

**INFLUENCE OF CORPORATE GOVERNANCE ON RISK MANAGEMENT IN THE
HORTICULTURAL SECTOR IN KENYA**

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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And have certified that all revisions that dissertation panel and examiners recommended

Have been adequately addressed

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DEDICATION

This work is dedicated to my lovely Mother Agnes Khabere and my beloved daughter Nicole Khabere for their sacrifice, support and encouragement.

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I am grateful to God for giving me strength, good health and helping me reach this far.

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LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of variances
AICD	Australian Institute of Company Directors
BOD	Board of Directors
CG	Corporate Governance
CMA	Capital markets Authority
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
FPEAK	Fresh Produce Exporters Association
IMF	International Monetary Fund
NGO	Non-Governmental Organization
MFI	Microfinance Institution
MNC	Multinational Corporations
SACCOS	Savings and Credit Cooperative Societies
SME	Small and medium Enterprises
SPSS	Statistical Package for Social Sciences
OECD	Organization for Economic Co-Operation and Development
USA	United States of America
UN	United Nations
COSO	Committee of sponsoring organizations of the Treadway commission

DEFINITION OF TERMS

Corporate Governance - Mallin (2007), corporate governance is the combination of corporate policies and best practices implemented by organizations to meet its objectives in relation to its investors and stakeholders. It is the way in which the organizations are managed and controlled

Risk management - Risk management is the application of risk analysis to strategic, systems, human and organizational problems in order to improve performance (Nocco and Stulz, 2006).

Financial risk - financial risk as the use of debt in a company's capital structure giving rise to financial charge in form of interest and consequently risk related to a company's gearing level, BR (2012)

Board Size - This is the requisite number of individuals supposed to compose the board. It differs with company's size (Byrd and Hickman, 2010).

Board independence - Refers to board's ability to make decisions without undue influence from executive, shareholders and or political spheres (Byrd and Hickman, 2010).

Ownership structure - This is the shareholding structure indicating who has the controlling power to the way company affairs are conducted. Lee (2008) observed that measurement of ownership structure involved the use of the percentage of shares held by a controlling shareholder as a proxy for ownership concentration (Fan, Wong & Zhang, 2013).

Organization transparency - entails quality of communication which must be factually accurate, easily understood by the intended audience and presented in a manner that promotes adoption of the desired behaviors and trust between the public and organization (Meijer, 2013).

Internal control systems - These are systems that an organization institutes and implements in order to prevent mitigate unwanted/ unintended events from happening and to ensure smooth running of affairs in an organization (Krstić, 2012).

Managerial skills -. Rutledge, LeMire, Hawks, and Mowdood (2015) stated that, competencies combine knowledge and skills which represent the underlying knowledge base and the set of skills required to perform useful actions

Flower farm - A firm that engages in flowers growing for export and who are members of Kenya Flower Council (KFC, 2015).

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ABSTRACT

Corporate governance are mechanisms put in place to ensure that the firm is properly run and transparent in order to increase the firm value for the benefit of the shareholders and other stakeholders. Due to the 2007 global financial crisis and several corporate failures, there have been immense calls for good corporate governance practices to be employed in the running and managing of corporations. Good corporate governance helps the corporations in managing risks. This study investigated the influence of corporate governance on risk management among the flower farms in Kenya. Specifically, the study investigated the influence of managerial skills, internal control systems, organizational transparency, ownership structure, and board independence on risk management among the flower farms in Kenya. The study used the descriptive research design. The target population was all the 40 flower farms in Naivasha and a sample of 170 respondents. The questionnaires were used to collect data. The data was analyzed using SPSS. The findings revealed that internal control, organization transparency, board independence have a significant effect on risk management practices of flower farms. On the other hand, the findings of the study revealed that management skills and Ownership structure had no effect on risk management practices. The findings thus conclude that internal control, organizational transparency and board independence affects the implementation of risk management in flower firms. Thus the study recommends that that organizations should improve on internal control systems, organization transparency and board independence since these improve risk management practices.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The business world has changed following developments in information communication and technology and globalization of firms. Current firms operate in an era of information and knowledge where the stakeholders' needs to be well considered. Corporate governance (CG) is one key element in improving economic efficiency and growth as well as enhancing investor confidence in corporations as it provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance provides proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and society at large (Klein, 2002). The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps provide a degree of confidence that is necessary for the proper functioning of a market economy (Akicho, Oloko & Kihoro, 2016).

Corporate governance has been an issue of concern for many organizations worldwide. For instance, the collapse of Enron in 2001 and other Corporates in the USA generated interest from scholars on corporate governance. Coulson (1993) from his research program argues that despite the existence of governance codes of best practice, many corporate boards destroy the shareholder confidence and miss opportunities to steer the companies to achieve the desired profits. Despite having professionals managing and running the company and heavy investments in technology Enron still reported capital gains as a result of malpractices where billions of dollars were hidden.

In Kenya, cases of poor corporate governance have been witnessed in many sectors leading to the collapse of organizations. For instance, Nyaga stockbrokers lost large amounts of investor money in 2008 after they were placed under statutory management when they failed to meet their financial obligations leading to many investors loss of huge sums of money invested through the stock broker (CMA, 2008). In the Banking industry alone, a number of commercial banks have been put under statutory management as a result of poor corporate governance. For instance, Charter House Bank was closed following poor corporate governance (CBK, 2015). On October, 17th 2015 Imperial Bank Kenya Limited which was operating in several countries across East Africa was put under the management of Deposit Protection Fund following issues related to poor corporate governance (CBK, 2015).

1.1.1 Corporate Governance

Corporate governance has been defined differently by different scholars. According to Mallin (2007), corporate governance is the combination of corporate policies and best practices implemented by organizations to meet its objectives in relation to its investors and stakeholders. It is a system through which organizations are directed and controlled (Meisel, 2004). It is concerned with the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Corporate governance covers the broad array of systems, processes, and procedures that seek to regulate the relationship between managers and shareholders in particular and among firm stakeholders in general (Mallin, 2010). Good corporate governance ethical values include responsibility, accountability, fairness and transparency.

The purpose of good governance is to add value to the organization, reduce financial, business and operational risk, and strengthen shareholder confidence in the entity, and assist in the

prevention of fraudulent, dishonest and unethical behavior (Rashid and Islam 2008). Corporate governance practices that entail accountability demands that organizational members be responsible for their tasks execution. Accountability mechanisms assure investors in corporations that they will eventually receive adequate returns on their investments (Rashid and Islam 2008). Separation of ownership and control is a practice that firms need to readily adopt by readily enhancing alignment of shareholders' interest with managerial interests (compensation plans, stock options, bonus schemes); board monitoring by large shareholders and lenders; legal protection of (minority) shareholders from managerial expropriation through shareholder rights.

Firm exist to maximize shareholder wealth; the adoption of sound corporate governance practices enables the realization of this goal. Firms that adopt cost-minimizing corporate governance mechanisms become more efficient hence maintain long-term survival (Aluchna, 2009).

Miniga (2013) examined the relationship between corporate governance practices and financial performance of regulatory state corporations in Kenya. The findings revealed that various corporate governance practices were being adopted including; board size, composition, the frequency of board meetings, board diversity, CEO duality, internal audit function, and independence of board committees. The study found a strong relationship between the adoption of sound corporate governance practices and financial performance in the studied corporations.

Mutia and Nairobi (2011) examined corporate governance practices by Kenya Airways Limited the research findings revealed adoption of various corporate governance practices by the management including; clear establishment of roles board of directors, responsibilities and accountability clear definition and lastly board composition on the sole basis of experience, knowledge and expertise of the industry.

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders (Adeboye & Rotimi, 2016). The transparency, accountability and probity of organizations make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society (Asemit, 2014). Good corporate governance is necessary for attracting investors and assuring them that their investment will be secure and efficiently managed in a transparent and accountable manner. The importance of corporate governance proved to be crucial in line with recent corporate scandals which resulted in substantial economic losses, higher risk and a decrease in confidence. The concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules.

1.1.2 Enterprise Risk Management

Enterprise risk management entails is a holistic approach to risk looking at all facets of the enterprise aspects with the aim of managing uncertainties for the organization (Dafikpaku, 2011). They continue to argue that it covers all risks from within and from without, amalgamate and see all risks from a board, creating awareness throughout the organization with the goal of creating, protecting and enhancing shareholder value by mitigating risks and seizing opportunities in a continuous process. This was echoed by Terzi and Posta (2010) when they stated: "ERM is an organization-wide process of structured, integrated and systematic identification, analysis, evaluation, treatment and monitoring of risks towards the achievement of organizational objectives".

Enterprise risk management is the application of risk analysis to strategic, systems, human and organizational problems in order to improve performance (Nocco and Stulz, 2006). It involves identification, measurement, monitoring and controlling risk to ensure that the individual who take or manage risks clearly understands it; the organization's exposure is within the limits established by management; risk taking decisions are in line with business strategy and objectives set by management; the expected payoffs compensate for the risk taken; risk taking decision is explicit and clear; sufficient capital as a buffer is available to take risk (Adeboye & Rotimi, 2016). The goal of risk management is to optimize risk-reward trade-off. Several types of risks exist in organizations. These include credit risk, operational risk, market risk, liquidity risk, residual risk, securitization risk, concentration risk, interest rate risk, reputation risk, business risk, transfer risk, insurance risk, strategic risk among and financial risk which this study shall concentrate on (Dabari & Saidin, 2014).

Woods and Dowd (2008) categorized the risks that affect organizations as encompassing: business environment, laws and regulations, operational efficiency, the organization's reputation, and financial risks. In order to mitigate the impact of unwanted event from any or combined categories of risks, it is important to embrace, uphold and improve enterprise risk management with a view of reducing unacceptable performance variability; align and integrate varying views of risk management; build confidence of investor community and stakeholders; enhance corporate governance; successfully respond to a changing business environment; and align strategy to corporate culture (Protiviti, 2006).

Every organization is faced with some form of risk and has to manage the same somehow. However, employing ERM proves not only superior means of managing risks but also provides

an organization with some form of assurance that aggregate risks facing the organization are timely identified and mechanism of reducing their impact are put in place and executed in anticipation of the same; and when the risk actualizes the organization is able to pick up the pieces and recover quickly. The ERM approach does not guarantee but does strongly increase, the possibility of the timely identification and management of important risks. Moreover, properly implemented, ERM would increase efficiency and improve effectiveness through integrated risk management, Terzi and Istvan (2010) and Owitti (2013).

1.1.3 Horticultural Sector in Kenya

The Kenyan horticulture sub-sector of agriculture has grown to become a major foreign exchange earner, employer and contributor to food needs in Kenya. Currently, the sector is ranked third in terms of foreign exchange earnings from exports after tourism and tea (FPEAK, 2014). Among the key productions include: fruits, vegetable and cut flower production. The industry continues to contribute to the Kenyan economy through the generation of income, creation of employment opportunities for rural people and foreign exchange earnings, in addition to providing raw materials to the agro-processing industry. The sub-sector generates over US\$ 300 million in foreign exchange earnings. The Horticultural sub-sector is the fastest growing industry within the agricultural sector, recording an average growth of 15% to 20% per annum. It contributes positively to wealth creation, poverty alleviation, and gender equity especially in the rural areas (FPEAK, 2014).

Horticulture in Kenya is mainly rain fed although a number of farms, especially the ones growing horticultural crops for export, also use irrigation. The sub-sector is characterized by a tremendous diversity in terms of farm sizes, a variety of produce, and geographical area of

production. The industry continues to contribute to the Kenyan economy through the generation of income, creation of employment opportunities for rural people and foreign exchange earnings, in addition to providing raw materials to the agro-processing industry. The total horticultural production is close to 3 million tonnes making Kenya one of the major producers and exporters of horticultural products in the world. Europe is the main market for Kenyan fresh horticultural produce with the main importing countries being the United Kingdom, Germany, France, Switzerland, Belgium, Holland and Italy. Other importing countries include Saudi Arabia and South Africa.

