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EFFECT OF BOARD SIZE ON THE FINANCIAL PERFORMANCE OF SUPERMARKETS IN KENYA: A CASE OF NAIROBI COUNTY

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Abstract: **The main objective of this study was to assess the effect of the board composition on the financial performance of supermarkets in Kenya. The study used descriptive research design. The total target population was 30 supermarkets in Nairobi County selected based on monthly sales of Ksh.150, 000 and above and with a minimum of two branches. This study collected primary data by use of semi-structured questionnaires. Purposive sampling technique was used to pick respondents from the management of these supermarkets as they were deemed to be the ones with crucial information for this study. Validity and reliability of the instruments for research was tested through a pre-test. Cronbach alpha test was utilized to test for reliability of this paper. The analysis of Multiple Regression (Standard), Descriptive Statistics and Inferential statistics was used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings. The study found out that board size and financial performance are negatively related and significant and therefore the study concluded that a shrink in board size means an increase in supermarkets' financial performance and an increase in board size means a decrease in supermarkets' financial performance.**

Keywords: **Board Size, Financial Performance, Supermarkets, Corporate Governance.**

1. INTRODUCTION

In the recent past a number of supermarkets in Kenya have been reported to having experienced financial problems while some have resulted to closure. Since 2007 to date, about six banks namely Euro Bank, Trade Bank, Charter House, Imperial Bank, Dubai Bank and most recently the Chase Bank have collapsed. In the global scene we have Bank of Credit and Commerce International (BCCI) and Baring Bank in UK. The public will have confidence on banking institutions if they uphold sound corporate governance rehearses. Company's performance is the fraction of standard or the known indicators of sufficiency and effectiveness, for instance, the duration of a process, administrative consistency and waste reduction. Performance can also be characterized as the measures identifying with how an arising demand is met or the illustration of executing; or attaining a task successfully (Venkatraman and Ramanujam, 1986).

According to Rutagi (1997), financial performance of an organization is how well that organization is performing, while Namis (2002) defined performance as the extent to which organizations meets its targets. This type of performance is also estimated in terms of solvency, profitability, liquidity, financial competence and how fast the organization repays its obligations (Brealey*et al.,* 2009).

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The financial performance estimates for this study were profitability and returns, just to mention a few. Different organizations measure financial performance differently; some organizations measure their financial performance by comparing themselves with another organization in the same industry and of same size among other characteristics. Other organizations undertake financial ratio analysis while other uses their budgets to measure their financial performance. It is also possible for an organization to use a mix of methodologies in measuring its financial performance. According to Foestor and Huen (2004), it is the size of the institution, its management of the assets and the efficiency of the organizations operations that affect the financial performance of the organization.

According to Kariuki (2011), the increased population in towns has caused demand of goods and services causing a major transformation of the supermarket chains. Due to competition among the supermarkets to win the consumers and make their supermarkets a brand of choice, aspects of modernity in terms of elegance and comfort shopping experience coupled with suitable business location to ensure convenient shopping are driving forces that ensure competitiveness. The ease of shoppers' convenience to access the shopping place is a critical aspect that determines the success of a supermarket.

2. STATEMENT OF THE PROBLEM

In Kenya, situations where supervisors and chiefs have been blamed for poor corporate administration coming about to corporate outrages incorporate the close crumple of Unga Group, National Bank of Kenya and all the more as of late Board room wrangles and the revelation of mystery abroad ledgers for siphoning organization cash by a few executives at CMC Motors (Madiavale, 2011). In the supermarkets sector**,** Madiavale (2011) also indicates the post of Uchumi Supermarkets under insolvency as a result of mismanagement as being the center stage of poor or lack of observance of good corporate governance practices. The collapse of Nakumatt supermarkets also raises eye brows on the adoption and adherence to corporate governance standards which would have insulated such attempts from happening.

Several studies have been conducted on corporate governance including Love and Rachinksy (2011) who established the presence of a negative interconnection between bank performance and corporate governance. Another study also established that proprietorship focus and state possession leads to inferior financial performance while local possession and higher foreign lead to superior financial performance (Kiruri, 2013). A study by Nyarige (2012) established that the board size positively affect performance of business banks. However, a study by Wepukhulu (2015) inferred that that there is no noteworthy distinction between possession structure, corporate administration rehearses and budgetary execution. Wanjiku*et al.* (2011) built up a positive connection between corporate administration practices and firm's performance. These studies are altogether conflicting and the influence of corporate governance practices on the firm's performance in Kenya has therefore not been conclusive.

Ng'etich (2015) did a study on how the performance of state corporations is influenced by corporate governance, while Guzeh (2012) focused on the effect of corporate governance in Parastatals. These studies have been done in financial services sector and quite a number have focused on specific institutions, however, there are very few studies done on the categorization of the industry in which the manufacturing and allied firms and to be in particular, supermarkets fall. This study therefore aimed to fill these gaps by determining the effect of board size on the financial performance of supermarkets in Kenya.

