2021

Corporate governance compliance and financial performance of listed companies in Kenya.

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CORPORATE GOVERNANCE COMPLIANCE AND FINANCIAL PERFORMANCE OF LISTED COMPANIES IN KENYA

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SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION AT STRATHMORE UNIVERSITY

STRATHMORE BUSINESS SCHOOL

STRATHMORE UNIVERSITY

NAIROBI, KENYA

OCTOBER, 2021

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis/dissertation itself.

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ABSTRACT

Corporate governance has been the subject of discussion globally in recent years. Various events arising from corporate fraud in the last ten years have resulted in the heightened interest in the subject. In Kenya, the corporate sector has also faced corporate governance challenges and investors have lost funds to the tune of more than Kshs. 200 Billion in relation to poor corporate governance. The Capital Markets Authority (CMA) therefore formulated a Code of Corporate Governance for Issuers of Public Securities, 2015 (the CMA Code) to promote and regulate governance structures and protection of investors. This study investigated the level of compliance of companies listed on the Nairobi Securities Exchange with the CMA Code. In addition, the study also investigated the effect of compliance on financial performance, which was measured through the Return on Equity ratio. The study used both primary and secondary data to investigate the research questions and the study drew conclusions from the two data sets independently. Primary data was collected using survey questionnaires issued to respondents at management level at the various companies. Secondary data was collected in relation to the level of compliance with the CMA Code and Return on Equity from the individual annual reports form the years 2017 to 2019. A single regression model was fitted to the data sets independently in order to test the effect of the independent variables on the dependent variable. The study found that there was a significant improvement in the implementation of the CMA Code from 54% in 2017 to 71% in 2019. Based on the results from the secondary data, the corporate governance metrics had no significant impact on financial performance while primary data showed that respondents were of the view that transparency and disclosure had a significant impact on financial performance.

Key words: Corporate Governance, CMA Code, Return of Equity

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LIST OF ABBREVIATIONS

CMA	Capital Markets Authority
CMA Code	Code of Corporate Governance for Issuers of Public Securities, 2015
NSE	Nairobi Securities Exchange
OECD	Organization for Economic Co-operation and Development
ROA	Return on Assets
ROE	Return on Equity

DEFINITION OF TERMS

Corporate Governance: It involves ensuring adequate board composition and roles, shareholder accountability, separation of powers between the chief executive officer and the chairperson of the board, forming relevant board committees and overall transparency to all relevant stakeholders.

Return on Equity: This financial ratio measures the rate of return on the owner's equity employed in the company as against the profitability of the company. It is calculated by dividing net income of the company by its total equity.

Return on Assets: This financial ratio measures how the assets of a company are utilized to generate profit. It is calculated by dividing net income of the company by its total assets.

ACKNOWLEDGEMENTS

Foremost, I would like to thank the Lord God Almighty for the opportunity to study my Master's Degree to completion. It has been equally challenging and rewarding and I am so grateful for the academic journey.

I would also like to express my sincere gratitude to my supervisor, Dr. Mumbi Maria Wachira, for her patience and guidance as I developed the ideas around this thesis. I benefited greatly from her wealth of knowledge and meticulous leadership throughout the process.

Most importantly, I am eternally grateful to my best friend and husband, Stanza Rao. Without his unrelenting support and continuous encouragement, this thesis would not have been possible. Last, but not least, my warm and heartfelt thanks go to my son Leo Rao and my entire family for their love and support.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Corporate governance has been the subject of discussion all around the world in recent years. Various global events arising from corporate fraud in the last decade have resulted in the heightened interest in corporate governance compliance (Tamer, 2015). The topic gained pre-eminence in the early 2000's following the well documented failures of huge corporations such as Enron, Goldman Sachs and Lehman Brothers (Sarpong-Danquah, et al., 2018). However, despite countries incorporating new codes of governance and regulations, corporate governance remains a key topic of discussion especially when companies continue to fail as a result of non-compliance such as the recent corporate scandal engulfing the Nissan Motor Corporation in 2019 and Wirecard AG in 2020 (Zet, 2019); (Hoje Jo, 2021).

Corporate governance refers to the processes and structures that are put in place to control the affairs of a corporate business entity (Adrian Cadbury, 1992). Corporate governance can also be defined as the relationship between the board of directors, managers of the company and the external stakeholders (Asogwa, et al., 2019). For the purpose of this study, the following broader definition of corporate governance will apply: that corporate governance involves ensuring adequate board composition and roles, shareholder accountability, separation of powers between the chief executive officer and the chairman of the board, forming relevant board committees and overall transparency to all relevant stakeholders (Manini & Abdillahi, 2015).

Corporate governance practices are instrumental in creating an environment of market confidence as well as corporate integrity that ultimately supports the development of any given company and increases its access to capital both for short term and for long-term investments (Organisation for Economic Co-operation and Development, 2015). Implementing practices with regard to corporate governance are believed to improve shareholder confidence since it encourages transparency and has an overall positive effect on financial performance (Harris, 2012).

Globally, various financial scandals have taken place in the corporate space that have brought the issue of governance to the forefront. During the financial crisis of the late 1990s in Asia, Brazil and Russia; poor corporate governance resulted in failures of entire economies and consequently had a negative impact on the global economy (Claessens & Yurtoglu, 2013). Other scandals affecting the financial sector in the United States also resulted in insolvencies of several major companies such as Enron, where billions of shareholder value was lost (Simpson, 2016) .The Sarbanes-Oxley Act (2002) was implemented as a direct result of the governance failures in the United States for companies listed in the stock exchange. The financial crisis in 2008 resulted in enormous costs to the economies of many countries and resulted in the loss of fortunes of many families across the globe due to corporate governance failures in the banking industry (Conyon, et al., 2011).

Studies indicate that compliance with corporate governance regulations improve the sustainability and performance of companies (Gupta & Sharma, 2012). This has increased the interest by regulators to introduce corporate governance codes and practices in order to improve the financial performance of companies. Other studies have found that the deterioration in financial performance in companies worldwide can be partially attributed to poor corporate governance practices (Ademola, et al., 2016). It is therefore important for companies to comply with governance practices in order to improve financial performance.

1.1.1 Corporate Governance and Shareholder Returns

There are various reasons why companies comply with corporate governance practices such as the necessity for accountability, risk management, and compulsory regulatory guidelines. One core reason however is its potential link to improved financial outcomes over time. The assumption is that the more compliant a company is in terms of governance practices, the better the financial bottom line due to better oversight over the board and management and less financial risks taken that would undermine the company (Sarkar, et al., 2012). Companies that have a formal system that regularly reviews decisions by directors of the board tend to have better economic outcomes (Sylvie Berthelot, 2010).

Various studies have found that companies that have implemented corporate governance guidelines tend to be more profitable, competitive and pay more dividends to shareholders (Cuñat, et al., 2012) and certain aspects such as ownership structure and the degree of board independence have a positive impact on financial performance (Shan, 2011). The most recent studies also support the idea that corporate governance is crucial to a company's overall financial success (Achim, et al., 2016) ; (Abed & Ahmad, 2017); (Okoye, et al., 2020).

On the other hand, other studies have found an insignificant relationship between financial performance and corporate governance (Shahwan, 2015). Similar studies have also concluded that the linkage between corporate governance and financial performance is not clear-cut in emerging and developing countries (Erik & Thadden, 1999). Karima (2016) found that there was no relationship between a firm's performance and its corporate governance practices in Indonesia. In Kenya, studies have found a significant positive effect on firm value of commercial banks (Ochego, et al., 2019). However, another studies found that specific aspects of corporate governance such as board gender and board composition have no effect on financial performance (Wachudi E. & Mboya, 2013).

It is important to note that though the relationship between corporate governance compliance and financial performance has remained very topical, the studies have yielded conflicting and inconclusive findings. Some studies have found a positive effect on financial performance and others have found either negative or no relationship at all (Manyaga, et al., 2020). Therefore, this study re-examines whether corporate governance compliance can positively enhance the financial performance of listed Kenyan companies.

Investors and potential shareholders evaluate financial performance of a company before investing in its equity. The financial performance of the company is measured through an examination of the revenues and expenses of the company in relation to the level of profits and the size of investment in the company (Crane, 2016). A study in South Africa found that the idea of responsible investing is premised on the fact that various risks such as corporate governance risks have an effect on financial performance and therefore such risks should be managed by the board to safeguard investors' returns (Johnson, 2020). Similarly, another South African study found that profitability is a key issue of interest for shareholders and investors in listed companies (Johnson, et al., 2019).

There are various ways in which investors measure profitability; the rate of return on assets (ROA) and the rate of return on equity (ROE). ROA measures the return to all assets of the company while the ROE measures the rate of return on the owner's equity employed in the company. The most important criterion in assessing corporate performance using economic criteria, is the economic value added (Rostamia, et al., 2015). From the various studies conducted with regard to corporate governance and financial performance, researchers have used various criteria such as Tobin's Q, ROA and ROE to investigate the relationship.

In as much as most studies have used ROA and Tobins Q as the measure of financial performance, this research focused on the creation of value for investors/shareholders by using the ROE ratio for the following reasons:

a) Tobin’s Q is often used to study the relationship between corporate governance and firm performance (Tobin & Brainard, 1968). However, various studies demonstrate that Tobin’s Q does not accurately reflect firm performance since underinvestment by the company leads to an artificially higher Tobin's Q (Bartlett & Partnoy, 2018); (Ishaq, et al., 2021)
b) Investors mostly refer to the ROE ratio when evaluating equities for investment since it is an indicator of how the firm has used investor funds during the financial year. The ROE therefore reflects the extent to which the objective of wealth maximization of shareholders has been achieved (Kori, et al., 2020). ROE is preferred over ROA since ROE is a measure of the value a company creates for their shareholders’ investment, rather than value created from its assets, which could be largely funded by debt.

Various studies have been conducted on the subject of corporate governance and financial performance, and as indicated above, there is still an unclear relationship between the two especially in the Kenyan context. The current study therefore extends the existing literature by examining the Kenyan jurisdiction and the corporate governance framework. Of note is the fact that a new regulation dubbed the Code of Corporate Governance for Issuers of Public Securities, 2015, (the CMA Code) was implemented by the Capital Markets Authority (CMA) to promote and regulate governance structures in a bid to protect investors in Kenya.

Therefore, the current study was highly motivated to re-examine whether compliance with the corporate governance guidelines in the CMA Code positively enhanced the financial performance of Kenyan companies. The purpose of this study was therefore to investigate the extent to which listed companies on the Nairobi Securities Exchange (NSE) have complied with the CMA Code and whether that compliance has had an effect on shareholder returns as measured by ROE.

1.1.2 The Corporate Governance Framework in Kenya

In Kenya, the corporate sector has also faced corporate governance challenges leading to public failures of companies as evidenced by the Chase Bank, Imperial Bank and National Bank scandals. Investors have lost funds to the tune of more than Kshs. 200 Billion in relation to poor corporate governance (Cytonn Investments Management Plc, 2018). The Capital Markets Authority (CMA) therefore formulated the CMA Code to promote and regulate governance structures and protection of investors.

The CMA Code came into operation on 4th March 2017 and was established by the regulator to foster a better governance culture for all players including issuers, investors, regulators and other stakeholders (Capital Markets Authority, 2018). Previously all listed companies were guided by the Guidelines on Corporate Governance for Listed Companies issued in 2002. The 2002 Guidelines were inadequate as they only provided that listed entities comply or explain why they were non-compliant. Listed entities therefore could not go beyond the scope of the regulations, which essentially curtails the growing dynamics of corporate governance. (Capital Markets Authority, 2018).

The CMA Code is currently principle-based rather than rule-based. This means that the provisions allow a great deal of flexibility including demonstrating the application of the spirit of the code. There is a mix of mandatory and voluntary provisions and incentives to issuers to fully apply the code. This has shifted from the previous 'comply or explain' principle and now focuses on 'apply and explain' principle. Apply and explain requires the issuer to apply all the provisions of the CMA Code and explain any non-application providing satisfactory reasons for such non-application as well as timelines to the full application of the code (Capital Markets Authority, 2018).

In addition, the 2002 Guidelines were only limited to listed companies due to the dominance of equities instruments in the market at the time. The new CMA Code expanded the scope to all issuers of securities to the public. The CMA Code indicates seven metrics which shall be the indicators of compliance in this study; (i) Board operations and control, (ii) Shareholder rights, (iii) Stakeholder relations, (iv) Ethics and Social responsibility, (v)Accountability, Risk Management and Internal Control and (vi) Transparency and Disclosure.

Various studies have been conducted to investigate the relationship between different aspects of corporate governance to financial performance such as: board diversity, the existence of an audit committee and number of board members (Abdelkareem & Abusharbeh, 2016, Sarpong, Gyimah, Afriyie & Asiamah, 2018). However, few studies have been conducted with a holistic consideration of the entirety of a particular code of governance (Ontita & Kinyua, 2020, Kobuthi et al., 2018). This study therefore focused on the level of compliance with the CMA Code in relation to listed companies and examined whether there was a relationship between compliance and the financial performance of the companies in terms of ROE.

1.2 Problem Statement

With the implementation of the CMA Code, regulators are keen on ensuring that governance procedures are compiled with to regain investor confidence in the Nairobi Securities Exchange (Capital Markets Authority, 2016). Few studies have been conducted to establish whether the CMA Code has been complied with. One of the questions that this study seeks to answer is the role of corporate governance, through the implementation of the CMA Code, to shareholder returns.

Studies have indicated a positive relationship between proper corporate governance practices and return on stocks for listed entities in the Nairobi Securities Exchange (Capital Markets Authority, 2018). In the report done by the CMA (2018) on listed companies, the companies that ranked in the top 25 were able to issue 37.8% returns per annum in the last five years. As such, the companies ranked at the bottom of the index issued lower returns. This is echoed in similar studies on the effect of codes in various markets.

In trying to improve corporate governance practices, countries such as the UK, US and South Africa have implemented new regulations. Studies have shown that in developed countries compliance with the corporate governance codes increases financial performance (Igor G., 2006). It is however important to note that some studies have found that the development of corporate governance codes is not the right starting point in changing governance attitudes especially in the developing world due to weak legal systems and corruption (Wanyama, et al., 2009).