1.2 Statement of the Problem

The flower farm industry in Kenya has been characterized by volatility leading to the collapse of some of the farms. One of the possible reasons for the collapse is poor corporate governance. The major reason behind the collapse of numerous horticultural institutions has been the lack of strong corporate governance practices that have in turn led to internal controls, risk management strategies leading to overall weakness in the regulatory and supervisory framework thus leading to a conflict of interest between firm stakeholders. The horticultural industry in Kenya has faced several corporate governance challenges which have exposed it to risks. For instance, Karuturi has since been placed under liquidation which raises the question of corporate governance and how it was executed. Other firms have also faced hard operating times which saw their exports reduce significantly. Kenya Revenue Authority carried out tax compliance assessment tests on several flower farms in Kenya. Majority of the flower farms assessed were found not to be compliant with the tax regulations put in place by KRA. The flower farms have paid or been forced to pay huge sums of money in penalties and tax arrears. This raises questions of risk management in the flower farm sectors.

Lockhart and Taitoko (2005) examined the causes surrounding the collapse of Ansett Holdings Ltd and the largest corporate loss of Air New Zealand. The findings showed a failure in governance at the studied firms. This study was conducted in the air line sector hence the research findings cannot reasonably apply in horticulture firms. MacAvoy and Millstein (2003) found that board composition has no effect on organizational financial performance. The study only addressed the influence of board composition but did not address the influence of managerial skills, internal control, organization transparency and ownership structure on firm performance as corporate governance practices. Chahine and Dagher (2008) examined risk management and corporate governance in the Lebanese Islamic Banking Industry. This study was conducted in a banking industry.

Various studies have been carried out in Africa regarding corporate governance and firm performance. Adeboye and Rotimi (2016) examined the pattern of corporate governance, risk management and performance of Zenith Bank Nigeria Plc. The findings show that the Bank's risks and corporate governance mechanisms were efficiently managed which contributed to the maintenance of its leadership position in the industry during the turbulent years. The study did not examine the influence of corporate governance practices specifically managerial skills, internal control, the influence of ownership, and organization transparency on risk management with regards to the horticultural sector. Dabari and Saidin (2014) looked at the theoretical framework on the level of risk management implementation in the Nigerian banking sector by estimating the moderating effect of top management support. The findings only examined the influence of top management support and ignored the influence of internal control and organization transparency on firm risk management.

A number of studies have been done on corporate governance and risk management among organizations in Kenya. Asemeit (2014) examined the effect of risk management on the financial performance of insurance companies in Kenya. The findings exhibit a positive relationship between the adoption of risk management practices and the financial performance of insurance companies in Kenya. This study concentrated on insurance companies which have a different operating environment from those of horticultural sector. Akicho, Oloko and Kihoro (2016) looked at the influence of corporate governance practices on performance in Kenya's public sector using a survey of selected National Government Ministries. The findings showed a positive and significant relationship between risk management and performance in Kenya's public sector. This study is different from this intended study in that it linked corporate governance to performance which is contrary to the intent of this study to establish a link between corporate governance practices and risk management.

From the review of studies above, it can be seen that a few studies have been done on corporate governance and enterprise risk management in Kenya especially in the horticultural sector and flower firms in Kenya. This study therefore, sought to fill this gap through investigating the effects of corporate governance on enterprise risk management in the horticultural sector using a case study of flower farms in Kenya.

1.3 Objectives of the study

The general objective of this study was to investigate the influence of corporate governance on enterprise risk management in the horticultural sector using a case study of flower farms in Kenya. The specific objectives were:

- i) To determine the influence of managerial skills on risk management among flower farms in Kenya

- ii) To determine the influence of internal control systems on risk management among flower farms in Kenya
- iii) To determine the influence of organization transparency on risk management among flower farms in Kenya
- iv) To determine the influence of ownership structure on risk management among flower farms in Kenya
- v) To determine the influence of board independence on risk management among flower firms in Kenya

1.4 Research Questions

- i) What is the influence of managerial skills on risk management among flower farms in Kenya?
- ii) What is the influence of internal control systems on risk management among flower farms in Kenya?
- iii) What is the influence of organization transparency on risk management among flower farms in Kenya?
- iv) What is the influence of ownership structure on risk management among flower farms in Kenya?
- v) What is the influence of board independence on risk management among the flower farms in Kenya?

1.5 Significance of the Study

1.5.1 Horticultural farms

The various flower firms operating in Kenya will benefit from the study in that they will learn the importance of corporate governance in managing risk exposure of their firms. Flower firms are exposed to different risks ranging from reputational, operational, foreign exchange rate among others. Through the findings of this study, the management of the various flower firms has the opportunity to learn and incorporate best practices through the study findings.

1.5.2 Regulatory bodies

The findings of this study are important to the regulator of the horticultural sector in Kenya Horticultural Crops Development Authority (HCDA), the Ministry of Agriculture and other affiliated ministries like the Ministry of trade and foreign affairs in the formulation of policies and regulations to ensure a stable horticultural industry. Through the findings of this study, new policies can be developed

1.5.3 Academic Fraternity.

The findings of this study are valuable to future researchers and academicians by acting as an empirical source besides suggesting areas for further research. This study has suggested areas for further research where they can extend knowledge on.

1.6 Scope

This study examined the influence of managerial skills, internal control, and organization transparency, influence of ownership structure and board of directors (board independence) influence on risk management among flower firms in Kenya. The study focused on how flower farms manage the overall risks they face including operational, production, financial and

compliance. The study was carried out within the flower farms based in Naivasha which are members of Kenya Flower Council. The flower farms in this specific location are a total of 40.

1.7 Assumptions

The study assumed that the respondents were knowledgeable on the matters of corporate governance and risk management in their farms. This enhanced an adequate collection of quality research data that lead to better quality interpretations from the collected research data.

The study assumed that the researcher received all necessary cooperation from all respondent flower firms and the respondents were truthful and willing to provide accurate and valid information freely.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature information from other researchers who have carried out their research in the same field of study. The specific areas covered here are a theoretical review, empirical review and conceptual framework. The chapter is organized according to specific research questions so as to ensure relevance to the research problem. The review is undertaken to eliminate duplication of what has been done by other scholars and to provide a clear understanding of the existing knowledge base in the problem area.

2.2 Theoretical Framework

This section reviews theoretical framework that discusses and explain the effect of corporate governance on risk management. The theories assist in appreciating how corporate governance affects risk management in the flower farms in Kenya. The theories discussed are the stewardship theory, stakeholder theory and agency theory.

2.2.1 Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, et al., (1997) as a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of

individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviors (Davis, et al., 1997). On the other end, Daily et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it is believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vishny (1997) insists that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently.

Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have a greater role as stewards in the organization. It was evident that there would be the better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson & Davis, 1991). The inclination is that the stewards manage the

organizations and are satisfied with the corporate success rather than being stuck with individual success. The managers are required to be stewards in the organization by protecting the shareholders' interests as a way of instilling strong corporate governance to minimize the risk of loss by shareholders.

2.2.2 Stakeholders Theory

Wheeler et al. (2002) argued that stakeholder theory was derived from a combination of the sociological and organizational disciplines. The theory is concerned with value and beliefs about the appropriate relationships between the individual, the enterprise, and the state. It involves a discourse on the balance of responsibilities, accountability, and power throughout the society. It is not a predictive theory that can be researched. Consequently, this societal view of corporate governance is probably better thought as a philosophy rather than a theory. Azid *et al.*, (2007) defined stakeholders to be those actors who have contributed firm-specific assets. Donaldson & Preston (1995) provided the following definition. Stakeholders are identified through the actual or potential harms and benefits that they experience or anticipate experiencing as a result of the firm's actions or inactions'. Stakeholders are described by Turnbull (2000) as 'strategic stakeholders' as strategic issues concern the ability of a firm to exist.

Stakeholder theory can be defined as any group or individual who can affect or is affected by the achievement of the organization's objectives. Stakeholder theorists²⁰ suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners. And it was argued that this group of the network is important other than owner-manager employee relationship as in agency theory. On the other end, Sundaram & Inkpen (2004) contend that stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention.

According to the stakeholder theory, corporate governance is primarily concerned with how effective different governance systems are in promoting long-term investment and commitment amongst the various stakeholders, (Williamson, 1985). Kester (1992), for example, states that "the central problem of governance is to devise specialized systems of incentives, safeguards, and dispute resolution processes that will promote the continuity of business relationships that are efficient in the presence of self-interested opportunism". Blair (1995) also argued that corporate governance should be regarded as the set of institutional arrangements for governing the relationships among all of the stakeholders that contribute firm-specific assets. Companies stakeholders argue that companies owe a duty to all those affected by their behavior. This calls for even directors to be accountable and responsible for a wide range of stakeholders far beyond companies" current company law responsibility to shareholders.

Such responsible behavior, the stakeholder advocate argue, should be the price society demands from companies for the privilege of incorporation, granting shareholders limited liability for the company's debts. Stakeholder theory was criticized by Jones and Wicks (1999), for assuming a single-valued objective (gains that accrue to a firm's constituencies). It was pointed out that the performance of a firm is not and should not be measured only by gains to its stakeholders. There are other key issues which are critical and should be considered such as the flow of information from senior management to lower ranks, interpersonal relations, working environment, etc. An extension of the theory called enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance. The theory was relevant to the study as it showed the mechanisms put in place by the board requiring the managers to act in a way that their actions will not jeopardize the interests of all the stakeholders of the organization.

2.2.3 Agency Theory

According to Jensen and Meckling (1976), Agency theory is directed on an agency relationship, in which one party (the principal) appoints another party (the agent), to perform their work. This kind of relationship is described by agency theory in terms of a contract. The directors or managers who are the shareholder's agents are given the responsibility of running the business by the shareholders (Clark, 2004). The agents are expected to act and make decisions in the best interest of the principal (Padilla, 2000). Agency theory aims at resolving two problems that can occur in agency relationships. These problems arise due to conflict of interests between the principal and the agent, which arise due to the separation of ownership and control which has been confirmed by Davis, et al. (1997).

Managers tend to develop opportunistic behavior due to legitimacy authority that has been bestowed to them by the shareholders, this behavior leads to a conflict of interest causing agency problem. In Agency theory, despite the agent being given the decision-making authority by the principal, the agent will not always act in the best interest of the principals. The principal has to control or restrain the behavior of the agent for his interest to be pursued. The principal will try to achieve controls through monitoring activities or task. To minimize the potential for such agency problems, Jensen (1983) recognizes two important steps: first, the principal-agent risk-bearing mechanism must be designed efficiently and second, monitoring costs are incurred through performance measuring, observing and controlling the actions of the principals. These costs include performance based incentives like bonuses, the cost of dismissal, the cost of audit reports, corporate reports and cost of compliance. The agent incurs bonding costs which include the cost of additional information disclosure to shareholders. Agent stops incurring bonding cost

when marginal reduction in monitoring cost equals marginal increase in bonding costs (Jensen & Meckling, 1976)

The principal expects to be compensated if the agent takes action that might harm his investment. For example, if the board of directors who are the agent made the decision to invest in a more risky project, the shareholders will demand to be compensated thus increasing the cost of capital. It is, therefore, a challenge to align the interest of principal and the agent due to the following areas of conflict; moral threat, earnings retention, time horizon and risk perception and which can be referred as agency problems (Jensen & Meckling, 1976; Shleifer & Vishny, 1989). The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). The theory showed how the board of directors who are agents of the shareholders put up corporate governance mechanisms to reduce agency problems for the interest of the shareholders to be protected.

2.3 Empirical Review

This section looks at the objectives of the study and furnishes each objective with the material in an effort to answering the research questions. This section looks at the five areas covering each of the five objectives that examine the effect of corporate governance.

