EFFECT OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL DISTRESS AMONG LISTED FIRMS AT NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other university.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate this work to my family and friends for the sacrifice they made for me to complete this

project. Their concern, support, encouragement and enthusiasm inspired me to achieve this goal.

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I would like to say thank you to Allah, for giving me the strength, wisdom and health to do this project to completion. Not forgetting my family for providing so much support which is the most needed for this research project. I also thank all those who provided the needed information on this research project. Then, I would like to thank my supervisor, Dr. Cyrus Iraya for guiding me throughout this research project development. Your support is valued.

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LIST OF ABBREVIATIONS AND ACRONYMS

CEO   Chief Executive Officer

EPS   Earnings per Share

NSE   Nairobi Securities Exchange

ROA   Return on Assets

ROE   Return on Equity

ABSTRACT

The role of corporate governance in enhancing financial performance and reducing financial distress has been termed as significant. Good corporate governance is expected to reduce financial distress but poor corporate governance practices leads to higher probability of financial distress. As result of good corporate governance a firm is shielded from susceptibility to future financial distress. Corporate governance of the firms listed at NSE has been in the lime light in the recent years where managers and directors have been accused of poor corporate governance resulting to financial distress among listed firms. The financial distress facing listed firms in Kenya such as Uchumi Supermarkets, CMC motors and Mumias Sugar for instance was blamed on poor governance. Furthermore, the publicized huge losses and numerous unresolved disputes resulting to court cases by Kenya Airways and Kenol Kobil have also thrust corporate governance practices into the spotlight. Corporate governance of firms listed at NSE is hence a topic of concern. The study hence sought to establish the effect of corporate governance practices on financial distress among listed firms at Nairobi Securities Exchange with a focus on number of non-executive directors, board size, board gender diversity, ownership concentration and the control effect of net profit and capital structure. The study used Agency theory, Stakeholder theory, Stewardship theory and Transaction theory in building a theoretical argument. The study employed a descriptive research design. The target population of the study was the listed firms at the NSE by the year ending December 2016. Altman Z score model was used to score the financial distress. Applying ordinary least square regression model, the study established that net profit has a negative significant effect on financial distress, management concentration and financial distress are negatively and significantly related, non-executive board members has a negative and significant effect on financial distress and board size has a positive and significant effect on financial distress and board diversity has a positive but not significant effect on financial distress. Capital structure on the other hand has a positive but insignificant effect on financial distress of firms listed.

CHAPTER ONE : INTRODUCTION

1.1 Background of the Study

Every decision made by management, determines the direction the firm takes in future. However, decisions are based on shareholding composition, financial prospects based on current firm potential, corporate governance and the economic condition prevailing in the market (Changing, 2011). Financial distress relates to a broad concept with several situations in which a firm faces financial difficulty. These common situations defining financial distress include bankruptcy, insolvency and failure (Maina & Sakwa, 2012).

Financial distress falls in tight cash situations when the firm is not able to pay the owed amount within the due date. This is in line with the leverage position of a firm. If no interventions are injected, this condition can force a firm into bankruptcy or liquidation (Hu, 2011). This condition arises from wrong financial decisions made by firm managers in the long run operations of a firm (Filberk & Krueger, 2005). Financial distress has affected many investors and huge cash outflow has been lost as a result of this problem (Baker, 2011). Mbogo (2008) argues that corporate governance is one of the main determinants of financial distress.

Platt and Platt (2006) argue that poor corporate governance, poor products offering, demotivated staff and inefficient operating structure. The correlation between financial distress and these factors is, according to capital market theory, of unsystematic nature and diversifiable. However, financial distress may also be caused by exogenous factors, which are not within the control of the Organisation such as high interest rates, unfavorable changes in government policy and high borrowing rates. But regardless of the cause, the effects of financial distress remain massive. During the period of distress, the entity incurs various costs whether directly or indirectly which

often affects its ability to generate returns and consequently lead to a reduction in the value of the entity (Pandey, 2010).

Theories such as Agency theory and Stakeholder theory clarify the role of corporate governance in an organization. Agency theory for provides an understanding of the way managers in an organization plays a role of safeguarding the shareholders' interests of profits maximization. The managers act as the agents while the shareholders act as the principals. In this regard, it is expected that the managers and the firm board play a role of maximizing the shareholder's wealth. Stewardship theory clarifies the position of the managers in development of strategies aimed at maximizing shareholder wealth. The study is also anchored on the Transaction Cost Theory which posits that corporate governance is an instrument that can be used by the management for checking accountability and be able to control transaction cost.

For the last decade, the performance of firms listed at NSE has been mixed (Muchiri, Muturi & Ngumi, 2016). More than 10 companies have been delisted from the Nairobi Securities exchange for the last one decade. Firms like Pan Paper Mills, Hutchings Biemer and Uchumi Supermarkets Ltd were put under legislative management. In September 2014, Eveready Ltd cut 100 jobs and closed its dry cell-making plant in Nakuru, in October 2014, chocolate maker Cadbury shut down its manufacturing plant in Nairobi, shedding about 300 jobs (NSE, 2010).

1.1.1 Corporate Governance

Knell (2006) states that corporate governance is a number of processes, customs, fixed policies, laws as well as institutions influencing how an institution is run, administered or controlled. According to Ashbaugh *et al* (2004), corporate governance most importantly eliminates the issue of information asymmetry to shareholders who are not in a position to directly observe and

monitor the actions of management leading to ethical risk and poor selection difficulties. Corporate governance reduces the effects of agency costs that are the outcome of information asymmetry as it embodies a set of mechanisms that effectively tackle agency problems. Features that indicate whether good corporate governance is being implemented in the company can be easily deduced from the institution`s institutional composition that contains supervisory measures for liability, simplicity and neutrality. The interests of both shareholders and other stakeholders are firmly secured by a positive feature of the organization that is embodied in the presence of sovereign panel of directors, audit committees, as well as institutional ownership.

The major concern of corporate governance is to establish a suitable legal, economic as well as conducive institutional environment for business enterprises growth facilitation, prosperity and survival as institutions that enhance shareholder value maximization while being discreetly cognizant of the well-being of all other stakeholders as well as the entire society. The overall desirable effect of good governance structures is the attraction of preferred investors, creation of competitive as well as efficient companies and business enterprises; increasing accountability and performance of the company top management team as well as promoting efficient and effective utilization of the company's limited resources (Moche, 2014). Knell (2006) argued that corporate governance can be measured by the board size, frequency of board meetings, number of directors, number of non-executive directors, ownership concentration such as managerial, foreign, government and private ownership. In this study, corporate governance has been measured as the number of non-executive directors, board size, board gender diversity and ownership concentration.

1.1.2 Financial Distress

According to Emery, Finnerty and Stowe (2007), financial distress is the detrimental outcome of weakening in a firm's business caused by the quantity of things that may contain any of the following: unwise expansion, poor management, cut-throat business competition, huge amounts of business debt, court lawsuit and unfavorable contracts. Labie and Périlleux (2008) assert that financial distress is a situation where a company finds it difficult in paying off its financial obligations. It is a state that is experienced by firms due to internal and external challenges thus leading to bankruptcy and even liquidation. Outecheva (2007) argue that indicators of financial distress among firms can be; declined profits, declined market share, poor service delivery, demotivated employees and inability to adapt to changes. He also notes that, a company can be distressed without defaulting due to internal issues of management and policies of operation.

Aasen (2011) points out two types of financial distress costs. Direct insolvency costs consisting of lawful and managerial costs, and indirect insolvency costs which relates to the difficulty of managing a firm during bankruptcy. Business failure symptoms include internal organization problems which are characterized by financial signals resulting from weak performance leading to bankruptcy and finally to financial distress. The firm takes a downward spiral trend due to inadequate resource deployment, resulting to a weak strategic positioning which is evidenced by significant drop in sales, poor profitability, and decline in cash flow and liquidity levels (Crutzen & Van Caillie, 2007).

Bankruptcy is the legal status in an entity which cannot repay debts to its creditors; this may lead to liquidation or administration. Insolvency on the other hand, is a financial condition within an entity when its liabilities exceed the assets, a situation referred to as "balance sheet insolvency". This calls for immediate action to rectify the situation in order to avoid bankruptcy. Such actions

include minimizing overhead costs, negotiating current debts and debt repayments. Cash flow insolvency; entails lack of liquidity to honor debts when they fall due while balance sheet insolvency refers to presence of negative net assets within a firm (Aasen, 2011).

1.1.3 Corporate Governance and Financial Distress

The variables for business governance have significant effect on the risk of financial distress according to empirical evidence and the influences are significantly sustained after restricting for the performances of corporate finance. Thus according to Wang and Deng (2006), the more executives become engaged by restricting the investors, the greater their share assurance proportion, and the greater level of restriction-cash flow privilege variations, consequently the greater the likelihood of financial distress (Bhagat & Black, 2002).

As result of superior business governance of a company is protected from vulnerability to prospective financial distress, (Bhagat & Black, 2002). According to Donaldson (2003), any corporate entity's governance structure directly influence it capability to counter exterior issues that have some attitude on its financial performance which is an argument that has been advanced regularly. Accordingly, firms that are well governed largely incur better performances as compared to those that are poorly governed which can only serve to strengthen the claim that good corporate governance is valuable in enhancing a firm's organizational performance.

The World Bank (2008) report shows that good corporate governance especially for emerging market economies serves to reduce susceptibility to financial crisis, reinforce assets rights, and reduce business costs as well as price of investment resulting in the generation of capital market. Conversely, investor confidence is greatly reduced by a weak corporate governance framework thus discouraging outside investors.

1.1.4 Nairobi Securities Exchange

NSE was started as a charitable organization for stockbrokers in 1954, under the Societies Act. It has undergone many variations ever since where it is presently. In 2006, it automated trading and in the following year, stock brokers were able to trade from their offices. In the year 2011, the NSE changed this name given at commencement to Nairobi Securities Exchange. This move was one of its strategies to be full-service dividends barter that aids transaction and payment of credit, derivatives, loans and other related facilities. It carries out its business every day from 9.am to 3 pm. It has the sole mandate of listing companies (NSE, 2016).

The Nairobi Security Exchange (NSE) primary role is to engage in securities exchanges. Trading at the NSE is via the Electronic Trading System (ETS). The NSE uses indices to measure performance (NSE, 2016). NSE provides a non-bank source of financing to enterprises by selling dividends to the public. The NSE is an alternative source of funds for the government and local authorities, in addition to tax collections, from which they finance development plans. They generate capital for different types of plans through the issue of shares to the public. NSE improves the wider possession of firms. The chance given to the common public to have tenure rights over the listed businesses aids decrease huge returns disparities through the sharing of returns made by these dealings. In turn, it facilitates the redistribution of wealth. Investors get the chance to purchase the number of bonds given to them, and hence it enhances the small investors' source of extra income (NSE, 2016).

The firms listed on NSE fall into Agricultural, Banking, Insurance, Automobile, Commercial and Services and Energy. The quantity of companies changing to public at the NSE has been rising since the 1980's with 12 companies being listed amid the periods 1980 to 1999, 4 of which were among the management personalization course of the corporations, (Ngugi & Njiru, 2005). In

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2013, the NSE transitioned to the Exchange 55 at Westlands Road, (Ndirangu & Munyaka, 2014). Currently there are 65 firms listed at the NSE (NSE Hand Book, 2016).

A number of companies have, over the past three decades, faced financial difficulties leading to suspension of their stocks, delisting and restructuring. The most recent cases of financial distress among firms listed on the NSE are those faced by Uchumi Supermarkets, Mumias sugar, Eveready, Lonho East Africa, Pearl dry cleaners, East African Packaging and CMC Motors (Warutere, 2013).

1.2 Research Problem

The role of corporate governance in enhancing financial performance and reducing financial distress has been termed as significant (Bhagat & Black, 2002). Wang and Deng (2006) argue that good corporate governance decrease financial distress but bad business governance activities results in greater likelihood of financial distress (Bhagat & Black, 2002). As result of superior corporate governance a company is protected from vulnerability to prospective financial distress (Bhagat & Black, 2002). To this end, studies reveal positive effects of corporate governance on performance ultimately reducing financial distress. Corporate governance of the firms listed at NSE has been in the lime light in the recent years where managers and directors have been accused of poor corporate governance resulting to financial distress among listed firms. The financial distress facing Uchumi Supermarkets, CMC motors and Mumias Sugar for instance was blamed on poor governance (Kigotho, 2012). Furthermore, the recently publicized huge losses and numerous unresolved disputes resulting to court cases by Kenya Airways and Kenol Kobil have also thrust corporate governance practices into the spotlight (Kakah, 2015).To this end, corporate governance of firms listed at NSE is hence a topic of concern.

