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Growth and Success of Listed Firms in Kenya

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Abstract: The objective of this paper is to look at how Kenyan companies that are both sustainable and show signs of growth have fared in terms of the impact on the economy and as employment opportunities. It focuses on companies that are listed in the Nairobi Securities Exchange (NSE) and that have proved successful in terms of growth in their annual returns over a five-year period. They were purposively selected, were analyzed by looking at the official views and reflections of the principal manager of the company or the chair of the board of directors within a specified time frame. This is an exploratory study to separate listed profitable highly growing firms that operate within a developing economy and to recognise within them traits and/or characteristics that are common to them. Describing these firms and highlighting common features will help explain to some extent why they have been successful and that these practices, features and/or attributes could be embraced by other firms in their pursuit to become more successful and viable. The background of this study is the status of Kenyan firms' financial wellbeing and their interactions with the activities of the securities market in Kenya. The study used an exploratory research approach, which is also called quasi-experimental research where researchers can conclude the cause-effect equation between two or more variables, where one variable is dependent on the other independent variable. The main aim being to look at how Kenyan firms that are both successful and are growing have progressed in terms of the impact on the economy and on employment opportunities. It focuses on firms that are listed in the Nairobi Securities Exchange (NSE) and that have shown success in terms of growth in their annual returns over a five-year period. They were purposively selected, were analysed by looking at the official views and reflections of the principal managers of the firm or the chair of the board of directors within a specified time frame. The research concluded that high levels of education, prior industry experience and entrepreneurial experience are paramount for growth and performance of firms that were included in the present study. This important aspect applied to both the executive directors as well as to members of the full board of directors of the said firms.

Keywords: Firm Growth, Firms, Success, Kenya, Nairobi Securities Exchange

1. Introduction

Firm's growth is an important aspect when considering the economy of a country and it is necessary for raising employment and productivity and it is a fact that high-growth firms contribute substantially to the growth of the economy as well as creating new jobs. Stimulating economic growth and decreasing unemployment is vital for any successful economy, but arguably even more so for developing economies such as Kenya. [1].

Unemployment in developing countries is a major socio-economic problem and necessitates urgent attention, especially when considering the impact on poverty, crime, productivity and economic growth. [22].

Accordingly, poor performance in entrepreneurship is one of the major bottlenecks jeopardizing the economies of most developing countries, such as Kenya [13]. This can be seen from the small number of firms that are able to grow into established firms. According to research reported in many studies that have been carried out, the established business ownership rate in most developing economies is low, standing at about 2%. In comparison, the average established business ownership rate in some of the emerging economies, such as China and Brazil has been around 12%. [10, 16].

Despite strong interest from scholars, policy-makers and firm owners little is known about the internal growth dynamics of highly profitable and growing firms. [2, 3]. This view is even more related when one considers the context of a developing economy. The present study is an exploratory study that tries to isolate listed profitable high-growth firms that operate within a developing economy and to identify their attributes and/or characteristics that are common to them. Describing these firms and highlighting common features will hopefully explain to some extent why they have been successful and that these practices, attributes and/or mannerisms could be adopted by other firms in their pursuit to become more profitable and sustainable. [6].

2. Theoretical Background

It can be said that the most significant attributes that contribute to the growth of a firm and its success can be divided into:

1) Inbound factors
2) Outbound factors

Inbound factors refer to the traits of a business owner, the firm attributes, business practices as well and human resources. Interior factors within an organization impact the approach and success of a firm's operations. [1].

The firm's direction or the role of its leadership is an important business factor. The leadership practice and the modus operandi of other firm's management impact the organization's culture. The positive or negative essence, level of family-friendliness, effectiveness of communication and value of workers are cultural implications that result from leadership approaches. Firms often provide formal structure or direction with mission and vision pronouncements. These are forward-looking assertions that provide the basis for company decisions and activities. [4, 8].