2.3.1 Managerial Skills and Risk Management

Managerial skills are skills that a manager ought to possess to be able to perform his or her duties effectively. Several models have tried to classify the managerial skills. The most widely used and accepted approach is the framework proposed by Katz (1955). Katz proposed three categories of skills i.e. technical skills (specific skills required to perform a specialized task), Human skills /interpersonal skills (skills required for direct management of people and Conceptual

skills/organization skills (the ability to understand concepts in a wider perspective and develop ideas and implement them). According to Katz, the importance of these skills vary according to the size of the organization. In a large organization, technical skills are important to lower level managers, human skills are important for middle-level managers while conceptual skills are ideal for top level managers. However, all the three skills are important for small organizations.

Brownbridge (2010) the concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules. The research on these relations constitutes a substantial proportion of papers in modern management, finance as well as law and economics. Researchers have investigated relationships between company performance and corporate governance practices such as ownership structure (concentration, shareholder identity), board structure (composition, turnover, proportion of independent, inside/outside or affiliated members), structure and functioning of board committees, structure and size of executive compensation whether they earn a fixed salary versus incentives programs and stock options, structure and size of debt either long or short term; private or public (Brownbridge & Canagarajah, 2010).

A study by Nadkarni and Barr, (2008) concluded that managerial cognition drives strategic action. Given the continued debate of what strategy really is and how it is formulated, it turns to the skills of the manager to shape what he takes to be a strategy and what to be pursued as goals. The manager is the key driving force of the organizational goals; its achievement is a major concern of the manager and his skills. He has to push all employees of that specific organization to achieve its stated goals leading it to success. Management skill and relationship with other factors in the organization are fundamental and it was argued that managerial skill was a strategic resource (Gavetti, Greve, Levinthal, & Ocasio, 2012). The worst scenario any organization can

face is having a poor manager or a poor management team and even with great employees, the firm will still fail. As the employees will lack leadership skills from their manager.

Earlier scholars in strategic management have emphasized the role of executive leadership in strategic management decisions (Bagire, & Namada, 2013). The emphasis today is to understand the values, background, experience and skills of top managers and how they shape the thinking of the organization in developing strategic plans. It was argued that strategic choices and performance are associated with characteristics of top management (Gavetti, et al., 2012). It is concluded that an organization is a reflection of its top echelons. The fundamental tenets of strategic management that premise the success of top managers in this process are consistency, consonance and feasibility (Ogollah & Bolo, 2009).

In another grounded study scholars analyzed 2125 articles in five strategic management journals between 1980 and 2005 from which a strategy mapping was developed indicating that leadership, decision making, cognitive ability and methodology were strong competencies in management's role to achieve a strategic fit (Molina-Azorin, 2015). Managers' competencies are the set of skills that managers must have to be effective. The IMF management competencies framework serves as a booster for senior managers' management skills it also serves as a basis on which to assess managers within and across departments and in any sector of the economy.

Hill and Jones (2011) described management as the art of getting things done through and with people in formally organized groups. They also saw management as both an art because of making people more effective than they were before and a science because of how it is done. Due to the role, they play in an organization, management need to have the competencies to execute the five management functions that comprise in any organization. These management functions are namely planning; organizing, commanding, co-coordinating and controlling. There

cannot be effective management without managers who are endowed with the required competencies to implement relevant strategies. Jones, (2010) observed that business strategy involved the reallocation of resources, converting resources into finished products and effectively and efficient managing the resources and especially human resource to produced geared towards satisfying the market needs.

Rutledge, LeMire, Hawks, and Mowdood (2015) stated that competencies combine knowledge and skills which represent the underlying knowledge base and the set of skills required to perform useful actions. They pointed out that the four characteristics of competencies included: tackiness, robustness, and consensus and found that middle managers whose competencies were labeled more tacit, more robust and more embedded tended to outperform those who did not. They also found that after the restructuring of an organization, a company can survive everything but the defection of its middle managers. Furthermore, Rutledge et al., (2015) found out those managers who had, higher risk taking, better planning, and greater persuasiveness and better at motivating other people competencies progressed at a higher rate than those who were less well-endowed with these competencies.

According to a study by Capriglione and Casalino (2014) which sought to establish the relationship between management practices, corporate governance and risk management practices. Through use of descriptive study design the study was carried out among 15 commercial banks. The results of the study indicated that increased management skills is associated with higher levels of corporate governance and risk management practices. Change management in regards to improving management skills was established to be important for commercial banks.

Javadin, Amin, Tehrani, & Ramezani (2010) did a study entitled “the relationship between managerial skills and efficiency of bank branches. The study was carried out among 43 randomly selected bank branches in Iran. Results showed that there are directly and positively relationship between managerial skills and efficiency. Further, the results also revealed a strong association between management skills and implementation of risk management practices in commercial banks.

2.3.2 Internal Control Systems and Risk Management

Effective risk management and internal control is an important driver of business performance, business survival and sustainability and also it is one of the best defenses against business failure (Morris, 2011). Highly successful organizations know how to take advantage of opportunities presented to them by the environment and counter threats thereby continually improving their overall performance in terms of expansion and profitability. Until recently, many organizations were overly focused on a financial reporting controls-based monitoring framework. But the global financial crisis highlighted that many of the most impactful risks stem from external circumstances. Therefore many management teams of organizations and shifting to laying more focus on risk management and internal control systems making it a part of the organizations open system of dynamic variables(Vijayakumar & Nagaraja, 2012).

A lot more organizations in all sectors of the economy are leveraging by investing in systems that would help the organization in planning, implementing, executing, evaluating and improving its projects, programs and process to make it efficient and produce better quality products for the market. The whole investment is to aide in avoiding risks and better managing the risks that the organization faces (Krstić, 2012).

Internal control will help an organization to, carry on its business in an orderly and efficient manner, ensure adherence to company policies, safeguard its assets, and secure accuracy and reliability of the records (Millichamp & Taylor, 2008). Internal control systems include procedures, and policies put in place for management to use in conducting the business entity in order to attain its objectives. In the presence internal controls there are checks and balances designed to assist an organization detect and prevent employees from committing any form of unethical deeds. In the absence of controls non-committed members of the organization may use it as a chance to commit fraud and other unethical behaviors.

The decrease of business risk cannot be realized by severe penalties, instead, the frequency of internal control in risk monitoring must be taken into consideration, and otherwise it will stimulate enterprise risk monitoring paradox, (Yanhong & Qing, 2013). One of the most important mechanisms for risk reduction is internal control as a set of policies and procedures established by management in order to realize enterprise's objectives (Krstić, 2012). Internal audit is primarily used as an effective tool to manage operational, financial, legal and regulatory risks (Vijayakumar & Nagaraja, 2012). Internal control systems are set up to limit the risks of errors or frauds (Krstić, 2012). A system of internal control within an organization plays an important role in effective management of its risks (Saidin, 2012). The directors and management of SACCOs need to put in place resources, systems, processes, culture, structures, and tasks to ensure achievement of objectives and goals of the business.

A company's risk management and internal control systems have key roles in the management of risks that are significant to the fulfilment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets. It also helps to identify, assess, and manage risks in the face of uncertainty and is integral to value

creation and preservation. Enterprise risk management is most effective when these mechanisms are built into the entity's infrastructure and are part of the essence of the enterprise. By building in enterprise risk management, an entity can directly affect its ability to implement its strategy and achieve its mission Morris (2011). Effective financial controls, including the maintenance of proper accounting records, are an important element of internal control. They help ensure that the company is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable. They also contribute to the safeguarding of assets, including the prevention and (Yanhong & Qing, 2013) detection of fraud.

A company's objectives, its internal organization and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. Sound risk management and internal control systems, therefore, depend on a thorough and regular evaluation of the nature and extent of the risks to which the company is exposed. Since profits are, in part, the reward for successful risk-taking in business, the purposes of risk management and internal control systems are to help manage and control risk appropriately rather than to eliminate it (Chapman, 2011).

Sarens & Christopher(2010)Purpose carried out a study to investigate whether the weaker focus on risk management and internal control within the Belgian corporate governance guidelines is associated with less developed risk management and internal control systems within Belgian companies, when compared to Australian companies. The study was based on institutional theory and used cross-sectional study design. The findings indicate that family ownership have low corporate governance practices and by extension low implementation of risk management practices.

In a study by Hu, Tam, & Tan (2009) which was to establish corporate governance issues arising from concentrated ownership structure in emerging economies have received growing attention. Adopting a panel data model to evaluate the independent and interdependent effects of internal governance mechanisms. The findings suggest that ownership concentration and internal control have the most significant governance effect on firm performance. Furthermore, the governance role of the board of directors and supervisory boards is found to have been hindered by ownership concentration, rendering them unable to improve firm performance at present.

Mafrolla, Matozza, & D'Amico (2016) carried out a study in Italy with an aim of assessing Enterprise Risk Management (ERM) adoption and factor influencing the adoption of enterprise risk management practices. Through descriptive study design, the study collected information from 78 participants from Italian private corporations and question whether ERM adoption. The study found higher level of ERM adoption among the Italian firms. The study findings also showed that firm owners, internal control systems and board independence had a strong correlation with implementation of risk management practices.

2.3.3 Organization Transparency and Risk Management

Transparency is one of the main principles of corporate governance. Transparency has two dimensions, quality of communication which must be factually accurate, easily understood by the intended audience and presented in a manner that promotes adoption of the desired behaviors. The second dimension is on trust between the public and the organization which must be forthcoming and open to provide evidence of information to be believable and used by the public to make decisions that concern the public and organization (Meijer, 2013).

Armstrong, Core and Guay (2014) found out that for many non-governmental organizations (NGOs) and other social actors, accountability is paramount and also a path to empowerment,

enhanced the effectiveness of civil society and donor organizations, large and small, in responding to the needs and voices of those they claim to serve. Traditional forms of accountability such as internal audits or bureaucratic intra-governmental controls are increasingly found to be limiting, or even as having become corrupt. In response, multi-stakeholder and citizen-led approaches have come to the fore, to supplement or supplant them. This is ensuring that accountability is effective and efficient in handling its mandate; having the impact it was intended for.

Without transparency in both measurement and decision making, and open discussion on the risks to an organization's bottom line and quality of products or services by all concerned, effective risk management can be hard to achieve (Martin, 2012). Transparency need to be recognized as a source of competitive advantage since it helps build confidence to all members and this can be extended through audits and process management. Martin (2012) further states that effective risk management depends on risk assessment, decision making, and re-evaluation of the risks.

The Australian Institute of Company Directors (AICD, 2013) elaborates on the issues of integrity, transparency and accountability within nonprofit organizations. They first indicate that it is the role of the board to ensure they have a system in place which assists the board in accessing information on the operation of the organization to aid them in making decisions; there are transparency and accountability to external stakeholders; and the integrity of financial statements and another key information is safeguarded (Fleckner & Hopt, 2013).

Halle and Wolfe (2010) in their issue says that the approach to transparency, integrity and accountability within organizations should encompass these three approaches; the first one is timely and appropriate information. The information includes the financial position of that

particular organization, reports on major projects undertaken and their progress, regulations and compliance measures taken to manage any risks that the organization has undertaken. The second approach is communicating the performance of the organization. The communication is done to both internal stakeholders and external parties. This is the case for public entities that broadcast their quarterly financial position; for the case of private entities, the information isn't openly communicated but still it is communicated to the concerned parties (Meijer, 2013). And thirdly is external financial reporting, whereby the organizations should seek to ensure that their financial standing is sound and that their systems of financial reporting and assurance have integrity. The responsibility of ensuring the integrity of financial position, performance and reporting of the entities lies with the board and the management team. The board and management team should undertake a few activities to ensure the integrity of financial reports are maintained; having an appropriate level of financial literacy at board level, establishing an audit committee, establishing an internal audit function, and drawing on external financial expertise (AICD, 2013).