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Financial distress which has led to failure of firms under unforeseen circumstances has been on the increase (Schmidt, 2010). Despite good rating and aggressive strategies, firms still encounter financial distress problems. For better performance, businesses rely heavily on sound decisions made by the corporate governance body. Financial distress is a global problem affecting both developed and developing economies (Wangige, 2016). The performance of firms listed at NSE has been mixed for the last five years. Several firms have been delisted from stock market such as Mumias sugar, Eveready, Lonho East Africa, Pearl dry cleaners, East African Packaging and Uchumi supermarkets as a result of financial distress (Mburu, 2014).

Even after being delisted in the year 2006 and being bailed by the government to be relisted back at NSE in the year 2010, Uchumi supermarket has continued to face financial distress which has seen it continue to close down some of its branches and default payments of its creditors. In as much as the financial distress continuous to increase, its determinants is still subject to mixed and inconclusive results. A study by Memba and Abuga (2013) concluded that financial distress is caused by poor capital decisions, poor internal management shortage of skilled labor and lack to access of credit, another study by Mandi (2014) on the other hand indicated that financial distress is caused by financial factors, while a study by Talian (2012) also indicated that the main causes of financial distress were financial factors. A study conducted by Maina and Sakwa (2012) concluded that the main determinants of financial distress were management style and capacity, and government policies. It is therefore evident that what causes financial distress is a topic of controversy and breeds the knowledge gap upon which this study seeks to fill. With the argument by Changing (2011) that every decision made by management, determines the direction the firm takes in future, there was a demand to assess the impact of business governance on financial distress of firms listed at NSE. This research thus sought to answer the

question, what is the impact of corporate governance practices on financial distress among listed firms at Nairobi Securities Exchange?

1.3   Research Objective

The main objective of the study is to assess the effect of corporate governance practices on financial distress among listed firms at Nairobi Securities Exchange.

The specific objectives are to:

i.   Establish the effect of number of non-executive directors on financial distress of firms listed at Nairobi Securities Exchange

ii.   Determine the effect of board size on financial distress of firms listed at Nairobi Securities Exchange

iii.   Establish the effect of board gender diversity on financial distress of firms listed at Nairobi Securities Exchange

iv.   Find out the effect of Ownership Concentration on financial distress of firms listed at Nairobi Securities Exchange

v.   Examine the effect of net profit on financial distress of firms listed at Nairobi Securities Exchange

vi.   Determine the effect of capital structure on financial distress of firms listed at Nairobi Securities Exchange

1.4   Value of the Study

The results of the study are expected to be important to shareholders and managers of firms listed at NSE since the shareholders and managers want to see their companies grow and succeed, not fail. This growth and success is the role of the companies' managers. Information given on the association among financial distress and corporate governance can be helpful for them to identify problems in the corporate structure and implement changes in management so as to have better performance and avoid financial distress.

The results of the study can be important to governments and policy makers. The government does not want to see any scale of financial crisis damage the country's economy. Corporate governance is particularly closely linked to government policies and legal enforcement. The government influences on corporate governance of firms through its policies and regulations as implemented by capital market authority can be reviewed so as to have sound governance mechanism which can play a role in preventing unnecessary risks in operation of companies.

The results can add to the present information on corporate governance and financial distress in the Kenyan context. A developed conceptual framework has been tested to establish its applicability to the firms listed at NSE. This adds to the existing theoretical knowledge on corporate governance and financial distress.

Scholars and academicians in the finance discipline can also use the study recommendations for further study to conduct future studies to broaden the knowledge on financial distress. Furthermore, they can consider the methods and results of this research and possibly extend it in various directions.

CHAPTER TWO : LITERATURE REVIEW

2.1 Introduction

The part presents past studies literature in an effort to capture the study concepts as well as set basis for the study. In view of that, the chapter highlights theories guiding the study, previous empirical studies conducted and new developments related to the study. The chapter ends by providing an overview of major ideas for the study.

2.2 Theoretical Review

The following theories have been used to help elucidate the impact of corporate governance practices on financial distress among listed firms at NSE: Stakeholder theory, Stewardship theory, Agency theory and Transaction theory.

2.2.1 Agency Theory

The proponent of the theory was Jensen and Meckling in 1976. They argued that there must be two parties for any contract to be successful. Generally, the theory is concerned with the problem that arises when collaborating parties are after varying goals and are also practicing separation of labor. The theory explicitly emphasizes on the association whereby one or more principals involves the agent to accomplish some job on their behalf.

The underlying principle of this theory is that the participants are pre-supposed as rational economic-optimizing bodies (Landström, 1993). What this implies therefore is that there will be decisions made by the agent that may not necessarily reflect the interests of the principal due to the segregation of ownership as well as control between the two parties and this will eventually lead to agency costs that are incurred in bringing the agents behavior into control. For instance,

there arises checking costs that are incurred by the principals in the practice of checking the behavior and actions of the agent as well as bonding costs sustained by the agent in their quest to demonstrate compliance with the principals' wishes. In this case, the element of investigation presented by the theory is the obligatory agreement specified between the participants. These contracts that are described in both written and unwritten formats stipulate the clear performance criteria as well as the rights of the agent that provide platform for agent performance evaluation as well as the related payoff functions they are remunerated by. The association between the participants always determines the performance of any organization in the dynamic business environment. Whitfield and Landeros (2006) posit that good relations between the employer and employee enhance organizational productivity. In modern competitive firms, good management practices ranging from management styles, policies, culture, structure, board of directors and technology can enhance employee motive to work towards organizational goals. Employees are usually aligned towards the goals of the organization especially if their organizations have visionary leaders whom can develop structures that enhance communication and coordination of activities among workers.

The theory is pertinent to this study in the sense that firms and specifically those firms listed in NSE are likely to maintain long term relations with their customers if they provide accurate market information to customers, have customer non-peripheral policies, have good leadership and brand image. Therefore, characteristics of board members will enhance decisions formulated by the shareholders and promote customer relations in the long term period.

2.2.2 Stakeholder Theory

Freeman (1984) originated the Stakeholder theory. The theory assumes the existence of a diversity of groups that collectively have a common stake in the affairs and activities of the

company. These groups separately ought to be considered by the management especially during the process of decision-making. There is a new dimension on strategic management as provided by the stakeholder theory that defines how a corporation can and should go about setting as well as implementing clear direction in the company (Freeman, 1984). According to him, a stakeholder is construed as any group or individuals capable of affecting or being influenced by the realization of the aims of the institution. Donaldson and Preston (1995) argue that the theory incorporates 3 features, normative, instrumental and descriptive that is nested within each other. Organizational management is founded upon principles of business ethics that addresses issues of various stakeholders in the changing business environment.

The theory identifies models which should guide the behavior of employees to work towards organizational goals. Business codes of ethics are developed by firms to guide and give employees the expected code of conduct at the work place. The stakeholder expectation is that agents of the firm should have moral integrity to make decisions that will enable the firm to maximize profits with minimal harm to the society (Ongore & Kusa, 2013). They argue that systems are likely to achieve goals through recognition of stakeholder's interests and needs in the competitive business environment. Managers should always formulate decisions that do not conflict with stakeholder expectations. Competitive firms should make decisions that represent all stakeholders because of social corporate responsibility of business enterprises in the changing business environment.

The theory is relevant to the theme of this study in that it generally points out that firms will show tendency to remain competitive especially if they maintain decentralized structures that enhance stakeholder information. This will therefore help lessen the magnitude of invasion of financial crises into the firms. Internal and external stakeholders are more likely to feel

recognized by their firms through open channels of communication that will enhance teamwork and employee dedication both of which are based on organizational governance.

2.2.3 Stewardship Theory

Davis (1997) advanced this theory that postulates that representatives of the organization or stewards should always strive to enhance firm performance thereby protecting and maximizing shareholders wealth. The ability of managers to have multiple skills like entrepreneurship, innovative and risk management will help firms to maximize profits for the benefit of shareholders. Shareholders always expect employees to acquire relevant skills and knowledge to utilize scarce resources of the firm to achieve long term goals more efficiently and effectively. Organizational managers or stewards are likely to be motivated if there is good corporate governance and vice versa (Davis, 2012). In order to protect corporate image, managers should develop policies that promote the welfare of workers without discrimination.

The theory being an alternative dimension to agency theory provides an accurate interpretation of the principal-agent connection. Shareholders as is often argued have overriding rights and statuses that are also advocated by this model even as it adopts the assumption that managers' welfare almost always side with those of their seniors. Senior managers are referred in this theory as good stewards of the corporation who can demonstrate adequate self-enticements to achieve greater levels of business returns and profits for the investors and not just opportunists as they are commonly and mistakenly depicted (Donaldson & Davis, 1991). The theory postulates that placing management under strict scrutiny by shareowners may not necessarily lead to the achievement of good returns, rather by empowering managers to take independent executive action. Different from the agency theory, this theory proposes that corporate practice should accord the management freedom in running the institution and be allowed ultimate powers of

decision. The responsibility of the board does not extend to absolute control of the corporation, but it is limited to supervision as well as assisting the CEO and the management in accomplishing their tasks (Kirkpatrick, 2009). The theory has however demonstrated some weakness in its inability to clearly draw the line between what actually constitutes the board and management responsibilities hence leading to difficulty in holding the CEO (and not the board) responsible for the outcomes of actions taken. During instances of financial turmoil, the unaccountability of directors as well as managers shows an absence of stewardship reinforcing the argument that ultimate powers of corporate control may not be practically offered to directors/managers. All the same it will be imprudent to discard the theory despite its obvious weakness especially given the diversity and intricacy of principals' interests as it effectively complements agency theory.

This theory is appropriate to this study in adopting the idea that it is the responsibility of firm managers to advance strategies that will add to shareholder value. Policies of diversification, new product development and operational efficiency are internal initiatives implemented by shareholder representatives to maximize shareholder value through dividends.

2.2.4 Transaction Cost Theory

This first proponent to this theory was Cyert and March (1963). Williamson (1996) thereafter hypothetically illustrated and exposed it. Transaction costs occurs when making an economic exchange the transaction cost occurrence divided into different categories like search for lower cost of collecting information and Bargaining costs paid commission. Williamson (1996), argues that transaction cost occurs when management pays commission for providing the services and gives extra benefits. According to Williamson (1996), the transaction cost theory states that directors are opportunists and make transactions to their interests. Corporate governance

improves monitoring effectiveness and makes manager accountable (Abdullah 2006). According to him the corporate governance is instruments that can be used by management for checking accountability and be able to control transaction cost.

2.3 Determinants of Financial Distress

Financial distress especially among firms that are listed at NSE can be determined by a number of factors including board characteristics, stakeholder rights, transparency and disclosure and Internal control systems.

2.3.1 Corporate Governance

According to Donaldson and Davis (1991), stakeholder rights entail legal, social and ethical principles that provide fundamental normative rules about what is expected of employees by their employers. They argue that internal stakeholders comprise of employees of the organization or shareholders who have direct relationship with the company in form of employment and ownership while external stakeholders are those people who do not directly relationship with the company but indirectly affect the outcome of the enterprise through transactions.

According to Bovens (2007) , the concept of transparency encourages a greater openness through increasing the total number of things that are made visible as well as increasing the number of methods in which things are made visible. Corporate scandals that occur at higher frequency often cast doubt over whether the practice of transparency in corporations is observed as the corporations usually include the concept of transparency in the details of their periodic reports. Nonetheless, there is admission of opaqueness in corporate transparency as they argue that one of the likely consequences of transparency is that it potentially triggers further public scrutiny of the transparent corporation.

Institutional reforms are supposed to establish mechanisms that will make it possible for effective as well as meaningful stakeholder involvement in the decision-making practice of corporations (Stoney & Winstanley, 2001). They express misgivings over whether there can be a change in unethical behaviour of corporations in the absence of important reformation of society as well as its constituent institutions. This implies that in the absence of administrative and institutional reforms meant to encourage transparency in reporting and empower stakeholders by giving them a legitimate voice, expressive engagement as well as stakeholder accountability will be unrealistic.

