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Influence of Board Independence and Expertise on Market Capitalization of Listed Manufacturing Firms at the Nairobi Securities Exchange

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Abstract:
According to Kenya Association of Manufacturers report, Kenya has been the best performing nation in manufacturing in East Africa but now faces a decline registering losses of above three million Kenya shillings. Companies listed in NSE face various challenges such as; keeping in pace with globalizations, government policies and regulation, integrity, client demands, resource management, market and customer loyalty, risk management, business complexity, competition and inadequate capital. The research study aims to establish to what extend does corporate governance dimensions such as; board independence and expertise affect firm's market capitalization. The study employed a descriptive research design. The study targeted 8 listed manufacturing firms at the NSE. The sample size was 8 listed manufacturing firms listed at the NSE hence there was no sampling. Secondary data was collected for duration of 5 years (January 2016 to December 2020) annually. In data analysis, both descriptive and inferential statistics were conducted. Descriptive statistics involved determining the mean, the standard deviation, skewness and kurtosis of each variable under study while inferential statistics involved both the correlation and regression analysis using STATA 15. The results indicated that board of directors' independence and expertise has positive and significant effect on market capitalization of listed manufacturing firms. This implied that increase in board of directors' independenceand expertise will result to significant increase in market capitalization. The study concluded that corporate governance characteristics used in this has significant effect on market capitalization of listed manufacturing firms at NSE.The study recommended that the listed manufacturing firms in Kenya should improve their market capitalization through sticking to the recommendations regarding to board independence. The recommendations made from these findings is that when selecting boards members, shareholders should consider having a board that is composed of members from different professions which is expected to provide a diverse view of issues.
KeyWord: *Board Independence, Board Expertise, Market Capitalization, Listed Manufacturing Firms, Nairobi Securities Exchange*

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I. Introduction

Corporate governance is taken into consideration as an emerging topic related to firms globally because of the prevalence of corporate failures and economic crises. Besides defining and explaining corporate governance, many researchers have been stressing the advantages of corporate governance. As an example, it is shown in (Loukas, 2004) that excellent corporate governance definitely implies the growth prospects of an economy. This research examines the effect of corporate governance characteristics on market capitalization of firms listed in Nairobi Securities Exchange. The research opens the door for an additional in-depth empirical study on how corporate governance dimensions affect the market capitalization. A topic that is gaining growing attention from scholars of corporate governance is the study of the board of directors' characteristics in ensuring efficient management control and valued support in the decision-making process (Nguyen et al, 2015).

For the last decades, there has been a growing awareness of the corporate governance in both the advanced and developing economies. According to McConvill (2012), Kakabadse, Mostovicz (2011), despite good governance practices, high profile cases of corporate collapse worldwide among them Enron and WorldCom in the US, Marconi in the UK, Royal Ahold in the Netherlands, the Golden Quadrilateral in India and many others stimulated governments and international organizations to set regulatory principles for private and public companies. The awareness was intended to support corporate management structures and hence restore the public confidence in corporate governance and to ensure efficient leadership structures which contribute to economic stability as confirmed by the World Bank, International Monetary Fund, and

Organization for Economic Co-operation Development (Bekiris, 2013). Chung, Kim, Park and Sung (2013) examined the relation between transparency related governance attributes and liquidity in the U.S. stock market and found out that corporate governance improves organization performance. (Chung et al, 2013) findings showed that firms with better management structures exhibit higher trading price per share and lower probability of market share loss. (Chung et al, 2013) noted that the large number of company failures that occurred at the beginning of the 21st century may have damaged confidence in many economies.

In the context of Africa, corporate governance refers to all the influences that affect the business institutional processes; the policy and legal frameworks that society adopts to license, govern and regulate business conduct, this includes the mechanisms for appointing the regulators, controllers and governors involved in supervising, organizing and managing the production and sale of goods and services; the processes for regulating their conduct and the procedures for holding them to account for the exercise of power, use of entrusted resources and the results of their activities in all types of business enterprises regardless of whether or not the enterprises are incorporated (Serfontein, 2010). According to Abor, Fiador and Abor (2012) study on Sub-Saharan African companies, corporate governance is required as a means of addressing the agency conflict between management and shareholders of the company. It is about supervising and holding to account those who direct and control the management. (Abor et al, 2012) noted that it is believed that, good governance generates investor goodwill and confidence. Opiyo (2013), who stated that corporate governance, helps in defining the relation between the company and its general environment, the social and political systems in which it operates. He further stated that corporate governance is linked to economic performance and the company's performance is affected by the way management and control is organized and its long run competitiveness. He concluded that it determines the conditions for access to capital markets and the degree of investors, confidence.