Countries require changes in a wide-range of contextual factors, such as cultural and political factors to provide an environment whereby improvements in corporate governance practice happen. The study argues that mere compliance of a code does not guarantee good returns to shareholders and that compliance should be voluntary for companies based on their unique industry and internal affairs. However, studies on developed nations show that there is a high degree of compliance and a corresponding positive effect on firm performance generally (Abdelkareem & Abusharbeh, 2016) and (Wanyama, et al., 2009). This study was therefore unique since it investigated whether compliance with the CMA Code has moved the needle for shareholder returns in the country.

It is worth noting that corporate governance is a well-researched area because many countries have adopted corporate governance codes aimed at arresting regulatory lapses. However, the existing empirical findings and conclusions as to whether compliance with corporate governance guidelines, through either codes or regulations, have achieved the objective of improving financial performance are mixed and inconsistent.

In addition to the above, the majority of corporate governance studies have used secondary data in the form of financial information derived from annual reports. This indicated a research gap with regard to feedback from the management of the company who actually implement the corporate governance codes. This study aims to incorporate both secondary and primary data in order to bridge the gap. This study therefore examined the level of compliance with the CMA Code by companies listed in the NSE, its effect on financial performance of the companies based on both secondary data derived from annual reports and primary data derived from survey questionnaires issued to management of those companies.

1.3 Research Objectives

1.3.2 General objective

The research was aimed at determining the effect of compliance with the CMA Code on companies listed in the NSE on financial performance.

1.3.3 Specific objectives

The study objectives:

i. To establish the level of compliance with the CMA Code by companies listed on the NSE.
ii. To establish the relationship between compliance with the CMA Code and the ROE based on the annual reports from the year 2017 to 2019.
iii. To establish the relationship between compliance with the CMA Code and financial performance based on management responses.

1.4 Research Questions

The research sought to answer the following research questions:

i. To what extent are listed companies in Kenya complying with the CMA Code?
ii. What impact does compliance with the CMA Code have on the ROE based on the annual reports from the year 2017 to 2019?
iii. What impact does compliance with the CMA Code have on the financial performance based on management responses?

1.5 Scope of the Study

The study was premised on the relationship between compliance with the CMA Code and financial performance, measured through ROE, of companies listed in the Nairobi securities Exchange as at 2019. The year 2020 was excluded in the study since during the time of data collection, majority of the companies had not released their financial statements. The research also focused on the companies listed in the Nairobi Securities Exchange.

1.6 Significance of the Study

1.6.2 Policymakers

The study will be of value to show whether the new regulatory framework has made any impact on shareholder returns. The research will in addition, provide relevant information to the regulator on the level of compliance with the CMA Code by listed companies.

1.6.3 Researchers

The study will contribute to the current literature on corporate governance in Kenya and provide researchers with relevant information on the status of corporate governance. Of note is that fact that there is minimal discussion and studies on the impact of the CMA Code, which has now been in operation for three years. The study would therefore make a significant contribution to empirical studies on the relationship between corporate governance codes and the financial performance of companies.

1.6.4 Practitioners

The study could provide relevant guidance to listed companies on the necessity of compliance with the CMA Code in order to maximize shareholder returns. The study will provide relevant data to listed companies on the extent of compliance in the market and the corresponding positive effect if any on the company generally.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter aims to discuss the theoretical and empirical review associated with the relationship between compliance with the CMA Code and shareholder returns in listed companies in Kenya. Section 2.2 discusses the theoretical approaches, mainly the agency theory and stakeholder theory which have significant influence over the interpretation of research findings. Section 2.3 provides the synopsis of studies that have been conducted in the recent past. Section 2.4 outlines the research gap that this study sought to explore. Section 2.5 provides the conceptual framework within which this study was premised.

2.2 Theoretical Review

The research was based on the following theories; Agency theory and Stakeholder Theory. The Agency Theory discusses the relationship between the managers of a company and the board of directors as the agents of shareholders (who act as the principal) and their primary mandate to always act in the best interest of shareholders. The Stakeholder theory discusses how the activities of company affect the key stakeholders of that company. The theories are discussed in detail below.

2.2.1 Agency Theory

Agency theory is the most dominant theory of corporate governance. It propounds that within a company, the role of the shareholders as owners of the company is separate from the role of the management who are mandated to run the company and these two functions may cause conflict. The agency theory argues that corporate executives who act as the management of the company have a duty to act in the best interests of the shareholders (Mallin, 2010). The agency theory is the leading theory in corporate governance research and it argues that in a company which is incorporated by shares, the shareholders functions and completely separate from the shareholder roles and therefore managers may depart from the obligation to maximize shareholder returns (Ermongkonchai, 2010).

This outlook of viewing the company in terms of the principal and agent provides that in the context of a corporation, the shareholders, who are the principal, delegate functions to the board of directors who are appointed to act in the best interests of the shareholders (Jensen. & Meckling, 1976). This creates the principal-agency relationship. This creates the agency relationship, which establishes legal obligations between the shareholders and managers of the company (Shankman, 1999). However, the two sides naturally have different priorities; the principal's goal would be to maximize returns while the agents are likely to misuse their positions for personal gain therefore increasing agency costs in monitoring them by providing checks and balances (Jensen & Meckling, 1976).

The agency theory is crucial to corporate governance since it provides the general model of any corporate entity. For a company that adheres to the principles of corporate governance, the agency relationship would be reflected through various relationships across the structure of the entity for instance between shareholders and boards of directors (Shankman, 1999). The agency theory therefore propounds that the managers of a company should be monitored and governance structures must be put in place in order to provide the required checks and balances that will ensure that there is no abuse of power in the day-to-day operations of the company (Shleifer & Vishny, 1997).

Over the last few years, there has been an outcry for stricter governance codes and enforcement of corporate ethics to protect investors in all sectors of the economy. The agency theory provides that board members and managers are actually agents of the shareholders when carrying out the day-to-day operational activities and they are therefore to act in the shareholder's best interest as the principal (Okeahalam & Akinboade, 2003).

The agency theory takes the shareholder perspective and argues that the primary responsibility of the company is to maximize shareholder returns. It therefore lays the foundation for corporate governance practices adopted by companies, since the governance system is part of its operational structure that aligns to maximize shareholder value (Allegrini & Greco, 2013). Corporate governance practices such as appointing a diverse board, transparency in financial disclosures and compliance with corporate governance guidelines reduce the managers' exploitation of the company's resources and ultimately improve shareholder value (Bebchuk & Weisbach, 2012).

The agency theory, therefore, remained a dominant factor in this study to investigate the extent to which compliance with corporate governance guidelines relates to shareholder returns. The lack of technical knowledge among investors of the securities market in Kenya calls for the stringent monitoring of corporate governance practices in the listed companies to prevent loss of shareholder funds through excesses of management. The agency theory holds that there is need to set up guidelines to align the interests of managers to the interests of shareholders (Bebchuk & Weisbach, 2012) through the implementation of codes of corporate governance such as the CMA Code in order to reduce or obliterate the agency problem.

2.2.2 Stakeholder Theory

The stakeholder theory discusses the effects of the activities of a corporation on the overall stakeholders of that company. The term "stakeholder" is meant to challenge the agency theory's notion that management is primarily responsible to shareholders (Freeman, 1984). The theory propounds that board members and managers should incorporate the interest of stakeholders as well in its governance structure and processes. The stakeholders include its clients, creditors, the public at large and even regulators of the industry in which the company operates.

In a way, this theory challenges the agency theory view that the primary stakeholder in any entity are the shareholders only. The stakeholder theory takes a more holistic view and recognizes the other players who have an interest in the company (Orts, 1992). This theory argues that management should not only exercise managerial discipline but should include corporate accountability to a broader range of stakeholders other than just the shareholder of the company (Abdullah & Valentine, 2010). The theory propounds that the managers of the company are primarily responsible for ensuring the best interests of the stakeholders are met. These stakeholders include the employees of the company, business associates, suppliers, and the community within which it operates. All in all, the basic premise for the stakeholder theory is that the company's impact on the community within which it operates is so massive, that it should be accountable a broader spectrum of stakeholders and not just the primary shareholders of the company (Hill & Jones, 1992).

The need for transparency and accountability should therefore be echoed in the corporate governance structures that the company adopts. The main objective of the company is therefore to ensure that it not only serves the community but also ensures that it co-ordinates with the interests of its relevant stakeholders which include creditors, government, employees and the community (Manini & Abdillahi, 2015).

Since the stakeholder theory argues that companies are required to extend their fiduciary duty and social responsibility to the environment in which they operate, it provides a link between organizational strategy and corporate governance (Agili, et al., 2020). Therefore, by continuously thriving to serve a wider demographic of stakeholder other than just solely focusing on the shareholders, a company is able to improve its performance. As such, corporations that conscientiously strive to serve the interests of a broad group of stakeholders build more value overtime translating to high performance (Freeman, 1984; Harrison & Wicks, 2013).

The stakeholder theory was therefore useful in the study for promoting an understanding of the relationship between stakeholder interest and the overall financial performance. It's on this logic that the CMA Code included the stakeholder relations metric as part of its compliance guidelines and this study aimed to investigate the extent to which compliance with the metrics provided in the Code contributed to overall company performance.

The agency and stakeholder theories were adopted in this study in order to fully conceptualize the relationship between compliance with corporate governance practices and a listed company's financial performance. The agency theory was found appropriate for this study since it propounds a separation of ownership and control between shareholders and managers, which reduces agency costs resulting in improved financial performance. The stakeholder theory on the other hand acknowledges that companies do not merely exist to maximize shareholder returns, but have a wider responsibility to community at large, which results in improved financial performance.

2.3 Empirical Review

This study examined the relationship between compliance with corporate governance practices by focusing on compliance with the CMA Code and the relationship with the financial performance of listed companies in Kenya. The Code was implemented so as to provide a framework for the standards of corporate governance required by firms that issue securities to the public, such the companies listed on the NSE (Capital Markets Authority, 2018). As such, it is crucial to scrutinize the level of compliance with the CMA Code and the effect this compliance has had on the investor/shareholder returns in listed companies.

2.3.1 The Role of Corporate Governance Codes

Corporate governance codes are used to facilitate uniformity and compliance across countries or in this case, regulated entities such as listed companies (Emeagwali, 2017). Generally, codes of best practice are created to fill the lacunas in a legal system by establishing "clear-cut information requirements and recommend the adoption of organizational structures that are more transparent" (Alves & Mendes, 2004). Codes of corporate governance implemented with the intention to improve or investor confidence and boost financial performance (Werder et al., 2005, Akkermans et al., 2007; Chizema, 2008).

Scholars such as Aguilera and Cuervo-Cazurra (2009), Judge (2012) and Mallin, (2010) have argued that codes of corporate governance should set the best practice guidelines but they should also be developed in a manner that takes into account a specific country's unique features since one code cannot fit all jurisdictions. According to the Mckinsey Report (2002), 80% of the surveyed institutional investors confirmed that they would be willing to pay a premium for a company that was governed using best corporate governance practices. Since then, over the last three decades, a lot of research has been done on the development of codes and firm compliance. However, research on the level of compliance with the CMA Code in Kenya is limited.

Countries have therefore developed regulation to provide best practice guidelines either through hard regulation or soft regulation. An example of hard regulation is the Sarbanes Oxley Act of 2002 that was passed in the United States after the financial crisis while soft regulation are codes of governance that provide guidelines (Haxhi and Aguilera, 2014). Soft regulation provides an easier mechanism for compliance with corporate governance guidelines by providing codes based on a specific model such as "comply or explain" or "freedom with accountability" to enable companies to comply based on their own structure and innovation (Aguilera and Cuervo-Cazurra, 2004 and 2009). This therefore gives companies the option of complying with all the provisions of a code or complying with some and explaining why other recommendations were not followed. The rationale behind these principles is to allow firms some flexibility. The CMA Code was developed on the same premise.

2.3.2 Corporate Governance and Financial Performance

Studies that have been conducted on this area of research have shown that the findings on the relationship between corporate governance and a company's financial performance lack consensus thus making it difficult to form a conclusive opinion as to whether there truly exists a reliable linear connection between the two variables (Agili et al., 2020). Evidence in the empirical literature is therefore contradictory and debatable.

According to research conducted by Goyal R. (2019), an important aspect of corporate governance was the diversity of the board of directors. According to the study, board operations in a balanced and diverse board resulted efficient discussions that contributed to better financial performance. However, this study only focused on a sample of 42 board members from the top FTSE companies in the United Kingdom and the data analysis technique used was qualitative in nature, based on interviews on functional experience rather than the broader dimensions of diversity such as gender, age and ethnicity. Hong Vu & Nguyen (2017) on the other hand focused their research on independence of the board and CEO duality when examining the link between corporate governance and financial performance in Singapore. His study found that there was no significant relationship between the variables. This was because the Singapore corporate governance regulations already required high levels of transparency, independence and an effective monitoring system such that factors such as CEO duality and board independence had a less profound impact on financial performance.

According to Cuñat, Gine, & Guadalupe (2012), improvements made in the internal corporate governance structures of a company lead to creation of value for shareholders and in addition, the study found that enhancements made towards improving the corporate governance mechanisms had a positive relationship with financial performance. Similarly, research conducted by Cytonn (2018) found that compliance with corporate governance guidelines positively impacted listed stocks in Kenya and further that companies that were compliant increased shareholder value through good returns.

Wanyama & Olweny (2013) focused on the insurance sector, and found that the financial performance of the firms indicated that there was a strong correlation between implementation of corporate governance practices and the financial performance of the companies. The study concluded that board composition had a positive relationship whereas board size did not have a significant effect on financial performance. This was because a larger board was found to be less efficient than a small board since large boards tend to have increased agency problems such as tag along board members and freeloaders. The research also concluded that the role of Chairman and that of the Chief Executive Officer should be held by separate people and their roles clearly defined to optimize the performance of the company.

In Nigeria, Udeh, Abiahu & Tambou (2017) examined the impact of board composition of listed Nigerian banks on financial performance and found that board composition as a component of corporate governance had an insignificant impact on financial performance as measured by return on capital employed (ROCE). This was because of the introduction of IFRS in Nigeria which had improved the board composition of banks and therefore it had no effect since all 7 banks that were subject to the study were already compliant with the IFRS requirements.

On the other hand, Sarpong, Gyimah, Afriyie & Asiamah, A. (2018) investigated three variables: board gender diversity, board independence and board size on performance of listed manufacturing firms in Ghana. They similarly found that board gender diversity and independence had a significant positive effect on the firms' return on asset (ROA) and return on equity (ROE). Board size as a variable on its own was however found to have no significant relationship with firm performance. The study found that in a s much as the size of the board did not matter, the characteristics individual directors could impact financial performance. However, this study was only focused on the 11 listed manufacturing firma and as such the results ought not to be generalized to all listed firms.

