CORPORATE GOVERNANCE, STRATEGY IMPLEMENTATION, INDUSTRY COMPETITION AND PERFORMANCE OF COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE

EDWARD NDWIGA KOBUTHI

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUITEMENTS FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

I, the undersigned, declare that this doctoral thesis is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signature ---Date--

Edward Ndwiga Kobuthi
D80/80481/2009
Department of Business Administration
School of Business
University of Nairobi

This thesis has been submitted with our approval as University Supervisors.

Signature .... Date.....................................

Prof. Peter K'Obonyo, PhD.

School of Business

University of Nairobi

Signature .... Date.....................................

Prof. Martin Ogutu, PhD.

School of Business

University of Nairobi

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For further information please contact Edward Kobuthi on the following address

P. O. Box 1236- 00618, Ruaraka, Nairobi.

Telephone +254 721 705 453.

Email: ekobuthi70@gmail.com

DEDICATION

This thesis on corporate governance is dedicated to all those men and women who refuse to take shortcuts even when it would cost them money, time, a job, promotion or even their life.

It is especially dedicated to all those men and women who appeared in the High Court (Traffic Court) on the 11 day of November 2016, charged with flouting flimsy (less serious) traffic offences; exceeding speed limits (by 10km/hr. to 15 km/hr.) and touts wearing uniforms of a different shade from the prescribed one. I was in Court for taking a wrong right turn on a section of Lunga Lunga Road in the Industrial Area, Nairobi, while on a data collection mission. This T- junction had recently been changed and outlawed a right turn. I was charged with obstruction and fined Kshs 10,000.

These men and women chose to spend a whole day in Court and paid the requisite fines. It is especially dedicated to them because every day matatus (mini busses) are driven on pavements and on the wrong side of the road and literally obstruct other motorists by parking on the road on Moi Avenue, in full view of the Traffic Police and Nairobi County traffic wardens but are not prosecuted! Those who openly and blatantly break road rules are never arrested and should they be arrested they never appear in Court; none of them was in Court on that day.

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ABBREVIATIONS AND ACRONYMS

ACCRIS	- Accountability, Risk Management and Internal Audit
AGT	- Agency Theory
ANOVA	- Analysis of Variance
BOC	- Board Operations and Control
BOD	- Board of Directors
BSC	-Balance Score Card
BRE	- BOC, RHTS, ETHSR
BRSETS	- BOC, RHTS, STK, ETHSR, TRDIS, SUPENF
CBK	- Central Bank of Kenya
CCG	- Center for Corporate Governance
CEO	- Chief Executive Officer
CEO/ Duality	- Offices of CEO and Chair held by two separate individuals
CG	- Corporate Governance
CGI	-Corporate Governance Index
CMA	- Capital Markets Authority
CMAs RCCGK-	Capital Markets Authority Revised code of Corporate Governance for Public Listed Companies in Kenya
CV	- Coefficient of Variation
CVI	- Content Validity Index
Deloitte	- Deloitte Touché Tohmatsu Limited
DY	- Dividend Yield
GDP	- Gross Domestic Product
ETHSR	- Ethics and Social Responsibilities
EU	- European Union
Ernest & Young-	EY Global
ICPSK	- Institute of Certified Public Secretaries of Kenya
IO	- Industrial Organization
IODK	- Institute of Directors of Kenya
IMF	- International Monetary Fund
ISS	- Institutional Shareholder Service
KPMG	- Klyveld Peat Marwick Goerdeler
MBA	-Master of Business Administration

MPA	- Master of Public Administration
MSCI	- Morgan Stanley Capital International
NED	- Non-Executive Director
NSE	- Nairobi Securities Exchange
OECD	- Organization for Economic Co-operation and Development
PPM	- Pearson Product Moment
PWC	- PricewaterhouseCoopers International Limited
RDT	- Resource Dependence Theory
RHTS	- Rights of Shareholders
ROA	- Return on Assets
ROI	- Return on Investments
ROE	- Return on Equity
SCAC	- State Corporations Advisory Council
SCP	- Structure Conduct Performance
SD	- Standard Deviation
SSE	- Sustainable Stock Exchanges
ST	- Stewardship Theory
STK	- Stakeholder Theory
STKH	- Stakeholder Relations
SUPENF	- Supervision and Enforcement
Tobin's Q	- Valuation
TRDIS	- Transparency and Disclosure
VIF	- Variance inflation Factor

ABSTRACT

The purpose of the study was to establish the effect of strategy implementation and industry competition on the relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange (NSE). The study sought to establish the mediating and moderating effect of strategy implementation and industry competition, respectively, on the relationship between corporate governance and firm performance. It developed a corporate governance index as a proxy for corporate governance based on the seven attributes of the recently revised Capital Markets Authority's draft code of corporate governance practices for public listed companies in Kenya. These are: board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure, and supervision and enforcement. Review of literature provided conceptual and empirical gaps that formed the basis of the research hypotheses. The population of the study consisted of the 56 companies listed on the Nairobi Securities Exchange. The study used cross-sectional survey design, where data was collected at one point in time across all the organizations covering the four financial years, from 2012 to 2015. The survey questionnaire was the main tool of data collection and was distributed to 56 CEOs and corporation secretaries. Annual reports for the year 2015 were used to compute the CGI score for the different organizations. A score of 1 was awarded where an attribute was clearly reported and 0 if not. Scores of 0.25, 0.5 and 0.75 were awarded to recognize partial compliance. Annual reports were also used as sources of data on the financial performance and ages of company directors. The response rate from the field was 49 out of the 56 companies (87.5%). The reliability test showed that the study dimensions were reliable. The researcher divided the hypotheses into two categories: financial and non-financial. The hypotheses were tested one at a time beginning with the non-financial, where linear regression was conducted. Due to lack of evidence to support a linear relationship between corporate governance and financial indicators, optimal scaling was used to test the financial measures of performance. The study found that there was a significant relationship between corporate governance and non-financial performance, and financial performance measured by earnings per share (EPS). The findings also indicated that there was no significant relationship between corporate governance and return on assets, return on equity and Tobin's Q of firms listed on the NSE. It was found that strategy implementation

mediates the relationship between corporate governance and non-financial performance and financial performance. Industry competition moderates the relationship between corporate governance and financial performance but not on non-financial performance. The study established that the joint effect of corporate governance, strategy implementation and industry competition on non-financial performance and on financial performance measured by EPS was greater than the effect of corporate governance and performance, confirming that organizations can enhance their performance by implementing good corporate governance, specifically those attributes of good corporate governance that matter. The results have diverse implications for policy, practice and research. There were limitations on the study but they did not affect the credibility of the results.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate Governance (CG), Strategy Implementation (SI), and Industry Competition (IC) play a fundamental role in determining the maximization of shareholders' wealth, and good CG is considered an important step for building market confidence that encourages more stable and long term investment. Strategy implementation is a key requirement for superior business performance (Fourie, 2009). Firms that face an intense level of competition have higher levels of productivity which could be traded in for corporate governance provisions (Buchwald and Thorwarth, 2015). In the last few years there has been a significant increase in both policy and academic research in corporate governance, which could be attributed to corporate scandals that have caused some of the biggest bankruptcies in corporate history (Claessens, 2006). Corporate governance however traces its origins to 1774, to Adam Smith's publication, "The Wealth of Nations" (*An Inquiry into the Nature and Causes of the Wealth of Nations* is the full name of the famous book by Scottish economist and moral philosopher*),* but gained impetus with the seminal publication of 1932 by Bearle and Means, "The Modern Corporation and Private Property", work that created explicit boundaries separating ownership and control in a modern organization and the challenges that separation brought. Jensen and Meckling (1976) attempted to cluster the concerns of separation, coining the term "agency problem", about how organizations are governed. Better governed organizations tend to perform better than poorly governed ones, a state that is influenced by many factors including industry competition and strategy implementation.

According to Filatotchev and Boyd (2009) agency theory formed the backbone on which prior research on corporate governance was hinged. This research, therefore, used agency theory but was supported by resource dependence, stewardship and stakeholder theories. Shabbir & Padget (2005) posit that decreasing agency costs coming out of internal corporate governance structures should help improve performance. This has been the major reason for the formulation of governance reports and the main motivation for empirical studies linking corporate governance

and performance and more recently the establishment of composite governance indices (Gompers *et al*., 2003). The resource dependence theory sees the board of directors as a reservoir of resources, which creates high performance (Haniffa & Hudaib, 2006), while the stewardship theory, suggests a pro-organizational motive of board of directors in contrast to the agency theory's pessimistic egocentric intensions of executives (Davis *et al*., 1997). The stakeholder theory challenges agency theory's assumption of primacy of shareholders and recognizes the many players who have an interest in the organization (Freeman, 2010).

Irungu (2016) observed that Kenya Airways, Mumias Sugar and Uchumi were insolvent, failures which Okoth (2015) attributed to, amongst other reasons, poor corporate governance, strategy implementation errors and ignoring industry competition. According to Cytonn Investments (2016), investor's wealth has been eroded to the tune of 223.5 billion shillings between 5 NSE listed companies. This is happening at a time when demand for the stocks of Kenyan companies has risen consistently, thus raising the foreign ownership of shares at the NSE to more than a third of the market value (Irungu, 2016). From a global perspective corporate governance becomes an issue of systemic stability providing early warning (OECD, 2004). There has been limited empirical corporate governance studies in Kenya that support the provisions that ought to form part of an elaborate corporate governance framework.

The main motivation of this study was to evaluate the degree to which corporate governance provisions have been adopted by firms listed on the Nairobi Securities Exchange (NSE), and hopefully find out which omissions if any, could cause failure of firms mentioned above. Governance provisions contained in the recently revised Capital Markets Authority's (CMA) code of corporate governance practices for publicly listed companies in Kenya were carefully analyzed and the most appropriate provisions highlighted. Even though corporate governance is a subject that is at the centre of academic and policy debate all over the world, evidence of how it affects different governance systems in Africa, and Kenya in particular, is still sparse.

The Nairobi Securities Exchange, which was listed on the main investment market on 27 June 2014, joined the Sustainable Stock Exchanges (SSE) initiative of the United Nations in March 2015. Members of the SEE are required to appraise their key stakeholders about the significance of incorporating sustainability in their capital markets. The operations of firms listed on the Nairobi Securities Exchange are regulated by the Capital Markets Authority. Listed firms are required to publish their annual accounts, and by law confirm adherence to certain corporate governance requirements making it easy to access the requisite information for this study.

1.1.1 Corporate Governance

Systems used to balance the rights and obligations of the owners and those of non-owner managers are collectively referred to as corporate governance. Cadbury (1999) for example defines corporate governance as the process through which organizations are superintended and controlled and mainly focuses on how the main inside governance characteristics interface to maximize shareholder value. Solomon and Solomon (2004) define corporate governance as a process of scrutiny which makes certain that organizations perform their duties to the satisfaction of all their stakeholders. Corporate governance attained global significance due to the surge of corporate scandals such as Enron, World-Com and others (Claesens (2006). There has been an attempt to create an empirical connection between internal corporate governance and performance using two models: an equilibrium characteristics model and a compliance-index model using the agency theory.

The equilibrium characteristics model assumes that there exists an endogenous correlation between internal governance structure and an organization such that each organization can freely choose its own optimal governance structure (Gyakari, 2009). While using the compliance-index model, firms tend to choose governance structures as a set because organizations' governance mechanisms are imposed from outside (Danielson & Karpoff, 1998; Shabbir & Padget, 2005). Consequently, instead of viewing in isolation a corporate governance mechanism, this model recommends the construction of a holistic index, encapsulating entirely a comprehensive set of provisions that explore the corporate governance performance link (Beiner *et al.*, 2006 and Bebchuk *et al.*, 2009). Among the internal corporate board structure

attributes that have been found to influence performance of firms are: the board size, non-executive directors, role or CEO duality, board diversity, frequency of board meetings, director share ownership and presence of committees which constitute the equilibrium-characteristics (Gyakari, 2009).

Countries in Sub-Saharan Africa such as Kenya have borrowed corporate governance codes that have provisions that include board committees, separation of board chairs' roles from that of the CEO and non-executive directorships, as among the sought-after corporate governance practices that lead to better performance. The code for public listed companies in Kenya adopted by the Capital Markets Authority would generate the compliance index by aggregating the 42 governance dimensions provided, to form the Corporate Governance index (CGI).

1.1.2 Strategy Implementation

Strategy implementation has no universally accepted definition. It may be viewed as a process of introducing various forms of organizational learning and strategic responses (Lehner, 2004). It is an iterative process of turning strategies, policies, programs and plans into actions (Harrington, 2006). Similarly, Ogbeide and Harrington (2011) defined strategy implementation as a complex process concerned with designing systems that achieve an integration between people, structures, processes and resources. According to Jalali (2012), Strategy implementation is a dynamic, iterative, integrative and complex process comprising a series of activities and decisions that turn plans into reality to achieve organizational objectives

The reality of strategy lies in its strategic actions (implementation) instead of in its strategic pronouncements. Minztberg (1985) defines strategy implementation as the way that an organization develops, utilizes and amalgamates its structure, controls systems and culture to adopt those strategies that places it at a vantage position which results to performing well. The best-formulated strategies may not always produce superior performance if not well implemented. Although formulating a good strategy is a herculean task, Thompson and Strickland (2003) have stressed that the task of implementing strategy is the most challenging, energy sapping and resource-consuming part of strategic management. Atkinson (2006) posited that problems of

strategy implementation emanate from underestimation of needed time, effects of uncontrollable factors, destructions from competing activities, insufficient employee capabilities, lack of leadership and inadequate monitoring systems. Kaplan and Norton (2008) observed that successful strategy implementation has two basic rules. They are: an understanding of the management cycle and the link between strategy and operations. More importantly, Peng and Litteljohn (2001) noted that managerial knowledge about which tools to apply at each stage of the implementation cycle is equally critical.

According to Pearce and Robinson (1996), operationalization and institutionalization of strategy are the two major steps of strategy implementation. The breaking of long-term corporate objectives to operational short-term objectives, crafting strategies, action plans and policies to guide decision-making, assigning responsibility and providing human resources and a budget define operationalization. Institutionalization pervades the day-to-day decisions and actions in a way that supports long term strategic success and matching strategy with organizational structure and culture, selecting leadership that is effective, communicating strategic intentions, and putting in place reward systems that are effective (Sterling, 2003).

1.1.3 Industry Competition

According to Nickell (1996), the market conditions where stronger competition leads to more efficient markets define industry competition. According to micro-economic theory, competition forces prices to be at equilibrium, while marginal costs bring about efficiency in the allocation of factors of production. Giroud and Mueller (2010) observed that competitive pressure exerts more discipline on management of highly competitive industries than in industries without competition where managerial sluggishness is also more prevalent.

It is important to determine the competitive forces that affect an industry when one wishes to analyze an industry. Porter (1979) suggests that the 5 main competitive forces that affect industry competition are: rivalry existing among current players, threat of entry of new players, threat of substitute products, bargaining power of buyers and bargaining power of suppliers**.** An attractive industry therefore has low

threat of new entrants, weak suppliers bargaining power, weak buyers bargaining power, low threat of alternative products, low rivalry among competitors and unavailability of complementary products or services.

Porter's five forces' framework has lately been the subject of scholarly critique. Its theoretical foundation has been criticized by some scholars who have argued that the structure conduct performance (SCP) approach to industrial organization (IO) economics lacks rigor, especially when compared with logical robustness of game theory. Grant (2013) conceptualized complements as an additional sixth force in Porter's model when he noted its empirical weakness. Complements have the opposite effect to supplements, when substitutes reduce the value of a product, complements increase it. Based on the review and synthesis of empirical and conceptual literature, industry forces affect firm performance, which support the conceptual linkages articulated in the conceptual model. The goal of the five forces went beyond assessing industry profitability and attractiveness to comprehend the underpinnings of competition and the main stimuli of performance (Porter, 2008; Dalken, 2014). Giroud and Muller (2010) observed that managerial slack increases only in non-competitive industries but not in highly competitive industries where competitive pressure enforces discipline on management. Corporate governance imposes internal checks by ensuring that managers work in the interest of the shareholders while industry competition imposes external checks which forces managers to do justice with their responsibilities both of which result to better performance (Franklin and Douglas, 2011).

1.1.4 Firm Performance

Daft (2000) defined performance as the capability of an organization to attain its aims and objectives. Firm performance has been the debate of practitioners and academicians for years, but it is also the ultimate dependent variable of interest for scholars of management who seek to identify variables that produce discrepancy in performance. It is the primary differentiator of strategic management studies from other management related research. Firm performance is conceptualized and measured differently by different authors and draws different expectations from employees, shareholders, investors and the general public (Kaplan and Norton, 2005).

Different variables have been used in research in the past to measure organizational performance. These include revenue growth, gross profit, profitability, Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), stock price, liquidity and operational efficiency. According to Doyle (1994), profitability is the measure used most often by business organizations to measure performance, while Schendel *et al.* (1991) preferred the use of ROA, ROE, Earnings Per Share (EPS) and profit margin. Hoskisson *et al.* (1994) opine that financial measures are inadequate for decision-making and need to be supported by other measures such as customer satisfaction and operational efficiency.

1.1.5 Companies Listed on the Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE), a Kenyan based company was set up by the London Stock exchange in 1920 and was registered locally in 1954 under the Societies Act (NSE, 2016). Its mandate is to promote, develop, support and discharge all the functions of a securities market. Bourses play many roles in a country, which include looking for finances for businesses and governments, mobilizing savings and creating investment opportunities as well as serving as a barometer of the economy. NSE had 11 categories of listed companies in 2016 (Appendix 1), which must meet specific requirements including to divulge unabridged information in a timely manner to the bourse and the public. Major challenges of exchanges include cross-border trading and investors becoming much more demanding (Nyasha and Odhiambo, 2014).

Organizations tend to refine their management standards and efficiency in order to meet the demands of their diverse stakeholders and the more rigorous rules for public corporations introduced by public stock bourses and the government thereby improving the quality of corporate governance. Ownership by the public is important for the Nairobi Securities Exchange as a show of good governance and transparency. The Nairobi Securities Exchange is the second stock exchange in Africa after Johannesburg to be self-listed. Studying companies listed on the Nairobi Securities Exchange including the Nairobi Securities Exchange itself is considered interesting due to the following reasons: first, in 2013 the Nairobi Securities Exchange was the

leading stock exchange in Africa and 4th in the world; second, in 2015 Nairobi Securities Exchange joined the (SSE) initiative; third, foreign ownership of shares at the NSE totaled to more than a third of market value; fourth, MSCI Frontier index increased its weighting for Kenya; and fifth, Capital Markets Authority issued a revised code of governance for listed companies, the code of corporate governance practices for companies listed on the Nairobi Securities Exchange in Kenya.

1.2 Research Problem

The importance of organizations adopting corporate governance cannot be overemphasized since global best practices demonstrate a strong link between good corporate governance and performance. Poor corporate governance has proved in part to be a major impediment to improving competitiveness of firms besides not being able to attract investments in an environment with ever increasing capital mobility (OECD, 2004). This study is anchored on the agency, resource dependence, stewardship and stakeholder theories.

The agency theory's main thrust is on the incompatible interests between the principals and the agents while the stakeholder theory investigates the dilemma of how to satisfy different groups of stakeholders. Stewardship theory underlines the significance of the boards and envisions their role over and above the traditional control responsibilities from the agency perspective. Resource dependence theory sees the board as a pool of resources, which creates high performance for the firm.

Stock market crashes in different parts of the world in the 1980s propelled corporate governance into prominence. Corporations failed due to poor governance practices. Preventing the failure of organizations was one of many reasons that led to institutions taking corporate governance standards seriously. The other more positive reason was the realization that better corporate governance ideals were important for the growth and development of the whole economy of states (Clarke, 2005; Department of Treasury, 1997); and the realization that some companies had revenues that were several times larger than the GDP and taxes of many middle income countries hence the role these companies played in the global economic arena (International Monetary Fund, 2016).

Table 1.1 shows select corporations revenues compared to some governments revenues.

Table: 1.1 Corporations Revenue versus Government Income – (Taxes)

	State/ Company	Billion US $		State/ Company	Billion US $
1	United States	3,251	25	Apple	233
2	China	2,426	26	Belgium	226
3	Germany	1,515	27	BP	225
10	Walmart	482	36	Samsung Electronics	177
18	Royal Dutch Shell	291	37	Turkey	175
19	Mexico	259	90	Boeing	96
20	Sweden	250	107	South Africa	85
21	Exxon Mobil	246	127	Egypt	76
22	Volks Wagon	236.6	140	Airbus Group	73
23	Toyota motors	236.5		Unilever	59
24	India	236.0		Kenya	10.6

Source: International Monetary Fund, 2016). *The worlds top 100 economies: 31 countries;69 corporations*. Retrieved from https://blogs.worldbank.org/publicsphere/world-s-top-100economies-31-coutries-69 corporations.

Strong patterns linking performance of corporations and the governance practices of their boards have been established by several studies (Gregg, 2001; Hilmer, 1998; Kiel and Nicholson, 2002; OECD, 1998). Gompers *et al*. (2003) found a strong relationship between good corporate governance practices and superior performance. The study, which was carried out in the US, also disclosed that sixty six percent of investors were willing to spend more money to purchase shares of organizations that practiced good corporate governance.

Despite considerable attention and research on corporate governance, consensus is yet to be found on what provisions constitute good corporate governance. It has been acknowledged that corporate governance practices are not the same, a standard one size fit all-sort of arrangement and thus cannot be unified, but will differ across countries and organizations (OECD, 1998), reflecting distinct, legal, political and

societal norms, different ownership structures, business environments, and competitive circumstances, enforceability and strength of contracts.

Although the concept of corporate governance and its impact on performance has been significantly scrutinized and is a staple of discussions in corporate board rooms, academic meetings and policy circles, different scholars have conceptualized corporate governance and assessed the constructs differently resulting in different measurements and firm performance implications. In addition, research findings have been mixed. The specific relationships between strategy implementation, industry competition and firm performance have not been explicitly delineated. These inconsistent findings highlight the need to identify the nature of this relationship, more so in the Kenyan context. Equally, there is limited literature on other variables that affect the connection between corporate governance and performance. The extant literature on corporate governance is mostly based on studies that were carried out in the developed and emerging countries, thus presenting a conceptual and contextual gap that needs to be investigated further.

Empirical studies linking corporate governance and performance with a few exceptions have revolved around board characteristics, ownership structure and capital structure excluding others. Studies on board characteristics focused on board size, composition, structure, and diversity and omitted strategy implementation, a key board function (Baysinger & Buttler, 1985; Dalton *et al*., 1998 and Bhagat & Black, 1999) and yielded inconclusive results. Studies linking ownership and performance are many and varied but have also yielded mixed results (Bhagat & Bolton, 2008). After the financial crisis that rocked many parts of the world, studies on corporate governance turned their focus on financial structuring with no attempt to consider competition as a precursor of insolvency (Ryoonhee, 2011; Uwuigbe, 2014) yielding mixed results.

The same themes, board characteristics, ownership structure and capital structure are replicated in Kenya. Letting *et al*. (2012) focused on the relationship between board diversity and financial performance of 40 firms listed on the Nairobi Securities Exchange and found a weak association using a structured questionnaire. The present

study used a semi structured questionnaire and had more respondents. In a census survey of 54 firms listed on the Nairobi Securities Exchange, Ongore *et al*. (2011) found a significant relationship between insider ownership and performance. Mwangi *et al*. (2014) focused on 42 non-financial firms listed on the Nairobi Securities Exchange and found that financial leverage had negative association with performance. Mbalwa *et al.* (2012), in a corelational survey of 11 sugar producing factories in western Kenya, found a positive relationship between corporate governance and performance characteristics, namely, stakeholder communication and disclosure. They recommended future research to include competition as a variable.

Jalali (2012) found from a study of 137 Iranian food importers that strategy implementation mediates the relationship between organizational characteristic with performance. The researcher conceptualized strategy implementation as a distinct process from strategy formulation. The current study conceptualized strategy implementation from an operational and institutional standpoint and view strategy formulation as one process – as two sides of the same coin. Asikhia and Binnuyo (2012) studied the competitive intensity as a moderator in customer alignment – performance relationship in 62 firms listed on the Nigerian stock exchange and found that competition affected firm performance. The study looked at customer orientation as the only construct of competition. Gyakari (2009), in a study of 100 firms listed on the Johannesburg Stock Exchange, found a relationship between corporate governance and financial performance when compliance index was used but obtained variegated results when using the equilibrium variable. Most studies on corporate governance have been carried out in developing countries. There are limited empirical studies on corporate governance in Kenya and other Sub-Saharan Africa countries questioning its generalizability in a different context. Besides, most of these studies have been limited to one variable with most focusing on board structure, ownership structure or financial structure.

The constraints of conceptualization, contextualization and operationalization relating to corporate governance, strategy implementation, industry competition and performance in an integrated framework form the basis of this study. Firms listed in the Nairobi Securities Exchange are now faced with intense regulatory scrutiny,

which includes reporting their corporate governance compliance status in their annual reports being subjected to a biannual governance audit by the Institute of Certified Public Accountants (ICPSK). The external environment is now different after Capital Markets Authority (CMA) removed the ceiling of foreign ownership.

Foreign fund managers and investors interested in shares of companies listed on the Nairobi Securities Exchange will further subject the companies to even more stringent scrutiny. No known study has focused on the mediating, moderating and joint effect of corporate governance, strategy implementation, industry competition and performance. Specifically, the current study attempted to analyze the mediating effect of strategy implementation and the moderating effect of industry competition on the relationship between corporate governance and firm performance raising the question: "what effect does strategy implementation and industry competition have on the relationship between corporate governance and firm performance"?

1.3 Research Objectives

The broad objective of the study was to establish the effect that strategy implementation and industry competition, have on the relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange.
The specific objectives of the study are as follows:

i. To establish the relationship between corporate governance and firm performance.
ii. To determine how strategy implementation mediates the relationship between corporate governance and firm performance.
iii. To determine how industry competition moderates the relationship between corporate governance and firm performance.
iv. To establish whether the joint effect of corporate governance, strategy implementation and industry competition on firm performance is significantly greater than the individual effect of corporate governance on firm performance.

1.4 Value of the Study

The Gross Domestic Product (GDP) of Kenya, which grew by 5.6% and reached 7 trillion shillings (70 Billion US Dollars) in 2016, is expected to grow by 6.1% in 2017

if all areas of the economy continue to perform at the current rate. Companies listed in the Nairobi Securities Exchange whose market capitalization reached 2.6 trillion shillings (26 billion US Dollars) contributed significantly to the GDP (The World Bank, 2016).

By examining corporate governance and performance within a context specific setting using companies listed on the Nairobi Securities Exchange, the study sought ti extend the generalizability of research findings and provide evidence on the importance of corporate governance and performance of companies in Kenya. The significance of corporate governance has been underscored in the fields of strategic management, law, economics, finance and sociology, thus ascertaining its applicability to firms listed on the Nairobi Securities Exchange provided important performance indicators as firms try to be more efficient, effective and profitable. The study, thus adds to the limited evidence available on corporate governance and performance in the Kenyan context.

The study, draws from agency, stakeholder, stewardship and resource dependence theories linked corporate governance, strategy implementation, industry competition and performance. The findings of the study should help firms understand the significance of corporate governance in business, the relative contribution of strategy implementation, and the impact of industry competition on performance. The study's findings should equip scholars and practitioners with an understanding of the relationship that exists between the study variables in an integrated framework.

Non-listed organizations, for profit and not-for-profit and government departments and agencies could find value in knowing what to take into account when developing and implementing corporate governance policies that enhance firm and organizational performance. An understanding of the constructs in an integrated framework and their influence on firm performance is of benefit to practitioners such as fund managers and institutional investors for effective strategy making decisions. Fund managers and institutional investors should know what to look for in determining which firms to include in their portfolios and what governance changes to press for particularly now that the Capital Markets Authority has issued a revised code for public listed

companies in Kenya. By including the selected mediating effect of strategy implementation and the moderating effect of industry competition and performance characteristics the study extends the extant corporate governance and performance discourse and opens avenues for further research that may seek to validate the study further.

There are strong complementarities between sound macroeconomic policies and sound microeconomic foundations which lead to economic growth of a country and corporate governance. Practicing good corporate governance is one of the ways of improving microeconomic efficiency which impacts the development and functioning of corporate markets and has a strong influence on how resources are allocated. This study could be important to the government and the agencies that are charged with governance issues, such as the Capital Markets Authority, the Institute of Certified Public Secretaries, the Nairobi Securities Exchange and other stakeholders who have an interest, such as the Institute of Directors of Kenya (IOD-K) and the Center for Corporate Governance (CCG), in policy formulation, regulation, training and enactment of codes of corporate governance. This is because development of capital markets, which provide a conduit to channel and mobilize funds to enterprises, has been identified as one of the engines that will support the economic pillar of the Kenya Vision 2030 plan. The aim of Vision 2030 is to change Kenya into a modern, globally competitive middle-income status by the year 2030.

1.5 Structure of the Thesis

The thesis has five chapters. An introduction of the study, which covers conceptual definitions as well as contextual background of the study, is covered in chapter one. Also covered in the first chapter are the research problem, research objectives and value of the study. Chapter two reviews both theoretical and empirical literature. The theoretical anchorage of the study was presented in relation to the concepts of the study. It discusses an overview of corporate governance concepts and its various sub-components. The chapter also presents concepts of strategy implementation, industry competition and firm performance covering the dimensions discussed herein in the thesis, namely: the relationship between corporate governance and firm performance, the mediating and moderating effects of strategy implementation and industry

competition respectively. Selected empirical studies to highlight the knowledge gaps which set out the conceptual framework together with the conceptual hypotheses are also presented in the chapter.

Chapter three presents the research methodology, which covers the philosophical orientation in social sciences, the research design, the study population and how data is collected. The chapter also addresses the operationalization of the study variables, measurement of variables as well as the data analysis techniques and models that addressed the objectives of the study and assumptions of regression analysis. Chapter four looks at the descriptive statistics, hypothesis testing and discussion. Prior to data analysis, assumptions for linear regression including normality, linearity and multicollinearity were tested. Hypothesis testing was conducted using techniques which included linear regression analysis and optimal scaling. The results are then discussed and interpreted in view of previous studies in literature.

Chapter five covers the summary of findings in view of objectives that guided the study, thereafter, conclusions are drawn and recommendations provided. The theoretical and implications for practice of the study are also highlighted. The chapter ends with limitations and recommendations for studies that could be carried out in the future.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Chapter two consists of theoretical literature on the underpinning theory of the study. It highlights various empirical studies on corporate governance, strategy implementation, industry competition and firm performance. It discusses various schools of thoughts conveyed in the empirical studies on corporate governance, strategy implementation, industry competition and firm performance and delves into the linkages of the key study variables. This is followed by a discussion of the research gaps from the literature review, culminating in the construction of the conceptual framework. Consequently, it relates the concepts of the study to the conceptual model and the hypotheses there of.

2.2 Theoretical Perspectives of the Study

The current study is largely driven by the agency theory. However three other theories were incorporated to provide a more inclusive explanation due to the complex nature of corporate governance (Filatochev & Boyd, 2009). The four theories driving the study, therefore, underpin the linkage between corporate governance, strategy implementation, industry competition and firm performance. The first theory is the agency theory (Alchian and Demsetze, 1972; Jensen and Meckling, 1976). The second theory is the stewardship theory (Donaldson, 1990; Davis *et al*., 1997). The third theory is the stakeholder theory (Penrose, 1959; Freeman, 2010; Wheeler *et al*., 2002). Finally, the fourth theory is the resource dependence theory (Zahra & Pearce, 1989; Pfeffer & Salancick, 2003).

2.2.1 Agency Theory

The agency theory has been a fundamental part of corporate governance discussions. It tries to address two key constituents, shareowners and managers of organizations, which makes it popular due to its simplicity as it reduces large corporations into two players, specifically shareholders as owners and managers as controllers, and the interests of each are supposed to be both plainly understood and unchanging (Fama and Jensen, 1983). Governance provisions are conceptualized so as to deter self-interest by managers in most research in governance. To cap bifurcation of managers'

limits from shareholders and minimize agency costs, agency theory advocates that internal and external mechanisms known as corporate governance be established (Haniffa & Hudaib, 2006). The internal corporate governance structures may be either behavior-oriented to include auditing and board structures or those that are outcome oriented and include shareholding, salaries and stock option.

The agency theory submits that alleviation of agency costs arising from internal corporate governance structures should help improve firm performance (Shabbir & Padget, 2005). Agency theory is the main theory that triggered the recommendation for a multiplicity of corporate governance reports in different parts of the world (such as Cadbury's, King's, and OECD). It has also been the major reason behind empirical research that has attempted to use econometric models premised on some equilibrium assumption or more recently through the establishment of composite corporate governance indices (Gompers *et al.*, 2003). Fama and Jensen (1983) further explicate the value of agency theory by explaining the circumstances in which a separation of decision management (generation and implementation of proposals) and decision control (ratification and monitoring processes) is indicated. This includes large corporations, and also most not-for-profit organizations (NPOs) and government bodies when there is a degree of complexity or size, which means that there is a hierarchy and a diffusion of decision management, and when important decision-makers are not exposed to significant risk by the financial effects of their decisions, which is indeed a distinctive characteristic of NPOs and government bodies.

Eisenhardt (1989) urges the use of agency theory to investigate problems that have a principal–agent structure, for example, information asymmetry, outcome uncertainty and risk, offering an empirically testable perspective on the challenges of co-operative effort. Rather than a wholesale adoption or rejection, this author advocates its deployment when there are particular contracting problems, goal conflict or lack of clarity, and in tandem with other organization theories. Shleifer & Vishney (1997) posit that corporate governance provisions give shareholders some guarantee that managers will try to attain outcomes that take cognizance of their interests. The principal-agent model is probably the most important model of corporate governance, because the shareholders' residual voting rights commit the corporate resources to

value maximization. According to Jensen and Meckling (1976), the relationship between the owners and the management involves the delegation of some decision-making authority to the agent by the principal. One critique of the agency approach is that the analytical focus on how to resolve corporate governance problem is too narrow and the shareholders are not the only ones who make investments in the company therefore corporate governance will be affected by the relationships among the various stakeholders in the firm. While the agency theory suffices for visualizing the control and monitoring role of directors, supplementary theoretical panorama are, however, required to clarify further the service, resource, and strategy roles of directors (Dalton *et al*., 1998).

2.2.2 Resource Dependence Theory

Resource dependency theory derives from economics and sociology disciplines concerned with the distribution of power in the firm and was developed particularly by Zahra and Pearce, and Pfeffer and Salancik. Unlike the agency theory, the original ideas of resource dependence theory were inductively derived from empirical studies (Pfeffer & Salancik, 1978). The resource dependence theory has been used by researchers as both a complement as well as a variance to agency theory (Davis *et al*., 1997). According to resource-based theory, the organization is an amalgam of tangible and intangible assets and capabilities. Strategic resources in particular are those that are valuable, rare, inimitable and non-substitutable. In this context, the board can be seen as a strategic resource. An internal institution of corporate governance such as the board is needed according to resource dependence theory for ensuring that managers are effectively monitored and serve as an important bridge between the firm and the vital resources that are needed to enhance its performance.