Poor corporate governance was seen as contributing to the company collapses. As a consequence, corporate governance has been debated extensively with management structures and leadership structures improved in several countries. Loukill &Yousfi (2012) presented evidence of the effects of corporate governance on information asymmetry information and stock liquidity in the Tunisian Stock Market during the period 1998-2007. Loukill et al (2012) found out that some attributes of corporate governance such as effective board of directors (board independence) and low ownership concentration improved stock liquidity because reduced insider trading caused due to information asymmetry. Lashgari (2014) examined the impact of corporate governance measures, such as the leadership independence, leadership composition and board activity and ownership, on information asymmetry promote company performance. Lashgari (2014) found out that corporate governance attributes of board independence, board composition (size) as well as shareholder's level of ownership affected company trading shares. Further in the book by Wright, Siegel and Keasey (2013) the relationship between corporate governance as measured by discipline, transparency, independence, accountability, responsibilities, fairness, and social awareness affect company performance. They referred corporate governance acts as a framework to safeguard and control the relevant players (managers, employees, customers, shareholders, executive directors/managers, suppliers and the board of directors) in the market.

Although it is argued that the shareholders will monitor the board by exercising their ownership right by appointing and removing board members, shareholders may not be aware of the inside activities of the firm due to information asymmetry. Failure to manage their businesses in a professional manner and serious governance malpractices has seen some stock brokers so far experience significant financial difficulties forcing the Capital Markets Authority to place them under receivership/statutory management (CMA Report, 2018). According to Lefort and Urzua (2008), boards of directors are central institution in the internal governance of a company. In addition to strategic direction, they provide a key monitoring function in dealing with agency problems in the firm. Corporate governance is aimed at detecting corporate inefficiencies and minimizing vulnerability to financial crises. According to Murigi et. al., (2014), the separation of management and ownership of the modern corporation presents agency-related problems which include conflicts of interest and unethical management practices. Even though managers are well aware of the existence of legal and professional standards, these are more often viewed as barriers to be overcome in pursuit of self-gain rather than as guides for appropriate professional conduct.

A study by Miring'u & Muoria (2011) indicated that as early as 1970s, many governments in Africa had recognized the fact that public companies were performing poorly. They noted that the poor state companies' performance was associated with labour rigidities in the market, increased fiscal and foreign debt and inflation problems. (Miring'u et al, 2011) further noted that the companies provided poor and unreliable services, failed to meet demand and were lagging behind in technology areas. (Miring'u et al, 2011) concluded that mismanagement, bureaucracy, wastage, pilferage, incompetence and irresponsibility by directors and employees are the main problems that have made state companies to fail to achieve their objectives. Although developing countries are increasingly embracing the concept of corporate governance knowing it leads to sustainable economic growth, collapse of their listed companies is on the rise. Some companies including state

corporations have folded up partly as a result of corporate governance problems as observed in South Africa by Gossel and Biekpe (2014).

This study paper examined three corporate governance characteristics that are likely to influence the market capitalization of firms that are listed in the Nairobi Securities Exchange. These characteristics are board independence and board expertise. The independence of the board is generally accepted to be good for the board to be effective and for it to give strategic direction to the executive. However, results of studies done in this area have been conflicting with some indicating that BOD independence is not a relevant variable in determining the performance of a firm while others have found its relevance. Rosenstein and Wyatt (1990) argue that a firm will add to its value every time an independent director is nominated to its board. Accounting expertise of directors is defined as the presence of directors on the board with accounting background. This variable is important because it is of necessity to have board members who can interpret accounting statements and records in order to evaluate, on behalf of the board, the performance of the firm. Guner et al. (2008) emphasized on the need for board members to have a grasp of accounting doctrines and financial statements which would lead to improved board control which would in turn increase the value of shareholders.

Statement of the Problem

The firms listed in the NSE are supposed to serve as investment vehicles for the public and they are supposed to be managed professionally in order to attract investor confidence and safeguard the publics' interest. One of the possibilities of investor to achieve the greatest return on investment made is to gaining understanding of the claim that adoption of OECD principle of corporate governance by firms positively affects share price (Ronoh 2014). Corporate governance aims to protect loss of investments due to the abuse of power in a manner that is not in the investors' interest. It also aims to maximize their return on investments, shareholders' rights and the investment value. It also limits cases of conflicts of interest, as company's commit to implementing governance principles (Kitui 2013).