Organizations are supposed to be accountable to themselves (internally-values and expectations) and externally-stakeholders, beneficiaries, donors and governments. Kingoro and Bujra (2009) in their research on the contribution of non-state actors to development in Kenya; asserted that NGOs are only accountable to their donors rather than to all stakeholders. They are more donor-centric than people-centric due to a lack of a transparent mechanism to scrutinize their accountability to the beneficiaries. They further stated that the NGO coordination bureau has no inbuilt capacity to ensure accountability and transparency of all officials.

Heald, (2012) stated that organizations in the business and government sectors, the answers to these questions are relatively clear. In the grossest terms, businesses are accountable to their

owners for making money. The government is accountable to its citizens for carrying out the public's will, as ultimately reflected in voting, legislation, and judicial interpretation. Of course, accountability in both of these sectors is much more subtle: Businesses are also accountable to government for operating within the law and to their customers, at least instrumentally, to assure long-term profitability (Meijer, 2013).

2.3.4 Ownership Structure and Risk Management

Ownership of any organization is categorized into five different types: these are the family or an individual, the State, a widely held financial institution such as a bank or an insurance company, a widely held corporation- such as large multinational corporations (MNCs) and miscellaneous, such as a corporative, a voting trust, or a group with no single controlling investor. State control is a separate category as it is a form of concentrated ownership by the State. These forms are used by the State to pursue political objectives, while the public pay for the losses in case the organization goes bankrupt or makes huge losses that eventually it closes down (Fan, Wong & Zhang, 2013).

There are three important forces affecting ownership structure: value maximizing size, control potential, and amenity potential. Fan et al., (2013) argued that the separation of decision making and risk-bearing functions observed in a large corporation is also common to other organization such as large professional partnerships, financial mutual, and non-profits making organizations because of the benefits of specialization of management and risk bearing.

Lotfi and Mohammadi (2014) in a study analyzed the relationship between the ownership structure and risk management in the time period 2007 to 2013, based on a sample including 642 firms among listed in Tehran Stock Exchange. The study tested the relationship between Ownership Structure such as Institutional Ownership, Management ownership, Family

Ownership, and Ownership Concentration and risk management on one hand. The results indicated that there is a significant positive correlation between the Management Ownership and Risk Management; also there is a significant negative correlation between the Ownership Concentration and Risk Management. But, there is no significant correlation between the Institutional Ownership and the Family Ownership with Risk Management.

Similarly, Connelly, Hoskisson, Tihanyi and Certo (2010) carried out a study to analyze the effect of ownership structure on risk management structure. This study synthesizes research from multiple disciplines on different types of owners and offers a unifying framework of governance through ownership. The study noted affirmed that there exists a significant relationship with risk management and also noted that heightened managerial awareness occasioned by ownership structure of heterogeneous owner interests increases owner influence on firm-level outcomes. The study drew attention to emerging forms of ownership, such as hedge funds and sovereign wealth funds, and highlights the changing (and often competing) interests of shareholders and how this impacts on risk management structure. Nevertheless, it felt short of understanding the effect of ownership structure in other sectors.

In a study conducted by Mafrolla, Matozza and D'Amico (2016) to assess the role of ownership structure in risk management practices among private firms adopting Enterprise Risk Management (ERM) practices voluntarily. Through a survey among Italian private corporations the study indicated that conflicts between controlling and minority shareholders, which arise when ownership dispersion decreases, affect ERM adoption, and that when proprietorship is more dispersed, the firm places more focus on risk management practices.

Mang'anyi, (2016) in a study explored ownership structure and corporate governance and its effects on performance of firms in Kenya with reference to banks. The study revealed that there

was no significant difference between the type of ownership and financial performance, and between banks ownership structure and corporate governance practices. Further results revealed that there was a significant difference between corporate governance and financial performance of banks. However, foreign-owned banks had slightly better performance than domestically-owned banks. The study focused on banks in Kenya thus necessity studies on other sectors other than the financial sector.

In a study by Hu, Tam and Tan (2009) which was to establish corporate governance issues arising from concentrated ownership structure in emerging economies have received growing attention. Adopting a panel data model to evaluate the independent and interdependent effects of internal governance mechanisms. The findings suggest that ownership concentration and internal control have the most significant governance effect on firm performance. Furthermore, the governance role of the board of directors and supervisory boards is found to have been hindered by ownership concentration, rendering them unable to improve firm performance at present.

2.3.5 Board of Directors (board independence) and Risk Management

The ability of a Board to effectively oversee corporate sustainability depends on to a large extension in its composition. It is important who the board members are and how well do they organize themselves to fulfil their duties as board members of a certain organization. Ingley and Van Der Walt (2008) define board composition as the concept of diversity relating to the varied board of trustees combination of attributes, characteristics and expertise contributed by individual board members in relation to board process and decision-making process. Any good board should have the diversity so as to look at different angles into a certain situation that the organization is going through. There are high chances that boards that are similar in their

diversity will look at the issue in the same manner and possibly come to the same conclusion or the same decision; and alternatively, the decision may hurt the organization a lot more.

Risk management involves the contribution of many actors at different levels of a firm. Boards of directors and the CEO have the responsibility for setting the strategic direction of the firm and creating the environment for an effective risk management system. Prior studies generally posit that board independence from management provides, among other things, the most effective monitoring and control of firm activities. Thus it has been suggested that directors contribute expertise and objectivity that minimize opportunistic behaviors and expropriation of firm resources (Byrd and Hickman, 2010). Hence, a board of directors with a higher proportion of outside directors is likely to provide superior oversight of a firm's risk management activities. In addition, outside directors may seek to protect their reputations as experts in monitoring because the market for directors is likely to alienate those associated with corporate financial scandals or poor performance. Therefore, boards with a higher proportion of outside directors are likely to establish a risk management committee to enhance their monitoring ability.

Desender (2007) did a study that sought to how the board composition is related to the degree of enterprise risk management implementation. The study results revealed that the position of the CEO in the board has an important influence on the level of enterprise risk management. Furthermore, the study found outboard independence by itself is not sufficient to induce higher levels of enterprise risk management. The study concluded that board independence is only significantly related to ERM when there is a separation of CEO and chairman.

Yatim (2009) in a survey among Malaysian listed firms sought to examine the association between the establishment of a risk management committee and board structures of Malaysian listed firms. From the study results, it was predicted that more independent, expert, and diligent

boards are likely to establish a stand-alone risk management committee. Thus the findings support a strong association between the establishment of a risk management committee and strong board structures. Specifically, the result shows that firms with higher proportions of nonexecutive directors on boards and firms that separate the positions of chief executive officers and board chairs are likely to set up a stand-alone risk management committee. Firms with greater board expertise and board independence are also likely to establish a risk management committee.

Likewise, Dionne and Triki (2005) carried out a survey among listed firms in Tehran stock exchanges with an aim of examining the relationship between the characteristics of Board, board independent, audit fees and ownership concentration on business risk management. The results of testing hypotheses suggest that there is no significant association between the characteristics of the Board and risk management business. There is a significant relationship between board independence and business risk management. The study mentioned above focused on public listed firms and never explored non-listed firms thus the need for the study. Manab, Kassim, and Hussin, 2010 did a study to examines the influence of board independence and ownership structure on risk management practices and firm performance. The finding of the study is that board independence and ownership structure have significant effect on both enterprise risk management and firm performance. Overall, these findings do support the role of corporate governance practices on adoption of risk management in firms.

2.4 Knowledge Gap

Globally, Lockhart and Taitoko (2005) examined the causes surrounding the collapse of Ansett Holdings Ltd and the largest corporate loss of Air New Zealand. The findings showed a failure in governance at the studied firms. Klapper and Love (2004) found no significant association

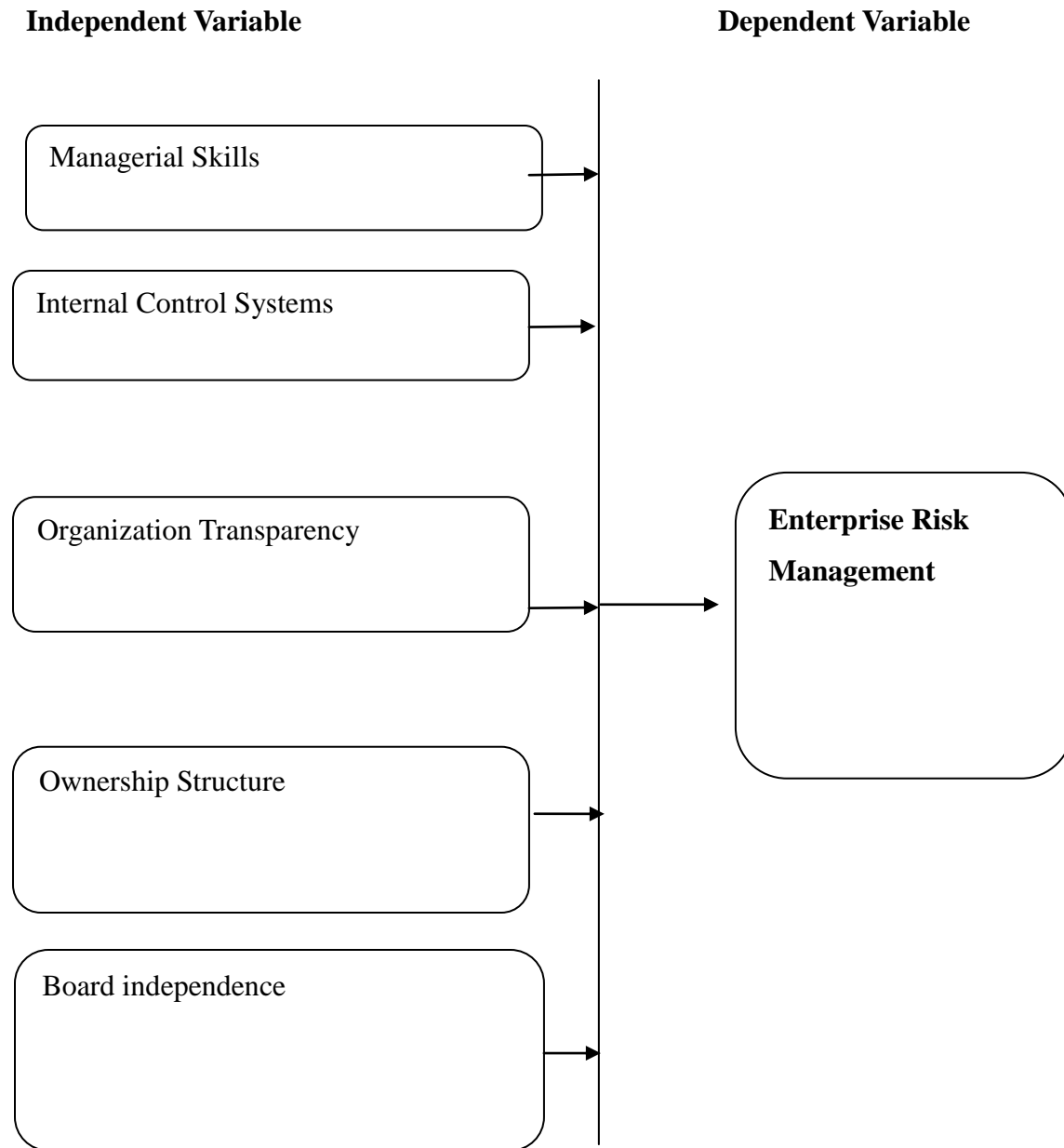
between farms' corporate governance and financial performance. MacAvoy and Millstein (2003) found that board composition has no effect on organizational financial performance. The study only addressed the influence of board composition. Chahine and Dagher (2008) examined risk management and corporate governance in the Lebanese Islamic Banking Industry. This study was conducted in a banking industry. These studies findings cannot apply in the Kenyan context due to their setting in developed countries.

Regionally, Adeboye and Rotimi (2016) examined the pattern of corporate governance, risk management and performance of Zenith Bank Nigeria Plc. The findings showed that the Bank's risks and corporate governance mechanisms were efficiently managed. Dabari and Saidin (2014) looked at the theoretical framework on the level of risk management implementation in the Nigerian banking sector by estimating the moderating effect of top management support. These findings cannot apply in the horticultural context in Kenya.