The board of directors can offer necessary resources, which include expertise in the form of specific skills as well as advice regarding the formulation of strategy and its implementation (Haniffa & Hudaib, 2006). Directors bring reputation and critical business contacts, facilitate access to business information and offer an essential bridge to an organizations' external environment and the main stakeholders who include customers, creditors, suppliers and even competitors (Haniffa & Hudaib, 2006).

Resource dependence theory is underpinned by the idea that resources are key to organizational success and that access and control over resources is a basis of power. Resources are often controlled by organizations not in the control of the organization needing them, meaning that strategies must be carefully considered in order to maintain open access to resources. Organizations typically build redundancy into resource acquisition in order to reduce their reliance on single sources, such as by liaising with multiple suppliers. Four benefits that board directors can bring to the organization include advice, access to information, preferential access to resources and legitimacy. Included on the list of resources are relational resources which are both material and symbolic. (Pfeffer & Salancik., 2003). An example of symbolic resources is association. The association of certain people with the organization has the potential to boost the esteem or discerned legitimacy of an executive team (Haniffa & Hudaib, 2006). Therefore, the resource dependence theory fundamentally guided the conceptualization of the influence of strategy implementation on the extant linkage between corporate governance and firm performance in this research.

2.2.3 Stewardship Theory

Stewardship theory complements but also serves as a contrast to agency theory (Davis *et al*., 1997). The stewardship theory contrasts the self-seeking motives alluded to through the agency theory and suggests that performance is driven not by the greed of executives but by personally identifying themselves with the aims and objectives of the organization. Stewardship theory goes further to disapprove the assumption that executives' motives are at cross purpose with those of the shareholders. According to Donaldson (2009) the two have in fact an interest in maximizing the long term goals of the organization and therefore well-aligned. Under the stewardship theory, company executives protect the interests of the owners or shareholders and make decisions on their behalf. Their sole objective is to create and maintain a successful organization so the shareholders prosper.

Top managers who spend their entire working time at the organization understand the business better, have more well-rounded knowledge regarding the organization and are therefore capable of making superior decisions. The executive directors would do everything in their power to protect their reputation, which significantly minimizes agency costs. Those who are in favour of stewardship theory advocate giving more power to one person and would combine the CEO and chairman's role, which is vested in one person under what is commonly referred to as CEO/ Chair duality, with a board comprised mostly of in-house members (Lorsche & Zellecke, 2005). This allows for an intimate knowledge of organizational operation and a deep commitment to success (Davis *et al.*, 1997).

Having a single leader creates one channel to communicate business needs to the shareholders and the shareholders' needs to the business. This also avoids confusion as to who is in charge when a company needs to weather a storm. Similarly, the expectations about corporate leadership will be clearer and more consistent both for subordinate managers and for other members of the corporate board. The organization will enjoy the classic benefits of unity of direction and of strong command and control. Thus, stewardship theory focuses not on the motivation of the CEO but rather facilitative, empowering structures, and holds that fusion of the incumbency of the roles of the chair and CEO would enhance effectiveness and produce, as a result, superior returns to shareholders than separation of the roles of chair and CEO. Stewardship governance requires that a CEO be trustworthy and willing to put personal gains aside for the good of the organization (Donaldson, 2009).

The theory is mainly concerned with identifying the situations in which the interests of the principal and the steward are aligned (Donaldson and Davis, 1993). According to this theory, there are situational and psychological factors that predispose individuals to become agents or stewards. The situational factors refer to the surrounding cultural context, rather than to an organization's work environment. Some of the situational factors that predispose an individual towards stewardship are working in an involvement-oriented management system, as opposed to a control-oriented management system; a collectivistic culture, as opposed to an individualistic one; a low-power distance culture; or when corporate governance structures give them

authority and discretion (Donaldson and Davis, 1993). According to Davis *et al*. (1997), the process through which the parties decide to be agents or stewards can be synthesized as follows: First, this is a decision made by both parties of the relationship; second, the psychological characteristics and the cultural background of each party predispose the individuals to make a particular choice; third, there are contributions in stewardship literature that argue that stewards are not altruistic, but that there are situations where executives perceive that serving shareholders' interests also serves their own interests. In this situation, agents would recognize that the company's performance directly impacts perceptions of their individual performance. In other words, in being effective stewards of the organization, they also manage their own careers (Daily *et al*., 2003).

2.2.4 Stakeholder Theory

Ed Freeman developed the original ideas of stakeholder theory in the 1980s. The central role that agency theory plays is challenged by the stakeholder theory as the former focuses entirely on the shareholders. It suggests that shareholders are merely one of many stakeholders in a company. According to Freeman (2010) each and every stakeholder however remote their interests may be, should be considered when decisions are being made. The stakeholder ecosystem, this theory says, involves anyone invested and involved in, or affected by, the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory suggests that a company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock.

Such decisions should take into account those with direct as well as those with indirect interests. Employees, for example, invest in skills that are very firm-specific locking themselves from employment opportunities that other organizations may offer, and therefore rendering themselves irrelevant to other organizations. Such employees who have sacrificed their lives should be listened to. Stakeholder theory advocates for groups with interest such as suppliers and customers, all who are interested in the company's performance. Local communities, the environment and the wider society also have lawful direct interest that needs attention. The importance of taking a stakeholder approach has been proven by successful stakeholder actions

over the past 30 years and recently by the global financial crisis. The task of executives is to create as much value as possible for stakeholders without resorting to trade-offs. Great companies endure because they manage to get stakeholder interests aligned in the same direction (Palmer, 2012).

The stakeholder view is criticized because of the difficulty in operationalizing it, particularly in deciding what weight to accord the different stakeholder interests. If executives are asked to account to all stakeholders they would in fact be accountable to no one. The often controversial business ethics may have sprung from stakeholder ideals. This often quoted objection to stakeholder theory argues that while it seems ethical to involve those affected by or affecting the firm it is also unethical in that it breaks the fiduciary duty that managers have to shareholders. This is described by Kenneth Goodpaster as the Stakeholder Paradox (Goodpaster, 1991). An application of the stakeholder theory directly related to the current study is performance as presented by Kaplan and Norton (2005) regarding the balance score card (BSC) and the revolution in performance measurement by using multiple measures of performance, ostensibly to cater for the diverse stakeholder interests. The BSC is based on the stakeholder theory, and from the foregoing, in this study firm performance recognizes stakeholder's myriad interests as stipulated in the theory (Ferrero *et al*., 2007). Organizations have developed different performance tools, and in recent years many firms have adopted the use of BSC owing to the fact that it incorporates both financial and non-financial performance measures (Hubbard, 2009; Kaplan & Norton, 2005). Performance contracts of many NSE listed companies have embraced BSC because of the perceived objectivity (Okiro, 2014). Despite its weaknesses, stakeholder theory if well implemented with other theories such as agency theory can help achieve desired performance and consequently serve the various stakeholder interests.

2.3 Corporate Governance and Firm Performance

Good corporate governance and its association, with exceptional organizational performance, are found in the literature as well as from different theoretical perspectives. Bad organizational performance that may precipitate macro-enterprise crisis may be caused by weak corporate governance (OECD, 2004). Many empirical

studies have attempted to address the main challenges encountered when those managing the organizations are not the owners exploring the linkage of varying aspects of corporate governance and firm performance so as to attempt to avert the principle and agent conflict occasioned (Haniffa & Hudaib, 2006).

The key assumption of this framework is that managers, who are employees, acting as agents of the owners, could engage in self aggrandizement behaviour that may be at cross purpose with the owners' objective of increasing their riches. This theoretical framework has been broadened to research streams shifting the nucleus from owner – employee conflicts and related costs associated with the agency challenges, to the phenomenon and role of shareholders, executive and non-executive directors, and CEO/Chair duality, executive remuneration and financial reporting (Filatotchev & Boyd, 2009).

(Shabbir & Padget, 2005) posit that decreasing agency costs coming out of internal corporate governance structures should help improve performance. This has been the major reason for the formulation of governance reports and the main motivation for empirical studies linking corporate governance and performance and more recently the establishment of composite governance indices (Gompers *et al.*, 2003). The first corporate governance index was constructed by Gompers, Ishii and Metric. They constructed the index from data on the governance characteristics of over 1,000 firms. The sum of the components formed the governance index (G-Index) and they found a relationship that was statistically significant between the index and stock returns and Tobin's Q. A broad spectrum of internal and external mechanisms intended to mitigate agency risk by increasing the monitoring of managements' actions, limiting managers' opportunistic behaviour, and improving the quality of firms' information flows in the context of separation of ownership and control. Ultimately, corporate governance will be able to induce self-interested controllers of a firm to make decisions and allocate resources that could maximize the value of the firm to its owners. It is suggested that if firms put in place governance mechanisms that are robust they should be well managed and profitable. Brown and Caylor (2006) tested the significance of corporate governance metrics (governance index) using data for 2,327 firms. They tested Tobin's Q of the firm data set as a performance metric

against each of the 51 governance metrics. They hypothesized that a smaller number of governance factors has the most effect on firm performance. They used an adjusted data set of 1,868 firms and regressed each of the 51 governance independent variables against the firms' Tobin's Q. From their findings only seven of the governance provisions are related to firms' Tobin's Q. Therefore they documented that corporate governance measured by Gov-score is significantly and positively related with Tobin Q. The governance provisions that are linked to firm performance includes; option re-pricing, average option granted, directors attending 75% of board meetings, board guidelines about proxy statements and directors stock ownership option.

Black *et al*. (2006) constructed a Korean CG index based on a survey of corporate governance practices in all companies listed on the Korea Stock Exchange for 515 Korean companies in 2001. The authors extracted 38 variables from the survey questions, which they classified into 4 sub-indices before combining the sub-indices into the overall index. They found a relationship that was positive and significant between corporate governance and Tobin's Q. Gykari (2009) based his study on 100 listed companies in South Africa using two models one based on a compliance index model while the other one was based on the equilibrium-variable model. A significant association was found while regressing compliance index and quality of internal corporate governance against financial measures. Mixed results were however obtained when the equilibrium variable index was regressed against financial measures of performance.

Munisi *et al*. (2009) found a positive and significant association when accounting measures were regressed against corporate governance but found an association that was both significant and negative of companies in Sub- Saharan Africa by market valuation. Barako and Brown (2009) in a regression analysis of board diversity and corporate social reporting in Kenyan banks found a positive relationship, while Obeten and Ocheni (2014) found that better corporate governance resulted to better performance of selected commercial banks in Nigeria.

Drawing from the above studies there are several gaps that need to be addressed. The current study used a corporate governance index constructed from 7 provisions of the

CMA corporate governance guidelines unlike a previous study by Gompers *et al.* (2003) who used 24 provisions. Use of fewer provisions is in line with Brown and Caylor (2006), who found only seven corporate governance provisions had most effect on firm performance. These views are supported by Okiro (2015) who used 8 provisions and obtained reliable results. Although there are many empirical studies that have been undertaken suggesting that given governance structures are linked to better performance endogeneity issues have marred this conclusion. Corporate governance studies face econometric problems such as measurement errors, omitted variables and sample selection bias where most studies only analyze the largest listed companies. Conclusively, preceding discussions reveal that endogeneity, where the error term is correlated with the dependent variable, in this case performance, may point to the fact that any observed correlation between corporate governance and performance is spurious which will be addressed in this study by a more representative sample using NSE listed firms which straddle most sectors of the Kenyan economy. Thus, the first hypothesis stated in the null form is:

H1: There is no significant relationship between corporate governance and firm performance

2.4 Corporate Governance, Strategy Implementation and Firm Performance

Strategy implementation is the process that puts plans and strategies into action to reach goals. A strategic plan is a written document that lays out plans of the business to reach goals but will often sit forgotten without strategic implementation. Implementation makes the organizations plans to happen. Research indicates that the ability to implement a strategy is viewed as considerably, more important than strategy formulation, and that strategy implementation, rather than strategy formulation, is the key to superior organizational performance. However, the high failure rate of strategy implementation efforts is well documented, and many barriers to effective strategy implementation exist. A lack of leadership, and specifically strategic leadership, at the top of the organization has been identified as one of the major barriers to effective strategy implementation. In turn, strategic leadership is also viewed as a key driver to effective strategy implementation (Fourie, 2009). In an intensely competitive business environment and with increasing speed of technology-

enabled change, the importance of strategy implementation has increased exponentially. Organizations will not differentiate themselves by their ability to see how markets are moving but will set themselves apart by carrying out the necessary strategic response as quickly as possible (Yang *et al*., 2013).

Literature examining corporate governance and firm performance reviewed so far shows findings that are inconclusive and raises significant questions on whether a relationship between governance structures and performance truly exists. The mixed results could be attributed to studying isolated provisions of corporate governance. Less is known about other factors that affect the relationship. Research conducted in the past evaluated certain aspects or subsets of governance provisions, more often just one and at most two provisions (Gyakari, 2009). Because it is possible for organizations to select, alter or modify the framework that their system of governance takes to favour their unique conditions, we should examine a number of governance provisions and over a longer period of time.

Many studies are in agreement that corporate governance has an effect on strategy implementation which in turn leads to good firm performance. Fillatotchev and Boyd (2009) posit that the other key role of the board is in executive action (strategy formulation and execution). Moreover various scholars studying strategic management have agreed that strategy implementation is the link between corporate governance and organizational performance. Jalai (2012) suggests that strategy implementation mediates between internal corporate governance and performance, a conclusion that is in agreement with Baron and Kenny (1986) who posit that a mediator specifies why and how a given effect occurs. This means that strategy implementation mediates the relationship between corporate governance and firm performance, or in other words corporate governance impacts firm performance through strategy implementation. Thus, the second hypothesis stated in the null form is:

H2: There is no significant mediating effect of strategy implementation on the relationship between corporate governance and firm performance.

2.5 Corporate Governance, Industry Competition and Firm Performance

According to Gyakari (2009) there has been a rapid increase in studies in corporate governance recently. These studies have however concentrated on internal governance provisions. The impact of external governance in moderating the impact of insider ownership on shareholder wealth is an important aspect that has influence at the macro level. Competition is one such mechanism. A very dynamic environment encourages a firm to engage in pioneering posture to pre-empt the entry of rivals. Mitton (2004) indicates that it is highly probable that for industries where there is competition to pay dividends to shareholders. These firms have higher efficiency, lower price distortions, greater accountability and more transparency in making business decisions.

Wang and Hsu (2010) present competitive posture as a moderating variable to corporate governance. Further, Nickel (1996) finds evidence that the more intense the level of competition, the higher the level of productivity and that other corporate governance provisions could be traded in by competition, denoting that the relationship between corporate governance and firm performance is moderated by competition. Buchwald and Thorwarth (2015) sampling 1,393 listed firms in the European Union (EU) found out that outside directors and competition are substitutes.

Although previous studies (Rumelt, 1995; Porter, 1996; Owino, 2014) reported significant findings pertaining to the influence of industry competition and performance, the results have been inconsistent both in direction and magnitude of the influence of industry competition on firm performance besides, thus contradictory findings in empirical literature pertaining to the effects of corporate governance on performance. Furthermore limited attempts have been made to test the moderating influence of industry competition on the relationship between corporate governance and performance. Thus the central focus of this study was to determine the influence of industry competition on the relationship between corporate governance and performance. It is clear that from the foregoing discussion that although corporate performance has independent effect on performance this relationship is essentially moderated by industry competition. The possibility that competition has a moderating effect is in line with a long-held tradition supporting the notion that environment

moderates the effectiveness of organizational features (Banker and Mashruwala, 2007). This conclusion is also in agreement with Baron and Kenny (1986) who argues that moderation specifies when a given effect occurs. Based on these findings the current study proposes that the relationship between corporate governance and firm performance could be moderated by competition. Thus, the third hypothesis stated in the null form is:

H3: There is no significant moderating effect of industry competition on the relationship between corporate governance and firm performance.

2.6 Corporate Governance, Strategy Implementation, Industry Competition and Firm Performance

Theoretical and firsthand research to date has been inconclusive regarding the relationship between corporate governance and organizational performance. Collectively implied in the preceding discussion is that the combined effect of provisions of corporate governance, have greater effect on corporate performance than the isolated effects of internal and external governance provisions. This is supported by Shabir and Padget (2005) who note that a firm's performance is affected by a differing agency mechanism in a consolidated framework rather than in stand-alone structures. It was felt that this study should not only use the equilibrium-variable model but also the construction of a composite corporate governance index model, that embraces provisions of corporate governance that are inclusive to investigate the nexus between corporate governance and performance. Gyakari (2009) using the equilibrium-variable index model found the relationship between the internal corporate governance structures of South African listed companies and their performance to be statistically significant and positive. The findings were robust. They however did not investigate other factors that could influence the relationship.

According to Bebchuk *et al.* (2009), there is not any one single standard corporate governance index that has received universal acceptance. The provisions that have been employed in the construction of these indices differ from study to study. The reason for the difference could be attributed to perceptions of good corporate governance practices, which are affected by technological, historical and cultural

environments (Aguilera and Cuervo-Casurra, 2009). This study therefore suggests the construction of a model of corporate governance index that will be hinged on various provisions of corporate governance at firm level that other researchers have used and documented in the literature as well as from the recommended codes of corporate codes. Okiro (2014), in a study of 58 listed companies in the East African Security Exchanges, used a corporate governance compliance index comprising five (5) provisions: board structure and composition, ownership and shareholding, transparency, disclosure and auditing, board remuneration and corporate ethics and obtained plausible results.

This study constructed a corporate governance compliance index proxied by fourty two (42) dimensions derived from seven (7) governance provisions used by the Capital Markets Authority based on the code of corporate governance of public listed companies in Kenya. Besides the direct effect of corporate governance on performance, research suggests that other variables such as strategy implementation and industry competition mediate and moderate the relationship respectively. Thus a proposition emerges that there should be a contingent relationship that links corporate governance with strategy implementation and a volatile business environment to achieve superior performance. Using a sample of 1736 unique firms representing 22 countries Anderson and Gupta (2009) found that joint effect matters when explaining the relationship between performance and corporate governance. Okiro (2014) found that the joint effect of corporate governance, capital structure and regulatory compliance on firm performance was greater than the individual effects of corporate governance, capital structure and regulatory compliance on firm performance.

This study proposes that the joint effect of corporate governance, strategy implementation and industry competition on firm performance has greater influence than the effect of corporate governance and firm performance.

Different from other studies, the present study incorporated strategy implementation and industry competition as mediating and moderating variables respectively. Consistent with the Balanced Score Card (Kaplan and Norton, 2005) the study proposes integrating both financial and non-financial measures. The studies reviewed

present diverse findings regarding the relationship between the study variables on performance. The disparity could be attributed to methodologies used and definition of variables. These studies were also carried out in different countries and environments. Based on the forgoing the current study proposed that the joint effect of corporate governance, strategy implementation and industry competition on firm performance is greater than the relationship between corporate governance and firm performance. Thus, the fourth hypothesis stated in the null form is:

H4: There is no significant difference between the joint effect of corporate governance, strategy implementation and industry competition on firm performance and on the relationship between corporate governance and firm performance.

2.7 Summary of Knowledge Gaps

Table 2.1 presents a number of previous studies and knowledge gaps. It contains conceptual gaps where studies have considered either of the conceptual variables or linkages in isolation or in combination with other variables that were not part of the present study. This present study has revealed contextual gaps from studies done in other jurisdictions. It also highlights methodological gaps where different research methods were used.

Table 2.1: Summary of Knowledge Gaps

Author	Focus of the Study	Methodology	Main Findings	Knowledge gaps	Current Study's Focus
Gompers *et al. (*2003)	To investigate the effect of CG on the stock returns among 1500 large firms in USA between 1990 and 1999.	G Index (24 CG provisions) compiled from IRRC and stock returns.	CG is strongly correlated with stock returns during the 1990s in the US. The results clearly support the hypothesis that well-governed companies have higher equity returns.	The study used 24 CG provisions and studies by BCF found out that only six provisions really matter.	Current study will incorporate only seven provisions CG variables in the construction of the CGI obtained from CMA code of corporate governance practices. Will use financial and non- financial measures of performance.
Gyakari, (2009)	Firms financial performance and internal governance structures, evidence from South Africa.	Study combines use of both the equilibrium variable as well as the compliance index models of 100 firms listed in the Johannesburg stock exchange.	Study found a statistically significant and positive correlation between financial performance and quality of corporate governance using the compliance index model but found mixed results when using the equilibrium variable index model.	Study failed to take into account non-financial measures.	Current study incorporates both financial as well as non-financial performance measures and, while using both equilibrium variable index model and compliance index model, goes further and incorporates strategy implementation and industry competition.

Author	Focus of the Study	Methodology	Main Findings	Knowledge gaps	Current Study's Focus
Pattanayak and Pant (2010)	Corporate governance, competition and firm performance of Indian firms.	Study used a panel of 1,833 firms over the period 2001-2004.	Study showed productivity was influenced by insider ownership when competition is intense.	Indian corporate governance targets to discipline dominant shareholder / promoter who also occupies senior position and is a long term investor. Context was Indian firms.	In the current study performance is influenced by the conflicts between owners and managers-the agency problem. Contextualization was Kenyan listed firms.
Jalali (2012)	Appraising the strategy implementation role in export performance: The example of the middle East.	Sample of 137 Iranian Food exporters.	Strategy implementation influences export performance as a mediating variable.	Study conceptualized strategy implementation as a distinct step from formulation and focused on food exporters; a homogeneous population.	Current study conceptualized strategy implementation from an operationalization and institutionalization perspective. Formulation and implementation viewed as different sides of the same coin. In addition to strategy implementation, industry competition incorporated. It also incorporated a wider scope of businesses which are heterogeneous.
Asikhia	Moderation effect	Structured	Effect of competitive	Study considered	Current study included

Author	Focus of the Study	Methodology	Main Findings	Knowledge gaps	Current Study's Focus
and Binnuyo (2012)	of competitive intensity in customer orientation – performance nexus in Nigeria.	questionnaire administered to respondents in randomly selected firms in Nigeria.	intensity on customer orientation – firm performance nexus.	competition as the only determinant of performance using a randomly selected sample.	strategy implementation as a determinant of performance and considers all NSE listed firms which are diverse industries for purposes of generalization and comparison.
Letting *et al.* (2012)	The board diversity-performance nexus of NSE listed firms.	Cross sectional survey design of 42 NSE listed firms with only two respondents per firm.	Study found weak association between board diversity on performance.	This study focused on the board's role of strategic decision making, yet the reality of strategy resides in its strategic action (implementation).	Current study recognized that one of boards' key roles is executive action takes strategy formulation and execution (implementation) as one process with two phases and will include more firms.
Ongore *et al.* (2012)	Managerial discretion, ownership and financial performance of NSE.	Structured questionnaire of 40 NSE listed firms.	Study did not find any significant effect of board diversity on financial performance.	This study considered only two components of corporate governance, ignored the others and used financial measures of performance only.	Current study included all major components of corporate governance that affect firm performance. A semi structured questionnaire to capture more accurate information and spontaneous responses was used.

Author	**Focus of the Study**	**Methodology**	**Main Findings**	**Knowledge gaps**	**Current Study's Focus**
Mbalwa *et al.* (2014)	Corporate governance-performance nexus of factories that make sugar in Western Kenya.	Correlational survey of all 11 sugar factories in Western Kenya.	Stakeholder communication showed greater influence on corporate governance with board characteristics showing lowest influence.	This study identified and recommended industry competition as a future area of possible research.	Current study included industry competition as one of the variables as recommended.
Buchwald and Thorwarth (2015)	Competition, outside directors and executive turnover: implication for corporate governance in the EU.	Sample of 1,393 listed firms in the EU including Norway and Sweden in the period 2005 to 2010.	Outsiders and product market competition are substitutes. Outsiders increase performance of executives if competition is weak.	This study focused on European Union Countries with mature anti-monopoly laws.	Current study used a Kenyan context with her anti-monopoly laws at their infancy.

Source: Researcher (2016).

Table 2.1 presents a number of previous studies and knowledge gaps. It contains conceptual gaps where studies have considered either of the conceptual variables or linkages in isolation or a combination with other variables that are not part of the study. This study has revealed contextual gaps that have been done in other jurisdictions. It also highlights methodological gaps where different research methods were used.

2.8 Conceptual Framework

The conceptual model represented in Figure 2.1 articulates the linkages between key variables being interrogated. In the framework, the independent, mediating and moderating variables were the forerunners to the dependent variable. The independent, mediating, moderating and dependent variables were operationalized based on the review of literature and gaps identified. The framework suggests the existence of a direct relationship between corporate governance, which is the independent variable, and firm performance, which is the dependent variable as articulated in the review of extant empirical and conceptual literature. The framework further highlights the mediating effect of strategy implementation and the moderating effect of industry competition on the relationship between corporate governance and firm performance. This study proposed that the synergistic effect of corporate governance, strategy implementation and industry competition would have greater influence on firm performance than the independent effect of the individual variables.

In the schematic diagramme the direct effect of corporate governance on firm performance formed the basis of this study (H1). In line with the theoretical and empirical literature the study proposed that strategy implementation has mediation effect on the relationship between corporate governance and firm performance (H2), while the relationship between corporate governance and firm performance is moderated by industry competition (H3). Central to the current study is the argument that the joint effect of corporate governance, strategy implementation and industry competition on firm performance affects performance more than the variables taken separately (H4). Figure 2.1 presents the conceptual model of the relationship.

Figure 2.1: Conceptual Model

H1

Mediating Variable

Corporate Governance

- Equilibrium Provisions
- Compliance Index Provisions (CGI)

Strategy Implementation

- Operationalization
- Institutionalization

H2

Firm Performance

- Valuation
  - Tobin's Q
- Financial Performance
  - ROA
  - ROE
  - EPS
- Non-Financial Performance
  - Customer Satisfaction
  - Learning & Growth
  - Internal Processes

H4

Industry Competition

- Rivalry
- New Entrants
- Buyer Power
- Supplier Power
- Substitutes

Independent Variable

Moderating Variable

Dependent Variable

H3

2.9 Conceptual Hypotheses

The hypotheses shown below were derived from the conceptual model in Figure 2.1 and are in tandem with the research problem and objectives outlined in the previous sections. The model was found to be appropriate as a snapshot for testing the following hypotheses:

H1: There is no significant relationship between corporate governance and firm performance.

H2: There is no significant mediating effect of strategy implementation on the relationship between corporate governance and firm performance.

H3: There is no significant moderating effect of Industry competition on the relationship between corporate governance and firm performance.

H4: The joint effect of corporate governance, strategy implementation and industry competition on firm performance is not significantly different from the effect of corporate governance on firm performance.

2.10 Chapter Summary

This chapter presented a review of both empirical and theoretical literature of the study, focusing on the field of corporate governance, strategy implementation, industry competition and firm performance. The review was important to help the study appreciate studies that exist on the selected study variables. Theories that guided and formed that backbone of the study were described in detail. The main theory that the study was anchored on was the agency theory, which was complemented by the stakeholder theory, and supported by the stewardship and the resource dependence theories.

The chapter further highlighted the review of the conceptual relationship between the study variables, followed by a summary of the previous studies and knowledge gaps arising there from and presented in Table 2.1. A conceptual framework reflecting the relationship amongst the study variables was schematized along the arguments in the

literature, culminating in the statement of the hypotheses of the study. These were tested and presented in chapter four, and the results arising there from presented in chapter five of the thesis. The next chapter presents the research methodology of the study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Chapter three outlines and argumentation for the research methodology adopted for this study. The philosophical foundation, research design, the study population, data collection instruments, diagnostic tests (reliability, validity, normality, multicollinearity, and homoscedasticity), operationalization of the study variables, data analysis and the analytical model are presented.

3.2 Research Philosophy

According to Ericksson and Kovalainen (2008), the key concepts of philosophy in social sciences include ontology, epistemology, methodology (tool kit), methods and paradigm. Ontology assumes that reality is subjective and understood based upon an individual's perceptions and experience (Guba, 1990). Conversely epistemology is concerned with the nature of and how knowledge is acquired, either through positivism, where the world is independent of the researcher or through interpretivism where the social world and the researcher impact each other (Richie and Lewis, 2005).

Positivist paradigm adopts a clear quantitative approach to investigating phenomena (Smith, 1998). The approach assumes that an objective reality exists, which is independent of human behavior and is therefore not a creation of the human mind. The positivists seek facts or causes of social phenomena with little regard for the subjective states of individuals. This philosophy believes that universal scientific propositions are true only if they have been verified by empirical tests. The researcher focuses on facts, looks for causality and fundamental laws, reduces phenomena to simplest elements, formulates hypotheses and tests them. This paradigm involves operationalizing concepts so that they can be measured, and taking large samples (Saunders *et al.*, 2007).

Phenomenological paradigm focuses on the immediate experience and description of things as they are, not what the researcher thinks they are. This approach involves

gathering large amounts of rich information based on belief in the value of understanding the experiences and situations of a relatively small number of subjects (Veal, 2005). This paradigm believes that rich insights into this complex world are lost if such complexity is reduced to a series of law-like generalizations. There is need to discover the details of the situation to understand the reality. It is necessary to explore the subjective meanings motivating people's actions in order to be able to understand these (Cooper & Schindler, 2008). This approach assumes that reality is multiple, subjective and mentally constructed by individuals. The use of flexible and multiple methods is desirable as a way of studying a small sample in depth over time that can establish warranted assertability as opposed to absolute truth. The researcher interacts with those being researched, and findings are the outcome of this interactive process with a focus on meaning and understanding the situation or phenomenon under examination (Crossan, 2003).

The positivist approach was identified as the most suitable method and was adopted for this study. This approach allowed the researcher to test hypothesis, causal explanations and modeling (Richie & Lewis, 2005). The study used deductive epistemology where prepositions and hypothesis were generated theoretically and logically. Thus, the study used positivism philosophy to empirically interrogate the relationship between corporate governance and performance mediated and moderated by strategy implementation and industry competition respectively. This is in line with other studies on corporate governance that have used the positivist approach and obtained plausible results (Okiro, 2014; Wakaisuka, 2017).

3.3 Research Design

Research design is the blue print that guides the various stages of the study, especially as regards the collection, measurement and analysis of data (Cooper & Schindler, 2008). A descriptive study involves description of phenomena or characteristic associated with a subject population (the "who, what, where, when and how" of a topic). It allows estimates of the proportion of a population that has these characteristics. Discovery of associations among different variables is possible in order to determine if the variables are independent (or unrelated) and if they are not, then determine the strength or magnitude of the relationship (Mugenda & Mugenda,

2008). Cross-sectional studies are carried out at once and represent a snapshop at one point in time (Cooper & Schindler, 2008). A research design should provide confidence to the scientific community that the findings delivered from the data obtained capture the reality and possess high levels of reliability and validity (Kerlinger, 2007).

Cross-sectional survey was the research design applied for this study because it was found to facilitate the collection of data at one point in time from different respondents as well as providing standard data that enabled comparison to be made across different respondents. The cross-sectional design was used to examine the association between corporate governance, strategy implementation, industry competition and performance. The versatility, admissibility of questionnaires, and leverage in collection of data from a large number of respondents in a relatively short period of time make the cross-sectional design most suitable. To examine the relationship that exists between corporate governance and performance, earlier studies on corporate governance have used cross-sectional survey design such as Gyakari (2009), Ongore *et al.* (2011) Letting *et al.* (2012), and Okiro (2014).

3.4 Population of the Study

The target population was all firms listed on the Nairobi Securities Exchange (NSE), which formed the unit of analysis. According to NSE (2016), the firms listed in the bourse were 61 as at September 30, 2016. The listed firms belong to the 11 sectors of the economy (appendix 1). The various sectors are classified under three market segments as follows; Main Investments Markets (MIMS), Alternative Investments Markets (AIMS) and Fixed Income Securities Markets Segments (FISMS). The study targeted the companies that had been listed on the Nairobi Securities Exchange and had the relevant information available for the four year period (2012-2015). This was necessary for a balanced panel data.

A census survey of the companies was carried out since the population was small. In total 56 companies were studied. Use of panel data provides more degrees of freedom, more symptotic efficiency and minimizes inherent statistical problems such as endogeneity and is in line with other researchers in corporate governance who have

used panel data (Yermack, 1996; Gompers *et al*., 2003 and Gyakari, 2009). Due to listing and reporting requirements objective and reliable data was available. Reporting is uniform for listed firms, making comparison within the same industry and across different industries easier. Listed firms are preferred as they have a defined structure, a legal mandate to operate and are likely to exhibit elaborate relationships between study variables. Finally listed firms have access to capital which can be raised through public offering and can be used to improve a firm's corporate governance structures and performance.

3.5 Data Collection

Primary and secondary sources were used for data collection. A semi structured survey questionnaire facilitated collection of primary data (Appendix 6). The questionnaire contained Likert type scale questions developed in tandem with the objectives of the study and comprised responses on general information in section one to generate background information of the firms and the respondents while sections two, three, four and five sought information on corporate governance, strategy implementation, industry competition and non-financial performance respectively. A standardized structured CGI index was constructed as a proxy for governance based on the 42 binary objective survey questions obtained from the primary data. The responses were given scores that ranged from 1 to 5.

There were various methods that were used in the administration of the questionnaire. First, the researcher visited each of the 56 companies, dropped the questionnaires to the target respondents and made telephone calls after two weeks to confirm the respondents had indeed received the questionnaires. An introductory letter (Appendix 2) from the Doctoral Studies Office, in the School of Business, of the University of Nairobi, stipulating the intent of the study was sent to the CEO of the Capital Markets Authority (CMA), who endorsed the research (my proposal was on corporate governance, a subject of serious concern to the CMAs) and wrote to the CEOs and Corporation Secretaries urging them to support the research by responding to the questionnaire (Appendix 3). The CEO of the Institute of Directors (Kenya) also sent an email to CEOs and Corporation Secretaries of NSE listed firms, further seeking support (Appendix 4). To further enhance cooperation from respondents the

researcher also provided an introductory letter seeking authorization to collect data from respective companies (Appendix 5).

Drawing from Cooper and Schindler (2008), I principally administered the questionnaire so as to enhance the response rate and quality of data collected. A description of the questionnaire items was provided either orally or through a telephone call. The study further asserts, a self-administered survey method is appropriate when it is important for the respondents to have adequate time to carefully consider their responses. If questionnaires were not received within four weeks, extensive follow up was undertaken which included telephone calls, e-mails and visits to respective companies. However, I experienced difficulties in getting responses from some respondents who set dates but did not honour the appointments on account of very tight work schedules. This was a particularly busy time due to board meetings to review half year results of the various companies. Companies whose questionnaires had not been returned at the end of four months were considered non-responsive. The respondents were the Chief Executive Officers and Corporation Secretaries. The choice of the respondents is consistent with studies by Cabrita and Bontis (2008) and Shabarati *et al*. (2010) who argued that organization characteristics measured were known to selected members in upper echelons, thus they were likely to provide more reliable information. The targeted respondents were deemed knowledgeable about issues under investigation for which they are directly responsible.