Other inbound factors such as the strength of your employees are the other crucial internal business factors. Motivated, hard-working and talented workers generally produce better results than unmotivated, less talented employees. Business processes and relationships within and between departments and employees also majorly impact business effectiveness and efficiency. In a high-performing workplace, workers not only have talent but work well together and collaborate on ideas and resolutions.

One of the most critical outbound business factors is competition. Whether you operate in an intensive industry with a few major rivals or a large industry with many rivals, you need to know the rivalry (competition). Many firms do competitor analysis to compare their offerings and prices to those of their rivals. When developing business philosophies and products, many firms use their strength in quality production, customer service or operational efficiency to build competitive advantages that benefit their customers. [17, 19]

Other recurrent outbound factors fall into several categories, including socio-economic, legal or ethical, political and technological. Socio-economic factors relate to the values, attitudes and concerns of a firm's target customers and their economic abilities to afford their products. The legal, ethical and political environments generally relate to the need to abide by business rules and regulations and to meet the ethical or social responsibility standards of the customers and communities. In some industries, technological evolution drives the need for companies to adjust and constantly research for improvements. [14]

3. Research Method

This study aimed to look at firms in the African setting which have done well in terms of growth and success within an emerging economy setting. It was hoped that this analogy will help researchers and practitioners understand a firm's growth, success and performance as far as they can be linked.

This study has used an exploratory approach, which is a qualitative method enabling the discovery process as well as providing the required contextual information. [20].

Secondary data was secured through observation and was analyzed in an illustrative manner so as to provide an in-depth comprehension of the firms under study.

4. Population and Sample

Data in the study was obtained by perusing records of firms registered in the Nairobi Securities Exchange (NSE). It looked at a selected list of firms that had shown consistent growth in the years 1999/2000 – 2013/14. (About 5 years)

According to the research study objective, the target population was described as those firms that showed continued profitability in their annual results during the period. Judgmental sampling was used to select firms that were able to remain profitable during the five years that preceded 2013 or 2014 (depending on when their most recent annual reports had been published at the time of the study). The population comprised 59 that were listed on the Nairobi Securities Exchange (NSE) on 31st December 2014 (the date the sample was selected). It must be noted that some firms were excluded during the selection process from the sample because they were found to be unsuitable for the purposes of the research. Out of 63 firms, only 12 firms were selected for inclusion in the study, while the others were omitted for the following reasons:

1) Firms that were suspended from the securities exchange for various reasons were left out.
2) Those firms that were foreign–registered were also omitted from the study.
3) Firms that were not conducting actual commercial activities were also left out.
4) Firms that had annual financial returns for periods of less than 5 years were also omitted.
5) Firms that had not been consistently profitable for five years preceding the years 2012/1013 were also excluded.

It should also be noted that in measuring the profitability and growth of firms, many studies have used ROE (return on equity). ROE can be said to be generally the best measure of performance and allows the profitability of different sizes of firms to be compared. [7, 8]. It can be obtained as follows:

$$Return\ on\ equity\ (ROE) = \frac{Net\ profit\ after\ tax}{Total\ equity}$$

The formula for return on equity, abbreviated as ROE, is a firm's net income divided by its average stockholder's equity (total equity). The numerator of the return on equity formula, and net income, can be found on a firm's income statement.

The denominator of the return on equity formula, and the average stockholder's equity, can be found on a firm's balance sheet. Stockholder's equity is a firm's assets minus its liabilities. When calculating the return on equity, the stockholder's equity should be averaged based on the time being evaluated. For example, if an investor is calculating the return on equity for 2012, then the beginning and ending stockholder's equity should be used.

Stockholder's equity is also referred to as net assets. Assets shown on a balance sheet is stockholder's equity plus liabilities. Therefore, the return on equity formula is the same as the return on assets except that it does not include liabilities.

The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders' investments in the firm. In other words, the return on equity ratio shows how much profit each shilling of common stockholders' equity generates.

