

**MONITORING COMPLIANCE TO DETERMINE THE EFFECTIVENESS
OF THE KENYA ASSOCIATION OF STOCKBROKERS CODE OF
ETHICS BY MEMBER FIRMS**

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fulfillment of the requirements for the award of Master of Commerce degree
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ABSTRACT

This study monitored the effectiveness of the Kenya Association of Stockbrokers (Kasib) code of ethics by looking at whether members complied with factors known to make for effective codes such as leadership and method of code implementation, and the role of the Capital Markets Authority (CMA) of Kenya when it came to codes. The study was descriptive and used questionnaires to collect data from stockbrokers while secondary data was used in gathering information about the CMA.

Results were mixed showing that while some Kenyan stockbrokers do have codes of ethics which detail sanctions for violations and offer some form of ethics training, others do not. The piecemeal implementation suggests that Kasib seems to lack teeth to enforce these compliance factors necessary for code effectiveness.

While the CMA encourages codes of ethics it does not actively monitor their implementation as its main concern is with fraud. As such, it regulates the stockmarket through market surveillance, on and off site inspections of stockbrokers and has recently moved to risk profiling. This suggests that the haphazard implementation of codes of ethics may be due to the lack of enforcement of codes by the CMA

This study recommends engagement between stockbrokers and the CMA on code of ethics issues so that codes of ethic can be adopted and implemented successfully by stockbrokers. Kasib also needs to enforce its code of ethics by punishing members that do not adhere to the code.

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DEDICATION

This thesis is dedicated to my family – my parents Eugenia and Paul Kimeu and my sisters Rebecca and Pauline. They have been my anchor during this process and have supported me with unfailing love and encouragement.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There has been an increasing adoption of codes of ethics by companies worldwide starting from the 1980s throughout to the present; for instance 58% of the 100 largest companies in the world use ethical codes (Kaptein, 2004). Most American companies use ethical codes (Chonko, Wotruba & Loe, 2003) and European companies have also started using them (Sobczak, 2003). Rossouw (2005) indicates that African companies started using corporate codes from the early 1990s. The worldwide adoption of corporate codes of ethics by companies has been influenced mainly by complaints from defrauded investors after unethical behavior by major companies in early 2000, especially Enron (Nussbaum, 2002).

In America, Enron the world's largest energy company collapsed in 2001 after it overstated its earnings and hid losses (Jennings, 2009). This led the US Congress to pass the Sarbanes-Oxley Act in 2002 (Lander, 2004) where all corporations in America trading under the Securities Exchange Act of 1934, had to disclose to the Securities and Exchange Commission (SEC) whether they had a code of ethics and to give a reason should they not have a code of ethics.

In the late 1980s in Britain, Barlow Clowes and Brent Walker's chief executives misappropriated savers' funds and the Polly Peck's CEO siphoned corporate funds into offshore companies (Boyd, 1996). These failures led the London Stock Exchange and the Financial Reporting Council to set up the Committee on the Financial Aspects of Corporate Governance or the Cadbury Report (ibid, 1996). The Cadbury Report revealed that large corporate failures and poor company controls led to a low level of confidence by investors (Boyd, 1996).

Consequently, the report came with a code that had the following provisions; first, the need for independent directors and shareholders to play a greater role in corporate governance, second, that sanctions to be placed on non compliant British companies and third, that firms trading on

the London Stock Exchange had to have a code of ethics and give reasons if they did not (The Financial Aspects of Corporate Governance, 1992).

In Kenya, a report on Principles for Corporate Governance (PSCGT, 1999) for companies in the private sector brought codes of ethics to the fore in 1999. The report came with a sample code of best practice for corporate governance on which Kenyan companies could base their codes. Of particular interest is the Nairobi Stock Exchange (NSE) where the Capital Markets Authority of Kenya (CMA) guidelines (The Capital Markets Act cap 485A, 2002) to NSE members (stockbrokers) on adoption of corporate codes, borrowed heavily from the PSCGT report.

1.2 Compliance and Effectiveness

An aspect of the adoption of codes of ethics has been the rules set up by regulatory bodies whether in America (Bloomenthal, 2002) or Britain (Boyd, 1996) which public listed companies must follow in order to be deemed as compliant. Some of these rules include having a code of ethics and ensuring compliance to the code (Lander, 2004). For Kenya, the Capital Markets (Corporate Governance) (Market Intermediaries) Regulations 2011 that specifically cover stockbrokers and investment banks, a compliance officer is a necessary requirement. Thus by monitoring compliance to these rules one can get an indication of the likely effectiveness of these codes.

Defining the effectiveness of a code however, is problematic since difficulty in measuring behavioral outcomes and a lack of operational definitions in codes make it difficult to measure the effectiveness of ethical codes (Farell, Cobbin and Farell, 2002). For purposes of clarity therefore, this thesis defines the effectiveness of a code as the extent to which there is reduction in cases of unethical behaviour listed in the code of ethics following compliance with the code of ethics (Schwartz, 2004). Compliance will in turn be defined by looking at the following factors: if the leadership of the organization actually possess the code of ethics, if the organization is implementing the codes of ethics and what the regulator does, to ensure the rules are followed.

1.3 Kenyan Stockbroking Companies

The Nairobi Stock Exchange is a self regulating organization that draws its membership from stockbrokers who are its principal members and are allocated seats in the stock exchange to deal with listed instruments on behalf of the investing public (Kiruthu, 2007).

Francis Drummond formed the first brokerage in 1951 with the NSE being later established in 1954 to regulate the operations of stockbrokers and to develop the stock market (Ngugi, 2003). There are currently 17 members of the NSE with Discount Securities and Ngenye Kariuki under statutory management (List of Member Firms of the Nairobi Stock Exchange, 2011).

While the NSE was initially controlled by foreign investors in the 1950s, the post-independence period saw a shift from foreign to local investors as the Kenyan government undertook Africanisation (Ngugi, 2003). Kenya has become the financial centre of East Africa (Deutsche Bank Research Report, 2009) with the NSE central to the economy attracting both foreign and local investments (Barako, Hancock & Izan, 2006) reaching an all time high capitalization of Kshs 792 billion (Kiruthu, 2007) in 2006.

The Kenyan government has had a history of trying to regulate stockbroking; in 1971 the government sought to regulate the sector when it established the Capital Issue Committee whose role was to oversee the licensing of stockbrokers and to protect local investors by creating a guarantee for them from stockbrokers, should the stockbroker fall (Ngugi, 2003).

The Capital Markets Authority was established in 1989 under the CMA Act to regulate the capital market for efficient and smooth running (Kiruthu, 2007) and for the mobilization and allocation of resources for long term investment (Mulang'a, 2005). The Capital Markets Act states that the role of the CMA is the promoting, regulating and facilitating the development of an orderly, fair and efficient capital market in Kenya (The Capital Markets Act, Chapter 485A,

Laws of Kenya). It issued guidelines on corporate governance practices by publicly listed companies in Kenya (Gazette Notice No.3362, 2002) where it suggested companies should have a code of ethics.

The Kenya Association of Stockbrokers (Kasib) issued a code of ethics to regulate its members in 2009 (Okoth, 2009). The Kasib code of ethics has clauses on professionalism, integrity of the capital market, duties to clients, investment analysis, conflict of interest, member obligations, risk management and disputes and mechanisms for their resolution (<http://www.kasib.co.ke/codeofethics.php>). Currently there is a revised 2010 draft on corporate governance for market intermediaries (stockbrokers and investment banks) where a code of conduct is prescribed that they should all follow (Capital Markets Regulation, 2010).