Secondary data was obtained through a review of annual reports where an index was constructed based on the CMAs revised code of corporate governance practices for public listed companies in Kenya (CMAs RCCGK) covering seven provisions of best practice that firms are required to apply or explain steps they will take to comply. These seven provisions are: board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement. A binary coding system was adopted. It follows a reasonably established line of scoring corporate governance disclosures found in the financial statements, in line with similar studies (Gompers *et al.,* 2003; Shabbir and Padget, 2005). Since not all responses fit the “no” or “yes” response, intermediate scores of 0.25, 0.5 and 0.75

were added to take care instances when provisions were not fully fulfilled but did not warrant a "no".

Scores of compliance with the CMAs RCCGK are shown in appendix 8, but coded in order to conceal the companies' identities to maintain confidentiality. Data from financial statements for the years 2012- 2015 were used to calculate ROA, ROE, EPS, and Tobin's Q, as proxies of performance. Using data from the two sources, primary and secondary has been supported by Bagire (2012), Osoro (2013) and Kariuki (2014) who opined that the combination of both overcomes problems of data aggregation from surveys.

3.6 Operationalization of Key Study Variables

To evaluate the relationship between corporate governance and firm performance the corporate governance index (CGI), which is the main study variable was constructed. CGI is an aggregation of fourty two dimensions contained in the seven provisions of the code of corporate governance for public listed companies in Kenya by CMA (2014) compiled in line with prior studies that have relied on national or international codes (Gyakari, 2009). The other independent variable is the equilibrium-variable index model which consists of individual corporate governance structures operating as single corporate governance provision in isolation.

To operationalize these constructs, the study measured the extent to which the respondents agreed with the statements related to corporate governance, strategy implementation, competition and non-financial performance of the firm. Indicators of performance used were ROA, ROE, EPS and valuation (Tobin's Q) calculated from data obtained from the annual reports. A Summary of operationalization and measures of variables is shown in Table 3.1.

Table 3.1 Summary of Operationalization and Measures of Variables

	Operational Definition	Construct/ Indicators	Source	Questionnaire item
Corporate Governance- Independent Variable	CGI- Compliance- Index	An aggregation of 42 comprehensive dimensions composed of 7 corporate governance provisions.	Gyakari (2009) NSE (2015)	Secondary Data
	CGI-Equilibrium-Variable Index			
	Board operations and Control	The role and responsibilities of the board are clear in discharging their fiduciary and leadership functions.	CMA (2014)	5 point likert scale Section A1-A8
Corporate governance (Independent Variable)	Rights of Shareholders	Equal treatment of all shareholders and timely receipt of information.	CMA (2014)	5 point likert scale Section B1-B5
	Stakeholder Relations	Deliberate, planned, constructive engagement and communication with stakeholders.	CMA (2014)	5 point likert scale Section C1-C6
	Ethics and Social Responsibilities	Board's mode of operation is based on fundamental beliefs underlining proper tenets of governance and effective implementation of code of conduct and ethics and maintain a balance between economic, social and environmental values.	CMA (2014)	5 point likert scale Section D1-D5

	Operational Definition	Construct/ Indicators	Source	Questionnaire item
	Accountability, Risk Management and Internal Audit	The Board takes full responsibility for the accuracy of financial statements, has Internal control systems and risk management are that are adequate and robust and has a board charter clearly delineates the role of the board showing how good internal control will be realized.	CMA (2014)	5 point likert scale Section E1-E6
	Transparency and Disclosure	Disclosure of timely and balanced information which includes a clear statement on compliance with good corporate governance.	CMA (2014)	5 point likert scale Section F1-F10
	Supervision and Enforcement	Application of all principles and recommendation on the CMA code 2014 or explained those not complied and steps taken towards their application.	CMA (2014)	5 point likert scale Section G1-G2
Strategy implementation (Mediating Variable)	Operationalization	Extent to which leadership encourages contribution to the corporate strategies by divisions, through development of short term objectives provision of supportive budgets.	Pearce and Robinson (1996) Jalali (2012)	5 point likert scale Section I1-I5

	Operational Definition	Construct/ Indicators	Source	Questionnaire item
	Institutionalization	Extent to which organizations provide leadership, resources and staff with the right skills and who are equally rewarded and the extent to which the culture supports strategy implementation and linkage of objectives.	Pearce & Robinson (1996) Jalali (2012)	Section J1-J5
Industry competition (Moderating Variable)	Degree of industry competition	Extent to which the industry is attractive- relative ease of entry, buyer and supplier power, availability of substitute products and rivalry among current players.	Porter (1980) Asikhia and Binnuyo (2012) Ogaga (2015)	5 point likert scale Section K1-K5
	Non-Financial Measures			
Firm Performance	Customer satisfaction	Customer perception of satisfaction.	Kaplan and Norton (1992) Hubbard (2009)	5 point likert scale Section L1-L3
	Internal Business	Extent, to which company engages in research and development, encourages innovation and creativity and rate of launching of new products and services.	Kaplan and Norton (1992) Hubbard (2009)	5 point likert scale Section M1-M3
	Learning and Growth	Extent to which an employee can perform challenging	Kaplan & Norton	5 point likert

	Operational Definition	**Construct/ Indicators**	**Source**	**Questionnaire item**
(Dependent Variable)		tasks with ease due to superior training as a measure of the quality of the workforce- Development. Extent to which the organizations embrace succession planning.	(1992) Hubbard (2009)	scale Section N1-N3 Section O1-O7
	Financial	-ROA (ratio of annual net income and total income). -ROE (ratio of annual net income and issued shares). - Tobin's – Q- sum of value of ordinary and preferred shares and total liabilities as a ratio of total assets. Earnings Per Share- (measured as the difference annual net income and dividends on preferred shares divided by outstanding shares).	NSE (2015)	Secondary data

Source: Researcher (2016).

3.7 Reliability Tests

Reliability measures the degree to which the assessment tool produces stable and consistent results across time and across items in the instrument (Sekeran 2010). According to Bonett (2003), reliability measures the consistency and accurateness of results representing the total population under study. Test of reliability aims to show if the survey can be relied upon to provide the same values if the survey were to be administered repeatedly under similar conditions. If the results can be replicated under similar conditions then the research instrument is deemed reliable. The study considered equivalent reliability and internal consistency perspectives. Equivalent reliability ascertains the degree to which alternative forms of the same measure produce same or similar results administered simultaneously without a delay. The scores of the same events in the companies listed on the Nairobi Securities Exchange were compared to test for the equivalence of measurement from both the primary and secondary data collected. Internal consistency ascertains the degree to which instrument items are homogenous and reflect the same underlying constructs.

The consistency of the results was measured using Cronbach's alpha test in the statistical package for social sciences (SPSS) which measures the degree of consistency of the items with one another or average correlation of items within the test. Alpha is equal to 1.0 when all the items measure only the true score and there is no error component. According to Hair *et al*. (2010); Nunally, (1978); Sekeran and Bougie. (2010) an instrument with coefficient of 0.6 is considered to have an average reliability while coefficients of 0.7 and above reveal that the measurements has a high reliability. This study adopted 0.5 as the lower limit. This is in agreement with Nunally's (1978) conceptualization and consistent with previous studies in corporate governance which used same measurement and revealed reliable and valid results (Mbalwa *et al*., 2012; Farhat, 2014 and Okiro, 2014). According to Churchill (1979) this calculation should be the first measure that a researcher should use to assess the quality of the instrument used in a study. Table 3.2 shows the results of the reliability test derived from responses in the questionnaires.

Table 3.2 Reliability Test Results

Variables	Measures	Number of Dimensions	Cronbachs' Alpha	Comments
Corporate Governance	Board Operations and Control	8	0.806	Reliable
	Rights of Shareholders	5		
	Stakeholder Relations	6		
	Ethics and Social Responsibilities	5		
	Accountability, Risk Management and Internal Audit	6		
	Transparency And Disclosure	10		
	Supervision and Enforcement	2		
	Total	42		
Strategy Implementation	Operationalization of Strategy	5	0.881	Reliable
	Institutionalization of Strategy	5		
	Total	10		
Industry Competition	Internal attributes of Industry Competition	3	0.715	Reliable
	External attributes of Industry Competition	2		
	Total	5		
Non- Financial Measures	Customer Satisfaction	3	0.787	Reliable
	Internal Business Processes	3		
	Learning and Growth-Skills Development	3		
	Learning and Growth-Succession Planning	5		
	Total	14		

Source: Researcher (2016).

The results in Table 3.2 show that Chronbach's Alpha coefficient ranged between 0.715 (industry competition)) and 0.881 (strategy implementation). The results indicate that measurement scales used were sufficiently reliable and measured the

study variables adequately. The reliability coefficient for all the constructs used in this study by far exceeded the 0.5 minimum level of acceptability recommended by Hair *et al.* (1998) and are above the 0.7 range advocated by Nunally (1978); thus are reliable and acceptable for further analysis. The study constructs were highly correlated to each other.

3.8 Validity Tests

Validity is the degree to which the method(s) used to collect data accurately measure(s) what it/they is/are intended to measure and how accurate and truthful the findings turn out to be (Saunders *et al*., 2009). It arises due to the fact that measurements in social sciences are indirect. It is the extent to which the indicators devised to measure a concept really measures that concept. Validity test is undertaken to answer the following questions, 1) is the research investigation providing answers to the research questions for which it was undertaken?; 2) if so, is it providing answers using appropriate methods and procedures? Validity is therefore, the accuracy of a measure or the extent to which a score truthfully represents a concept (Zickmund *et al*., 2010). There are three conventional ways of establishing validity: content validity, criterion validity and construct validity. According to Nachmias and Nachmias (2009), content validity is a technique used for making inferences through systematic and objective identification of specified characteristics of messages and using the same to relate trends. It is the degree to which the content of the items adequately represents the universe of all relevant items under study (Sekeran, 2010).

Criterion validity is the degree to which the predictor is adequate in capturing the relevant aspects of the criterion while construct validity identifies the underlying constructs being measured to determine how well the tests represents them. The study endeavoured to measure content validity. Content validity involves examination of the content of measurement instrument to determine how well it is represents the behavioural domains that need to be examined (Sekeran, 2010). Content validity of this study was confirmed by discussing the items in the instrument with the supervisors, colleague students and experts in corporate governance from two institutions. The sum of scores of 3 and 4, as rated by experts, divided by the total scores for all the questions gives a further tool that can determine content validity

referred to as content validity index (CVI). A CVI of 0.887 was obtained for this study validating the appropriateness of the questionnaire which surpassed the threshold of 0.7 as suggested by Oso and Onen (2009).

3.9 Pilot Study

A pilot study is a small scale version or trial run in preparation for a major study (Polite, *et al*., 2006). Baker (1994) noted that a pilot study is often used to pre- test or try up a research instrument. The study found that a sample size of between 10 and 20 percent of the sample size of the actual study is a reasonable number of participants to consider enrolling in a pilot. Simon (2011) stresses that although a pilot study does not guarantee success in the main study but increases the likelihood of success. The research instrument was subjected to a thorough examination by pretesting with 5 corporation secretaries representing 10 percent from the population study randomly selected to evaluate the relevance, meaning and clarity of the questionnaire (Bonett, 2003). Changes suggested and adopted in the pilot study included reduction in the number of questions. Responses on the non-financial measures of performance whose response ranged from “very satisfied” to “very dissatisfied” was changed to read “very low” to “very high” on a Likert scale for sections, “I, M, N and O” of the questionnaire. A “not applicable” (N/A) column was suggested under learning and growth- succession planning section (section 0). It was also suggested that the filling of the questionnaire be researcher assisted. Since most of the questions were compliance related respondents would be unwilling to rate their organizations low in an attempt to present their organizations in the best light possible.

3.10 Data Analysis

This section entailed data preparation, analysis and reporting. Diagnostic tests were also done. Data preparation encompassed questionnaire checking, editing, coding and data cleaning. Data were analyzed using both descriptive (mean, percentages and measures of dispersion) and inferential statistics (regression analysis). Descriptive statistics were used to present the demographic characteristics of the respondents, directors’ and organizations’ characteristics.

Before data was analyzed using regression analysis as the main statistical tool for testing hypotheses diagnostic tests done included, normality, linearity, multicollinearity and homoscadasticity**.** Data was pre-tested for how regular it is, or normality, how orderly it is or linearity for multicollinearity and for homoscedasticity. In research, when the assumptions are met, the models derived accurately represent population of interest. Normality was tested by use of histograms. Probability-probability (P-P) plots were used for visual confirmation of normal distribution of data. Data is assumed to be normal when the histogram appears symmetrical and follows a bell-shaped curve with greatest frequency of scores in the middle and smaller frequencies at the extremes. Data that exhibits non-normality characteristics may lead to inaccuracy of the results if analyzed using a linear regression model. Non- normal data can however be normalized by log 10 transformation.

Multicollinearity describes a high degree of association between independent (predictor) variables. Multicolinearity may make it appear like one or more independent variable is not significant and gets dropped from the model when in fact it is significant. Variance Inflation Factor (VIF) and tolerance values were used to test multicollinearity. The VIF value measures the strength of the linear relationship between the variables. According to Hair *et al*. (2008) the VIF value should be below 10.

Heteroscedastic means that variance of errors is not constant. Variance of residuals is shown by how wide the scatter plot of the residuals becomes as explanatory variable increases. If the width of the p-p plots of the residuals increases or decreases as explanatory variable increases, then the assumption of constant variance of errors is not met. Regression analysis using heteroscedastic data will still provide unbiased estimate of the relationship between predictor variable (corporate governance) and the outcome (firm performance), but standard errors and therefore inferences obtained from data analysis are suspect. Biased standard errors lead to biased inference, so results of hypothesis tests are possibly wrong. For example, if OLS is performed on a heteroscedastic data set, yielding biased standard error estimation, a researcher might fail to reject a null hypothesis at a given significance level, when that null hypothesis was actually uncharacteristic of the actual population therefore making type 11 error

Multiple regression seeks to study the effects and the magnitude of the effects of more than one independent variable on one dependent variable (Kerlinger and Lee, 2000). It leads to the derivation of an equation in which each the independent (predictor) variable has its own coefficient and the dependent (outcome) variable is predicted from a combination of all the variables multiplied by their corresponding coefficients plus a residual term (Field, 2009). As the study consisted of a combination of independent, mediating, moderating and dependent variables the following equation of this multiple regression model is given as:

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$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y is the Firm Performance

β_0 = Intercept

X_1= Corporate Governance

X_2 = Strategy Implementation

X 3 =Industry Competition

β_1, β_2, β_3 = Coefficients

ε = Error term

A summary of objectives, hypotheses and data analytical models are shown in Table 3.3.

Table 3.3 Objectives, Hypotheses and Data Analysis Models

Research Objective	Research Hypotheses	Analytical Model	Interpretation
Objective 1 To establish the relationship between corporate governance and firm performance.	**H1** There is a significant relationship between corporate governance and firm performance.	Simple regression analysis FP=f (CG). FP= $\beta_0 + \beta_1$ CG +€. FP= Firm performance. β_0= Constant. β_1=Regression coefficient for corporate governance. CG= Composite index for corporate governance €= Error Term.	(R^2) was used to show % of variation in firm performance was due to provisions of corporate governance. F-Test was used to indicate model fit by testing significance of the model. Beta (β) indicated the effect of a unit change in corporate governance on variation firm performance. T- Test was used to assess significance of the coefficient β of the predictor variable at $p<0.05$.
Objective 2 To determine how strategy implementation mediates the relationship between	**H2** Strategy implementation significantly mediates the relationship between	Step wise regression Analysis four step procedure Step 1: FP = β_0+ β_1 CG +€. Step 2: SI = β_0+ β_1 CG +€. Step 3: FP= β_0+ β_2 SI +€. Step 4: FP= β_0+ β_1 CG+β_2 SI+ €. Where β_0 = constant.	R^2) is showed % of variation in firm performance as explained by characteristics of CG and SI. P- Value $\leq$ 0.05 evaluated phases one to three for statistical significance. T- Test was used to determine individual significance of the relationship at $p<0.05$.

Research Objective	Research Hypotheses	Analytical Model	Interpretation
corporate governance and firm performance.	corporate governance and firm performance.	β_1, $\beta_{2,}$ = regression coefficients . FP= Firm performance. SI= Composite index for strategy implementation. CG= Composite index for corporate governance. €= Error term.	When corporate governance is significant in the presence of strategy implementation there is no mediation. Some form of mediation is supported when corporate governance is no longer significance when strategy implementation is. Full mediation is inferred when corporate governance is insignificant when strategy implementation is controlled.
Objective 3 To establish how industry competition moderates the relationship between corporate	**H3** Industry competition significantly moderates the relationship between corporate	Step wise regression analysis Step 1:FP= β_0+ β_1 CG +€ Step 2: FP= β_0+ β_1 CG+IC+€ Step 3: FP= β_0+ β_1 CG+ β_2 IC +β_3 CG*IC+ € Where β_0 = constant. β_1= regression coefficient for corporate governance.	Coefficient of determination, R^2 was used to assess how much firm performance variation was due to industry competition. Moderation effect is confirmed when R^2 changes significantly upon interaction between corporate governance and industry competition. T- Test was used to assess significance of β for

Research Objective	Research Hypotheses	Analytical Model	Interpretation
governance and firm performance.	governance and firm performance.	$\beta_{2=}$ regression coefficient for industry competition. $\beta_{3=}$ regression coefficient for the interaction term. FP= Firm performance. CG = Composite index for corporate governance. IC= Composite index for industry competition. CG*IC =Interaction term, product of standardized corporate governance and standardized industry competition. €= Error term.	individual variables at $p<0.05$.
Objective 4 To establish whether the joint effect of corporate	**H4** The joint effect of corporate performance, strategy	multiple regression analysis FP= f (CG+SI+IC). FP= β_0+ β_1 CG+ β_2SI+β_3IC+ €. Where β_0 = constant	Coefficient of determination R^2 showed the % of firm performance explained jointly by corporate governance, strategy implementation and industry competition. Beta (β) coefficient was used to which predictor

Research Objective	**Research Hypotheses**	**Analytical Model**	**Interpretation**
governance, strategy implementation and industry competition on firm performance is greater than the influence of the individual variable.	implementation and competition on firm performance is significantly greater than the influence of the individual variable.	$\beta_{1....}\beta_3$ regression coefficient. FP= Firm performance. CG= Composite index for corporate governance. SI= Composite index for strategy implementation. IC= Composite index for industry competition.	variable had higher effect on firm performance. T- Test was used to assess significance of β for each individual variable at $p<0.05$.

Source: Researcher (2016).

The simple regression analysis was used test Hypothesis 1; while multiple regression analyses were used to test Hypothesis 2, Hypothesis 3 and Hypothesis 4 respectively. Correlation analysis was used to check on the overall strength of the model established and the individual significance of the predictor variables. The study used measures of central tendency that included the means, standard deviation and coefficient of variation. Inferential statistics used included regression, Pearson’s correlation, goodness of fit, analysis of variance (ANOVA), P value and regression equations.

Hypothesis 1 was used to test the relationship between corporate governance and performance. Corporate governance was computed as a composite score of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement. The composite index of non- financial performance was also computed. The hypothesis was tested using simple regression analysis starting with non-financial performance and proceeding to financial performance.

Hypothesis 2 was used to test the mediating effect of strategy implementation on the relationship between corporate governance and firm performance. The model set forth by Baron and Kenny (1986) involves four steps whereby regression analysis was conducted and the significance of the coefficient determined in each step. In the first step, the influence of the independent variable (corporate governance) on the dependent variable (firm performance) was tested using regression analysis. The second step involved testing the influence of the independent variable (corporate governance) on the mediating variable (strategy implementation) using simple regression analysis. The third step involved testing the influence of the mediator (strategy implementation) on the dependent variable using simple regression analysis. In step four, the influence of the independent variable (corporate governance) on the dependent variable (firm performance) when controlling mediation (strategy implementation) was tested using multiple regression

analysis. The criterion for establishing mediation is, when controlling for mediator, the influence of independent variable on the dependent variable becomes insignificant.

Hypothesis 3 was used to test the moderating effect of industry competition on the relationship between corporate governance and firm performance. The model is set forth by Baron and Kenny (1986) that involved three steps. The first step involved testing the relationship between corporate governance and firm performance. The second step involved standardizing the independent variable (corporate governance) and the moderating variable (industry competition). Creation of the interaction term constitutes the next step. This step involves getting the product of the standardized independent and the standardized moderating variable (standardized independent variable X standardized moderating variable). The product is included in the model to test its influence on corporate governance. Moderation is assumed to take place if the interaction term in step three is statistically significant. Interaction term defines moderation. Hypothesis 4 was concerned with testing the joint effect of the variables under study. Multiple regression analyses were performed to test the joint effect of the predictor variables on performance simultaneously.

3.11 Chapter Summary

The Chapter presented the research methodology which comprised the research design and research paradigms. The research design used was a cross sectional survey design driven by the positivist paradigm. An explanation was given that the study adopted a cross sectional survey design because data was collected across NSE listed companies at one point in time. The study population, data collection method, reliability and validity tests, the pilot study and data analysis were also covered. Justification of the particular data analysis techniques is given. It also contains operationalization of the study variables and data analysis model shown in Tables 3.2 and 3.3 respectively. The Chapter therefore gives way for Chapter Four which has the analysis of results and interpretations of findings.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter deals with data analysis and the findings of the study on the influence of strategy implementation and industry competition on the relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange. The chapter has six broad sections. Section one has profiles of respondents and organizations that participated in the survey to provide a broad indication of the context. Respondents' characteristics included education level and years of service which confirms respondents' suitability to respond to the questionnaire, while organizations characteristics included sector, age since incorporation and listing, and ownership. In section two, directors' characteristics, which included, age, diversity, CEO/ chair duality, and qualifications are highlighted. Section three shows how the organizations that participated comply with the CMA corporate governance guidelines for public listed companies. Section four captures the descriptive statistics on corporate governance, strategy implementation, industry competition and non financial performance showing frequency, mean, standard deviation and coefficient of variation.

Section five contains findings from the tests of the hypotheses. The study used both the financial and non-financial measures of performance. Separate analyses were performed for non-financial and financial indicators of firm performance respectively. Hypotheses were tested one at a time, beginning with the non-financial measures, so as to test and explain if there was any variation in the dependent variable. Simple linear and multiple linear regression analysis comprising simple, stepwise regression and multiple regression analysis were conducted. In section six results are discussed and meaningful patterns derived based on confirmatory and inconsistent results in previous studies. The discussion is narrowed to research gaps identified in the literature review which formed the basis of the conceptual hypotheses. The section is arranged chronologically according to the study objectives and corresponding hypotheses.

4.2 Survey Questionnaire Response Rate

The objective of main interest of this study was to establish the effect that strategy implementation and industry competition have on the relationship between corporate governance and performance of companies listed on the Nairobi Securities Exchange. It further sought to establish the type and size of how the main variables are related. The study targeted 61 firms representing the 11 sectors of the economy. Data was collected over a period of 4 months, from September to December 2016. Out of the 56 hand delivered questionnaires, 49 were filled and returned. A response rate of 87.5% was realized, which compares well with similar studies that were conducted in the same context (Kariuki (2014) 68%, Okiro (2014) 57%, Ogendo (2014) 59% and Ogaga (2017) 73 %.

Although there is no consensus among scholars on the response rate, Saunders *et al*. (2009) posit that response rates vary depending on the attributes of the chosen questionnaire. A response rate above 80 % of questionnaires delivered and collected as was done in this study is considered reasonable and moderately high. Thus, the response rate is acceptable as noted in both international and local research (Sivo *et al.,* 2006). In this study, some respondents cited lack of time and confidentiality while one refused to participate without citing any reason.

4.2.1 Descriptive Statistics

Descriptive statistics were used to present information about the respondents, the directors and the profile of the companies and the dimensions of the study variables (corporate governance, strategy implementation, industry competition and firm performance).

4.2.1.1 Respondents' Characteristics

The survey questionnaire was distributed to firms listed on the Nairobi Securities Exchange. Chief Executive Officers and the Corporation Secretaries were required to

indicate their highest education attainment and the number of years they had served in the current firms.

4.2.1.2 Respondents Level of Education

The use of key informant methodology requires employees who have attained minimum levels of education as it signifies the ability to respond to survey items. The highest level of education attained was captured by categorizing the level of education into six categories with a PhD as the highest level and secondary education as the lowest level. The choice of the CEO and corporation secretaries as respondents was informed by the need to have respondents who interacted with the board. Table 4.1 presents a summary of education level attained by the respondents.

Table 4.1 Distribution of Respondents by Level of Education

Education attainment	Frequency	% age
Secondary	Nil	0
Diploma	1	2.0
Bachelors	6	12.2
Post Graduate Diploma	10	20.4
Masters	30	61.2
Doctorate (PhD)	2	4.2
Total	49	100

Source: Researcher (2016)

The results in Table 4.1 indicate that of those interviewed, 61.2% possessed a Master's degree, 12.2% had a Bachelor's degree, and 20.4% had a postgraduate Diploma while 4.2% had a Doctorate degree. The respondents were considered relatively qualified for their positions in addition to being in top management and had knowledge of board operations. The respondents were able to competently respond to issues on corporate governance, strategy implementation, industry competition and performance as required by the study.

4.2.1.3 Respondents Years of Service

Tenure is deemed as a critical aspect of evaluating the respondents' suitability. Length of service measures the ability to articulate a firms issues especially board issues which are a preserve of a few. Table 4.2 presents a summary of how long those interviewed had been in the current organization.

Table 4.2 Distribution of Respondents Number of Years of Service

Distribution	Frequency	Percentage
< 10 Years	27	56.3
11 to 15 Years	10	20.8
16 to 20 Years	2	4.2
21 to 25 Years	1	2.1
26 to 30 Years	4	4.2
Over 31 Years	4	4.2

Source: Researcher (2016)

Table 4.2 shows that 56.3% of the respondents had served in the current positions for less than 10 years representing more than half of the respondents, which may appear to contradict the assertion that tenure is deemed as a critical aspect of evaluating the respondents' suitability to articulate a firms issues especially board issues. Most of the respondents however had served in similar or equivalent roles before joining the current firms and needed just enough time to acquaint themselves with operations of their current employers. The shorter duration of service of the respondents is attributed to mobility of the Gen Xers. The Boomers are staying longer at work, which has made the Gen Xers feel their promotion and advancement opportunities are limited and opt to leave to seek better benefits, greater appreciation and new challenges (Benson & Mitchell, 2011). Notwithstanding the foregoing the study was guided by knowledgeable experienced managers who were able to respond to issues of corporate governance, strategy implementation, industry competition and performance.

4.2.1.4 Characteristics of Respondents' Organizations

The key firm factors of interest to the study were the sector of the economy, ownership structure measured in terms of whether the firm is locally or foreign owned, age of the firm measured by the year of incorporation, the year listed, size of the board and gender diversity of the board. Other factors of interest were CEO/ Chair duality and how old the directors and CEOs are.

4.2.1.5 Distribution of NSE Listed Companies by Sector of the Economy

Firms that were listed in the Nairobi Securities Exchange represented 11 sectors of the economy as shown below in table 4.3.

Table 4.3 Distribution of NSE Listed Companies by Sector of Economy

Sector	Expected Output	Frequencies of Respondents	As a % age of Total Respondents	Cumulative percentage
Agriculture	5	3	6.12	6.12
Automobile and	3	2	4.08	10.20
Accessories	11	11	22.45	32.65
Banking	8	7	14.29	46.94
Commercial And Services				
Construction And Allied	5	5	10.20	57.14
Services	4	4	8.16	65.31
Energy And Petroleum	6	6	12.24	77.55
Insurance	4	3	6.12	83.67
Investment	1	1	2.04	85.71
Investment Services	8	6	12.24	97.96
Manufacturing And Allied	1	1	2.04	100.00
Telecommunication And Technology				
Total	56	49	87.5	

Source: NSE (2016)

As shown by table 4.3 above, Banking was represented by 11 firms (22.45%) followed by Commercial and Services with 7 firms (14.29%); Insurance and Manufacturing with 6 firms each (12.24%); Construction and Allied with 5 firms (10.20%); Agriculture and Investment with 3 firms each (6.12%). Automobile and Accessories with 2 firms (4.08%) and Investment Services with 1 firm (2.04%). This information reveals that the firms represented are diverse and represent major sectors of the economy. The diversity of the organizations studied will render the findings easily generalizable.

4.2.1.6 Age Spread of NSE Listed Companies since Incorporation

49 firms comprised the study population. Dates of incorporation and listing in the Nairobi Securities Exchange were used determine the age of the companies as tabulated in below.

Table 4.4 Age Spread of NSE Listed Companies since Incorporation

Age	Frequency	Percentage
Less than 25 Years	5	10.2
25 to 50 Years	17	34.7
51 to 75 Years	16	32.7
75 to 100 Years	5	10.2
Over 101 Years	4	8.2

Source: Researcher (2016).

Nine companies representing 18.4% as shown in Table 4.4 have been in existence for over 75 years; 33 companies (67.48%) have operated for between 25 and 75 years. Five companies (10.2%) have been in operation for less than 25 years. These figures indicate that most of the companies are well-established and as listed firms are meant to comply with legal and regulatory provisions have developed relevant corporate governance practices. The firms represented an adequate population of the study.

4.2.1.7 Ownership of NSE Listed Companies

The questionnaire provided the primary data while secondary data was extracted from the CMA Quarterly Statistical Bulletin (2015) to establish the ownership structure of the Nairobi Securities Exchange listed companies. Both sets of data were compared and where there was deviation secondary data prevailed. Ownership structure was defined by classifying the firms into three categories; locally owned, foreign owned and both locally and foreign owned. The findings of ownership structure are presented on table 4.5 below.

Table 4.5 Ownership of NSE Listed Companies

Ownership	Frequency	Percentage
Fully Locally Owned	8	16.3
Fully Foreign Owned	0	0.00
Both Locally and Foreign Owned	41	83.7

Source: Researcher (2016)

83.7 % of companies were both local and foreign owned, and 16.7 % wholly locally owned as shown in Table 4.5. Ownership structure is presumed to influence adoption of corporate governance practices.

4.2.1.8 Local Ownership Distribution of NSE Listed Companies

Foreign ownership has been increasing steadily over the years**.** The trend is bound to continue since MSCI frontier index increased its rating for Kenya and will continue to dilute local ownership. The summarized results on ownership are presented in Table 4.6.

Table 4.6 Percentage Local Ownership of NSE Listed Companies in Kenya

Ownership %	Frequency	Percentage

1 to 20	21	43.8
21 to 40	9	18.4
41 to 60	6	12.5
Over 61	12	25.0
Total	49	100

Source: Researcher (2016).

As shown in Table 4.6, firms with over 61% local ownership were 12 representing 25% with highest local ownership ranging between 1 and 20% being the highest at 21 representing 43.8%. Appetite by foreigners of shares of Nairobi Securities Exchange listed companies seems to be increasing. It is expected that companies' compliance to corporate governance will increase as a result of demand of share holding by foreigners particularly from Europe and the US with their more entrenched corporate governance practices.

4.2.1.9 Size of the Boards of NSE Listed Companies

Important policy and performance components, which are aspects of good corporate governance, form some key responsibilities of the board of directors. The board has fiduciary responsibilities that ensure acting fairly, being open and accountable while dealing in all business and financial matters of the company, as well as safeguarding the welfare of those who have financial and non-financial interests with the organization. The directors should be competent, remain active and be constantly informed and able to effectively supervise the company if they were to adequately fulfill the responsibility vested upon them. The directors' responsibility goes beyond regulation. Their responsibilities include business performance, setting the company's strategic direction and hiring and firing the CEO and senior management. The 49 Nairobi Securities Exchange listed companies who returned the questionnaires had 267 directors. The distribution of the number of directors across the boards is shown in Table 4.7.

Table 4.7 Distribution of Number of Directors on the Boards of NSE Listed Companies

Distribution of Directors by Number	Frequency	Percentage
3 to 5 directors	3	6.1
6 to 8 directors	17	34.7
9 to 11 directors	23	46.9
12 directors and over	6	12.2
Total	49	

Source: Researcher (2016)

81.6 % of the boards comprised of between 6 and 11 directors as shown from Table 4.7. Boards with between 3 and 5 directors were 6.1% while 34.7 % of the boards had between 6 to 8 directors. Almost half of the boards (46.9%) had between 9 and 11 directors. According to Guest (2009) most companies arbitrarily determine the size of their boards. A more proactive approach is where the current board size and structure are subjected to scrutiny. Details providing an explanation of the appropriateness of the current structure are provided as well justification for any anticipated changes.

There have been varied suggestions on the optimum number of board members. Pozen (2010), for instance, suggests seven, the CEO and six others who should be independent, as the best number that supports effective decision making. This view is supported by Adams *et al*. (2010) who found that small boards perform better than large boards. There is a tendency for “social loafing” in case of larger boards where some directors abscond their responsibilities take a back seat leaving the onus of decision making to others. In order that the three main committees are populated. Pozen (2010) suggests six as the optimum number of directors. The three committees are audit, nomination and compensation. Knowledge is the biggest need in a board. Someone knowledgeable in financial and accounting maters should lead the audit function while someone with broad business knowledge offers a stance of the strategic direction the company should take while the others should be knowledgeable in the organizations main line of business.

4.2.1.10 Gender Diversity on the Boards of NSE Listed Companies

The study sought to establish the gender diversity by determining the number of women directors in the boards of the 49 companies listed on the Nairobi Securities Exchange. A common measure to establish diversity is enumerating female board members. Studies on gender diversity have however shown mixed results. Cater *et al.* (2010) did not find any correlation between women on the board and the performance nexus, while Devillard *et al*. (2013) and Curtis *et al*. (2012) found a positive relationship, whose results were the exact opposite from the study of Shrader *et al*. (1997) who found a negative association. In five categories the study results on women representation on the board are presented as shown in Table 4.8.

Table 4.8 Distribution of Number of Women on the Boards of NSE Listed Companies

Distribution	Frequency	Percentage
Nil women	11	22.4
1 woman	10	20.4
2 women	14	28.6
3 women	11	22.4
4 women or more	3	6.1

Source: Researcher (2016).

From Table 4.8 out of the 49 companies 11 (22.4%) had no women on the board; 10 companies (20.4%) had 1 woman each; while 14 companies (28.6%) had 2 women each; and 3 companies had 4 or more women representing 6.1%. Since the average boards on the NSE have between 6 and 11 members observing the one third gender rule there ought to be between 2 and 3 women in the boards. 42.8 % of the boards therefore do not meet the requirement (Constitution of Kenya, 2010).