Companies listed in NSE face various challenges such as; keeping in pace with globalizations, government policies and regulation, integrity, client demands, resource management, market and customer loyalty, risk management, business complexity, competition and inadequate capital. Companies such as Eveready (EA) Ltd, Uchumi Supermarkets, Unga Group Ltd, National Bank of Kenya, CMC Holdings Ltd Eveready (K) Ltd and East Africa Industries among many others have in the past won several good corporate governance awards but have poor company performance indicators (Madiavale, 2011, NSE, 2015). Kariuki (2015) and Mwithi (2017) reported that Mumias Sugar had almost doubled its loss to Ksh 4.6 billion in the 12 months as per June 2015 financial results. It has been noted that the effectiveness of the code of corporate governance largely depends on the legal, institutional and regulatory framework (La Porta et al., 1997; Gakeri, 2013).

Despite tight regulatory framework, Corporate Governance continues to weaken in Kenya (Mang'unyi, 2011). (Business daily, 2018) Market capitalization, which measures shareholders wealth, stood at about 2.1 trillion shillings (about 20.6 billion U.S. dollars), as at Dec. 24, 2018 NSE trading, having shed off some eight billion dollars since April 2018. In April, the index hit a high of 29 billion dollars, market data shows. On the other hand, the NSE All Share Index stands at an average of 140 points, which is 17 percent lower year-to-date while the NSE 20 Share Index, which measures stocks of the best performing blue-chips, dropped below the psychological 2,800 points. The index has fallen 25 percent year-to-date. The index on Dec 24, 2018 stood at 2,796.72 and like the rest of the indices; it is highly unlikely that it will rise significantly before the end of 2018. Analysts attributed the bad run for the Kenyan stocks this year to a number of factors including conflict of interest and unethical management practices for some listed firms.

Muriithi (2008) on a study on relation between the structure of board and the performance of firm quoted on the NSE found that the presence of outside directors is positively associated with output of a firm. In his study Ongore (2011) examined the interrelations among ownership, board and manager characteristics and firm performance in a sample of 54 firms listed at the NSE. The results showed a significant positive relationship between managerial discretion and performance. Ongore et.al., (2011) and Wanjiru (2013) carried out a study to establish the CG practices of firms and its relationship with the growth of Companies listed at the Nairobi Securities. These studies found a positive linear dependence of growth and Corporate Governance.

Locally a number of studies have been done on corporate governance and company performance (Lang'at, 2006; Manyuru, 2005; Gitari, 2008; Nambiro, 2008). However, these studies have mainly focused on relationship between governance structures and performance. While, Wetukha (2013) investigated the relationship between board composition and financial performance of listed firms at the Nairobi Securities Exchange. Specifically, this study examined board independence as well as expertise and how they affect the market capitalization of manufacturing listed firms in Kenya. Ultimately, research on corporate governance characteristics and its effects on market capitalization with the need to get a better understanding properly

document and operationalize board variables and their effectiveness especially in the Kenyan Context. It is against this backdrop that this research has been undertaken to fill the knowledge gap.

Objectives of the Study

i) To examine the effect of board of directors' independence and market capitalization of manufacturing firms listed in NSE.
ii) To evaluate the effect of board of directors' expertise on market capitalization of manufacturing firms listed in NSE.

Research Questions

i. What are the effects of board director's independence on market capitalization of manufacturing firms listed in Nairobi Securities Exchange?
ii. How does the board of directors' expertise affect market capitalization of manufacturing firms listed in NSE?

II. Literature Review

Theoretical Framework

The study was guided by the following theories;Agency Theory andResource Dependency Theory.

Agency Theory

Agency theory was developed by Jensen and Meckling (1976) who argued the theory refers to 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, hires the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents. Jensen and Meckling (1976) further specified the existence of agency costs which arise owing to the conflicts either between managers and shareholders (agency costs of equity) or between shareholders and debt holders (agency costs of debt). According to agency model, the separation of ownership and control creates an inherent conflict of interest between the shareholders (Principal) and the management (Agent) (Aguilera et al., 2008).

Murphy and McIntyre (2007) argued that the agency problem, in this context, is that the interests of management may differ from the interests of a company's shareholders. Furthermore, many authors suggested that boards of directors must assume an effective oversight function to control management behavior and promote shareholders' interests using internal and external mechanisms (Mallin, 2005). For example, a Board of Director role is to be an effective gatekeeper to minimize malfeasance, self-dealing and other negative behaviors of management (Murphy & McIntyre, 2007). To perform monitoring roles effectively, many researchers have argued that board members (particularly external directors) should possess particular backgrounds (with particularly experience, expertise, knowledge and skills) (Hillman & Dalziel, 2003; Murphy & McIntyre, 2007). In an earlier study, Mace (1972) found that Boards of Directors' experience can be applied to solve the specific management problems of a company. The coherence of agency theory, however, depends upon the existence of mechanisms by which the Board of Director are able to use their competence and the firm's resources to achieve the best returns for the owners (Fama & Jensen, 1983). Based on these arguments, the relevance of this theory could be viewed from perspective of the Board of Directors in their role not just to control the firm but, more importantly, the board members should use their expertise to advise the company's management.