3. LITERATURE REVIEW

Board size is a structure that consist the total figure of directors on a board for each sample supermarket including the Chairman and the CEO for a given financial year (Rosalina, 2010). This comprises of outside directors, non-executive and executive directors. A board size is often assumed to internally relate to other predictor variables that may influence a supermarket's performance (Bhagat & Black, 2012)

The measure of board size can either be large or small. At the point when boards comprise of an excessive number of individuals organization issues may increment, as few chiefs may follow along as free-riders. Weisbach and Hermalin (2003) assert that if a board is made up of many members that is, it is large in size then it possibly assumes a symbolic role rather than fulfilling its core duty of management. A large board's works well depending on the organizing structures of various supermarkets (Adam & Mehran, 2015). It means that large board sizes can either increase or decrease the performance of a firm.

Vafeas (2010) defines a small board size as a structure with a minimum of five members. For Mak and Yuanto (2013) a small board size is considered to have five members. Consequently, a company with a small board size is considered to yield high performance. Smaller groups are said to be better in terms production because they are able to supervise the firm more effectively (Pablo et al., 2005).

A study by Bonn, Yokishawa and Phan (2004) concentrated on the impacts of board structure on performance of the firm: a correlation among Japan and Australia. The investigation found that performance and board size, was negatively connected for companies in Japan but no connection existed between performance and board size in the same types of companies in Australia. Be that as it may, as opposed to the firms in Japan the proportions of external executives and female executives to add up to board numbers contain a positive effect in the Australian example.

Bhagat and Black (2012) considered the non-correspondence between firm's performance and Board Independence for long period. The research completed a long-skyline of whether the level of board autonomy (proxied by the division of autonomous executives less the part of inside executives on an organization's board) relates with different proportions of the long haul performance of vast American firms. The investigation found no strong proof on the connection between performance and board size, despite the fact that there are insights of an opposite relationship between the two. They clarified that the size of the board estimate is regularly taken to be identified internally with supplementary control factors that may correspond with performance; the methodology taken may cause the distinction in results.

A contention was raised against the likelihood that bigger boards can be less successful than small boards (Hermalin & Weisbach, 2003). At the point when boards comprise of an excessive number of individuals agency problems may increment, as a few executives may follow along as free-riders. They contended that when a board turns out to be too enormous, it frequently moves into a more representative job, as opposed to satisfying its proposed capacity as a feature of the administration. Moreover, bigger boards are bound to be related with an expansion in board assortment as far as experience, aptitudes, sexual orientation and nationality is concerned (Dalton & Dalton, 2015). Seizure of assets by the internal executives is generally simpler when boards have a few members. The reason behind this is that, small boards are additionally connected with fewer outside executives. The couple of executives in a small board are engrossed with the process of decision making, allowing for monitoring exercises.

Vafeas (2010) revealed that organizations with at least five board individuals considered as small boards are more educated on the firm income and in this manner viewed as having quality capacities of monitoring. Similarly, firm evaluations of firms in Malaysia and Singapore are most elevated when five individuals are on the board (Mak & Yuanto, 2013). An investigation in Danish organizations revealed that board size (less than six individuals) has no impact on performance, yet he realized a noteworthy negative linkage between the performance and size of the board, when members of the board were raised to seven and above (Bennedsen, Kongsted & Nielsen, 2004).

In examining the adjustments in board size, Wu (2010) found that by and large, load up sizes of partnerships (Forbes 500) diminished between the years 1991-95. Wu contended that the reason for the abatement could incompletely be because of weight from huge dynamic investors. This infers the market for the most part is more certain if observing is done by smaller boards.

There was a contention that the structure of the board is internally decided when the OLS outcomes demonstrate that the size of board and size of firm positively affect firm performance (Mak & Li, 2011), however their regressions which is 2SLS don't hold up this outcome. A constructive interconnection between performance and board size in the banking sector of U.S was realized (Adam & Mehran, 2015). These authors' outcomes propose that such execution affiliation might be industry explicit, demonstrating that bigger boards functions admirably for specific kind of companies relying upon their hierarchical systems. An investigation dependent on 131 examinations uncovered that bigger boards are allied with successive firm performance (Dalton & Dalton, 2005), which is as opposed to the consequences of a prior meta-investigation (Dalton, Daily and Johnson, 2009).

For the most part, Empirical proof on the connection between performance and board size give mixed outcomes. Whilst, some scholars realized that bigger boards are related with low quality execution (Chan & Li, 2008; Bhagat & Black, 2002; Beiner et al., 2004) and in addition other scholars found no critical relationship between performance and board size (Limpaphayom & Connelly, 2006).

4. RESEARCH METHODOLOGY

The study used descriptive research design. The total target population was 30 supermarkets in Nairobi County selected based on monthly sales of Ksh.150, 000 and above and with a minimum of two branches. This study collected primary data by use of semi-structured questionnaires. Purposive sampling technique was used to pick respondents from the management of these supermarkets as they were deemed to be the ones with crucial information for this study. Validity and reliability of the instruments for research was tested through a pre-test. Cronbach alpha test was utilized to test for reliability of this paper. The analysis of Multiple Regression (Standard), Descriptive Statistics and Inferential statistics was used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings.