2.3.2 Profitability

Financial distress influences the profitability of firms in various ways. However, financial distress is key in the day to day operations and liquidity through cost implication such as indirect and direct costs associated with bankruptcy. A company is regarded as financially distressed if it goes through many periods of depressing net working returns or if the postponement of share payments, financial reformation or substantial layoffs. Financial proportions in the financial statements as well as cash flow and the analysis of profit and loss should be used to evaluate financial distress of the companies, (Pranowo *et al*, 2010).

In addition, it may spur cost effectiveness difficulty on companies in cash flow decline and the decrease of income or working returns continuously. Financial distress is anticipated to influence working profits resulting in short period bankruptcy influence effect, decreasing the company's capability by hindering operating principal and raising gratitude. Moreover, the rise in cost effectiveness caused by a rise in income to collective business proportion raises the company's bankruptcy, therefore raising DSC. Moreover, smaller returns to TS proportion gives a company little chance of financial distress, which is indicates companies in the path of financial instability.

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Therefore, for a diversity of causes, financial distress reduces company's cost effectiveness. DSC boosts a company's cost effectiveness and therefore the happenings of financial pain are low.

2.3.3 Leverage

This refers to the proportion among cumulative assets and the cumulative of the firm that indicates the degree to which the cumulative assets are funded by borrowings (Cui, De Jong & Ponds, 2011). A rise in this proportion indicates the reliance on the firms on outside money owing funding and higher score being provided to the company by loan facilitators resulting in a financial distress to a business.

Total liabilities to equity are normally used to evaluate leverage. Some liabilities such as financial borrowings and shares offered are owed to funding, other liabilities such as operation dues, delayed returns, and annuity liabilities arise from dealings with suppliers, clienteles and workers in carrying activities, (Bliss & Gul, 2012). Funding liabilities are usually transacted in proper operating principal markets where issuers are cost takers. On the contrary, companies are likely to increase the worth in business as operations entail transacting in raw materials and finished goods markets that are not much greater than businesses for capital.

2.4 Empirical Review

Campbell, John, Hilscher and Jan (2011) conducted a study that focused on forecasting monetary distress and the cost effectiveness of distressed shares in the USA. They presented a corporate failure model that predicts the probability of future financial distress through accounting as well as market-based measures. The model was deemed more precise in measuring corporate failure risk contrary to other measures of the same that provided inaccurate forecasts. They used a computation of financial distress to look at the cost effectiveness of distressed shares since 1981

to 2008. They established that distressed shares had bigger variable proceeds and that these shares tend to underperform secure shares by more now and then of greater market instability and risk avoidance. Despite bearing these significant risks, investors in distressed stocks did not enjoy any particular rewards. Even after significantly adjusting for their high risk, distressed stocks relative to other market stocks had very low returns. The study by Campbell, John, Hilscher and Jan (2011) presents contextual knowledge gap since the conditions of USA (developed economy) cannot be compared to Kenya hence the findings cannot be generalized to Kenya.

Aggarwal (2013) linked corporate governance to financial performance of firms in India. The data was collected over a five year period from the year 2010 to 2011. Secondary data was used for the study. The findings showed that corporate governance positively affects performance but the effect is not significant.

The study was conducted in India thus presenting a contextual knowledge gap. This study aims to focus in Kenya and compare the findings. The study by Aggarwal (2013) also focused on linking corporate governance to performance while this study links it to financial distress.

Manzaneque, Priego and Merino (2016) looked at some methods of corporate governance listed companies and their influence on the possibility of monetary distress in Spain. The study carried out a practical examination from 2007 to 2012 using similar pairs of study design with 308 observations. The results of the study indicated that in complex circumstances that precede insolvency, the influences of panel of directors as well as percentage of self-determining directors on business failure likelihood are comparable to those applied in more severe circumstances. The study presents a conceptual knowledge gap even though the theme is similar to that of this study. This study has gone an extra mile in not just linking corporate governance to

financial distress but also testing for the control effect of other factors such as capital structure and net profit margin.

Balasubramanian, Black and Khanna (2010) also established how corporate governance affects financial performance of companies with a focus on Bangladesh. The data used was primary in nature collected using questionnaires which were structured in nature. An ordinary least square regression model was used. The findings revealed that corporate governance significantly and positively affected performance. The study presents a conceptual knowledge gap which this study seeks to fill. This study aims to focus on financial distress which is more severe than poor performnance of firms. The study also presents a methodological knowledge gap since questionnaires were used. This study uses secondary data.

Shah (2016) conducted a study that looked at the effect of corporate governance on financial distress in Pakistan. The research empirically investigated the corporate governance practices of KSE 100 index listed non-financial firms and their effect on financial distress in the perspective of Pakistani market. In this research the effect of administrative ownership, organizational ownership, size of the panel, interdependence of the directors and Audit committee on financial distress were examined. Panel logit analysis based on 10-year data of the non-monetary firms for the year 2004 to 2005 was employed in this research. Results indicated that there was an insignificant relationship among corporate governance activities and the prospect of financial distress. There is a contextual knowledge gap which this study sought to fill since it focused on Pakistan economy.

Azeez (2015) looked at the association among corporate governance and the performance of companies in Sri Lanka. Data was collected on a three year period and analyzed using an

ordinary least square regression model. The results showed that size of the board inversely affected performance. However CEO duality positively affects Performance.

Abdulazeez, Ndibe and Mercy (2016) looked at the effect of corporate governance on the financial performance of all listed deposit money financial institutions in Nigeria for 7 years after consolidation. Data for the study was quantitatively retrieved from the annual reports and accounts of the studied banks. Pearson correlation was adopted in testing multicollinearity of the study variables that was also further confirmed through VIF test. Regression analysis was conducted that revealed that larger board size contributes positively and significantly to the financial performance of deposit money banks in Nigeria. The study presents conceptual knowledge gap since the focus was on firm performance. This study links corporate governance to financial distress.

Wanjiku (2011) conducted a study to determine the Corporate Governance activities of companies and its association with the development of firms listed at the NSE. The study adopted the underlying relative study design. The focus of the research was on business contact, management as well as technology use. Results of the study indicated a positive linear association linking expansion and Corporate Governance. The study presents conceptual knowledge gap since the focus is on firm growth. This study links corporate governance to financial distress.

Mang'unyi (2011) assessed the effect of ownership formation and Corporate Governance on the performance of firms. The central focus of the study was selected banks in Kenya. The findings of the study revealed a significant variation among Corporate Governance and financial performance of banks. The study findings therefore implied that corporate entities ought to promote corporate governance in an effort to send potential investors positive signals as well as

promotion of corporate governance by regulatory agencies including the government. The study presents conceptual knowledge gap since the focus is on firm performance. This study links corporate governance to financial distress.

2.5 Conceptual Framework

The conceptual framework presents a figurative representation of the relationship between corporate governance and financial distress. Furthermore, there are other factors which affect financial distress and captured as control variables. The corporate governance practices adopted for this study are number of non-executive directors, board size, board gender diversity and ownership concentration. The effect of these variables on financial distress is mixed. Other factors which also affect financial distress are captured as control variables. Net profit and capital structure are the control variables. The effect of net profit on financial distress is expected to be negative while the effect of capital structure on financial distress is mixed.
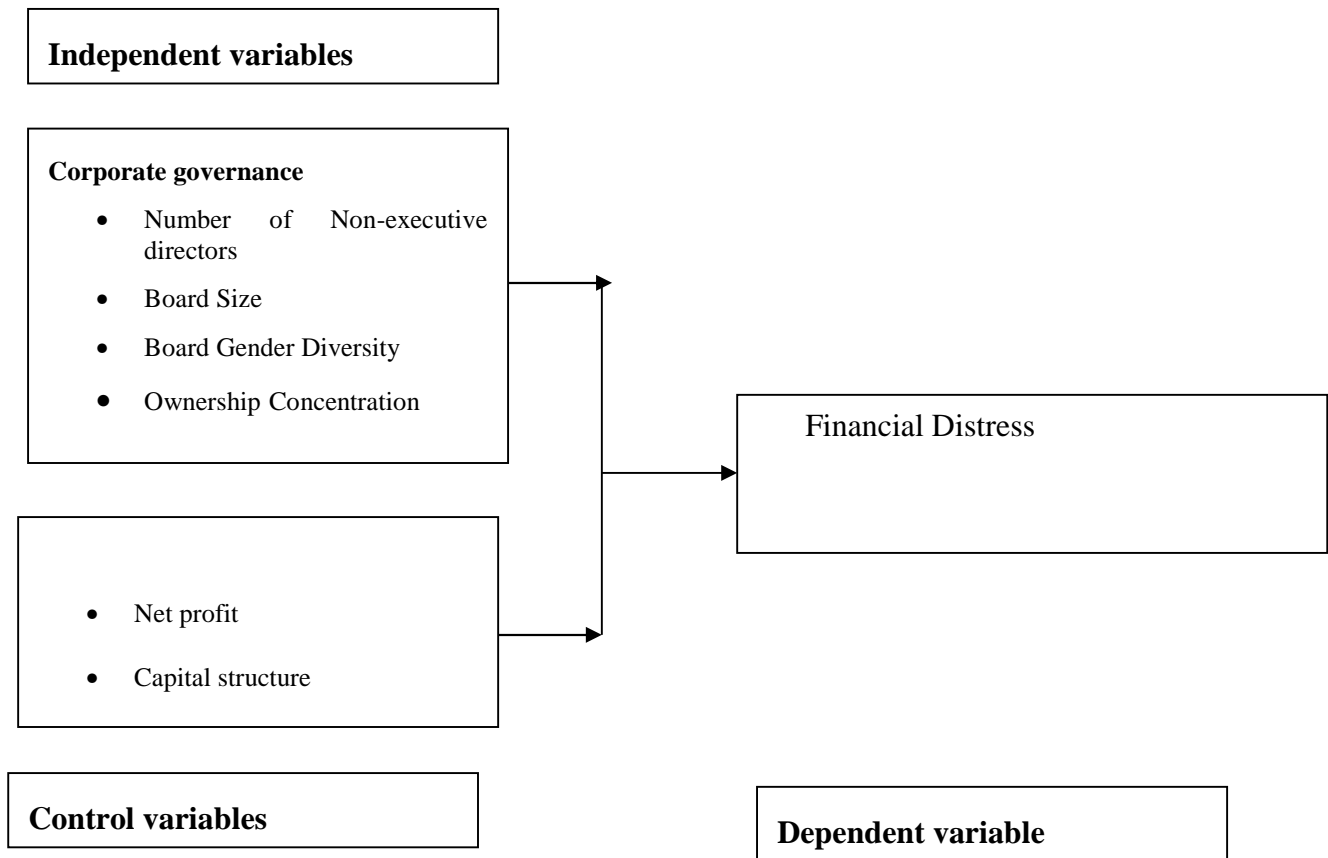
Figure 2.1 Conceptual Framework

2.6 Summary of Literature Review

The effect of corporate governance practices and financial distress has been scrutinized in different contexts (the empirical review conducted has been based in such countries as U.S., Pakistan, Bangladesh, Spain, India, Sri Lanka and Nigeria). It is important to consider the fact that the ethical as well as the legal systems of corporate governance mechanisms to regulate financial distress incidences differ from one nation to another. This admission therefore validates the argument that the specific corporate governance features in Kenya (for instance Ownership concentration, good governance practices and unitary board systems) may be significantly different from developed countries or countries economically superior to Kenya and thus the impact of these variables is also so significantly different to an extent that these attributes influence the firm financial performance and survival of the firm. It therefore follows that the

empirical evidence of corporate governance practices influence on financial distress is lacking in Kenya context. This finding therefore provide evidence that adopting corporate governance variables for prediction of distress was needed to explore in Kenya especially for the firms listed at NSE.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This part presents the methodology that was employed so as to attain the research objectives. The section presents the study design, population of the study, sample size purpose method, information gathering and evaluation methods.

3.2 Research Design

Descriptive research design was adopted by the study. The study design was suitablein expalaining the situation regarding financial distress. A descriptive research design was appropriate because it helps answer the questions of the form ''what''. The study questions can well be answered if the research design is applied since it guided the analysis method that aimed to establish what the effect corporate governance practices was on financial distress among listed firms at NSE (Gill & Johnson, 2010).