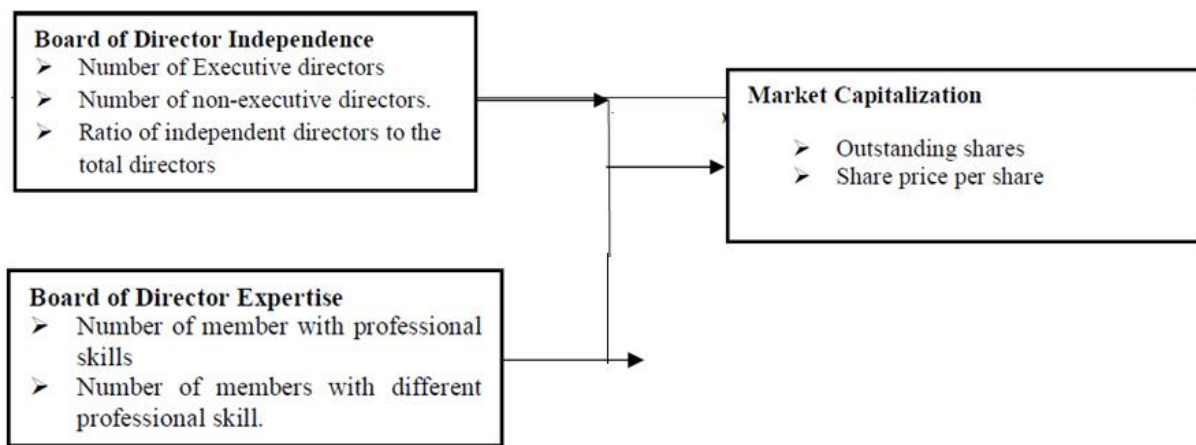
Resource dependency theory

Resource dependency theory was developed by Pfeffer (1972), which posited that companies depend on one another for getting the required resources; thereby links are created (Ovidiu-Niculae, Lucian, & Cristiana, 2012). Resource dependency theory views companies as being dependent on their external environment and suggests that a firm's effectiveness results from their ability to manage resources as well as, more importantly, from their capacity to secure crucial resources from the environment (Brown, 2007). Niculae et al., 2012). According to this theory, there are motivations and incentives for a company to create linkages with outside parties, as this help to reduce the environmental uncertainties the company faces. The companies will consider the advantages of linking and engaging in open dialogue by taking into account the costs and direct benefits associated with their decisions due to their commitment to dialogue. Also, companies that have a good relationship with the key stakeholders can create value for the companies and reduce their risks. Accordingly, companies with strong relationship with stakeholders face less uncertainty (Rehbein, Logsdon, & Buren, 2013). Under resource dependency theory, a board with a high level of connections to the external environment would improve and ease access to valuable resources, such as finance and capital, improving

corporate governance practices (Vo & Nguyen, 2014).A corporate board role in developing access to required resources is a factor of the resource dependency theory(Rehbein et al., 2013). The proponents of both stakeholder theory and resource dependence theory assert the involvement of the board members in decision making through the service roles of the board. Academic scholars criticized both resource dependence theory over time. Resource dependency theory is criticized for not focusing on the decision making and internal process. In summary, corporate governance theories have been used in developing the best practices and mechanisms of corporate governance (Htay et al., 2013). There is no corporate governance theory that is valid and applicable all the times and in all circumstances. There is no one ideal corporate governance theory, but a combination of two or more theories can provide the business requirements and maintain the firm operation, while aligning the interests of both principal and management (Al Mamun et al., 2013).

Conceptual Review

Conceptual framework is fundamental as it explains and incorporates methodological, philosophical, and pragmatic features of research thesis (Sykes & Piper, 2015). This is a diagram illustrating the linear relationship between independent variables (Board of Director Independence and expertise) and the dependent variable (Market Capitalization).