Mang'unyi (2011) conducted research with a view of gauging the relationship between the ownership structure of banks in Kenya and financial performance. The research concluded that in as much as foreign-owned banks performed better than banks that were owned domestically, there was no relationship between the type of ownership and the practices that were used to implement corporate governance. This was attributed to the fact that banks were generally compliant with the regulatory guidelines provided by the Central bank of Kenya and as such, the ownership structure had an insignificant effect of financial performance.

According to research conducted by Outa & Waweru (2016), compliance with corporate governance codes and guidelines actually had a positive co-relation with the overall firm value as well as the company's financial performance. The study found that greater compliance with corporate governance regulations increased market liquidity in the NSE which in turn increased foreign investment in the stock. Another study conducted by Ongore & K'Obonyo (2011) examined the characteristics of board members and senior management in relation to the performance of listed companies in Kenya across all sectors. The findings indicated that the higher the level of government ownership impacted negatively on performance. The study emphasized the need for diverse ownership structures that include a mix of sophisticated investors, foreign investors, domestic investors and minimal government shareholding.

Hove-Sibanda et al., (2017) examined firm competitiveness and performance among SMEs in South Africa, and found that implementation of corporate governance positively and significantly affected their performance. The study noted that for small businesses, corporate governance tends to be placed in the back-burner due to the cost implications however once the firm implemented corporate governance practices, empirical evidence showed that there was a significate positive effect on the company's competitive edge and overall financial performance. Mashonganyika (2015) investigated the impact of corporate governance on performance of publicly listed firms on the Johannesburg Stock Exchange. Using return on asset (ROA), return on equity (ROE) and Tobin's Q as proxies for firm performance, the study found that board size as an aspect of corporate governance did not have any impact on firm performance. Frequency of board meetings, board gender and age diversity, board independence and CEO non duality were however found to have significant effect on performance of publicly listed firms on the Johannesburg Stoke Exchange.

According to Nyamongo & Temesgen (2013), there is enhanced performance for companies that have independent directors in the board. This was important especially in order to ensure that resolutions and strategies are objective. The study however did not find an impact on the separation of roles of the board chairperson and that of the CEO and therefore emphasized that commercial banks should focus on the size of the board and include more independent directors in the board for optimal performance.

According to Manini & Abdillahi (2015) the role of corporate governance is key especially due to the various global scandals and consequent investor losses. The study examined the various tools such as the membership of the audit committee, diversity of board members and the board size in relation to bank performance. The study concluded that in as much as not all metrics play a major role in impacting the overall financial performance, banks should focus on ensuring that the guidelines provided for corporate governance compliance are implemented in order to boost investor confidence and profitability. Similarly, Bathula (2008) analyzed the relation between performance of a company and characteristics of the board. Some of the characteristics that were studied were, gender diversity, board size, ownership of the company by directors, board meeting attendance and the level of education of the directors. The study concluded that the significant factors that actually influenced performance were the level of gender diversity, board size and the role of the CEO. Factors such as regular attendance of meetings and the level of education at postgraduate level were found to be negatively related.

The study conducted by Lawal (2012) revealed that the board size ultimately affected the quality of discussions during board meetings and the board's ability to arrive at optimal decisions for the company hence affecting financial performance. Kiel and Nicholson (2003) also propounded that the board size is crucial to achieving efficiency and better overall financial performance. The research found that the larger Australian companies tend to have larger boards and in addition, the market rewarded larger boards. Finally, the study found that boards with a relatively lower proportion of outside directors, after allowing for the effects of company size, performed better.

In a study conducted by Kamau et al.,(2018) examined 162 companies in Kenya to determine the relationship between corporate governance and financial performance and concluded that individual components of corporate governance had mixed results regarding their influence on financial performance. For instance, board skills and committees were found to have significant and positive relationship with performance of the financial institutions. However, board independence, board size, board diversity and codes of corporate governance (accountability, transparency, ethics, and fairness) were found to have no significant influence on firm performance among the financial institutions, thus demonstrating inconsistencies and similarities with other studies in equal measure.

Similarly, a recent study conducted by Chaudhary and Gakhar (2018) investigated how corporate governance contributes to firm's financial performance in India. The research focused on board size and the frequency of attendance of boards meetings as the key corporate governance metrics. The financial performance was measured through earnings per share, ROE and ROA. The study found that neither board size nor frequency of attendance of board meetings had a significant impact on financial performance. This study however only looked into 5 automobile companies in India and as such the results cannot be generalized.

The above studies examined the relationship between corporate governance practices and financial performance and they have resulted in mixed findings (Fakoya & Bamidele, 2017). The inconsistencies can be explained through the differences in the metrics applied. The studies that looked at individual aspects of corporate governance vis a vis a holistic implementation of corporate governance practices resulted in different results. The differing findings can also be explained by the different regulatory and organizational contexts in different countries from one period to another.

In considering the mixed results and inconsistencies concerning research on the link between corporate governance and financial performance from previous studies, this study tests the effect of corporate governance on financial performance particularly using the return on equity on listed companies (ROE) as a dependent variable.

2.4 Research Gap

From the above literature review, various studies have been conducted trying to identify the key corporate governance metrics that have an impact on the financial performance of companies. A synopsis of these prior studies suggests that the debate on the relationship between corporate governance compliance and financial performance remains inconclusive. General consensus is yet to be reached as to the influence of corporate governance on financial performance, pointing to the need to carry out further research on the relationship between the two variables.

This study on the other hand specifically seeks to analyse shareholder returns and thereafter broadly discuss the shareholder returns in the listed sector in relation to compliance with the CMA

Code. Shareholder returns will be evaluated using the Return on equity (ROE) ratio which guides investors on how a company is utilizing the funds that the shareholders have invested into it.

From the above analysis of available research on the metrics that have been used to measure corporate governance compliance, include board diversity, board size, board composition, the presence and composition of the audit committee and CEO separation of roles from the board chair. In as much as those aspects are crucial in not only steering a company ahead but maintaining profitability, they are not the only metrics for corporate governance compliance.

First, this study will therefore use the above mentioned governance metrics unlike previous studies that focus on specific aspects of corporate governance in isolation, for instance, shareholder rights (Gompers et al., 2003; Cremers and Nair, 2005) and board size (Yermack, 1996; Guest, 2009). This allows for the existence of potential interdependences among alternative corporate governance metrics. Secondly, the majority of corporate governance studies have used secondary data in the form of financial information derived from annual reports. This study incorporates both secondary and primary data in order to bridge the gap.

Table 2.1: Summary of Literature and Research Gaps

Author	Findings	Research Gaps	How the Study Addressed the Gap
Outa & Waweru (2016)	Compliance with corporate governance codes had a positive co-relation with the overall firm value.	The study was premised the 2002 Corporate Governance guidelines.	The study focused on the CMA Code 2017.
Chaudhary & Gakhar (2018)	Neither board size nor frequency of attendance of board meetings had a significant impact on financial performance.	The study only focused on board operations.	The study focused on the six metrics as outlined in the CMA Code.
Kamau et al.,(2018)	Individual components of corporate governance had mixed results regarding their influence on financial performance.	The study was only focused on board independence, board size, board diversity,	The study focused on the six metrics as outlined in the CMA Code.

		educational background and technical expertise of board members.	
Mashonganyika (2015)	Board size did not have any impact on firm performance. Frequency of board meetings, board gender and age diversity, board independence and CEO non-duality were however had significant effect on performance of companies listed on the Johannesburg Stoke Exchange.	The study was premised on board operations, specifically board gender and age diversity, board independence and CEO non-duality	The study focused on the six metrics as outlined in the CMA Code.
Manini & Abdillahi (2015)	The study concluded that in as much as not all metrics play a major role in impacting the overall financial performance	The study examined membership of the audit committee, diversity of board members and the board size in relation to bank performance.	The study focused on the six metrics as outlined in the CMA Code.
Lawal (2012)	Board size ultimately affected the quality of discussions during board meetings and the board's ability to arrive at optimal decisions for the company hence affecting financial performance	The study narrowly focused on board dynamics and CEO duality as aspects of corporate governance	The study investigated other aspects of corporate governance such as transparency and disclosure
Bathula (2008)	The study concluded that the significant factors that actually influenced performance were the level of gender diversity, board size while regular attendance of meetings	The study focused on board dynamics such as gender diversity, board size, board meeting attendance and the level of	The study focused on the six metrics as outlined in the CMA Code.

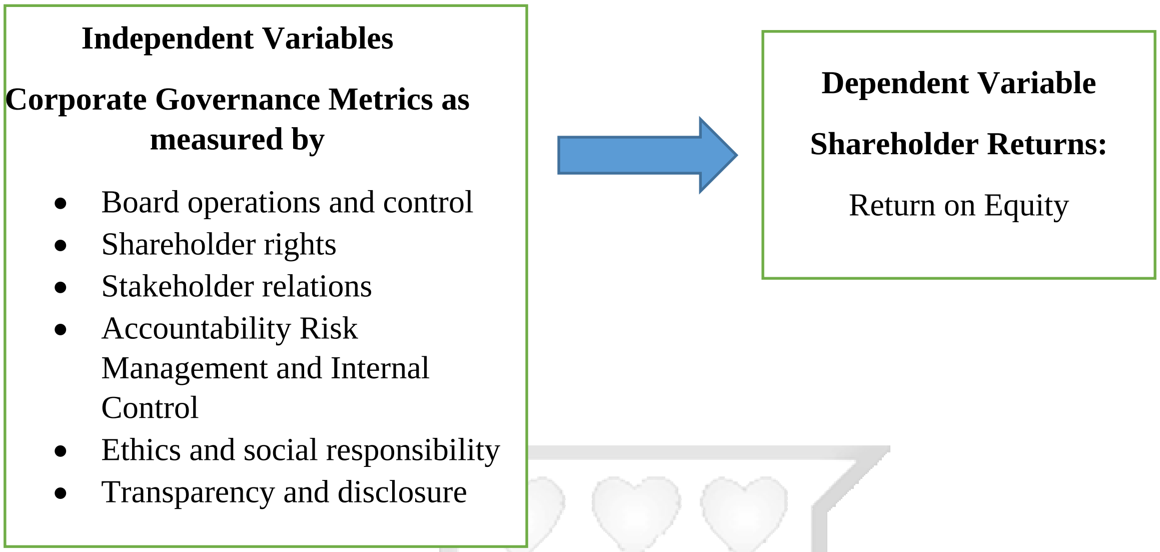
	and the level of education were negatively related.	education of the directors.	
Kiel and Nicholson (2003	The study found that boards with a relatively lower proportion of outside directors, after allowing for the effects of company size, performed better	The study focused on board dynamics and operations.	The study focused on the six metrics as outlined in the CMA Code.
Nyamongo & Temesgen (2013)	The study found that commercial banks should focus on the size of the board and include more independent directors.	The study focused on commercial banks.	The study focused on the entire listed universe of the NSE
Udeh, Abiahu & Tambou (2017)	The study found that board composition as a component of corporate governance had an insignificant impact on financial performance.	The study was limited to listed Nigerian banks	The study focused on Kenyan listed companies.

2.5 Conceptual Framework

The conceptual framework presents the relationship between the independent variables and dependent variables. This study was premised on the relationship between corporate governance compliance and therefore the independent variables are: i) Board operations and control, (ii) Shareholder rights, (iii) Stakeholder relations, (iv) Ethics and Social responsibility, (v) Accountability, Risk Management and Internal Control and (vi) Transparency and Disclosure.

The independent variable is the financial performance of the companies, which in this study was measured through ROE. The conceptual framework explaining the relationship is depicted in Figure 2.1 below:

Figure 2.1: Conceptual Framework



2.6 Operationalization of Variables

The independent variables are: i) Board operations and control, (ii) Shareholder rights, (iii) Stakeholder relations, (iv) Ethics and Social responsibility, (v)Accountability, Risk Management and Internal Control and (vi) Transparency and Disclosure while the dependent variable was shareholder returns.

2.6.1 Dependent Variable

The dependent variable of the study is shareholder returns which is measured by using the return on equity ratio.

2.6.2 Independent Variables

Table 2.2: The independent variables

Variable	Operational Indicator	Measure	Source
Board Operations and Control	▪ Nomination Committee ▪ Board Size ▪ Adoption of diversity policies ▪ Independent directors ▪ Audit Committee	5-point Likert Scale	(OECD, 2015) (CMA, 2015)

	▪ Conflict of interest policy ▪ Annual legal compliance audit ▪ Annual governance audit		
Shareholder Rights	▪ Annual general meetings ▪ Providing information to shareholders on corporate affairs and governance	5-point Likert Scale	(CMA, 2015)
Stakeholder Relations	▪ Policies to manage relations stakeholders ▪ Communication with stakeholders ▪ stakeholder dispute resolution process	5-point Likert Scale	(CMA, 2015)
Ethics and Social Responsibility	▪ Code of Ethics and Conduct ▪ whistle blowing policy ▪ Policies on corporate citizenship and sustainability	5-point Likert Scale	(CMA, 2015)
Accountability Risk Management and Internal Control	▪ Establishment of Audit Committee ▪ Annual appointment of the external auditor ▪ Risk management framework	5-point Likert Scale	(CMA, 2015)
Transparency and Disclosure	▪ Annual Report disclosures ▪ Board Charter, Whistleblowing Policy, Code of Ethics ▪ Provision of statement of policy on good governance and the status of the application of the CMA Code in the Annual Report	5-point Likert Scale	(CMA, 2015)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This Chapter provides insight on the methodology that was used to conduct research in this study and the research design. Section 3.2 discusses the research philosophy while Section 3.3 discusses the adopted research design. Section 3.3 discusses the target population that was used to conduct the study. Section 3.4 outlines the data collection methods, section 3.5 provides that data analysis and Section 3.6 discusses the validity as well as reliability of the research.

3.2 Research Philosophy

The study adopted the positivism research philosophy. The philosophy assumes that reality is external, objective, simple and positive. The philosophy describes measurable properties that are independent of the observer. According to the positivists, the truth and reality in nature is that the behaviour of human beings is determined by their social world and are subject to patterns that are empirically observable (Easter by-Smith, 1991). Positivist studies focus on facts and generally test theories in an attempt to understanding a phenomenon. Positivism searches for casual explanation and fundamental laws and generally reduces the whole to its simplest possible elements to facilitate analysis. It uses quantitative and experimental methods to test hypothetical-deductive generalizations (Myers, 1997; Remenyi; 1998 Mwanje, 2001; Amaratunga et al., 2002).