1.4 Problem Statement

In spite of the Kasib code of ethics, Ngenye Kariuki went under statutory management in late 2009 (Daily Nation, 2010) raising the issue of whether members of Kasib were complying with the provisions in the code. The code's effectiveness has been questioned (Munuku, 2009) and the issue has threatened to keep local investors away from the stock exchange (Kang'aru, 2010).

This is a problem for Kenya since the stock market acts as an indicator of a country's economic performance and mobilizes people and capital for development (King and Levine, 1992). The stock market plays an important role in the economy as it boosts the rate of domestic savings, reduces companies' dependence on bank financing, reduces the cost of gathering information on investments and lessens the cost of investing as investors can quickly reinvest their funds (Yartey & Adjasi, 2007).

Therefore, this thesis looks at whether Kasib members have adopted the code of ethics and ethics training, a process known as mainstreaming (Farell, Cobbin and Farell, 2002). Furthermore, it looks at implementation of code provisions and finally the role of the Capital Markets Authority in ensuring compliance. The role of the CMA is of interest because in Britain and America codes

of ethics are enforced by the capital markets authority. Since this is not the case in Kenya there is a need to discover what role the CMA plays when it come to enforcing the Kasib code of ethics.

1.5 Research Objectives

The main objective of this research was to establish the effectiveness of the Kasib code of ethics among Kasib members companies by monitoring compliance. Specific objectives were:

1. To discover whether the Kasib code of ethics was in place among members.
2. To find out if Kasib members were implementing codes of ethics.
3. To ascertain the CMA's role in the enforcement of the Kasib code of ethics

1.6 Research Questions

1. Do Kasib members have in place the code of ethics?
2. Are Kasib members implementing these codes of ethics?
3. What is the CMA's role in enforcement of the Kasib code of ethics?

1.7 Justification

This research is necessary as to the best of my knowledge there are few research papers done on corporate codes in Africa in general and Kenya in particular. This study intends to shed more light on what makes for effective corporate codes in Kenya's stockbroking industry and whether by compliance to a code of ethics can there be a reduction in cases of unethical behaviour.

Kenyan investors have suffered losses as a result of unethical behavior by some stockbrokers. Finding out if a corporate code of ethics could rein in these behaviors would be useful to regulators and brokers eager to restore confidence in the market. The stock market being a key indicator of the country's economic health efforts to strengthen corporate governance through tools like corporate codes of ethics are useful as the country's economic future is secured.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the history of codes of ethics, defines codes of ethics and discusses some factors that are crucial in compliance to these codes such as management, implementation and the role played by the regulatory body in enforcing the code of ethics.

2.2 Corporate Ethics and Firm Behaviour

For business organizations, the creation of codes of ethics can be traced to Johnson & Johnson which had a Johnson & Johnson Credo in 1943 with General Electric and Lockheed Martin being among the early adopters in the 1980s (LRN, 2006). Aguilera and Cazorra (2004) trace the first corporate code in America to the late 1970s when the Business Roundtable issued a report entitled *'The Role and Composition of the Board of Directors of the Large Publicly Owned Corporation'* whose intention was to improve corporate governance among American companies.

A corporate code of conduct can be defined as a name given to a set of rules and principles that govern the way social institutions should behave toward their stakeholders and the way stakeholders (especially employees) should conduct themselves toward the institution and each other (Carson, Baetz and McGill, 2007).

Langlois and Schlegelmilch (1990) define a code of ethics as a corporate statement that registers corporate principles, ethics, rules of conduct, codes of practice or company philosophy concerning responsibility to stakeholders, the environment, or any other aspects of society external to the company. Schwartz's (2004) general definition is that a code of ethics is a written, distinct, and formal document which consists of moral standards used to guide employee and/or corporate behaviour.

According to Stapenhurst and Pelizzo (2004), codes of conduct tend to be products of professional associations whose purpose is a quality assurance statement to society and providing a standard of appropriate conduct for members of the profession while codes of ethics tend to be more concrete as they represent executive orders with a list of enforceable standards with sanction for violation. Carson et al (2007) point out that while there may be a slight difference in meaning it is not significant and both terms can be used interchangeably.

Jenkins (2004) divides codes into particular categories, among these are: company codes which the companies adopt on their own; trade association codes adopted by a group of companies in a particular industry; and inter-governmental codes that are international in nature as they are agreed to by governments.

In Sethi's (2003) view, a company can either take a go it alone approach or take group or industry wide approach. In a go it alone approach a company develops its own code of conduct while in a group approach, a number of companies develop a set of standards that are to be followed by all the members. The current code of ethics adopted by the Kenya Association of Stockbrokers for its members (<http://www.kasib.co.ke/codeofethics.php>) is an example of an industry-wide or group approach.

However, there is a debate over the effectiveness of corporate codes with some streams of studies (Rich, Smith and Mihalek, 1990; McCabe, Trevino and Butterfield, 1996; Pierce and Henry, 1996; Lamberton, Mihalek & Smith, 2005; McKinney & Moore, 2007) supporting the connection between a corporate code of ethics and improved ethical behavior while other studies (Clark, 1998; Badaracco & Webb, 1995; Brief, Dukerich, Brown & Brett, 1996) refute this view. This calls for further studies in the relationship between codes of ethics and the role of compliance in code effectiveness.

2.3 Factors Necessary for Compliance

There are various factors to be considered when complying with a code of ethics such as: the design of the code of ethics (Weaver, 1995; Colle & Werhane, 2007), the methods used to implement the ethical code (Adam & Moore, 2004), effective communication and cultural values of the company (Stevens, 2007), enforcement and top management support (Schell-Busey, 2009), the gap between ethics definition and ethics enforcement (Nnabuike, 2010), and employee perception of the code (Schwartz, 2004).

The paper focuses on three factors which are leadership, implementation and the role of the regulator. Three Kenyan stockbrokers have collapsed in the last three years (Gikunju, 2009) which suggests a leadership and management problem. Kenyan stockbrokers adopted a code of ethics in 2008 but Ngenye Kariuki went under in 2009 (Daily Nation, 2010) indicating implementation issues and the role of the CMA which is the Kenyan regulator has to be questioned when stockbrokers go under.

2.3.1 The Influence of Leadership on Code Effectiveness

In both Britain and America chief executives and the top management have been at the centre of unethical behaviour (Jennings, 2009; Boyd, 1996). Research in Africa has replicated this view with Nnabuike (2010) pointing out that corrupt leadership is one of the variables responsible for the gap between ethics definition and ethics enforcement in Nigeria. She points out that those serving under corrupt leaders are afraid of reporting unethical behaviour because of they may be transferred or they could be in turn identified as corrupt.

In Kenya, Kimani (2009) points out that since some Kenyan stockbrokers are family owned there is a blurring between ownership and management which indicates poor leadership and a lack of corporate governance. Kangaru (2009) notes that greed, rapid expansion, a lack of controls on the part of management and family ownership are some key features of the collapsed stockbrokers like Discount Securities and Nyaga Stockbrokers. This has led the stockbroking industry in Kenya to adopt a code of conduct for stockbrokers (Okoth, 2009) and the CMA to

prescribe a code for stockbrokers to implement in its Corporate Governance Regulations for Market Intermediaries for 2011.