Independent variables **Dependent variable**

Figure1.0:Conceptual Framework

Independent directors should be evaluated based on their skills, knowledge, informal network, professionalism, experience, integrity and expertise (Kassim et al 2013). In addition (Hasnah and Hasnah 2009) indicate that the independent directors are able to provide impartial advice and contribute to the defense of the interests of shareholders through greater value creation. Lahlou & Navette, (2013) has documented that a majority of independent non-executive directors among the board of directors constitute to board independence. Furthermore, independent non-executive director plays a major role in overseeing the financial performance of the company as well as assisting the company in terms of long-run strategy development, risk management and remuneration planning (Kumar & Singh, 2012). However, Ramdani and Witteloostuijn (2010) documented that agency theory argues that a larger proportion of independent non-executive directors in the board will eventually promote a better firm performance. Board of Director Independence also can help to mitigate bad corporate reputation due to the disclosure of information to shareholders (Zhang, 2012).

Board expertise is described as an individual skill and knowledge of individual board member. Experienced and qualified members of the board would be able to stimulate the boards to consider more alternatives when reviewing different positions (Ljungquist, 2007). VanNess, et al (2010) investigate board of directors' composition and firm performance and found a negative relationship between board expertise and firm performance. Boards with financial expertise have been linked to market advantages and to consistent financial reporting. According to Ljungquist (2007), Board of Director members with higher qualifications benefit the firms through a mix of competencies and capabilities which helps in creating diverse perspectives to decision making. Presence of more qualified members would extend knowledge base, stimulate board members to consider other alternatives and enhance a more thoughtful processing of problems.

Market capitalization refers to the sum derived from the current stock price per share multiplied by the total number of shares outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in some forms of stock valuation. Preferred shares are included in the calculation (Woo. 1981). The total capitalization

of stock market or economic regions may be compared to other economic indicators. Market capitalization represents the public consensus on the value of a company's equity. Efficient stock market theory states that stock price can reflect all relevant information about a company's historical or present and public or private. Market capitalization can denote the amount of a company's future cash flows to its shareholders, primarily the dividends, and the riskiness of receiving the cash flows, effectively the expected rate of return (Loltianya 2012). Market capitalization is the value the stock market places on the entire company or, simply, market estimate of a company's value, based on perceived future prospects, economic and monetary conditions (Woo, 1981). It is, however, not necessarily the price a buyer would pay for the entire firm and is not a realistic estimate of the firm's actual size, because a share's market price is based on trading in only a fraction of the firm's total outstanding shares. Besides, preferred shares are not included in the calculation. In addition, many companies have dominant shareholders, who may include a government entity, family, or other corporations.

Empirical Review

Different scholars have conducted research concerning the top management of companies on characteristics of board of directors' and subsequent effect they have on market capitalization.

Board Independence and Market Capitalization

In the corporate governance literature, there is great debate regarding whether the composition of Board of Director in the manner of presentation of non-executive directors leads to economic growth of organizations (Petra, 2005). Studies, for instance, McCabe and Nowak (2008); Dermirbas and Yukhanaev (2011); Joh and Jung (2012) establish a positive influence from employing outside independent directors on the board. Several studies, such as Lau and Tian (2001) and Tang and Luan (2007), establish that boards comprising further outside independent directors improves the performance of the company. Fuzi el. at., (2016) carried out a study to examine board independence and firm performance in few countries. They found that there is a mixed association between proportions of independent directors and firm performance. Further they said that the companies comprised the highest number of independent directors, it would not assure to enhance firm performance. Abdullah (2004) revealed in his research that there was no association between the board's independence and the CEO's duality with performance. However, Rostami el at., (2016) found that there is a significant positive relationship between board independence and stock return in their study.

Langat (2006) conducted a cross-sectional Peng (2004) studied the relationship between Board of Directors composition and firm performance in China, focusing on all 530 firms listed on the Shanghai and Shenzhen stock exchanges, whose combined capitalization was approximately 25 percent of China's gross domestic product (GDP), in an approach to replicate most of the existing research samples that used U.S fortune 500 firms in the Chinese firms. The study found that firms that are outsider-dominated (where the ratio of non-executive directors is greater than 60%) exhibited improved performance than firms with mixed board (40-60% domination) and insider- dominant boards (up to 40% domination). Prior empirical evidence regarding the relationship between percentage of non-executive directors and company financial performance is mixed. A number of empirical studies report that boards dominated by non-executive directors (NED) deliver high performance (e.g. Dahya& McConnell, 2005; Lawler & Finegold, 2006). By contrast another group of studies reports a negative relationship between NED and company value (e.g. Bozec, 2005; Sanda et. al., 2005). These studies believe that too much NED may also stifle managerial initiatives through excessive monitoring. A third stream of empirical studies found that NED has no impact on performance. Research on companies in the U.S. revealed no association between the amount of the outside directors and the performance of the firm (for instance, the surveys by Hermalin and Weisbach, 2003; Haniffa and Haudaib, 2006).

