2004) showed that board governance process relates to the healthy and rigorous discussion on corporate issues and problems so that decisions can be reached and supported. Dulewicz, MacMillan and Herbert (1995) defined board process as the organizing and running of board which need to be performed so that the objectives of the board can be achieved. Board processes which have been identified as affecting board performance include effort norms, cognitive conflict, presence/use of knowledge & skills and cohesiveness (Jehn & Mannix, 2001). Jehn & Mannix (2001) therefore defined board processes as the decision-making activities of directors of companies. In general, board process refers mainly...
to the decision-making activities of the board (Zattoni, Gnan & Huse, 2012). The board has long been recognized as an important corporate governance mechanism for aligning the interests of managers and all stakeholders to a firm. Researchers agree that boards of directors are responsible for accomplishing two primary tasks (Forbes & Milliken, 1999; Finkelstein & Mooney, 2003) control tasks, that is, to safeguard shareholders’ and stakeholders interests through the monitoring of top management’s behavior and the control of company’s results, and strategy tasks, that is, to provide some sort of support and counsel to the management of the firm. Boards of directors perform some important tasks and through them influence firm performance (Zattoni et al., 2012). In these circumstances, board effectiveness is likely to profoundly depend on socio-psychological processes, particularly those relating to group participation (effort norms), coordination (use of knowledge and skills), and open discussions (cognitive conflicts) (Finkelstein & Mooney, 2003; Hambrick, Werder & Zajac, 2008). In their study Wan and Ong (2005), argued that effort norms make directors more aware and more willing to contribute to the performance of the board and a higher level of cognitive conflicts, which are task-oriented, is likely to make directors perform their roles better. With more skills and knowledge within the board, there should be more service and strategic planning outcomes arising from board activities. The relevance of these three processes for the effectiveness of board strategic decision making has been advanced theoretically by Forbes and Milliken (1999) and supported empirically by some recent studies focused on large companies (Zona & Zattoni, 2007; Zattoni et al., 2012).

The effect of corporate boards on firm financial performance has received considerable attention in the economic and finance literature in recent years. Zona and Zattoni (2007) noted that board effectiveness has to depend on “good” internal processes besides solid structure and substantive content. In terms of board processes, a strengthening of effort norms will make directors more aware and more willing to contribute to the performance of the board that will lead to better financial performance. The board governance process has been found to have influence on firm financial performance (Forbes & Milliken, 2009). It is often assumed that a company’s financial performance is mainly determined by board processes. Board of directors are one of the governance measures which are in place for overseeing and monitoring the managers and making sure that institutional goals are met accordingly. Literature on the board points out that board governance processes is an important determinant of its effectiveness and the financial performance of an organization (Dalton, Ellstrand & Johnson, 2008).

In Kenya, Capital markets Authority (CMA) a number of measures to address issues of corporate governance: for instance, it facilitated the enactment of the corporate governance code, in the form of a Sample Code of Best Practice of Corporate Governance in Kenya 2002, in order to strengthen governance mechanisms among Kenya’s listed firms (Tarus and Aime, 2014; Ombaba & Kosgei, 2017). Among the corporate governance structures suggested, in order to improve the quality of decisions in the listed firms, was the composition of the board (The Capital Market Act, Cap. 485A, 2002).

The corporate governance guidelines and regulations for intermediaries provided by (CMA) recommends that one third of board members should be independent and the board should have at least eight board members. The guidelines further require that the CEO and chairman positions should be held by different persons. In addition, the guidelines require that the board should have a balance of skills, experience and background. Furthermore, outside directorship held by board members should not be more than five.