However while 58% of the 100 largest companies use ethical codes (Kaptein, 2004) there have been major cases of unethical behaviour by business leaders in spite of companies having corporate codes of ethics, which were expected to reduce unethical business behavior (Adam & Moore, 2004; Paine, 2004).

While this may point to a failure in codes, Laczniaak and Inderrieden (1987) suggested that a lack of management support for ethical codes of behaviour hinders the effectiveness of ethical codes. This was corroborated by a study by Lamberton, Mihalek and Smith (2005) that found that when a code of ethics was combined with sanctions and the interest of top management was it likely to affect ethical decision making.

A Deloitte & Touche USA Workplace Survey done in 2007 listed the behaviour of management and direct supervisors with positive reinforcement for ethical behaviour as the top factors in promoting an ethical workplace. Of note in this survey was the factors such as salary and influence by peers came after the first three factors.

Leadership is so important that according to Adam and Moore (2004), informal methods like the manager's example and behavior which suggest integrity are likely to have more effect on employees than even formal methods like ethics training and programs. The role of leadership in an organization therefore, is to create an ethical environment in the organization by creating structures to support the code (Farell, Cobbin and Farell, 2002), a process known as mainstreaming.

Mainstreaming is the creation of an ethical culture in an organization by providing support and structures to integrate it with core operations of the organization such as having codes, putting sanctions in place for code violations and top management support for these initiatives. Mainstreaming was used to measure to what extent stockbrokers have adopted an ethical culture.

2.3.2 Implementation in Code Effectiveness

The most commonly used method of implementing ethical codes is a compliance program (Trevino, Weaver, Gibson & Toffler, 1999). The use of compliance programs in the USA and Fortune 1000 firms has been influenced by the 1991 US Sentencing Commission's Guidelines for organizational defendants (ibid, 1999).

The Federal Sentencing Guidelines insisted on the organization establishing compliance standards, high level personnel overseeing compliance, due diligence in delegation of authority, communication of standards and procedures, use of reporting systems, enforcement of standards through disciplinary measures and appropriate response to offences including any modifications to the program.

The compliance based method has faced criticism that there is no evidence it actually works reducing unethical behaviour (Krawiec, 2003). It has been contrasted with the integrity method or the values based method whose focus is on establishing legitimacy with employees through internally developed organizational values and self governance (Hess, 2007). The differences between compliance and integrity method is that compliance has a financial accounting focus while integrity has a customer focus and while compliance focuses on policies and procedures integrity has a risk management focus (Lindow & Race, 2002).

Effective compliance programs have some common features such as high ranking officials of the organization overseeing compliance with standards, checking into the background of employees before allocating them responsibility, the communicating broadly to all employees on code guidelines and having a reporting system such as a hotline through which employees can report unethical behaviour (Webb & Mollo, 1993).

An issue that has arisen in compliance has been the protection of employees from retaliation by organizations when they release confidential data that is evidence of wrongdoing (Vandekerckhove, 2004). This is known as whistleblowing which Vandekerckhove (2004)

defines as the deliberate, non-obligatory act of disclosure, by an individual with privileged access to data or information of an organization, about a non-trivial illegality or other wrongdoing under the control of the organization, to an entity who has the power to rectify the wrongdoing., 2004).

Sherron Watkins a former executive of Enron took a considerable risk in 2001 when she sent a memo to the CEO Kenneth Lay about some illegalities she had noted in some of the company's business practices (Hartman & DesJardins, 2011) shortly before the company went under. Offering rewards for ethical behaviour to employees maybe one way of encouraging employees to do the right thing with Lockheed Martin offering a Chairman's Award to an employee who fully represents the spirit of the ethical culture (ibid, 2011).

2.3.3 Role of the CMA in Code Effectiveness

The Kenyan government has had a history of trying to regulate stockbroking; in 1971 the government sought to regulate the sector when it established the Capital Issue Committee whose role was to oversee the licensing of stockbrokers and to protect local investors by creating a guarantee for them from stockbrokers, should the stockbroker fall (Ngugi, 2003).

The Capital Markets Authority was established in Kenya in 1989 through an Act of Parliament under the CMA Act to regulate the capital market for efficient and smooth running (Kiruthu, 2007) and for the mobilization and allocation of resources for long term investment (Mulang'a, 2005).

In its annual reports from 2007 to 2009 the CMA stated that its regulatory structure entailed building an effective oversight system whose features were: regular surveillance of trade in securities, periodic review of licensed persons to ensure continued compliance, review of listed companies and follow up on the implementation of good corporate governance by licensed persons and listed companies.

The CMA also encouraged good corporate governance practices such as establishment of board committees, disclosure of statement on corporate social responsibility in annual reports, list of top ten shareholders and timely release of audited accounts. The CMA also promoted financial excellence by co-sponsoring the Financial Reporting Excellence (FiRE) award.

When a complaint was filed and investigations revealed the violation or non-compliance of rules and regulations, the CMA demanded corrective action from the relevant licensee. Failure to comply led to penalties in the form of fines payable to the CMA, or suspension of license and prohibition from participation in the market (www.cma.or.ke).

However despite these measures there has been a rise in reported complaints in each year's annual report with complaints rising from 205 in 2007 to 495 in 2008 and slightly going down to 415 in 2009. Furthermore three stockbrokers have collapsed in that period with Francis Thuo & Partners in 2007, Nyaga Stockbrokers in 2008 and Discount Securities Limited in 2009.

The position in Kenya is similar to America where despite the SEC implementing the Sarbanes Oxley legislation in 2002 corporate scandals like Refco(the largest futures brokerage firm then) have collapsed due to corruption and a lack of due diligence, corporate codes notwithstanding (Johnsson, 2005).

A poll on investors in America found them skeptical on the success of the Sarbanes-Oxley legislation in regulating the stock market industry in America (Bright, 2005). In Britain the situation is different where The Cadbury Report that came up with a 'code of best practice' is widely successful and considered to have influenced the corporate governance movement worldwide (Stiles and Taylor, 2001).

2.4 Conceptual Framework

Fig 2.1

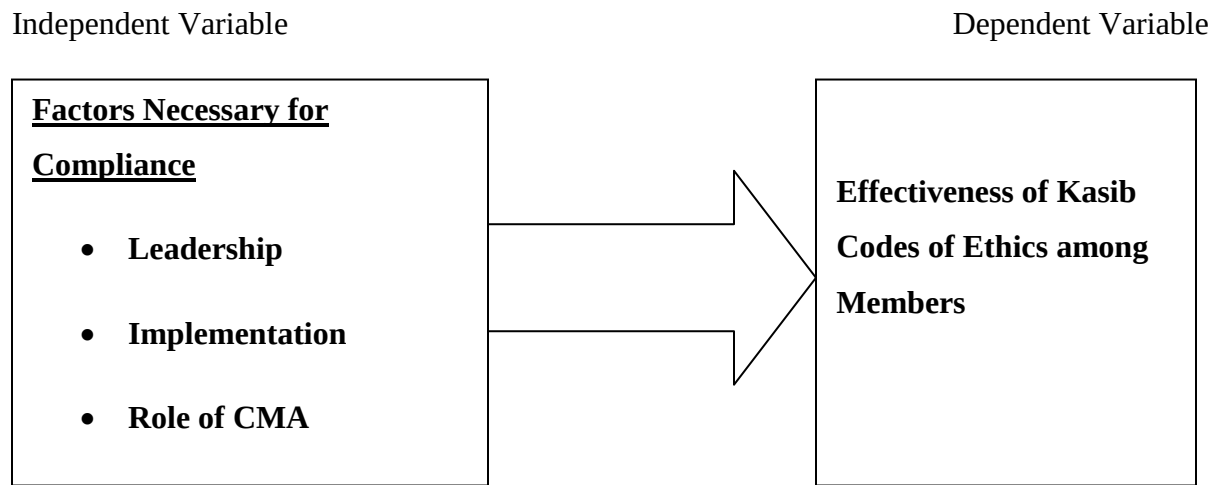


Fig 2.1: Shows the connection between the factors necessary for compliance and the effectiveness of codes of the Kasib code of ethics among member stockbroking companies.