So, a return on 1 means that every shilling of common stockholders' equity generates 1 shilling of net income. This is an important measurement for potential investors because they want to see how efficiently a firm will use its money to generate net income.

ROE is also an indicator of how effective management is at using equity financing to fund operations and grow the firm.

That being said, investors want to see a high return on equity ratio because this indicates that the firm is using its investors' funds effectively. Higher ratios are almost always better than lower ratios but have to be compared to other firms' ratios in the industry. Since every industry has different levels of investors and income, ROE can't be used to compare firms outside of their industries very effectively.

Many investors also choose to calculate the return on equity at the beginning of a period and the end of a period to see the change in return. This helps track a firm's progress and ability to maintain a positive earnings trend. An average of 5 to 10 years of ROE ratios will give investors a better picture of the growth of this firm.

Firm growth or a higher ROE doesn't necessarily get passed onto the investors, however. If the firm retains these profits, the common shareholders will only realize this gain by having an appreciated stock. [21].

4.1. Collection of Data

The major source of the data was the reflections and observations of top management as shown in the various managerial reports that were included in the companies' reports. These reports are typically the reports of the chairpersons, the managing director/CEO and the Chief Financial Officer (CFO). These managerial reports are generally supplemented with more detailed information from the firms' annual reports.

Table 1. *Companies included in the final sample.*

Company Name	Sector	Period	Average ROE
ARM Cement Limited	Construction & Allied Sector	2010 - 2014	18.3%%
BOC Kenya Limited	Industrial	2010 - 2014	15.6%
Car & General (Kenya) limited	automobiles and accessories	2009 - 2013	14.1%
Nation Media Group Limited	Commercial And Services	2009 - 2013	30.0%
Rea Vipingo Plantations Limited	Agricultural Sector	2008 - 2012	15.2%
Standard Group Limited	Commercial And Services	2010 - 20114	11.3%
Unga Group Limited	Manufacturing And Allied	2010 - 2014	8.9%
Crown Paints Kenya Limited	Construction And Allied Sector	2010 - 2014	32.0%
Carbacid Investments Limited	Manufacturing And Allied	2010 - 2014	23.1%

Source: Author.

4.2. Analysis of Data

Framework analysis was used. The frame used was made up of the various classifications as per the categorization by the Nairobi Securities Exchange (NSE). However, the author reviewed and revised some of them to ensure that they were aligned with the study. However, this process was amicably done to ensure consistency. The final framework used is as shown below (Table 2). It must be noted that the attributes of the board of directors focused on the size and composition of the boards, as well as the education, industry experience and entrepreneurial experience of both the managerial directors and the boards separately. [20].

Table 2. *Framework Analysis.*

Attributes of Firms and their Directors	Attributes of the Board of Directors	1) Size and Composition 2) Education Level of managerial directors and the Board 3) Industry experience of managerial Directors and Board 4) Entrepreneurial experience of managerial directors and board 5) Number of directors who are highly qualified, and/or have industry experience and/or experience in entrepreneurship

5. Results and Findings

As can be inferred from the literature review, a firm's sustainable growth to a great extent is ascribed to the attributes of the firm and their directors (See Table 2).

5.1. Board of Directors Attributes

The literature review disclosed that the director's (founders' and/or business owners') level of education, industry experience and experience in entrepreneurship are some of the characteristics that differentiate high-growth firms from low-growth firms. For the reasons of the present study, the board of directors was considered, as the directors who have the responsibility for firm growth. The attributes of the managing directors and the board were studied separately because the managing directors are typically responsible for the day-to-day management of the firms, whilst the non-managing directors provide independent judgments on various issues, including strategy The managing directors are therefore likely to have a more direct impact on the performance of a firm than the non-managing directors. The full board was analysed to gain insight into the collective education and experience of all the directors, and the extent to which non-managing directors complement the skill set of the managing directors. [9, 11, 15]

5.2. Number of Directors

Most firms had an average of eight directors, including both executive and non-executive directors, with a minimum of five and a maximum of sixteen directors. Most of the companies had between one and three executive directors, with a minimum of two and a maximum of four executive directors. For most of these companies, the roles of managing director/CEO and chairperson were separated.