Board Expertise and Market Capitalization

Many studies on Board of Director Characteristics are silent on the educational qualification of board members. Educational qualification of directors is important for decision making. Studies have found positive relationship between director's qualification and firm performance. Ujunwa (2012) finds a positive and significant relationship between directors with PhD and company`s financial performance in Nigeria using data from 122 listed companies on the Nigerian Stock Exchange from 1991 to 2008. Yermack (2006) found that share price reactions to director's professional qualification, especially in the area of accounting and finance. Haniffa & Cooke (2002) found a positive relationship between accounting education of board members and disclosure of information. Charitou et. al., (2013), deduce from the empirical findings that firms today recruit directors to their boards based on their level of expertise and experience. These empirical studies indicated that firms that excelled in quality had larger boards. They also noted that, that the likelihood of firms attaining quality excellence was positively related to the number of outside directors who are experts in the main objective of the business operations. This is consistent with Markarian and Parbonetti (2007) who found that

complex firms with increased advisory requirements had larger boards that included outside experts who enhanced the firm's ability to handle complexity.

More recently, Levrau and Van den Berghe (2007) looked more closely at directors' qualities and revealed that director' personalities, education, occupational and functional backgrounds are important for the effectiveness of boards. These findings imply that the characteristics of members of boards of directors provide valuable insights into board and into company performance. Although the characteristics of board members have been extensively studied in developed countries, limited research has been undertaken on this topic in Kenya. Nevertheless, a study conducted by Haniffa and Cooke (2002), revealed that three board members' characteristics (ethnic backgrounds, composition and multiple directorships) were significantly related to corporate social disclosure. However, no study to date has examined the influence of board members' personality characteristics and competencies in Kenya. Based on the above-mentioned knowledge gap, the aim of this study examined the characteristics of corporate governance and to determine the contribution that they have on the market capitalization. Hopefully, such an examination can add to the growing body of research in this area, particularly in providing evidence from a developing capital market economy such as the one experienced in Kenya.

III. Material and Methods

The descriptive research methodology was adopted in this study. The population of interest in this study was manufacturing firms listed in NSE, whose number stood at 8 as at 30th Dec, 2020. With the list of 8 listed manufacturing companies in Nairobi Securities Exchange, the sampling frame consisted of all of these companies from which sample were drawn. This study took the entire population of the eight listed manufacturing firms using census technique. This study used secondary data, which is the data collected from audited financial reports of individual firms, from website of NSE and CMA of selected firms. The data cut across a five-year period, 2016-2020 to ensure a trend can be established across time and reasonable conclusions can be drawn from the analysis. Data analysis included both descriptive and inferential statistics where model specification estimation and rationale of variables were done. Descriptive statistics included mean, standard deviation, maximum and minimum. The study used inferential statistics which are regression analysis and correlation analysis to test null hypotheses using STATA 15. The study undertook several diagnostic tests to evaluate the suitability of the research model. Some of the diagnostic tests computed were normality, test for linearity, multicollinearity, autocorrelation, and heteroscedasticity.

IV. Result and Discussion

Descriptive Analysis

The descriptive statistics entailed Minimum, Maximum, Mean and standard deviation between 2016 and 2020. The results also showed overall descriptive statistics as obtained from panel data of said periods.

Table 1: Descriptive Statistics

	Market Capitalization	Independence	Expertise
N	40	40	40
Min	2.612784	0.4	0.6
Max	6.387501	0.8	0.9
Mean	4.272917	0.657837	0.786131
Std Dev	1.208382	0.114748	0.081309
Skewness	0.298176	-0.94962	-0.39616
Kurtosis	1.767958	3.201281	2.112431
Jarque-Bera (Sig)	3.123 (.2099)	6.079(.0678)	2.359 (.3074)

From Table 1.0, the mean market capitalization (log) during study period (2016 to 2020) was 4.27 and it ranged from 2.61 to 69 with a standard deviation of 1.12. The mean ratio of independent directors to the total directors was 0.66(66%) and it varied from 40% to 80% with a standard deviation of 11%. The mean ratio of board of directors with different professional skills was 0.79(79%) and it ranged from 60% to 90% with a standard deviation of 8%. From Table 1.0, all variables have Skewness less than 2. This implies that are normally distributed and the data was adequate and met the assumption of normality. This observation was also supported by kurtosis values which were less than 6. The study also used a more robust technique known as Jarque-Bera (JB) to further ascertain the normality. The study failed to reject the null hypothesis since the probability value (i.e p value of more than 5%) for Jarque-Bera was greater than 5% for study variables.