Locally, Asemeit (2014) examined the effect of risk management on the financial performance of insurance companies in Kenya. The findings exhibit a positive relationship between the adoption of risk management practices and the financial performance of insurance companies in Kenya. Akicho, Oloko and Kihoro (2016) looked at the influence of corporate governance practices on performance in Kenya's public sector using a survey of selected National Government Ministries. The findings showed a positive and significant relationship between risk management and performance in Kenya's public sector. This study concentrated on insurance companies and public sector and their findings may not be applicable as they operating in a different environment from those of horticultural sector.

2.5. Conceptual Framework

Figure 1: Conceptual Framework



2.6 Operationalization of the Variables

Table 1 Displays the operationalization of the study variables and identifies the measurement scale of each of the variables.

Table 1 Operationalization of the study variables

Objective	Variable	Indicators	Measurement scale
Enterprise Risk management	Dependent variable Risk management	Risk identification, measurement ,monitoring &controlling	Interval
To investigate the influence of managerial skills on risk management among flower farms in Kenya	Independent Managerial skills	Leadership skills Interpersonal skills Technical skills	Interval
To investigate the influence of internal control systems on risk management among flower farms in Kenya	Independent variable Internal control systems	Policies, procedures, Availability of Internal audit function	Interval
To establish the effects of	Independent variable organizational transparency	Timely Communication of important information	Interval

organizational transparency		to the stakeholders Accountability to stakeholders	
To investigate the influence of the BOD Board independence	Independent variable Board independence	Presence of outside directors in the board	Interval
To establish the influence of ownership structure on risk management among flower farms in Kenya	Independent variable Ownership structure	Type of ownership e.g. Private, public ,family etc.	Interval

2.7 Hypothesis of the study

The study was based on the following null hypothesis:

H₀₁: Managerial skills have no significant effect on risk management of flower farms.

H₀₂: Internal control systems have no significant effect on risk management of flower farms.

H₀₃: Organization transparency has no significant effect on risk management of flower farms.

H₀₄: Ownership structure has no significant effect on risk management of flower farms.

H₀₅: Board of directors have no significant effect on risk management of flower farms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methods that were used in carrying out the research; it looks at the research design to be applied, the target population, sampling method, data collection methods, research procedures, data analysis methods and the chapter summary.

3.2 Research Design

According to (Yin, 2013), a research design provides a framework of the methods and the procedures for collecting and analyzing data. The researcher used descriptive research design to investigate the effects of corporate governance on risk management in the horticultural sector using a case study of flower farms in Kenya. According to Creswell (2012), descriptive research describes elements as they exist in their natural setting and it has a purpose to observe, describe and document aspects of a situation as it naturally occurs and it seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. On the other hand Yin (2013), states that descriptive design seeks to ask who, what, where, how or how much. It seeks to find out as much as possible instead of using prepared models or guesswork. It leads to deriving data that is statistically inferable and more accurate as it probes to get the reason that led to such an answer. It is also used to establish the significance of a population's change in behavior, opinions or attitudes over time and thus this research design is appropriate for the study as it helped in establishing effects of corporate governance on risk management at the 40 flower farms in Naivasha.

3.3 Target Population

Population refers to the entire group of people or things of interest that the researcher wishes to investigate. It comprises a selection of members from that particular population. Target population refers to a well-defined or set of people, services, elements, events, group of things or households that are being investigated (Fowler, 2013). The target population is the specific population about which information is desired. The target population of this study comprised of 40 flower farms that exist in Naivasha sub-county, Lake Naivasha Growers (2015). Specifically, the units of analysis were the four departments of finance, human resources, production and supply chain working for the flower farms in Naivasha.

3.4 Sampling Size and Procedure

This study undertook a census of 40 flower farms in Naivasha. Census Survey was used to select the participating flower farms. This was used because of the relatively small size of farms. In addition, the study used purposive sampling to select participating managers from the forty farms. Purposive sampling was used to select available respondents who would provide information to meet the study objectives. The sample size of the study was 170 respondents and was calculated as shown below.

Table 2 Sample size of the study

Farms Category	Population	Unit of Observation	Sample Size
Large farms	5	6	30
Medium farms	10	4	40
Small Farms	25	4	100
Total	40		170

3.5 Instrumentation and Data Collection

This research collected primary data using questionnaires (Appendix 1). The questionnaires were chosen since they are easy to fill and to analyze due to their standard answers. A five-point Likert scale was used for closed-ended questions whereby the target respondents indicated the extent of their agreement/disagreement with each statement. The Likert scale of 1-5 whereby 1=Strongly Agree, 2=Agree, 3=Neutral, 4=Disagree and 5= Strongly Disagree. The questionnaire contained seven sections namely: demographic information, dependent variable (Enterprise Risk Management) and each of the five independent variables (managerial skills, internal control systems, organizational transparency, ownership structure and board of directors) and their impact on the dependent variable of Enterprise risk management.

The respondents were required to fill in questionnaires. The researcher preferred using questionnaires as they tend to be confidential and provide honest answers without a feeling of intimidation. Since the respondents were expected to be busy most of the time, the researcher preferred to drop the questionnaires to the respondents and pick them a week later in order to give the respondents sufficient time to fill the questionnaires.

3.6 Validity and Reliability

A pre-test was conducted to ensure the questionnaires used passed the reliability and validity test. According to Yin, (2013) the validity of a questionnaire refers to the extent to which it measures what it claims to measure. Data validity is "the extent to which a measure, indicator or method of data collection possesses the quality of being sound or true as far as can be judged" In effect, data validity is its relevance to the research objective and how strongly it relates to the issue under scrutiny. The piloted questionnaire was scrutinized keenly to vet out unclear and ambiguous phrases and statements then reworded to ensure its validity. The researcher further engaged the guidance of the supervisor as the expert whose opinion is counted on to refine the research tools. This ensured that the questionnaire administered for the final study was capable of eliciting the information required, in other terms the research tool will be valid.

Reliability is an indication of how much one can rely on the data source. Data is deemed to be reliable if it is dependable, authentic, reputable, and trustworthy. It also makes it possible for a similar study to be replicated with consistent outcomes (reliability). This is because consistency is the primary measure of reliability (Pierce, 2008). The study had pilot group of 20 respondents who were used to test the reliability of the research instrument. The five respondents were from other regions, that is, Ruiru and Timau and did not participate in the main study.

The study further applied the Cronbach's Alpha Test (It is considered to be a measure of scale of reliability) which is more advanced to determine the reliability as it determined the internal consistency or average correlation of items in a research instrument to gauge its reliability and how closely related a set of items are as a group. Emphasis is that the smaller the variability, the greater the internal consistency reliability of the research instrument. The acceptable score of reliability is 0.7 and above (Shuttleworth, 2015). The piloted questionnaires were analyzed using SPSS version 22 and a Cronbach value of $\alpha = 0.93$ obtained showing that the instrument had internal consistency hence fit to be used in data collection for the study.

3.7 Data Analysis and Presentation

Data analysis refers to the whole process that starts immediately after data has been collected from the field, involving the processing of data to get results and ending at the point of interpretation and drawing conclusions from the results obtained (Kothari, 2008). This research employed descriptive statistics to analyze the data. Mugenda & Mugenda (2003) argue that descriptive statistics enable the researcher to get a meaningful description of scores and measurements for the study through the uses of few indices or statistics. Before embarking on data analysis, the questionnaires collected from the field were inspected for completeness and accuracy. The data obtained from the questionnaires were edited and then coded for the purposes of data analysis. It was further summarized using descriptive statistics which include a measure of central tendency, measures of variability, and measures of reliability and frequency among others. Measures of central tendency such as the mean, median and the mode state the best estimate of the expected score or measure from a group of scores in a group of scores in a study. The Statistical Package for Social Sciences (SPSS) Version 22 was used to analyze the independent and dependent variables. The quantitative data findings were presented in the form of charts, tables and pie charts, while qualitative data findings were presented thematically.

The independent variables were managerial skills; internal control systems; organization transparency; ownership structure and board of directors, while the dependent variable is risk management.

The study used multiple regression analysis to determine the relationship between the dependent and independent variables. This model was used to test the effect of corporate governance practices on risk management among the flower farms in Kenya. This is because multiple regression analysis is widely used for social sciences research and allows the researcher to ask questions that can be used to predict a variable.

The multiple regression formula is:

$$Y = a_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Whereby:

Y = Risk Management

A₁ = Constant

β₁, β₂, β₃, β₄, β₅ = Coefficients of the effects of corporate governance on risk management

X₁ = Managerial Skills

X₂ = Internal Control Systems

X₃ = Organization Transparency

X₄ = ownership structure

X₅ = Board independence

ε = Error term

To test the normality of the data the researcher conducted an assumption test through Shapiro-wiro test. F-tests and the p-value were used to test for the goodness of fit of the model with adjusted R^2 used to test for the causality between corporate governance practices and risk management.

3.8 Ethical issues

Ethics, as noted by Mugenda and Mugenda (2003), is referred to, as norms governing human conduct which have a significant impact on human welfare. It involves making a judgment about right and wrong behavior. The researcher sought permission from the management of the flower farms before carrying out the research. This was done through a formal letter explaining the nature of the study, objectives and purpose of the study. In the process of the data collection; the researcher ensured that confidentiality of individuals who chose to remain anonymous was upheld and the findings were used for academic purposes only.

Ethical standards and their acceptability were considered throughout the interaction of the researcher with participants involved in the research. It was clearly stipulated to the respondents that participation in the study was important but voluntary. The respondents were assured that the responses will be treated confidentially and anonymously. The only persons who had access to the completed questionnaires were researcher and the statistician who transferred the data to the SPSS software computer program. All completed questionnaires will be destroyed by the researcher after the research report has been accepted.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the results of the study. The study sought to establish the relationships between corporate governance practices such as managerial skills, board independence, internal control systems and organization transparency and the risk management of flower farms.

4.1 Response Rate

The study targeted respondents from four departments; finance, human resources, production and supply chain in the flower farms in Naivasha. Although the study intended to collect data from a total of 170 respondents, only 140 responses was achieved in the study giving a response rate of 82%. This according to Mugenda and Mugenda (2003) is suitable for data analysis. Non-response rate of 18% was achieved due to lack of owners/managers during data collection period with most of owners/managers in small farms being absent.

Table 3 Response Rate

Response	Frequency	Percentage
Returned questionnaires	140	82
Unreturned questionnaires	30	18
Total	170	100

4.2 Internal Consistency Tests

Cronbach's alpha is the common estimate of internal consistency of items in a scale. It measures the extent to which item responses (answers to survey questions) correlate with each other. Alpha estimates ranges from 0.00 to 1.00. According to Gliem and Gliem (2003), the closer the Cronbach's alpha coefficient is to one the greater the internal consistency of items in the scale. From table 4 below, managerial skills had $\alpha=0.988$, internal control had $\alpha=0.986$, Organization transparency had $\alpha=0.979$, Board independence had $\alpha=0.796$. The overall reliability tests results for this study was 0.982 which is above the acceptable value of 0.7 hence implying that the data was reliable. Reliability test for ownership variable was not carried out since the ownership question was open ended,

Table 4 Reliability Test

Variables	Cronbach's Alpha	No of Items
Management Skills	0.988	4
Internal Control	0.986	6
Organization Transparency	0.979	6
Board Independence	0.796	4
Risk Management	0.982	5
Overall Reliability	0.982	25

4.4 Corporate Governance Practices

The Corporate governance practices considered in the study were managerial skills, internal control systems, organization transparency, and ownership structure and board independence.