To have women directors on boards should not be for the sake of attaining statutory numbers or about fulfilling women's rights. When decisions are being made at board level the absence of women directors means that those issues that would help the

company that can only be succinctly articulated by a woman remain unheard especially in view of the fact that women as customers represent at least half of the population. This omission happens at a time of increasing buying power of women brought about by rising incomes and the shift in decision-making both at the domestic front as well at the place of work. Women as directors bring about diversity and enhance the quality of decisions that are made as they bring on board different viewpoints needed as the business landscape has become complex and more challenging.

4.2.1.11 CEO/ Chair Duality of NSE Listed Companies

48 out of the 49 companies who responded had distinct chair and CEO separation. The CEO of the 49th company had retired as CEO but assumed the chairmanship. By the time of writing there had been no replacement of the CEO. Agency theory advocates separation of CEOs role from that of the chairperson commonly referred to as CEO/Chair duality. CEO/Chair duality increases the board's independence from management and thus leads to better monitoring and oversight. This is presumed as such since the chair leads the board while the CEO manages the company. This clearly accepted division of responsibilities at the head of the company enhances corporate governance by ensuring a balance of power and authority, such that no one individual has unfettered powers in decision making. Practically however, this model only works where a harmonious relationship exists between the two individuals in these roles. Stewardship theory which is based on the principle of unity of command holds the view that singular and clear authority vested on one person is necessary for the smooth and effective running of an organization.

4.2.1.12 Age of Directors of NSE Listed Companies

The study sought to establish the ages of the board members, specifically all directors, including the chairpersons and the CEOs. The 49 companies studied had a total of 436 directors (board members, CEOs and chairpersons). The researcher was able to establish

the ages of 267 (data on ages of 169 directors was missing) of the directors from the annual reports whose distribution is presented in Table 4.9.

Table 4.9 Age Distribution of Directors of NSE Listed Companies

Age Group	Frequency	Percentage
30 to 40 Years	16	6.0
41 to 50 Years	76	28.5
51 to 60 Years	84	31.5
61 to 70 Years	65	24.3
71 Years and over	26	9.7

Source: Researcher (2016).

From Table 4.9 more than 65% of directors are over the age of 51. Directors below 40 are 6%, while those over 71 are 9.7 %. The youngest director was 32 years of age while the oldest was 84. The average age of the directors was 55. Østergaard *et al*., (2011) posit that different groups of contemporaries experience distinct economic and social trends which sway their perspectives, attitude and world view. According to Kang *et al*. (2007) the differences in age of the directors can bring different perspectives because those more advanced in age bring wisdom, knowhow and particularly finances directly or through their numerous contacts. Those in the middle age hold demanding senior executive roles while new entrants are usually youthful and full of pep.

4.2.1.13. Age of Chairpersons of NSE Listed Companies

The study sought to establish the ages of board chairpersons as indicated in Table 4.10.

Table 4.10 Age Distribution of Chairpersons of NSE Listed Companies

Age Group	Frequency	Percentage

40 to 50 Years	2	4.1
51 to 60 Years	9	18.4
61 to 70 Years	17	34.7
Over 71 Years	21	42.9
Total	49	

Source: Researcher (2016).

77.6 % of the boards have chairpersons over the age of 61 as shown in Table 4.10, while 42.9% of the boards have chairpersons over the age of 71. Those between 51 and 60 years of age are 18.4 % with 4.1% below the age of 50. Getting a board position represents a moment of achievement recognition in career management. It is not uncommon for those who have served as CEO or other apical positions to remain on the board as directors. The large majority of the chairpersons are men, predictably senior men, both in terms of age, broad experience and overall business experience, and who, often are former CEOs who then proceed to serve as directors before assuming chairmanships. Life expectancy has increased and so it is assumed that with age, comes unmatched wisdom, experience and judgment (Kang *et al.,* 2007). Companies listed on the Nairobi Securities Exchange have a large pool of former CEOs to tap from many who bring in experience in articulating corporate governance issues.

4.2.1.14 Age of CEOs of NSE Listed Companies

The study sought to establish the age distribution of CEOs of Nairobi Securities Exchange listed companies presented on Table 4.11.

Table 4.11 Age Distribution of CEOs of NSE listed Companies

Age Group	Frequency	Percentage

35 to 40 Years	3	6.1
41 to 50 Years	16	32.7
51 to 60 Years	13	26.7
61 Years and Over	17	34.7
Total	49	

Source: Researcher (2016).

From the Table 4.11, 34.7% of CEOs were aged over 60 while CEOs between the ages of 41 and 50 were 32.7%. Those between the ages of 51 and 60 were 26.7%. 3 CEOs representing 6.1% were below 40 years of age. Except for those on contract the retirement age of employees in Kenya is 60 years. It however appears that this rule is not strictly observed particularly because most CEOs are hired on contract. This also points to the apparent shortage of experienced but younger persons to take up the role of a CEO. The older CEO s have more experience to articulate governance issues.

4.2.1.15 Qualifications of Directors of NSE Listed Companies

The range of qualifications that the directors of Nairobi Securities Exchange listed companies possessed was established. Organizations that have educated directors are likely to perform better. The qualifications directors have are tabulated in Table 4.12.

Table 4.12 Qualifications of Directors of NSE Listed Companies

Type and/ or area of Qualifications	Frequency	Percentage

Advertising/ Fine Arts/ Theatre/ Journalism	4	1.57
PhD (Various fields)	10	3.92
Biological Sciences/ Applied Chemistry	11	4.31
Philosophy/ Psychology/ Sociology/ Education/ History/ Geography	18	7.06
Economics	31	12.16
Finance/ accounting	32	12.55
Law	35	13.73
Engineering	38	14.90
MBA/ MPA/ Public Administration/ Marketing/ Management	76	29.80
Total	255	

Source: Researcher (2016).

From the Table 4.12 directors with engineering, legal, finance / accounting and economics background take 14.9%; 13.73%; 12.55% and 12.16% of the director positions respectively totaling to 53.34 %. Besides, 76 % hold an MBA. Education levels contribute to developing moral reasoning that is responsible for an individuals' pro-social attitude. Hansen *et al*. (2010) and Ibarra and Hansen (2010) found that the performance of CEOs with an MBA is 40% higher than CEOs without an MBA. According to Carter *et al.* (2010), divergent thinking that comes from people with diverse educational backgrounds produces more innovation and creativity. Hilman *et al.* (2009) argue that, organizations that are small and those in earlier lifecycle- stages are more likely to benefit from increased diversity in comparison to much older organizations. Lynall *et al.* (2003) suggest that board composition should be adjusted to meet the specific needs of the firm, because firms are in need of different resources at different times.

The level of education and education background are significant factors in board diversity and as a mix of skills and knowledge can have on capacity and ability of the board. The

levels of education highlight diversity in areas such as engineering, law, management, marketing, business and actuarial science. Diverse academic backgrounds enable directors to be efficacious in suggesting innovative ideas. According to According to Hermalin and Weisbach (2001) firms increase their performance by having a well diversified board.

4.2.1.16 Choice of Auditors by NSE Listed Companies

The study sought to establish which audit firms the Nairobi Securities Exchange listed firms have engaged as their external auditors. External audits play an important function promoting the standard of statements of accounts and the firm performance. According to Aryan (2015) the "Big Four", namely; KPMG, Deloitte and Touché, PWC and Ernest and Young provide high quality reports in terms of producing fewer errors as compared to the non- big four audit firms. Study results of the audit firms NSE listed companies have engaged are presented in Table 4.13.

Table 4.13 Choice of Auditors Engaged by NSE Listed Companies

Auditor	Frequency	Percentage
KPMG	15	30.6
Deloitte & Touché	12	24.5
PWC	10	20.4
Ernest & Young	7	14.3
Auditor General	3	6.1
PKF	1	2.0
RSM Ashvir	1	2.0
Total	49	

Source: Researcher (2016).

The findings from Table 4.13 indicate that 7 firms audit the Nairobi Securities Exchange listed companies. The "big four provided external audit services to 44 out of the 49 firms studied representing 89.8%. Competence, independence, and timeliness of reporting have

been used as measures of audits' quality which the big four are likely to exhibit (Zehri & Shaban, 2011). Audits exhibiting impeccable standards have a possibility of uncovering dubious accounting systems. There is a high likelihood that recipients of such high quality reports would bring contents out in the open compared to reports of a poor quality. This enhances the transparency and disclosure and accountability, risk management and internal audit attributes of corporate governance.

4.2.2 Corporate Governance Compliance of NSE Listed Companies

The study sought to measure corporate governance compliance. A corporate governance index was constructed using forty two dimensions derived from seven corporate governance provisions based on the revised Capital Markets Authority corporate governance guidelines for publicly listed companies in Kenya. A score of 1 was awarded where an attribute was mentioned in the annual report and 0 if not mentioned. To recognize partial fulfillment of the dimensions a score of 0.25, 0.5 and 0.75 were awarded.

The annual reports for the year 2015 were used for companies studied. The scores obtained were meant to provide the extent of compliance of corporate governance by firms listed on the Nairobi Securities Exchange in line with the motivation to carry out this study. Using the Capital Markets Authority constructed CGI Index firms listed on the Nairobi Securities Exchange scored an average of 64.4%. The lowest score was 11.11% while the highest score was 88.33%. 49% of the companies fall under high and highest risk categories on a corporate governance scale (Appendix 8).

The higher scores > 4.51 (>90.2%) were associated with lowest risk corresponding to high corporate governance score while low scores < 3.0 (< 60%) were associated with highest risk corresponding to low governance score. The rating follows similar practices by rating agencies such as Investment Information and Credit Rating Agency (ICRA) and Institutional Shareholder Services (ISS). Summary of the Results of the mean rating CGI score of firms Listed on the Nairobi Securities Exchange are presented in Table 4.14.

Table 4.14 Mean CGI Score of NSE Listed Companies

Mean CGI Score Range (Scale 1- 5)	CGI Score as a percentage	Risk Category	Frequency	Percentage
3.0 to 3.25	60%- 65%	Very High Risk	4	8.2
3.26 to 4.00	65.2 -80%	High Risk	10	20.4
4.01 to 4.25	80.2 - 85%	Average Risk	11	22.4
4.251 to 4.5	85.02- 90%	Low Risk	7	14.3
4.51 and Over	90.2 %	Lowest Risk	17	34.7
		Total	49	

Source: Researcher (2016).

14 companies (28.6 %) are in the high and very high risk categories. 24 companies (49.0%) are in the low and lowest risk categories. This represents almost 50% of firms listed in the Nairobi Securities Exchange a score attributed to the intense scrutiny by CMA which includes reporting on corporate governance compliance status in their annual reports. This finding concurs with Okiro (2014) who noted an improvement in corporate governance compliance from an average of 63.6 percent in 2009 to 81.8 percent in 2013 in the Nairobi Securities Exchange based on six governance provisions namely; board structure and composition, ownership and shareholding, transparency, disclosure and auditing, board remuneration and corporate ethics.

4.5 Means, SD and COV of Corporate Governance, Strategy Implementation and Industry Competition

The study explored the means, standard deviation and coefficient of variation of various variables considered in the study which included independent variable of corporate governance, mediating variable of strategy implementation, and the moderating variable of industry competition. The dependent variable was firm performance. It was defined by financial as well as non-financial performance measures. Those answering the

questionnaire were required to confirm to what extent their organizations focused on the suggested dimensions. The respondents were presented with different sets of questions and asked to rank them. These were anchored on a five- point Likert-type scale with a range of 1 to 5 measured the constructs.

The average of the mean score of the four dimensions was aggregated to compute corporate governance. Standard deviation is a measure of how far values are from the mean was computed. The smaller the standard deviation the closer the values are to the mean and are construed to be a good representation of the population. A large standard deviation conversely shows that the values are further away from the mean and their values poorly represent the population (Harper, 2000). Coefficient of variation (CV) is obtained by dividing the standard deviation with the mean. It indicates the percentage of the results that are equal to the mean. The higher the coefficient of variation value, the higher will be the level of dispersion around the mean.

4.5.1 Mean, SD and COV of Corporate Governance

Corporate governance was measured using forty two dimensions derived from seven corporate governance provisions anchored on a five – point Likert scale which were adapted from the Capital Markets Authority's draft code of corporate governance practices for public listed companies in Kenya. Corporate governance was operationalized as board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement**.** The results of the second method were used for analysis of the study variables. The results of the forty two corporate governance dimensions comprised of the seven provisions are shown in the Table 4.16.

Table 4.16: Means, Standard Deviations (SD) and Coefficient of Variance (CV) for Corporate Governance Provisions

Board Operations And Control	N	Mean	SD	CV %
Evaluation of the chairman, CEO the individual board members, the secretary and the entire board is effective.	49	3.80	1.15	30
Board strategy on compliance with laws, regulation and standards is effective.	49	4.63	0.56	12
The annual governance audit is effective.	49	3.24	1.40	43
The board has appropriate balance of skills.	49	4.39	0.64	15
The role and responsibilities of the board are clear in discharging their fiduciary and leadership functions.	49	4.73	0.44	9
The roles of the board and management are very clear and distinct	49	4.69	0.74	16
The board gets relevant, accurate, complete and timely information from management.	49	4.71	0.50	11
There is compliance with the code of ethics and conduct.	49	4.39	0.97	22
Grand Means **Cronbach alpha 0.813**		4.32	0.8	20
Rights of Shareholders				
The Board ensures that equal treatment of all shareholders is effective.	49	4.57	0.54	12
Institutional investors deal with my company in a transparent, honest and fair manner.	49	4.45	0.61	14
Board's dissemination of information to the media is timely.	49	4.37	0.80	18
To safeguard investor interests the board and the media keep in touch to share crucial company information and issues concerning good corporate governance.	49	4.16	0.71	17
Institutional investors participate in performance and corporate governance matters and are encouraged to attend and vote at the AGM.	49	4.02	0.90	22
Grand Mean **Cronbach alpha 0.810**		4.31	0.712	17
Stakeholder Relations				
All its stakeholders are identified and areas of interaction with such stakeholders.	49	3.94	0.85	22

Board Operations And Control	**N**	**Mean**	**SD**	**CV %**
All stakeholders are encouraged to participate in promoting good corporate governance.	49	4.12	0.80	19
Mechanisms and processes that support constructive engagement promotes enhanced levels of corporate governance are present.	49	4.02	0.77	19
Major decisions take into varied account stakeholder interests.	49	4.10	0.79	19
The Board proactively supplies relevant information to stakeholders.	49	4.18	0.85	12
An effective whistle blowing mechanism is in place that encourages stakeholders to speak up.	49	3.57	1.52	43
Grand Mean **Cronbach alpha 0.784**		3.98	0.93	24
Ethics And Social Responsibilities				
Board's actions are premised on values under pining good corporate governance.	49	4.47	0.89	20
Implementation of the code of conduct and ethics is effective.	49	4.31	1.06	25
The company is highly regarded in the industry for its corporate social responsibility activities and has gained popularity amongst stakeholders from its charitable foundations.	49	3.59	1.13	31
Policy on employment from minorities has received wide recognition in the country.	49	2.98	1.22	41
The company is a good corporate citizen and maintains a balance between economic, social and environmental value.	49	4.18	0.75	18
Grand Mean **Cronbach alpha 0.796**		3.89	1.01	27
Accountability, Risk Management and Internal Audit				
The Board is fully accountable for the accuracy and timeliness of the financial statements.	49	4.98	0.14	3
Independent Auditors are formally appointed through a transparent arrangement by for shareholders at each Annual General Meeting.	49	4.82	0.44	9

Board Operations And Control	**N**	**Mean**	**SD**	**CV %**
Internal control systems and risk management are adequate and robust.	49	4.76	0.48	10
A structure that independently verifies and safeguards the integrity of financial reporting is in place.	49	4.80	0.49	10
The board charter clearly stipulates the role of the board and spells out the steps to be taken to attain good internal control.	49	4.69	0.58	12
The internal audit has adequate authority to function independently.	49	4.84	0.42	9
Grand Mean **Cronbach alpha 0.812**		4.81	0.43	9
Transparency and Disclosure				
The Board discloses full information about the Audit Committee membership.	49	4.63	0.66	14
The Board makes public about the one third rule of independent and non-executive directors and minority shareholder representation.	49	4.63	0.69	15
The Board shares its strategic plan in the annual report.	49	4.51	0.91	20
A clear summary of the evaluation of the Board, the Chairperson, the CEO and Company Secretary is posted on the annual report.	49	3.43	1.47	43
The Boards compliance with (IFRS) is disclosed together with and any deviation from these financial standards.	49	4.90	0.36	9
The Board discourages insider dealings by its directors and management and discloses any insider dealings that come to its attention.	49	4.63	0.61	13
The Board has a clear statement on compliance with good corporate governance which indicates aspects that are complied with but also gives reasons for non-compliance and indicative timelines and proposed strategies towards compliance.	49	3.94	1.24	31
Governance structures including board composition, size, the committees and	49	4.53	0.76	17

Board Operations And Control	**N**	**Mean**	**SD**	**CV %**
Board, Management and their mandate are clearly reported in the annual report.				
Whistle Blowing Policy is available on the website and annual report.	49	3.10	1.41	45
The Boards disclosure about pay for the directors and executives is detailed and well understood.	49	3.71	1.41	38
Grand Mean Cronbach's Alpha 0.777		4.20	0.95	27
Supervision And Enforcement				
The board applies all the principles and recommendations on the CMA Code 2014 or explained those not applied and gives a road map to be taken towards their application.	49	3.51	1.38	39
The company has to a large extent implemented the code of good corporate governance.	**49**	**4.08**	**1.00**	**25**
Grand Mean Cronbach's Alpha 0.854		3.77	1.19	32

Source: Researcher (2016).

From Table 4.16 the highest mean score on individual dimensions of corporate governance was a score of 4.9 with a standard deviation of 0.36 and a low coefficient of variation of 9 in compliance with the International Financial Reporting Standards while the lowest mean score was 2.92 with a standard deviation of 1.22 and a coefficient of variation of 41 on the existence of policies on employment from minorities. The high score on the International Financial Reporting Standards and the low dispersion is attributed to the stringent reporting requirements by the Capital Markets Authority imposed on the Nairobi Securities Exchange listed companies while the low mean score on existence of policies on employment of minorities explains the low number of women in the boards. The high coefficient of variation of 41 indicates greater dispersion on policy on employment from minorities. Few companies have policies on employment of

minorities and as noted by Letting (2012) and Kariuki (2014), even those few that have the policies on employment of minorities have not implemented them.

The dimensions on clarity of the role and responsibility of the board in discharging their fiduciary and leadership functions under the provision of board operations and control had a mean score of 4.73 and a standard deviation of 0.44 and a coefficient of variation of 9 indicating low dispersion. Mean scores of 4.71 and 4.69 with standard deviation of 0.50 and 0.742 and coefficient of variation values of 11 and 16 respectively on receipt of timely and relevant information and separation of boards and management roles respectively were obtained.

Although all companies show in their annual reports the remuneration of their directors the coefficient of variation on policies and philosophy for remuneration was 38 showing high dispersion with few companies explicitly indicating their remuneration philosophy. The mean scores on effective whistle-blowing mechanism and availability of the whistle-blowing policy on the companies' websites were 3.57 and 3.10 with corresponding coefficient of variation values of 43 and 45 respectively. The high coefficient of variation values indicated high dispersion suggesting that many companies do not have policies and even more companies do not avail their policies on whistle blowing on the websites.

Although most companies have taken on corporate social responsibility activities a mean score of 3.59 and coefficient of variation of 31 was obtained. The low mean score and the high coefficient of variation indicates that companies' corporate social responsibility programmes have not gained popularity amongst stakeholders, which suggests that many companies run their corporate social responsibility programmes at a philanthropic level, view corporate social responsibility as an added cost to their business and respond to requests on an adhoc basis which leave short memories. Companies which have a strong focus on a well-thought out and balanced, corporate social responsibility programme with a multidimensional outlook improve their corporate reputation. Such companies benefit from improved honour, which include less prying from the public, a rise in customer

numbers and investor loyalty, and a rise in net worth, leading in the long run to stronger financial performance. Such corporate social responsibility programmes confer competitive advantage because they improve corporate reputation resulting to well-regarded corporate social responsibility programmes (Palmer, 2012).

Responses to having a clear statement on compliance with good corporate governance in the annual report and effectiveness of annual governance audit had mean scores of 3.94 and 3.24 and coefficient of variation values of 31 and 43 respectively. The coefficient of variation values are in the very high risk category showing great dispersion. Compliance with the dimensions on effectiveness of governance audit and performance evaluation of the Chairman, CEO, board members and company secretary scored 3.24 and 3.80 with standard deviation of 1.40 and 1.15 respectively. The coefficient of variation values of these two variables were 43 and 30 respectively. These scores fall under the highest and high risk categories of corporate governance and have very high dispersion yet they are crucial areas. Since the top management does not support performance appraisal most organizations do not reward high performers as indicated by the low score of creating a performance culture that rewards high performers as shown under section 4.5.2 on strategy implementation below.

4.5.2 Mean, Standard Deviation and Coefficient of Variation for Strategy Implementation

This study sought to establish the strategy implementation orientation that prevails in the firms listed on the Nairobi Securities Exchange through a review of two typologies: strategy operationalization and strategy institutionalization. Strategy operationalization defines the extent to which leadership encourages contribution to corporate strategies by departments and divisions through development of short term objectives and provision of supportive budgets.

Institutionalization on the other hand defines the extent to which companies provide a culture that supports strategy implementation through staff placement and linking

rewards to objectives. Strategy operationalization and strategy institutionalization were assessed by five dimensions each to measure respondents' perception of strategy implementation anchored on a five point Likert-type scale adapted from Thomson and Strickland (2003). The results are shown in Table 4.17.

Table 4.17: Means, Standard Deviation (SD) and Coefficient of Variance (CV) for Strategy Implementation

Operationalization of Strategy	N	Mean	SD	CV
We have policies that adequately guide decision making established programmes and procedures of how things are done.	49	4.40	0.79	18
All departments and corporate units make their contribution to strategy Implementation.	49	4.40	0.76	17
All departments and corporate units have short term objectives.	49	4.44	0.76	17
Strategy development is combined with resources allocation that adequately supports the activities.	49	4.31	0.85	20
A metric system that includes regular reviews, financial and non-financial data is used to measure Strategy implementation progress.	49	4.26	0.90	21
Grand Mean **Cronbach's Alpha 0.872**		4.36	0.81	19
Institutionalization of Strategy				

Operationalization of Strategy	N	Mean	SD	CV
Able leadership with talent that drives initiative to implement strategy is demonstrated.	49	4.46	0.74	17
Staff with the right skills are deployed to implement high priority strategic initiatives.	49	4.33	0.75	17
A culture that is aligned with the strategy of the organization is in functional.	49	3.85	0.85	22
We have in place an organizational structure that enables employees to effectively execute their strategic roles.	49	4.19	0.70	17
The organization has aligned rewards and incentives with the achievements of individual and organizational objectives.	49	3.73	1.14	31
Grand Mean Cronbach's Alpha 0.881		4.11	0.84	21

Source: Researcher (2016).

Firms listed on the Nairobi Securities Exchange are supposed to observe and adhere to stringent rules. One such requirement is the formulation of strategic plans. From the results in Table 4.17 the respondents indicate that companies have able leadership with talent that drives initiative to implement strategy is demonstrated (mean score of 4.46), departments making their contribution to strategy implementation (mean score of 4.4) and policies that adequately guide decision making (mean score of 4.4).

Although staff with the right skills are deployed (mean score of 4.33), departments contribute to strategy implementation by formulating short term objectives (mean score of 4.4) the culture (mean score 3.85 and coefficient of variation of 22) and reward system (mean score 3.73 and coefficient of variation of 31) offered by top management are not supportive (both scores lying in the high risk category). According to K'Obonyo and Arasa (2012) the manner in which each step is practiced could have implications on the expected overall corporate results.

4.5.3 Mean, Standard Deviation and Coefficient of Variance of Industry Competition

The study sought to establish the intensity of competition on Nairobi Securities Exchange listed firms. Industry competition was measured using 5 dimensions anchored on a five point Likert scale though a review of two typologies, internal attributes and external attributes adapted from Porter (1979). The study utilized 3 (Three) dimensions from internal attributes of competition and 2 (two) dimensions from external attributes of competition. The results appear in table 4.18.

Table 4.18: Means, Standard Deviation (SD) and Coefficient of Variance (CV) for Industry Competition

Industry Competition- Internal Attributes	**N**	**Mean**	**SD**	**CV**
We lose customers easily to competition (Rivalry).	49	2.57	1.13	44
Entering our market is easy (new entrants).	49	2.38	1.45	61
There are easily available substitutes for our products or services (Substitutes).	49	3.08	1.41	46
Grand Mean		2.68	1.33	51
Industry Competition- External Attributes	**N**	**Mean**	**SD**	**CV**
Our prices are dictated by our customers to a large extent (Buyer power).	49	2.48	1.27	51
We find it difficult to get our supplies (supplier power).	49	2.04	1.17	57
Grand Mean **Cronbach Alpha 0.715**		2.26	1.22	53

Source: Researcher Data (2016).

The results as shown in Table 4.18 fall below a score whose mean is less than 3.25 classifying the firms in the highest risk category in the industry competition variable. The internal attributes of competition where "the battle is fought from within", for survival

had a low mean score of 2.68 and a high coefficient of variation of 51. On the external attributes, “battle coming from without”, a low mean score of 2.26 and a high coefficient of variation of 53 were noted, showing very high dispersion. From the results, firms listed on the Nairobi Securities Exchange face fierce competition. Respondents indicated that their firms lose customers easily and have access to readily available substitutes. The mean score under this category was further lowered by respondents from the banks who formed the largest category of the respondents (22%) as this study was carried out immediately after the capping of interest rates by the Central Bank of Kenya. Although respondents from many companies indicated that they did not face challenges getting suppliers, companies that had in the recent past faced liquidity challenges brought down the average significantly (mean 2.04) since some of them had been shunned by suppliers.

4.5.4 Mean, Standard Deviation and Coefficient of Variance of Non- Financial Performance

Non-financial performance was measured using 14 dimensions anchored on a five point Likert-type scale. The level of customer satisfaction was assessed through 3 (three) dimensions representing core service quality, relational quality and perceived value which led to customer loyalty that ultimately leads to profitability. Internal business processes utilized three (3) dimensions; innovation, research and development and levels of creativity. Learning and growth an outcome of job design was measured using 8 dimensions anchored on a five point Likert-type scale through two typologies; development and succession in line with job characteristic model by Oldman and Hackman (1980) The means and standard deviation and coefficient of variation are presented in Table 4.19 .

Table 4.19 Mean, Standard Deviation (SD) and Coefficient of Variance (CV) of Non-Financial Performance

Customer Satisfaction	**N**	**Mean**	**SD**	**CV**
Rate your customers' perception of the quality of the products or service you offer (Core Service Quality).	49	3.98	0.82	21
Rate your customers' perception of how well your organization relates with them (Relational quality).	49	3.69	0.84	17
Rate your customers' perception of value for money of your products or services (Perceived Value).	49	3.88	0.85	23
Grand Mean **Cronbach alpha 0.880**		3.85	0.84	20.3
Internal Business Processes	**N**	**Mean**	**SD**	**CV**
My organization has structures that frequently discuss creativity and innovation resulting in high levels of new products / services development.	49	4.14	0.86	22
My organization has developed processes that have increased customer value through reduced cycle times / unit time/ increased yield/ improved quality.	49	4.12	0.69	19
My organization has installed leading cutting edge technology to ensure continued market leadership.	49	4.14	0.95	20
Grand Mean **Cronbach Alpha 0.857**		4.14	0.83	20.3
Learning And Growth- Skills Development	**N**	**Mean**	**SD**	**CV**

Customer Satisfaction	N	Mean	SD	CV
A reasonable budget is placed to the training and development activities.	49	4.04	0.88	22
Our company is keen on training and developing employees on key competencies.	49	4.22	0.79	19
Our organization attracts sufficient number of qualified candidates and only the best are selected for the job.	49	4.33	0.85	20
Grand Mean **Cronbach alpha 0.908**		4.12	0.68	20.3
Learning And Growth – Succession Planning	**N**	**Mean**	**SD**	**CV**
Your organization has a robust succession policy in place.	49	3.60	1.28	36
your organization is grooming a specific individual and preparing them to succeed the current CEO	49	2.50	1.38	55
The board is actively involved in succession planning.	49	3.73	1.36	36
There is an adequate pool of ready successor candidates for the C-Suit/ GM positions.	49	3.69	1.11	30
Most key positions have been filed by internally groomed candidates in the last three years.	49	3.63	1.49	40
Grand Mean **Cronbach alpha 0.787**		**3.45**	**1.32**	**39.4**

Source: Researcher (2016).

Table 4.19 shows that organizations attract a high number of very qualified candidates and the best are recruited. This signifies that the country has a very large pool of highly qualified manpower. Organizations are also keen in developing the skills of their staff

and reasonable training budgets are provided. This has created a high pool of C-Suit / GM level personnel.

Respondents highly rated the installation of leading cutting edge technology, new products and services, and reduction of cycle times and improved yields, which may be attributed to highly qualified manpower in the workplaces. The lowest scores were on policies on succession and grooming of the CEO, with mean scores of 3.60 and 2.50 (standard deviation and coefficient of variation of 1.28, 1.38 and 55 and 36 respectively). This is in line with the worldwide practice. According to Howe (2004), sixty six percent of organizations in the US do not practice succession-planning and almost fifty percent of these organizations have no systems set in place to develop their next CEO. According to Lewis (2009), planning decreases recruitment costs since recruitment can be completed early enough avoiding last minute rush.

Inspite of having highly qualified manpower, cutting edge technology and reduction in cycle times and improved yields, customer satisfaction received a mean score of 3.85. Dimensions of customer satisfaction which were all in the high risk category and which create loyalty (Bodet, 2008) were 3.98 for core service quality 3.69 for relational quality and 3.85 for perceived value whose standard deviations were 0.82, 0.84 and 0.85 respectively. The coefficient of variation values were 21, 17, and 23 for service quality, relational quality and perceived value respectively. It is not enough to make customers loyal who have the freedom to make choices by merely satisfying them. According to Fecikova (2004), satisfied customers develop loyalty and loyal customers contribute to company's profitability. In addition to spending more by buying more goods and services through repeat purchases loyal customers also recommend their friends, family and acquaintances to the organization. It may be presumed that the low score on customer satisfaction was a function of key positions being filled by external candidates who take time to settle thereby creating gaps in relational quality.

4.5.5 Summary of Measures of Study Variables.

Below is a summary of the overall composite mean score, standard deviation and coefficient of variation for all study variables namely, corporate governance, strategy implementation, industry competition and non-financial performance are shown in Table 4.20

Table 4.20: Summary of Composite Mean, Standard Deviation and Coefficient of Variance of Study Variables.

Variable	Dimensions	N	Composite Mean	SD Mean	CV Mean
Corporate Governance	Board Operations and Control	49	4.32	0.80	20
	Rights of Share Holders.	49	4.31	0.71	17
	Stake Holder Relations.	49	3.99	0.93	24
	Ethics and Social Responsibilities.	49	3.89	1.01	27
	Accountability, Risk Management and Internal Audit.	49	4.82	0.43	9
	Transparency and Disclosure.	49	4.22	0.95	27
	Supervision and Enforcement.	49	3.77	1.19	22
Cronbach Alpha 0.806					
Strategy Implementation	Operationalization of Strategy.	49	4.36	0.812	19
	Institutionalization of Strategy.	49	4.11	0.84	21
Cronbach Alpha 0.876					
Industry Competition	Internal Attributes.	49	2.68	1.33	50
	External Attributes.	49	2.26	1.22	53
Cronbach Alpha 0.715					
Non-Financial Measures	Customer Satisfaction.	49	3.83	0.84	22
	Internal Business Processes.	49	4.14	0.83	20
	Learning and Growth-Development.	49	4.19	0.68	20
	Learning And Growth-Succession.	49	3.41	1.32	39
Cronbach Alpha 0.858					

Source: Researcher (2016).

The results in Table 4.20 shows the mean ratings of corporate governance variables measured on a five-point Likert- scale that ranged from 3.89 to 4.82 out of a possible maximum 5.00. Respondents were asked to rank the seven provisions. Accountability, Risk Management and Internal Audit received the highest score of 4.82 followed by Board Operations and Control, 4.32 while Supervision and Enforcement received the lowest score of 3.77. Rights of shareholders received a score of 4.31 while Stakeholder relations, Transparency and Disclosure and Ethics and social responsibility received scores of 3.99, 4.22 and 3.89 respectively.

Operationalization of strategy, which involves breaking of long term objectives and development of specific functional and departmental strategies, received mean scores above 4, ranging from 4.26 to 4.45, and a mean of 4.36 compared to institutionalization of strategy which had scores ranging from 3.73 and 4.46, and a mean of 4.11. The mean scores for both of these lie in the high risk category of corporate governance. Low scores in this area may explain the poor implementation of strategy resulting to poor performance of organizations. On industry competition new entrants, buyer power and substitutes received mean scores of 2.38, 2.48 and 3.08 respectively indicating intense competition Nairobi Securities Exchange listed firms face.

Mean scores of non-financial performance measures were 3.85 on customer satisfaction; 4.14 on internal business processes; 4.12 on learning and growth, the development dimension; while learning and growth, the succession planning dimension had a low mean score of 3.45. The low score on succession dimension, which indicates most of the senior people are recruited from outside the organization may explain the poor score of relational quality on customer satisfaction. The low mean score on learning and growth agrees with findings of a study whose population like the present study was NSE listed companies (Kariuki, 2014).

4.6 Test of Hypotheses with Non-financial Performance

Results of tests of hypotheses as guided by the objectives of the study are presented in this section. The study was based on the argument that a relationship existed between

corporate governance and performance. The relationship was hypothesized to be mediated by strategy implementation and moderated by industry competition. Composite indices were computed for the study variables. Corporate governance was computed as a composite index comprised of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement. Strategy implementation was measured as a composite index of operationalization of strategy and institutionalization of strategy. Industry competition was measured as a composite index of external attributes of industry competition and internal attributes of industry competition. Buyer power and supplier power being external to the firm were regarded as external competition attributes while rivalry, new entrants and substitutes being firm driven were regarded as internal attributes of competition.

Further, firm performance (the dependent variable) was measured as financial and non-financial performance. Non-financial performance was measured as a composite index representing customer satisfaction, learning and growth (development), learning and growth (succession) and internal business processes obtained from questionnaire responses. Financial measures of performance consisting of return on assets (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q were computed from data obtained from company's annual reports (2012- 2015). Separate analyses were performed for non-financial and financial indicators of performance. Hypotheses were tested one at a time, beginning with non-financial followed by financial measures of performance.