5. FINDINGS

The study's first specific objective was to establish the effect of board size on the financial performance of supermarkets in Nairobi County, Kenya. As per the questionnaire see in appendix II the respondents were requested to respond to statements on board size. Their responses were rated on a likert scale of five points, revealed in Table 1, 75.5% (41.4% + 34.3%) of the respondents supported to a large extent the statement that the company has a secession plan of each board member and the CEO, 18.6% of the respondents to a moderate extent and 4.6% supported the same statement to a small extent; 65.7% (34.3%+31.4%) of the respondents supported that the company board is made up of both inside and outside directors to a large extent, 31.4% respondents supported the same statement to a moderate extent and 2.9% to a small extent; for the statement that the majority of board members are independent non-executive directors, 61.4% (34.3+27.1) of the respondents supported it to a large extent, and 38.6% supported it to a moderate extent; for the statement that the CEO who is supported by a Directorate Management Team is very effective was to a large extent supported by 70% (37.1%+32.9%) of the respondents, while 30% supported the same statement to a moderate extent; further the statement that less time is spent in decision making during boards meetings was to a large extent supported by 61.4% (37.1+24.3) of the respondents, 37.1% to a moderate extent and 8.6% to a small extent; the statement that much time is spent in decision making during boards meetings was to a large extent supported by 65.7% of the respondents and 34.3% respondents supported it to a moderate extent, finally on the statement that the monitoring role by the board is effective in our supermarket, 50% of the respondents supported it to a large extent, 27.1% to a small extent and 22.9% to a moderate extent.

As per the likert scale used, the normal mean of the responses was 3.9 which imply that majority of the management personnel who responded to the questionnaire supported most statements on board size to a large extent. However, the responses differed as revealed by the standard deviation of 0.9.

The findings concur with an investigation in Danish organizations that revealed that board size (less than six individuals) has no impact on performance, yet he realized a noteworthy negative linkage between the performance and size of the board, when members of the board were raised to seven and above (Bennedsen, Kongsted & Nielsen, 2004). Similarly, Hermalin and Weisbach, (2003) establishes that bigger boards can be less successful than small boards (Hermalin & Weisbach, 2003). At the point when boards comprise of an excessive number of individuals agency problems may increment, as a few executives may follow along as free-riders.

Table 1: Board Size

Statements	Not at all	To small extent	To a moderate extent	To a large extent	To very large extent	Mean	SD
The company has secession plan of each board member and the CEO.	1.4%	4.3%	18.6%	41.4%	34.3%	4.0	0.9
The company board is made up of both inside and outside directors.	0.0%	2.9%	31.4%	34.3%	31.4%	3.9	0.9
The majority of board members are independent non-executive directors	0.0%	0.0%	38.6%	27.1%	34.3%	4.0	0.9

The CEO who is supported by a Directorate Management Team is very effective.	0.0%	0.0%	30.0%	32.9%	37.1%	4.1	0.8
Less time is spent in decision making during boards meetings	0.0%	8.6%	30.0%	37.1%	24.3%	3.8	0.9
Much time is spent in decision making during boards meetings	0.0%	0.0%	34.3%	30.0%	35.7%	4.0	0.8
The monitoring role by the board is effective in our supermarket	0.0%	27.1%	22.9%	20.0%	30.0%	3.5	1.2
Average						**3.9**	**0.9**

A number of the respondents noted that their supermarkets have a secession plan of each board member and the CEO. The company board comprises of both inside and outside directors. The CEO who is supported by a Directorate Management Team is very effective. However, a significant percentage of the respondents did not support at all that majority of board members are independent non-executive directors.

According to the correlation outcomes, board size and the supermarket's financial performance are negatively and significantly linked. The regression outcomes revealed that the association between board size and financial performance is direct and relevant. As supported by a beta coefficient of -0.108 and a p-value of 0.018; meaning that one unit increase of board size will lead to a decrease of 0.108 units of supermarket's financial performance. In addition, these findings were also supported by the queries in the questionnaire. Further, these findings also concur with the outcomes in Danish organizations which realized a noteworthy negative linkage between the performance and size of the board, when members of the board were raised to seven and above (Bennedsen, Kongsted & Nielsen, 2004). The research hypothesis which was: there is no significant effect of board size on financial performance of supermarkets in Nairobi County, Kenya was also rejected. This was because, absolute t-value of board size was 2.418, which is greater than the critical t-statistic of 1.96. This implies that there is a significant effect of board size on financial performance of supermarkets in Nairobi County, Kenya.

6. CONCLUSION AND RECOMMENDATION

From the correlations results board size and financial performance were found to relate negatively and significantly. This implied that board size and supermarkets' financial performance changes in opposite direction, it means that a shrink in board size means an increase in supermarkets' financial performance and an increase in board size means a decrease in supermarkets' financial performance. Further, the regression results demonstrated a negative and important association between board size and financial performance of supermarkets.

Based on the results of the investigation the study suggested that supermarkets should consider having few members on board. This would ensure that decisions are made on time. Similarly, small boards would improve the monitory role of the board. If decisions are made on time and the monitoring role is done effectively then the operations of the supermarkets would flow in good order which means more profitability.

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