Despite of extensive regulatory reforms and measures undertaken to improve corporate governance mechanism, Kenya is characterized by a weak legal and regulatory framework (Gakeri, 2013; Tarus, 2011) just like any other emerging economy. For instance, in the past few years there have been a number of corporate failures occasioned by financial distress among listed firms. This phenomenon of financial difficulties in Kenyan public companies has been witnessed by the increase delisting of companies. Notable cases of corporate failure include Kenya Bulk medical limited, A Baumann, Kenya Corporative Creameries, Uchumi Supermarkets, and CMC Kenya Ltd., in 2012 among others (Ombaba & Kosgei, 2017). Although CMA has enacted and implemented the corporate governance guidelines, there remains a need to
determine whether board composition and a corporate governance mechanism enhance effective decision making in emerging economies such as Kenya, particularly with regard to financial distress (Ombaba & Kosgei, 2017). Besides, the cooperative governance guidelines seem to applicable to listed firms while the unlisted firms, where the state owned sugar companies belong don’t seem to follow the authority guideline. Hence, the motivation to conduct this research in order to determine whether board processes enhances financial performance.

Sugar Industry in Kenya

The sugar sector is mainly concentrated in the western part of Kenya. These include the populous provinces of Nyanza, Western and parts of Rift valley. Shortly after independence in 1963 the government set up Muhoroni (1966), previously East African Sugar Company Ltd in 1961; Chemelil (1968); Mumias (1973); Nzoia (1978); South Nyanza (1979). Miwani Sugar, started in 1922 as private investment, was taken over in 1970. Private investment included: West Kenya Sugar, Soin Sugar Company, Kibos Sugar and Allied Industries Ltd, Butali Sugar Company and Busia Company.

At present, both Miwani and Muhoroni are under receivership; only the latter is operational. According to Kenya Sugar Board, the state stake holding in the industry is: Miwani Sugar (49%); Muhoroni (82.78%); Chemelil (97.64%); Nzoia (98.87%); South Nyanza (99.79%). The large government ownership makes the industry prone to state and political interference (Sucam, 2003). The industry is one of the largest contributors to the agricultural Gross Domestic Product, directly and indirectly supporting and estimated 6 million Kenyans (20% of the Kenyan population), produces over 500,000 metric tonnes of sugar for domestic consumption (saving the economy in excess of US$250 million or Kshs. 20 billion in foreign exchange annually), GOK (2006). The prominence of the sugar industry in Western Kenya has prompted the growth of regulatory and other industry affiliated bodies. The government oversees the sub-sector principally through the Ministry of Agriculture (MoA) and the Kenya Sugar Board (KSB), the latter being made of representatives from the state, sugar companies, farmers’ organization and general industry. Despite these investments, self-sufficiency in sugar has remained elusive over the years as consumption continues to outstrip supply.

The main industry organ is the Kenya Sugar Board. KSB was established to regulate, develop and promote the sugar industry; coordinate the activities of individuals and organizations in the industry and; facilitate equitable access to the benefits and resources of the industry by all interested parties. KSB has 12 members and renewable tenure of three years. Another key player is the Minister of Agriculture who imposes levies on domestic and imported sugar. Special Development Levy (SDL), makes the regulations and appoints the SAT members in consultation with the Attorney General. The stakeholders in the industry include farmers, the government, sugar factories, and out-grower institutions like the Kenya Sugarcane Growers Association (KESGA), Kenya Sugar Research Foundation (KESREF), importers, financial institutions, transporters, consumers and lobby groups like Sugar Campaign for Change (SUCAM).

Unfortunately, not all of them have been involved in the due processes and most of them have not been represented. This has resulted in a small group making decisions that affect the entire industry. This is occasioned by political interference.

The performance of the sugar industry has continued to be quite dismal. Kenya therefore continues to live off its legacy of being self-sufficient in terms of sugar production. From the list of registered millers and jaggerys provided by the KSB, Muhoroni and Miwani Sugar Company are currently under receivership, Muhoroni Sugar has been under receivership for the last four years Ramisi Sugar Factory collapsed in 1988 although plans are underway to revive it. According to the agricultural manager of the company sanctioned by the government to revive Ramisi, commercial growing of cane at the Kiscol project, was expected to commence by June 2010, while it was anticipated that the factory was to be fully operational by 2011. In terms of production arrangements, most Sugar companies typically have a factory, human resources, agriculture and finance department. The factory department has recently been split up into quality control and engineering in a number of the factories such as Chemelil. The sugar companies also maintain nucleus estates to ensure there is enough supply of cane. Out growers’ scheme on the other hand covers individuals or private sugar–cane farmers. Despite the existence of nucleus estates,
sugar companies still complain of sugar cane shortage a problem which has also contributed to the production gaps in the industry.