3.3 Population and Sample

The study population consisted of listed firms at the Nairobi Securities Exchange by the year ending December 2016. According to the NSE handbook report 2016, 66 firms were listed by the end of December 2016. The study conducted a census on all the 66 listed firms at NSE since the firms are few. A census is suitable when the target population is small, that is, less than 200 (Finchman, 2008).

3.4 Data Collection

The research gathered secondary data using a secondary data collection sheet (Appendix I). The data was obtained from the yearly financial statements of all the companies listed at NSE. More data was collected from the NSE handbook reports which are published yearly.

Data was collected on the number of non-executive directors, board size (number of board members), board gender diversity (number of female board members), ownership concentration (percentage number of shares owned by the management), net profit margin (ratio of net profits to sales), capital structure (ratio of debt to equity).

3.5   Data Analysis

The data collected was secondary in nature. Quantitative analysis methodology was hence adopted for this study. To test the effect of corporate governance on financial distress, inferential statistics was adopted. The particular inferential statistics was correlation and regression analysis. Correlation was used to establish the association between corporate governance practices and financial distress. An ordinary regression model was used to establish the effect of corporate governance practices on financial distress of listed firms. The tool of analysis was the

Financial distress was calculated using Altman Z score model as shown below. Other studies such as Mamo (2011) used the model to predict financial distress in commercial banks in Kenya and found the model to be 90% valid while Bwisa (2010) also evaluated Altman's model applicability in prediction of financial distress in Kenya and found the model to be 80% applicable hence this study is justified in using the model to calculate financial distress among listed firms at NSE.

Z=6.56T1+3.26T2+6.72T3+1.05T4

Where

T1= (Current Assets – Current Liabilities)/Total Assets

T2=Retained Earnings/Total Assets

T3=Earnings before interest and tax /Total Assets

T4=Book value of Equity/Total liabilities

Zones of discrimination

Z>3.75-Safe zone

1.75<Z<3.75-Grey zone

Z<1.75 –Distress zone

3.5.1 Regression Model

An ordinary least square regression model was used to establish the relationship between the study variables, that is, corporate governance practices and financial distress. Because of the presence of more than one predictor variable, a multivariate regression analysis was suitable. The model is as indicated:

$Y = _0 + _1X_1 + _2X_2 + _3X_3 + _4X_4 + _5X_5 + _6X_6 + \varepsilon$

Where Y – dependent variable (Financial distress)

X_1 – Number of Non-executive directors

X_2 – Board Size

X_3 – Board Gender Diversity

X_4– Ownership Concentration

X_5– Net profit

X_6– Capital Structure

$Ɛ$ – Is the error term

– Predictor variables coefficients

Table 3.1 Measurement of Variables

Variable	Type	Data to be collected	Measurement
Number of non-executive directors	Independent	Secondary	Number of non-executive directors
Board size	Independent	Secondary	Total Number of Board Members
Board Gender diversity	Independent	Secondary	Number of Female board members
Ownership concentration	Independent	Secondary	Percentage number of shares owned by the management
Net profit	Control	Secondary	Ratio of net profits
Capital structure	Control	Secondary	Ratio of debt to equity
Financial Distress	Dependent	Secondary	Altman's Z score

3.5.2 Diagnostic Tests

The study tested for multicollinearity to establish whether the predictor variables were highly correlated. The study also conducted a Mann-Whitney Wilcoxon test to establish whether there was a statistically significant difference in the study indicators of corporate governance among the financially distressed and non-financially distressed firms in the study period. The study was adopted because the dependent variable is could easily be grouped into a binary variable after the use of Altman's Z score to establish the financially distressed firms and those that were not financially distressed.

3.5.3 Test of Significance

The study performed F-tests to establish the model significance. The F calculated value was compared against the F critical value which was established from the tables. A level of significance of 5% was used. The study also used the t-statistic value to establish the significance of the beta coefficients. The study also conducted the multicollinearity test to establish the correlation among the predictor variables. The study also conducted the Wilcoxon-Mann-Whitney test to test whether there was a significant statistical difference between net profits, number of non-executive directors, board Size, board gender diversity, ownership concentration, net profit as well as capital structure between the financially distressed and non-financially distressed firms listed at the NSE between the year 2012 and 2016.

CHAPTER FOUR : DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents data analysis. It contains statistical summary and results from empirical analysis and the interpretations of the statistical inferences derived from the compiled data strived to accomplish the objective of the study. The econometric evaluation of the model was conducted by the use of binary logistic model with output being either, failed or non-failed firms in financial distress. The secondary data was obtained from the annual NSE hand books, published financial statements and investment funds. The data was collected on a five year period from the year 2012 to the year 2016.

4.2 Descriptive Statistics

The subsection presents the descriptive results of the minimum, maximum and standard deviation of the 7 variables for the study period between the year 2012 and the year 2016. The findings are presented in Table 4.1.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Distress	330	.850	7.88	3.758	2.174
Net profit	330	-7228723639	1811082276	(36,353,729.29)	595135458.133
Capital Structure	330	0	8	1.21	1.763
Management Concentration	330	0	4	0.01	0.231
Non-Executive Board Members	330	0	4	1.77	0.836
Board size	330	1	9	6.09	1.910
Diversity	330	0	4	0.89	0.952

The study findings in Table 4.1 revealed that there was a high variation in the financially distressed firms as shown by a high standard deviation (Standard Deviation = 2.174). The findings also revealed an average of loss in net profits among the listed firms in the study period as shown by a mean of 36.3 Million. The variation in the net profits was also high over the study period as indicated by a high standard deviation of 595.1 Million.

The results indicated that the on average, the management owns up to 1% of the shares of the listed firms at NSE between the year 2012 to the year 2016 as shown by a mean of 0.01. The standard deviation of 0.231 revealed a high variation in the percentage ownership by the management.

A mean of 1.77 of non-executive board members reveals that on average, the listed firms between the year 2012 and 2016 had two non-executive members with a low variation as shown by a standard deviation of 0.836. The mean of 6.09 of board size reveals that on average, the listed firms had 6 board members on average over the study period of 2012 to 2016 with a small variation in the board size as shown by a standard deviation of 1.910. The findings also revealed that on average, 0.89 female sat on the board of the listed firms between the year 2012 and 2016 which indicated that there were few female in the board. There was a high standard deviation revealed high variation in the number of female board members among the listed firms.

4.3 Trend Analysis

The trends were established to show the changes in the study variables over the study period of 5 years from the year 2012 to the year 2016. The trends were established for all the variables apart from financial distress which is a binary variable.

4.3.1 Trend Analysis of Net Profits

The findings indicated that the financial performance of the listed firms over the study period in terms of net profits has been decreasing on average. These findings reveal that the listed firms have undergone poor performance for the last five years on average.
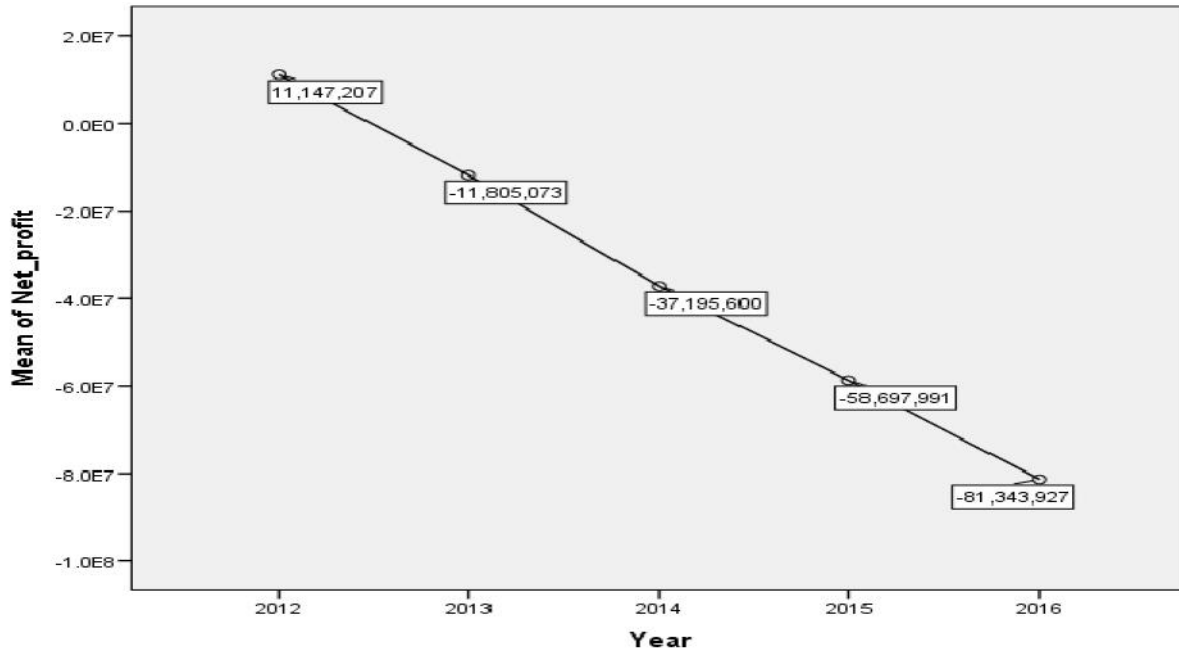
Figure 4.1 Trend Analysis of Net Profit

4.3.2 Trend Analysis of Capital Structure

The trends of capital structure measured in terms of debt to equity were increasing over the study period. The results reveal that the listed firms between the year 2012 and 2016 had more debts than equity on average which reveals that on average, most of the firms were being financed by debts than equity.
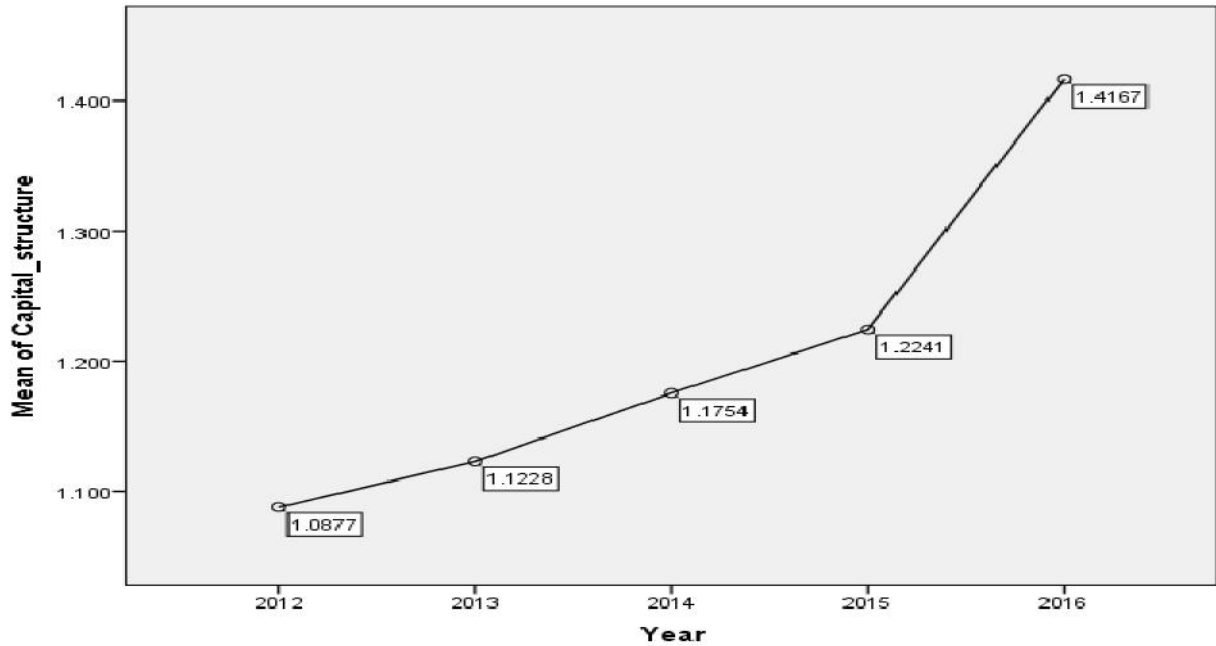
Figure 4.2 Trend Analysis of Capital Structure