5.3. Levels of Education of the Managing Directors

The majority of managing directors of sampled the growth firms had a tertiary qualification. About one-third of the managing directors held a first degree (8/25=32%), while (9/25=36%) held a master's degree and above; these included several doctoral degrees, among other qualifications such as a diploma. Almost a third (7/25=28%) of the managing directors did not state whether they held any tertiary qualifications. Figure 2 graphically illustrates the number of managing directors who held different levels of qualifications.

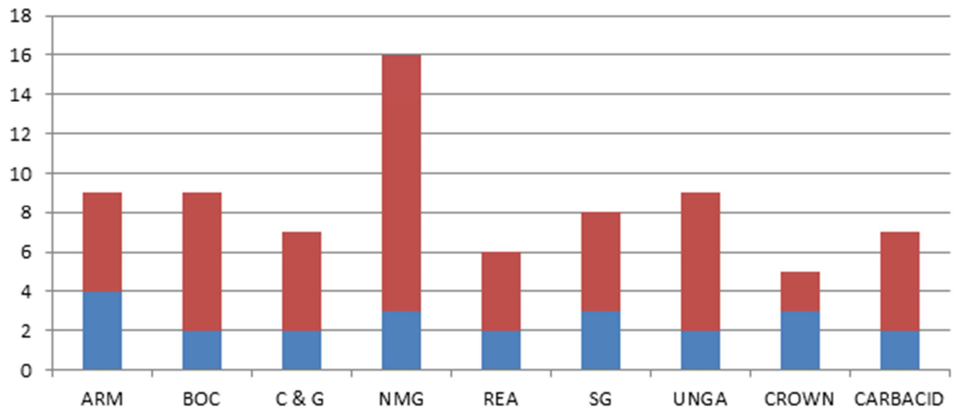

Figure 1. *Number of managing and non–managing Directors per Firm.*

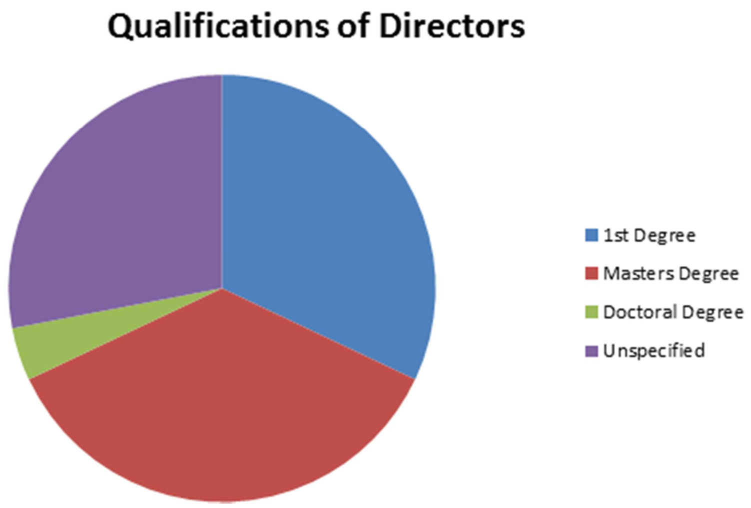

Figure 2. *Levels of qualifications of managing directors.*

Figure 3. *Levels of qualifications of the board of directors.*

5.4. Highest Qualifications of the Board of Directors

About a third of all the directors of the firms in the sample had master's degrees (21/77=27%), another one third (23/77=29%) held first degrees and only a few (5/77 = 7%) directors held doctoral and post-doctoral qualifications. Also, more than one-third (28/77=36%) of directors did not specify whether or not they held tertiary qualifications. Figure 3 illustrates the number of directors (n=77), both managing and non-managing, who held different levels of qualifications.