3.3 Research Design

The study adopted a quantitative and descriptive research design in the investigation of the research objectives discussed at chapter one. Rajasekar et al. (2013) describe research methodology as "…the procedures by which researchers go about their work of describing, explaining and predicting phenomena". Korrapati (2016) defined research designs as a "blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings". Research designs describe processes that will be undertaken by the researcher in collecting the data, analysing and interpreting the data (Almalki, 2016).

Quantitative research involves using statistical and mathematical methods to collect and analyse data while descriptive research refers to studies that are focused on answering questions relating to “what”, “where”, and “how” aspects (Creswell & Creswell, 2017). This study focused on the relationship between compliance with the CMA Code and shareholder returns in the listed segment of the market which was be measured by their respective ROE.

A descriptive design was also employed in order to explain what was happening to a particular variable (Creswell & Creswell, 2017). It was considered to be best suited for this research since it allowed the researcher to collect both primary and secondary data to establish the effect of corporate governance on the financial performance of the listed NSE firms.

3.4 Population

Target population is defined as a complete set of individuals, cases or object with some common observable characteristics of a particular nature distinct from other population. The definition ensures that the population of interest is homogeneous. According to Mugenda & Mugenda (2003), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated.

This study focused on the relationship between compliance with the CMA Code and shareholder returns of companies listed in the Nairobi Securities Exchange. The target population for this study was therefore all the sixty-three (63) listed companies which are classified into eleven (11) sectors in total. The primary data was collected through a questionnaire and administered to one respondents in each company. The respondents were senior managers, compliance officers, company secretaries or directors due to their in depth knowledge of the operations of the respective company with respect to the application of the CMA Code.

The period between 2017 and 2019 was considered a suitable period, in which companies who had adopted the practices could have been expected to show some change in adoption of the practices and if there was an impact on company performance.

3.5 Data Collection Methods

The study utilized both primary and secondary data and the data sets were analysed independently. The level of compliance with the CMA Code and ROE was readily available from the respective annual reports from the year 2017 to the year 2019 together with the CMA annual reports.

This study also utilized survey questionnaires to collect primary data on whether compliance with the CMA Code had an effect on financial performance from the perspective of company management. Creswell and Creswell (2017) defined questionnaires as a set of questions collecting biographical information and assessing the opinions and beliefs of respondents. The decision to choose one the questionnaire method was informed by the characteristics of the target population, variables under study, desired response rate, and financial and time constraints.

The questionnaire was split into two sections. Section A provided general details of the respondents such as the company name, gender and employment position. Section B provided details on whether from the respondent's view, compliance with the CMA Code had had an effect on financial performance of the company. The responses were provided on a five-point Likert scale to determine the level of compliance with each of the metrics being; (i) Board operations and control, (ii) Shareholder Rights, (iii) Stakeholder Relations, (iv) Ethics and Social Responsibility, (v)Accountability, Risk Management and Internal Control and (vi) Transparency and Disclosure.

3.6 Data Analysis

The analysis conducted in this study provided answers to the research questions enumerated in Chapter One. The study provided an analysis on the level of compliance with the CMA Code on listed companies in Kenya. The study had two sets for data collected from primary and secondary sources. The first set was the primary data received from company management on whether compliance with the CMA Code had an effect on financial performance. The completed questionnaires were compiled and entered into a Microsoft Excel spreadsheet. The editing process ensured that the data was relevant and that no errors were present.

The secondary data being (i) the level of compliance with the CMA Code and (ii) the Return on Equity (ROE), was extracted from the annual reports of listed companies from 2017 to 2019. The data was also compiled and entered into a Microsoft Excel Spreadsheet.

Once the data was compiled, it through a pre-diagnostic test to determine whether the data was robust enough to be used in a linear regression. The Cronbach's Alpha Test and the Variance Inflation factor test were conducted to determine whether the data was excellent in terms of internal consistency, and whether the variables had any significant multicollinearity, respectively.

A linear regression model was conducted, as was the objective of the study, to determine the level of significance of each metric on the financial performance of the companies. The Return on Equity (ROE), being the dependent variable, was extracted from the annual reports of listed companies from 2017 to 2019. The linear regression test was done separately for the primary and secondary data sets.

3.6.1 Regression model

The regression model conducted in the study took the following form:

$y = \alpha + \beta 1X1 + \mathcal{E}$

Where y intercept is the endogenous variable (dependent variable)

α denotes the y intercept where x is zero

$\beta 1$is the regression weight attached to the exogenous variable (independent variable): X1.

$\mathcal{E}$ is the error term.

Replacing for the variables:

$ROE = \alpha + \beta 1BOC + \beta 2SR + \beta 3SRS + \beta 4ESR + \beta 5ARI + \beta 6TD + \mathcal{E}$

Where ROE is Return on Equity

α denotes the y intercept where x is zero

Where BOC is Board operations and control,

SR is Shareholder Rights,

SRS is Stakeholder relations

ESR is Ethics and Social Responsibility

ARI is Accountability, Risk Management and Internal Control

TD is Transparency and Disclosure.

Ɛ is the error term.

3.7 Research Quality

3.7.1 Validity of the Study

To ensure validity of the research, the secondary data was sourced from financial reports of the respective company, which are available on their website. The primary data was collected through questionnaires. The validity of the data collection instrument is the degree to which it measures what it purports to measure (Creswell & Creswell, 2017). The validity of the study was determined by first by subjecting the questionnaire to academic supervisors and second, through conducting a pilot test.

The pilot test was conducted by sharing the questionnaire with a group of five experts (two academicians and three practitioners) to assess the relevancy of the questions. The practitioners included one company secretary, a compliance officer and a director of a listed company. Their contribution was taken into consideration in designing the final questionnaire that was used for data collection.

3.7.2 Reliability of the Study

To ensure the reliability of the study's findings, the same data collection instrument was used across all respondents (Mugenda & Mugenda, 2003). In addition, the primary data was collected from respondents with superior knowledge of the compliance status of the respective company. Another method that was used to test reliability was the Cronbach's alpha reliability test. It measured the internal consistency of how closely the set of items were correlated. This was done through SPSS software.

According to Nunnally (1978), a Cronbach's alpha score of 0.7 and above is considered sufficient to show that the data is reliable. The data from the questionnaires recorded a value of 0.85 while data from the annual reports recorded a value of 0.97, representing good and excellent internal consistency, respectively.

Figure 3.1: Cronbach's Alpha Reliability Test

Questionnaire Data

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Rows	254.731	27	9.43446	6.6673	6.4E-22	1.49866
Columns	307.288	32	9.60275	6.78622	1.2E-25	1.45708
Error	1222.59	864	1.41504			
Total	1784.61	923				

Cronbach's Alpha	**0.85**

Annual Report Data

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Questions	58.24	20	2.91	31.21	0.00	1.58
Respondent	17.97	49	0.37	3.93	0.00	1.37
Error	91.45	980	0.09			
Total	167.66	1049				

Cronbach's Alpha	***0.97***

Cronbach's Alpha	**Internal consistency**
$0.9 \le \alpha$	Excellent
$0.8 \le \alpha < 0.9$	Good
$0.7 \le \alpha < 0.8$	Acceptable
$0.6 \le \alpha < 0.7$	Questionable
$0.5 \le \alpha < 0.6$	Poor
$\alpha < 0.5$	Unacceptable

3.7.3 Ethical considerations

Ethical considerations were adhered to strictly as provided by the Strathmore University rules and regulations. The researcher applied for and received ethical approval from the Ethics Review Committee of Strathmore University and further obtained a Research Permit from the National Commission for Science, Technology and Innovation (NACOSTI).

In addition to the above, participation in the study was voluntary. No respondent was forced, coerced or tricked to participate in the study. All respondents were issued with a comprehensive briefing on the objectives of the study to ensure that they made an informed decision on participation. In addition, the researcher ensured that the information collected was treated as confidential and privacy was strictly upheld.

The data collection tool used in this study was a questionnaire and it did not collect personally identifiable information about the respondents. All the questionnaires were stored in safe storage, under lock and key. After data entry, the data was kept in hard disks with password encryption so that no unauthorized person had access to the research data.

Once the study was completed, the thesis was submitted to the Strathmore University Library Services. The thesis was disseminated to the relevant stakeholders and public at large through the Strathmore University Library Services online repository available on https://www.library.strathmore.edu.

CHAPTER FOUR: PRESENTATION AND ANALYSIS OF RESEARCH FINDINGS

4.1 Introduction

This chapter analyses the data collected and presents the research findings. Section 4.2 presents the response rate and descriptive statistics for the demographic profiles of the respondents. Section 4.3 presents data on the descriptive findings for each variable under the study, presented in terms of means and standard deviation. Section 4.4 discusses the pre-analysis diagnostic tests. Section 4.5 discusses the regression model based on data derived from the questionnaires. Section 4.6 presents data on the level of compliance with the CMA Code. Lastly, Section 4.7 discusses the regression model based on data derived from the annual reports.

4.2 General Information

This section presents the findings on the overall response rate and descriptive statistics for the demographic profiles of the respondents.

4.2.1 Response Rate

This study was an analysis of the entire listed universe in the Nairobi Securities Exchange. However, only 50 companies had complete data from 2017 to 2019. The reason for omitting year 2020 in the analysis was due to a significant sample not having released 2020 annual reports, crucial in validating the data contained in the questionnaires. Additionally, 2020 being plagued by the COVID-19 pandemic, financial performance was dismal hence would interfere with the analysis.

The Criteria used in selecting the 50 companies was as follows;

a) Must have been listed between 2017 and 2019
b) Must have been trading between 2017 and 2019 (Not suspended from trading); and
c) Must have been in active operations between 2017 and 2019

Data collection in the 50 companies was collected through questionnaires and validated via released annual reports that were accessed from their respective websites. The 50 companies represent 77% of the total listed universe and 96% of the NSE market capitalization.

Table 4.1: Overall Response Rate

Response	Frequency	Percentage
Response Rate	33	66%
Non-Response Rate	17	34%
Total	**50**	**100%**

(Primary Data (2021)

The 33 Companies that responded to the questionnaire represent 66% of the total listed universe. The response rate for this study can be therefore said to be good. This is in accordance to the ranking response rate; 50% adequate, 60% good and above 70 % is rated very good (Mugenda & Mugenda, 2003). Fincham (2008) noted that response rates approximating 60% or higher should be the goal of researchers and the expectation of journal editors.

Table 4.2: Response Rate Per Company

Company	Target Population	Response	Response Rate
BAT	1	1	100%
BAMBURI	1	1	100%
BARCLAYS	1	1	100%
BRITAM	1	1	100%
CENTUM	1	1	100%
CIC	1	1	100%
CO-OP	1	1	100%
CROWN PAINTS	1	1	100%
DTB	1	1	100%
EABL	1	1	100%
EQUITY	1	1	100%
HF GROUP	1	1	100%
I&M	1	1	100%
JUBILEE	1	1	100%
KCB	1	1	100%
KENGEN	1	1	100%

KENYA POWER	1	1	100%
KENYA-RE	1	1	100%
LIBERTY	1	1	100%
NMG	1	1	100%
NIC	1	1	100%
NSE	1	1	100%
SAFARICOM	1	1	100%
SANLAM	1	1	100%
STANCHART	1	1	100%
STANBIC	1	1	100%
STANDARD	1	1	100%
TPS EA	1	1	100%
TOTAL KENYA	1	1	100%
TRANSCENTURY	1	1	100%
UNGA	1	1	100%
WPP SCANGROUP	1	1	100%
LONGHORN	1	1	100%
Total	**33**	**33**	**100%**

Primary Data (2021)

One respondent was deemed sufficient in this data set since the secondary data compiled data which was vetted by the regulators CMA and NSE and the company which includes management and the board.

4.2.2 Gender Distribution

The results reported in Table 4.3 below showed that a majority of the surveyed respondents were male, constituting 57.57% while females constituted 42.43%. In as much as the majority of the respondents were male, the gender distribution was close to 1.1 therefore no gender was disproportionately represented in the study.

Table 4.3: Gender Distribution

Gender	Frequency	Percentage
Male	19	57.57%
Female	14	42.43%
Total	**33**	**100%**

Primary Data (2021)

4.2.3 Position in the Company

The subjects who answered the questionnaires included 2 directors, 3 company secretaries, 20 senior managers, and 8 compliance officers as shown in Table 4.4 below:

The findings show that 61% of the respondents were in senior management while 24% were compliance officers. This shows that the results of the questionnaires are reliable since the data was collected from respondents who have a deep understanding of the respective company and in line with the target respondents of the study.

Table 4.4: Job Positions of the Respondents

Job Positions of the Respondents	Frequency	Percentage
Directors	2	6%
Company Secretaries	3	9%
Senior Managers	20	61%
Compliance Officers	8	24%
Total	**33**	**100%**

Primary Data (2021)

4.3 Descriptive Statistics

This section presents the descriptive findings for each variable under the study, presented in terms of means and standard deviation.

The study investigated the relationship between financial performance and the six metrics of corporate governance as per the CMA Code using a questionnaire. The responses were rated using the Likert scale 1-5 with five (5) implying that the respondents strongly agreed with a statement and one (1) implying that the respondent strongly disagreed with a statement.

4.3.1 Board Operations and Controls

Board operations and control is a central metric of corporate governance under the CMA Code. The study sought to establish the relationship between board operations and control on the financial performance of listed companies. The findings show a mean score of 3.4 and a standard deviation of 0.6. This indicates that majority of the respondents are in agreement with the view that board operations and control is a key component of corporate governance of most companies in Nairobi.

The findings indicate that The adoption of a conflict of interest policy (M=3.8, SD=0.9), conducting an annual legal compliance audit (M=3.8, SD=0.9), and conducting an annual governance audit has affected financial performance (M=3.8, SD=0.9), were crucial in financial performance.