4.3.3 Trend Analysis of Non-Executive Members

The trends in non-executive members were unsteady in the study period as shown in Figure 4.3. From the year 2013, there was an increase in non-executive members steadily but on average, the number remained below 2 members. The results reveal that on average, there were more non-executive than executive board members.
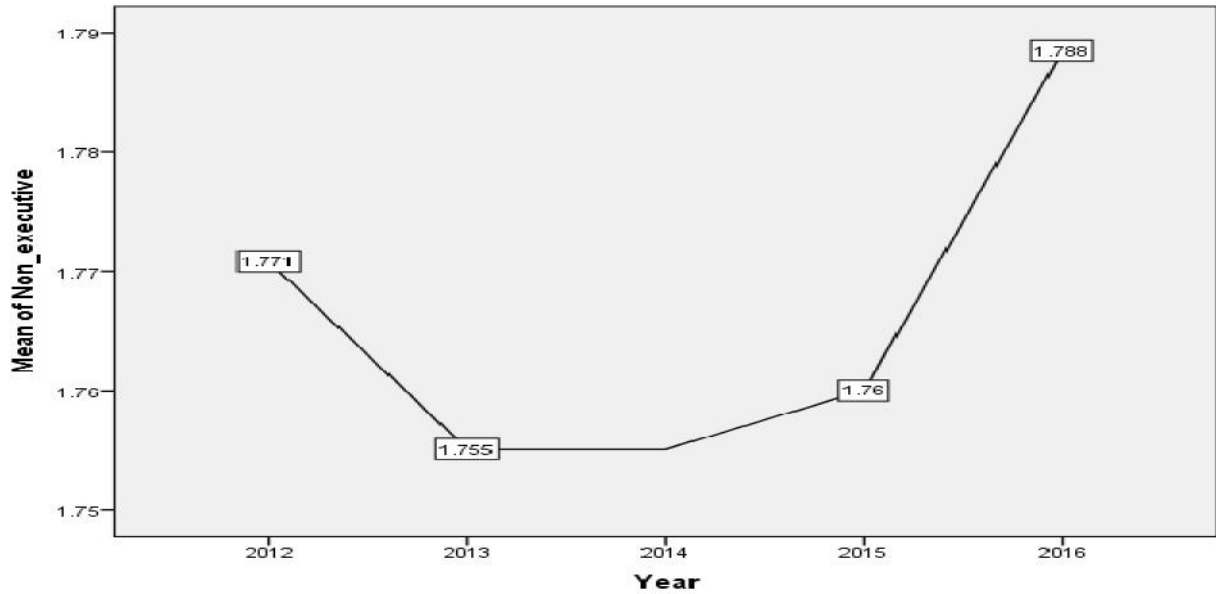
Figure 4.3 Trend Analysis of Non-Executive Members

4.3.4 Trend Analysis of Board Size

The results reveal that the on average, the board size of the firms listed at the NSE over the study period between the year 2012 and 2016 showed decreasing trends. On average, the number remained 6 on average.
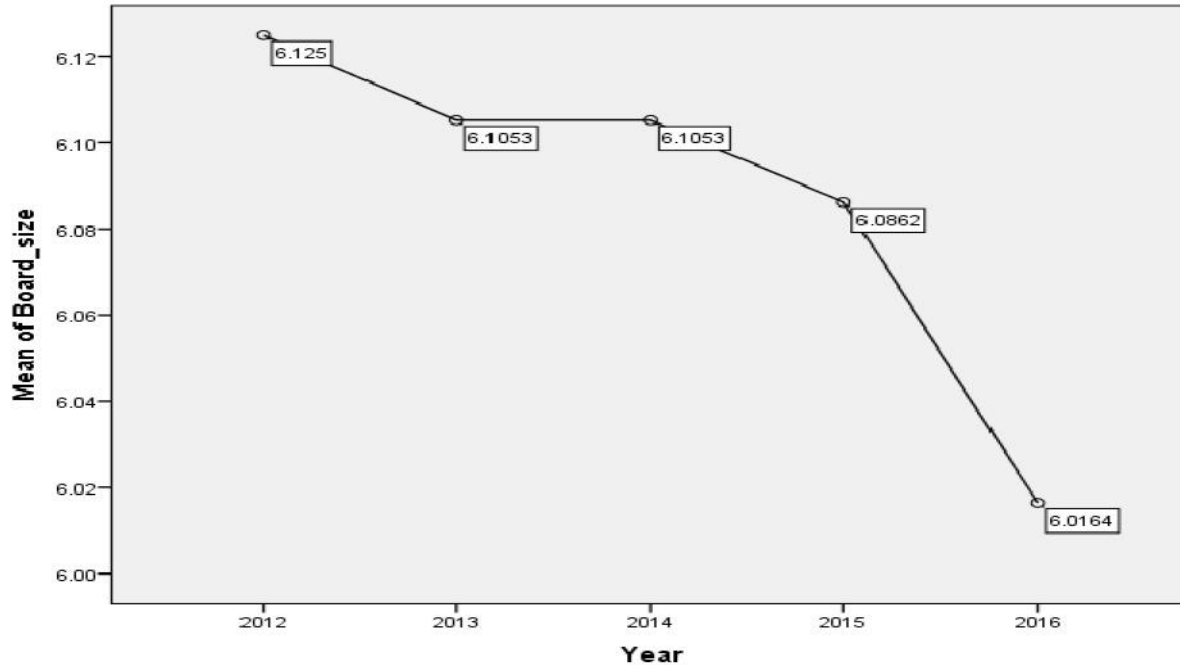
Figure 4.4 Trend Analysis of Board Size

4.3.5 Trend Analysis of Board Diversity

The trends indicating the board diversity for the listed firms at NSE as shown in Figure 4.5 revealed that the number of female board members has been decreasing. The highest average number was recorded in the year 2012 while the lowest was recorded in the year 2016 although the figure has been less than 2 on average.
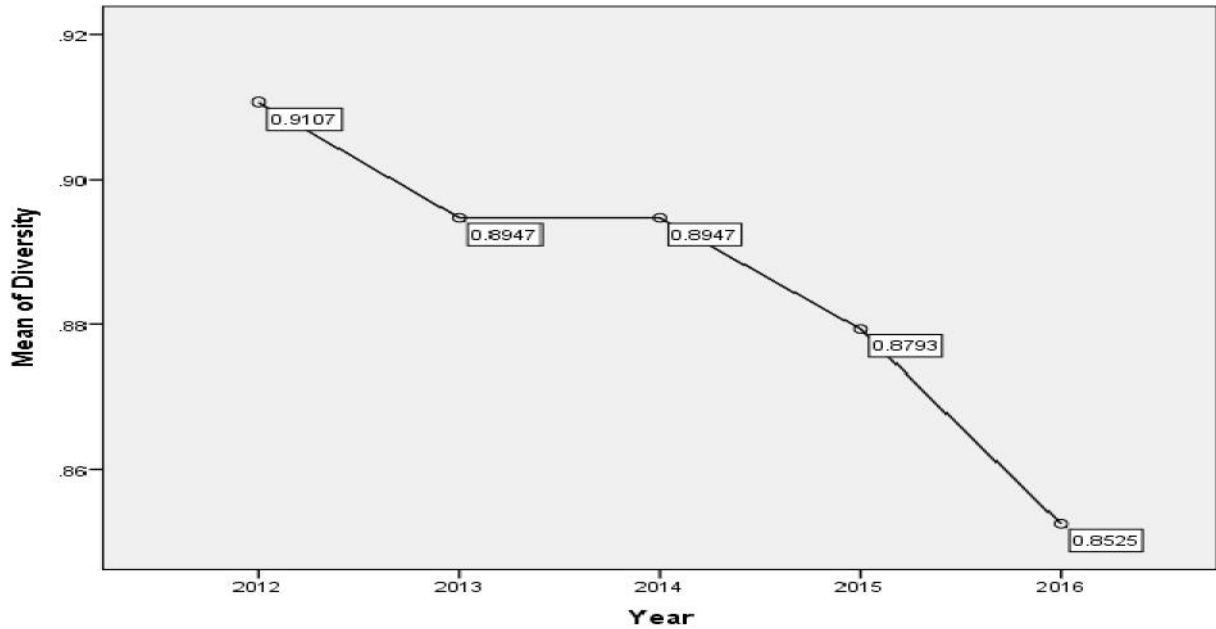
Figure 4.5 Trend Analysis of Board Diversity (Female Board Members)

4.4 Diagnostic Test

The study tested for multicollinearity to establish whether the predictor variables were highly correlated. The study also conducted a Mann-Whitney Wilcoxon test to establish whether there was a statistically significant difference in the study indicators of corporate governance among the financially distressed and non-financially distressed firms in the study period. The study was adopted because the dependent variable is not normally distributed hence it was suitable to use a non-parametric test.

4.4.1 Multicollinearity test

A variance inflation factor (VIF) was used to test for the presence of multicollinearity test among the predictor variables. Multicollinearity refers to the presence of highly intercorrelated predictor variables in regression models, and its effect is to invalidate some of the basic assumptions

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underlying their mathematical estimation. It is not surprising that it is considered to be one of the most severe problems in multiple regression models and is often referred to by social modelers as the "familiar curse". Collinearity diagnostics measure how much regressors are related to other regressors and how this affects the stability and variance of the regression estimates. There was no multicollinearity within the variables as the mean VIF was less than 10. This is in line with the informal rule of thumb which states that if condition number is less than 10, then there is no multicollinearity (Field, 2007).

Table 4.2 Variance Inflation Factor Test of Multicollinearity

Variable	Tolerance	VIF
Net profit	0.989	1.011
Capital structure	0.899	1.113
Management Concentration	0.991	1.009
Non-executive Board members	0.982	1.019
Board size	0.879	1.137
Board Diversity	0.873	1.145

4.4.2 Mann-Whitney Wilcoxon test

The Wilcoxon-Mann-Whitney test is a non-parametric analog to the independent samples t-test and can be used when one does not assume that the dependent variable is a normally distributed interval variable. It is normally referred as the Mann-Whitney U test or the Wilcoxon rank sum test. The test was developed jointly by Mann, Whitney and Wilcoxon. Therefore, present studies refer these two tests as the Mann-Whitney-Wilcoxon (MWW) test. The Wilcoxon-Mann-

Whitney test was carried and the results are presented Table 4.2. The study sought to test whether there was a significant statistical difference between net profits, number of non-executive directors, board Size, board gender diversity, ownership concentration, net profit as well as capital structure between the financially distressed and non-financially distressed firms listed at the NSE between the year 2012 and 2016.

The findings revealed a significant difference in the net profits and capital structure between the financially distressed and non-financially distressed listed firms at NSE between the year 2012 and 2016. The net profits of financially distressed firms was significantly less than that of the non-financially distressed firms (Sig = 0.000). The findings further revealed that capital structure of the financially distressed firms was significantly higher than that of the non-distressed firms (Sig = 0.004). There was no statistical difference in corporate governance indicators of number of non-executive members, board size and board diversity among the financially distressed and non-financially distressed firms. This revealed that corporate governance does not have a significant effect on financial distress.

Table 4.3 Mann-Whitney Wilcoxon test

	Net profit	Capital structure	Management	Non executive	Board size	Diversity
Mann-Whitney U	5464	7350	9850.5	6724.5	8826.5	9080
Wilcoxon W	10315	11815	14800.5	19444.5	13776.5	27035
Z	-6.07	-2.893	-0.704	-0.602	-0.816	-0.44
Asymp. Sig. (2-tailed)	0.000	0.004	0.482	0.547	0.415	0.66
Grouping Variable: Financial Distress						

4.5 Correlation Analysis

The study carried out a Pearson correlation analysis at 5% level of significance and the results were presented in the Table 4.4 to determine the relationship between the study variables. The findings reveal that net profit has a negative significant effect on financial distress (r = -0.177, 0.046) respectively. This reveals that an increase in net profits decreases the chances of a firm being financial distressed.

The results also showed that the association between management concentration in terms of the shares owned by the management and financial distress is negative and significant (r = -0.193, Sig = 0.009) which reveals that an increase in management concentration leads to a decrease in chances of financial distress. When the management has more shares in a firm, there is good governance of the firm which decreases the chances of financial distress.

The results also revealed that non-executive board members has a negative and significant effect on financial distress (r = 0.241, Sig = 0.000). An increase in non-executive board members leads to a decrease in financial distress of listed firms. Non-executive board members enhance governance of the firm thus decreasing the chances of a firm being financially distressed.