5.5. Qualifications and Experience of the Managing Directors

Experience in Industry was the most common attribute amongst the executive directors (19/25=76%); followed by being considered highly qualified, in other words, those who had bachelor, Master and/or Doctoral degrees (18/25=72%); followed by those with an accounting qualification (14/25=56%) and finally having entrepreneurship/business experience (11/25=44%).

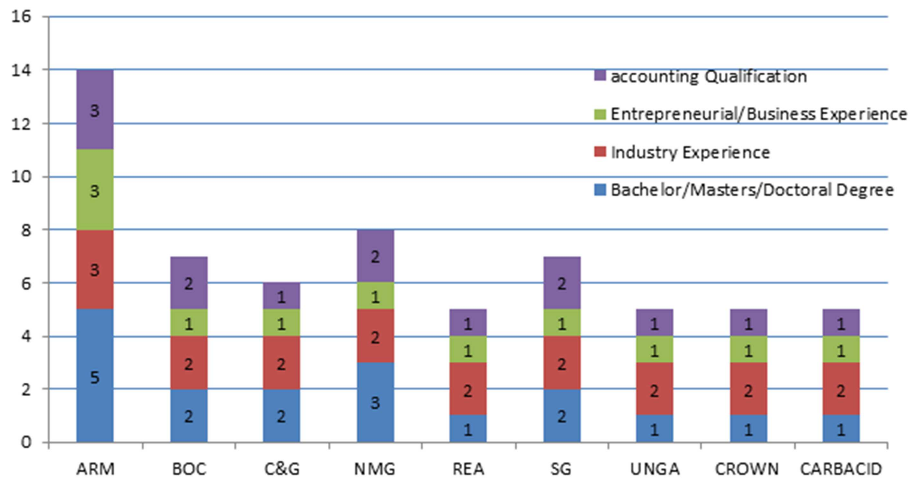

Figure 4. *Number of managing directors who had a degree or higher qualification, and/or had industry and/or entrepreneurial/business experience.*

Figure 4 graphically illustrates the total number of managing directors per firm who have a first-degree qualification or higher, and/or have industry and/or entrepreneurial/business experience. Some directors had more than one qualifying attribute and were accordingly placed in more than one category.

In observing Figure 4 it is evident that firms that reported higher levels of ROE (>14%) had more managing directors that were reported to have a qualification of a degree or higher and also industry experience. The organizations that posted the lowest ROEs (<12%) showed that their managing directors did not have much entrepreneurial/business experience.

5.6. Directors' Qualifications and Experience

The non-managing directors' skills often supplemented those of the managing directors. Figure 5 amplifies the total number of all the directors per firm who had a degree or higher qualification, and/or had industry and/or entrepreneurial/business experience. The majority of the directors were highly qualified (40%), those had entrepreneurial/business experience (24%), followed by those having industry experience (20%), and those with an accounting qualification (16%) - figure 5. Similar to the previous section, directors with more than one qualifying attribute were assigned to more than one category.

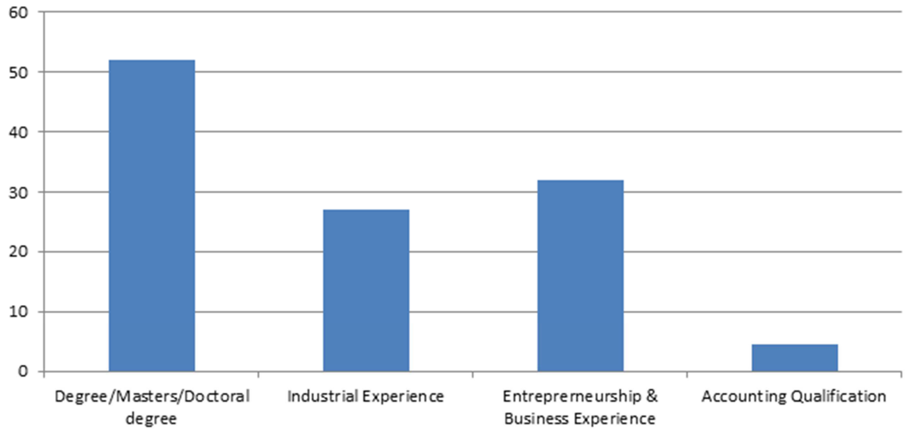

Figure 5. *Total Directors who have a degree or higher qualification, and/or had industry and/or entrepreneurial/business experience.*