Studies suggest that the independent variables like leadership (Laczniak and Inderrieden, 1987; Stevens, 2009), implementation (Lindow & Race, 2002) and the role of the regulator (Lander, 2004) are crucial in complying with codes of ethics. The regulator monitors compliance to these codes of ethics (Boyd, 1996; Aguilera and Cazorra (2004) and in Kenya this role is played by the Capital Markets Authority (The Capital Markets Act, Chapter 485A, Laws of Kenya).

The dependent variable was the effectiveness of the Kasib code of ethics which has been adopted by some members of the stockbroking industry in line with international practice (Chonko, Wotruba & Loe, 2003). However there are questions as to whether codes are effective (McKinney & Moore, 2007) or not (Clark, 1998) and this study examines the role of the compliance factors in determining code effectiveness among Kasib members.

2.5 Chapter Summary

Studies have shown that there are various factors that affect compliance to codes of ethics. This study looks at the Kasib code of ethics and the factors involved in compliance such as: the management of the particular firm (Kangaru, 2009; Laczniak and Inderrieden, 1987), the manner in which the code is implemented (Adam and Moore, 2004; Weaver, 2005) and the role of the regulatory body (Lander, 2004; Boyd, 1996).

2.6 Operational Definitions of the Key Variables

Factors in Compliance	Focus	Objective
Leadership	Mainstreaming Presence of a code of ethics in the firm Ethics training carried out regularly Presence of an ethics or a compliance officer Punishment for code violations like sacking	1
Implementation	Compliance/Integrity Program Outline sanctions Relay code information Presence of hotline to report unethical behaviour Getting feedback from employees Rewarding of ethical behaviour by employees	2

	Focus	
Role of CMA in Effective Codes of Ethics	Role of Regulator Ensure CMA code guidelines are followed e.g. having an ethics officer	3

The independent variable in this study was effectiveness of the Kasib code of ethics. The factors that make for compliance are leadership, implementation and role of regulator. Compliance to CMA code guidelines will measure the role the CMA is playing.

Leadership was analysed using the concept of mainstreaming which is creating an ethical climate in the workplace by supporting initiatives like codes of ethics and sanctioning unethical behaviour (Farell, Cobbin & Farell, 2002). To measure mainstreaming in a stockbroker the paper looked at the following criteria: having a code of ethics, providing ethics training, having an ethics officer and applying sanctions.

Implementation of code of ethics in companies is mainly through the compliance programs (Trevino, Weaver, Gibson & Toffler, 1999). This was measured through how the stockbroker relays information on codes and sanctions to employees, whether feedback from employees on code content is requested, is there a hotline for reporting unethical behavior and whether there were rewards for employees to promote ethical behavior.

The thesis looked at regulation by questioning the CMA on its code guidelines specifically on issues such as the Kasib codes of ethics, the presence of ethics or compliance officers among stockbrokers and whether it was responsible for enforcing codes of ethics. This was measured by comparing its responses with another regulatory body such as the SEC in America.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter looked at aspects of the methodology such as the research design, population, data collection methods, data collection instruments, data collection and data analysis.

3.2 Research Design

The study was descriptive as its goal was to describe pertinent aspects of the subject of interest from an organizational or industry oriented point of view (Sekaran & Bougie, 2009). The mixed methods approach used both questionnaires and interview guide to collect quantitative and qualitative data (Creswell, 2003).

3.3 Target Population

The target population of the study was drawn from 17 stockbrokers who are members of the Kenya Association of Stockbrokers. The 17 stockbrokers were considered for this study because, according to Kasib, they had all adopted the use of a corporate code of conduct as mandated by Kasib.

3.4 Data Collection Instrument

There have been several methods used in collecting data on the effectiveness of codes such as questionnaires, vignettes, and testing for attitudinal differences in companies with and without ethical codes (Farell, Cobbin & Farell, 2002). This study used two data collection instruments: questionnaires and an interview schedule.

Questionnaires are a useful data collection tool as they are less costly, offer anonymity and can reach a wider geographic area while interviews offer the researcher a chance to clarify questions, read nonverbal cues and establish rapport with the respondents (Sekaran & Bougie, 2009). Questionnaires are commonly used when gathering data on effectiveness of codes (Schwartz,

2001) while the interview moved the investigations of codes beyond questionnaires into an actual corporate setting (Schwartz, 2004).

3.5 Data Collection Procedure

Since all the stockbrokers are centrally located in Nairobi, data was collected through a questionnaire that was hand delivered to each company. This was a descriptive research and close ended questions were used in the questionnaire because it enabled collection of quantitative data which could be used to describe the subject and also for comparative purposes (Sekaran and Bougie, 2009).

An interview was carried out at the CMA after collecting the questionnaire data to put in context the findings that emerged from the data collected using questionnaires. The interview schedule was loosely based on the factors that make for effective codes and the procedure for compliance that the CMA used.

The respondent per firm was expected to be a senior executive who had implemented the code in his or her firm, an ethics or compliance officer in the firm or any senior manager involved in the enforcement of the codes of ethics.

3.6 Data Analysis

Effectiveness in this study meant leadership (mainstreaming), implementation (compliance) and the role of the regulator (CMA code regulations) all which were supposed to result in a reduction of unethical behaviour. By ordering the questionnaire according to these factors, this study measured the extent to which these factors play a role in effectiveness of codes.

The scale used for measuring these factors was a nominal scale with a simple category scale being used in the questionnaire. A nominal scale is normally used when collecting information on a variable that can be grouped into two or more categories while a simple category scale is a rating scale that offers two mutually exclusive response choices (Cooper & Schindler, 2006). An

Excel spreadsheet was used to analyse the data with a table having a column for the stockbroker and three columns for leadership and implementation. A point was awarded for every response that meets the conditions of a certain factor.

Mainstreaming which fell under leadership had four points: Presence of a code of ethics, an officer in charge of ethics, ethics training and application of sanctions. Implementation had five points for: outlining sanctions, relaying sanctions, having a hotline, request for employee feedback and rewarding good behaviour Regulation was measured through an interview with CMA market supervisory officials with questions on whether compliance to CMA code guidelines resulted in reduction of unethical behaviour.

The results were tabulated in a frequency distribution table. Microsoft Excel was used to obtain the total number of responses and percentages for each question were given. Interview questions after the distribution of the questionnaire were to supplement and clarify the primary data. Conclusions were drawn from the analysis of both primary and secondary data.

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

In this chapter the data and the findings were presented and analyzed using Microsoft Excel. The first part dealt with general information such as the type of broker that responded and the job position of the respondent. The second part dealt with the objectives. The main objective of this research was to establish the effectiveness of codes of ethics among Kasib members companies by monitoring compliance. Effectiveness as defined earlier was a reduction in cases of unethical behavior.