Furthermore, the results showed that board size has a positive significant association with financial distress (r = 0.233, Sig = 0.000). This shows that when the board size increases, the chances of financial distress also increases. This can be attributed to slow decision making process when the board size is big and thus plays a role in affecting the performance of the firm thus increasing the chances of financial distress.

The correlation findings also showed that board diversity has a positive significant association with financial distress (r = 0.203, Sig = 0.000). This shows that when the there is an increase in

the number of female board members, the chances of financial distress also increases. The correlation between capital structure and financial distress was however negative but not significant (r = -0.056, Sig = 0.307).

Table 4.4 Correlation Analysis

		Net profit	Capital Structure	Manage ment	Non-Executive	Board size	Board Diversity	Financial Distress
Net profit	Pearson Correlatio n	1						
Capital Structure	Pearson Correlatio n	0.042	1					
Manageme nt concentrati on	Pearson Correlatio n	0.011	.252**	1				
Non-Executive	Pearson Correlatio n	-0.051	.209**	.222**	1			
Board Size	Pearson Correlatio n	-0.024	0.071	.280**	.265**	1		
Board Diversity	Pearson Correlatio n	0.086	0.033	.170**	-0.041	.405**	1	
Financial Distress	Pearson Correlatio n	-0.177*	-0.056	-0.193*	-.241**	.233**	.203**	1
	Sig. (2-tailed)	0.046	0.307	0.009	0.000	0.000	0.000	
	N	330	330	330	330	330	330	330
** Correlation is significant at the 0.01 level (2-tailed).								

4.6 Regression Analysis

The relationship between corporate governance and financial distress of listed firms was established using an ordinary regression analysis. Regression analysis involved the analysis of coefficient of determination, model significance and model coefficients.

4.6.1 Coefficient of Determination

Coefficient of determination was used to show the changes in financial distress which can be attributed to corporate governance practices that is board size, board diversity, management concentration and non-executive members as well as net profits and capital structure. The regression analysis results presented in Table 4.5 indicates that the coefficient of determination (R squared) was 0.161 which implies that 16.1% of the changes in financial distress is explained by corporate governance practices that is board size, board diversity, management concentration and non-executive members as well as net profits and capital structure. An adjusted R square value of 0.161on the other hand revealed that 16.1% of the changes in financial distress is explained by only the significant variables that is board size, management concentration and non-executive members as well as net profits.

Table 4.5 Coefficient of Determination

R	R Square	Adjusted R Square	Std. Error of the Estimate
.420a	0.177	0.161	2.00115
Predictors: (Constant), Board Diversity, Capital Structure, Net profit, Non-executive, Management Concentration, Board Size			

4.6.2 Analysis of Variance (Model Significance)

The study also established the model significance of the regression model linking corporate governance to financial distress of firms listed at NSE. The study findings in Table 4.6 revealed that the overall model was significant. The F statistic for the model of 11.241 was significant (Sig = 0.000), hence it was concluded that the model linking corporate governance to financial distress of firms listed at NSE was significant.

To corroborate the findings, the study also used the F-distribution table to obtain the F-critical value ($F_{0.05\ (6,329)}$) calculated at $\alpha = 5\%$, using denominator degrees of freedom of 329 and numerator degrees of freedom of 6 and compared against the F-calculated value of 11.241. The rule of the thumb is that if F-calculated is greater than the F-critical, then the model is significant. The F-critical value from the F-distribution table was 2.126 which is less than 11.241 hence it confirms the previous findings that the model linking corporate governance to financial distress of firms listed at NSE was significant.

Table 4.6 Analysis of Variance (Model Significance)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	270.101	6	45.017	11.241	.000
Residual	1257.444	323	4.005		
Total	1527.545	329			
Dependent Variable: Financial Distress					
Predictors: (Constant), Board Diversity, Capital Structure, Net profit, Non-executive, Management Concentration, Board Size					

4.6.3 Model Coefficients

The findings revealed that net profit has a negative significant effect on financial distress (Sig = 0.044) respectively. This reveals that an increase in net profits decreases the chances of a firm being financial distressed. The results also showed that management concentration in terms of the shares owned by the management and financial distress are negatively and significantly related (Beta = -0.862, Sig = 0.022) which reveals that an increase in management concentration leads to a decrease in chances of financial distress. When the management has more shares in a firm, there is good governance of the firm which decreases the chances of financial distress.

The results also showed that non-executive board members has a negative and significant effect on financial distress (Beat = -0.623, Sig = 0.000). An increase in non-executive board members leads to a decrease in financial distress of listed firms. Non-executive board members enhance governance of the firm thus decreasing the chances of a firm being financially distressed.

Furthermore, the results also showed that board size has a positive and significant effect on financial distress (Beta = 0.42, Sig = 0.000). This shows that when the board size increases, the chances of financial distress also increases. This can be attributed to slow decision making process when the board size is big and thus plays a role in affecting the performance of the firm thus increasing the chances of financial distress. Findings also indicated that board diversity has a positive but not significant effect on financial distress (Beta = 0.195, Sig = 0.115). This shows that when the there is an increase in the number of female board members, the chances of financial distress also increases but insignificantly. Capital structure also has a positive but insignificant effect on financial distress of firms listed (Beta = 0.016, Sig = 0.640). This shows that when the ratio of debt to equity increases, financial distress of firms listed at NSE increases but not significantly.

Table 4.7 Model Coefficients

Predictors	B	Std. Error	t	Sig.
(Constant)	1.827	0.481	3.799	0.000
Net Profit	-3.54E-10	1.64E-10	-2.151	0.044
Capital Structure	0.016	0.033	0.468	0.640
Management Concentration	-0.862	0.376	-2.297	0.022
Non-Executive Directors	-0.623	0.12	-5.197	0.000
Board Size	0.42	0.081	5.205	0.000
Board Diversity	0.195	0.124	1.58	0.115
Dependent Variable: Financial Distress				

4.7   Interpretation of Study Findings

The findings revealed that an increase in net profits decreases the chances of a firm being financial distressed. The results also showed that an increase in management concentration leads to a decrease in chances of financial distress. When the management has more shares in a firm, there is good governance of the firm which decreases the chances of financial distress. The findings also showed that an increase in non-executive board members leads to a decrease in financial distress of listed firms. Non-executive board members enhance governance of the firm thus decreasing the chances of a firm being financially distressed. The findings are consistent with Manzaneque, Priego and Merino (2016) who established that percentage of independent directors has a significant effect on business failure likelihood. The findings are however not consistent with Aggarwal (2013) who found out that governance rating has a positive but insignificant influence on corporate profitability of the listed firm.

Furthermore, the results also showed that when the board size increases, the chances of financial distress also increases. This can be attributed to slow decision making process when the board size is big and thus plays a role in affecting the performance of the firm thus increasing the chances of financial distress. Findings also indicated that when there is an increase in the number of female board members, the chances of financial distress also increases but insignificantly. The findings are consistent with Shah (2016) whose study showed that there was an insignificant association between corporate governance practices and probability of financial distress among Pakistan firms. The results also revealed that when the ratio of debt to equity increases, financial distress of firms listed at NSE increases but not significantly.

CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the findings, recommendations and suggestions for further research. The responses arrived at were based on the objectives of study. The study sought to assess the effect of corporate governance practices on financial distress among listed firms at Nairobi Securities Exchange. The indicators of corporate governance were management concentration, non-executive board members, board size and board diversity. Control variables such as net profit and capital structure were also used in the study.

5.2 Summary of the findings

The findings of the study linked net profits to financial distress significantly revealing that higher profits were associated with a decrease in financial distress. The results also showed that when the management owned high number of shares in the firm, there were higher chances of financial distress decreasing in the firm due to enhanced governance.

The results also linked non-executive board members to financial distress significantly though the effect was negative implying that the higher the number of non-executive directors a firm had, the higher the chances of experiencing less financial distress. Non-executive board members enhance governance of the firm thus decreasing the chances of a firm being financially distressed. It was also established that board size has a positive and significant effect on financial distress implying that higher number of board members lead to high financial distress.

Findings also indicated that board diversity has a positive but not significant effect on financial distress implying that when the there is an increase in the number of female board members, the chances of financial distress also increases but insignificantly. The results lastly showed that capital structure has a positive but insignificant effect on financial distress of firms listed implying that an increase in the ratio of debt to equity insignificantly led to an increase in financial distress of firms listed at NSE.

5.3 Conclusion

The study concludes that net profits has a significant and negative relationship with financial distress indicating that higher profits leads to a decrease in financial distress. The study also concludes that when the management owns a high number of shares in a firm, it leads to a decrease in financial distress.

The study further concludes that non-executive board members has a negative significant effect on financial distress an indication that non-executive board members enhance governance of the firm thus decreasing the chances of a firm being financially distressed. The study further concludes that board size has a positive and significant effect on financial distress implying that higher number of board members led to high financial distress.

The study findings also led to the conclusion that board diversity has a positive but not significant effect on financial distress implying that the number of female board members don't significantly affect financial distress of a firm. The study also concludes that capital structure has a positive but insignificant effect on financial distress of firms listed implying that capital structure does not affect the financial distress of firms listed at NSE.

5.4 Recommendations and Policy Implications

The recommends that since an increase in management concentration in terms of shares owned by the management leads to an increase in the odds of a firm being financially distressed, there is a need for firms listed at NSE to come up with policies and regulations that limit the number of shares being owned by the management in terms of directors and managers so as to avoid the agency problem which is exists.

The study also recommends that since non-executive board members are associated with a decrease in financial distress of firms listed at NSE, the firms listed at NSE are advised to increase the number of non-executive board members so as to enhance governance and improve their financial distress position.

The study also recommends that since board size is associated with a significant increase in financial distress, the firms listed at NSE are advised to come up with policies to reduce and manage their board members so as to enhance faster decision making process and in so doing decrease the possibility of being financially distressed.

5.5 Limitations of the Study

The study was limited to only the firms listed at NSE and the scope was not expanded to have more firms which are not listed. Thus caution should be exercised when generalizing the findings of the study to other firms which are not listed at NSE. The study also tested for the control effect of only capital structure and net profits even though the conceptual scope is wide and that those are not the only control variables that can be adopted. Another limitation of the study is

that data was collected for a five year period only and hence the findings may not apply to other years other than the period considered under this study that is 2012 to 2016.

5.6 Suggestions for further studies

The study used firms listed firms at NSE in Kenya. A similar study should be done on firms which are not listed and determine if the same results would be achieved. Further study should be extended in testing bankruptcy prediction models on listed firms, with relatively smaller turnover sized where the incidences of business failure is greater than larger corporations. This will help determine financial position of all firms in the economy and give more insights to investors on their investment decisions. With this suggestion regulatory bodies like NSE and CMA will be in a position to capture wider market in terms of listing new firms. Other future studies should focus on expanding the period of the study and use more years from 5 years to 10 years so as to compare the study findings.