Table 4.5: Board Operations and Controls

Element	Question Statement	Mean	Standard Deviation
Board Operations and Control	The establishment of a Nomination Committee as per the CMA Code has affected financial performance	1.909	1.083
	The Board size has affected financial performance	3.242	1.457
	The adoption of diversity policies as per the CMA Code has affected financial performance	3.121	1.513
	The inclusion of independent directors has affected financial performance	3.121	1.451
	The establishment of an Audit Committee has affected financial performance	3.818	0.968
	The adoption of a conflict of interest policy has affected financial performance	3.848	0.892
	The annual legal compliance audit has affected financial performance	3.818	0.869
	The annual governance audit has affected financial performance	3.848	0.857
	Compliance with the CMA Code on Board operations has made a positive impact on financial performance	3.424	1.326

Primary Data (2021)

4.3.2 Shareholder Rights

The rights of shareholders is a key component of the CMA Code. However, the findings show that the majority of the respondents disagree with the view that compliance with shareholder rights improves financial performance of companies (M=2.4, SD=0.8).

Table 4.6: Shareholder Rights

Element	Question	Mean	Standard Deviation
Rights of Shareholders	Holding annual general meetings has improved financial performance	2.364	1.123
	Providing information to shareholders on corporate affairs and corporate governance has improved financial performance	2.364	0.979
	Compliance with the CMA Code on shareholder rights has improved financial performance	2.091	1.026

Primary Data (2021)

4.3.3 Stakeholder Relations

The stakeholder relations is a key component of the CMA Code. The findings show that the respondents disagreed with the view that stakeholder relations is a key component of corporate governance in relation to financial performance (M=2.7, SD=0.9). Respondents however agreed that having a stakeholder dispute resolution process in place has improved financial performance (M=3.3, SD=1.4).

Table 4.7: Stakeholder relations

Element	Question	Mean	Standard Deviation
Stakeholder Relations	Having policies to manage relations stakeholders has improved financial performance	2.303	1.000
	Communication with stakeholders has improved financial performance	2.152	1.131
	The stakeholder dispute resolution process has improved financial performance	3.333	1.449
	Compliance with the CMA Code on stakeholder relations has improved financial performance	3.121	1.451

Primary Data (2021)

4.3.4 Ethics and Social Responsibility

The ethics and social responsibility is a key component of the CMA Code. The findings show that the respondents agreed with the view that ethics and social responsibility is a key component of corporate governance in relation to financial performance (M=3.1, SD=0.9). Specifically, respondents agreed that having a whistle blowing policy in place has improved financial performance (M=3.2, SD=1.4) and implementing policies on corporate citizenship and sustainability in place improved financial performance (M=3.1, SD=1.4)

Table 4.8: Ethics and Social Responsibility

Element	Question	Mean	Standard Deviation
Ethics and Social Responsibility	Having a Code of Ethics and Conduct in place has improved financial performance	3.030	1.527
	Having a whistle blowing policy in place has improved financial performance	3.242	1.371
	Having policies on corporate citizenship and sustainability in place has improved financial performance	3.212	1.249
	Compliance with the CMA Code on ethics and social responsibility has improved financial performance	3.091	1.357

Primary Data (2021)

4.3.5 Accountability, Risk Management and Internal Control

The accountability, risk management and internal control metric is a key component of the CMA Code. Findings show that majority of the respondents do agree with the view that accountability, risk management and internal control has improved financial performance (M=3.2, SD=0.8).

There was a comparatively higher level of agreement that establishing and audit committee improved financial performance (M=3.3, SD=1.4) and having a risk management framework improved financial performance (M=3.5, SD=1.5).

Table 4.9: Accountability, Risk Management and Internal Control

Element	Question	Mean	Standard Deviation

Accountability, Risk Management and Internal Control	Establishing the Audit Committee has improved financial performance	3.303	1.446
	The annual appointment of the external auditor at the AGM has improved financial performance	2.970	1.403
	Having a risk management framework in place has improved financial performance	3.515	1.258
	Compliance with the CMA Code on accountability, risk management and control has improved financial performance	3.000	1.518

Primary Data (2021)

4.3.6 Transparency and Disclosure

The transparency and disclosure metric is a key component of the CMA Code. Findings show that majority of the respondents were neutral on whether transparency and disclosure improved financial performance (M=3.0, SD=0.9).

Table 4.10: Control Transparency and Disclosure

Element	**Question**	**Mean**	**Standard Deviation**
Transparency and Disclosure	Providing all required disclosures in the Annual Report has improved financial performance	2.788	1.472
	Having the Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors are on the company website has improved financial performance	3.091	1.401
	Having a statement of policy on good governance and the status of the application of the Code in the annual report has improved financial performance	3.242	1.558
	Compliance with the CMA Code on Transparency and Disclosure has improved financial performance	3.061	1.347

Primary data (2021)

Overall, the study showed that the majority of the respondents were neutral on whether compliance with the above metrics had an impact on financial performance on the company. With the average mean score of 3.0 across the board, this indicates that the respondents were unsure whether compliance has any effects on financial performance. Given that the standard deviations were all below 1.0 and the average at 0.81, it indicated that the respondents were generally in agreement.

Table 4.11: Overall Means and Standard Deviations for the Governance Metrics

Variable	Mean	Standard Deviation
Board Operations and Control	3.4	0.55
Rights of Shareholders	2.3	0.83
Stakeholder Relations	2.7	0.91
Ethics and Social Responsibility	3.1	0.89
Accountability, Risk Management and Internal Control	3.2	0.82
Transparency and Disclosure	3.0	0.87

4.4 Diagnostic tests

In order to determine the validity of the data to be included in the regression analysis, a multicollinearity test was undertaken to determine whether the independent variables carry the same information, to avoid having a double counting situation in the analysis. To achieve this, the Variance Inflation Factor Test was employed to determine the level of interdependence of the independent variables. The multicollinearity test was conducted as presented in the sections below.

4.4.1 Multicollinearity Test

The data on the six metrics of corporate governance were tested for significant multicollinearity. This was done through the Variance inflation factors (VIFs). Figure 4.1 provides the VIFs test results.

Figure 4.1: Variance Inflation Factors

Variance Inflation Factor (Questionnaire Data)	*Board Operations and Control*	*Rights of Shareholders*	*Stakeholder Relations*	*Ethics and Social Responsibility*	*Accountability, Risk Management and Internal Control*	*Transparency and Disclosure*
Board Operations and Control	1.81	0.12	-0.59	-0.53	-0.28	-0.25
Rights of Shareholders	0.12	1.49	-0.55	-0.38	-0.29	0.08
Stakeholder Relations	-0.59	-0.55	1.89	-0.31	0.15	-0.41
Ethics and Social Responsibility	-0.53	-0.38	-0.31	1.71	-0.18	-0.06
Accountability, Risk Management and Internal Control	-0.28	-0.29	0.15	-0.18	1.48	-0.51
Transparency and Disclosure	-0.25	0.08	-0.41	-0.06	-0.51	1.54

Sapsford (2007) discussed the multicollinearity test and noted that the characteristic cannot be fully eliminated in data. However, were VIF values are above 10.0, there is significant multicollinearity between pairs of variables (Cooper and Schindler, 2006). The data in Figure 4.1 indicated lack of collinearity hence all variables hold different information on corporate governance.

4.5 Regression Analysis

In the regression model, the independent variables were Board Operations and Control, Shareholder Rights, Stakeholder Relations, Ethics and Social Responsibility, Accountability and Risk Management, and Transparency and Disclosure. The study results indicated that the model was statistically significant. The multiple R was 47.1% indicating that the model explained 47.1% of the changes in Return on Equity within the 33 respondents.

The multiple R was low, but justifiable as there are many more factors that influence the ROE of listed companies such as prevailing market conditions, legislations, management and employee efficiency and so much more. The R-Square was at 22.2%. The R-squared is how well the regression model fits the observed data values. A low value of R- Square does not necessarily indicate that the impact is small and negligible (Glenn & Shelton, 1983). The R Square in this study merely indicates that the dependent variable is affected by a host of other factors in addition to the ones considered in the analysis.

Figure 4.2: Linear Regression Analysis

Regression Statistics	
Multiple R	0.47
R Square	0.22
Adjusted R Square	0.04
Standard Error	0.20
Observations	33

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	6	0.29	0.05	1.24	0.32
Residual	26	1.02	0.04		
Total	32	1.31			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.11	0.12	0.86	0.40	-0.15	0.36	-0.15	0.36
Board Operations and Control	-0.46	0.31	-1.49	0.15	-1.10	0.17	-1.10	0.17
Rights of Shareholders	0.16	0.18	0.90	0.38	-0.21	0.53	-0.21	0.53
Stakeholder Relations	-0.20	0.22	-0.94	0.36	-0.65	0.24	-0.65	0.24
Ethics and Social Responsibility	0.06	0.19	0.34	0.74	-0.32	0.45	-0.32	0.45
Accountability, Risk Management and Internal Control	0.00	0.21	-0.01	0.99	-0.43	0.42	-0.43	0.42
Transparency and Disclosure	0.38	0.18	2.10	0.05	0.01	0.76	0.01	0.76

4.5.1 Test Objectives

The test objective was to determine the level of significance of each metric on the financial performance of the companies. Figure 4.3 shows the criteria of determining significance. A p-value above 0.05 indicates little significance of the independent variable in predicting the dependent variable

Figure 4.3: Criteria of Determining Level of significance of Variables

P ≥ 0.1	Absence of evidence against the null hypothesis: data consistent with the null hypothesis
0.05 ≤ P < 0.1	Low evidence against the null hypothesis in favour of the alternative
0.01 ≤ P < 0.05	Moderate evidence against the null hypothesis in favour of the alternative
0.001 ≤ P < 0.01	Strong evidence against the null hypothesis in favour of the alternative
P < 0.001	Very strong evidence against the null hypothesis in favour of the alternative

The main objective of the study was to investigate the relationship between corporate governance metrics as provided in the CMA Code. The discussion of results is below.

The first metric was to establish the effect of Board Operations and Control on financial performance of Listed Companies in Kenya. The results indicate that Board Operations and Control ($\beta = 0.46$; $p = 0.15$) has an insignificant effect on ROE of listed companies. This means that the composition of the board does not affect the financial performance of a firm. A diversified board, and one that lacks any form of diversity have the same effect on the financial performance of firms. Having an audit committee also does not guarantee better financial performance.

The second metric was to establish the effect of Shareholder Rights on financial performance of Listed Companies in Kenya. The results indicate that Shareholder Rights ($\beta = 0.16$; $p = 0.38$) has an insignificant effect on ROE of listed companies. Taking into consideration the rights and views of your shareholders, does not directly impact financial performance. Organising AGMs to brief shareholders and creating a platform for shareholders to give opinions on the company's dealings, provides no evidence of improving financial performance.

The third metric was to establish the effect of Stakeholder Relations on financial performance of Listed Companies in Kenya. The results indicate that Stakeholder Relations ($\beta = -0.20$; $p = 0.36$) has an insignificant effect on ROE of listed companies. Having a proper framework to engage and communicate with your stakeholders, is insignificant with regards to supporting financial performance. From the data collected there is no evidence that proper stakeholder management is directly correlated to a firm's financial performance.

The fourth metric was to establish the effect of Ethics and Social Responsibility on financial performance of Listed Companies in Kenya. The results indicate that Ethics and Social Responsibility ($\beta = 0.06$; $p = 0.74$) has an insignificant effect on ROE of listed companies. Despite Ethics and Social Responsibility, having led to the downfall of some large companies such as Enron and Theranos, and here locally, Uchumi and Mumias, the data did not point to a significant direct relationship between financial performance and upholding of Ethics and Social Responsibility

The fifth metric was to establish the effect of Accountability and Risk Management on financial performance of Listed Companies in Kenya. The results indicate that Accountability and Risk

Management (β = 0.00; p = 0.99) has an insignificant effect on ROE of listed companies. Being accountable for every action and taking measures to curb internal and external risk, has not provided evidence to support its correlation to a firm's financial performance. Having an audit function does not correlate with positive financial performance. It however, protects the company from a downside risk.

The sixth metric was to establish the effect of Transparency and Disclosure on financial performance of Listed Companies in Kenya. The results indicate that indicate that Transparency and Disclosure (β = 0.38; p = 0.05) has a significant effect on ROE of listed companies. Proper, timely and full disclosure of information has shown evidence of a significant direct correlation to financial performance. This metric can however be viewed in two ways (i) either that companies that have performed well tend to release information on time and disclose fully, or (ii) the pressure to comply with the disclosure guidelines by CMA has put pressure on companies to have a good bill of health before disclosing any information, which in turn has a positive effect on the performance.

4.6 The Level of Compliance with the CMA Code

The first objective of the study was to analyse the level of compliance with the CMA Code. The level of compliance with the CMA Code was derived from secondary data derived from the following sources:

a) The respective company annual reports for the years 2017 – 2019
b) The CMA Reports on the State of Corporate Governance of Issues of Securities to the Public

Below is a breakdown of the assessed companies and their respective segments in the listed market.