Statement of the Problem
Firms with strong financial performance are able to survive in the dynamic business environment. Sound financial stability of firms enables them to compete globally. Thus, state owned Sugar Companies in Kenya need to be financially stable in order to beat competition from both private firms and international inflow of sugar produce. The stability of financial status will enable farmers, suppliers and employees to be paid in good time.

The current financial position of all state owned sugar companies’ is in a deplorable state (KSD, 2017). All state owned sugar companies are in financial distress and this is evidenced by non-payment of long outstanding bills. The suppliers of raw materials are ever demonstrating, the auctioneers bouncing on the companies’ vehicles for non-payment of supplies besides raw materials and labour unrests in the firms due to delayed salaries and wages (KSD, 2017). This trend allowed to continue will in the long run render thousands of employees jobless when the firms eventually collapse. More than two hundred and fifty thousand farmers contracted to the firms may languish in poverty for these have been their source of income. It is for this reason the study seeks to identify how the board governance processes can enhance financial performance of the state owned sugar firms. Studies have shown that it is the role of a company’s board of directors to oversee corporate management in order to protect the interests of shareholders. Several corporate governance problems have emerged due to accountability remissful by the board of directors (Aguilera & Jackson, 2008).

Considering several studies done outside and inside Kenya, few studies done in most developed countries, no study done in Africa and Kenya on the board governance processes and its effect on financial performance of firms. Despite all studies done, many studies done were on other board attributes other than board processes and this creates a big gap that needs to be filled. Therefore, this study intended to look inside the box on what happens in the board decision making process and also establish the effect of board governance process on financial performance of state owned sugar companies in Kenya.

2.0 Theory and Hypothesis Development

Resource Dependence Theory
The theory was founded by Pfeiffer and Salancik (1978). The two scholars opine that board composition should be based on the need to “match” the resources provided by the board with the needs of the firm. The board exists as a provider of resources to the executives in order to help them achieve organizational goals (Hillman, Cannella, & Paetzold, 2000; Hillman &Daziel, 2003). Boyd (1995) suggests that in some environmental conditions board size can be a hindrance, whereas board interlocks (the number of other directorships each director holds) are a benefit, suggesting that resource-rich directors should be the focus of board composition. Thus, it’s not just the number, but the type of directors on the board that matters. Directors bring four benefits to organizations: information in the form of advice and counsel, access to channels of information between the firm and environmental contingencies, preferential access to resources and legitimacy (Pfeiffer & Salancik, 1978). Significant empirical evidence supports these proposed benefits, both generally and specifically.

Firms that are able to attract and co-opt powerful members of the community onto their boards are able to acquire critical resources from the environment (Provan, 1989). More specifically, Pfeiffer and Salancik (1978) find that firms in regulated industries may need more outsiders, particularly those with relevant experience. Luoma and Goodstein (2009) confirm this, finding that firms in highly regulated industries have a higher proportion of stakeholder directors, whereas Johnson and Greening (1999) find that stakeholder directors are more likely to improve corporate social performance. Mizruchi and Stearns (1988) provide empirical support for the relationship between the firm’s need for financial resources and representation of financial institutions on their boards. Stearns & Mizruchi (1988) also find that the types of financial institutions represented on a board affect the financing the firms obtain, suggestive of Pfeiffer and Salancik’s four benefits of boards. Support for these benefits is also found in recent work by Kor and Misangyi (2008), who found a negative relationship, between top management’s and the board’s collective levels of industry

Simiyu and Ombaba (2018)
experience. This suggests that the board supplements top management with vital advice and counsel. There is need to change board composition as the environment of the firm changes (Boeker & Goodstein, 1991; Lang & Lockhart, 1990).