4.4.1 Managerial Skills

Refer to table 5 below, 24% and 39% of the respondents strongly agreed and agreed respectively that organizations possess highly skilled staff in delegating work effectively to others. The study also sought to establish the respondents' opinions regarding staff's ability to supervise, lead and motivate people. The results showed that majority of the respondents 20% and 40% strongly agreed and agreed respectively. Regarding staff ability to organize and coordinate tasks, 26% and 36% strongly agreed and agreed respectively. Majority of the respondents (32% and 30%) were in agreement that expertise in a technical area is one of the skills that the organization values. This implies that flower farms are employing managerial skills as a way of minimizing risks in the organization.

From table 6 below, a set of managerial skills 5-point Likert statements were asked whereby 1 is 'Strongly Agree' and 5 'Strongly disagree'. This was to establish the perception of the respondents towards the existence of managerial skills on their firms. The means of the statements are presented as follows: The respondents agreed (mean=2.44) that the organizations' top management were highly skilled at delegating work effectively to others. This show that conceptual skills is regarded highly among the managers. The respondents also agreed that the top management had skills in organizing and coordinating tasks effectively and that expertise in a technical area of the top management is a key strength to the organization (mean=2.44 and 2.39 respectively). These results imply that conceptual skills and technical skill are highly valuable among flower firms. However, the respondents were undecided (mean=2.56) on the top managements' ability to supervise, lead and motivate people. This imply that human skills is not easily found among the managers of flower farms.

Table 5 Managerial Skills

Managerial skills	SA	A	U	D	SD	FREQ TOTAL	% TOTAL
The organizations possesses staff highly skilled at delegating work effectively to others	33	54	22	21	10	140	
	24	39	16	15	6		100
The organization has staff who are able to supervise, lead and motivate people	28	56	15	31	10	140	
	20	40	11	22	7		100
The organization has staff who have skills in organizing and co-ordinating tasks	36	50	21	23	10	140	
	26	36	15	16	7		100
Expertise in a technical area is one of the skills that the organization values	45	42	17	26	10	140	
	32	30	12	19	7		100

Table 6 Managerial Skills

Descriptive Statistics	N	Mean	STD
The organizations possesses staff highly skilled at delegating work effectively to others	140	2.56	1.236
The organization has staff who are able to supervise, lead and motivate people	140	2.44	1.207
The organization has staff who have skills in organizing and coordinating tasks	140	2.44	1.236
Expertise in a technical area is one of the skills that the organization values	140	2.39	1.301

4.4.2 Internal Control Systems

Table 7 below, on the question of policies and rules in organization the study results revealed that 38%, 26%, strongly agreed and agreed respectively, that there are clear laid policies and procedures for internal control. The study results also indicated that 30%, 32%, strongly agreed and agreed respectively on accurate and reliable financial statement in the firms. Concerning the existence of fraud internal control system it was established that 20%, 40%, of the respondents strongly agreed and agreed respectively. On existence of procedures for reporting theft the study indicated that 26%, 34%, strongly agreed and agreed respectively. From the findings it was indicated that 35%, 21of the respondents agreed and strongly agreed respectively, on evaluation of internal control system regularly. Finally, the results on compliance with rules and regulation showed that 34%, 26%, of the respondents strongly agreed and agreed, respectively. This

implies that flower farms have embraced internal controls which is an important corporate governance mechanism that helps to minimize the risks in the organizations.

Table 8 below, the study also sought to establish the internal control systems used in the organization. The respondents agreed (mean=2.26~2) that there were laid down policies and procedures in the organization. This shows the existence of directive controls in the firms an important aspect of internal controls as argued by (Hui-Nee, 2013). However, the findings also revealed that the respondents were undecided (mean=2.50) on the existence of procedures for reporting thefts are clear to all employees. This indicates that directive control have not been fully operationalized due to lack of operational plans that according to Jain(2014) are key in effecting control system. They also agreed that accurate and reliable financial statements were prepared periodically (mean=2.32). This indicates the existence of communication information systems among flower firms. The respondents were undecided (mean=2.51) on whether there were systems in place to check and prevent fraud in the organization thus showing that preventive control has not received utmost attention among flower firms(Li & Nadeem, 2010) Further the respondents agreed (mean=2.48) that audit procedures exist to test on a periodic basis the compliance with the set company policies. Further, the results revealed that respondents were undecided (mean=2.66) on the existence of evaluation system for evaluation the overall performance of control systems. This confirms weak administrative plans among flower firms

Table 7 Internal control systems

Internal Control Systems	SA	A	U	D	SD	FREQ TOTAL	% TOTAL
There are clear laid down policies and procedures in this organization	53	36	23	18	10	140	
	38	26	16	13	7		100
Financial statements that are accurate and reliable are prepared on periodic basis in this organization	42	45	29	14	10	140	
	30	32	21	10	7		100
There are systems in place to check and prevent fraud in this organization	28	56	23	23	10	140	
	20	40	16.4	16.4	7.2		100
Procedures for reporting thefts are clear to all employees	36	48	16	30	10	140	
	26	34	11	21	8		100
The overall effectiveness of internal control system is evaluated on routine basis	30	49	18	25	18	140	
	21	35	13	18	13		100
Audit procedures exist to test on a periodic basis the compliance with the set company policies and procedures	48	37	12	26	17	140	
	34	26	12	19	9		100

Table 8 Internal control systems

Descriptive Statistics	N	Mean	STD
The overall effectiveness of internal control system is evaluated on routine basis	140	2.66	1.34
There are systems in place to check and prevent fraud in this organization	140	2.51	1.19
Procedures for reporting thefts are clear to all employees	140	2.50	1.278
Audit procedures exist to test on a periodic basis the compliance with the set company policies and procedures	140	2.48	1.432
Financial statements that are accurate and reliable are prepared on periodic basis in this organization	140	2.32	1.207
There are clear laid down policies and procedures in this organization	140	2.26	1.283

4.4.3 Organization Transparency

From table 9 below, on the question of existence of established communication line the study results revealed that 25%, 34 strongly agreed and agreed respectively. The study results also indicated that there 21%, 25%, agreed and strongly agreed respectively on accurate and factual information to all stakeholders. Concerning communication to all stakeholders in an easy language, it was established that 36%, 26%, of the respondents agreed and strongly agreed respectively. On compliance with legal and statutory requirement the study indicated that 34%, 28%, agreed and strongly agreed, respectively. From the findings it was indicated that 36%,

34%, of respondents agreed and strongly agreed respectively on the farms as equal employer. Finally, the results on upholding labor laws showed that 36%, 27of the respondents strongly agreed and agreed, respectively. This implies that flower farms are embracing organization transparency, a corporate governance mechanism in order to minimize the risks.

From table 10 below, the study also wanted to establish the organizational transparency practices that exist in the organization. A set of Likert questions were asked to aid in this. The results revealed that the respondents were undecided (mean=2.50) that established line of communication and command least exposed the organization to risks and threats. Further they were undecided (mean=2.74) regarding the accessibility of accurate and actual information on performance by all stakeholders. This indicating existence of poor communication structures flower firms. A situation that Alfaxard (2013) attributes to the ownership structure at flower firm that limits flow of information to the public. However, the respondents agreed (mean=2.44, 2.18 and 2.30) that the businesses complied with legal and statutory requirements, is an equal employer opportunity and upholds labour laws respectively. This indicate level of transparency in regards to government requirement and policies. These results support the findings of Otieno (2015) which included managers as the respondents. However, these findings contradict the Odhong& Omolo (2014) who established that adherence to labour laws is minimal within flower firms in Naivasha. Further the respondents agreed (mean=2.26) that the firm take precautionary measures to prevent environmental damages such as air, water, and soil pollution in their operation. This contradicts the findings of (Becht, 2007) who found out that flower farms do not have precautionary measures when it comes to environmental pollution.

Table 9 Organization Transparency

Organization Transparency	SA	A	U	D	SD	Frequency total	% total
The established line of communication and command least exposes the organization to threats/ risks.	35	47	18	30	10	140	
	25	34	13	21	7		100
Accurate and factual information on the performance of the organization is accessible by all stake holders	35	30	27	38	10	140	
	25	21	19	27	8		100
The communication to all stakeholders is in a language that is easily understood by the intended recipients	36	51	23	20	10	140	
	26	36	16	14	8		100
The business complies with legal and statutory requirements -payment of taxes and other statutory payments and compliance.	39	48	25	12	16	140	
	28	34	18	9	11		100
This firm is an equal opportunity employer and avoid discrimination of any kind (race, ethnic, religious) in the work place.	47	51	14	18	10	140	
	34	36	10	13	7		100
This firm upholds labor laws, pays at the market rate and applies minimum wage in its remuneration package for its employees.	51	38	10	24	17	140	
	36	27	7	17	13		100

Table 10 Organization Transparency

Descriptive Statistics	N	Mean	STD
The established line of communication and command least exposes the organization to threats/ risks.	140	2.50	1.272
Accurate and factual information on the performance of the organization is accessible by all stakeholders e.g. ,top managers, employees, creditors, bankers, government etc. for appropriate decision-making	140	2.74	1.267
The business complies with legal and statutory requirements -payment of taxes and other statutory payments and compliance.	140	2.44	1.29
This firm is an equal opportunity employer and avoids discrimination of any kind (race, ethnic, religious) in the workplace.	140	2.18	1.411
This firm upholds labour laws, pays at the market rate and applies minimum wage in its remuneration package for its employees.	140	2.30	1.231
This firm takes every precaution necessary to prevent environmental damage (pollution- air, water &soil) in its operations.	140	2.26	1.267

4.4.4 Board Independence

Table 11 below shows the results on the question of existence of both executive and non-executive the study results revealed that 18%, 19%, strongly agreed, and agreed respectively.

The study results also indicated that there 12.1% and 7.9%, strongly agree, and agreed, respectively on the existence of independent directors. Concerning the frequency of board meeting it was established that 36%, 24%, of the respondents strongly agreed and agreed respectively. On separation of CEO and chairman the study indicated that 6%, and 14% strongly agreed and, agreed, respectively. This implies that flower farms are strongly managed by families. This has helped the companies to minimize risk as the agency problems are handled by close supervision of the managers thus the risks are mitigated.

Table 12 below shows the results of the means on the question of the board independence, the respondents were undecided (mean=3.17) on existence of both executive and non-executive directors on the company board. This implies that controlled board ownership that is associated with family ownership is common among flower firms in Naivasha (Kimutai, 2015). This was affirmed by the study findings that indicated 59% of the firms are family owned. In addition, they were undecided (mean=2.56) on whether the board met regularly for strategic planning. This implies strategic implementation is not highly esteemed among the flower firms in Naivasha. The respondents however, were disagreed (mean=3.84 and 3.93) that the company directors had independent directors and that board chair is independent of the CEO. According to Mittal (2011) family ownership, partnership ownership and sole proprietorship types of business commonly lack board independence.