Table 4.12 Breakdown of the 50 assessed listed companies

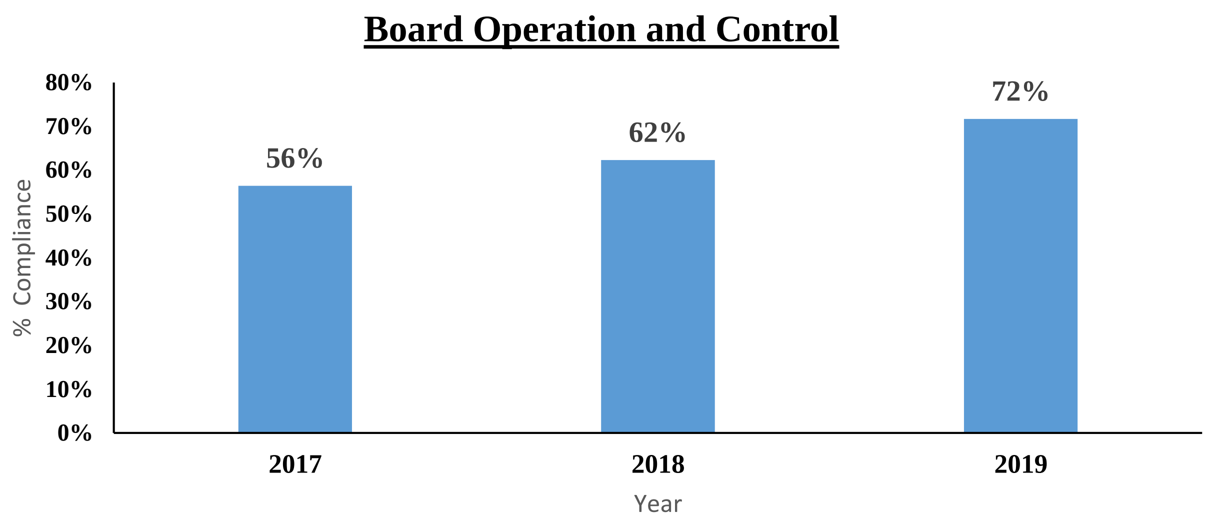
Sector	Number of Listed Companies
Banking	10
Manufacturing and Allied	8
Commercial and Services	7
Insurance	6
Construction And Allied	5

Energy and Petroleum	5
Agricultural	4
Investment	2
Automobiles and Accessories	1
Investment Services	1
Telecommunication	1
Grand Total	**50**

Primary Data (2021)

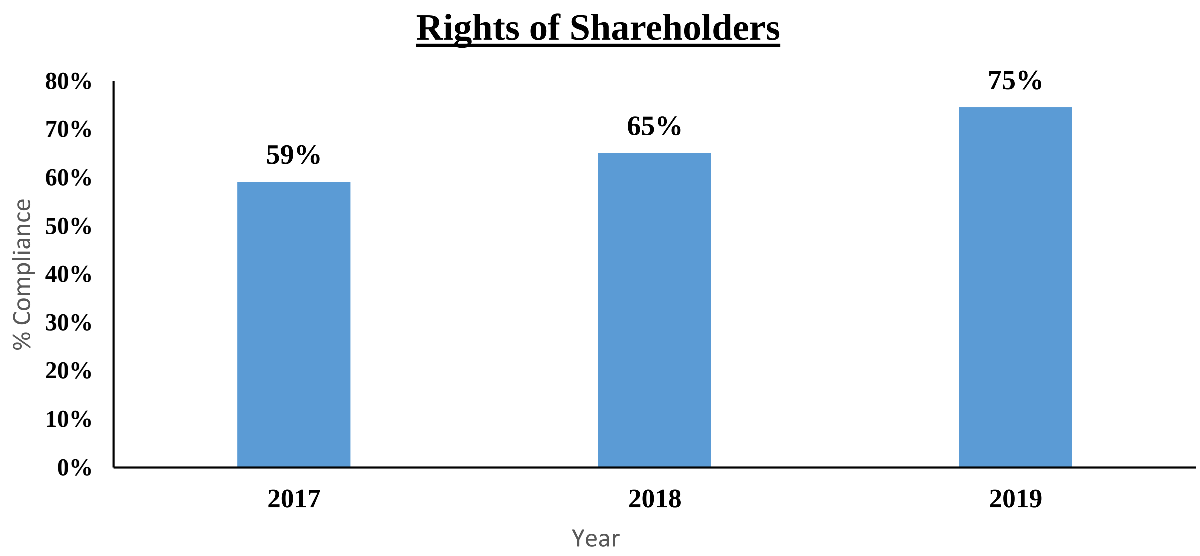
In order to assess the level of compliance with the CMA Code by the above listed companies, a trend analysis was conducted based on the secondary data that was collected. The trend analysis is provided below:

Figure 4.4: Board Operations and Control



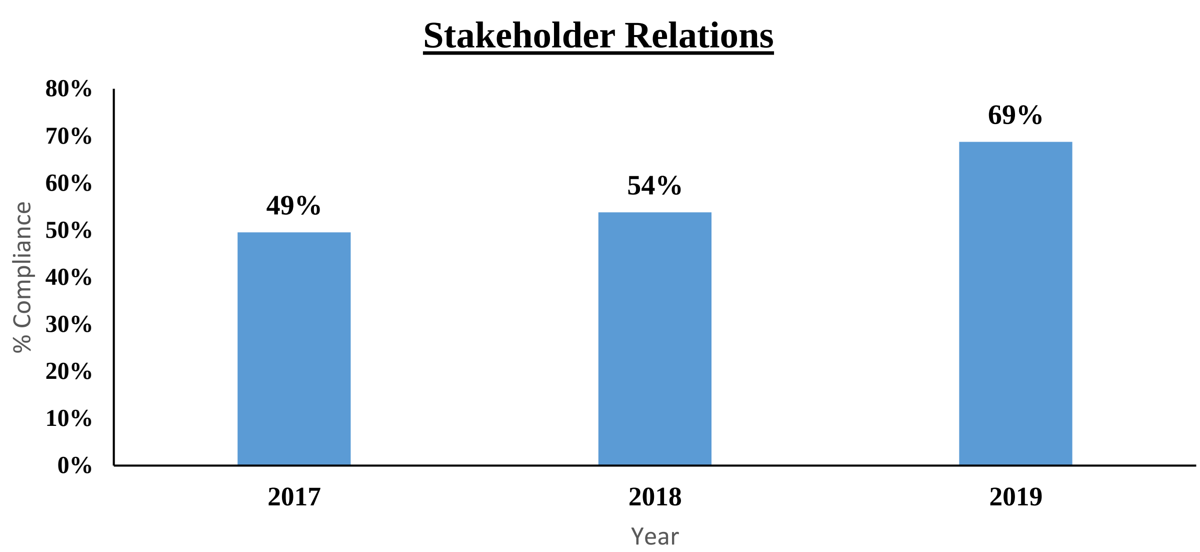
The data above indicates that compliance with this metric has improved since 2017; from 56% to 72% in 2019.

Figure 4.5: Shareholder Rights



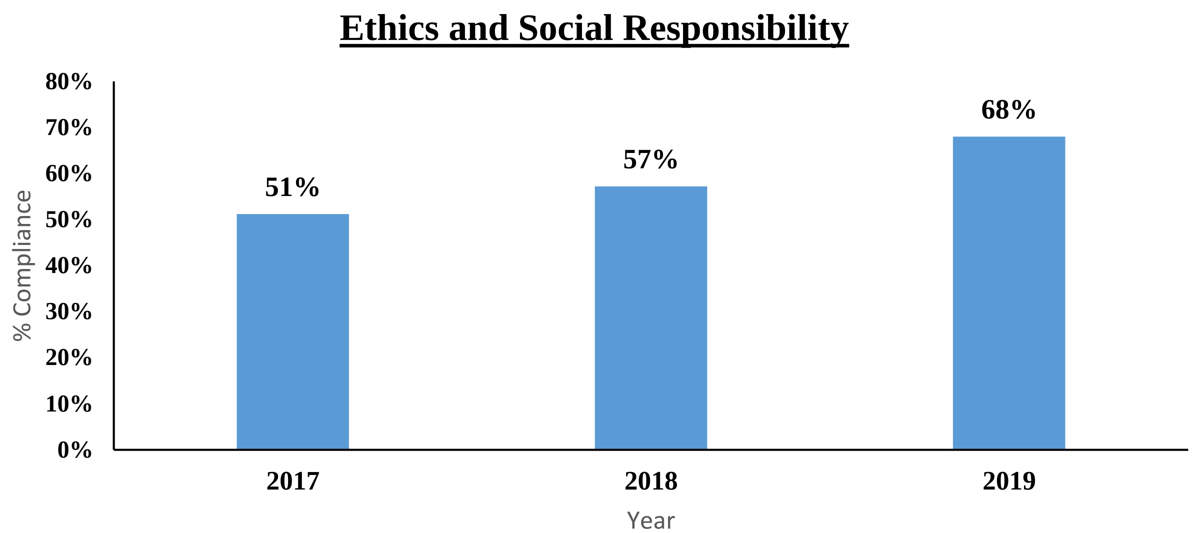
The data above indicates that compliance with this metric has improved since 2017; from 59% to 75% in 2019.

Figure 4.6: Stakeholder Relations



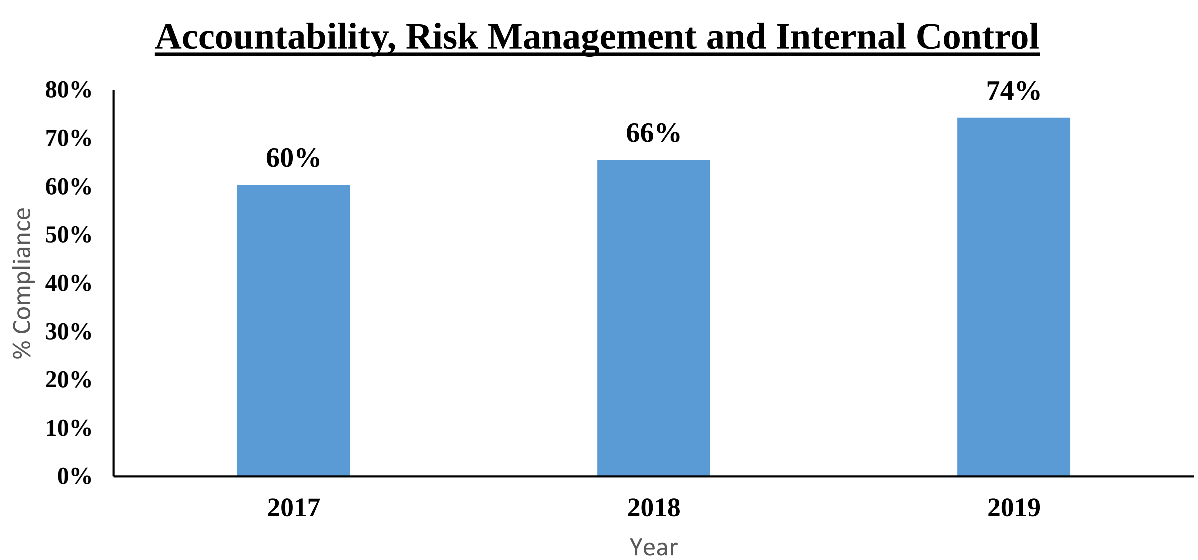
The data above indicates that compliance with this metric has improved since 2017; from 49% to 69% in 2019.

Figure 4.7: Ethics and Social responsibility



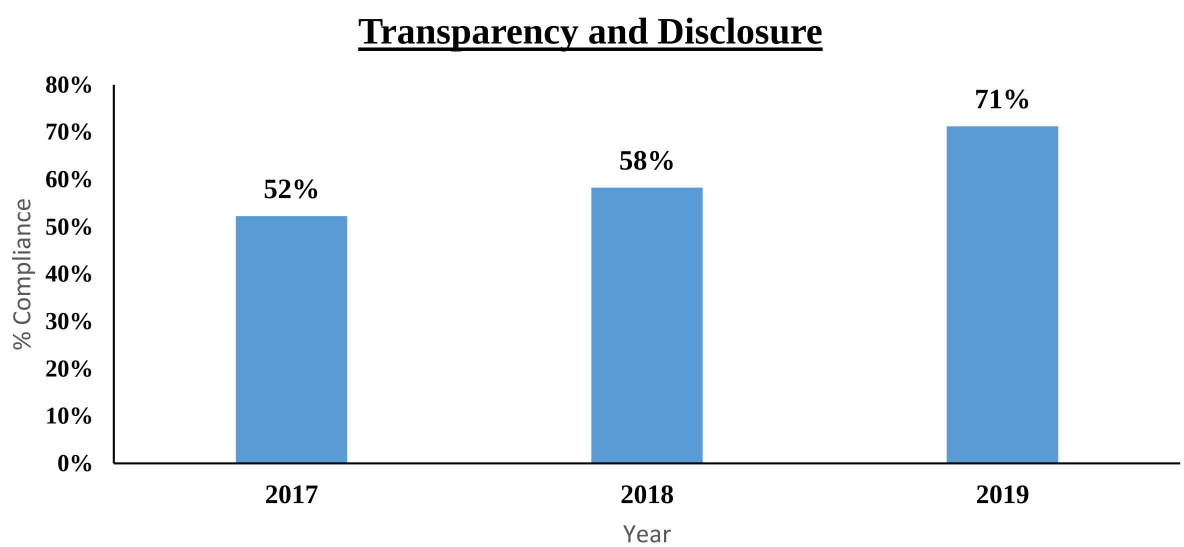
The data above indicates that compliance with this metric has improved since 2017; from 51% to 68% in 2019.

Figure 4.8: Accountability, Risk Management and Internal Control



The data above indicates that compliance with this metric has improved since 2017; from 60% to 74% in 2019.

Figure 4.9: Transparency and Disclosure



The data above indicates that compliance with this metric has improved since 2017; from 52% to 71% in 2019.

Table 4.13: Percentage implementation across the six metrics

Metric	FY 2019 CMA Code Compliance Rate
Board Operation and Control	71.7%
Rights of Shareholders	74.6%
Stakeholder Relations	68.7%
Ethics and Social Responsibility	68.0%
Accountability, Risk Management and Internal Control	74.2%
Transparency and Disclosure	71.2%
Average	**71.4%**

From the above analysis, there was a significant improvement in the implementation of the CMA Code from 2017 to the 2019. The current compliance level for the year 2019 is at 71.4%.

4.7 The Impact of Compliance with the CMA Code on Financial Performance

Once the level of implementation was established, the study proceeded to answer the final research question. The third objective of the study was to analyse the impact of compliance with the CMA Code and establish whether there was a relationship with the financial performance based on the ROE fiancial ratio. The relationship was analyzed based on the Secondary data derived from annual financial reports for the year 2017 – 2019.

Return on Equity (ROE) was preferred as a measure of financial performance for the listed companies over Return on Assets (ROA). The reason for this is that ROE is a measure of how much the company is generating for its shareholders. The biggest beneficiary of corporate governance is the shareholders hence ROE is a preferred metric that directly points to shareholder positions.

The ROE was calculated using the formula:

$$\textbf{ROE} = \frac{\textbf{Profits for the Period}}{\textbf{Shareholder Funds}}$$

The data on the profits and shareholder funds was available from the respective annual reports for the year 2017 – 2019. Given that this study was an analysis of the effects of compliance with corporate governance of financial performance of listed entities, the ROE served as the dependent variable in the analysis.

4.7.1 Collinearity Test

Multi-collinearity testing was done using the Variance Inflation Factors (VIFs). On the first level analysis, there was a huge collinearity between Stakeholder Relations and Ethics and Social Responsibility. This indicates that these 2 variables carry the same information and it would be detrimental to the regression analysis if included both variables.