4.6.1 Correlation Analysis

The broad objective of the study was to establish the effect that strategy implementation and industry competition have on the relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange. To assess this relationship, a correlation analysis was conducted using Pearson product moment coefficient technique to establish whether the independent variables were highly

correlated to avoid inflated outcomes. The linear association of two variables is referred to as correlation. The study was meant to identify the direction and strength of the relationships among the main study variables. The main variables studied included corporate governance, strategy implementation, industry competition and firm performance. Heir *et al* (2006) suggested the sequence of very strong, strong, moderate, weak and nil correlation for values of .81 to 1.0; .61 to 0.80; 0.41 to 0.60; 0.21 to 0.40 and .00 to .02 respectively.

A summary of the results of the correlation analysis are presented on Table 4.21.

Table 4.21 Correlation Analysis of Main Study Variables

Item		Mean Non Financial Performance Measure	BRSETS	Mean Strategy Implementation	Mean Industry Competition
Mean Non Financial Measure of Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	49			
BRSETS	Pearson Correlation	.586**	1		
	Sig. (2-tailed)	.000			
	N	49	49		
Mean Strategy Implementation Combined	Pearson Correlation	.814**	.578**	1	
	Sig. (2-tailed)	.000	.000		
	N	48	48	48	
Mean Industry Competition Combined Total	Pearson Correlation	-.098	.180	-.128	1
	Sig. (2-tailed)	.502	.215	.385	
	N	49	49	48	49

** Correlation is significant at the 0.01 level (2-tailed)

Source: Researcher (2016).

The correlation analysis indicated significant and positive coefficients between corporate governance, strategy implementation and performance as the variables.

Table 4.21 shows that a significant relationship exists between corporate governance and performance (r =.586, p-value<0.05). The strength of the relationship is moderate and positive. The strength and direction of the relationship between strategy implementation and performance is very strong and positive (r =0.814, p-value<0.01) while the relationship between corporate governance and strategy implementation is moderate and positive (r =0.578, p-value<0.01). Industry competition and performance is very weak and negatively correlated (r =-0.098 p-value>0.01). Corporate governance and industry competition show a very weak but positive correlation (r =0.180 p-value>0.01) while strategy implementation and industry competition show very weak and negative correlation (r = -0.128 p-value>0.01).

Positive and significant analysis results that supported the fact that corporate governance and strategy implementation influence firm performance were obtained. The correlation between corporate governance and industry competition, unlike the other two, remained positive (r= 0.180 p-value>0.01), which seems to suggest that competition is the most efficient mechanism in ensuring adherence to corporate governance.

There was no multicollinearity since none of the independent variables showed a correlation of more than 0.9. Tabachnick and Fidell (2007) posited that a correlation of >0.9 would indicate that the variables would be measuring the same effect. If a high correlation is observed between two or more predictor variables multicollinearity which makes it difficult when trying to draw inferences about the relative contribution of each predictor variable to the success of the model. The variables of the study were further subjected to a second multicollinearity test by checking the variance inflation factor (VIF) as shown in all coefficient tables. A value exceeding 10 as suggested by Hair et al. (2008) suggests the variable is highly collinear. The values for VIF for this study (Tables 4.23, 4.24, 4.26, 4.27) ranged from 0.532 to 2.484 indicating no problem of multicollinearity between the study variables. Tolerance values were above 0.2. This confirms there was no threat of multicollinearity.

Tests for normality, linearity and heteroscedacity were done. In this study, normality of data was tested using histograms while linearity was tested using scatter plots. The normality was assessed by checking the shape of the histograms as shown in appendices 9a, 10a, 11a and12a. The histograms are bell shaped and symmetrical, with most scores occurring in the middle with a few to the extreme ends. Thus, the scores appear to follow the shape of normal curve, and it can be presumed that data was normally distributed. Where skewness was observed logarithm transformation was applied to normalize data (appendices, 13a, 14a, 15a and 16a). The normality of data was also supported by normality plots (Normal P-P) plots. When the observed values were plotted against the expected values a reasonably straight line was observed in the P-P plots. (See appendix, 9b, 10b, 11b, 12b, 13b, 14b, 15b and 16b). The scatter plots diagram show points that are evenly and randomly dispersed throughout in testing for heteroscedasticity. (See appendix 9c, 10c, 11c, 12c, 13c, 14c, 15c and 16c) The pattern indicates a situation where the assumptions of linearity and heteroscedasticity were met allowing us to proceed with other analysis.

4.6.2 Corporate Governance and Non-financial Performance

The first objective of the study was designed to establish how corporate governance is related to firm performance. The constructs of corporate governance determined comparatively are board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement as contained in the revised Capital Markets Authority's code of corporate governance for public listed companies in Kenya. Gompers, *et al.* (2003); Brown and Cylor (2006); Black *et al.* (2008) and Okiro (2014) have constructed indices while carrying out similar studies in corporate governance. This approach is premised on the fact that specific aspects of corporate governance do not always work in isolation.

Previous studies examined the isolated effect of specific aspects of corporate governance with mixed results. One possible explanation is that these corporate governance aspects

are working simultaneously. In some cases they may be substitutes while in others they may be complementary (Cheung *et al*., 2008). Although studying the isolated effect of the specific corporate governance aspects was not a major concern for the current study, there was need to ascertain the individual effect of specific aspects of corporate governance and compare it with the combined effect. This would determine the role of the specific aspects and their effect when combined. Sub-hypothesis 1a, 1b, 1c, 1d, 1e, 1f and 1g representing provisions of corporate governance as derived from the capital markets authority's (CMA) code of corporate governance for public listed companies in Kenya were formulated and tested as follows:

$H1_a$: Board operations and control has a relationship with non-financial performance

$H1_b$: Rights of shareholders has a relationship with non-financial performance.

$H1_c$: Stakeholder relations has a relationship with non-financial performance.

$H1_d$: Ethics and social responsibilities has a relationship with non-financial performance.

$H1_e$: Accountability, risk management and internal audit has a relationship with Non-financial performance.

$H1_f$: Transparency and disclosure has a relationship with non-financial performance.

$H1_g$: Supervision and enforcement has a relationship with non-financial performance.

The dimensions in the corporate governance scale consisted of statements that measured the extent to which organizations complied with the code in the seven provisions that comprised the corporate governance index. The respondents rated the extent to which corporate governance dimensions were, in their opinion, complied with, on a scale of 1 to 5 where "strongly disagree" was represented by 1 and "strongly agree" by 5. Similarly dimensions measuring performance consisted of statements that represented the extent which they applied to the firm on a 1 to 5 scale, with 1 representing, "very low" and 5 " very high". The hypothesis focused on establishing how corporate governance affected performance. The hypothesis was tested using simple linear regression analysis first for each sub hypothesis and lastly for the overall hypothesis and the results shown in Table 4.22

Table 4.22: Regression Results for Individual Influence of Capital Markets Authority's Corporate Governance Provisions on Non-financial Performance

Model			ANOVA		Coefficients			Model Equation
		R^2	F	Sig	B	T	Sig	
1	Constant BOC	 .327	 22.852	 .000	0.542 .780	0.768 4.780	.000 .000[a]	Y=0.542+0.780 BOC
2	Constant RHTS	 .289	 19.079	 .000	1.121 .643	1.753 4.368	.086 .000[b]	Y=1.121+0.643 RHTSH
3	Constant STKH	 .257	 16.291	 .000	2.045 0.465	4.398 4.036	.000 .000c	Y= 2.045+0.465 STKH
4	Constant ETHSR	 .303	 20.409	 .000	2.162 .449	5.525 4.518	.000 .000	Y=2.162+0.449 ETHSR
5	Constant ACCRIS	 .034	 1.631	 .208	1.926 .407	1.249 1.277	.218 0.108	Y=1.926+0.407 ACCRIS
6	Constant TRDIS	 .333	 23.447	 .000	0.924 .705	1.495 4.842	.142 .000	Y=0.924+4.842 TRDIS
7	Constant SUPENF	 .091	 4.723	 .035	3.214 .181	9.871 2173	.000 .035	Y=3.214+0.181 SUPENF

Constant: Non- Financial Performance.

a Predictors : BOC (board operations and control).
b Predictors: RHTS (rights of shareholders).
c Predictors: STKH (stakeholder relations).
d Predictors: ETHSR (ethics and social responsibilities).
e Predictors: ACCRIS (accountability, risk management and internal audit).
f Predictors: TRDIS (transparency and disclosure).
g Predictors: SUPENF (supervision and enforcement).
Source: Researcher (2016).

The results in Table 4.22 show that the following, namely, board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, and internal audit, transparency and disclosure and supervision and enforcement, had statistically significant influence on non-financial performance of firms listed on the Nairobi Securities Exchange. Board operations and control explained 32.7%, explained 28.9 %, stakeholder relations explained 25.7 %, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure explained 30.3%, transparency and disclosure explained 33.3 % while supervision and enforcement explained 9.1% variation in non-financial performance of firms listed in the Nairobi Securities Exchange. The overall model for the six sub variables revealed statistically significant relationships between the predictor variables and the dependent variable (board operations and control, F= 22.852, p<0.05, rights of shareholders, F= 19.079, p<0.05, stakeholder relations, F=16.291, p<0.05, ethics and social responsibilities, F=20.409, p<0.05, transparency and disclosure, F= 23.447, p<0.05, supervision and enforcement, F=4.723, p<0.05). The results also show that the influence of accountability, risk management an internal audit and non- financial performance statistically insignificant (F=1.631, p>0.05).

Recent streams of research propose that the effect of the combined corporate governance constructs have greater influence on corporate performance than the individual effect of each construct. The simple regression analysis was performed using composite scores computed from selected measures of corporate governance and non-financial performance. Accountability, risk management and internal audit provision was dropped in computing the composite governance score since it was statistically insignificant. The data was used for the test of the following hypothesis:

H1: There is a relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange.

A simple regression analysis was performance to test this hypothesis. The results are presented in Table 4.23

Table 4.23: Regression Results for the Influence of Corporate Governance (BRSETS) on Non-financial Performance

Model Summary

Model	R	R^2	Adjusted R^2	Std Error of Estimate
1	.586[a]	.343	.329	.54731

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	7.347	1	7.347	24.528	.000[b]
Residue	14.079	47	.300		
Total	21.426	48			

Coefficients

Model	Unstandardized Coefficient	Standardized Coefficient	T	Sig	Collinearity Statistics	
	B	Beta			Tolerance	VIF
Constant	1.170		2.109	.040		
CG	.670	.586	4.953	.000	1.000	1.000

Predictors: Corporate Governance

Dependent Variable: Non-Financial Performance Measure

Source: Researcher (2016).

Regression results shown in Table 4.23 indicate that the regression model in respect of the combined provisions of corporate governance that include, board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement (BRSETS) had a statistically significant influence on non-financial performance of firms listed on the Nairobi Securities Exchange listed. (R^2 = 0.343, F= 24.528, $p<0.05$). These results imply a goodness of fit of the regression model and further that corporate governance dimensions applied by the Nairobi Securities Exchange listed firms explain 34.3% of variance in their non-financial performance. Further, the significant beta coefficient (β= 0.670, t= 4.953, $p<0.05$) suggests that for every unit change or improvement in corporate governance there is a

67% corresponding variation or change in non-financial performance of the Nairobi Securities Exchange listed firms.

These results imply that the combined effect of provisions of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, audit, transparency and disclosure and supervision and enforcement are greater than the effect of the individual constructs. The hypothesis that the combined effects of corporate governance constructs have a greater influence on corporate performance than the individual effect of each construct on non-financial performance of Nairobi Securities Exchange listed firms is therefore confirmed by these results. This finding lends support to earlier studies that found existence of a relationship between corporate governance and non-financial performance which was positive. Wilks (2004), Brown (2009), Kocmanova, and Simberova (2012) and Sandala *et al*. (2015).

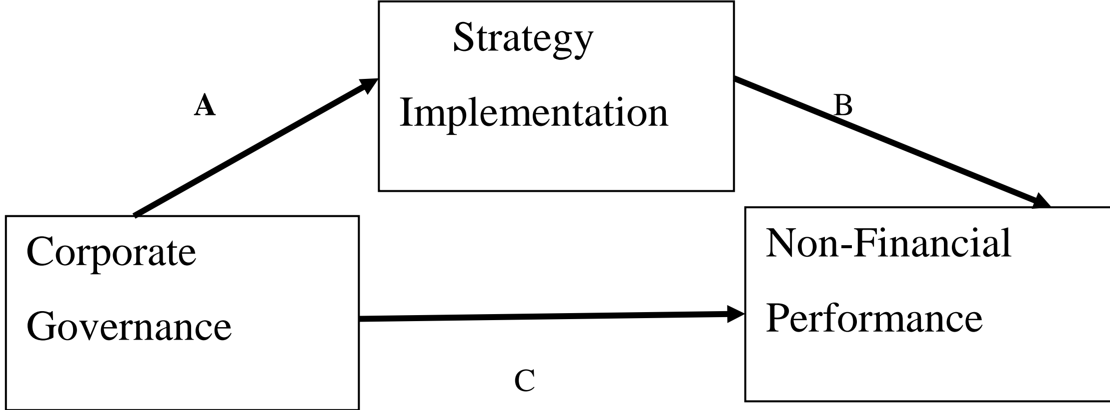
4.6.3 Corporate Governance, Strategy Implementation and Non-financial Performance

The second objective was set in order to establish whether the relationship between corporate governance and firm performance is direct or through strategy implementation. The mediating effect was determined by testing the following hypothesis:

H2: Strategy implementation mediates the relationship between corporate governance and non-financial firm performance.

The hypothesis was tested using path analysis proposed by Baron and Kenny (1986) as shown in Figure 4.1.

Figure 4.1 Illustration of the Three steps Path that Test Mediation



Source: Baron, R.M and Kenny, D.A. (1986). The moderator-mediator variable distinction in social psychological research. Conceptual, strategic and statistical considerations. *Journal of Personality and Social Psychology*, *51*, 1171-1182.

In fulfilling the condition of a mediating relationship evidence that a relationship that is significant should exist between the independent variable (corporate governance) and (dependent variable) non-financial performance, path c.

The second step was meant to illustrate that a relationship that is significant exists between the mediator (strategy implementation) and the independent variable (corporate governance), path a. For path b to exist there needs to be a significant relationship between the mediator and dependent variable. Path c in the final step either diminishes or becomes insignificant when the mediator and the independent variable are entered simultaneously to predict the dependent variable to confirm mediation. Partial mediation is inferred when all or some of the first three steps are significant or when, in step four the effect of corporate governance and strategy implementation on performance is not significant but the value of the effect of strategy implementation on performance is above zero. The paths comprise three simple and one multiple linear regression models. The four paths (referred to as steps) are outlined below.

Step one: non-financial performance was regressed on corporate governance.

Step two: strategy implementation was regressed on corporate governance.

Step three: non-financial performance was regressed on strategy implementation.

Step four: non-financial performance was regressed on corporate governance while controlling for strategy implementation.

The results of the four steps are presented in table 4.24 and included testing for coefficient of determination, ANOVA to confirm statistical significance and checking for regression coefficient and t- statistic.

Table 4.24 Regression Results for the Mediation of Strategy Implementation in the Relationship between Corporate Governance and Non-financial Performance

Model Summary

Step	R	R^2	Adjusted R^2	Standard Error of the Estimate	R^2 Change
Step 1	.586	.343	.335	.5469	-
Step 2	.578	.334	.349	.41541	.009
Step 3	.814	.663	.656	.39386	.329
Step 4	.826	.683	.669	.38646	.003

ANOVA

Step		Sum of Squares	Df	Mean Square	F	Sig	F Change
Step 1	Regression	7.347	1	7.347	24.528	.000a	
	Residual	14.079	46	.300			
	Total	21.426	47				
Step 2	Regression	5.464	1	5.464	23.069	.000b	.934
	Residual	10.895	46	.237			
	Total	16.359	47				
Step 3	Regression	14.043	1	14.043	90.526	.000c	67.457
	Residual	7.136	46	.155			
	Total	21.179	47				
Step 4	Regression	14.458	2	7.229	48.402	.000d	-42.124
	Residual	6.721	45	.149			
	Total	21.179	47				

Coefficients								
Model		Unstandardized Coefficient		Standardized Coefficient	T	Sig	Collinearity	
		Beta	Std Error				Tolerance	VIF
Step 1	Constant	1.170	.555		2.109	.040	1.00	1.00
	Corporate Governance	.670	.135	.0586	4.953	.000	1.00	1.00
Step 2	Constant	1.874	.462		4.053	.000	1.00	1.00
	Corporate Governance	.518	.108	.578	4.803	.000	1.00	1.00
Step 3	Constant	.384	.374		1.025	.311	1.00	1.00
	Strategy Implementation	.830	.087	.814	9.515	.000	1.00	1.00
Step 4	Constant	.018	.428		.042	.0967		
	Strategy Implementation	.729	.105	.715	6.950	.000	.666	1.502
	Corporate Governance	.195	.117	.172	1.667	.102	.600	1.502

Predictors: (Constant): corporate governance.
b. Predictors: (Constant): corporate governance.
c. Predictors: (Constant): strategy implementation.
d. Predictors: (Constant): strategy implementation, corporate governance.
Dependent Variable: firm performance (non-financial).

Source: Researcher (2016).

Results in Table 4.24 step one show the overall model is significant (R^2=.343, F=24.528, p<0.05). The results imply a goodness of fit of the regression model and further that corporate governance explains a 33.4% change or variation in non-financial performance. Further the significant beta coefficient (β=0.670, t= 4.953, p<0.05) suggests that or a unit change in corporate governance there was a corresponding variation of 0.670 change in non-financial performance of NSE listed firms.

In step two, strategy implementation was regressed on corporate governance. The regression analysis was to verify if the mediator is predicted significantly by the

independent variable. The results presented in table 4.24 reveal that 33.4% (R^2=.334, F=23.069, $p<.05$) non-financial performance explained by strategy implementation. The results imply a goodness of fit of the regression model and further that corporate governance explains 33.4% of change or variation in non-financial performance. Further the significant beta coefficient (β =0.518, t= 4.803, $p<0.05$) suggests that for a unit change in corporate governance there was a corresponding variation of 0.518 change in non-financial performance of the Nairobi Securities Exchange listed firms.

In step three, non-financial performance was regressed on strategy implementation. The results show that strategy implementation explains 66.3% of variation in non-financial performance of the Nairobi Securities Exchange listed firms (R^2=.663, F= 90.526, $p<0.05$). The results imply a goodness of fit of the regression model and further that corporate governance explains 66.3% of change or variation in non-financial performance. Further the significant beta coefficient (β =0.813, t= 9.515, $p<0.05$) suggests that for a unit change in corporate governance there was a corresponding variation of 0.813 or 81.3% change in non-financial performance of firms listed on the Nairobi Securities Exchange.

In step 4, multiple regression analysis was performed to assess whether the relationship between corporate governance and firm performance is direct or indirect through strategy implementation. The overall model, when controlling for strategy implementation and the influence of corporate governance on firm performance, was statistically significant, (R^2=0.683, F=48.402, $P<0.05$). The results imply a goodness of fit of the regression model and further that corporate governance explains 68.3% of change or variation in non-financial performance.

When controlling for strategy implementation, the influence of corporate governance became statistically insignificant (β=0.195, t=1.667, $p>0.05$) while strategy implementation remained significant (β =0.729, t=6.950, $p<0.05$). Therefore, since when strategy implementation is controlled corporate governance becomes statistically

insignificant, the hypothesis that strategy implementation mediates the relationship between corporate governance and firm performance is supported.

Table 4.25 presents a summary of mediated effect of strategy implementation.

Table 4.25: Summary of the Results of Mediation of Strategy Implementation in the Relationship between Corporate Governance and Non-financial Performance

Steps	**Regression**	**Visual Depiction**
Step 1: Non-financial Performance on Corporate Governances.	A simple regression was conducted to test path c alone where X predicted Y (Non-financial) = 1.170+0.670 CG.	C X Y
Step 2: Corporate governance on strategy implementation.	A simple regression analysis was conducted to test path a where X predicted M. M=1.874+ 0.518 CG.	**a** **X** → **M**
Step 3: Non-financial performance on strategy implementation.	A simple regression analysis was conducted to test the significance of path b alone where M predicted Y Y=0. 384+ 0.830 SI.	**M** **b** → **Y**
Step 4: Non-financial performance on corporate governance while controlling for strategy implementation.	Conducted a multiple regression analysis where X and M predicted Y. Y=0.018+ 0.729 SI+ 0.195 CG.	**C** **X** **M** **b** → **Y**

Source: Researcher, 2016.

*Y (Non-financial Performance, CG (Corporate Governance), M (Mediator), SI (Strategy Implementation).

The results in Table 4.25 provide a summary of the four steps that test for mediation as recommended by Baron and Kenny (1986). Step 1, 2, 3 were statistically significant and thus proceeded to step 4. Mediation was supported since the effect of M (Path b) became non- significant after controlling for X (predictor variable) in step 4.

4.6.4 Corporate Governance, Industry Competition and Non-financial Performance

Objective three of the study was designed to establish the moderating effect of industry competition on the relationship between corporate governance and firm performance. Patanayak and Pant (2010) and Wang and Hsu (2010) suggested that industry competition moderates how corporate governance and performance are related. According to Baron and Kenny (1986), moderation, which implies an interaction effect, is the phenomenon where the direction and strength of the relationship between two variables is changed by the introduction of a moderating variable and could have three possible effects.

First, it enhances the effect of predictor variable (corporate governance) on criterion variable (performance). Second, it involves buffering by decreasing the effect of predictor variable (corporate governance) on criterion variable (performance). Lastly, it has an antagonistic effect where the value of the moderator variable (industry competition) reverses the effect of predictor variable (corporate governance) on the criterion variable (performance). Industry competition was operationalized by using Porters' five forces model namely; rivalry, buyer power, supplier power, substitute products and ease of entrance. The relationship was depicted in Figure 4.2

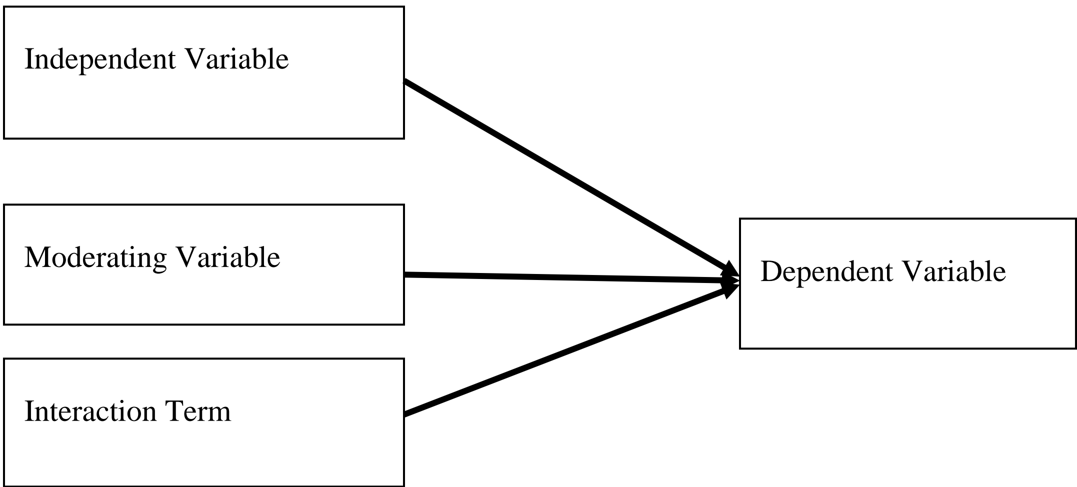


Figure 4.2: Test of Moderation – Path Diagram for Direct and Indirect Effect

Source: Aiken, L.S., and West, S.G. (1991). Multiple regression: Testing and interpreting interaction. Thousand Oaks, CA.

Hypothesis three was stated as follows:

H3: Industry competition moderates the relationship between corporate governance and firm performance.

The moderating effect was tested by the method proposed by Baron and Kenny (1986). The first step involves testing the influence of predictor variable (corporate governance) on non-financial performance. The second step involves standardizing all variables so that interpretation is made easier as well as to avoid multicollinearity. Further, the standardized variables of predictor (corporate governance) and moderator (industry competition) were tested on non-financial performance. The third step involves creating an interaction term (Standardized score- corporate governance * Standardized score-industry competition) and testing the interaction on criterion variable (non-financial performance). Moderation is assumed to take place if the interaction term in step 3 is significant. The results of the three steps are presented in table 4.26 and included testing for coefficient of determination, ANOVA to confirm statistical significance and checking for regression coefficient and t- statistic.

Table 4.26: Regression Results for the Test of Moderation Effect of Industry Competition on the Relationship between Corporate Governance and Non-financial Performance

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R^2 Change	F	df1	df2	Sig. F Change
Step 1	.586	.343	.329	.54731	-	24.528	1	47	.000
Step 2	.621	.386	.359	.53484	.043	14.451	2	46	.000
Step 3	.622	.387	.350	.53869	.001	9.466	3	45	.000

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig
Step 1	Regression	7.347	1	7.37	24.528	.000[a]
	Residue	14.079	47	.300		
	Total	21.426	48			
Step 2	Regression	8.267	2	4.134	14.551	.000[b]
	Residue	13.157	46	.286		
	Total	21.426	48			
Step 3	Regression	8.290	3	2.763	9.466	000[c]
	Residue	13.136	45	0.292		
	Total	21.426	48			

Coefficients

Step		Unstandardized Coefficient		Standardized Coefficients			Collinearity Statistics	
		Beta	Std Error		t	Sig	Tolerance	VIF
Step 1	Constant	1.170	.0555		2.109	.40	1.000	1.000
	Corporate Governance	.670	.135	.586	4.953	.000	1.000	1.000

Step 2	Constant	3.892	.076		50.94	.000		
	Corporate governance	.417	.078	.624	25.308	.000	.967	1.034
	Industry Competition	-.141	.078	-.211	-1.793	.079	.967	1.034
Step 3	Constant	3.896	.078		49.764	.000		
	Corporate Governance	.413	.081	.620		.000	.927	1.078
	Industry Competition	-.141	.081	-0.212	5.087	.008	.914	1.094
	Interaction term for corporate governance and industry competition	-.020	.074	-.033	-1.791 -0.278	.0782	.890	1.124

a. Predictors: (Constant): Corporate governance.
b. Predictors: Corporate Governance, industry competition.
c. Interaction term for corporate governance and industry competition.
Dependent Variable: firm performance (non-financial).

Source: Researcher (2016).

The results in table 4.26 step 1 show that overall the model is significant (R^2=.343, F= 24.528, p<0.05). The results imply a goodness of fit of the regression model and further shows that corporate governance explains 34.3 % of change or variation in non-financial performance. Further the significant beta coefficient (β=0.670, t= 4.953, p<0.05) suggests that a unit change in corporate governance there was a corresponding variation of 0.670 change in non-financial performance of firms listed on the Nairobi Securities Exchange. In step 2, when corporate governance and industry competition were standardized and tested on financial performance they accounted for 38.6% of the variance in non-financial performance (R^2= 0.386, F= 14.551, p<0.05). Further, the significant beta coefficient for

corporate (β= 0.417, t= 5.308, $p<0.05$) and for industry competition, (β= -0.141, t= 1.793, $p>0.05$) suggests that for every unit change in corporate governance there was a corresponding variation of 0.417 change in non-financial performance of firms listed on the Nairobi Securities Exchange and further for every unit change in industry competition there was a corresponding variation of -0.141 in non-financial performance, denoting that competition erodes performance.

In step 3, the interaction term was formed as a product of standardized score for corporate governance *standardized score for industry competition and entered into the model. The interaction term accounted for 38.7% of variance in non-financial performance. (R^2=0.387, F= 9.466 $p<0.05$).When the interaction term was included in the model, the regression coefficient of the interaction term was statistically insignificant (β=- 0.020, t= - .278, $p>0.05$) hence, the necessary condition for moderation in step 3 was not met. The results did not provide sufficient proof to support the hypothesis that the influence of corporate governance on non-financial performance is moderated by industry competition. The surprising results, which were in contrast to what was expected and inexplicable, could be because of the method used. The findings of the study contradict the assertion by He and Mahoney (2006) and Ho *et al.* (2011) who suggested that industry competition moderated the relationship between corporate governance and firm performance.

4.6.5 Joint Effect of Corporate Governance, Strategy Implementation, Industry Competition and Non-financial Performance

The study sought to determine whether the joint effect of corporate governance, strategy implementation and industry competition on non-financial performance had a greater influence than independent influence of each predictor variable. The composite index was computed for each variable. The effect was determined by testing the following hypothesis.

H4: The joint effect of corporate governance, strategy implementation and industry competition on non-financial performance is greater than the influence of corporate governance on non-financial performance.

To test the hypothesis, simple regression and multiple regression analysis were performed. Multiple regressions were performed by entering all variables simultaneously. The results for the regression analyses are presented in table 4.27 and included testing for coefficient of determination, ANOVA to confirm statistical significance and checking for regression coefficient and t- statistic.

Table 4.27: Regression Results for the Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on Non-financial Performance

Model Summary

Model	R	R^2	Adjusted R^2	Standard Error of Estimates	Change Statistics			
					R^2 Change	F Change	df1	Sig F Change
Corporate Governance, Strategy Implementation and Industry Competition	.828a	.685	.664	.389924	.685	31.929	4	.000

ANOVA

Model	Sum of Squares	Df	Mean of Squares	F	Sig
Regression	14.512	3	4.837	31.929	.000
Residue	6.666	44	152		
Total	21.179	47			

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficient			Collinearity	
	B	Std Error	Beta	T	Sig	Tolerance	VIF
Constant	.122	.465		.0263	.794		
Corporate Governance	.218	.124	.192	1.760	.0085	-.602	1.662
Strategy Implementation	.710	.110	.697	6.437	.000	.611	1.636
Industry Competition	-.047	.079	-.054	-.600	.552	.889	1.125

Predictors: (Constant), corporate governance, Strategy Implementation, Industry competition
Dependent Variable: firm performance (non-financial)
Source: Researcher (2016).

The study findings in Table 4.27 indicate that 68.5% of variation in firm performance is explained by the joint effect of the three variables, namely: corporate governance, strategy implementation and industry competition, (R^2=0.685, F=31.929, $p<0.05$). The remaining 31.5% is explained by other factors not considered in the study. Therefore, corporate governance, strategy implementation and industry competition have a significant joint influence on firm performance than the individual influence of corporate governance on performance. The coefficient of determination for corporate governance, strategy implementation and industry competition are .343, .685 and 0.10 respectively all of which are significant.

Table 4.28 Summary of Regression Coefficients for the Test of Joint Effect and Individual Effects of the Predictors on Non-financial Performance

	Results from Multiple Regression Model	Results from Simple Regression Model
R	0.828	Corporate governance and non-non-financial performance- 0.586.
		Strategy Implementation and non-non-financial performance- 0.814.
		Industry Competition and non-non-financial performance- 0.622.
R^2	R^2= 0.685, F=31.929, P<0.05	Corporate governance and non-non-financial performance- 0.343. F=24.528, P<0.05.
		Strategy Implementation and non-non-financial performance- 0.683. F=90.526, P<0.05.
		Industry Competition and non-non-financial performance- 0.386. F= 9.466, P<0.05.

Source: Researcher (2016).

The regression coefficients in Table 4.28 indicate that the joint effect of predictor variables on firm performance is greater than their individual effect (R^2= 0.685, F=31.929, P<0.05) compared with their individual effects on firm performance. This, therefore, confirms the hypothesis that: the influence of corporate governance, strategy implementation and industry competition on firm performance is greater than their individual effects on firm performance.

The regression coefficients reveal that strategy implementation had the biggest contribution to non-financial performance (β=0.710, t=6.437, p<0.05), followed by corporate governance (β=0.218, t=1.760, p<0.05). On the other hand, the contribution of industry competition was the lowest and not significant (β=- 0.047, t=- 0.600, p>0.05). The regression model that was used to estimate non-financial performance of firms listed on the Nairobi Securities Exchange taking into consideration the joint effect of corporate governance, strategy implementation and industry competition can be substituted as:

Y = 0.710 SI+0.218 CG+€

Where Y= non-financial performance

SI= Strategy implementation

CG= Corporate governance

€= Error term

The regression equation indicates that a unit change in strategy implementation causes a 0.710 increase in non-financial performance. It means firms whose leadership encourages contribution to corporate strategies and provision of supportive budgets (operationalization of strategy) and firms provide a culture that supports strategy implementation through staff placement and linking rewards to objectives (institutionalization of strategy) achieve a 71.0% increase in non-financial performance. From another point of view, a unit change in corporate governance produces a 21.8 % increase in non-financial performance.

4.7 Test of Hypotheses with Financial Performance

Section 4.6 tested the hypothesis using non-financial performance. In this section the hypothesis was tested using financial performance. The broad objective of the study was to establish the effect that strategy implementation and industry competition have on the relationship between corporate governance and performance of firms listed on the Nairobi Securities Exchange. Just like in section 4.6.1, in order to assess this relationship, a correlation analysis was conducted using Pearson product moment coefficient technique to establish whether the independent variables were highly correlated to avoid inflating outcomes. The study was meant to identify the direction and strength of the relationships among the study variables. Results are presented in Table 4.29.

Table 4.29 Correlation Results of Corporate Governance (CG) and Earnings Per Share (EPS), Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q

		Mean CG	EPS	ROA	ROE	Tobin's Q
Mean CGI	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	49				
Earnings Per Share	Pearson Correlation	.083	1			
	Sig. (2-tailed)	.572				
	N	49	49			
Return on Assets	Pearson Correlation	.083	.268	1		
	Sig. (2-tailed)	.569	.063			
	N	49	49	49		
Return on Equity	Pearson Correlation	.083	.268	1.000**	1	
	Sig. (2-tailed)	.569	.063	.000		
	N	49	49	49	49	
Tobin's Q Market Valuation	Pearson Correlation	.152	.026	.534**	.534**	1
	Sig. (2-tailed)	.297	.858	.000	.000	
	N	49	49	49	49	49

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2016).

From Table 4.29 the results of the correlation analysis between corporate governance (CG) and earnings per share (EPS), return on assets (ROA), return on equity (ROE) and Tobin's Q and were weak .083; .083; .083 and .152 respectively as well as being insignificant (Sig EPS=.572, ROA=.569, ROA= .569 and Tobin's Q=.297 respectively. This indicates absence of a relationship between the independent variable (Corporate governance) and the independent variable (financial performance) measured as earnings

per share, return on assets, return on equity and Tobin's Q. In a bid to test whether a relationship exist between the variables the researcher went further and run a regression analysis of corporate governance, strategy implementation, industry implementation on financial measures (earnings per share, return on assets, return on equity, and Tobin's Q). The results are shown on Table 4.30.