Similarly, it was noted that firms that reported higher levels of ROE (>17%) had more managing directors who were reported to have entrepreneurial experience (Figure 6). The firm with the lowest ROE also did not indicate that the directors held an advanced degree.

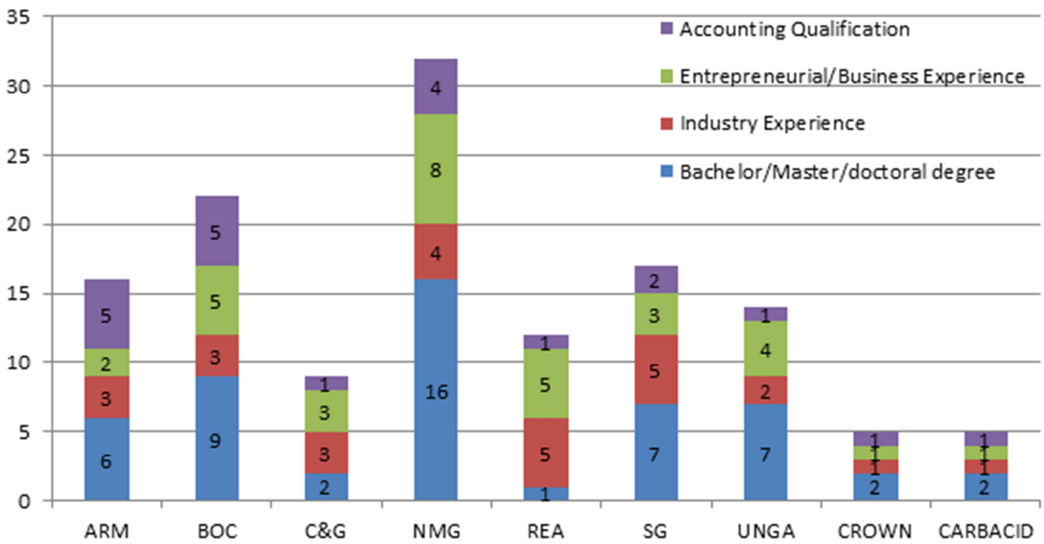

Figure 6. *Number of directors who had a degree or higher qualification, and/or had industry and/or entrepreneurial/business experience.*