Compliance was to be established by looking at whether Kasib members actually had a code of ethics a process known as mainstreaming, whether they implementing it ,that is, what measures were put in place to ensure the smooth working of the code and what was the CMA's role in encouraging or enforcing the code.

4.2 General Information

4.2.1 Type of Broker

The response rate in the study was 63% with 11 out of 17 stockbrokers and investment banks responding to the questionnaire showing that of the 11 respondent companies the majority of respondents were investment banks.

Table 4.1 Type of Broker

Respondent	n = 11	Frequency %
Investment Bank	7	63%
Stockbroker	4	37%
Stockbroker	11	100%

4.2.2 Position of Respondents

When it came to respondents, nearly half of the respondents were the company's research analyst with the rest varying between the legal and compliance officer, head of finance and administration and head of department.

According to the literature, an ethics or a compliance officer or a senior official is to be in charge of matters to do with codes of ethics (Webb & Mollo, 1993). Since nearly half of the responses to the questionnaire came from research analysts suggests that this particular aspect of mainstreaming ethics is yet to be adequately addressed by stockbroking companies.

In spite of this the remaining five respondents were all heads of department with two being compliance heads of department an indicator that these are senior position in the companies and the issue of ethics is taken seriously.

Table 4.2 Position of Respondents

Job position	n = 11	Frequency %
Head of Finance and Administration	1	11%
Head of Legal and Compliance	2	22%
Head of Trading and Operations	1	11%
Research Analyst	4	44%
Head of Department	1	11%
No response	2	22%
Total	11	100%

4.3 Objectives and Compliance Factors

The main objective of this study was to look at whether cases of unethical behaviour went down among stockbrokers as a result of complying with the Kasib code of ethics which came into effect in 2008. Compliance to this code was broken down into three factors: leadership/mainstreaming, implementation and enforcement of the code by the CMA.

4.4 Objective 1: Is the Kasib Code of Ethics in Place among Kasib Members

In looking at whether the Kasib code of ethics was in place the concept of mainstreaming was used. Mainstreaming represented a respondent having a code of ethics, ethics training, presence of an ethics officer and sanctions for violations of the ethical code (Farell, Cobbin and Farell, 2002). These aspects are considered a necessary if the leadership of an organization seriously wants to put a code of ethics in place.

4.4.1 Presence of Code of Ethics

Table 4.3 indicates that a majority of respondents have codes of ethics.

Table 4.3 Respondents with Codes of Ethics

Presence of Code of Ethics	n = 11	Frequency %
Yes	9	82%
No	2	18%
Total	11	100%

This finding confirms the literature that codes of ethics have been adopted by the Kenyan stockbroking industry and indicates that the industry is in step with corporate governance trends worldwide (Kaptein, 2004). This is crucial as other steps such as implementation cannot take place without a code of ethics being present in the first place.

Codes of ethics are now a standard part of corporate governance with American companies using ethical codes (Chonko, Wotruba & Loe, 2003), European companies using them (Sobczak, 2003) and African companies (Rossouw, 2005) using corporate codes from the early 1990s. The origins of codes of ethics in Kenya can be traced to the Principles of Corporate Governance report, which issued a sample code for Kenyan private companies in 1999.

Despite the Kasib code (<http://www.kasib.co.ke/codeofethics.php>) being binding on all members there were two members who responded as not having one. One criticism of the Kasib code of ethics has been that it lacks sanctions thus it cannot be enforced among members (Munuku, 2009) and this could explain why some members do not have codes. The problem could be legislation since in America the SEC is mandated to ensure all companies trading on the stock exchange have code of ethics (Lander, 2004) while there is no similar legislation in Kenya.

4.4.2 Presence of an Ethics Officer

Table 4.4 shows a majority of respondents have ethics officers

Table 4.4 Respondents with Ethics Officers

Presence of an Ethics Officer	n = 11	Frequency %
Yes	7	64%
No	4	36%
Total	11	100%

The presence of ethics officers is an indication that senior management is taking the code seriously with a view to implementing it (Laczniak and Inderrieden, 1987, Lamberton, Mihalek & Smith, 2005). Ethics officers were introduced in the early 1990s and their influence and relevance was indicated to the extent which they were supported financially such as having a staff and a budget to do the work required (Hartman & DesJardins, 2011).

The findings while showing a majority of respondents have ethics officers indicate there is a substantial minority that does not. This is worrying as the lack of compliance officers in some stockbrokers may point to weak senior management and suggests there is no oversight when it comes to their activities leaving the way open for fraudulent activities. Schwartz (2001) noted in his research that when ethics officers received question regarding codes it was an indication to them that at least some employees were concerned about their behaviour and was thus a positive influence.

The CMA in its corporate government regulations for 2011 (The Capital Markets Corporate Governance Regulations, 2011) states that the board for every market intermediary (stockbroker) should have a compliance officer whose role it is to comply with the regulatory requirements prescribed by the Authority. Therefore some of these stockbrokers would seem to be in breach of stockmarket regulations.

Over and above having compliance or ethics officers, the Open Compliance and Ethics Group (OCEG) suggests that these officers should have independence when viewing senior management activities and that senior level officers should provide program oversight (OCEG, *Internal Audit Guide*, May 2006).

4.4.3 Ethics Training

Table 4.5 shows a majority of the respondents offer ethics training.

Table 4.5 Respondents Offering Ethics Training

Ethics Training	n = 11	Frequency %
Yes	7	64%
No	4	36%
Total	11	100%

This finding is similar to the findings regarding ethics officers by suggesting those respondents that have ethics officers in all likelihood offer ethics training while those that do not have ethics officers do not offer ethics training.

When it comes to ethics training of employees, The United States Sentencing Commission (USCC) that prescribes mandatory Federal Sentencing Guidelines for Organizations requires that companies communicate their standards and procedures through training or other appropriate means (USSSC, 2005).

The Capital Markets Corporate Governance Regulations for 2011 do not explicitly state that Kenyan stockbroker has to carry out ethics training. However, article 19 of these regulations states that management should ensure all employees have an appropriate training program based on the needs of the market intermediary and the requirements of the authority which implies some of training in compliance.

Clearly some of ethics training is expected by regulatory authorities in both Kenya and America. The lack of it in some stockbrokers suggests that a basic aspect of mainstreaming (Farell, Cobbin & Farell, 2002) is missing which may hamper implementation of the code in the organization.

4.4.4 Sanctions

Table 4.6 indicates respondents either warn or warn and dismiss employees as the method preferred for punishing violations of the ethical code.

Table 4.6 Sanctions Used for Violations of Codes of Ethics

Sanction	n = 11	Frequency %
Immediate Dismissal		
Temporary Suspension		
Warning	5	45%
Warning Before	6	55%

Dismissal		
Total	11	100%

Sanctions are a standard part of all compliance and ethics programs (Web & Mollo, 1993). The Federal Sentencing Guidelines that are used for American companies, state that standards and punishments must be enforced to prevent further offences (Ferrell, LeClair & Ferrell, 1998). For Kenyan stockbrokers, failure to comply with CMA rules and regulations leads to penalties in the form of fines payable to the CMA, or suspension of license and prohibition from participation in the market (www.cma.or.ke).

However there are management theorists who suggest that sanctions should be integrated with persuasion and that sanctions should be reserved for situations where a strong deterrent is needed (Schell-Busey, 2009). This is in line with research by Simpson (2002) that indicated that employees with high scores on morality did not need sanctions to deter them from doing wrong while employees with low scores on morality were deterred by formal sanctions.