In the context of China’s changing institutional environment, Peng (2004) finds that resource-rich outside directors are likely to have a positive influence on firm performance, whereas resource-poor outside directors are not, suggesting that when board composition is not changed to meet new environmental demands, performance suffers. Hillman, Canella, and Paetzold (2000) create a taxonomy of directors based on the RDT benefits that directors provide, exploring how specific types of directors may be more/less valuable as environments change. They propose that directors can be classified as “business experts,” “support specialists,” and “community influential,” corresponding to the different types of resources they bring to a board. Kroll, Walters, and Le (2007) use Hillman and colleagues’ taxonomy, finding young post–initial public offering (IPO) firms benefit from specific types of directors. Jones, Makri, and Gomez-Mejia (2008) observe that family firms pursuing diversification similarly benefit from specific types of directors over others. The RDT perspective on boards also has been important in the study of organizational decline and bankruptcy (Daily, 1998). This research suggests that directors’ role as resource providers may be especially salient during decline and bankruptcy because distressed firms often experience a reduction in their relative resource bases (Cameron, 2015). In support of RDT, Daily (1998) finds that firms with a greater proportion of outside directors were more likely to successfully re-emerge from bankruptcy.

The empirical literature confirms that financial performance of firms depends on resourcefulness of the board members that is embodied in knowledge and skills that they possess. These board members will be of significance in helping the firms to achieve financial stability through the resources they bring to the firm.

**Effect of Use of Knowledge and Skills on Financial Performance.**

The use of knowledge and skills available in the board is particularly relevant, as the management team has advantages in terms of firm-specific knowledge but may be at disadvantage regarding general business knowledge (Bammens et al., 2011). Literature on group effectiveness shows that two conditions can facilitate the use of knowledge and skills available to boards of directors. First, knowledge and skills of individual members are more effectively used when group members are more aware of each other’s competencies (Kearney et al., 2009; Zattoni et al., 2012). Second, social ties among board members enhance mutual trust and respect and encourage the propensity of insiders to use knowledge and skills of outsiders (Westphal, 1999; Zattoni et al., 2012).

Zona & Zattoni (2007) on their study beyond the Black Box of Demography: board processes and task effectiveness within Italian firms. According to their findings with regards to board networking performance, use of knowledge and skills they found positive influence on board task performance, whereas they found only weak support for the hypothesized positive. They indicated that the higher the use of knowledge and skills, the higher the level of board service, monitoring and networking task performance. On the contrary to their study, when it comes to board service and monitoring performance, use of knowledge and skills is positively associated with board performance. Moreover, it is worth noting that the Use of knowledge and skills, such as the process by which members’ contributions are coordinated, is positively associated with board task performances: this finding seems to suggest that in episodic decision-making groups facing complex tasks, such as boards of directors, a key factor determining board effectiveness is the way in which directors’ individual skills and expertise are integrated. Zona & Zattoni (2007) from their findings as supported by Forbes and Milliken (1999); Pye and Pettigrew (2005) maintained that board’s outcome may be less than the sum of its parts if individual contributions are not well integrated.

Zattoni et al., (2012) on how does Family Involvement Influence Firm Performance? Exploring the Mediating Effects of Board Processes and Tasks. Their results showed that board internal processes do have a positive influence on board tasks performance. In particular, their results provide support for the relevance of effort norms and use of knowledge and skills as key antecedents of board tasks performance. This is supported by Tricker (2011) who shows that directors’ specific knowledge of the complexity of the firm’s business
enables them to monitor and advise managers efficiently. The debate on the impact of board diversity in the corporate world has continued to rage. The influence of the board members’ individual gender type and educational qualification on corporate performance is the main issue of discussion. Scholars and practitioners as well as policy makers have for the last two decades debated on the role of boards of directors as one of the key pillars of corporate governance (Monks & Minow, 2008; Tricker, 2011). Board composition has proven to be critical in corporate performance especially in emerging and transition economies (Bhagat & Black, 2008). Dependent directors are also important because they have insider knowledge of the organization which is not available to outside directors, but they can misuse this knowledge by transferring wealth of other stockholders to themselves (Beasley, 2005).