Inferential Analysis

Inferential analysis entailed correlation and regression analysis. The purpose also conducted stationarity test using Philips-Perron and choice of model using Hausman test.

Unit Root Test

The study used Philips-Perron to test for the presence of unit roots in panels that combine data from the dimension of the time series with that of the cross-section dimension, so that fewer time observations are required for power to be available for the test. The results are indicated in Table 2.

Table 2: Unit Root Test

Variable	Philips-Perron unit-root Test	Significance Level
Market Capitalization	11.0948	0.0000
Board Independence	7.5851	0.0000
Board Expertise	19.4128	0.0000

For Philips-Perron tests, the existence of unit roots is indicated by a p-value that is more than 0.05, while the absence of unit roots is shown by a p-value that is less than 0.05. According to the findings, there was no evidence of a unit root for any of the variables under investigation. This demonstrated that all variables are constant throughout time, that there was no issue with the unit root, and that the findings may be used to continue with additional inferential statistics.

Hausman Test

The study determined whether to run a fixed effects model or a random effects model when conducting panel data analysis. The null hypothesis is that the preferred model is random effects (REM); the alternate hypothesis is that the model is fixed effects (FEM). The p-value was considered significant at 5% and any value below that FEM was to be selected while a value above that then REM was to be selected. The results are indicated in Table 3.

Table 3: Hausman Test

	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b-V_B))S.E.
Board Independence	.7078652	.881169	-.1733038	.2094659
Board Expertise	-.6737734	-.5415942	-.1321792	.0969244

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho:difference in coefficients not systematic
chi2(4) = (b-B)'[(V b-V_B)^(-1)](b-B)
= 7.42
Prob>chi2 = 0.0151

The findings presented in table 3 indicated a prob>chi2 value of 0.0151, which is less than the critical P value at the 0.05 level of significance. This indicates that the null hypothesis that a random effect model is the best was rejected, which is indicated by the fact that this value is less than the critical P value. As a result, the research used a regression model with a fixed effect.

Correlation Analysis

Correlation analysis was employed in assessing the linearity association among the variables. Using the correlation coefficient, the study tested whether interdependency existed between the predicator variables and whether there was any relationship between response variable (market capitalization) and predicator variables (Board of directors' independence and Board of directors' expertise). The pertinent results are summarized in Table 4.0.

Table 4: Pearson Correlation Analysis

		Market Capitalization	BDI	BDE
BDI: Board of directors' independence	Pearson Correlation	0.346	1	
	Sig. (2-tailed)	0.0261*		
	N	40	40	
BDE: Board of directors' expertise	Pearson Correlation	0.3539	0.0662	1
	Sig. (2-tailed)	0.0249*	0.6848	
	N	40	40	40

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

The results indicated that the board of directors' independence has a significant positive weak effect on the market capitalization of listed manufacturing firms at NSE (r = 0.346, P=0.0261). Therefore, increase in

board of directors' independence will results to increase in the market capitalization of listed manufacturing firms. The findings are in agreement with Rostami el at., (2016) who found that there is a significant positive relationship between board independence and stock return in their study. However, Fuzi el. at., (2016) found that there is a mixed association between proportions of independent directors and firm performance. Further they said that the companies comprised the highest number of independent directors, it would not assure to enhance firm performance. Similarly, board of directors' expertise has a moderate positive and significant on the market capitalization of listed manufacturing firms at NSE (r =0.3539, P=0.0249). Hence, increase in board of directors' expertise will results to increase in the market capitalization of listed manufacturing firms. Haniffa & Cooke (2002) found a positive relationship between accounting education of board members and disclosure of information. However, the study results contradict the research by Minton et al., (2010) which found a significant negative relationship between financial expertise and financial performance.

Linear Regression Analysis

Regression analysis was used to check for the hypothesis concerning the connection of independent variables with dependent variables. The main aim of regression analysis is to show how and extent of which each variable separately influences the dependent variables. Regression analysis is used in estimating the weight of the influences of the independent variables in the dependent variable.

Table 5: Model Summary Fixed Effect of Board of directors' characteristics on Market capitalization

Fixed-effects (within) regression	Numberofobs =	40
Group variable: FIRMID	Numberofgroups =	8
R-sq:	Obspergroup:	
within = 0.5051	min=	5
between = 0.2009	avg=	5
overall = 0.3996	max=	5
corr(u_i, Xb) = -0.2787 (assumed)	F(1,31)=	6.54
	Prob > F=	0.0361

The analysis shows that the panels were strongly balanced for this multivariate analysis as shown by the number of observations per group. There were a total of 40 observations used in this analysis considering 8 groups of entities implying strongly balance panels. The minimum, maximum and average numbers of observations per groups were all equal to 5. The result obtained from fixed effect model indicated that the corporate governance characteristics accounted for 39.96% (Overall R square=0.3996) of the variation in market capitalization of manufacturing firms listed at Nairobi Securities Exchange, Kenya. The F-statistic to the model shows is 6.54 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This implies that three board of directors' characteristics have an influence on market capitalization of manufacturing firms listed at Nairobi Securities Exchange, Kenya. This influence is significant (P=0.0361).