Table 4.30 Regression Results for the Influence of Governance (CG), Strategy Implementation (SI) and, Industry Competition (IC) on Financial Measures (Return on Assets (ROA), Return on Equity (ROE), Tobin's Q and Earnings Per Share (EPS)

Variable	Measure	R	R^2	Sig
Corporate Governance	ROA	.220	.048	.130
	ROE	.220	.048	.130
	Tobin's	.134	.018	.359
	EPS	.215	.046	.162
Strategy Implementation	ROA	.323	.104	.025
	ROE	.323	.104	.025
	Tobin's Q	.221	.049	.132
	EPS	.035	.001	.825
Industry Competition	ROA	.165	.027	.257
	ROE	.165	.027	.257
	Tobin's Q	.091	.008	.534
	EPS	.023	.001	.882
Combined	ROA	.352	.124	.118
CG,SI &IC	ROE	.352	.124	.118
	Tobin's Q	.252	.063	.405
	EPS	.328	.108	.212

Key: CG= Corporate governance, SI= Strategy implementation, IC= Industry Competition.

Source: Researcher 2016.

As shown in table 4.30 above when corporate governance was regressed on return on assets, (ROA), return on equity (ROE), Tobin's Q and earnings per share (EPS), the results were statistically insignificant. When strategy implementation was regressed against return on assets (ROA), return on equity (ROE), Tobin's Q and earnings per share (EPS) the results were statistically significant, (p= 0.025) on ROA and ROE but statistically insignificant when regressed against Tobin's Q (p=0.132) and EPS (p=0.825). Return on assets and return on equity accounted for 10.4% of the variation. This implies that 89.6 % of the variation was caused by other factors not captured here. When industry competition was regressed against return on assets, return on equity, Tobin's Q and earnings per share, the results were statistically insignificant. Finally when combined, all the variables regressed against financial performance (return on assets, return on equity, Tobin's Q and earnings per share), the results were statistically insignificant. Further testing on these relationships was deemed not viable. However in a bid to test if there was any characteristic that would define the relationship, categorical regression was employed.

Optimal scaling was used to test the relationship. In optimal scaling both the independent and dependent variables are ranked into categories bearing similar characteristics defined by the system (SPSS). The method chosen for analysis was spline ordinal based on the assumption that the variables were in the same category in terms of the corporate governance score but possibly did not have similar results with regard to the financial indicators while there were those that belonged to the same categories with regard to both corporate governance scores and financial indicators. This is in line with similar studies (such as Kariuki, 2004). Having a categorical outcome variable violates the assumption of linearity in normal regression. The only "real" limitation for logistic regression is that the outcome variable must be discrete. Ordinal regression deals with this problem by using a logarithmic transformation on the outcome variable which allows us to model a nonlinear association in a linear way (Agresti, 2007).

In optimal scaling, the model significance is tested by F-statistic and the significance of variables is also tested using F because it is testing the variation within groups of variables as opposed to individual variables. The analysis is presented in the following sections.

4.7.1 Corporate Governance and Financial Performance

In hypothesis one, the categories defining corporate governance were regressed against financial performance namely; return on assets (ROA), return on equity (ROE), Tobin's Q and earnings per share (EPS). The financial indicators were calculated for a four year period (2012- 2015) based on information from financial statements from the annual reports of companies listed on the Nairobi Securities Exchange. The indicators employed for testing return on assets (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q were regressed on provisions of corporate governance namely, board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement (BRSEATS) as indicated in Table 4.31.

Table 4.31 Regression Results of Corporate Governance (BRSEATS) on the Influence of Return on Assets (ROA), Return on Equity (ROE), Tobin's Q and Earnings Per Share (EPS).

Variable	Measure	R	R^2	Sig
CG (BRSEATS)	ROA	.170	.029	.510
	ROE	.185	.034	.447
	Tobin's Q	.274	.075	.057
	EPS	.356	.127	.034

Source: Researcher 2016.

From table 4.31 results yielded relationships that were statistically significant for earnings per share (EPS), (<0.05) but not significant for return on assets (ROA), return on equity (ROE) and Tobin's Q and were therefore dropped from further analysis. Similar to test for non-financial performance the isolated effect of board operations and control,

rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement were tested and compared with the combined effect. Hypothesis 1a, 1b, 1c, 1d, 1e, 1f and 1g tested the effect of each predictor variable on financial performance.

$H1_a$: board operations and control has a relationship with financial performance.
$H1_b$: rights of shareholders has a relationship with financial performance.
$H1_c$: stakeholder relations has a relationship with financial performance.
$H1_d$: ethics and social responsibility has a relationship with financial performance.
$H1_e$: accountability, risk management and internal audit has a relationship with financial performance.
$H1_f$: Transparency and disclosure has a relationship with financial performance.
$H1_g$: Supervision and enforcement has a relationship with financial performance.

The results of the hypothesis are presented in Table 4.32

Table 4.32 Regression Results for Individual Influence of CMA Corporate Governance Provisions (BOC), (RHTS)**, (STKH), (ETHSR), (ACCRIS), (TRDIS) (SUPENF) on Earnings Per Share (EPS)**

Model	**Predictor**	Change Statistics			Standardized Coefficients	
		R^2	F	Sig	B	Sig
1	BOC	.281	5.851	.002[a]	.530	.000
2	RHTS	.268	8.434	.001[b]	.518	.000
3	STKH	.090	2.277	.114[c]	.300	.230
4	ETHSR	.202	3.790	.017[d]	.449	.000
5	ACCRIS	.126	6.751	.012[e]	.354	.077
6	TRDIS	.109	1.835	.154[f]	.330	.05
7	SUPENF	.032	0.765	.471[g]	.179	.697
8	All Provisions	.691	4.085	.000[h]	-	-

[a]. Predictor: BOC- Board Operations and Control.
[b]. predictors: RHTS- Rights of Shareholders.
[c]. Predictors: STKH- Stakeholder Relations.
[d]. Predictors: ETHSR- Ethics and Social Responsibilities.
[e]. Predictors: ACCRIS- Accountability, Risk Management and Internal Audit.
[f]. Predictors: TRDIS - Transparency and Disclosure.
[g]. Predictors: SUPENF - Supervision and Enforcement.
[h]. Predictors: All Provisions.
Dependent Variable: Earnings per Share.

Source: Researcher (2016).

Results in Table 4.32 show that board operations and control (BOC), accounted for 28.1% of variance on earnings per share (EPS), (R^2=0.281). The overall model was statistically significant (F=5.851, p<0.05), the coefficients were statistically significant (β=.530, p<0.05). In model 2, rights of shareholders (RHTS) accounted for 26.8% of variance on earnings per share (EPS), (R^2=0.268). The overall model was statistically significant (F=8.434, p<0.05) and regression coefficients were statistically significant (β=0.518, p<0.05). In model 3, stakeholder relations (STKH) accounted for 9.0% of the variance in earnings per share (EPS), (R^2=0.09), overall the model was not statistically

significant ($F=2.277$, $p>0.05$), the regression coefficients were also statistically not significant ($\beta=0.300$, $p> 0.05$). Model four, ethics and social responsibility (ETHSR) accounted for 20.2% of variance on earnings per share (EPS ($R^2=0.202$). The overall model was statistically significant ($F=3.790$, $p<0.05$), the regression coefficient was statistically significant ($\beta=0.449$, $p<0.05$).

Model five, accountability, risk management and internal audit (ACCRIS) accounted for 12.6% of variance on earnings per share (EPS), ($R^2=0.126$). The overall model was statistically significant ($F=6.751$, $p<0.05$), the regression coefficient was statistically not significant ($\beta=0.354$, $p>0.05$). Model six transparency and disclosure (TRDIS) accounted for 10.9% of variance on earnings per share (EPS) ($R^2=0.109$). The overall model was statistically not significant ($F=1.835$, $p>0.05$), the regression coefficient was also statistically not significant ($\beta=0.330$, $p=0.05$). Model seven supervision and enforcement (SUPENF) accounted for 3.2 % of variance on EPS ($R^2=0.032$). The overall model was statistically not significant ($F=0.765$, $p>0.05$); the regression coefficient was also statistically not significant ($\beta=0.330$, $p>0.05$). After ascertaining the individual contribution of each variable, the next step was to measure the combined effect of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement on earnings per share on financial performance. Hypothesis one was stated as follows:

H1: Corporate governance has a relationship with firm performance of firms listed on Nairobi Securities Exchange.

The hypothesis was tested using simple regression analysis. The results are presented in Table 4.33

Table 4.33 Ordinal Regression Results for the Relationship between Corporate Governance and Earnings Per Share (EPS)

Summary

R	R^2	Adjusted R
0.414	.171	.151

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	8.397	1	8.397	9.720	.003
Residual	40.603	47	.864		
Total	49.000	48			

Coefficients

	Standardized Coefficient				
	Beta	Standard Error	df	F	Sig
Corporate Governance	.414	.161	1	6.634	.013

Predictors: Corporate governance.
Dependent Variable: EPS.

Source: Researcher (2016).

The regression results in Table 4.33 show the overall model was statistically significant (F=9.721, p<0.05) and explained 17.1 % of variation in EPS (R^2= 0.171 The regression coefficient was statistically significant (β=0.414, p<0.05). This suggests that for every unit increase in corporate governance, earning per share increases by 0.414. This indicates that a company that invests in corporate governance achieves a 0.414 increase in their earnings per share.

Further ordinal regression analysis was performed to see the outcome of the model by dropping stakeholder relations (STKH**),** accountability, risk management and internal audit (ACCRIS), transparency and disclosure (TRDIS), and supervision and enforcement (SUPENF) (SATS) that were not statistically significant. The composite index of corporate governance was therefore computed as a sum of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, (BRE) divided by the sum of possible outcomes. The results are shown below in Table 4.34

Table 4.34 Ordinal Regression Results for the Relationship between Corporate Governance (BRE) and Earning Per Share (EPS)

Summary

R	R^2	Adjusted R
0.584	.341	.327

ANOVA

	Sum of Squares	df	Mean Square	F	Sig
Regression	16.714	1	16.714	24.331	.000
Residual	32.286	47	.687		
Total	49.000	48			

Coefficients

	Standardized Coefficient				
	Beta	Standard Error	df	F	Sig
Corporate Governance	.584	.103	1	32.210	.000

Predictors: Corporate governance (BRE).
Dependent Variable: EPS.

Source: Researcher (2016).

From Table 4.34 the results of dropping stake holder relations, transparency and disclosure and supervision and enforcement R^2 increased by 17% from 17.1.1% to 34.1%

The results for the relationship between corporate governance, ROA, ROE and Tobin's Q were statistically not significant as shown in appendices 17, 18 and 19. This suggests that there seems to be no sufficient evidence to support variation in corporate governance, ROA, ROE and Tobin Q. Previous studies that utilized financial measures of performance in their research focusing on NSE listed firms reported mixed results (Ongore, 2008; Letting, 2011; Osoro, 2013; Okiro, 2014) on ROE, ROA and Tobin's Q.

4.7.2 Corporate Governance, Strategy Implementation and Financial Performance

The second objective was to determine the mediating effect of strategy implementation on the relationship between corporate governance and firm performance. Strategy implementation was operationalized as a composite index of strategy implementation and strategy operationalization and hypothesis two was stated as follows:

H2: Strategy implementation mediates the relationship between corporate governance and firm performance.

Before testing the hypothesis confirmation of mediation was conducted. It follows a four step process (Baron & Kenny, 1986). Step one verifies whether the independent variable (corporate governance) has an effect on the dependent variable (firm performance). This step confirms that indeed there is a consequence that may be mediated. Step two assesses if the independent variable has an effect on the mediator (strategy implementation). The step essentially entails treating the mediator as if it were the dependent variable. Step three assess if the mediator (strategy implementation) has a consequence on the dependent variable (firm performance). Step four assesses whether the consequences of the independent variable (corporate governance) on the dependent variable (firm performance) is diminished after manipulating the consequence of the mediator.

Should all the conditions be met and the influence of the independent variable becomes non significant in the presence of the mediator, the effects of the independent variable are deemed to be completely mediated by the mediator. However, should the influence of the

independent variable remain significant in the presence of the mediator, the effects of the independent variable are deemed to be partially mediated. Mediation effect is ruled out if any of the above condition are not met (Baron & Kenny, 1986). The summarized results for the four regression steps are presented in Table 4.35. The next step in stepwise regression involves checking the significance of the overall models. According to Baron and Kenny (1986), to meet the criteria for mediation, the overall models must be statistically significant. The results of analysis of variance for the four models are presented in Table 4.34. Further analysis was conducted to determine the significance of the individual predictor parameters as well as the direction of regression coefficient. The results are shown in Table 4.35

Table 4.35: Ordinal Regression Results for the Mediation Effect of Strategy Implementation on the Relationship between Corporate Governance and Earnings per Share (EPS)

Model	R^2	Adjusted R	R^2 Change
Step One	.341	.327	-
Step Two	.564	.544	.223
Step Three	.273	.241	-.291
Step Four	.349	.289	.076

ANOVA

Model		Sum of Squares	df	Mean Squares	F	Sig	F Change
Step 1	Regression	16.714	1	16.714	24.331	.000	
	Residue	32.286	47	.687			
	Total	49.000	48				
Step 2	Regression	27.049	2	13.525	29.050	.000	4.719
	Residue	20.951	45	.402			
	Total	48.000	47				
Step 3	Regression	13.118	2	6.559	8.461	.001	-20.589
	Residue	34.882	45	.775			
	Total	48.000	47				

Step 4	Regression	16.756	4	4.189	5.765	0.00 1	-2.696
	Residue	31.244	43	.727			
	Total	48.000	47				

Coefficients

Model	Standardized Coefficients				
	Beta	Estimate of Error	Df	F	Sig
CGI	.584	.103	1	32.217	.000
S I/ CGI	.751	.070	2	113.580	.000
SI/EPS	.523	.179	2	8.515	.000
CGI SI	.163 .469	.480 .292	3 1	.115 2.591	.951 .115

Dependent Variable: EPS.
Predictors: Corporate Governance.
Predictors: Strategy implementation.
Predictors: Strategy implementation, corporate governance.

Source: Researcher (2016).

Results in Table 4.35 step one overall model is significant (R^2=.341, F=24.331, p<0.05). The results imply a goodness of fit of the regression model and further that corporate governance explains 34.1% of change or variation in financial performance. Further the significant beta coefficient (β=0.584, p<0.05) suggests that one unit change in corporate governance there was a corresponding variation of 0.584 change in financial performance of firms listed on the Nairobi Securities Exchange.

In step two, strategy implementation was regressed on corporate governance. The regression analysis was to confirm if the independent variable is a significant predictor of the mediator. The results presented in table 4.34 reveal that 56.4% (R^2=.564, F=29.050, p<.05) financial performance explained by strategy implementation. The results imply a goodness of fit of the regression model and further that corporate governance explains 56.4% of change or variation in financial performance. Further the significant beta

coefficient (β =0.751, $p<0.05$) suggests that one unit change in corporate governance there was a corresponding variation of 0.751 change in financial performance of firms listed on the Nairobi Securities Exchange.

In step three, financial performance was regressed on strategy implementation. The results show that strategy implementation explains 27.3% of variation in financial performance of firms listed on the Nairobi Securities Exchange listed companies (R^2=.273, F= 8.465, $p<0.05$). The results imply a goodness of fit of the regression model and further that corporate governance explains 27.3% of change or variation in financial performance. Further the significant beta coefficient (β =0.523, $p<0.05$) suggests that a unit change in corporate governance there was a corresponding variation of 0.523 change in non-financial performance of firms listed on the Nairobi Securities Exchange.

In step 4, multiple regression analysis was performed to assess whether the relationship between corporate governance and firm performance is direct or indirect through strategy implementation. The overall model when controlling for strategy implementation the influence of corporate governance on firm performance was statistically significant. (R^2=0.349, F=5.763, $p<0.05$). The results imply a goodness of fit of the regression model and further that corporate governance explains 34.9% of change or variation in financial performance.

When controlling for strategy implementation the influence of corporate governance became statistically insignificant (β=0.163, $p>0.05$). Therefore since when controlling for strategy implementation, corporate governance becomes statistically insignificant the hypothesis that the strategy implementation mediates the relationship between corporate governance and firm performance is supported. The model showed mediation. Strategy implementation mediates the relationship between corporate governance and firm financial performance measured by earnings per share (EPS).

4.7.3 Corporate Governance, Industry Competition and Financial Performance

This study sought to assess if industry competition had moderating effect on the relationship between corporate governance and financial performance measured as EPS using optimal scaling. The hypothesis was stated as follows:

H3: Industry competition moderates the relationship between corporate governance and firm performance

The method proposed by Baron and Kenny (1986) was used to compute the moderating effect. The first step involved testing the influence of predictor variable (corporate governance) on financial performance. The second step involves standardizing all variables to make interpretation easier and to avoid multicollinearity. Further, the standardized variables of predictor (corporate governance) and moderator (industry competition) were tested on financial performance. The third step involved creating an interaction term (z-score corporate governance * z- score industry competition) and adding it to the standardized variables to test the amount variation that is accounted for by the interaction term.

Moderation is assumed to take place if the interaction term in step 3 is significant. Results of regression analysis are displayed in Table 4.36. According to Baron and Kenny (1986), to meet the criteria for moderation steps 1, 2, 3 need to be statistically significant. An F value was computed to determine whether the changes in R^2 are significant. The results of analysis of variance for the four models are shown in Table 4.36.

Table 4.36: Ordinal Regression Results for the Moderating Effect of Industry Competition on the Relationship between Corporate Governance (BRE) and Earnings per Share

Model	R^2	Adjusted R	R^2 Change
Model 1	.341	.327	-
Model 2	.529	.486	.188
Model 3	.658	.616	.129

ANOVA

		Sum of Square	df	Mean Square	F	Sig
Step 1	Regression	9.871	2	4.936	5.802	0.006
	Residue	39.129	46	.851		

	Total	49.000	48			
Step 2	Regression	25.900	4	6.475	12.334	0.000
	Residue	23.100	44	0.525		
	Total	49.000	48			
Step 3	Regression	32.249	5	6.450	16.556	.000
	Residue	16.751	43	0.390		
	Total	49.000	48			

Coefficients

Model		Standardized Coefficient				
		Beta	Standard Error	df	F	Sig
Step 1	Corporate Governance	.449	.311	2	2.087	.136
Step 2	Z-Corporate Governance	.613	.118	1	26.903	.000
	Z-Industry Competition	-.456	.161	3	8.069	.000
Step 3	Z-Score: Corporate Governance	.658	.138	1	22.652	.000
	Z-Score: Industry Competition	-.495	.110	2	20.040 2	.000
	Interaction term for Corporate Governance and Industry Competition.	.391	.112	2	12.173	.000

Predictors: corporate governance.
Predictors: Z score, corporate governance, Z score, industry competition.
Predictors: Z score: corporate governance, Z score: industry competition, interaction term for corporate governance and industry competition.
Dependent Variable: EPS.

Source: Researcher (2016).

The results in Table 4.36 step 1 overall model is significant (R^2=.341, F=5.802, p<0.05). The results imply a goodness of fit of the regression model and further that corporate governance explains 34.1% of change or variation in non-financial performance. Further the non significant beta coefficient (β=0.449, p>0.05) suggests that a unit change in corporate governance there was a corresponding variation of 0.449 change in financial performance of firms listed on the Nairobi Securities Exchange.

In step 2, the results show that the standardized values of corporate governance and industry competition accounted for 52.9% of the variance on financial performance (R^2=0.529, F= 12.334, p<0.05). Further the significant beta coefficient for corporate (β=0.613, p<0.05) and for industry competition (β=-0.456, p<0.05) suggests that a unit change in corporate governance there was a corresponding variation of 0.613 change in financial performance of firms listed on the Nairobi Securities Exchanges and further a unit change industry competition there was a corresponding negative variation of -0.456 change in financial performance, denoting that completion erodes performance.

In step 3, the interaction term was formed as a product of standardized score for corporate governance *standardized score for industry competition and entered into the model. The interaction term accounted for 65.8% of variance in financial performance. (R^2=0.658, F= 16.556 p<0.05). The regression coefficient of the interaction term remained statistically significant (β= 0.391, p<0.05) when the interaction term was added in the model hence, the criteria for step 3 was met. The findings of the study support the assertion proposed by He & Mahoney (2006) and Ho *et al*. (2011) that suggested that industry competition moderated the relationship between corporate governance and financial performance. The hypothesis under objective three was therefore supported.

4.7.4 Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on Financial Performance

The study sought to determine whether the joint effect of corporate governance, strategy implementation, and industry competition has a greater influence than the individual

influence of corporate governance on financial performance. The composite index was computed for each variable. The effect was determined by testing the following hypothesis.

H4: The joint effect of corporate governance, strategy implementation, and industry competition on firm performance is greater than the individual influence of corporate governance on firm performance.

To test the hypothesis, multiple regression analyses was performed. Multiple regression analysis was performed with the predictor variables namely corporate governance, strategy implementation, and industry competition entered simultaneously to examine their joint effect of on financial performance. The results for the regression analyses, Analysis of Variance (ANOVA) and coefficient are shown in Table 4.37.

Table 4.37 Ordinal Regression Results of Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on the Relationship between Corporate Governance and Earnings per Share (EPS)

	R^2	Adjusted R	R^2 Change
Combined (CG, SI, IC)	.535	.467	.334

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig
Combined (CG, SI, IC)	Regression	25.682	6	4.280	7.864	.000
	Residue	22.318	41	.544		
	Total	48,000	47			

Coefficients

Model	Standardized Coefficients		Df	Sig
	Beta	Std Error		
Constant	-.449	.303	2	.123
Corporate Governance	.522	.278	1	.068
Strategy Implementation	.122	.401	2	.918
Industry Competition	-.453	.208	3	.006

Predictors: Corporate governance, Strategy implementation, Industry competition
Dependent Variable: Firm performance (EPS).

Source: Researcher (2016).

Study findings in Table 4.37 indicate that 53.5% in earnings per share is explained by the joint effect of the three variables (corporate governance, strategy implementation and industry competition). (R^2=.535, F= 7.864, P<0.05). The remaining 46.5% is explained by other factors not considered in the study. Therefore corporate governance, strategy implementation and industry competition jointly have a significant influence on financial performance than the individual influence of corporate governance on financial performance measured as earnings per share. The coefficient of determination for

corporate governance, strategy implementation and industry competition are 0.327, 0.273 and 0.529 respectively all of which are significant at $P<0.05$.

Summary of regression coefficients for the test of joint effect and individual effect of the predictors and financial performance (EPS) are shown in Table 4.38 below;

Table 4.38: Summary of Regression Coefficients for the test of Joint Effect and Individual Effect of the Predictors and Financial Performance (EPS)

	Results from Multiple Regression Model	Results from Simple Regression Models
R	R= 0.731	Corporate Governance-0.522
		Strategy Implementation- 0.122
		Industry Competition- -0.453
R^2	R^2= 0.535, F= 7.864	Corporate Governance-0.341, F=24.331, P<0.05
		Strategy Implementation- 0.273, F=8.525, P<0.05
		Industry Competition- 0.2201, F=5.802

Source: Researcher (2016).

These regression coefficients in Table 4.38 indicate that the effect of the joint predictor variables on performance is greater than their individual effect (R=^{2} 0.535 compared with the individual effects on performance. This, therefore, confirms the hypothesis that: The joint effect of corporate governance, strategy implementation and industry competition on financial performance is greater than the individual influence of corporate governance on financial performance.

Further the regression coefficients show that corporate governance had the biggest contribution to financial performance ($\beta=0.22$, $p<0.05$), followed by strategy implementation ($\beta=0.122$, $p<0.05$). On the other hand, the contribution of industry competition was the lowest and statistically insignificant ($\beta=-0.453$, $p>0.05$). The regression model that was used to estimate financial performance of firms listed on the Nairobi Securities Exchange into consideration the combined effect of strategy implementation and industry competition on the relationship between corporate governance and performance can be substituted as:

$Y = 0.522\ CG + 0.122\ SI - 0.453\ IC + €$

Where Y= financial performance (Earnings per share)
CG= Corporate governance
SI= Strategy implementation
IC= Industry competition
€= Error term

The regression equation indicates that a unit change in corporate governance causes a 0.522 increase in financial performance. It means firms whose leadership encourages adherence to corporate strategy provisions achieves a 52.2% increase in financial performance measured as earnings per share. On the other hand a unit change in strategy implementation achieves a 0.122 increase in financial performance. It means firms whose leadership encourages contribution to corporate strategies and provision of supportive budgets (operationalization of strategy) and firms that provide a culture that supports strategy implementation through staff placement and linking rewards to objectives (institutionalization of strategy) achieve a 12.2% increase in financial performance measured as earnings per share.

4.8 Discussions of Findings

The study set out to accomplish four objectives. The first objective sought to establish the relationship between corporate governance and firm performance. The Second objective sought to determine whether strategy implementation mediates the relationship between corporate governance and firm performance. The third objective sought to determine whether industry competition moderates the relationship between corporate governance and firm performance. Finally, the fourth objective sought to establish whether the joint effect of corporate governance, strategy implementation and industry competition on firm performance is significantly greater than the individual effect of corporate governance on performance. The objectives were derived from various research gaps identified from a wide review of literature, leading to conceptual model and conceptual hypotheses.

The study performed various statistical tests included regression analyses to test the hypotheses. This study measured performance along the dimensions of the balanced score

card, Separate analyses were performed for financial and non-financial measures of performance. Hypotheses were tested with non-financial performance and financial performance separately. In the discussion of the results, patterns confirming the conclusions of previous studies were identified while inconsistencies were highlighted. The discussion was then narrowed down to research gaps. The sections are arranged according to the objectives and hypotheses of the study.

4.8.1 Relationship between Corporate Governance and Firm Performance

Empirical studies connecting good governance to good performance have been consistent. Different scholars have however conceptualized corporate governance and assessed the constructs differently resulting to research findings that are contradictory and mixed. Previous studies considered isolated effects of corporate governance (equilibrium variable). Based on this assumption, there was need to test the influence of each component on performance. Seven sub-hypotheses were formulated and simple regression analysis was performed.

The latter studies suggest a combined effect of corporate governance (compliance index), computed as a composite index of the seven provisions and simple regression was performed against the two measures of performance namely financial and non-financial measures of performance. In line with the development of performance measurements which suggests that organizations need to include multiple performance measures, the study adopted the balanced scorecard approach and incorporated financial and non-financial measures.

The findings of the study established that board operations and control (R^2=0.327, F=22.852. β=0.780, $p<0.05$), rights of shareholders (R^2=0.289 F=19.079, β=0.643, $p<0.05$), stakeholder relations, (R^2=0.257, F=16.291, β=0.465, $p<0.05$) and ethics and social responsibilities (R^2= 0.303, F= 20.409, β= 0.449, $p<0.05$), transparency and disclosure (R^2= 0.333, F= 23.447, β= 0.705, $p<0.05$) and supervision and enforcement (R^2= 0.091, R= 4.723, β= 0.181, $p<0.05$) had a statistically significant relationship with

non-financial performance. Accountability, risk management and internal audit (R^2=0.034, F=1.631, β=0.407, p>0.05) had a statistically insignificant relationship with non- financial performance.

On the other hand, the relationship between corporate governance was computed as a composite index that included board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, transparency and disclosure and supervision and enforcement (BRSETS) by (dropping accountability, risk management and internal audit) was statistically significant (R^2= 0.343, F= 24.528, β= 0.670, p<0.05) and accounted for 34.3 % of the variance in non-financial performance. The results suggest that the combined effect of corporate governance was bigger than the individual provisions of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, transparency and disclosure and supervision and enforcement on non-financial performance.

Findings on financial measures revealed that board operations and control (R^2=0.281 F=5.851. β= 0.530, p<0.05), rights of shareholders (R^2= 0.268 F= 8.434, β= 0.518, p<0.05), and ethics and social responsibilities (R^2= 0.202, F= 3.790, β= 0.449, p<0.05) had statistically significant relationship with financial performance. Transparency and disclosure (R^2=0.109, F=1.835, β=0.330, p>0.05), stakeholder relations, (R^2=0.090, F=2.277, β=0.300, p>0.05), accountability, risk management and internal audit (R^2=0.126, F=6.751, β=0.354, p>0.05) and supervision and enforcement (R^2=0.032, F=0.765, β=0.079, p>0.05) did not have a statistically significant relationship with financial performance.

On the other hand, the relationship between corporate governance computed as a composite index of board operations and control, rights of shareholders, and social responsibilities (BRE) (by dropping stakeholder relations, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement (SATS) that were statistically insignificant) had a statistically significant relationship with financial performance (R^2=0.341, F=24.331 β=0.584, p<0.05). Thus, it can be concluded that the

combined effect of corporate governance components has a greater effect on both non-financial performance and financial performance than isolated effect of each of the constructs. The findings are consistent with observations made by Becker and Gerhart (1996) that synergetic effect rather than independent practices leads to competitive advantage.

4.8.2 Strategy Implementation Mediates the Relationship between Corporate Governance and Firm Performance

The second objective was to determine whether the relationship between corporate governance and performance was direct or through strategy implementation. There were no systematic studies that had been undertaken on mediating effect of strategy implementation on the relationship between corporate governance and performance. Researchers in this field have recognized the lack of empirical research linking the implementation process to performance (Andrews *et al*., 2011). This research therefore relied on studies that established some linkages between corporate governance and performance, corporate governance and strategy implementation and corporate governance and performance. Jooste and Fourie (2009) and Jalali (2012) however emphasized the connection between corporate governance and strategy implementation.

This study used the four steps suggested by Baron and Kenny (1986) to discuss the results of the mediating effect. The first step involved testing the relationship between corporate governance and both financial and non-financial measures of performance that were tested and discussed in hypothesis two. The second step tested the relationship between corporate governance and strategy implementation. Assuming corporate governance as an independent variable and strategy implementation as a dependent variable, a simple regression analysis was performed. The results of the relationship between corporate governance and strategy implementation indicated that corporate governance accounted for a 34.3% variation in strategy implementation in non-financial performance, and overall the model was statistically significant ($F= 24.528$, $\beta= 0.670$, $t= 4.953$, $p<0.05$). On strategy implementation and non-financial performance the

explanatory power was 66.3% and the model and beta coefficients was statistically significant ($F= 90.526$, $\beta= 0.830$, $t= 9.514$ $p<0.05$).

Findings on financial measures revealed that corporate governance accounted for 34.1% variation in strategy implementation on financial performance and the overall model was statistically significant. ($F= 24.331$, $\beta = 0.584$, $p<0.05$) On strategy implementation and financial performance the explanatory power was 27.3 % and the model was statistically significant ($F= 8.461$, $\beta = 0.523$, $p<0.05$).

The statistically significant results reaffirmed the position of other scholars Jalali (2012), Li *et al*. (2008), Njagi and Kombo (2014), who alluded to the significance of firm performance in predicting strategy implementation. (Hrebiniak, 2006) indicates that formulating an undeviating strategy is hard work, ensuring the strategy works; executing it, is far more challenging. Brenes *et al*. (2008) maintain that a successful execution of a strategy is not merely a sheaf of strategic pursuits and drives, springing out of diagnoses which must be driven by different people within the organization. Instead, executing strategy is connected with creating sustainable competitive advantage by deliberately and systematically directing a number of initiatives and dimensions in and around the organization which has potential to change it.

Brenes *et a*l. (2008) further suggest that these dimensions and components are the process of formulating the strategy, its systematic implementation, strategy control and follow-up, the CEO's leadership of competent, suitable and motivated managers and employees, together with corporate governance as a change enabler. The results of this study not only support the argument of the importance attached to strategy implementation but the interplay of strategy formulation and implementation by recognizing the two phases which attempt to incorporate implementation issues in the formulation process namely; strategy operationalization and strategy institutionalization. By delineating the first order constructs of strategy formulation; vision, mission and goals, strategy, structure and

human resources, Isaac *et al*. (2016) found in their study that, strategy implementation mediates the relationship between strategy formulation and performance.

This study is different in that it views strategy formulation and implementation as two phases of the same process as opposed to two distinct processes. A study by Ogendo (2014) supports the mediating role of strategy implementation through its antecedent, strategy content. This study adds to the debate of studies that confirm the factors that have a mediating effect on corporate governance and performance. Mediating relationships helps scholars understand the processes further which might be supportive in discovering further mediation at different levels of analysis. For example Hsu *et al.* (2012) and Purnomosidi *et al*. (2014) found that CEO duality and firm size have a mediating effect on the relationship between corporate governance and performance respectively. According to Rajaseker (2014), leadership is by far the most important factor influencing successful strategy implementation which concurs with the findings of this study that institutionalization of strategy implementation requires able leadership, resources and staff with the right skills who are equally rewarded, and a culture that supports the strategy.

4.8.3 Industry Competition Moderates the Relationship between Corporate Governance and Firm Performance

Although literature connecting corporate governance, industry competition and firm performance is limited, it has been argued that industry competition can contribute or inhibit degree of corporate governance adoption. Wang and Hsu (2010) indicate that competitive posture positively moderates the impact of dynamic capability for marketing on performance**.** Agency theory suggests that where conflict between ownership and management is high such an organization faces threats of being out paced by other organizations in the industry. For such to happen it is assumed that an efficient environment where information asymmetries are negligible and where competitive pressures are high exists.

Findings on non- financial measures revealed that corporate governance accounted for 34.9 % variation in financial performance and the overall model was statistically significant. ($F= 24.528$, $\beta = 0.670$, $t= 4.953$, $p<0.05$). When corporate governance and industry competition were standardized they accounted for 38.6 % of variation in financial performance and the overall model was statistically significant ($F= 14.551$) Beta coefficient were ($\beta= 0.417$, $t=5.308$, $p<0.05$) for corporate governance and ($\beta= -0.141$, $t= 1.79$, $p>0.05$) for industry competition. Finally when the interaction term was added the model accounted for 38.7 % of the non-financial performance and was statistically insignificant ($F= 9.466$). The beta coefficient were ($\beta= 0.413$, $t= 5.087$, $p<0.05$) for corporate governance, ($\beta = -0.141$, $t= -1.791$, $p<0.05$) for industry competition and ($\beta =0.020$, $t= -0.278$, $p>0.05$) for the interaction term. The conditions for interaction were not met since when the interaction term was added the regression lost significance. The outcome which was unexpected and surprising could not be explained. The methodology used may have been the cause of these contradictory results.

Findings on financial measures revealed that corporate governance accounted for 34.1% variation in financial performance and the overall model was statistically significant. ($F= 5.802$, $\beta = 0.449$, $p<0.05$). When corporate governance and industry competition were standardized they accounted for 52.9% of variation in financial performance and the overall model was statistically significant ($F= 12.334$) Beta coefficient for corporate governance was ($\beta= 0.613$, $p<0.05$) and for industry competition ($\beta = -0.456$, $p<0.05$). Finally with the addition of the interaction term, the model accounted for 65.8 % of the financial performance and was statistically significant ($F= 16.556$). The beta coefficient were ($\beta= 0.658$, $p<0.05$) for corporate governance, ($\beta = -0.495$, $p<0.05$) industry competition and ($\beta = 0.391$, $p<0.05$) for the interaction term meeting the conditions for moderation.

