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Does Corporate Governance Mechanisms Matter in Explaining Risk Management? Evidence from Non-Financial Kenyan Listed Firms

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Abstract

This study attempts to investigate the relationship between corporate governance and risk management in Kenyan listed non-financial firms. The study employed a longitudinal research design and the study's target population was 67 companies. Inclusion-exclusion criteria were used and only 41 listed non-financial firms showed consistency from 2010-2017 giving a total of 328 firm-year observations. Using binary logistic regression analysis, descriptive and inferential statistics were used to analyze data and hypotheses were tested. The regression results revealed that board independence (β = -1.14, ρ < 0.05) and CEO tenure (β = -0.56, ρ < 0.05) had a negative and significant effect, while board financial expertise (β = 0.56, ρ < 0.05) had a positive and significant effect on risk management with the predictive power of Pseudo R^2 = 28.16 percent. The study concluded that the independence of board members was detrimental to hedging activities. Long-tenured CEOs were less likely to use financial derivatives tools to hedge risks while financially knowledgeable boards have a better understanding of the sophisticated financial tools involved in risk management mechanisms. The study recommends the reduction of board members' independence and CEO tenure so as to increase hedging activities. It is imperative for the board members to have financial expertise so that they can ascertain risks which are valuable to shareholders.

Keywords: Board Independence, CEO Tenure, Board Financial Expertise, Corporate Governance, Risk Management, Agency Theory

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