Figure 4.10: Level 1 - Collinearity Test using Variance Inflation Factors

VIF	*Board Operations and Control*	*Shareholder Rights*	*Stakeholder Relations*	*Accountability and Risk Management*	*Ethics and Social Responsibility*	*Transparency and Disclosure*
Board Operations and Control	2.238	0.148	-0.148	-0.647	-0.200	-0.979
Shareholder Rights	0.148	1.018	-0.055	-0.016	-0.059	-0.058
Stakeholder Relations	-0.271	-0.073	4.5036E+15	-0.091	-4.5036E+15	-0.151
Accountability and Risk Management	-0.647	-0.016	-0.1	1.729	-0.192	-0.385
Ethics and Social Responsibility	-0.108	-0.057	-4.5036E+15	-0.192	4.5036E+15	-0.075
Transparency and Disclosure	-0.979	-0.058	-0.151	-0.385	-0.075	1.970

Due to this result, the Ethics and Social Responsibility metric was removed from the annual report data. Running the Variance Inflation Factor analysis once more, no multi-collinearity was detected as no VIF was above 5. Figure 4.11 shows the results of the Level 2 test;

Figure 4.11: Level 2 - Collinearity Test of Reduced Variable using Variance Inflation Factors

VIF	*Board Operations and Control*	*Shareholder Rights*	*Stakeholder Relations*	*Accountability and Risk Management*	*Transparency and Disclosure*
Board Operations and Control	2.23753	0.14804	-0.37877	-0.64723	-0.97937
Shareholder Rights	0.14804	1.01846	-0.12940	-0.01605	-0.05850
Stakeholder Relations	-0.37877	-0.12940	1.42473	-0.28283	-0.22642
Accountability and Risk Management	-0.64723	-0.01605	-0.28283	1.72856	-0.38549
Transparency and Disclosure	-0.97937	-0.05850	-0.22642	-0.38549	1.97046

4.7.2 Regression Analysis

In the model, the independent variables were Board Operations and Control, Shareholder Rights, Stakeholder Relations, Accountability and Risk Management, and Transparency and Disclosure. The study results indicated that the model was statistically significant. The multiple R was 28.9% indicating that the model explained 28.9% of the changes in Return on Equity within the 50 listed entities.

The multiple R was low, but justifiable as there are many more factors that influence the ROE of listed companies such as prevailing market conditions, legislations, management and employee efficiency and so much more. The r-Square was at 8.4%. Figure 4.11 shows the results of the regression analysis

Figure 4.12: Regression Analysis (Data derived from the Annual Reports)

Regression Statistics	
Multiple R	28.9%
R Square	8.4%
Adjusted R Square	-0.0204
Standard Error	0.1710
Observations	50

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	5	0.1175	0.0235	0.8038	0.5531
Residual	44	1.2866	0.0292		
Total	49	1.4041			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.1418	0.1503	-0.9436	0.3505	-0.4448	0.1611	-0.4448	0.1611
Board Operations and Control	0.3730	0.2421	1.5406	0.1306	-0.1150	0.8610	-0.1150	0.8610
Shareholder Rights	0.0836	0.0928	0.9002	0.3729	-0.1035	0.2707	-0.1035	0.2707
Stakeholder Relations	-0.0543	0.0962	-0.5647	0.5751	-0.2482	0.1396	-0.2482	0.1396
Accountability and Risk Management	-0.1460	0.1760	-0.8293	0.4114	-0.5007	0.2088	-0.5007	0.2088
Transparency and Disclosure	0.0409	0.2173	0.1882	0.8516	-0.3971	0.4789	-0.3971	0.4789

4.7.3 Test Objectives

The test objective was to determine the level of significance of each metric on the financial performance of the companies. The Figure 4.13 below shows the criteria of determining significance. A p-value above 0.05 indicates little significance of the independent variable in predicting the dependent variable

Figure 4.13: Criteria of Determining Level of significance of Variables

P ≥ 0.1	Absence of evidence against the null hypothesis: data consistent with the null hypothesis
0.05 ≤ P < 0.1	Low evidence against the null hypothesis in favour of the alternative
0.01 ≤ P < 0.05	Moderate evidence against the null hypothesis in favour of the alternative
0.001 ≤ P < 0.01	Strong evidence against the null hypothesis in favour of the alternative
P < 0.001	Very strong evidence against the null hypothesis in favour of the alternative

The objective of the study was to investigate the relationship between corporate governance metrics as provided in the CMA Code. Below are the results:

The first metric was to establish the effect of Board Operations and Control on ROE of Listed Companies in Kenya. The results indicate that Board Operations and Control ($\beta = 0.3730$; $p = 0.1306$) has an insignificant effect on ROE of listed companies. This means that the composition of the board does not affect the financial performance of a firm. A diversified board, and one that lacks any form of diversity have the same effect on the financial performance of firms. Having an audit committee also does not guarantee better financial performance.

The second metric was to establish the effect of Shareholder Rights on ROE of Listed Companies in Kenya. The results indicate that Shareholder Rights ($\beta = 0.0836$; $p = 0.3729$) has an insignificant effect on ROE of listed companies. Taking into consideration the rights and views of your shareholders, does not directly impact financial performance. Organising AGMs to brief shareholders and creating a platform for shareholders to give opinions on the company's dealings, provides no evidence of improving financial performance.

The third metric was to establish the effect of Stakeholder Relations on ROE of Listed Companies in Kenya. The results indicate that Stakeholder Relations ($\beta = -0.0543$; $p = 0.5751$) has an insignificant effect on ROE of listed companies. Having a proper framework to engage and communicate with your stakeholders, is insignificant with regards to supporting financial performance. From the data collected there is no evidence that proper stakeholder management is directly correlated to a firm's financial performance.

The fourth metric was to establish the effect of Accountability and Risk Management on ROE of Listed Companies in Kenya. The results indicate that Accountability and Risk Management ($\beta = -0.1460$; $p = 0.4114$) has an insignificant effect on ROE of listed companies. Being accountable for every action and taking measures to curb internal and external risk, has not provided evidence to support its correlation to a firm's financial performance. Having an audit function does not correlate with positive financial performance. It however, protects the company from a downside risk.

The fifth metric was to establish the effect of Transparency and Disclosure on ROE of Listed Companies in Kenya. The results indicate that Transparency and Disclosure ($\beta = 0.0409$; p =

0.8516) has an insignificant effect on ROE of listed companies. Proper, timely and full disclosure of information in this set of data does not show any evidence of affecting financial performance. Despite the respondents above, strongly believing that transparency and disclosure has an effect on the company's performance, actual data from their financial results does not support this.

Based on the results from the Regression Analysis on the secondary data, it is clear that the highlighted corporate governance metrics have no significant impact on financial performance. It is apparent that other factors, other that compliance with corporate governance, have a much more weight in determining the financial performance of listed entities.

4.8 Conclusion and Summary of Findings

Based on the analysis above, below are the summary of the findings;

i. **To establish the level of compliance with the CMA Code by companies listed on the NSE –** There has been a notable increase in the compliance with the CMA code since 2017. As at 2019, the companies were 71.4% compliant.

ii. **To establish the relationship between the level of compliance with the CMA Code and the ROE based on the annual reports from the year 2017 to 2020 -** Based on the results from the regression analysis on the secondary data, it is clear that the highlighted corporate governance metrics have no significant impact on financial performance. It is apparent that other factors, other that compliance with corporate governance, have much more weight in determining the financial performance of listed entities.

iii. **To establish the relationship between the level of compliance with the CMA Code and the ROE based on management responses** - Based on the results from the regression analysis on the primary data, only Transparency and Disclosure had a significant effect on ROE. However, it is important to note that the respondents collectively have a neutral view on the correlation between compliance with the CMA Code and financial performance

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research findings, discussion of the results, conclusions and recommendations from the study.

5.2 Discussion of Findings

This section provides the discussions of the findings for each of the three research objectives. Section 5.2.1 discusses the findings the level of compliance with the CMA Code. Section 5.2.2 discusses the findings on the relationship between Corporate Governance and ROE based on annual returns and management responses for each metric.

5.2.1 Level of compliance with CMA Code

The findings indicate that companies listed on the NSE are compliant with the CMA Code. In addition, there was a significant improvement in the implementation of the CMA Code from 2017 to 2019. In 2019, there was 71.4% compliance with the CMA Code. This findings are in line with the CMA Report (2019) which found that the continued implementation and integration of good governance within the country marked continuous improvement on governance which in turn made the institutions competitive, attractive and sustainable. In emerging countries such as the United Kingdom, a report by EY stated that 61% of UK companies were fully compliant with the 2018 Corporate Governance Code. This shows that the compliance rate in Kenya is good.

Various studies have found that compliance with corporate governance codes and guidelines had a positive co-relation with the overall firm value as well as the company's financial performance (Outa & Waweru, 2016). Another study conducted by (FranciscoBravo-Urquiza & ElenaMoreno-Ureba, 2021) revealed that implementation of code recommendations about the board of directors specifically, leads to a reduction in the likelihood of financial distress.

5.2.2 Relationship between Corporate Governance and ROE based on annual returns and management responses

The findings on each metric are discussed below.

5.2.2.1 Board Operations and Control

The findings indicate that board operations and control, did not have a significant effect on financial performance. The results further showed that the composition of the board and the presence of committees such as the audit committee and the nomination committee, are not factors that are directly linked to the company's performance. This may indicate that maybe from the respondents' view point, the insignificant impact of audit and nomination committees may arise from other factors such as lack of expertise. This concurs with the study conducted by Wachudi and Mboya (2013) that found that focusing on specific aspects of board operations such as composition, gender and age have no effect on financial performance.

Key to note however is that the study found that the overall compliance with the CMA Code on Board Operations and Control has a positive impact on financial performance of the firm. This concurs with the findings of Kobuthi, et al., (2018) which found that compliance with the CMA Code on Board Operations and Control had a positive impact on the financial performance of listed companies in Kenya.

5.2.2.2 Shareholder Rights

The study found that Shareholder Rights as a metric did not have a significant effect on a company's financial performance. The results indicated that the composition of the shareholding, the presence of a diverse shareholding structure and holding annual general meetings, does not directly affect the financial performance of the company. The study also found that the overall compliance with the CMA Code on Rights of Shareholders does not have a significant impact on financial performance.

In as much as shareholder rights do not seem to have a positive correlation with ROE, there are studies that show there is indeed a strong positive relationship. Various studies have found that shareholders' objectives have a heavy influence on managers' incentives and their structures try to protect the shareholders' interests and as a result, the company tend to maximise the profits and returns (Otero, et al., 2020).

Previous studies have found that greater shareholder rights are generally associated with higher share prices, higher growth rates, higher profitably and lower volatility in share prices (Bebchuk, Cohen and Ferrell, 2006; Gompers, Deutsche Bank, 2004; Husnan, 2012; Srivastav and Hagendorff, 2016; Orozco et al., 2018). On the other hand, some studies have found that ideal compliance with shareholder rights does not directly impact financial performance. This is due to disclosure to competitors of strategic and tactical information; slower and less efficient decision-making in a competitive environment; and a short-run focus on profitability, resulting in reduced capital investment and R&D expenditures (Lehmann, Warning, and Weigand, 2002). In addition to this, Chugh, et al., (2010) also found that there is an optimum level of shareholder rights, based upon considerations of various costs and risks of increasing shareholder rights. With increasing shareholder rights beyond some optimum level, decision making processes and judgment may become cumbersome and inflexible.

5.2.2.3 Stakeholder Relations

The results indicate that stakeholder relations did not have a significant effect on the company's financial performance. In addition, stakeholder engagement and dispute resolution had a little significance on financial performance. This is inconsistent with previous studies that have found that stakeholder engagement as a corporate governance metric has a positive effect on financial performance (Ontita & Kinyua, 2020).

Studies have however found that companies tend to adopt corporate governance models involving stakeholder relations with the aim of improving social performance in general especially in terms of trust, loyalty and reputation perceived as perceived by stakeholders (Bhattacharyya, 2014). In this regard, several studies have found no significant impact between implementation of metrics such as stakeholder relations and CSR or the financial performance of companies (Doni, et al., 2021).

5.2.2.4 Ethics and Social Responsibility

From the study, the results indicate that ethics and social responsibility did not have a significant effect on the company's financial performance. This was interesting considering other studies that have found that good corporate citizenship and the establishment of ethical relationship between the company and the society in which it operates has a positive effect on financial performance (Maqbool & Zameer, 2018).

As good corporate citizens of the societies in which they do business, companies have, apart from rights, legal and moral obligations in respect of their social and natural environments. The company as a good corporate citizen should protect, enhance and invest in the well-being of society and the natural ecology.

5.2.2.5 Accountability and Risk Management

Based on the annual report data, the results indicate that accountability, risk management did not have significant effect on the company's financial performance. However, interestingly, the results from the questionnaire data indicates that (i) choosing internationally renowned auditors and rotating them periodically, (ii) having an internal audit function, (iii) evaluating the CEOs performance and (iv) having a risk management framework, has a significant impact on financial performance. Overall, the study found that compliance with the CMA code on accountability, risk management and internal control has a positive impact on financial performance.

The findings are consistent with studies that have found that that risk management disclosure and accountability of firms has positive relationship with firm performance because investors will like to invest in a firm that discloses investment related information including the risk management practices of the firm (Mahmud, et al., 2017).

5.2.2.6 Transparency and Disclosure

Based on the annual report data, the results indicate that transparency and disclosure did not have significant effect on the company's financial performance. Companies that release its company and financial information in due time and has sufficient disclosure available, have no advantage in terms of financial performance over companies that are vague and not transparent.

However, based on the questionnaire responses, transparency and disclosure does have a significant effect on the company's financial performance. Providing all required disclosures in the Annual, having the Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors are on the company website, and having a statement of policy on good governance and the status of the application of the Code in the annual report has improved financial performance, does have an effect on the company's financial performance.

Overall, compliance with the CMA Code on transparency and disclosure has a positive impact on Financial Performance of the firm. This is consistence with the findings of Kobuthi, et al., (2018) which found that compliance with the CMA Code on transparency and disclosure had a positive impact on the financial performance of listed companies in Kenya. Disclosure also allows stakeholders to understand a company's activities, policies and performance with regard to environmental and ethical standards, as well as its relationship with the communities where the company operates. Transparency and disclosure allows companies to differentiate themselves from firms which do not practice good governance.

5.3 Conclusions

There has been a notable increase in the compliance with the CMA code from 2017 to 2019. Based on the results from the secondary data, it is clear that the highlighted corporate governance metrics have no significant impact on financial performance. It is apparent that other factors, other than compliance with corporate governance, have more weight in determining the financial performance of listed entities.