H02. There is no significant relationship between use of knowledge and skills and financial performance of state owned Sugar Company in Kenya

Conceptual Framework

The conceptual framework looks at the effort norms, Cognitive conflict, use of Knowledge and skills and board Cohesiveness as independent variables of the board process and the effect on financial performance which will be measured by return on investments.

Use of Knowledge and Skills
- Presence of skill
- Usage of skills
- Analytical thinking
- Strategic perception
- Result-oriented perspective

Financial Performance
- Return on Investment
  - Net earnings of the Firm
  - Total Assets

Independent Variables

3.0 Methods
The study employed a census survey that will be to obtain information that can be analysed for the purpose of establishing a basis for making decisions. The census survey enables the researcher to collect data from the entire population. This design was suitable because it enables the researcher to formulate important principle of knowledge.

Target Population
A population is a group of objects, individuals or items from which samples are taken for measurement (Kombo and Tromp, 2011). Cooper and Schindler (2006) define population as the total collection of entities to whom the researcher seeks to make inferences. Thus, population is the collection of all entities that conform to a given study condition. The board members of the state owned sugar companies in Kenya form the target population. There are five state owned sugar companies in Kenya. However, one is under receivership thus remaining with four which are operational. Thus, the accessible population was the 38 board members from all the four state owned sugar companies in Kenya which are in operation.

Data Collection Instruments
The primary data was collected using questionnaires and secondary data through data collection schedules. The items in the questionnaire will be measured on a 5-point Likert response scale ranging from “strong disagree” to “strong agree” as guided by prior studies. The questionnaire is preferred because it eliminates the subjectivity that is common with other data collection tools such as interviews. The questionnaire also accords the respondents adequate time to think or reflection before responding (Kothari, 2004).

Validity
Validity entails that the research instruments are measuring what they are purposed to measure (Cooper & Schindler, 2006). The research will employ content validity of research instruments by thoroughly reviewing the relevant literature and
consultation with expert and supervisor to determine whether the items in the measure have adequately sampled the domain.

**Reliability**
The study will use Cronbach’s alpha Coefficient to determine the reliability of its instrument. The coefficient ranges from 0.00 to 1.0. However, a Cronbach alpha of 0.7 and above was to be indicative that the instruments are reliable (Sreevidya & Sunitha, 2011).

**Regression Model**
Linear multiple regressions was used to establish the relationship between board governance processes and financial performance of state owned sugar companies. The following model was used;

\[ Y = \alpha + \beta_1 X_1 + \varepsilon \]  

**Where:**

- \( Y \): represents dependent variable. Referring to financial performance
- \( \alpha \): regression constant. It is the value of Y when \( X_1 = 0 \)
- \( \beta_1 \): is change in Y with respect to a unit change in \( X_1 \)
- \( X_2 \): use of Knowledge and Skills
- \( \varepsilon \): is the error variable.

The inclusion of a random error, \( \varepsilon \), is necessary because other unspecified variables may also affect the state owned sugar firm’s financial performance.

### 4.0 Findings and Discussions

#### Response Rate
A total of 42 questionnaires were administered on the respondents. Out of this number, 39 were successfully filled and collected from the respondents. This translates to 92.86% response rate. The response rate was accepted as it had exceed the 70% response rate threshold (Nulty, 2008). The main reasons that could be ascertained for non-response included directors being overseas on business travel and unavailable to complete and return the questionnaire in time.

**Reliability Test Results**
Reliability test was done by assessing the internal consistency of the research questionnaire. This was done through the pilot test conducted on the board of directors of Mumias Sugar Company. The results of analysis are shown in Table 4.1.