Stiff competition can reduce profit margins; hence managers get the alert to perform well. Competition is a powerful force in disciplining managers (Caves, 1980). Threat of liquidation reduces profits while increased competition also reduces profits. Nickell *et al.*

(1997) suggest that when competition levels were high growth in productivity registered was correspondingly high. According to Blundell *et al.* (1999), high monopoly leads to lower innovation while Caves (1980) found that competition leads to more efficient decision making structures. Deregulation which inevitably results to competition is followed by productivity gains (Graham *et al.*, 1983), views shared by Giroud (2009), who observed organizations not subjected to a competitive environment find their operating performance dropping. Estrin (2002) asserted that firms in a competitive environment perform better in developed and middle income countries but not so in the transition economies. Nickell *et al.* (1997) find evidence that the stiffer the competition the better the level of performance and that competition is a substitute for governance mechanism. Cosset (2013) concurs but also suggests that being in a competitive environment is associated with strong corporate governance, but only in developed countries. His assertion alludes that competition moderates corporate governance and makes testing this assertion in a developing country such as Kenya a fertile area of enquiry.

This study supports the argument of the importance attached to industry competition in corporate governance when measured against financial performance but not on non-financial performance. Allen and Gale (2000) argue that competition is the most efficient mechanism in ensuring corporate governance adherence while Giroud and Muller (2010) found that competition mitigates managerial slack.

4.8.4 Joint Effect of Corporate Governance, Strategy Implementation, Industry Competition and Firm Performance

This thesis was based on the premise that the relationship between corporate governance and performance is not as direct as implied in the literature. The study proposed that the relationship between corporate governance and firm performance is not direct but through strategy implementation. On the other hand, based on extensive literature review, the study proposed that industry competition has a moderating effect on the relationship between corporate governance and performance. Simple regression analysis tested the

influence of each predictor variable on financial and non-financial performance, while multiple regression analysis was performed for the joint effect.

The results demonstrated that the joint effect of corporate governance, strategy implementation and industry competition on non-financial performance (R^2= 0.685) was greater than the independent effect of corporate governance (R^2= 0.343), strategy implementation (R^2= 0.663) and industry competition (R^2= 0.010). Further the study established that the joint effect of corporate governance, strategy implementation and industry competition on financial performance (expressed as Earnings Per Share) (R^2 = 0.535) was greater than independent effect of corporate governance (R^2= 0.341), strategy implementation (R^2= 0.273) and, industry competition (R^2 = 0.201). A notable observation was that the explanatory power of the joint effect was greater for non-financial performance (R^2 = 0.685) than on financial performance measured as return on assets (R^2 = 0.535).

In line with the propositions of an approach that is integrated instead of a unitary perspective to and to gain a greater understanding corporate governance dynamics, this study used several theories instead of one theory and used multiple variables and hypothesized that joint effect of corporate governance, strategy implementation and industry competition had a greater influence on firm performance than the individual influence of corporate governance on firm performance. The variables that constituted the governance index included board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement. Agency theory and stewardship theory are both applicable to boards operations since each board has capital, which affects both monitoring (agency perspective) and the availability of resources (resource dependence perspective). The board also supervises the CEO and top management. By establishing audit and risk management committees the board extends its monitoring role.

Shareholders' interests is the main focus of agency theory while stakeholder theory in contrast attempts to take care of the interests of everyone who may express an interest however remote, and not just the shareholders. According to Jensen (2002), enlightened stakeholder theory recognizes the need to maximize future value of the firm as a long-term strategy and makes requisite trade-offs among stakeholders thereby solving the problems arising from the many objectives that proponents of traditional stakeholder theory grapple with. This takes care of the fourth and sixth provisions that constitute corporate governance index in this study, namely, ethics and social responsibility, and transparency and accountability,

It is widely recognized as well as there being growing empirical evidence that corporate governance arrangements can significantly affect performance. Some scholars posited that superior organizational performance is attained through better governance. Some other studies found no association. Other studies found that the results were complex and period specific while yet others found mixed results. Okiro (2014) confirms he found a relationship between corporate governance and performance of firms listed in the four East African stock exchanges that was positive and statistically significant. Kamau and Basweti (2013) did not find any relationship between corporate governance and working capital efficiency in firms listed on the Nairobi Securities Exchange. Farhat (2014), studying UK firms, found the relationship between performance and corporate governance complicated and dynamic. Dynamism was exhibited by variables that were significantly related at the beginning of the study period ceasing to be related or changed direction towards the end of the study period. Gykari (2009) reported mixed reports. While using the compliance index model he found statistically significant and positive relationship between the quality of internal governance structures and financial performance. His results were mixed when using the equilibrium variable index model. Board diversity and frequency of board meetings had no impact on financial performance while board size was statistically and positively associated with Tobin's Q but statistically insignificant and negatively associated with return on assets.

Notwithstanding the mixed results of empirical studies in corporate governance there is increasing acknowledgement that better corporate governance is vital for growth and development of not only a company but the whole economy of states (Clarke, 2005). Yet a further reason why corporate governance is increasingly becoming relevant is that detailed information about organizations is easily available, courtesy of advances in communications technology. Public scrutiny has also become much more intense than before. International institutional investors are important in the governance conversation because of the unitary manner in which they apply the same stringent tests of security and return wherever they intend to place their funds in the world. They are therefore a force to reckon with when it comes to governance convergence which influences significantly the content of corporate governance standards. The ethical environment is shaped by what is demanded out there since companies take up corporate governance standards which will make them attractive to those interested in their shares and especially institutional investors. In line with the gaps identified in theoretical and empirical studies reviewed, a conceptual model was developed. The conceptual model linked corporate governance and firm performance. The mediating role of strategy implementation and moderating effect of industry competition were also established. Based on these relationships, hypotheses were formulated and tested. A summary of objectives and hypotheses, findings and interpretation are shown in Table 4.39

Table 4.39 Summary of the Results of the Tests of Hypotheses

Objective	Hypothesis	Results	Decision
Objective 1: Establish the relationship between corporate governance and firm performance.	H_1: Corporate governance has a relationship with firm performance.	A relationship that is statistically significant exists between corporate governance, non-financial performance and financial performance measured as Earnings Per Share.	Supported
Objective 2: Determine whether strategy implementation mediates the relationship between corporate governance and firm performance.	H_2: Strategy implementation mediates the relationship between corporate governance and firm performance.	Strategy implementation mediates the relationship between corporate governance and non-financial performance and financial performance measured as Earnings Per Share.	Supported
Objective 3: Determine whether industry competition moderates the relationship between corporate governance and firm performance.	H_3: Industry competition moderates the relationship between corporate governance and firm performance.	Industry competition has no moderating effect on the relationship between corporate governance and non-financial performance. Industry competition moderates the relationship between corporate governance and financial performance measured as Earnings Per Share.	Not Supported on non-financial measures but supported on financial measures.
Objective 4: Establish whether the joint effect of corporate governance, strategy implementation and industry competition is greater than their individual effect each.	The joint effect of corporate governance, strategy implementation and industry competition on firm performance is greater than the individual influence of each predictor variable.	Corporate governance, strategy implementation and industry competition jointly have a greater effect on firm performance non-financial and financial than individual effect of all predictor variables.	Supported

Source: Researcher (2016).

The summary of results in Table 4.39 shows that the study had four objectives and four hypotheses. As shown by evidence in Table 4.39 three hypotheses were supported while one was partially supported.

4.9 Chapter Summary

This chapter presented the findings from responses received from 49 organizations listed on the NSE and showed how different variables manifested themselves organizations that were investigated. Profiles of the respondents and characteristics of the organizations were presented. Profiles of the respondents included education levels, and years of service while organizations' characteristics included sector, age since incorporation and listing, ownership, board size, gender diversity, CEO/ Chair duality, qualifications of directors, choice of external auditors and corporate governance index score.

The response rate of 87.5 percentage attained was considered relatively high and represented the study population well. Profiles of the organizations and descriptive statistical analysis were done and interpretations made. Diagnostic tests that included normality test, homogeneity test, and test for multicollinearity were conducted to verify validity of the data. Results of the descriptive statistics and preliminary tests were presented. The results included correlation analyses, mean scores, frequencies, confidence levels, and coefficient of variance (COV). The findings in this chapter focused on how the study variables manifested in the organizations under study and how the respondents viewed them. Coefficient of variance was computed to determine variability in responses on which corporate governance, strategy implementation and industry competition manifested. These key study variables were consequently tested on performance indicators, both financial as well as non-financial.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This is the final chapter of the study. The results are summarized, conclusions drawn and recommendations provided in view of the research objectives. The chapter begins with a summary of the general findings followed by major findings covering the four objectives and conceptual hypotheses of the study. The chapter also presents the major conclusions derived from summaries. Finally, a presentation is made of the main recommendations from the study including the implication of the study on theory, policy and practice. The challenges and limitations that were encountered during the study are discussed and suggestions made for future studies.

5.2 Summary of Findings

In chapter four, the findings were analyzed and discussed. Results were given under the objective and hypotheses that guided the study. In this section of chapter five the results are summarized. The general findings are first summarized followed by the study's specific findings.

A corporate governance index was constructed using the 42 dimensions that were based on the revised Capital Markets Authority corporate governance guidelines for public listed companies in Kenya which has 7 provisions. A score of 1 was awarded where an attribute was recorded in the annual report and 0 if not mentioned. While scoring certain dimensions were not fulfilled entirely. To recognize partial fulfillment a score of 0.25, 0.5 or 0.75 was awarded. The annual reports for the year 2015 were used for the Nairobi Securities Exchange listed firms studied. Using the Capital Markets Authority's constructed CGI Index, firms listed on the Nairobi Securities Exchange scored an average of 64.4%. The company with the lowest score had 11.11% while the highest scored 88.33% (Appendix 8). Based on the scores obtained, 49% of the companies fall under high and highest risk categories on the corporate governance scale.

The boards of NSE listed companies are predominantly male with CEOs who are in their middle ages, while chairpersons are significantly older. Most of the directors have a

background in accounting, finance, economics, law or engineering, with more than a third also holding an MBA degree. The score on customer satisfaction was in the high risk area (77%) although they had highly qualified personnel whose performance should translate to higher customer satisfaction. Performance evaluation of the board was ineffective in most companies while succession planning and grooming of CEOs was virtually absent. A low score on customer satisfaction was attributed to frequent recruitment of external candidates to fill key positions who take time to settle in creating a gap in relational quality an important attribute in customer satisfaction. According to (Fecikova, 2004) satisfied customers develop loyalty and loyal customers contribute to company’s profitability. Loyal customers spend more on company's products and services, through repeat purchases and also recommend their friends, family and acquaintances to the organization.

The broad objective of this study was to establish the effect of different combination of predictor variables (corporate governance, strategy implementation, industry competition) on firm performance. The study was guided by four specific objectives: to establish the relationship between corporate governance and firm performance, to determine whether the effect of corporate governance on firm performance was direct or indirect through strategy implementation, to determine the moderating effect of industry competition on the relationship between corporate governance and firm performance and lastly, to establish whether the joint effect of corporate governance, strategy implementation and industry competition on firm performance is greater than the individual predictor variables. These findings are summarized under the corresponding objectives in sections 5.21 to 5.24.

5.2.1 Corporate Governance and Firm Performance

The first objective set out to determine the relationship between corporate governance and firm performance. The study tested for the independent effect of board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, accountability, risk management and internal audit, transparency and

disclosure and supervision and enforcement on firm performance. The study established that transparency and disclosure had the highest explanatory power (R^2=0.330) followed by board operations and control (R^2=0.327), ethics and social responsibilities (R^2=0.303), rights of shareholders (R^2=0.289), stakeholder relations (R^2=0.257), supervision and enforcement (R^2=0.091) and accountability, risk management and internal audit the least explanatory power (R^2=0.034) on non-financial performance. The overall model and regression coefficients were significant for the six provisions but not significant for accountability, risk management and internal audit. It was established that the combined effect of the six provisions namely board operations and control, rights of shareholders, stakeholder relations, ethics and social responsibilities, transparency and disclosure and supervision and enforcement (BRESTS) on non-financial performance was greater than the individual effect of the provisions (R^2=0.343, F= 24.528, β= 0.670, t= 4.593, $p<0.05$). This suggests that corporate governance contributes significantly to non-financial performance.

The results of the effect of optimal scaling on financial performance indicated that corporate governance accounted for 17.1% of the variance in financial performance measured as EPS (R^2=.171) and was statistically significant (F=9.720, β= 0.414, $p<0.05$). The study established that corporate governance was a better predictor of financial performance when the composite index comprised of board operations and control, rights of shareholders and ethics and social responsibilities (BRE). This is confirmed by the regression results which were statistically significant (R^2= 0.341, F= 24.331, β= 0.584), $p<0.05$). The overall model for stakeholder relations, accountability, risk management and audit and supervision and enforcement was statistically insignificant. Thus there was sufficient evidence to support the hypothesis under objective one, that there was a positive and statistically significant relationship between corporate governance and performance (financial and non-financial) of firms listed on the Nairobi Securities Exchange.

The strength of the relationship between corporate governance and firm performance in this study implies the presence of other variables that are associated with firm performance. There are other variables influencing the said relationships which are not accounted for in this study and form basis for future studies.

Pineda (2004) analyzed the impact of corporate governance standards on firm performance in Canadian businesses. The relationship between firm performance as measured by Tobin's Q, and the corporate governance index, using a sample of Canadian firms over a 3 year period, between 2002 and 2004, revealed that only a few provisions of governance were important. These findings are similar to the findings of this study which found that only three provisions affected performance. Pineda (2004) found no evidence that comprehensive provisions of corporate governance affected performance. Dhawardkar *et al*. (2000) demonstrated that effective and sound corporate governance practices were not only important issues in developed economies but were even more critical in emerging and transitioning countries. Omran (2009) and Sharif and Lai (2015) further added that developing economies lack the financial infrastructure to face issues of corporate governance.

The relationship between corporate governance and firm performance can further be explained by the agency theory. Agency theory was coined by Jensen and Meckling (1976). Agency theory has majorly influenced strategic management and business applications. The agency theory states that managerial action departs from those required to maximize shareholders returns in modern organizations. Findings of the relationship between corporate governance and firm performance indicate that the mechanisms of the NSE listed firms have the processes and infrastructure that first, facilitate the creation of shareholders value, and second, governance structures of the firms to promote management to exercise prudent allocation of firms resources. This, therefore, implies that managers of firms have acted typically as agents of the owners. The owners hire the managers and give them the authority to manage the firms on their behalf. Nonetheless, the owners should continue to monitor their firms through supervision by independent

non executive directors, management, publishing business reports including reports from external auditors in compliance with the requisite laws. Regulatory authorities should ensure vigilance monitoring. Corporate governance reporting, which is voluntary, should be made mandatory and changed from comply or explain to comply and explain mode. This finding therefore supports the agency theory.

5.2.2 Corporate Governance, Strategy Implementation and Firm Performance

The second objective was to determine whether the relationship between corporate governance and firm performance was direct or through strategy implementation. This was tested by the second hypothesis which stated that strategy implementation mediates the relationship between corporate governance and firm performance. The model of Baron and Kenny (1986) was used in testing for the mediating effect. The criterion for establishing mediation was met which included; (1) the influence of criterion variable (firm performance) on predictor variable (corporate governance), (2) the relationship between mediator and predictor variable, (3) the influence of mediator (strategy implementation) on criterion variable (firm performance) should be significant; (4) when controlling for mediator (strategy implementation), the influence of predictor variable (corporate governance) on criterion variable (firm performance) losses its significance.

Thus, the test met the criterion for establishing mediation proposed by Baron and Kenny (1986), providing sufficient evidence to support full mediation. The hypothesis under second objective stated that that the relationship between corporate governance and firm performance was not direct but indirect through mediation by strategy implementation. Thus, the results support the hypothesis on the role of strategy implementation on the relationship between corporate governance and both financial and non-financial performance. It is the ability of organizations to harness their superior capacity to implement strategies that defines those that get superior performances. This superior capacity manifests as intellectual capital resource and supports resource dependence theory. According to Saeed *et al.* (2015) intellectual capital resources act as the

mechanism through which corporate governance is able to influence corporate performance.

Although previous studies have looked at the main relationship between corporate governance and firm performance (Bhagat and Bolton, 2008; Tsifora and Eleftheriadon, 2007) there is not one known to the researcher that has considered the fact that the relationship may not be direct but mediated by strategy implementation which in turn influences performance. This may explain why the conclusion from previous studies on the nature of the relationship between corporate governance and performance of firms listed in the NSE has been inconsistent. This study attempted to fill the gap by examining the effect of strategy implementation in the relationship between corporate governance and performance. For example Namada (2013) in her study considered strategy implementation as a moderating variable. Her finding was that strategy implementation did not have a moderating effect in the relationship between strategic planning and return on investment performance. She suggested strategy implementation be considered as a mediating variable in future studies. In the present study the findings reveal a mediating effect of strategy implementation on the relationship between corporate governance and firm performance. This confirms the importance of institutionalization and operationalization of strategy implementation (policies to guide decision making, and systems for regular reviews of strategy implementation and staff with the right skills and a culture aligned to strategies in organizations). This practice by the NSE listed companies can help regulators and institutional investors lobby for policy formulation based on empirical evidence rather than depend on practices borrowed from other jurisdictions. Therefore in line with mediating effect of strategy implementation on the relationship between corporate governance and firm performance stewardship theory supports this finding.

5.2.3 Corporate Governance, Industry Competition and Firm Performance

The third objective was intended to determine the effect of industry competition on the relationship between corporate governance and firm performance. This was done by testing the third hypothesis which stated that industry competition moderates the

relationship between corporate governance and firm performance. Industry competition was measured along two dimensions; internal attributes and external attributes of competition derived from Porters five forces.

The results showed that when the interaction term was added the coefficient lost its significance ($\beta = 0.021$, $t = -0.278$, $p = >0.05$). The model therefore did not support moderation on non-financial performance. The results showed a coefficient of determination at $R^2 = 0.658$, $p<0.05$ on financial performance. This finding confirms that industry competition moderates the relationship between corporate governance and financial performance. The results therefore support the hypothesis that influence of corporate governance on financial performance is moderated by industry competition. The results did not support the hypothesis that the influence of corporate governance on non-financial performance is moderated by industry competition. Hypothesis three was, therefore, confirmed with financial performance but not met using non-financial performance.

The moderation effect of industry competition and performance is mixed. Owino (2014) in his study on 55 microfinance institutions in Kenya that were members of the Association of Microfinance Institution (AMFI) concluded that competition had no significant moderating influence on the relationship between organizational culture and non-financial performance of micro-finance institutions in Kenya. Ogaga (2015) concurs and notes that the manifestation of industry competition does not impact much significance influence between corporate strategy and performance of NSE listed companies. Wakaisuka (2017) in her study on 106 financial institutions in Uganda found no significant moderation effect of external environment on the relationship between corporate governance and firm performance. The moderating effect of competition on the relationship between corporate governance and performance can be grounded on the resource dependency theory. Resource dependence theory was initiated by Pfeffer (1972).

5.2.4 Corporate Governance, Strategy Implementation, Industry Competition and Firm Performance

The fourth and final objective was to establish whether the joint effect of strategy implementation and industry competition on firm performance was greater than the individual effect of corporate governance on performance. This was tested by the fourth hypothesis. The fourth hypothesis stated that the joint effect of corporate governance, strategy implementation and industry competition had a greater effect on firm performance than the individual effect of corporate governance on firm performance. The testing of the significance of the joint effect was important for the overall model and for the thesis of this study. There were no systematic studies that the researcher knows of that have tested the joint effect of corporate governance, strategy implementation and industry competition on the relationship between corporate governance and both non-financial and financial measures of performance.

Multiple regressions were run for both non-financial and financial measures of performance. The results show a coefficients of determination (R^2) of 0.685, $p<0.05$ and 0.535, $p<0.05$ on non-financial and financial measures respectively. Although the influence in the joint effect is not a discrete one, there was evidence to the effect that the three variables (corporate governance, strategy implementation and industry competition) combined increased the explained variation in firm performance and this was evidence that each had a contribution to firm performance. The hypothesis that the joint effect of corporate governance, strategy implementation and industry competition on firm performance is significantly greater than the influence of corporate governance and firm performance was confirmed. This implied that board operations and control, rights of shareholders and ethics and social responsibility aspects of corporate governance with able leadership that has talent to drive strategy in an attractive industry leads to improved performance in regards to customer satisfaction, cutting edge technology, a pool of ready C-Suit / GM level successors and quality Earnings Per Share (EPS) of NSE listed firms. The joint effect of strategy implementation and industry competition on the relationship between corporate governance and performance can be expounded using stakeholder theory. Stakeholder theory was founded by Freeman (1984) and explained that managers

reporting of information should not only target shareholders but other stakeholders as well. Therefore, within the stakeholder framework, the principle-agent relationship is extended to mean a relationship between managers and stakeholders. The finding indicated that the joint effect of corporate governance, strategy implementation and industry competition on firm performance was greater than the individual influence of corporate governance on firm performance. This indicates that selecting the corporate governance provisions that matter (BRE) together with appropriate strategy implementation driven by able leadership in an attractive industry environment improve firm performance in respect of customer satisfaction, cutting edge technology, a ready pool of C-Suit/GM- level successors and attractive EPS in NSE listed companies in Kenya.

5.3 Conclusion

In this final chapter of the thesis the results are summarized, conclusions drawn and recommendations offered in view of the research objectives. The chapter starts with a summary of general findings which is followed by major findings covering the four objectives and conceptual hypotheses. The chapter also presents the major conclusions derived from the summaries. Finally, a presentation is made of the main recommendations from the study, including the implication of the study on theory, policy and practice. The challenges and limitations that were encountered during the study are discussed and suggestions made for further studies.

Based on information from the annual reports and the CGI index constructed using the 42 dimensions of the 7 provisions of the Capital Markets Authority revised corporate governance guidelines for the Nairobi Securities Exchange listed companies attained an average score of 64.4%. The company with the lowest score on the constructed CG index had 11.11% while the highest had a score of 88.33%. 49% of the companies were in the low and lowest category of the CGI index representing half of all the companies listed on the Nairobi Securities Exchange.

The boards are predominantly male. 22.4% of the boards have no women while 22.4% have 3 women. Only 6.1% of the boards have more than 3 women. The average ages of the chair and CEO s of companies listed on the Nairobi Securities Exchange was 52% and 66 % respectively while 32.7% of CEOs are over the age of 61years. 77.6% of Chairpersons are aged over 61 years. 34% of all the directors have either a finance, accounting, economics, legal or engineering background. In addition about a third of all the directors have an MBA degree.

The first objective of the current study was to determine the relationship between corporate governance and firm performance. The results show a positive relationship between corporate governance and performance. The provisions that stood out as significant were board operations and control, rights of shareholders and ethics and social responsibility. Under board operations and control, fiduciary and leadership function proved to be most important dimension while, values underpinning good corporate governance was the most important dimension under ethics and social responsibility provision. Equal treatment of all shareholders stood out as the most important dimension under rights of shareholders provision.

The findings also revealed that the combined effect of corporate governance constructs had greater effect than individual predictor variables, supporting recent streams of literature that argue that different corporate governance provisions may appear ineffective if investigated singly, but may have a significant impact on outcomes in combination with other corporate governance provisions. Also use of multidimensional construct instead of a single variable in comparative research helps us avoid neglecting important functionally equivalent corporate governance mechanism across countries and not overlook contextual contingencies.

The results of this study indicate that the link between corporate governance and firm performance is mediated by strategy implementation. Able leadership with talent that drives initiatives to drive strategy implementation had the highest rating among the

dimensions of strategy implementation. This implies that a good strategy well implemented has enormous positive impact on a company's performance.

The third objective was to establish the moderating effect of industry competition on the relationship between corporate governance and firm performance. The results provided sufficient evidence to support the hypothesis that industry competition moderates the relationship between corporate governance and financial performance but did not support the moderating effect of industry competition on the relationship between corporate governance and non-financial performance. All the dimensions of competition were lowly rated, indicating that firms listed on the Nairobi Securities Exchange faced intense competition. This finding seems to confirm that results of competition are more visible with financial measures of performance than with non-financial measures of performance.

The fourth objective was to establish if the joint effect of corporate governance, strategy implementation and industry competition on firm performance had a greater influence than individual influence of corporate governance on firm performance. The findings revealed that the explanatory power of the joint effect was greater than individual effect on both the financial and non-financial measures of performance.

5.4 Implication for Theory, Policy and Practice

The current study confirms that there is evidence to support influence of corporate governance on financial and non-financial performance. It also supports the mediating effect of strategy implementation, and partially supports the moderating effect of industry competition on the relationship between corporate governance and firm performance. The results of the study therefore have implication for theory, practice and policy as discussed below.

5.4.1 Theoretical Implications

The findings of this study have several theoretical implications. Most importantly, this is the first study known to the researcher to investigate the relationship between corporate

governance and performance using the corporate governance index constructed from the Capital Markets Authority code of corporate governance for public listed companies in Kenya. This study, therefore, extends, as well, as contributes to the extant corporate governance literature by offering new evidence on compliance with, and disclosure of good corporate governance recommendations contained in the Revised 2014 Capital Markets Authority code of corporate governance practices for public listed companies in Kenya.

The study significantly supports views of agency theory, resource dependency theory, stakeholder theory and stewardship theory. Some differences were however observed as discussed below. The study findings indicate that corporate governance influences performance. This finding supports agency theory because it advocates for the establishment of corporate governance structures to improve performance (OECD, 1999). Corporate governance structures include codes of corporate governance which the Capital Markets Authority has adopted and which companies listed on the Nairobi Securities Exchange are meant to adhere to. The codes of good corporate governance are meant to deter self interest by managers.

Since out of the seven provisions of the code only three provisions were supported namely, board operations and control, rights of shareholders and ethics and social responsibility, this study suggests that the codes cannot be a one size fit all. This selective use of corporate governance provisions that matter supports the stewardship theory. The fundamentals of stewardship theory are based on social psychology, which focuses on the behaviour of executives. The steward's behaviour is pro-organizational and collectivists, and has higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis *et al*., 1997).

Based on the study findings, strategy implementation has a mediating effect on the relationship between corporate governance and performance. According to the resource

dependency theory, the directors bring resources, which include skills, to the company. The dimensions of strategy implementation used in this study supports resource dependency theory where skills in the form of leadership that drive initiatives to implement strategy had the highest mean score. A strategy well executed results to good performance. The converse is also true, that no matter how good a strategy is, if poorly executed it results to poor firm performance.

The other finding of the study supports the stakeholder theory. Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. The fact that the findings of this study support the hypothesis that industry competition moderates the relationship between corporate governance and financial performance, but did not support the moderating effect of industry competition on the relationship between corporate governance and non-financial performance appears contradictory. This apparent contradiction could be explained by the fact that different stakeholders impose different demands on an organization. This view is supported by Rodriguez, *et al.* (2002) who classified stakeholders into consubstantial, contractual and contextual stakeholders.

Consubstantial stakeholders are the stakeholders that are essential for the business's existence and include shareholders, investors, strategic partners and employees. Contractual stakeholders, as their name indicates, have some kind of a formal contract with the business and include financial institutions, suppliers, sub-contractors and customers. Lastly contextual stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities, which include public administration, local communities, countries and societies, knowledge and opinion makers. Consubstantial and contractual stakeholders would be closely associated with financial performance while contextual stakeholders would be closely associated with non-financial performance.

5.4.2 Policy Implications

Governance reforms is one of the foundations on which the Kenya Vision 2030 is anchored, and which, it is hoped, will support infrastructure development as one of the activities envisaged to support the economic pillar of Vision 2030. To actualize construction of these large infrastructure capital projects the government is promoting long term marketable securities which will be listed on the Nairobi Securities Exchange and encourage secondary trading to make the instruments liquid and therefore attractive to investors. Additionally more companies are being encouraged to list on the Nairobi Securities Exchange so as to use the capital markets to raise long term finance.

A study by Cyton (2016) noted that investors incurred losses equating to 264.3 billion shillings, mostly from companies listed on the Nairobi Securities Exchange as a result of isolated governance issues. According to *The Economic Survey* (2016), the NSE- 20 share index declined from 5,346 points to 4,040 points between the first quarter of 2015 and December 2015. The shares volume declined from 8,233 in 2014 to 6,812 in 2015 resulting to a corresponding drop in equity turnover from 216 billion shillings in 2014 to 209 billion shillings in 2015.

It is widely recognized as well as there being empirical evidence that corporate governance arrangements can significantly affect performance and many provisions have been suggested. But, which provisions among the many provisions play a key role in the link between corporate governance and performance? The Capital Markets Authority issued a revised code of corporate governance practices for public listed companies in Kenya with 7 provisions. Provisions that stood out as significant, both on financial as well on non-financial performance measures, were board operations and control, rights of shareholders and ethics and social responsibility (BRE) which are predominantly soft issues.

The provisions expected to significantly influence performance were the hard issues including accountability, risk management and internal audit, transparency and disclosure and supervision and enforcement are in line with the notion of viewing corporate governance as a system which encourages ticking the box and therefore encouraging short-termism. Stakeholder relations though a soft issue was surprisingly not among the three (BRE) that significantly influenced performance. This is probably due to the difficulty organizations have in categorizing stakeholders where one organization includes a certain group which the other organization totally ignores.

To move away from ticking the box mindset, the Capital Markets Authority should consider a total paradigm shift re-orienting the code towards results, value creation and long-term thinking. It would be important to know how implemented practices advance progress towards giving effect to each provision. For example, it should not be enough to state that an audit committee whose chair is a non-executive, independent director, is in place and stipulating the number of meetings the committees hold. Of more importance is the value that the audit committee contributes in ensuring integrity. With such assurance directors can sleep at night without worries. Likewise independence and diversity will not just be a function of the ratio of independent directors to total directors and the number of women on the boards respectively, but confirmation that the board is balanced so that it is able to objectively and effectively discharge its duties.

The Capital Markets Authority should also find ways of changing the policies of the scoring tool. The current policy advocates compliance of provisions that are process based and should be changed to one that captures results. Organizations should ensure their annual reports are well populated since these are the sources that governance auditors rely on to rate organizations on corporate governance compliance. Even if a company complies with a certain provision or attribute but it is not reported in the annual report a score of zero is awarded resulting to a low governance score. High scores will have a positive influence on the investment decisions of capital providers and other stakeholders. Detailed information of individual company's governance practices are

easily accessible due to advances in communication technology. Public scrutiny to businesses too has become increasingly more intense.

5.4.3 Implications for Practice

The driving force to adopt corporate governance is premised on the notion that good corporate governances leads to better firm performance. External forces that have caused the adoption of corporate governance by developing countries include market liberalization, globalization, strong foreign investors, privatization and recommendation on global world class practices by transnational such as the World Bank and OECD (Roberts, 2004). Since compliance with the codes of good corporate governance involves huge implementation costs, it is not unreasonable to expect benefits from compliance that take the form of improved firm performance and ultimately profitability (Aguilera, Filatotchev, Gospel & Jackson, 2008). Studies on the relationship between adopted codes of good corporate governance and performance have been mostly inconsistent because development of the codes is meant to address issues arising from specific countries.

For a code of good governance to be effective it must capture the socio-political and economic environment in which firms operate. This study used a corporate governance index constructed using the Capital Markets Authority's revised code of good corporate governance practices for public listed companies in Kenya. The findings will therefore be important to managers of companies, local fund managers, institutional investors and regulators by establishing which provisions among the many play a key role in the link between corporate governance and performance and separate them from those that merely calm investor's complaints.

The managers will have a better understanding of the variables that are important to performance while the fund managers and institutional investors will know which firms to include in their portfolios. Some codes of good corporate governance include some controversial and not so popular recommendations which are not followed by the

majority and which will be rejected in the future (Bebennroth, 2005). The regulators will therefore have a better understanding about the governance changes to press for including determining those that will be mandatory and those that will be voluntary.

5.5 Key Contribution of the Thesis

Firstly, the results supported resource dependence theory that suggests that directors bring along resources such as reputation, information, skills, key constituents that include, buyers and suppliers, social groups and public policy decision makers, needed to survive. Secondly, different from previous studies on strategy implementation, the current study focused on financial as well as non- financial measures of performance. Thirdly, the study established that industry competition had moderating effect on the relationship between corporate governance and financial performance. Fourthly, the study investigated whether the joint effect of strategy implementation, and industry competition on performance was greater than the individual effect of corporate governance on firm performance. The results of the study suggested that the combined effect of strategy implementation and industry competition was greater than individual influence of the predictor variables. The results implied that no organization is likely to outperform its rivals based on a single variable providing support for the resource dependence theory. There was no elaborate study identified that had studied similar variables, thus, the current study makes significant contribution to both theory and empirical findings.

5.6 Limitations of the Study

First, the study was based on the companies listed on the Nairobi Securities Exchange which may limit how easily the results can be generalized to organizations in other jurisdictions such as to companies in the developed and emerging economies. Further, generalizability of the results to smaller, non-listed companies, NGOs and state owned enterprises in Kenya may pose a challenge.

Secondly, the study integrated the seven provisions of corporate governance namely; board operations and control, rights of shareholders and ethics and social responsibilities stakeholder relations, accountability, risk management and internal audit, transparency and disclosure, and supervision and enforcement extracted from the Capital Markets Authority's revised code of corporate governance practices for public listed companies in Kenya. There exists, however, a host of other important governance provisions that may have important effect on financial and non-financial performance and are not included in this framework. Such omitted provisions include, the board of directors' characteristics, such as the size of the board, share ownership, frequency of board meetings and board remuneration, and other characteristics (such as age, education, gender and so on), which might also strongly influence the relationship between corporate governance and firm performance.

The limitations that are noted here do not however invalidate the research undertaken and its main findings. Barbie (1992) notes that scientific inquiry is a continuous quest. The goal is to understand certain circumstances that require continuous investigations and assessment of relationships. This research is just one step on this quest.

5.7 Recommendations for Future Research

This research was a first in integrating the Capital Markets Authority revised guidelines code of good corporate governance practices for public listed companies in Kenya in an empirical study. A future study at a different point in time would enable researchers to identify any changes that may have occurred since, to continuously assist the Capital Markets Authority update its regulations to what is most relevant. Farhrat (2014) found that corporate governance provisions are dynamic, with certain variables showing significant explanatory power at one time and ceasing to be significant at another time.

Further, the sample should be broadened to include State Owned Enterprises and non-listed firms to empirically test and recommend the governance provisions that are most appropriate. The Capital Markets Authority, the Nairobi Securities Exchange, the Central Bank of Kenya, the Non-Governmental Organizations (NGO) Council of Kenya and the

State Corporations Advisory Council (SCAC) should be persuaded to facilitate and get involved in the research and make it an annual activity so as to remain informed about the corporate governance behaviours of institutions under their supervision.

Future studies should consider use of dyads as the unit of analysis where information is collected from the chairman, the CEO and the corporation secretary. Such information is more reliable and allows collection of information across respondents.

Finally the study calls for multi-theoretic approach and since theories discourse the cause and consequences of variables (such as in this study strategy implementation and industry competition) but applied only four theories namely; agency, stewardship, resource dependence and stakeholder theories future studies should include other theories such as political theory, legitimacy theory and social contract theory.