Table 11 Board Independence

Board Independence	SA	A	U	D	SD	Freq Total	% total
The farm has both executive and non-executive directors on the company's board	25	27	23	29	36	140	
	18	19	16	21	26		100
The company has independent directors on the company's board	17	11	8	46	58	140	
	12.1	8	6	33.9	40		100
The board meets regularly (quarterly,bi-annually annually) for strategic planning	50	33	12	19	26	140	
	36	24	9	14	17		100
The board's chair is independent of CEO and controls the board's meeting and deliberations/directions.	9	19	11	35	66	140	
	6	14	8	25	47		100

Table 12 Board Independence

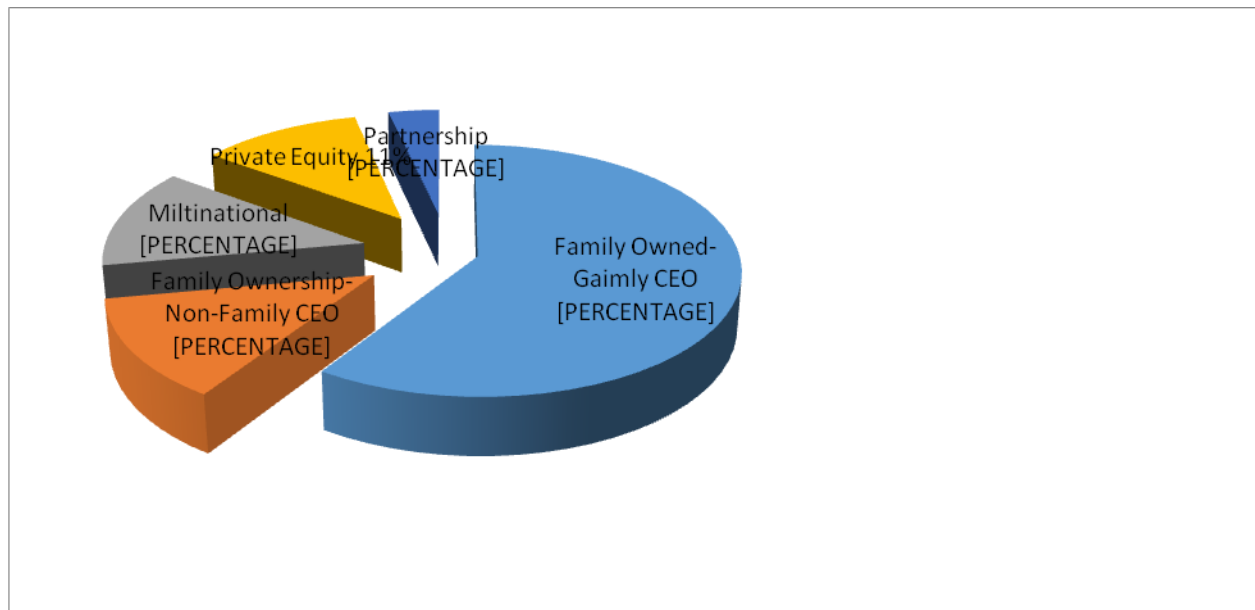
Descriptive Statistics	N	Mean	STD
The board's chair is independent of CEO and controls the board's meeting and deliberations/directions.	140	3.93	1.459
The company has independent directors on the company's board	140	3.84	1.366
The board meets regularly (quarterly, bi-annually annually) for strategic planning	140	3.17	1.537
The firm has both executive and non-executive directors on the company's board	140	2.56	1.295

4.4.5 Ownership Structure

Figure 2 below shows the results of ownership. The study also sought to establish the type of ownership for the firms. Majority of the firms (59%) were family-owned businesses with a family CEO. Another 13% were family-owned with a non-family CEO, 13% were Multi-national Corporations (MNC), 11% private equity ownership and 4% were partnerships. This findings align with the results of Alfaxard (2013) who concluded that majority of firms in horticultural sector are family owned enterprises. This implies that the flower farms are able to mitigate risks as the work of managers are closely monitored by the family CEO as compared to public held organizations where ownership is dispersed.

Figure 2: Ownership Structure

Table 13 Risk Management Table 14 Risk Management Table 15 Normality Tests Table 16 Correlations Analylis Table 17 Model Summary (goodness of fit test) Table 18 ANOVA of resulsts of Corporate Governance and Risk Management Table 19 Regreession Coefficients



Key:

- 1). Family owned, family CEO 59%
- 2). Multinational Corporations 13%
- (3). Family owned,

non-family CEO 13%

4). Private Equity 11%

5) Partnerships 4%

4.4.6 Risk Management Practices

Refer to table 13 below, on the question of whether risks are identified in the firms the study results revealed that 20%, 44%, strongly agreed and agreed respectively. The study results also indicated that there 20%, 32%, strongly agreed and agreed respectively on whether risk are measured in flower firms. Concerning whether risks are monitored it was established that 20%, 40%, of the respondents agreed and strongly agreed, respectively. On risk control the study indicated that 23%, 37%, strongly agreed and agreed, respectively. Finally, the results on involvement of all employees in risk management showed that 20%, 33 of the respondents strongly agreed and agreed, respectively.

Table 14 shows the results of the means .Regarding risk management practices, the respondents agreed (mean=2.47) that risks are usually identified in the organization and were undecided (2.68, 2.58, 2.60) on whether risks were measured, monitored and controlled within the organization. Further, they were undecided on whether all the employees were involved in risk management (mean =2.75). This findings imply that flower firm have different risk implementation guidelines in varied ways.

Table 13 Risk Management Practices

Risk management	SA	A	U	D	SD	TOTAL FREQUENCY	TOTAL %
Risks are identified in this organization	28	61	18	20	13	140	
	20	44	13	14	9		100
Risks are measured in this organization	28	44	26	27	15	140	
	20	32	19	19	10		100
Risks are monitored in this organization	28	56	14	27	14	140	
	20.1	40.3	10.1	19.4	10.1		100
Risks are controlled in this organization	31	51	11	30	17	140	
	22.6	37.2	8	21.9	10.3		100
All employees are involved in the risk management	28	45	20	21	26	140	
	20	33	15	15	17		100

Table 14 Risk Management

Descriptive Statistics	N	Mean	Std. Deviation
All employees are involved in the risk management	139	2.75	1.387
Risks are measured in this organization	139	2.68	1.275
Risks are controlled in this organization	139	2.60	1.325
Risks are monitored in this organization	137	2.58	1.284
Risks are identified in this organization	137	2.47	1.212

4.5 Influence of Corporate Governance on Risk Management

Relationship between the corporate governance practices and risk management among flower firms in Naivasha County. Before the regression analysis, the data was subjected to assumptions of regression analysis, with no violation observed. The influence of corporate governance on risk management was done using multiple regression analysis. The outcome of the results included the normality tests, correlation analysis test, goodness of fit test, analysis of variance (ANOVA) and the regression coefficient models.

4.5.1 Normality Tests

Table 15 Normality Tests

Tests of Normality	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Managerial skills	0.286	137	0.043	0.865	137	0.056
Internal_cntrl	0.259	137	0.356	0.878	137	0.123
Org_transparency	0.218	137	0.463	0.888	137	0.061
Board_independence	0.311	137	0.011	0.834	137	0.012
Risk_mngt	0.222	137	0.108	0.884	137	0.108

a Lilliefors Significance Correction

Normality tests were carried out for the study with the possibility of kolmogorov-smirnov test and Shapiro-Wilk test. However, Shapiro-wilk test was used in the study since the sample size of the study was less than 2000. The study results indicate all the variables except one are normal as indicated by the significance value of more than 0.05. However, this can be attributed to the transformation of data for regression analysis thus allowing for analysis. The variables are normal when the p-value is greater than 0.05.

4.5.2 Correlation analysis

Table 16 Correlation analysis

Correlations		Risk_mngt	Board_indepen dence	Type ownership	ofOrg_transparen cy	Internal_cntrl	Managerial ls
Risk_mngt	Pearson Correlation	1	.489**	-.354**	.910**	.906**	.901**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	137	137	137	137	137	137
Board_independence	Pearson Correlation	.489**	1	.176*	.501**	.363**	.448**
	Sig. (2-tailed)	.000		.037	.000	.000	.000
	N	137	140	140	140	140	140
Type of ownership	Pearson Correlation	-.354**	.176*	1	-.306**	-.397**	-.393**
	Sig. (2-tailed)	.000	.037		.000	.000	.000
	N	137	140	140	140	140	140
Org_transparency	Pearson Correlation	.910**	.501**	-.306**	1	.935**	.921**
	Sig. (2-tailed)	.000	.000	.000		.000	.000

	N	137	140	140	140	140	140
	Pearson Correlation	.906**	.363**	-.397**	.935**	1	.943**
Internal_cntrl	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	137	140	140	140	140	140
	Pearson Correlation	.901**	.448**	-.393**	.921**	.943**	1
Managerial_skills	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	137	140	140	140	140	140

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

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

Correlation analysis was carried out among the study variables. The study results indicated that all the independent variables had a significant relationship with risk management practices. This was indicated by p-values of 0.000 for all the independent variables. However, board independence and ownership had a weak moderate relationship as shown by co-efficient of correlation of 0.489 and -0.354 respectively. Organization transparency, internal control and management skills had strong relationship with risk management practices. This was indicated by p-values of 0.910, 0.906 and 0.901 respectively.

4.5.3 Goodness of Fit Test

Table 17 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.932a	0.869	0.864	0.499

a Predictors: (Constant), Type of ownership, Board_independence, Internal_cntrl, Org_transparency, Managerial skills

Table 17 above shows the model summary of regression analysis. R is a representative of multiple correlation coefficients, the R^2 represents the percentage of the response variable variations that can be explained by the linear model. From the table above, the R^2 value is 0.869 while the adjusted R^2 0.864 and a standard error of estimate of 0.499. The adjusted R^2 of 0.864 indicated that 86% of the variation in the dependent variable (risk management) is explained by the variables included in the model i.e. ownership structure, board independence, internal control systems, organization transparency and managerial skills. The remaining 14% are explained by predictor variables not included in the model. Model therefore provided a strong fit. The results

implies that 86 %of the change in risk management in the model can be attributed to corporate governance practices while the remaining 14% of the change in risk management can be attributed to factors other than the variables of the study. This results support the findings of Kleffner, Lee, & McGannon (2003) and (Nyakoe, 2016) who established that corporate governance greatly influences risk management practices.

4.5.4 ANOVA Tests

Table 18 ANOVA of results of Corporate Governance and Risk Management

Model		Sum of	Mean			
		Squares	df	Square	F	Sig.
1	Regression	216.912	5	43.382	174.058	.000b
	Residual	32.65	131	0.249		
	Total	249.562	136			

a Dependent Variable: Risk_mngt

b Predictors: (Constant), Type of ownership, Board_independence, Internal_cntrl, Org_transparency, Managerial_skills

From ANOVA *table 16 above* it was established that the model was fitting for the regression. This was indicated by a p-value of 0.000 that was less than 0.05, the significant tests of the study. This was also confirmed by F-statistic that was significantly greater than 1 (174.058). The results thus indicate that the F-statistic is appropriate in testing the relationship between independent and dependent variable. This means that the model is appropriate for use in interpreting the relationship between corporate governance practices and risk management. The results shows that the overall model was significant in explaining the relationship between Corporate Governance and Risk management

4.5.5 Estimated Model

Table 19 Regression Coefficients

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-0.245	0.168		-1.463	0.146
	Managerial_skills	0.151	0.127	0.133	1.193	0.235
	Internal_cntrl	0.453	0.135	0.407	3.356	0.001
	Org_transparency	0.347	0.112	0.32	3.11	0.002
	Board_independence	0.161	0.052	0.136	3.116	0.002
	Type of ownership	-0.033	0.021	-0.063	-1.61	0.11

a Dependent Variable: Risk_mngt

An interpretation of the coefficients in *Table 19 above* shows internal control system had a significant coefficient with p-value = 0.001, organization transparency had a significant coefficient with p-value = 0.002. Board independence had a significant value of 0.002. The study therefore fails to accept H_{02} , H_{03} and H_{04} thus rejecting the null hypotheses of the study and accepts the alternative hypotheses H_2 , H_3 and H_4 . The study also established that managerial skills and ownership were not significant (p= 0.11 and p=0.235) respectively. Thus the study also accepts the null hypothesis H_1 and H_5

From the estimated regression equation; the fitted model took the following form

The fitted regression equation of the model becomes;

$$Y = -0.245 + 0.453X_2 + 0.347X_3 + 0.161X_5$$

From the fitted model,

A unit increase in board independence would result in an increase in risk management practices by 0.161. The findings on internal controls system found out that a unit increase in internal control would result in an increase of risk management practice by 0.453. The results on organization transparency showed that a unit increase in organization transparency would result to improvement in risk management practice by 0.347.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presents the study findings based on the study objectives, discussion on the results, conclusion, recommendation and areas for further research.

5.2 Summary of Findings and Discussion

The purpose of the study was to establish the influence of corporate governance on risk management in horticultural sector.