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APPENDICES

Appendix I: Data Collection Template

Financial Distress							
Company	Year	Current Assets	Current Liability	Retained Earnings	Equity	Total Liabilities	Total Assets
	2012						
	2013						
	2014						
	2015						
	2016						
	Corporate Governance and Control Variables						
		Board Size	Non-executive directors	Management Concentration	Board Diversity	Net Profit	Capital Structure
	2012						
	2013						
	2014						
	2015						
	2016						

Appendix II: Data Used

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
1	2012	5.47	545653	0.265	0.051	0	7	1
1	2013	4.47	700933	0.160	0.064	0	7	1
1	2014	4.72	630326	0.370	0.052	0	7	1
1	2015	7.13	592244	0.300	0.067	0	7	1
1	2016	6.14	597641	0.270	0.054	0	7	1
2	2012	6.81	31816	0.143	0.520	0	4	0
2	2013	4.67	21921	0.230	0.060	0	4	0
2	2014	7.45	25640	0.240	0.067	0	4	0
2	2015	4.92	44158	0.150	0.052	0	4	0
2	2016	3.78	43988	0.380	0.064	0	4	0
3	2012	6.95	-22785	0.297	0.066	0	6	1
3	2013	4.86	-22785	0.310	0.066	0	6	1
3	2014	6.71	-22784	0.360	0.059	0	6	1
3	2015	7.86	38562	0.160	0.064	0	6	1
3	2016	4.45	-22783	0.240	0.054	0	6	1
4	2012	1.6	32575	0.160	0.061	0	3	0
4	2013	1.52	-22784	0.370	0.052	0	3	0
4	2014	1.14	-44972	0.270	0.052	0	3	0
4	2015	1.69	-22783	0.320	0.056	0	3	0
4	2016	1.58	-22117	0.290	0.052	0	3	0
5	2012	6.71	8154	0.280	0.100	0	3	0
5	2013	5.04	13667	0.440	0.066	0	3	0
5	2014	6.28	13922	0.200	0.052	0	3	0
5	2015	7.35	12649	0.360	0.054	0	3	0
5	2016	5.86	12348	0.170	0.056	0	3	0
6	2012	6.67	12047	0.160	0.061	0	6	2
6	2013	5.25	11746	0.360	0.056	0	6	2
6	2014	4.92	11445	0.370	0.067	0	6	2
6	2015	7.1	11144	0.400	0.053	0	6	2
6	2016	5.33	10843	0.180	0.066	0	6	0
7	2012	6.08	-227636	0.240	0.062	0	6	0
7	2013	7.88	3329109	0.230	0.059	0	6	0
7	2014	7.29	-227635	0.230	0.057	0	6	0
7	2015	6.96	2039195	0.330	0.066	0	6	0
7	2016	5.61	-227634	0.250	0.063	0	6	0
8	2012	4.04	127147	1.276	0.060	0	5	0

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
8	2013	5.29	829190	0.120	0.062	0	5	0
8	2014	3.98	348147	0.370	0.064	0	5	0
8	2015	4.53	153912	0.270	0.061	0	5	0
8	2016	6	486736	0.420	0.053	0	5	0
9	2012	4.73	402196	0.495	0.053	0	5	0
9	2013	4.36	406586	0.575	0.050	0	5	0
9	2014	5.29	410976	0.655	0.047	0	5	0
9	2015	7.08	415366	0.735	0.044	0	5	0
9	2016	0.95	-129103	0.956	0.472	0	5	2
10	2012	1.39	-141714	0.504	0.720	0	6	2
10	2013	1.12	-154325	0.190	0.670	0	6	2
10	2014	1.26	-166936	0.310	0.660	0	6	2
10	2015	1.54	-179547	0.180	0.520	0	6	2
10	2016	1.13	-192158	0.220	0.630	0	6	2
11	2012	6.63	8401	0.340	0.023	4	8	2
11	2013	5.6	12862	0.350	0.640	4	8	2
11	2014	7.01	15542	0.380	0.640	4	8	2
11	2015	5.78	15126	0.230	0.590	4	8	2
11	2016	5.23	12303	0.310	0.530	4	8	2
12	2012	5.79	4905734	0.280	0.540	0	8	4
12	2013	7.18	5960068	0.290	0.660	0	8	4
12	2014	5.36	8153425	0.260	0.630	0	8	4
12	2015	4.24	6551274	0.280	0.670	0	8	4
12	2016	6.15	6252026	0.300	0.670	0	8	2
13	2012	4.99	6052239	0.430	0.530	0	8	2
13	2013	4.94	6353658	0.120	0.530	0	8	2
13	2014	5.85	6884652	0.430	0.640	0	8	2
13	2015	4.47	5404057	0.420	0.650	0	8	2
13	2016	6.83	7876842	0.190	0.560	0	8	2
14	2012	5.69	33593908	4.934	0.560	0	11	2
14	2013	5.37	21894255	4.560	0.590	0	11	2
14	2014	6.14	17442384	4.790	0.550	0	11	2
14	2015	5.61	25317337	4.610	0.600	0	11	2
14	2016	3.75	30883635	4.130	0.600	0	11	2
15	2012	3.99	1196969	0.940	0.590	2	7	0
15	2013	6.03	4989909	0.860	0.520	2	7	0
15	2014	4.39	6082442	0.900	0.620	2	7	0

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
15	2015	6.62	6217972	0.810	0.660	2	7	0
15	2016	6.75	7499439	0.800	0.660	2	10	0
16	2012	4.62	7958699	4.686	0.640	0	10	0
16	2013	6.8	5811486	5.140	0.660	0	10	0
16	2014	4.53	5154088	4.840	0.670	0	10	0
16	2015	3.78	6918394	5.770	0.520	0	10	0
16	2016	5.27	5106770	5.480	0.600	0	10	0
17	2012	4.64	40326181	4.860	0.610	3	10	2
17	2013	5.96	56529376	5.770	0.520	3	10	2
17	2014	6.48	43738624	5.880	0.510	3	10	2
17	2015	4.74	39125028	4.970	0.540	3	10	2
17	2016	5.29	39835793	5.250	0.530	3	10	2
18	2012	4.33	-1153477	13.180	0.580	2	6	2
18	2013	1.18	-1234567	13.300	0.610	2	6	2
18	2014	1.46	-1315657	10.880	0.560	2	6	2
18	2015	1.05	-1396747	13.190	0.670	2	6	2
18	2016	1.47	-1477837	13.300	0.660	2	6	2
19	2012	3.95	4485125	5.500	0.021	0	8	1
19	2013	7.07	8825878	4.990	0.600	0	8	1
19	2014	7.49	13862206	5.860	0.590	0	8	1
19	2015	7.29	11996794	5.250	0.630	0	8	1
19	2016	6.67	12625824	5.280	0.600	0	8	2
20	2012	3.79	9105334	5.160	0.590	3	8	2
20	2013	4.26	13976674	4.930	0.620	3	8	2
20	2014	4.22	13921253	5.870	0.600	3	8	2
20	2015	5.79	8063571	5.050	0.560	3	8	2
20	2016	6.41	6336047	5.550	0.640	3	8	2
21	2012	5.75	12534813	5.830	0.540	2	8	2
21	2013	7.31	9503484	5.830	0.590	2	8	2
21	2014	4.15	6586323	5.720	0.620	2	8	2
21	2015	6.36	13167692	5.930	0.550	2	8	2
21	2016	6.89	6931811	5.770	0.660	2	8	2
22	2012	1.43	-14785	-0.253	0.590	3	8	0
22	2013	1.03	-13567	5.640	0.540	3	8	0
22	2014	0.9	-12349	0.747	0.610	3	8	0
22	2015	1.44	-11131	5.210	0.550	3	8	0
22	2016	1.57	-9913	1.747	0.640	3	8	0

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
23	2012	0.99	113750	0.512	0.630	2	7	0
23	2013	1.61	407931	1.747	0.650	2	7	0
23	2014	1.17	566839	0.450	0.620	2	7	0
23	2015	1.68	822269	0.420	0.610	2	7	0
23	2016	1.15	877318	0.400	0.580	2	7	0
24	2012	1.25	-60088513	0.540	0.630	2	7	0
24	2013	1.01	-56088798	0.440	0.610	2	7	0
24	2014	1.43	-52089083	0.450	0.640	2	7	0
24	2015	1.09	-48089368	0.520	0.650	2	7	0
24	2016	0.97	-44089653	0.430	0.610	2	7	0
25	2012	5.24	25743000	2.400	0.267	2	11	3
25	2013	1	34909488	3.510	0.610	2	11	3
25	2014	1.54	31552333	4.060	0.510	2	11	3
25	2015	1.54	37947018	4.450	0.580	2	11	3
25	2016	0.87	53532	4.100	0.590	2	11	3
26	2012	1.57	40077	0.812	0.520	2	5	2
26	2013	1.28	37527	0.800	0.630	2	5	2
26	2014	0.98	58241	0.880	0.610	2	5	2
26	2015	0.85	40652	0.920	0.650	2	5	2
26	2016	1.26	40983	0.890	0.630	2	5	2
27	2012	1.37	55717576	0.840	0.620	2	7	2
27	2013	1.11	45966883	0.800	0.570	2	7	2
27	2014	1.27	41866299	0.850	0.670	2	7	2
27	2015	1.2	65246708	0.870	0.600	2	7	2
27	2016	1.49	63285080	0.870	0.590	2	7	2
28	2012	7.33	64740959	1.071	0.000	0	7	3
28	2013	6.74	68182442	0.970	0.000	0	7	3
28	2014	6.29	71623926	0.870	0.000	0	7	3
28	2015	4.72	75065409	0.769	0.000	0	7	3
28	2016	5.87	78506892	0.944	0.370	1	6	0
29	2012	4.71	81948376	0.311	0.280	1	6	0
29	2013	5.21	85389859	0.450	0.300	1	6	0
29	2014	6.94	88831342	0.074	0.370	1	6	0
29	2015	5.14	92272826	0.560	0.330	1	6	0
29	2016	7.86	95714309	1.046	0.280	1	6	0
30	2012	1.38	-141339	0.350	0.300	1	6	0
30	2013	1.05	-113458	0.260	0.350	1	6	0

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
30	2014	1.27	-85577	0.250	0.340	1	6	0
30	2015	0.88	-57696	0.290	0.220	1	6	0
30	2016	1.39	-29815	0.280	0.340	1	6	0
31	2012	1.55	-3421360	0.270	0.350	2	7	1
31	2013	1.18	-4567891	0.280	0.260	2	7	1
31	2014	1.65	-5714422	0.340	0.320	2	7	1
31	2015	1.65	-6860953	0.300	0.220	2	7	1
31	2016	1.25	-8007484	0.220	0.220	2	7	1
32	2012	1.41	-9154015	0.340	0.280	2	7	1
32	2013	1.48	-10300546	0.210	0.370	2	7	1
32	2014	1.24	-11447077	0.260	0.220	2	7	1
32	2015	1.22	-12593608	0.350	0.300	2	7	1
32	2016	1.55	-13740139	2.200	0.350	2	7	1
33	2012	4.91	-14886670	1.990	0.231	2	7	1
33	2013	5.03	-16033201	1.850	0.260	2	7	1
33	2014	6.59	-17179732	1.900	0.260	2	7	1
33	2015	6.03	-18326263	1.340	0.360	2	7	1
33	2016	7.11	-19472794	2.200	0.320	2	7	1
34	2012	7.45	5872000	1.640	0.340	3	10	2
34	2013	6.44	5874000	2.050	0.350	3	10	2
34	2014	4.01	5876000	2.020	0.230	3	10	2
34	2015	6.43	5878000	1.810	0.320	3	10	2
34	2016	5.54	5880000	1.370	0.260	3	10	2
35	2012	1.07	5882000	1.660	0.330	1	7	0
35	2013	1.28	5884000	1.440	0.370	1	7	0
35	2014	1.06	5886000	1.320	0.250	1	7	0
35	2015	1.58	5888000	1.350	0.300	1	7	0
35	2016	1.57	5890000	1.690	0.280	1	7	0
36	2012	1.02	-1432804	2.240	0.370	1	5	1
36	2013	1.65	-897654	1.760	0.290	1	5	1
36	2014	1.43	-362504	2.220	0.280	1	5	1
36	2015	1.65	172646	1.820	0.270	1	5	1
36	2016	0.87	707796	1.440	0.300	1	5	1
37	2012	5.51	7157070	1.290	0.290	1	9	2
37	2013	4.03	8902345	1.870	0.220	1	9	2
37	2014	7.62	10647620	2.120	0.310	1	9	2
37	2015	1.35	-12392895	2.300	0.360	1	9	2