4.5 Objective 2: Implementation of the Kasib Code among Members

Implementation deals with how a company applies the code of ethics with the most common method being the compliance method (Trevino, Weaver, Gibson & Toffler, 1999), thus this section looked at how Kasib members carried out implementation. When implementing a code of ethics, sanctions should be clearly outlined, information dispersed to employees, the presence of hotlines and the response to the code by employees in terms of feedback (Schwartz, 2004).

4.5.1 Outlining of Sanctions

In table 4.7 that dealt with outlining of sanctions, 7 (64%) of respondents affirmed their code of ethics clearly outlined the sanctions for violation of ethics while 4 (36%) of respondents did not.

Table 4.7 Code of Ethics Clearly Outlining Sanctions

Outlining of Sanctions	n = 11	Frequency %
Yes	7	64%
No	4	36%
Total	11	100%

The Federal Sentencing Guidelines that deal with sentencing of organizations in America states that for an effective ethics program the organization must establish compliance standards and procedures and must communicate these standards and procedures to all employees (Bureau of National Affairs, 1991). In Kenya, The Capital Markets Corporate Governance Regulations for 2011 state in article 20 which deals with the management of stockbroking companies that, it is the role of management to ensure that employees have familiarized themselves with and adhere to the code of conduct.

Therefore, with 36% of respondents not complying means that the message that unethical behaviour is punished may not be getting through to employees in some stockbroking companies. This could be related to the rise in investor complaints from 205 in 2007 to 499 in 2008 according to the CMA Annual Reports for 2007 and 2008 respectively. Out of the 451 investor complaints in the CMA Annual Report for 2009, 36 were for fraudulent activities. Thus stockbroking companies need to be more insistent on relaying sanctions and ensuring employees are aware.

4.5.2 Information on Codes

The 11 respondents gave a variety of answers regarding how they spread information on codes of ethics as illustrated by table 4.6. Most respondents preferred to use email alerts (55%) and meetings (45%) to convey code information though training manuals (36%) and ethics training (38%) were also important.

Table 4.8 Conveying of Code Information

Conveying of Code Information		n = 11	Frequency %
Ethics Training	Yes	3	38%
	No	8	72%
Total		11	100%
Training Manuals	Yes	4	36%
	No	7	64%
Total		11	100%
Meetings	Yes	5	45%
	No	6	55%
Total		11	100%
Email Alerts	Yes	6	55%
	No	5	45%
Total		11	100%

Of note was slightly more than half of respondents used a variety of methods in combination such as meetings and email alerts (2 respondents), ethics training and email alerts (1 respondent), ethics training and training manual (1 respondent), training manual and email alerts (1 respondent) and a combination of training manual, meetings and email alerts (1 respondent).

The Open Compliance and Ethics Group (OCEG) in its audit guide suggests that while emailing employees and meetings help to communicate the code of conduct, the values in the code should

be continuously communicated and active forms of communication like attaching compliance and ethics criteria in performance reviews and compensation structures, helps to send a clearer message (OCEG, *Internal Audit Guide*, May 2006)

4.5.3 Hotline

A feature of the compliance method of implementing codes of ethics is a hotline number that employees can use to report unethical behaviour. Table 4.9 shows that 27% of respondents had a hotline number while 73% had no hotline number.

Table 4.9 Presence of Hotline Number

Hotline	n = 11	Frequency %
Yes	3	27%
No	8	73%
Total	11	100%

This finding was the most surprising given that a hotline is a standard feature of all compliance regimes (Web & Mollo, 1993). The consequence of not having a hotline is that employees with crucial information on unethical behaviour maybe unwilling to step forward as they may fear losing their job or being harassed as was the case with Roger Boisjoly (Boisjoly, Curtis & Mellican, 1989) in the wake of the Challenger space shuttle disaster. Thus employees need to believe that they can deliver bad news without fear of repercussions from management for effective ethics and compliance management (Trevino, Weaver, Gibson & Toffler, 1999).

The CMA in its Conduct of Business Regulations for 2011 for stockbrokers deals mainly with client complaint procedures (article 16) and in article 27 orders stockbrokers to inform them of any event that may affect the authority's assessment of the stockbroker's fitness and propriety or that of its management and staff.

It is silent on hotlines for employees who wish to whistleblow on their employers and the CMA's Corporate Governance Regulations for 2011 is silent on this issue. Thus, a way needs to be found

for employees who may have critical information on unethical behaviour in their companies otherwise ethics and compliance efforts will be hampered in stockbrokers.

4.5.4 Employee Feedback

Table 4.10 shows that slightly more than half of respondents (55%) requested feedback from employees on code content while the remaining 45% did not request employee feedback on code content.

Table 4.10 Employee Feedback on Code Content

Employee Feedback	n = 11	Frequency %
Yes	6	55%
No	5	45%
Total	11	100%

The CMA Corporate Governance Regulations for 2011 is vague when it comes to employee involvement on code content. Article 28 (3) says that ‘employees shall be responsible for internal control as part of their accountability towards the achievement of the objectives of the market intermediary’. While internal control may suggest adherence to a code it does not define internal control leaving the question on employee involvement open.

While some studies have suggested that employees should be involved in terms of code content (Messmer, 2003; Sweeney & Siers, 1990), findings by Schwartz (2004) in his study on perceptions of code users suggest otherwise. A majority of respondents in Schwartz’s study felt their participation in code creation would not add to their support for the code but it would increase code relevance and make the code realistic. Thus while not crucial, employee feedback should be part of code creation to adapt codes to the Kenyan situation.

4.5.5 Employee Rewards

A majority of respondents rewarded employees for displaying ethical behaviour with 73% rewarding employees for ethical behaviour while 27% had no such rewards for employees as shown in table 4.11.

Table 4.11 Employee Rewards for Ethical Behaviour

Employee Rewards	n = 11	Frequency %
Yes	8	73%
No	3	27%
Total	11	100%

Since the CMA Corporate Governance Regulations for 2011 has no provisions for employees' rewards, the offer for rewards for employees for ethical behaviour is clearly an internal initiative by stockbrokers to reinforce ethical behaviour. This is in line with companies like Lockheed that offer ethics awards for ethical behaviour employees (Hartman & DesJardins, 2011).

However, tying rewards to ethical behaviour is not approved by all (Schwartz, 2004). In research on perception of code users, Schwartz (2004) found that most respondents believed that doing the right thing is part of your job so there was no need for a reward and that measuring compliance was a very difficult thing to do. Thus, the jury is open on whether stockbroking companies should reward employees or not and since this paper did not interview employees it is subject to confirmation.

4.6 Objective 3 : Role of the CMA in Enforcement of the Kasib Code of Ethics

To determine the CMA position on the Kasib code of ethics, an interview was conducted with market supervisory officials from the CMA, the regulatory body for stockbrokers and investment banks in Kenya. The interview questions focused on the CMA's view on codes of ethics among stockbrokers, the presence of ethics officers, hotlines and its view on stockbroker collapses. The interview was done after the questionnaire and the questions were framed in terms of issues that had come up through the questionnaire process.

4.6.1 Codes of Ethics among Stockbrokers

On codes of ethics, the CMA position was that while presence of the Kasib code of ethics was a positive thing for stockbrokers in terms of corporate governance, it was not mandatory. While

the CMA offers a corporate governance framework and prescribes a code (The Capital Markets Corporate Governance Regulations, (Market Intermediaries), 2011), codes of ethics are guidelines and as such are not enforceable.