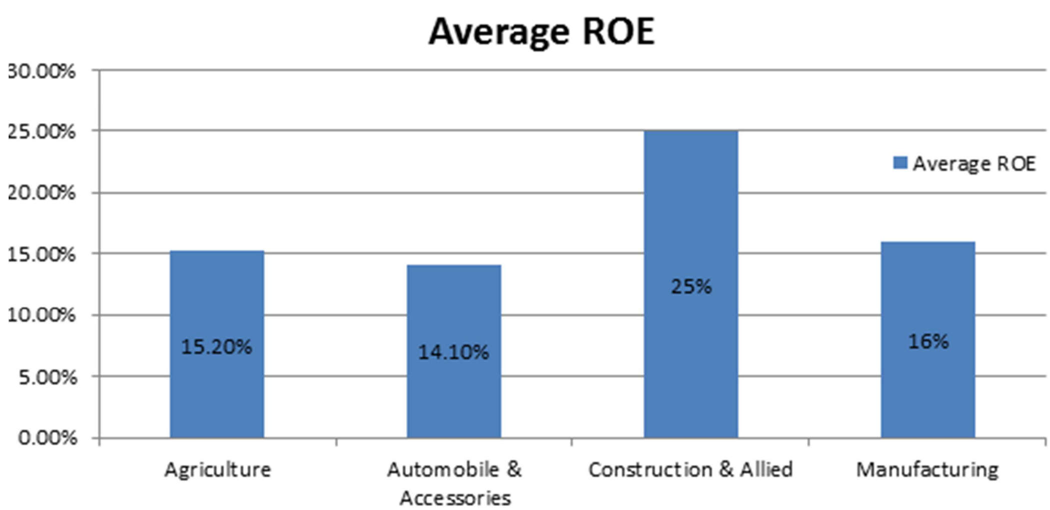

Figure 7. *Average return on equity (% ROE) per sector.*

5.7. Firm's Characteristics and Profitability in the Various Sectors

The survey on the firm's attributes centered on the profitability of the different sectors the firms operating in, and the diversification of the firms as contemplated by their operating segments. The sampled firms were categorized by their respective sectors of operation. [12, 18].

The nine companies represented four sectors, which included Agriculture, Automobile and accessories, Commercial, Construction and allied and Manufacturing. The construction and allied sectors notably outperformed the other sectors in respect to their average ROE.

Figure 7 illustrates the average ROE of the companies per category since listing but is limited to the five years prior to 2014.

6. Conclusion

This present survey aspires to gain insights into the management and features of locally listed firms that have been able to sustain steady firm growth and profitability within the context of an emerging economy. Nine firms listed on the Nairobi Securities Exchange (NSE) were identified that conformed to steady growth and probability conditions that were set for this exploratory study.

Most of the firms in the sample had a total average of between six or seven directors on their boards, with two up to four directors involved in the management of the firm. The finding that high levels of education, prior industry experience and entrepreneurial experience are of prime importance for firm growth and performance, as highlighted by [1] is corroborated by the results obtained from the firms that were included in the present study. The most common attribute of both the managing directors and the full board was industry experience, followed by being highly qualified (a degree/master's or doctoral degree) and, lastly, entrepreneurial/Business experience. The skills of the non-managing directors often complemented those of the managing directors. Even within this relatively small sample, it was noted that high levels of education, prior industry experience and entrepreneurial experience were seemingly positively related to higher levels of ROE. [5]

The construction and allied categories of the industry managed the best.

Average ROE, followed by the Commercial sector, manufacturing, agriculture, Automobile and accessories sectors respectively.

6.1. Limitations and Future Research

This present study looked at the firms that were doing well in terms of returns (profits) since they had been registered on the Nairobi Securities Exchange (NSE). From the work of [10], he posits that it's not sufficient to look at only firms that are growing consistently, as they would have surmounted most of the major challenges. This author recommends that firms that are found to be wanting in terms of growth be probed. Also, further research could include particular industries, as this would generate similar data for evaluation. Those closely related could also be augmented with interviews or questionnaires that help to 'fill' the gaps. Also, it can be said that not much research has been done in developing countries in terms of how firms grow, as well as empirical research which could be done to evaluate the likely correlations that may be prevalent.

6.2. Conceptual and Empirical Inference of the Study

Due to the lack of sufficient knowledge in terms of how to grow firms, especially those in developing economies, the research study was a preliminary one.

The study endeavored to single out and narrate the attributes of directors and their involvement with firms. The likely attributes of directors and the actions of firms have been recognized.

Firms that are at the moment in distress due to their inability to or not able to attain continual growth magnitudes as they would wish to attain within the same growing economic scenario could view their current attributes and experience against these results herein and realize to what extent embracing these would enable them to match the favourable outcome of the firms covered in this study.

Scholars and academic investigators are inspired to probe further these aspects of firms in terms of assembling and authenticating powerful and significant circumstantial postulations that are able to spell out firm growth within an emerging market setting.

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