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
37	2016	1.22	-14138170	1.920	0.260	1	9	2
38	2012	7.47	11517327	2.080	0.250	0	7	0
38	2013	4.21	15686423	2.300	0.330	0	7	0
38	2014	4.84	19855519	1.540	0.300	0	7	0
38	2015	4.3	24024615	1.280	0.240	0	7	0
38	2016	5.11	28193711	1.820	0.230	2	5	1
39	2012	1.11	32362807	2.260	0.360	2	5	1
39	2013	1.67	36531903	2.150	0.320	2	5	1
39	2014	0.91	40700999	2.260	0.330	2	5	1
39	2015	1.37	44870095	2.000	0.210	2	5	1
39	2016	1.46	49039191	2.160	0.290	2	5	1
40	2012	7.06	53208287	1.620	0.230	2	9	0
40	2013	5.37	57377383	2.310	0.330	2	9	0
40	2014	6.34	61546479	1.200	0.270	2	9	0
40	2015	7.66	65715575	1.870	0.210	2	9	0
40	2016	6.42	69884671	2.100	0.230	2	9	0
41	2012	7.7	74053767	1.480	0.280	2	7	2
41	2013	3.92	78222863	1.650	0.370	2	7	2
41	2014	4.37	82391959	2.150	0.350	2	7	2
41	2015	6.56	86561055	2.210	0.370	2	7	2
41	2016	3.83	90730151	1.810	0.300	2	7	2
42	2012	6.36	94899247	2.050	0.320	2	5	2
42	2013	5.46	99068343	1.460	0.370	2	5	2
42	2014	4.44	103237439	1.670	0.260	2	5	2
42	2015	6.41	107406535	1.430	0.210	2	5	2
42	2016	7.57	111575631	2.290	0.290	2	5	2
43	2012	3.92	-1009458	1.880	0.370	2	9	0
43	2013	4.87	-113594547	1.940	0.310	2	9	0
43	2014	5.55	-226179636	1.470	0.330	2	9	0
43	2015	7.01	-338764725	2.120	0.370	2	9	0
43	2016	3.8	-451349814	1.660	0.350	2	9	0
44	2012	6.11	1136604	2.160	0.360	2	7	0
44	2013	7.37	453623022	1.440	0.260	2	7	0
44	2014	4.46	906109440	2.330	0.210	2	7	0
44	2015	7.51	1358595858	2.000	0.240	2	7	0
44	2016	4.87	1811082276	2.280	0.250	2	7	0
45	2012	4.46	3121093	1.730	0.210	2	7	0

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
45	2013	5.76	-1804840090	1.820	0.260	2	7	0
45	2014	6.59	-3612801273	1.930	0.220	2	7	0
45	2015	5.4	-5420762456	1.600	0.290	2	7	0
45	2016	6.62	-7228723639	1.360	0.210	2	7	0
46	2012	4.57	3433619	1.890	0.280	2	7	0
46	2013	4.4	894275	1.380	0.270	2	7	0
46	2014	5.72	937347	1.300	0.220	2	7	0
46	2015	6.28	1059760	2.240	0.270	2	7	0
46	2016	4.22	753991	1.990	0.280	2	7	3
47	2012	6.85	832859	1.868	0.000	0	7	3
47	2013	6.86	840204	1.903	0.000	0	7	3
47	2014	3.98	847548	1.938	0.000	0	7	3
47	2015	6.62	854893	1.973	0.000	0	7	3
47	2016	2.19	845948	2.008	0.260	2	5	1
48	2012	1.95	933376	2.043	0.210	2	5	1
48	2013	3.26	893039	2.078	0.210	2	5	1
48	2014	2.11	735636	2.112	0.290	2	5	1
48	2015	2.8	966819	2.147	0.260	2	5	1
48	2016	2.98	908775	2.182	0.250	2	5	1
49	2012	2.76	874043	0.610	0.370	2	7	1
49	2013	3.31	936034	0.630	0.220	2	7	1
49	2014	3.6	1044057	0.619	0.360	2	7	1
49	2015	3.42	1011047	0.621	0.290	2	7	1
49	2016	1.78	984979	0.623	0.260	2	7	1
50	2012	1.92	1090547	0.625	0.000	1	5	0
50	2013	2.84	997643	0.630	0.250	1	5	0
50	2014	1.99	978884	0.640	0.300	1	5	0
50	2015	2.24	798103	0.600	0.350	1	5	0
50	2016	3.3	793076	0.650	0.320	1	5	0
51	2012	3.11	-693306	0.635	0.000	2	5	0
51	2013	2.77	-613858	0.637	0.000	2	5	0
51	2014	2.26	-534410	0.639	0.000	2	5	0
51	2015	2.94	841301	0.580	0.280	2	5	0
51	2016	2.36	1038589	0.570	0.260	2	5	0
52	2012	2.14	747001	0.289	0.230	2	7	1
52	2013	3.19	881444	0.620	0.220	2	7	1
52	2014	1.93	837027	0.590	0.370	2	7	1

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
52	2015	3.4	725793	0.650	0.310	2	7	1
52	2016	2.56	1070611	0.610	0.210	2	7	1
53	2012	3.04	839587	0.600	0.290	0	5	0
53	2013	3.09	830867	0.610	0.360	0	5	0
53	2014	2.83	730630	0.640	0.330	0	5	0
53	2015	3.36	790236	0.620	0.280	0	5	0
53	2016	2.32	801640	0.634	0.000	0	5	0
54	2012	3.54	-763635	0.640	0.000	0	5	0
54	2013	3.41	-751982	0.646	0.000	0	5	0
54	2014	3.4	-740330	0.652	0.000	0	5	0
54	2015	1.8	-768527	0.658	0.000	0	5	0
54	2016	3.07	-911910	0.664	0.000	0	5	0
55	2012	1.4	989844	0.354	0.330	2	5	1
55	2013	1.1	771018	0.330	0.280	2	5	1
55	2014	0.88	735529	0.300	0.360	2	5	1
55	2015	1.59	922472	0.350	0.250	2	5	1
55	2016	0.93	762168	0.300	0.230	2	5	1
56	2012	2.7	805327	0.814	0.370	2	7	0
56	2013	3.59	879380	0.280	0.320	2	7	0
56	2014	1.81	841051	1.814	0.270	2	7	0
56	2015	2.24	1012723	0.310	0.310	2	7	0
56	2016	2.83	985784	2.814	0.310	2	7	0
57	2012	1.19	832495	0.181	0.230	2	7	0
57	2013	1.09	900554	0.330	0.310	2	7	0
57	2014	1.5	718797	0.300	0.250	2	7	0
57	2015	1.24	782994	0.280	0.350	2	7	0
57	2016	1.69	839242	0.300	0.260	2	7	0
58	2012	2.51	886029	1.244	0.020	2	5	0
58	2013	2.28	799661	0.300	0.030	2	5	0
58	2014	2.17	878221	2.244	0.100	2	5	0
58	2015	2.76	762817	0.290	0.110	2	5	0
58	2016	3.22	831767	3.244	0.030	2	5	0
59	2012	2.77	-77710	0.820	0.000	2	7	1
59	2013	2.67	741157	1.600	0.000	2	7	1
59	2014	0.98	-77709	4.030	0.000	2	7	1
59	2015	1.06	-756733	6.450	0.000	2	7	1
59	2016	1.31	-77708	8.880	0.000	2	7	1

Firm	Year	Financial Distress	Net profit	Capital structure	Management	Non - executive	Board size	Diversity
60	2012	3.33	178848086	8.921	0.110	2	5	0
60	2013	3.38	103881867	11.346	0.160	2	5	0
60	2014	1.95	178848087	13.056	0.140	2	5	0
60	2015	1.92	133609188	14.766	0.050	2	5	0
60	2016	2.25	178848088	16.476	0.030	2	5	0
61	2012	1.82	28915648	18.187	4.680	2	5	0
61	2013	2.41	178848087	19.897	0.110	2	5	0
61	2014	1.85	88370289	21.607	0.100	2	5	0
61	2015	2.76	178848088	23.317	0.070	2	5	0
61	2016	2.48	90907579	25.027	0.060	2	5	0
62	2012	1.67	-4644801	2.140	0.360	2	7	1
62	2013	0.9	-2107510	0.539	0.050	2	7	1
62	2014	1.57	-4644800	0.511	0.170	2	7	1
62	2015	1.27	2967071	0.483	0.170	2	7	1
62	2016	1.66	-4644799	0.455	0.230	2	7	1
63	2012	1.03	429781	0.521	0.200	2	7	0
63	2013	1.48	5504361	0.290	0.220	2	7	0
63	2014	1.04	10578941	0.310	0.170	2	7	0
63	2015	1.43	15653521	0.370	0.210	2	7	0
63	2016	1.04	20728101	0.410	0.220	2	7	0
64	2012	2.04	-31871303	0.240	0.190	2	7	0
64	2013	2.54	-43014505	0.440	0.230	2	7	0
64	2014	2.05	-54157707	0.280	0.160	2	7	0
64	2015	2.44	-65300909	0.390	0.220	2	7	0
64	2016	2.89	76444111	0.300	0.230	2	7	0
65	2012	3.28	79495817	0.317	0.220	0	6	1
65	2013	2.12	88064452	0.310	0.200	0	6	1
65	2014	3.08	96633087	0.302	0.000	0	6	1
65	2015	3.56	105201722	0.295	0.000	0	6	1
65	2016	2.78	113770357	0.288	0.000	0	6	1
66	2012	4.37	122338992	0.280	0.170	0	7	3
66	2013	6.58	130907628	0.273	0.210	0	7	3
66	2014	4.07	139476263	0.265	0.180	0	7	3
66	2015	6.43	148044898	0.258	0.230	0	7	3
66	2016	7.55	156613533	0.250	0.220	0	7	3

Appendix III: Firms listed at the NSE as at 30th December 2016

1)	Eaagads Ltd Ord 1.25 AIMS
2)	Kapchorua Tea Co. Ltd Ord Ord 5.00 AIMS
3)	Kakuzi Ord.5.00
4)	Limuru Tea Co. Ltd Ord 20.00
5)	Rea Vipingo Plantations Ltd Ord 5.00
6)	Sasini Ltd Ord 1.00
7)	Williamson Tea Kenya Ltd Ord 5.00
8)	Car and General (K) Ltd Ord 5.00
9)	Sameer Africa Ltd Ord 5.00
10)	Marshalls (E.A.) Ltd Ord 5.00
11)	Barclays Bank Ltd Ord 0.50
12)	CFC Stanbic Holdings Ltd ord.5.00
13)	I&M Holdings Ltd Ord 1.00
14)	Diamond Trust Bank Kenya Ltd Ord 4.00
15)	HF Group Ltd Ord 5.00
16)	KCB Group Ltd Ord 1.00
17)	National Bank of Kenya Ltd Ord 5.00
18)	NIC Bank Ltd 0rd 5.00
19)	Standard Chartered Bank Ltd Ord 5.00
20)	Equity Group Holdings Ord 0.50
21)	The Co-operative Bank of Kenya Ltd Ord 1.00
22)	Express Ltd Ord 5.00
23)	Kenya Airways Ltd Ord 5.00
24)	Nation Media Group Ord. 2.50
25)	Standard Group Ltd Ord 5.00
26)	TPS Eastern Africa (Serena) Ltd Ord 1.00
27)	Scangroup Ltd Ord 1.00
28)	Uchumi Supermarket Ltd Ord 5.00
29)	Hutchings Biemer Ltd Ord 5.00
30)	Longhorn Publishers Ltd
31)	Atlas Development and Support Services
32)	Deacons (East Africa) Plc Ord 2.50
33)	Nairobi Business Ventures Ltd
34)	Athi River Mining Ord 5.00
35)	Bamburi Cement Ltd Ord 5.00
36)	Crown Berger Ltd 0rd 5.00
37)	E.A.Cables Ltd Ord 0.50
38)	E.A.Portland Cement Ltd Ord 5.00
39)	KenolKobil Ltd Ord 0.05
40)	Total Kenya Ltd Ord 5.00
41)	KenGen Ltd Ord. 2.50
42)	Kenya Power & Lighting Co Ltd

43) Jubilee Holdings Ltd Ord 5.00	
44) Pan Africa Insurance Holdings Ltd 0rd 5.00	
45) Kenya Re-Insurance Corporation Ltd Ord 2.50	
46) Liberty Kenya Holdings Ltd	
47) Britam Holdings Ltd Ord 0.10	
48) CIC Insurance Group Ltd Ord 1.00	
49) Olympia Capital Holdings ltd Ord 5.00	
50)	Centum Investment Co Ltd Ord 0.50
51)	Trans-Century Ltd
52)	Home Afrika Ltd Ord 1.00
53)	Kurwitu Ventures
54)	Nairobi Securities Exchange Ltd Ord 4.00
55)	B.O.C Kenya Ltd Ord 5.00
56)	British American Tobacco Kenya Ltd Ord 10.00
57)	Carbacid Investments Ltd Ord 5.00
58)	East African Breweries Ltd Ord 2.00
59)	Mumias Sugar Co. Ltd Ord 2.00
60)	Unga Group Ltd Ord 5.00
61)	Eveready East Africa Ltd Ord.1.00
62)	Kenya Orchards Ltd Ord 5.00
63)	A.Baumann CO Ltd Ord 5.00
64)	Flame Tree Group Holdings Ltd Ord 0.825
65)	Safaricom Ltd Ord 0.05
66)	Stanlib Fahari I-REIT

Source: NSE Handbook (2016)