**Table 4.1: Reliability of the Research Questionnaire**

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Cronbach’s Alpha Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Knowledge and Skills</td>
<td>0.718</td>
</tr>
</tbody>
</table>

Knowledge and skills had a Cronbach’s alpha coefficient (0.718). This implies that the research questionnaire was reliable as all the 6 constructs had Cronbach’s alpha coefficients greater than the threshold of 0.7

**Background Information**
The study collected information in regards to age, gender, academic qualifications, position in the board and tenure.

**Distribution of Respondents by Age**
The study examined how respondents were distributed according to their age categories. Table 4.2 presents the results of analysis.

**Table 4.2: Distribution of Respondents by Age**

<table>
<thead>
<tr>
<th>Age Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 to 30 Years</td>
<td>3</td>
<td>7.69</td>
</tr>
<tr>
<td>31 to 40 Years</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>41 to 50 Years</td>
<td>9</td>
<td>23.08</td>
</tr>
<tr>
<td>51 to 60 Years</td>
<td>12</td>
<td>30.77</td>
</tr>
<tr>
<td>Above 60 Years</td>
<td>10</td>
<td>25.64</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

It was found that 12 (30.77%) of the respondents were between 51 to 60 years. Respondents between 20 to 30 years were 3 (7.69%) while those between 41 to 50 years were 9 (23.08%) and those between
31 to 40 years were 5 (23.08%). It was further established that 10 (25.64%) respondents was above 60 years of age. The findings implied that most of the members in sugar boards are of age 12 (51 to 60 years).

### Distribution of Respondent by Gender

This study analyzed how respondents were distributed according to their gender. The results of the analysis are presented in Table 4.3.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>31</td>
<td>78.48</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>20.52</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It was noted that 31 (78.48) were male while 72 (20.52%) of the respondents were female. The findings shows that male are more than the female. Thus, the gender of respondents could have influence on the findings of the study. This shows that men are the most board members in state owned sugar companies. This implies that despite the agenda rule still women are sidelined in board positions.

### Distribution of Respondent by Academic Qualifications

The study examined the distribution of respondents in regards to their academic qualifications. The results of analysis are shown in Table 4.4.

<table>
<thead>
<tr>
<th>Educational Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-secondary</td>
<td>4</td>
<td>10.26</td>
</tr>
<tr>
<td>Graduate</td>
<td>22</td>
<td>56.41</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>13</td>
<td>33.33</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The findings of the study indicated that 22 (56.41.8%) of the respondents who are members in boards of sugar companies had attained a bachelor degree. It was also noted that 13 (33.33%) of the respondents had post a graduate degree while 4 (10.26%) post-secondary education. The findings indicates that members in sugar boards are educated hence are in a position to comprehend the issues surrounding the sugar industry.

### Distribution of Respondent by Tenure of Service

The study also examined how respondents were distributed according to the tenure of service in as the board member. The results are shown in Table 4.5.

<table>
<thead>
<tr>
<th>Tenure of Service</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>3</td>
<td>7.69</td>
</tr>
<tr>
<td>2 years</td>
<td>5</td>
<td>12.82</td>
</tr>
<tr>
<td>3 years</td>
<td>4</td>
<td>10.25</td>
</tr>
<tr>
<td>4 years</td>
<td>7</td>
<td>17.95</td>
</tr>
<tr>
<td>5 years</td>
<td>9</td>
<td>23.08</td>
</tr>
<tr>
<td>Above 5 years</td>
<td>11</td>
<td>28.20</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The findings of the study showed that 3 (7.69%) of the respondents have been members less than 1 year. Members who have been serving as the directors for 2 year and 3 years are 9 (13.07%) respondents. Board of directors who have been in service for 5 years were 9 (23.08%), while those members that have been in the board for 4 years are 7 (17.95%) In addition 11 (28.20%) had been in service for over 5 years. The findings indicate that the respondents have been in the board for long and therefore have understood the effort norms of the boards.

Descriptive Findings and Discussions
The study examined the views of the sampled board members on board governance processes and financial performance of state owned sugar companies in Kenya. The results are in line with a 5-point Likert scale where integers 5 to 1 represent strongly agree to strongly disagree respectively.