However, based on the results from the questionnaire data, transparency and disclosure had a significant impact on financial performance. This is in line with the agency theory which holds that there is need to set up guidelines to align the interests of managers to the interests of shareholders through the implementation of codes of corporate governance such as the CMA Code in order to reduce or obliterate the agency problem.

Providing the required disclosures in the annual reports, having the proper instruments in place such as board charters and codes of ethics, and overall adherence to the principles of transparency and disclosure were fundamental in improving financial performance (Nkuutu, et al., 2020).

5.4 Recommendations for Practitioners and Policymakers

This study recommends that the CMA should look into formulating regulations and policies based on the impact of compliance with said regulations on the financial performance of the company and the long term sustainability of the firm and industry at large. Furthermore, CMA should also engage companies in formulating a standardised reporting mechanism to make it easier for tracking and assessing the impact of such regulations on the firm's financial and sustainability progress. This has been informed by the time and effort it took to compile data from companies. This should be a path towards moving beyond their policy of apply or explain to a more accountable one.

Borrowing a leaf from developed economies, there have been formulation of tradable Corporate Governance Indices such as Special Corporate Governance Stock Index (IGCX), which allows investors to invest in companies that maintain a high level of Corporate Governance compliance. This will not only raise the bar on compliance, but will have an effect of increasing the significance of corporate governance of financial performance.

With such indices being the benchmark for retail investors to gauge market performance, listed entities will start paying attention to compliance of the corporate governance guidelines, as it has a direct correlation to investor participation in future capital raising initiatives, and directly linked to the return on their shareholder's investments.

As stated before, having guidelines can have a positive effect on financial performance as company's do not want to put information in the public domain that might have a negative effect on them. This sort of public pressure is what tradable Corporate Governance Indices, put on companies.

5.5 Research Areas for Further Study

Further research can investigate other dimensions of corporate governance such as the role of institutional investors while also exploring various parameters that can be used to measure financial performance.

Additionally, other studies can use other methodological approaches, particularly qualitative research approaches such ethnographies of boards or even focus group discussions a for an in-depth exploration of the effect of implementation of the CMA Code in Kenya.

5.6 Limitations of the Study

This study focused on the six metrics of corporate governance as per the CMA Code. As a result, the interpretations of the results are limited to these variables. The study has used linear regression on both primary and secondary data in relation to ROE to establish the relationship between these metrics and corporate governance. As a result, interpretation is limited to the robustness of these statistical measures.

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APPENDIX 1: ETHICAL CLEARANCE LETTER

Strathmore
UNIVERSITY

2nd June 2021

Ms Lumbi, Holliness
holliness.lumbi@strathmore.edu

Dear Ms Lumbi,

RE: The Effect of Corporate Governance Practices on The Financial Performance of Listed Companies in Kenya

This is to inform you that SU-IERC has reviewed and **approved** your above **SU-master's** research proposal. Your application reference number is **SU-IERC0985/21**. The approval period is **2nd June 2021 to 1st June 2022.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 48 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 48 hours
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and also obtain other clearances needed

Yours sincerely,

for: Dr Virginia Gichuru,
Secretary; SU-IERC

STRATHMORE UNIVERSITY INSTITUTIONAL ETHICS REVIEW COMMITTEE
(SU-IERC)
02 Jun 2021
TEL: +254 (0)703034000
P.O BOX 59857-00200
NAIROBI-KENYA

Cc: Prof Fred Were,
Chairperson; SU-IERC

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APPENDIX 2: LETTER OF INTRODUCTION

Ole Sangale Rd, Madaraka Estate,
P.O Box 59857 00200, Nairobi, Kenya.
Cell: +254 703 414/6/7, Twitter: @SBSKenya
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu

Strathmore
UNIVERSITY
BUSINESS SCHOOL

24th May 2021

To Whom It May Concern.

Dear Sir/ Madam.

<u>**RE: FACILITATION OF RESEARCH – HOLLINESS LUMBI**</u>

This is to introduce Holliness Lumbi who is a Master of Business Administration student at Strathmore University Business School, admission number MBA/99645/18. As part of our MBA Program, Holliness is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MBA course. To this effect, she would like to request for appropriate data from your organisation.

Holliness is undertaking a research paper on **"The Effect of Corporate Governance Practices of the Financial Performance of Listed Companies in Kenya".** The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only.

Our MBA seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

Caroline Tiara.
Manager – Graduate Programs.
Strathmore University Business School.

APPENDIX 3: RESEARCH INSTRUMENT

QUESTIONNAIRE

INSTRUCTIONS

A. GENERAL INFORMATION

Company Name	
Name (Optional)	
Gender (M/F)	
Date	
Position in the Company	Compliance Officer ☐ Director ☐ Senior Management ☐ Company Secretary ☐ Other (Please specify) …………………………….

B. COMPLIANCE WITH THE CMA CODE

Please answer the following questions by placing a mark (x) in the appropriate box.

This questionnaire has six (6) segments namely board operations, rights of shareholders, stakeholder relations, ethics & social responsibility, accountability & risk management and disclosure &transparency.

The questions in each segment seek to establish whether compliance with the CMA Code has had an effect on financial performance of the company, specifically the ROE.

A. BOARD OPERATIONS AND CONTROL

On a scale of 1-5 to what extent do you agree with the following statements?
Key: 1 Strongly Disagree
2 Disagree

3 Neutral
4 Agree
5 Strongly Agree

	Question	1	2	3	4	5
1.	The establishment of a Nomination Committee as per the CMA Code has affected financial performance					
2.	The Board size has affected financial performance					
3.	The adoption of diversity policies as per the CMA Code has affected financial performance					
4.	The inclusion of independent directors has affected financial performance					
5.	The establishment of an Audit Committee has affected financial performance					
6.	The adoption of a conflict of interest policy has affected financial performance					
7.	The annual legal compliance audit has affected financial performance					
8.	The annual governance audit has affected financial performance					
9.	Compliance with the CMA Code on Board operations has made a positive impact on financial performance					

B. RIGHTS OF SHAREHOLDERS

On a scale of 1-5 to what extent do you agree with the following statements?
Key: 1 Strongly Disagree
2 Disagree
3 Neutral
4 Agree
5 Strongly Agree

	QUESTION	1	2	3	4	5
1.	Holding annual general meetings has improved financial performance					
2.	Providing information to shareholders on corporate affairs and corporate					

	governance has improved financial performance					
3.	Compliance with the CMA Code on shareholder rights has improved financial performance					

C. STAKEHOLDER RELATIONS

On a scale of 1-5 to what extent do you agree with the following statements?

Key: 1 Strongly Disagree
2 Disagree
3 Neutral
4 Agree
5 Strongly Agree

	QUESTION	1	2	3	4	5
1.	Having policies to manage relations stakeholders has improved financial performance					
2.	Communication with stakeholders has improved financial performance					
3.	The stakeholder dispute resolution process has improved financial performance					
4.	Compliance with the CMA Code on stakeholder relations has improved financial performance					

D. ETHICS AND SOCIAL RESPONSIBILITY

On a scale of 1-5 to what extent do you agree with the following statements?

Key: 1 Strongly Disagree
2 Disagree
3 Neutral
4 Agree
5 Strongly Agree

	QUESTION	1	2	3	4	5

1.	Having a Code of Ethics and Conduct in place has improved financial performance					
2.	Having a whistle blowing policy in place has improved financial performance					
3.	Having policies on corporate citizenship and sustainability in place has improved financial performance					
4.	Compliance with the CMA Code on ethics and social responsibility has improved financial performance					

E. ACCOUNTABILITY, RISK MANAGEMENT AND INTERNAL CONTROL

On a scale of 1-5 to what extent do you agree with the following statements?
Key: 1 Strongly Disagree
2 Disagree
3 Neutral
4 Agree
5 Strongly Agree

	QUESTION	**1**	**2**	**3**	**4**	**5**
1.	Establishing the Audit Committee has improved financial performance					
2.	The annual appointment of the external auditor at the AGM has improved financial performance					
3.	Having a risk management framework in place has improved financial performance					
4.	Compliance with the CMA Code on accountability, risk management and control has improved financial performance					

F. TRANSPARENCY AND DISCLOSURE

On a scale of 1-5 to what extent do you agree with the following statements?
Key: 1 Strongly Disagree
2 Disagree
3 Neutral

4 Agree
5 Strongly Agree

	QUESTION	1	2	3	4	5
1.	Providing all required disclosures in the Annual Report has improved financial performance					
2.	Having the Board Charter, Whistleblowing Policy, Code of Ethics and information on resignation of directors are on the company website has improved financial performance					
3.	Having a statement of policy on good governance and the status of the application of the Code in the annual report has improved financial performance					
4.	Compliance with the CMA Code on Transparency and Disclosure has improved financial performance					

Thank You!

APPENDIX 4: NACOSTI APPROVAL

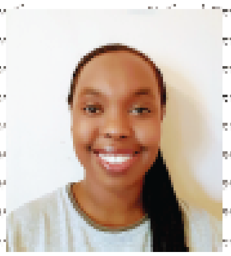
REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 473804

Date of Issue: 31/May/2021

RESEARCH LICENSE



This is to Certify that Ms.. Hollines Karimi Lumbi of Strathmore University, has been licensed to conduct research in Nairobi on the topic: The Effect of Corporate Governance Practices of the Financial Performance of Listed Companies in Kenya for the period ending : 31/May/2022.

License No: NACOSTI/P/21/10978

473804

Applicant Identification Number

Director General

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

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APPENDIX 5: PLAGIARISM REPORT

Curiginal

Document Information

Analyzed document	Thesis- Holliness Lumbi 13-10-2021.docx (D115198624)
Submitted	2021-10-14 07:40:00
Submitted by	
Submitter email	Holliness.Lumbi@strathmore.edu
Similarity	7%
Analysis address	library.strath@analysis.urkund.com

APPENDIX 6: LIST OF ORGANISATIONS IN THE POPULATION

LISTED COMPANIES IN THE NAIROBI SECURITIES EXCHANGE

A. AGRICULTURAL

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi Ltd.
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

B. AUTOMOBILES AND ACCESSORIES

8. Car and General (K) Ltd

C. BANKING

9. Absa Bank Kenya Plc
10. Stanbic Holdings Plc.
11. I&M Holdings Ltd.
12. Diamond Trust Bank Kenya Ltd.
13. HF Group Ltd.
14. KCB Group Ltd.
15. National Bank of Kenya Ltd.
16. NCBA Group Plc.
17. Standard Chartered Bank Ltd.
18. Equity Group Holdings Ltd.
19. The Co-operative Bank of Kenya Ltd.
20. BK Group Plc.

D. COMMERCIAL AND SERVICES

21. Express Ltd.

22. Sameer Africa Plc.
23. Kenya Airways Ltd.
24. Nation Media Group Ltd.
25. Standard Group Ltd.
26. TPS Eastern Africa (Serena) Ltd.
27. Scangroup Ltd.
28. Uchumi Supermarket Ltd.
29. Longhorn Publishers Ltd.
30. Deacons (East Africa) Plc.
31. Nairobi Business Ventures Ltd.

E. CONSTRUCTION AND ALLIED

32. Athi River Mining
33. Bamburi Cement Ltd.
34. Crown Paints Kenya Plc.
35. E.A.Cables Ltd.
36. E.A.Portland Cement Ltd.

F. ENERGY AND PETROLEUM

37. Total Kenya Ltd.
38. KenGen Ltd.
39. Kenya Power & Lighting Co Ltd.
40. Umeme Ltd.

G. INSURANCE

41. Jubilee Holdings Ltd.
42. Sanlam Kenya Plc.
43. Kenya Re-Insurance Corporation Ltd.
44. Liberty Kenya Holdings Ltd.
45. Britam Holdings Ltd.
46. CIC Insurance Group Ltd.

H. INVESTMENT

47. Olympia Capital Holdings Ltd.
48. Centum Investment Co Ltd.
49. Trans-Century Ltd.
50. Home Afrika Ltd.
51. Kurwitu Ventures

I. INVESTMENT SERVICES

52. Nairobi Securities Exchange Ltd

J. MANUFACTURING AND ALLIED

53. B.O.C Kenya Ltd.
54. British American Tobacco Kenya Ltd.
55. Carbacid Investments Ltd.
56. East African Breweries Ltd.
57. Mumias Sugar Co. Ltd.
58. Unga Group Ltd.
59. Eveready East Africa Ltd.
60. Kenya Orchards Ltd.
61. Flame Tree Group Holdings Ltd.

K. TELECOMMUNICATION AND TECHNOLOGY

62. Safaricom Plc.

L. REAL ESTATE INVESTMENT TRUST

63. Stanlib Fahari I-REIT

M. EXCHANGE TRADED FUND

64. New Gold Issuer (RP) Ltd

APPENDIX 7: ANNUALIZED ROE

#	Company	RoE (3yr Annualised (2017-2019))
1.	ARM	0.0%
2.	BAT	46.5%
3.	BOC	6.3%
4.	BAMBURI	3.3%
5.	BARCLAYS	9.5%
6.	BRITAM	-53.3%
7.	Carbacid	10.3%
8.	Centum	-8.3%
9.	CIC	-0.5%
10.	CO-OP	11.3%
11.	Crown Paints	31.4%
12.	DTB	5.0%
13.	EABL	30.1%
14.	EAPC	-14.8%
15.	Equity	16.7%
16.	HF Group	-19.9%
17.	I&M	12.4%
18.	Jubilee	11.5%
19.	Kakuzi	11.2%
20.	KCB	13.4%
21.	KenGen	7.1%
22.	KenolKobil	0.0%
23.	KQ	0.0%
24.	Kenya Orchards	0.0%
25.	Kenya Power	-2.7%
26.	Kenya-RE	8.6%
27.	Liberty	7.8%
28.	Limuru Tea	4.9%
29.	Mumias	0.0%
30.	NMG	0.6%
31.	NIC	0.0%
32.	NSE	7.7%
33.	Safaricom	49.9%
34.	Sanlam	-4.7%
35.	Sasini	1.1%
36.	Stanchart	11.0%
37.	Stanbic	10.0%
38.	Standard	-31.5%
39.	TPS EA	-14.6%
40.	Total Kenya	12.3%
41.	Transcentury	0.0%
42.	Unga	1.1%
43.	Umeme	5.3%
44.	Williamson	2.2%
45.	WPP Scangroup	-4.6%
46.	Longhorn	-30.7%
47.	Uchumi	0.0%

48.	Flame Tree	8.4%
49.	Car and General	13.2%
50.	EA Cables	-13.0%