However, the capital market regulations for market intermediaries in which stockbrokers are included are enforceable. These rules deal with client relations, conflict of interest, requirements for accounting records and notification to the authority on compliance and are contained in The Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011.

4.6.2 Presence of Ethics or Compliance Officers

The presence of a compliance officer is a must for all stockbrokers according to the CMA, and this is backed up by Section 30 of the Corporate Governance Regulations for Market Intermediaries 2011 that states a board must appoint a compliance officer whose main role is to monitor compliance with regulatory requirements. This officer then deals with the CMA on compliance issues.

An aspect that was clarified in the interview was that a compliance officer could be anybody in the stockbroking company so long as the employee was mandated by the company to deal with compliance issues. Thus a compliance officer could be anybody in the company and a specific department to deal with compliance issues was not necessary.

4.6.3 Hotlines for Reporting Unethical Behavior

The CMA does not have a hotline where concerned employees and clients working in the stockbroking industry can call and report unethical behavior. The CMA though states that it is compulsory for every stockbroker to maintain a complaints file that shows how complaints by clients were dealt with and inform the CMA within 24 hours of any unresolved complaint. This is explained in detail in Section 16 of The Capital Markets (Conduct of Business Regulations, 2011). However, the CMA is considering proposals for a hotline though such proposals are not in force.

4.6.4 Codes of Ethics, Regulations and Stockbroker Collapses

On stockbroker collapses the CMA was clear that most of these collapses were due to weak internal controls on the part of some stockbrokers. There was a lack of enforcement of the conduct of business regulations and as a result these stockbrokers went under. However, none of these collapses was generic and each company had a unique set of circumstances when it came to controls, employees and rules.

The CMA now has in place a relationship officer for each stockbroker whose role is to ensure that any problems the stockbroker has with CMA regulations are dealt with promptly. The CMA has also shifted from compliance to risk based supervision where a risk profile is created for each broker ranging from high risk, moderate risk to low risk. This ensures CMA resources are used depending on the risk profile of the stockbroker.

The CMA was neutral on the current Kasib Code of Ethics for stockbrokers while maintaining that codes of ethics are generally good for stockbrokers. However for the CMA, the primary concern is curbing of fraud so a code of ethics may not be necessary so long as a stockbroker can prove it is putting measures to curb fraud or is line with CMA regulations on the conduct of business.

4.7 Chapter Summary

The purpose of thesis was to determine the effectiveness of the Kasib code by looking at compliance to the code in the light of three aspects: leadership/mainstreaming, implementation and the role of the CMA. The response rate for the questionnaire was 65% which indicates at least two out of three stockbrokers who are Kasib members responded to the questionnaire.

The first objective was to determine whether Kasib members had in place a code of ethics (mainstreaming). When it came to mainstreaming: 82% of the respondents confirmed the presence of a code of ethics, 64 % of respondents had ethics officers, 64% offered ethics training and on sanctions respondents were split between warning before dismissal (45%) and warning

(55%). Therefore, most Kasib members had a code of ethics in place and the leadership was putting in place measures associated with mainstreaming.

The second objective was to determine the implementation of the Kasib code of ethics. On implementation of codes: 64% had codes that clearly outlined sanctions, used different means to communicate code information like emails and meetings, 27% of respondents had a hotline number, 55% reported employee feedback and 73% offered rewards for ethical behaviour by employees. Like mainstreaming, most Kasib members had implemented the code however in a crucial aspect of implementation like having a hotline, most stockbrokers lacked one.

The third objective had to do with the role of the CMA when it came to the Kasib code. On regulation, it was not necessary for brokers to have a code of ethics according to the CMA since they viewed them as guidelines. The Kasib code was therefore seen as a guideline. It is a must for stockbrokers to have an officer in charge of compliance who deals with the CMA and ensures the stockbroker adheres to CMA rules.

There is no CMA hotline through which employees of stockbroking companies can report unethical behaviour. Finally, according to the CMA stockbroker collapses were as a result of internal weaknesses unique to each stockbroker rather than a lack of enforcement of the code of ethics by the CMA. Therefore, while the CMA welcomes the Kasib code of ethics, it has no role in either monitoring it or enforcing it.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the discussion, conclusions obtained, recommendations, areas of further study and limitations of the study. The findings will be discussed to see how they compare with other studies, conclusions based on these comparisons and then recommendations. Additionally, sections on limitations and further areas of study will be included.

5.2 Discussion of Findings

An important feature of the findings is the adoption of codes of ethics and their implementation by Kenyan stockbrokers. This is in line with world trends where majority of companies worldwide use codes of ethics (Chonko, Wotruba & Loe, 2003; Sobczak, 2003; Rossouw, 2005). Most Kasib members used the compliance method of implementation where employees were employees are given rules and punished if they disobey with 64% of respondents having codes that clearly outlined sanctions for unethical behaviour.

However the implementation of the compliance method seems patchy since only 27% of stockbrokers had hotlines for reporting code violations. Having hotlines is crucial for the compliance method of implementing codes to work (Web & Mollo, 1993). The Federal Sentencing Guidelines of America which are the inspiration of most compliance regimes stress the importance of hotlines saying ‘...by having in place and publicizing a reporting system whereby employees and other agents could report criminal conduct by others within the organization without fear of retribution (Bureau of National Affairs, 1991). The implication is that employees witnessing ethical violations will not report them despite 64% of respondents having codes that clearly outline sanctions for unethical behaviour.

Of interest is the increase in the number of investor complaints as detailed in the CMA Annual Reports, from 205 in 2007 to 451 in 2009. Since the complaints section of these CMA reports have a place for complaints against listed companies, which are miniscule, the majority of

complaints in the report must therefore be placed on the door of stockbrokers. Does this indicate that stockbrokers are unlikely to comply with the factors that make for effectiveness in codes of ethics?

On the one hand it could be pointed out that since three stockbrokers have collapsed in that period (Gikunju, 2009), the complaints could be resulting from investors who had invested through those three particular brokers and do not reflect on the industry as a whole. On the other hand, Munuku (2009) noted the lack of punitive measures against any member of Kasib that broke the rules suggesting the code was unlikely to rein in disobedient members. So is legislation the way to go in enforcing codes of ethics?

As noted in the interview with CMA market supervisory officials, codes of ethics are not absolutely necessary among stockbrokers and thus not enforceable by law. Though the CMA considers having a code of ethics a positive thing, they are mainly seen as guidelines and ultimately unenforceable. More important to the CMA are measures to curb fraud which reduces the overall risk of the stockbroking business.

In contrast the SEC, the American stock market regulator, is mandated by the Sarbanes-Oxley Act legislation to ensure all companies trading have a code of ethics (Bloomenthal, 2002). However, despite the SEC implementing the Sarbanes Oxley legislation in 2002 corporate scandals like Refco(the largest futures brokerage firm then) have collapsed due to corruption and a lack of due diligence, corporate codes notwithstanding (Johnsson, 2005). Thus it is no surprise that a poll on investors in America found them skeptical on the success of the Sarbanes-Oxley legislation in regulating the stock market industry in America (Bright, 2005).

These examples point to the current debate on corporate governance in general and codes of conduct in particular, where self regulation or mandatory government regulations are seen as opposing options (Tarantino, 2006). A way out of this may be The Cadbury Report from Britain that came up with a ‘code of best practice’ that is widely successful and considered to have influenced the corporate governance movement worldwide (Aguilera & Cazurra, 2004).