Use of Knowledge and Skills
The study also analyzed the views of respondents’ on use of knowledge and skills. The results are indicated in Table 4.8.

Table 4.6: Descriptive Statistics for Use of Knowledge and Skills

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>People on the board are aware of each-others areas of expertise</td>
<td>39</td>
<td>1</td>
<td>5</td>
<td>2.49</td>
</tr>
<tr>
<td>ii.</td>
<td>Task delegation on this board represents a good match between knowledge and responsibilities</td>
<td>39</td>
<td>1</td>
<td>5</td>
<td>3.24</td>
</tr>
<tr>
<td>iii.</td>
<td>Board members adopt/use analytical thinking</td>
<td>39</td>
<td>5</td>
<td></td>
<td>3.83</td>
</tr>
<tr>
<td>iv.</td>
<td>Our board makes best use of board members knowledge and skills</td>
<td>39</td>
<td>1</td>
<td>5</td>
<td>4.21</td>
</tr>
<tr>
<td>v.</td>
<td>When an issue is discussed, the most knowledgeable people generally have the most influence.</td>
<td>39</td>
<td>1</td>
<td>5</td>
<td>4.21</td>
</tr>
<tr>
<td>vi.</td>
<td>The board members understand the activities of the company.</td>
<td>39</td>
<td>1</td>
<td>5</td>
<td>4.30</td>
</tr>
</tbody>
</table>

It was agreed that board members understand the activities of the company (mean= 4.30; std dev=0.85). There was agreement that the boards make best use of their members’ knowledge and skills (mean=4.21; std dev=0.82). In addition, there was an agreement that when an issue is being discussed the most knowledgeable persons have the most influence on it (mean=4.20; std dev=0.84). There was also an agreement that board members use analytical thinking (mean=3.83; std dev=0.97). However, it was unclear whether task delegation of the board represents a good match between knowledge and responsibilities (mean=3.24; std dev=1.27). The findings were also indifferent on whether people on the board are aware of each other area of expertise (mean=2.49; std. dev=1.305).

Inferential Analysis
In this section the relationship between independent variables and the dependent variable and also the influence of the independent variable on the dependent variable was discussed. Thus, the section presents the results of both correlation and multiple regression analysis.

Relationship between Use of Knowledge and Skills and Financial Performance
The study further assessed the relationship between use of knowledge and skills and financial performance of state owned sugar companies in Kenya. The correlation analysis results are as shown in Table 4.9.
Table 4.7: Correlation Analysis for Financial Regulations Strategies

<table>
<thead>
<tr>
<th>Use of Knowledge and Skills</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.137*</td>
<td>.036</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).

The study established that there exists a positive and statistically significant relationship between use of knowledge and skills and financial performance of state owned sugar companies (r=0.237; p<0.05). Use of knowledge and skills significantly influence financial performance. The results implies that boards’ effectiveness is enhanced when boards make greater use of their knowledge and skills. The findings of this study supports earlier findings by (Zona & Zattoni (2007)).

Table 4.8: Multiple Regression Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.623</td>
<td>.328</td>
<td>.325</td>
<td>.485</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), effort norms, cognitive conflict, use of knowledge and skills and board cohesiveness
b. Dependent Variable: financial performance

The findings as shown in Table 4.16 indicated a positive effect between board processes and financial performance (R² = 0.328). Findings indicate that 32.8% of the variation in financial performance can be accounted for by the four independent variables in the study while 67.5% of the financial performance can be accounted by other factors not included in the study.

4.8.2 Regression Coefficients

The study also conducted t-test of statistical significance of each individual regression coefficient. Table 4.9 presents the results.