Table 6: Regression Coefficient

M.C	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
Independent	0.431728	0.134323	3.21	0.002	0.161078	0.702433
Expertise	0.387773	0.124693	3.11	0.003	0.136923	0.638623
_cons	0.386819	0.110433	3.50	0.001	0.164658	0.608981
sigma_u	0.087772					
sigma_e	0.029417					
Rho	0.899017	(fractionofvarianceduetou_i)				

The study regression model as obtained from table 6 is as shown below.

Market capitalization (M.C) =0.386819+0.4317286X_1+0.387773X_2

$X_{1it=}$ board independence for firm (i) in period (t)
$X_{2it=}$ board expertise for firm (i) in period (t)

From the findings, board of directors' independence had a regression co-efficient (β_1) of 0.4317286, p=0.003 implying that when board of directors' expertise and board of directors' diligence are controlled, a unit increase in board of directors' independence across time and among listed financial firms at NSE would result in a significant increase of 0.4317286 units in market capitalization. Agency theory depicts that a board of directors have a monitoring role which aligns the objectives of the management with those of the owners of the

business hence ensuring that management acts according to the interest of the shareholders. This theory hence depicts that independent director are more able to do the monitoring role than executive directors. The theory further posits that when the board is more independent, it will be in a better position to deal with agency problem between management and shareholders and hence ensure that the firm performs effectively. The study findings are in agreement with Minton et al., (2010) who found a positive association between board independence and firm performance. Mahrous, (2014) also established a positive relationship between board independence measured by the proportion of nonexecutive directors and financial performance measured by ROA. Likewise, the study findings concur with subsequent studies (Victor et al., 2014; Waithaka, et al., 2014) which found a positive relationship between board independence and financial performance. However, Fuzi el. at., (2016) found that there is a mixed association between proportions of independent directors and firm performance. Further they said that the companies comprised the highest number of independent directors, it would not assure to enhance firm performance.

The study established that Board of directors' expertise had a regression co-efficient (β_2) of 0.387773, p=0.001 implying that when board of directors' independence and board of directors' diligence are controlled, a unit increase in board of directors' expertise across time and among listed manufacturing firms at NSE in Kenya would result to significant increase of 0.387773units in market capitalization. The results of the significant effect of board technical diversity on financial performance concur with the proposition of the group diversity theory by Cox (1993). This theory advocates that inclusion of members with distinctly different cultural and technical significance and group affiliations can enhance the group's effectiveness. The study results that financial expertise positively and significantly affects financial performance are consistent with the study by Fernandes and Fitch (2009) which found a significant positive relationship between financial expertise and financial performance. This study established that having a board that is diverse in skills had a positive influence on financial performance. The study findings that board education positively and significantly influences financial performance measured by Tobin's Q, ROE and ROA, are in agreement with Darmadi (2011) who found that board members with educational qualifications are significantly related to ROA and Tobin's Q. The study results are also consistent with Cheng et al., (2010) whose study found that university degrees held in the Board are positively associated with ROA. However, the study results conflict with Raymond et al., (2010) whose study found a negative relationship between proportion of board members with education expertise and financial performance. The study results, however, disagree with results from a study by Chen et al. (2015) in UK that there is no relationship between board technical diversity and financial performance.

V. Conclusion and Recommendation

The study concluded that board director's independence has significant positive effect on market capitalization. An increase in board director's independence would results to significant increase in market capitalization. The board of directors regardless of their independence is able to provide leadership, design strategies and guide management towards organizational advancement and competitive advantage. The study concluded that board of directors' expertise has significant positive influence on market capitalization. Therefore, board of directors' expertise is a significant positive influencer of market capitalization of manufacturing firms listed at Nairobi Securities Exchange, Kenya. The study recommended that the listed manufacturing firms in Kenya should improve their market capitalization through sticking to the recommendations regarding to board independence. This is because independent board of director's job is to look out for the well--being of the company and the shareholders' interests first. Listed manufacturing firms in Kenya should focus on increasing the level of expertise and experience of directors through conducting induction and evaluation of duties of the directors regularly.

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