While the Cadbury Report is not supported by government legislation, it is enforced by the London Stock Exchange which ensures that no member of the London Stock Exchange can operate without one (Boyd, 1996). Thus it offers a middle path by reducing the cost associated with mandatory implementation legislation as is the case with Sarbanes-Oxley (CPA Journal, 2005) and offers deterrence by enforcing the code vigorously (The Financial Aspects of Corporate Governance, 1992).

5.3 Conclusions

This thesis generally supports the view of some studies (Clark, 1998; Badaracco & Webb, 1995; Brief, Dukerich, Brown & Brett, 1996) that there is no connection between corporate codes of ethics and their effectiveness. However as Allen and Davis (1993) have pointed out, unless ethical codes and policies are reinforced consistently with significant reward and punishment structure and are integrated in the business culture, they are unlikely to work.

Codes therefore are mainly a function of leadership making it crucial for leaders to reinforce the ethical code by clearly showing what the right behaviour is (Adam & Moore, 2004). Thus the way forward in promoting an ethical workplace is the positive reinforcement for ethical behaviour of management and direct supervisors (Deloitte & Touche USA Workplace Survey, 2007) combined with sanctions (Laczniak and Inderrieden, 1987). It happened in Britain with the Cadbury Report where corporate governance improved (Aguilera & Cazorra, 2004) and the same can happen in Kenya

5.4 Recommendations

1. While a majority of Kenyan stockbrokers have a code of ethics there is no enforcement mechanism by Kasib leading to a piecemeal application of core code aspects; for instance only 27% of stockbrokers had hotlines for reporting code violations. Thus there is need for outside enforcement of this code as stockbrokers cannot police themselves. The CMA needs to come up with a code of ethics for all market players that is strictly enforced. This is the case in Britain where the London Stock Exchange ensures companies or market intermediaries trading in Britain must adopt a code of ethics. Making codes mandatory as was the case in America may take time and money and may lack the goodwill of market participants. Therefore the enforcement of this

code by the CMA needs to be done in step with stockbrokers to learn their concerns and get their input.

2. Awareness needs to be created about codes not just to stockbrokers but to investors and the public as a whole to make codes of ethics part of the business culture. The CMA needs to educate investors on why codes are important so that stockbrokers can be held up to a certain standard when investment choices are made. On the part of stockbrokers there is a lack of knowledge of codes of ethics with employees not aware of codes unless they are part of the compliance or ethics department in the company. Without an awareness of what is considered right or wrong in the industry, employees may unwittingly violate ethical initiatives like codes landing the company in trouble.

5.4 Limitations

The lack of response to interview requests meant the study lacked a chance to clarify questions from respondents and weakened the study since observing respondents in real time could have yielded observational and off the cuff information.

Some stockbrokers declined to respond as information on codes of ethics was classified as sensitive information while some stockbrokers had lengthy processes before questionnaires could be accepted. Thus the whole population did not take part which would have increased the validity of the study.

All the questionnaires were dropped at the respondent company's office and picked up after they were filled. In most cases it was not clear who answered the question and whether the personnel in charge of such matters such as compliance and ethics filled them.

5.5 Areas of Further Study

A study on the attitudes of Kenyan employees to codes of ethics is vital since they are in the frontline of implementing these codes, they have a clear understanding of what works and what does not. Consequently, there is need for further research to establish the effectiveness of codes

of ethics with use of direct observation of actual behaviors (Farell, Cobbin and Farell, 2002) being one way out of this problem.

Their views would be valuable and would give an idea of how a code should be implemented. Thus, future studies should be longitudinal rather than cross-sectional to generate more in depth information.

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Appendices

Appendix A

LIST OF MEMBER FIRMS OF THE KENYA ASSOCIATION OF STOCKBROKERS

Drummond Investment Bank Limited

Dyer & Blair Investment Bank Ltd

Suntra Investment Bank Ltd

Reliable Securities Ltd.

CFC Stanbic Financial Services

Kingdom Securities Ltd

Afrika Investment Bank Ltd

ABC Capital Ltd

Sterling Investment Bank Ltd

Apex Africa Capital Ltd

Faida Investment Bank Ltd.

NIC Securities Limited

Standard Investment Bank Ltd

Kestrel Capital (EA) Limited

Genghis Capital Ltd.

African Alliance (Kenya) Securities Ltd

Renaissance Capital (Kenya) Ltd

Appendix B

Sample Letter of Introduction

Dear Sir/Madam,

REF: RESEARCH ON CORPORATE CODES OF ETHICS AMONG STOCKBROKERS

I am a second year student in the Faculty of Commerce at Strathmore University pursuing a Masters in Commerce (International Business Management option).

The university requires graduate students to carry out a management research thesis for as part of the Masters of Commerce degree programme. I have selected your company as it is a member of the Nairobi Stock Exchange and the Kenya Association of Stockbrokers.

Any materials and information obtained during the survey will be kept in utmost confidence and will only be used for academic purposes. The results of the detailed survey will be in summary form and will not disclose any individual or company name or information in any way.

The questionnaire comprises of questions aimed at obtaining the views of stockbrokers on the subject of corporate codes of conduct and the current stockbroker code of ethics. It would be appreciated if the questionnaire is completed within the shortest possible time.

If after receiving this letter you have any questions about this study or would like additional information or clarification, please contact the researcher on 0725303309 or email address at amwose@yahoo.com. Thank you in advance for your co-operation.

Yours sincerely

Abraham Mwose

Appendix C

Stockbroker/Investment Bank Questionnaire

Section 1: General Information

This section is mainly for getting broad details on the companies taking the questionnaire.

1. Company Name: _____

2. Type of broker: [Investment bank or Stockbroker]

3. Position of respondent in the company _____

Section 2: Questions about Corporate Codes of Ethics

Please indicate your response to the following questions about corporate codes of ethics by ticking or placing a cross against the correct space.

1. Mainstreaming

Mainstreaming is creating an ethical climate in the workplace by creating the necessary support and providing resources.

a) Does your company have a code of ethics?

Yes.....

No.....

b) Does your company have an ethics officer or an officer in charge of creating awareness of the code of ethics?

Yes.....

No.....

c) Does your company provide training on ethics to employees?

Yes.....

No.....

d) What sanctions does the company provide when the code is violated?

Immediate Dismissal..... Temporary Suspension.....

Warning..... Warning before Dismissal.....

2. Implementation

Implementation is the method used to carry out the code. The compliance method (regulations oriented) is mainly used.

- a) Does the company's ethical code clearly outline the various sanctions if provisions are violated? Yes.....
No.....
- b) How does the company relay information on codes and sanctions?
Ethics Training..... Training Manual.....
Meetings..... Email Alerts.....
Other.....
- c) Does the organization have a hotline through which employees can report unethical behaviour? Yes..... No.....
- d) Does the company request feedback from employees on code content and whether they are comfortable with the provisions at regular intervals? Yes..... No.....
- e) Are there rewards for employees who display honesty, integrity and good character? Yes..... No.....

Appendix D

CMA Interview Questions

Interview Questions about Corporate Codes of Ethics

1. What is the CMA position on codes of ethics among stockbrokers?
.....
.....
2. Is it necessary for stockbrokers to have ethics officers or officers in charge of compliance?
.....
.....
3. Is there a CMA hotline for clients and employees to report unethical behavior by stockbrokers?
.....
.....
4. Is the collapse of stockbroking companies a sign that codes of ethics and regulation do not work?
.....
.....