Table 4.9: Significant Test for Overall Model

<table>
<thead>
<tr>
<th></th>
<th>Results Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>Use of Knowledge and Skills</td>
<td>.957</td>
<td>.311</td>
<td>.280</td>
<td>3.071</td>
</tr>
<tr>
<td></td>
<td>.272</td>
<td>.077</td>
<td></td>
<td>3.555</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance of State owned sugar companies

The null hypothesis H₀ suggested that there is no significant effect of use of knowledge and skills on financial performance of state owned sugar companies. The study established that financial regulation strategies significantly predicts sustainability (β=.280; p< 0.05). Therefore, the null hypothesis was rejected at significance level of 5%. This implies that board have the ability to utilise the knowledge and skills available to it and then to apply such knowledge and skills to required board tasks ultimately enhancing financial performance of state owned Sugar Companies in Kenya. This finding is supported by previous studies of (Wan & Ong, 2005; Zona & Zattoni (2007) that
boards’ effectiveness is enhanced when boards make greater use of their knowledge and skills. Forbes & Milliken (1999) also agree that for boards to perform their tasks effectively, they must combine and apply their knowledge in return will enhance the performance of the firms. A board’s usage of its management skills and result-oriented perspective has allowed effective monitoring of company performance. From the t-test results of individual regression coefficients, the three independent variables were included in the regression equation as they were significant (p<0.05). The study results is shown in regression equation 4.1

\[ Y = 0.957 + 0.241X_1 + \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \text{Equation 4.1} \]

The study noted that by improving use of knowledge and skills by 1 unit it will enhance financial performance by 0.280 units. From the equation 4.1 above it implies that if state owned sugar companies in Kenya fail to implement board governance processes, financial performance will be constant at 0.957 units.

The findings from the multiple regressions analysis are in agreement with the preposition of the theories that underpinned the study. The primary goal of the monitoring functions of the board is the obligation to ensure that management operates in the interests of shareholders an obligation that is met by scrutiny, evaluation, and regulation of the actions of top management by the board (Hillman and Dalziel, 2003). This implies that management cannot be trusted, thereby calling for strict monitoring and supervision by the board in order to protect shareholders’ interest. This theory is supported by positive and significant effect of use of knowledge and skills and cognitive conflict of financial performance.

5.0 Summary, Conclusions and Recommendation

The objective was to examine the effect of use of knowledge and skills on financial performance of state owned sugar companies. The findings showed a positive and significant effect on financial performance. Thus, the findings revealed that board directors make use of knowledge and skills of the board members when conducting meetings. The study established that there exist a positive and significant correlation between use of knowledge and skills and financial performance. Therefore, use of knowledge and skills enhances financial performance. This findings support resource dependency theory that boards can utilize the resources of the directors to enhance financial performance.

Conclusions

There are several conclusions that were made in respect of the study findings. The conclusions are in line with the study objective. From the findings of the study, it was concluded from the findings of the study that usage of knowledge and skills enhance financial performance of sugar companies. Board of directors should make use of the skills and expertise of it board members when making decisions affecting the firms. This shows that board members should possess certain skills and knowledge to enhance firm performance. This support the argument of resource dependence theory that advocates for resourcefulness among the directors so as to be able to think analytically.

Recommendations

A number of important recommendations were made in respect of study findings. The recommendations were also in line with objectives of the study. There are recommendations for policy and practice, Theory and Literature and further studies.

Recommendations for Policy and Practice

The study recommends that government should put in place policies and regulations that will compel board of directors to have certain skills and knowledge. The government should come up with training programs to sensitize board of directors on governance policies. The study also recommends boards to put in place policy and guidelines on board meetings processes this is to enable board members follow the procedures.

Recommendations for Theories

The study recommends that the use of knowledge and skills enhance board effectiveness and thus firm performance. Therefore, this study upholds the tenets of resource dependency theory by providing updated empirical literature from the developing county perspective. The study therefore has boosted the existing literature on board processes and financial performance which provide a reference point for academic discourse and future reference.

Suggestions for Further Studies
The following suggestions were made for further research based on the findings of this study:

The study recommends that to take research to the next level the study recommends that future research to undertake a study on mediated-moderated relationships on board processes and financial performance. The study further recommends need to conduct research on the listed firms in Nairobi securities market because they give a different perspective on governance. There need of conducting further studies on role of board processes on financial performance of family owned or private owned sugar companies.

References