5.2.1 Influence of Managerial Skills on Risk Management

The first objective of the study was to determine the influence of managerial skills on risk management among flower farms in Kenya. The results revealed that managerial skills were statistically insignificant with a p-value 0.235. Thus the study accepted the null hypothesis H_{01} that managerial skills have no significant effect on risk management of flower firms. Thus the results imply that managerial skills have no influence on risk management practices. Experts believe that managers who want to achieve organizational goals and perform their own duties need to gain managerial skills. This is contrary to Capriglione and Casalino (2014) who found out that managerial skills have no effect in family owned private firm due to low incentive to invest in quality management. These results findings contradict the findings of Javadin, Amin and Ramezani (2010) who revealed that managerial skill significantly affect the risk management positively. These findings does not support the role of agency theory in explaining the role of managerial skills in risk management. This according to Mustapha and Ahmad (2011) is due to

lack of managerial ownership in firms.

5.2.2 Influence of Internal Control on Risk Management

On the second objective to determine the influence of internal control systems on risk management among flower farms in Kenya, the study established that the internal control system statistically significantly influenced the risk management of the firms as shown by the p-value of 0.001. This implies that the study rejected the null hypothesis H_{02} and accepted hypothesis H_2 that internal control has significant effect on risk management in flower firms. According to Hu, Tam and Guo-Sze (2009) internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations. Effective controls, including the maintenance of proper accounting records, are an important element of internal control. They help ensure that the company is not unnecessarily exposed to avoidable risks and that information used within the business and for publication is reliable. They also contribute to the safeguarding of assets, including the prevention and detection of fraud. The study findings are consistent with the results of Mafrolla, Matozza, & D'Amico (2016); Nyakoe (2016) who found a significant and positive of internal control on risk management. This findings support stewardship theory and agency theory that argue that organization control is key to reduce agency costs to the firm thus impacting positively on firm risk management practices. Thus, this findings support agency theory and stewardship theory credence as to why maintaining control mechanisms is necessary. We define this role as "the organizational role" on agency costs.

5.2.3 Influence of Organization Transparency on Risk Management Practices

The third objective sought to establish the influence of organization transparency on risk

management. The results established that organization transparency positively and statistically significantly influenced the risk management of the firms. This was indicated by a p-value of 0.002. Thus the study rejected the null hypothesis and therefore accepted the alternative hypothesis that states organizational transparency has significant effect on risk management of flower firms. According to Desender (2007) organizational transparency is an important determinant of risk management. This is because it determines the degree to which employees will participate in risk identification. These findings support the results of Kingoro and Bujra (2009) who concluded that organization transparency has positive and significant effect on risk management. These findings support agency theory argument that through improving transparency, managers and owners can actually reduce agency costs associated with firm risks. The efficiency of disclosure process is dependent upon the needs of the stakeholders and of the interests of the management of the corporation (Meijer, 2013). Hence, disclosure is a crucial element in ensuring the effective allocation of resources in society and diminishing the information asymmetry between company and its stakeholders. As organizational transparency increases the level of trust and accountability also improves, producing the by-product of increased levels of collaboration and cooperation (Fleckner & Hopt, 2013).

5.2.4 Influence of Ownership Structure on Risk Management Practices

The fourth objective sought to establish whether ownership structure of the firm influenced the risk management. The results indicated that ownership structure negatively and insignificantly influenced the risk management of an organization as indicated by a p-value of 0.11. Thus the study accepted the null hypothesis that ownership structure has no significant effect on risk management. This is attributed to the documentation that flower firm are family owned/ private with family/private controlled companies value risk management less than their counterparts do.

It is likely that family members are able to exercise monitoring activities on the company directly, and do not consider risk management implementation to be worthwhile (Sarens & Christopher, 2010). According to Connelly, Hoskisson, Tihanyi, and Certo, (2010) private firms easily avoid corporate governance regulations and only carry them out if mandatory and required by regulation. Gates et al (2012) also argues that private firm has less incentive to engage in risk management due to low potential benefits that they can attach from risk management. Secondly, the type of ownership has a significant effect on private firms' decisions about ERM adoption. This study confirms the results of Mafrolla, Matozza, and D'Amico(2016) and Lotfi & Mohammadi, (2014) who highlighted that private firm ownership has no significant effect on risk management in private firm. This study does not support stewardship view that firm with good owner-steward (manager) relationship have better risk management practices. However, this is attributed to stewardship assumption that such owner relationship is based on choice of the managers and owner. Thus stewardship choice is not necessary found in all firms.

5.2.5 Influence of Board Independence on Risk Management Practices

Further, the study sought out to establish whether the board independence influenced the risk management of an organization. The results showed that board independence positively and significantly influenced risk management. Therefore, the study rejected the null hypothesis H_0 that board independence has no significant effect on risk management and accepted the alternative hypothesis H_5 which states that board independence has significant effect on risk management of firms. . A unit increase in board independence would result in increase in risk management practices by 0.161. Dionne and Triki, (2005) argues the separation of CEO and chairman has the effect of encouraging implementation of risk management practices. This is because risk management include monitoring activities of CEO thus separation allow for such

monitoring. This results affirm the findings of (Manab, Kassim, and Hussin, 2010); Yatim (2009) and Nyakoe, (2016) that established a positive and significant effect between board independence and risk management. These findings support agency theory assertion that increase in number of independent directors reduces agency costs and thereby improving risk management practices as argued by Rashid (2014).

5.3 Conclusion

The significance of managerial skills is understated in implementation of enterprise risk management. Thus the study findings conclude that much emphasis should be placed by firms in flower firms on improving hard and soft skills that are thought to be important in risk management. Additionally, the study concludes that firms should not overemphasize one set of skills set in the implementation of risk management.

This study investigated whether the internal control has significant effect on risk management. The results of the study indicates a significance thereby concluding that firm should develop internal control guidelines that will enable compliance with corporate governance principles thereby enhancing the implementation of risk management in flower firm.

On the relationship between board independence and enterprise risk management the findings reveal that board independence is an important determinant to enterprise risk management practices. Thus the study concludes that separation of CEO and chairman of board in the company has an important influence on the level of ERM. Furthermore, the study concludes that board independence by itself is sufficient to induce higher levels of ERM.

Finally, the study concludes that greater transparency in disclosures is essential for effective implementation of enterprise risk management. By adopting greater organization transparency,

flower firm provide the system to allow the provision of information that can help in risk management. The study thus highlights the importance of organizations to create a culture of transparency a fundamental step in implementation of enterprise risk management.

5.4 Recommendation

From the study finding the Importance of board independence on risk management practices has been reinforced thus the study recommends the need for flower firm to have separation of CEO and chairman and executive and non -executive directors.

The study recommends that companies should be encouraged to apply strong corporate governance model, in particular the flower firms should ensure board independence, and internal controls and organization transparency principles are adhered to.

The study recommends that stakeholders in flower industry such as flower council of Kenya, Horticultural Corporation of Kenya and both national and county government should develop policies and regulations that will encourage more organizational transparency in the flower industry.

There is need for flower firm's management to improve both soft and hard management skills to complement other corporate governance practices. As revealed in the study only one set of skills has no significant effect risk management practices among flower firms.

The study recommends that internal control system is not a substitute for other corporate governance practices but improve risk management implementation. Thus the study recommends that there should continue internal check and audit on the part of management and low level of management to ensure adequate internal control system in flower firms.

5.5 Areas for Further Research

The study focused on relationship between corporate governance practices and risk management, with a focus on the following corporate governance practices: internal controls, management skills, board independence, organization transparency and ownership structure. However, there is need for specific studies that will focus on each corporate governance practice and risk management. This will provide deeper insight on relationship between governance practice and risk management.

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APPENDICES

APPENDIX I: Questionnaire

This questionnaire is intended to collect information from owners or employees of flower farms in Naivasha Sub County. The questionnaire will collect information on the relationship between corporate governance practices and risk management in flower farms. Be assured that every information you give will remain private and confidential.

General organizational information section

Please provide information about you and your company. (All responses are confidential)

1. In what field is your highest education qualification?

- Secondary Level of Education Diploma Level of Education
 Degree Level of Education Post Graduate Level of Education

2. What position do you hold in this organization?

- CEO Manager
 Owner-Manager
Other, (specify) _____

3. What is the name of the department that you lead in your organization?

- Human resources Supply chain
 Finance Production
Other (Specify).....

4. How many people are employed by your organization? _____

5. Number of years your firm has been in operation:

- Under 5 years 5- 10 years
 10 -20 years 20 – 30 years
 over 30 years

SECTION A: MANAGERIAL SKILLS

6. Please state the degree to which you agree with the managerial skill that are applicable to your organization. Strongly Disagree (SD), Disagree (D), Undecided (U), Agree(A), strongly Agree, (SA)

Statement	SA	A	U	D	SD
The organization’s top management team is highly skilled at delegating work effectively to others					
The organization’s top management team is able to supervise, lead and motivate people					
The organization’s top management team have skills in organizing and coordinating tasks effectively					
Expertise in a technical area of top management team is one of key strengths in this organization.					

SECTION B: INTERNAL CONTROL SYSTEMS

7. Please state the degree to which you agree with the internal control system that is applicable to your organization. Strongly Disagree (SD), Disagree(D), Undecided (U), Agree(A), Strongly Agree, (SA)

The following internal controls are available in my organization	SA	A	U	D	SD
There are clear laid down policies and procedures in this organization					
Financial statements that are accurate and reliable are prepared on periodic basis in this organization					
There are systems in place to check and prevent fraud in this organization					
Procedures for reporting thefts are clear to all employees					
The overall effectiveness of internal control system is evaluated on routine basis					
Audit procedures exist to test on a periodic basis the compliance with the set company policies and procedures					

SECTION C: ORGANIZATION TRANSPACENCY

8. Please state the degree to which you agree with the organization transparency practices that are applicable to your organization. Strongly Disagree (SD), Disagree (D), Undecided (U), Agree(A), Strongly Agree, (SA)

Theme/ Statement	SA	A	U	D	SD
The established line of communication and command least exposes the organization to threats/ risks.					
Accurate and factual information on the performance of the organization is accessible by all stakeholders e.g. ,top managers, employees, creditors, bankers, government etc. for appropriate decision-making					
The business complies with legal and statutory requirements -payment of taxes and other statutory payments and compliance.					
This firm is an equal opportunity employer and avoids discrimination of any kind (race, ethnic, religious) in the workplace.					
This firm upholds labor laws, pays at the market rate and applies minimum wage in its remuneration package for its employees.					
This firm takes every precaution necessary to prevent environmental damage (pollution- air, water &soil) in its operations.					

SECTION D: OWNERSHIP STRUCTURE

9. Please select the ownership structure that is applicable to your organization. Tick where applicable

Theme/ Statement	Tick
Family Ownership-Family CEO	
Family Ownership –Non-family CEO	
Public(Government ownership)	
Sole Proprietorship (founder-owner/Founder CEO)	
Private Equity Ownership	
Partnership Ownership	
Management Ownership	
Multinational Corporations (MNC)	

SECTION E: BOARD INDEPENDENCE

10. Please state the degree to which you agree with the board independence practices that are applicable to your organization. Strongly Disagree (SD), Disagree (D), Undecided (U), Agree (A), Strongly Agree, (SA)

Statement	SA	A	U	D	SD
The farm has both executive and non-executive directors in the company's board					
The company has independent directors in the company's board(these are directors with no relation to the company other than their board seats)					
The board meets regularly (quarterly, bi-annually annually) for strategic planning					
The board's chair is independent of CEO and controls the board's meeting and deliberations/directions.					

SECTION F: RISK MANAGEMENT PRACTICES

11. Please state the degree to which you agree with the risk management practices that are applicable to your organization. Strongly Disagree (SD), Disagree (D), Undecided (U), Agree (A), Strongly Agree, (SA)

Statement	SA	A	U	D	SD
Risks are identified in this organization					
Risks are measured in this organization					
Risks are monitored in this organization					
Risks are controlled in this organization					
All employees are involved in the risk management process					

THANK YOU FOR YOUR COOPERATION