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APPENDICES

Appendix 1: Companies Listed on the Nairobi Securities Exchange

AGRICULTURAL

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

AUTOMOBILS AND ACCESSORIES

8. Car and General (K) Ltd.
9. Sameer Africa Ltd.
10. Marshalls (EA) Ltd.

BANKING

11. Barclays Bank Ltd.
12. CFC Stanbic Holdings Ltd.
13. Diamond Trust Bank Kenya Ltd.
14. Equity Group Holdings Ltd.
15. HF Group Ltd.
16. I & M Holdings Ltd.
17. KCB Group Ltd.
18. NIC Bank Ltd.
19. National Bank of Kenya.
20. Standard Chartered Bank Ltd.

21. The Co-operative Bank Kenya Ltd.

COMMERCIAL SERVICES

22. Express Ltd.
23. Kenya Airways Ltd.
24. Nation Media Group.
25. TPS Eastern Africa (Serena) Ltd.
26. Scan Group Ltd.
27. Uchumi Supermarket Ltd.
28. Hutchings Biemer Ltd.
29. Longhorn Publishers Ltd.
30. Atlas Development and Support Services.
31. Deacons (East Africa) PLC.
32. Nairobi Business Ventures Ltd.

CONSTRUCTION AND ALLIED

33. Athi River Mining.
34. Bamburi Cement Ltd.
35. E. A Cables Ltd.
36. East Africa Portland Cement Ltd.

ENERGY AND PETROLEUM

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

INSURANCE

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

INVESTMENTS

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

INVESTMENT SERVICES

50. Nairobi Securities Exchange Ltd.

MANUFACTURING AND ALLIED

51. BOC Kenya Ltd.
52. British American Tobacco Kenya Ltd.
53. East African Breweries Ltd.
54. Mumias Sugar Co. Ltd.
55. Unga Group Ltd.
56. Eveready East Africa Ltd.
57. Kenya Orchards Ltd
58. Bauman Co. Ltd.
59. Flame Tree Group Holdings Ltd.

TELECOMMUNICATION AND TECHNLOGY

60. Safaricom Ltd.

REAL ESTATE INVESTMENT

61. Stanlib Fahari 1- REIT.

Source: Listed Companies (accessed 1March, 2017) retrieved from https://www.nse.co.ke/listed companies/list.html.

Appendix 2: Introductory Letter for Research: Doctoral Studies Office

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
DOCTORAL STUDIES PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

23rd September 2016

The CEO,
Capital Marketing Authority,
Embankment Plaza, 3rd floor,
Longonot Road, Upper Hill
P.O Box 74800-00200
Nairobi

RE: EDWARD NDWIGA KOBUTHI: D80/80481/2009

This is to certify that, **EDWARD NDWIGA KOBUTHI: D80/80481/2009** is a Ph.D candidate in the School of Business, University of Nairobi. The title of his study is:" **Corporate Governance, Strategy Implementation, Industry Competition and Performance of Companies Listed in the Nairobi Securities Exchange"**.

The purpose of this letter therefore, is to kindly request you to assist and facilitate in carrying out the research/study in your organization. Further, the candidate will need assistance to access the corporation secretaries of companies listed at Nairobi Securities Exchange. A questionnaire is here with attached for your kind consideration and necessary action.

Data and information obtained through this exercise will be used for academic purposes only. Hence, the respondents are requested not to indicate their names anywhere on the questionnaire.

We look forward to your consideration.

Graduate Studies Office
P.O. Box 30197
NAIROBI
Nairobi University School of Business

DR.MARY KINOTI
ASSOCIATION DEAN,
GRADUATE BUSINESS STUDIES
SCHOOL OF BUSINESS

MK/jkm

Appendix 3: Capital Markets Authority Request for Assistance to CEOs and Company Secretaries of Listed Companies

CAPITAL MARKETS AUTHORITY

Chief Executive's Office

Embankment Plaza 4th Floor,
Longonot Road, Upper Hill
P.O Box 74800 - 00200, Nairobi
Tel: +254 (20) 2264900, 2221910, 2221869
Email: ceoffice@cma.or.ke
Website: www.cma.or.ke

Our Ref: CMA/RES/1

October 5, 2016

To: **Chief Executive Officer, Listed Companies**
Company Secretaries, Listed Companies

Dear Sir/Madam

RE: REQUEST FOR ASSISTANCE TO EDWARD NDWIGA KOBUTHI IN DATA COLLECTION

The above matter refers.

Mr. Edward Ndwiga Kobuthi is a Ph.D. candidate in the School of Business, University of Nairobi undertaking a study on "*Corporate Governance, Strategy Implementation, Industry Competition and Performance of Companies Listed in the Nairobi Securities Exchange*."

He is currently carrying out data collection which requires that he engages with company secretaries of listed companies. Noting the relevance of the research to be undertaken the Authority kindly requests you to accord Mr. Kobuthi the necessary assistance in his research. The Authority confirms it will make available the final research report in its Resource Centre and online resource portal

Yours faithfully

Paul M. Muthaura
CHIEF EXECUTIVE

Appendix 4: Institute of Directors Request for Assistance from Company Secretaries of Listed Companies

INSTITUTE OF DIRECTORS KENYA

All Africa Conference of Churches, Waiyaki Way, Westlands
P.O. Box 13490-00800 Nairobi, Kenya
Tel: +254-020-2190131, 0703516285
Email: info@iodkenya.co.ke
www.iodkenya.co.ke

31st Oct 2016

Company Secretary
Total Kenya
P.O.Box 30736-00100
Nairobi, Kenya

Dear Sir/Madam,

RE: ASISTANCE TO EDWARD NDWIGA KOBUTHI IN DATA COLLECTION.

Mr Edward Ndwiga Kobuthi is a PhD candidate in the school of Business, University of Nairobi undertaking a research study titled **"Corporate Governance, Strategy Implementation, Industry Competition and Performance of Companies Listed in the Nairobi Securities Exchange"**. The study will add to the limited evidence available on corporate governance and performance in the Kenyan context and is therefore an area of great concern for captains of Kenyan organizations. The Institute of Directors believes that improved corporate governance practices will help strengthen businesses and boost economic growth in the country which makes this study very relevant to us.

He is currently carrying out data collection which requires that he engages Corporation Secretaries of listed companies and has sent to your organization hard copies of the research questionnaires. Noting the relevance of the research being undertaken the Institute of Directors kindly requests you to accord Mr Kobuthi the necessary assistance in his research. The Institute of Directors confirms it will make the final research report available in its online Resource Centre.

An acceptable and representative response rate is a major challenge of a study of this nature. In order to overcome this challenge could you please assist by forwarding this questionnaire to other strategic leaders in your organization? Should you wish to receive an electronic copy of the questionnaire, please send an electronic mail to;

ekobuthi70@gmail.com or Call 0721705453

All Africa Conference of Churches, Waiyaki Way, Westlands
P.O. Box 13490-00800 Nairobi, Kenya
Tel: +254-020-2190131, 0703516285
Email: info@iodkenya.co.ke
www.iodkenya.co.ke

Edward Kobuthi

P O Box 1236-00618

Nairobi

Or

Email: ekobuthi70@gmail.com

Or

Arrangements can be made for me to pick them up.

Sincerely,

Meshack Joram
Chief Executive Officer
Institute of Directors (Kenya)

Appendix 5: Researchers Introduction Letter

Dear Sir/ Madam,

RE: CORPORATE GOVERNANACE, STRATEGY IMPLEMENTATION, INDUSTRY COMPETITION AND PERFORMANCE OF COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE.

This should be an area of great concern for captains of contemporary organizations. Research has identified governance and specifically corporate governance as one of the key drivers of performance. Research also reveals that two thirds of investors are willing to pay more for shares of companies that have good governance practices. As a strategic leader of one of the identified organizations of the study you are kindly invited to complete the attached questionnaire which will take approximately 15 minutes of your time.

The success of this study depends largely on your cooperation and it will be appreciated if you could complete and return the attached questionnaire on or before October 25, 2016.

An acceptable and representative response rate is a major challenge of a study of this nature. In order to overcome this challenge could you please assist by forwarding this questionnaire to other strategic leaders in your organization?

Should you wish to receive an electronic copy of the questionnaire, please send an electronic mail to:

ekobuthi70@gmail.com

All the information provided will be treated confidentially and under no circumstance will this information be made public or used for any other purpose than for this research.

A copy of the research findings and recommendations will be available if you need it at no cost and without any obligations whatsoever.

Completed questionnaires can be sent to

Edward Kobuthi

Postal Address: P O Box 1236-00618

Nairobi

Or

Email: ekobuthi70@gmail.com

Or arrangements can be made for me to pick them up.

If you have any queries or questions please do not hesitate to contact me on 0721705453

Thank you very much for your cooperation

--- ---

Edward Ndwiga Kobuthi Prof Peter. O. K'obonyo, PhD

PhD Candidate Supervisor

PLEASE TURN OVER TO COMPLETE THE QUESTIONNIRE. IT WILL TAKE APPROXIMATELLY 15 MINUTES OF YOUR TIME. THE QUESTIONNAIRE HAS FIVE SECTIONS.

Appendix 6: Questionnaire

SECTION ONE: GENERAL INFORMATION

This section deals with information pertaining to yourself and your organization. Please be assured that this information is **CONFIDENTIAL** and will only be used to compare groups of respondents.

I RESPONDENTS' INFORMATION

1) Title/designation……………..……………………………………………………………..

2) Which one of the following BEST describes your highest level of qualifications?

Doctorate or PhD	[ ]
Masters Degree	[ ]
Post Graduate Diploma	[ ]
Bachelors Degree	[ ]
Diploma	[ ]
O-level/ A-Level	[ ]

3) Number of years completed working in this organization.

Less than 10	[ ]
11-15	[ ]
16-20	[ ]
21-25	[ ]
26-30	[ ]
Over 31	[ ]

II ORGANIZATION INFORMANTION

1) Name of your organization…………………………………………………

2) Number of years organization has been in existent……………………..

3) In what year was the organization listed in the Nairobi Securities Exchange ---------------

4) Which one BEST describes the ownership structure of your organization.

    a. Fully locally owned [ ]

b. Fully foreign owned [ ]
c. Both local and foreign owned [ ]

If both local and foreign what is the % of ownership: Local ………………………… and Foreign…………………………..

III SECTOR

Which one of the following BEST describes the sector of the economy your organization is in?

i) Agriculture [ ]
ii) Automobile and Accessories [ ]
iii) Banking [ ]
iv) Commercial and Services [ ]
v) Construction and Allied [ ]
vi) Energy and Petroleum [ ]
vii) Insurance [ ]
viii) Investment [ ]
ix) Investment Services [ ]
x) Manufacturing and Allied [ ]
xi) Telecommunication and Technology [ ]

IV BOARD DEMOGRAPHICS

a) How many board members does your organization have?

i) 7 and below [ ]
ii) 8-10 [ ]
iii) 11-12 [ ]
iv) 13-14 [ ]
v) 15 and over [ ]

b) Please indicate the one that BEST describes the number of women in the board including the CEO if role is held by a woman.

i) No women [ ]
ii) 1 Woman [ ]
iii) 2 women [ ]
iv) 3 women [ ]

v) More than 3 women [ ]

c) How many current board members have attended the Director training [ ]

SECTION TWO: CORPORATE GOVERNANCE

Please rate the following statements by indicating the extent to which they represent your organization using the scale where 1= not at all, 2= to a small extent, 3= to a moderate extent, 4= to a large extent and 5= to a very large extent

A	**Board Operations and Control**	1	2	3	4	5
A1	Evaluation of the board's performance, the chairman, the CEO, individual board members, and secretary is effective.					
A2	Board strategy on compliance with laws, regulation and standards is effective.					
A3	The annual governance audit is effective					
A4	The board has appropriate balance of skills.					
A5	The role and responsibilities of the board are clear in discharging their fiduciary and leadership functions.					
A6	Functions and separation of the roles of the board and management are very clear.					
A7	The board gets relevant, accurate, complete and timely information from management.					
A8	The code of ethics and conduct is complied with.					
B	**Rights of Shareholders**					
B1	The Board ensures that equal treatment of all shareholders is effective					
B2	Institutional investors deal with my company in a transparent, honest and fair manner.					
B3	Board's dissemination of information to the media is timely.					
B4	The Board proactively engages the media on dissemination of important company information and issues relating to good corporate governance in order to protect investors.					
B5	Institutional investors are particularly encouraged to make direct contact with the Company's Management and Board to discuss performance and corporate governance matters as well as vote during the Annual General Meetings of the Company.					
C	**Stakeholder Relations**					
C1	The Board identifies all its stakeholders, and maps out areas of interaction with such stakeholders.					

A	**Board Operations and Control**	1	2	3	4	5
C2	The Board has stakeholder-inclusive approach in its practice of good corporate governance.					
C3	The Board identifies mechanisms and processes that support constructive engagement with stakeholders so as to promote enhanced levels of corporate governance.					
C4	The Board takes into account the interests of all key stakeholder groups before making its major decisions.					
C5	The Board proactively supplies relevant information to stakeholders.					
C6	An effective whistle blowing mechanism is in place that encourages stakeholders bring out information helpful in enforcing good corporate governance practices.					
D	**Ethics and Social Responsibilities**					
D1	Board's deliberations, decisions and actions are founded on core values underpinning good governance.					
D2	Implementation of the code of conduct and ethics is effective.					
D3	The company is highly regarded in the industry for its corporate social responsibility activities and has gained popularity amongst stakeholders from its charitable foundations.					
D4	Policy on employment from minorities has received wide recognition in the country.					
D5	The company is a good corporate citizen and maintains a balance between economic, social and environmental value.					
E	**Accountability, Risk Management and Internal Audit**					
E1	The Board takes full responsibility for the accuracy of the financial statements.					
E2	A formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each Annual General Meeting is in place.					
E3	Internal control systems and risk management are adequate and robust.					
E4	There exists a structure that independently verifies and safeguards the integrity of financial reporting.					
E5	The board charter clearly delineates the role of the board indicating the steps to be taken to achieve good internal control position.					
E6	The internal audit has the necessary authority to carry out its function.					
F	**Transparency and Disclosure**					
F1	The Board discloses full information regarding the					

A	**Board Operations and Control**	1	2	3	4	5
	existence of an Audit Committee, the members, their qualifications, independence or lack thereof and the mandate of such committee.					
F2	The Board discloses in its annual report whether independent and non-executive directors constitute one third of the Board and if it satisfies the representation of the minority shareholders.					
F3	The Board ensures that the annual report includes a statement on the Company's vision, mission values and strategic objectives and how these influence Board and Management behaviour towards maximization of shareholder value.					
F4	A clear summary of the evaluation exercise of the Board, the Chairperson, the CEO and Company Secretary is which is published in the annual report and financial statements of the Company is prepared.					
F5	The Board has complied with the International Financial Reporting Standards (IFRS) in preparing their financial statements and any deviation from these financial standards is disclosed.					
F6	The Board has in place structures to prevent insider dealings by its directors and management and discloses all insider dealings that come to its attention.					
F7	The Board includes in its annual report a clear statement on compliance with good corporate governance and indicates aspects of this Code which have not been applied, the reasons thereof, indicative timelines and proposed strategies towards application.					
F8	Governance structures which include governance structure including the composition and size of the Board, the committees of the Board, Management and their mandate are clearly reported in the annual report.					
F9	The Company's Whistle Blowing Policy on its annual report and website are available and clearly displayed.					
F10	The Boards disclosure in its annual report, its policies for remuneration including incentives for the Board and senior management is detailed and clearly understood.					
G	**Supervision and Enforcement**					
G1	The board applies all the principles and recommendations on the CMA Code 2014 or explained those not applied and the steps taken towards their application.					
G2	The company has to a large extent implemented the code of good corporate governance.					

Adopted from CMA (2014). Draft code of corporate governance practices for public listed companies in Kenya.

SECTION THREE: STRATEGY IMPLEMENATTION

I: OPERATIONALIZATION OF STRATEGY

Operationalization of strategy requires breaking of long term objectives to short term objectives, developing specific functional and departmental strategies, developing policies, establishing procedures and assigning a supportive budget**.** Please rate the following statements by indicating the extent to which they represent your organization using the scale where 1= not at all, 2= to a small extent, 3= to a moderate extent, 4= to a large extent and 5= to a very large extent

I	**Operationalization of Strategy**	1	2	3	4	5
I1	We have policies that adequately guide decision making established programmes and procedures of how things are done.					
I2	All departments and corporate units make their contribution to strategy Implementation.					
I3	All departments and corporate units have short term objectives.					
I4	Strategy development is combined with resources allocation that adequately supports the activities.					
I5	Strategy implementation uses a metric system that includes regular reviews, financial and non-financial data.					

Source: Adopted from Thompson and Strickland (2003). *Strategic management: Concepts and cases*.

J: INSTITUTIONALIZATION OF STRATEGY

Institutionalization of strategy implementation requires able leadership, resources and staff with the right skills who are equally rewarded and a culture that supports the strategy. Please rate the following statements by indicating the extent to which they represent your organization using the scale where 1= not at all, 2= to a small extent, 3= to a moderate extent, 4= to a large extent and 5= to a very large extent

J	**Institutionalization of Strategy**	1	2	3	4	5
J1	Able leadership with talent that drives initiative to implement strategy is demonstrated.					

J2	Staff with the right skills are deployed to implement high priority strategic initiatives.					
J3	A culture that is aligned with the strategy of the organization is in functional.					
J4	We have in place an organizational structure that enable employees to effectively execute their strategic roles.					
J5	The organization has aligned rewards and incentives with the achievements of individual and organizational objectives.					

Source: Adopted from Thompson and Strickland (2003). *Strategic management: Concepts and cases*.

SECTION FOUR: INDUSTRY COMPETITION

Researchers have identified 5 challenges posed by industry competition. In your experience how big a challenge is each of the following for your company by indicating the extent to which they represent your organization using the scale where 1=strongly agree, 2= agree, 3=neutral 4= disagree 5= strongly disagree

K: INDUSTRY COMPETITION

K	**Industry Competition**	1	2	3	4	5
K1	We lose customers easily to competition (Rivalry).					
K2	Entering our market is easy (New Entrants).					
K3	Our prices are dictated by our customers to a large extent (Buyer Power).					
K4	We find it difficult to get our supplies (Supplier Power).					
K5	There are easily available substitutes for our products or services (Substitutes).					

Source: Adopted from Porter (1979). *Competitive advantage: Creating and sustaining superior performance.*

SECTION FIVE: FIRM PERFORMANCE MEASURES NON- FINANCIAL MEASURES

L: CUSTOMER SATISFACTION

Customer Satisfaction leads to customer loyalty which influences a customer's future intentions which has a big bearing on profitability. Core service quality, relational quality and perceived value have a bearing on customer satisfaction. Based on your knowledge of the organization please indicate the extent to which you rate the following statements by indicating the extent to which they represent your organization using the scale where 1= very low, 2= low, 3= moderate, 4= high and 5= very high

L	Customer Satisfaction					
		1	2	3	4	5
L1	Rate your customers perception of the quality of the products or service you offer (Core Service Quality)					
L2	Rate your customers' perception of how well your organization relates with them (Relational Quality).					
L3	Rate your customers' perception of value for money of your products or services (Perceived Value).					

Source: Researcher (2016).

M: INTERNAL BUSINESS PROCESSES

Please indicate the extent to which you rate the following statements concerning your processes where 1= very low, 2= low, 3= neutral, 4= high, 5= very high

M	**Internal Business Processes**	1	2	3	4	5
M1	My organization has structures that frequently discuss creativity and innovation resulting in high levels of new products / services development.					
M2	My organization has developed processes that have increased customer value through reduced cycle times / unit time/ increased yield/ improved quality.					
M3	My organization has installed leading cutting edge technology to ensure continued market leadership.					

Source: Researcher (2016).

N: LEARNING AND GROWTH- DEVELOPMENT

Please indicate the extent to which you rate the following statements concerning your processes where 1= very low, 2= low, 3= neutral, 4= high, 5= very high

N	**Learning and Growth- Development**	1	2	3	4	5
N1	A reasonable budget is placed to the training and development activities.					
N2	Our company is keen on training and developing employees on key competencies.					
N3	Our organization attracts sufficient number of qualified candidates and only the best are selected for the job.					

Source: Researcher (2016).

O: LEARNING AND GROWTH- SUCCESION PLANNING

Please indicate the extent to which you rate the following statements concerning your processes where 1= very low, 2= low, 3= neutral, 4= high, 5= very high. An additional space is provided If not applicable tick N/A

	O - Learning and Growth- Succession Planning	1	2	3	4	5	N/A
O1	Your organization has a robust succession policy in place.						
O2	Your organization is grooming a specific individual and preparing them to succeed the current CEO.						
O3	The board is actively involved in succession planning.						
O4	There is an adequate pool of ready successor candidates for the C-Suit/ GM positions.						
O5	Most key positions have been filed by internally groomed candidates in the last three years.						

Source: Researcher (2016).

Appendix 7: The Corporate Governance Index (CGI) Tools

Internal Corporate Governance Variable	Code	Measurement
Board Operations and Control **Board Structure**		
Role duality.	DUAL1	A binary number of 1 if the roles of CEO are split, 0 if otherwise.
Board composition.	COM1	A binary number of 1 if a majority of a firms board are non-executive, 0 if otherwise.
Board chairperson.	BCP	A binary number of 1 if the chair is an independent non- executive director, 0 if otherwise.
Disclosure of director classification.	DDC	A binary number of 1 if a clear narrative that classifies directors into executive, non-executive and non- executive directors is disclosed, 0 if otherwise.
Disclosure of director's biography.	DDB	A binary number of 1 if a narrative on current directors standing for re- elections, brief curriculum vitae including name, age, gender, qualifications, experience, responsibilities and status is disclosed in the annual report, 0 if otherwise.
Office of the corporation secretary	CORPSEC	A binary number of 1 if a narrative on the existence of a strong and supportive office of a corporation secretary, which ensures effective functioning of the board including induction sessions for new or inexperienced directors, facilitating the taking of free independent professional advice and assisting the MD / Chair in convening meetings is disclosed , 0 if otherwise.
Internal subcommittees nomination.	NCOM1	A binary number of 1 if the firm has a nomination committee, 0 if otherwise. If the remit of this committee includes ensuring compliance with corporate rules and regulations or governance rules, then such a committee will be deemed to have been duly set-up.
Composition.	COMP1	A binary number of 1 if this committee is composed of majority independent non-executive directors, 0 if otherwise.

Internal Corporate Governance Variable	Code	Measurement
Chairperson.	NCCP	A binary number of 1 if the chairperson is an independent non- executive directors, 0 if otherwise.
Disclosure of membership.	DM1	A binary number of 1 if the membership of the committee is disclosed, 0 if otherwise.
Directors attending committee meetings.	NDACM1	A binary number of 1 if a firm's board of directors meetings attendance is disclosed in the firm's annual report, 0 if otherwise.
Finance, investment and governance committee.	FIGC1	A binary number of 1 if the firm has a Finance, Investment and Governance Committee, 0 if otherwise.
Composition.	COM2	A binary number of 1 if this committee is composed of majority independent non-executive directors, 0 if otherwise.
Disclosure of membership	DM2	A binary number of 1 if the membership of the committee is disclosed, 0 if otherwise.
Audit and Risk committee	ARC1	A binary number of 1 if the firm has an Audit and Risk committee, 0 otherwise.
Composition.	COM3	A binary number of 1 if this committee is composed of majority independent non-executive directors, 0 otherwise.
Chairperson.	ARCP	A binary number of 1 if the chairperson is an independent non- executive directors, 0 otherwise.
Disclosure of membership.	DM3	A binary number of 1 if the membership of the committee is disclosed, 0 if otherwise.
Remuneration Existence.	RCOM1	A binary number of 1 if the firm has a Remuneration Committee, 0 if otherwise.
Composition.	COM4	A binary number of 1 if this committee is composed of only independent non-executive directors, 0 otherwise.
Chairperson.	RCCP	A binary number of 1 if the chairperson is an independent non- executive directors, 0 if otherwise.
Disclosure of membership.	DM4	A binary number of 1 if the membership of the

Internal Corporate Governance Variable	Code	Measurement
		committee is disclosed, 0 otherwise
Disclosure of individual members meetings attendance.	IRCMMA	A binary number of 1 if a record of individual members attendance of meetings is disclosed , 0 if otherwise.
Disclosure of directors' remuneration, interest and share option.	DDR	A binary number of 1 if firms directors' remuneration, interest and shares option are disclosed, 0 if otherwise.
Disclosure of directors remuneration philosophy-	DDRP	A binary number of 1 if the performance related elements of executive directors remuneration such as share options and bonuses do constitute substantial portion of total package in order to align their interest with shareholders, and this supported by a narrative on specific procedure and the underpinning philosophy in a firm's annual report, 0 if otherwise.
Director access to free independent professional/ legal advice. Director / subcommittee access to free professional independent advice.	DAFIPA	A binary number of 1 if a firm has a narrative on the existence of a formal procedure, which allows directors/ subcommittees to seek independent professional legal advice on any matters affecting the firm, when they deem necessary at the firms expense is disclosed , 0 if otherwise.
Board statement on going-Concern Status of the firm.	NGC	A binary number of 1 if clear narrative by the directors of a firm on the possibility of the firm operating as a going concern is disclosed, 0 if otherwise.
Performance		
Individual directors attendance	IDMA	A binary number of 1 if a firms board of directors meetings attendance is disclosed in the firm's annual report, 0 if otherwise
Evaluation of Chairperson and effectiveness.	ECPE	A binary number of 1 if a narrative on the evaluation of chairpersons performance and effectiveness is disclosed , 0 if otherwise.
Appraisal of CEO performance and effectiveness.	ACEOP	A binary number of 1 if a narrative on the evaluation of CEOs performance and effectiveness is disclosed, 0 if otherwise.
Evaluation of Board performance and effectiveness.	EBPE	A binary number of 1 if a narrative on the evaluation of the performance and effectiveness of the board as a whole is disclosed, 0 if otherwise.
Evaluation of Board subcommittee's performance	EBCPE	A binary number of 1 if a narrative on the evaluation of the performance and

Internal Corporate Governance Variable	Code	Measurement
and effectiveness.		effectiveness of the board subcommittees is disclosed, 0 if otherwise.
Appraisal of Corporation Secretary's performance and effectiveness.	ACEPE	A binary number of 1 if a narrative on the evaluation of Corporation Secretary's performance and effectiveness is disclosed, 0 if otherwise.
B. Rights of Shareholder		
Policy encouraging shareholder participation.	PESP	A binary number of 1 if a firm provides a narrative on how it is encouraging shareholder participation such as having investor relations department, proxy voting, encouraging. shareholder attendance, 0 if otherwise.
C. Stakeholder relations		
Policy to manage stakeholders.	PMS	A binary number of 1 if firm provides a narrative on how it encourages stakeholder participation and takes cognizance of stakeholders governance policies and procedures, 0 if otherwise.
D. Ethics and Social Responsibility		
Code of Ethics and Conduct	CEC	A binary of 1 if a firm has a narrative on the existence of a code of ethics and conduct and its adherence, 0 if otherwise.
Policy on corporate citizenship.	PCC	A binary of 1 if a firm has a narrative on the existence of a policy on corporate citizenship and its implementation, 0 if otherwise.
Triple bottom line.	TBL	A binary of 1 if a firm has a narrative reporting in addition to financial performance include social and environmental performance, 0 if otherwise.
Board diversity on the basis of gender.	BDIVG	A binary of 1 if the board constitutes 1/3 of either gender, 0 if otherwise.
E. Accountability, risk management and Internal Control		
Disclosure of company risks	DCR	A binary number of 1 if a firm provides a narrative on both actual and potential future non-systematic (Firm specific) risks as well as systematic (economy wide), 0 if otherwise.

Internal Corporate Governance Variable	Code	Measurement
Disclosure of risk policy.	DRP	A binary of 1 if a firm provides a narrative on how current and future assessed risks will be managed, 0 if otherwise.
Disclosure policy on internal control systems.	DPI	A binary of 1 if a firm provides a narrative on existing internal control systems including internal audit, 0 if otherwise.
Risk management committee.	RISKCOM1	A binary number of 1 if a firm has a risk management committee dedicated to assisting the board in reviewing the risk management process and the significant risks that it is facing, 0 if otherwise.
F. Transparency and Disclosure		
Policies on disclosure.	POD	A binary number of 1 if a firm provides a narrative on policy and procedure of disclosure and its adherence, 0 if otherwise.
G. Supervision and Enforcements		
Status of compliance of good corporate governance.	SCGCG	A binary number of 1 if firm provides a narrative of good corporate governance and compliance and status of compliance, 0 if otherwise.

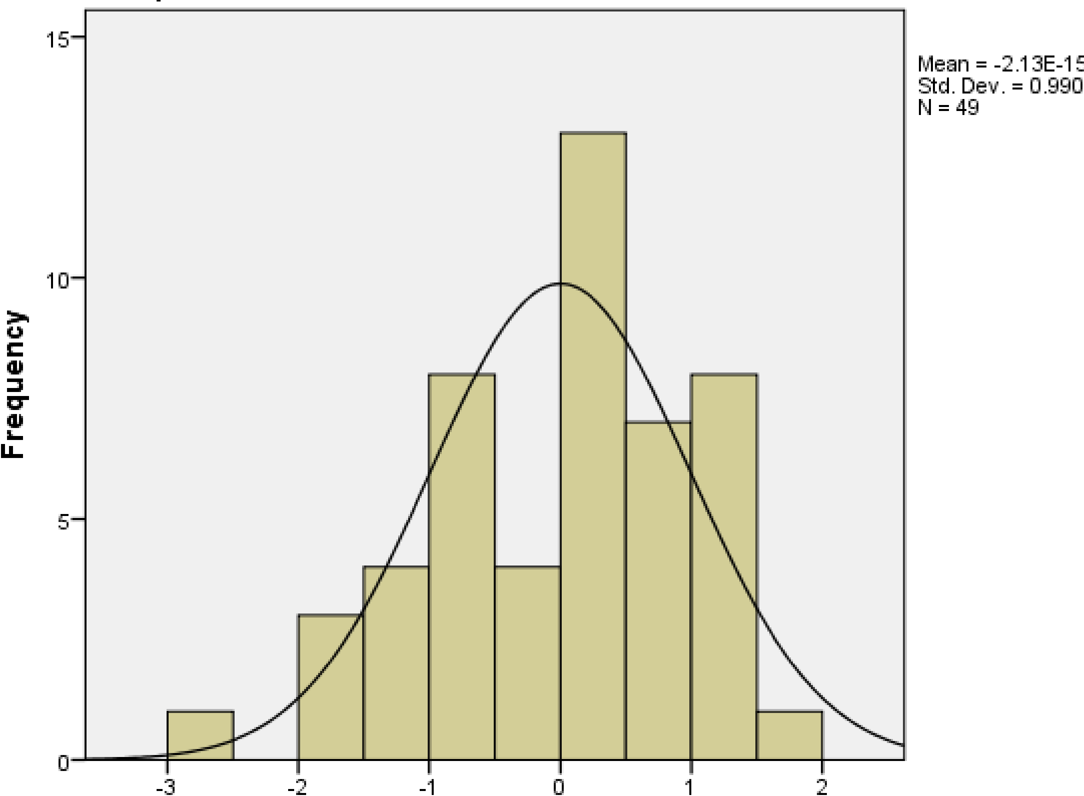
Adapted from Gyakari (2009). Internal corporate governance structures and firm financial performance: Evidence from South Africa listed firms (Unpublished PhD Thesis). University of Glasgow, Glasgow.

Appendix 8: Scores of the Corporate Governance Index of NSE Listed Companies using the 2015 Annual Reports.

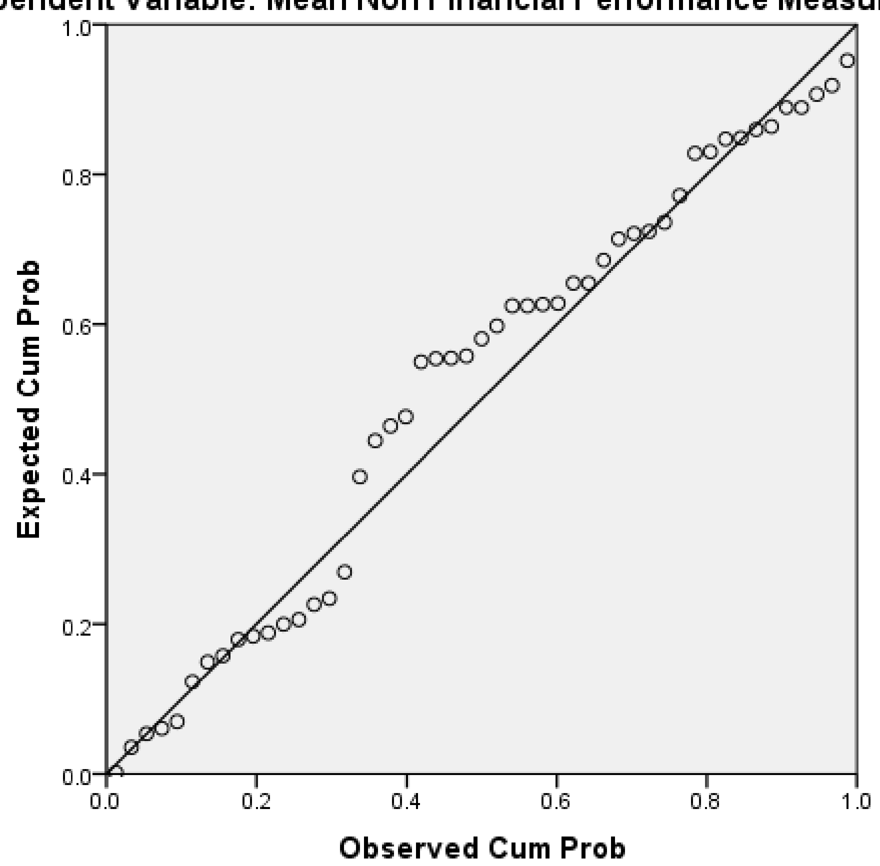
Company Code	CGI Score
1	43.89
2	76.11
3	43.89
4	51.67
5	86.11
6	81.11
7	50.00
8	65.00
9	72.22
10	67.22
11	32.22
12	82.22
13	57.78
14	80.56
15	86.11
16	69.44
17	61.67
18	81.67
19	43.89
20	56.11
21	63.89
22	48.33
23	88.33
24	88.33
25	59.44
26	66.11
27	71.67

28	71.11
29	63.89
30	71.11
31	76.11
32	11.11
33	67.78
34	65.56
35	86.67
36	36.11
37	56.11
38	65.00
39	83.89
40	42.22
41	85.00
42	37.78
43	71.11
44	86.67
45	75.56
46	28.89
47	86.11
48	44.44
49	68.33

Appendix 9a: Histogram of Non-Financial Performance and Corporate Governance

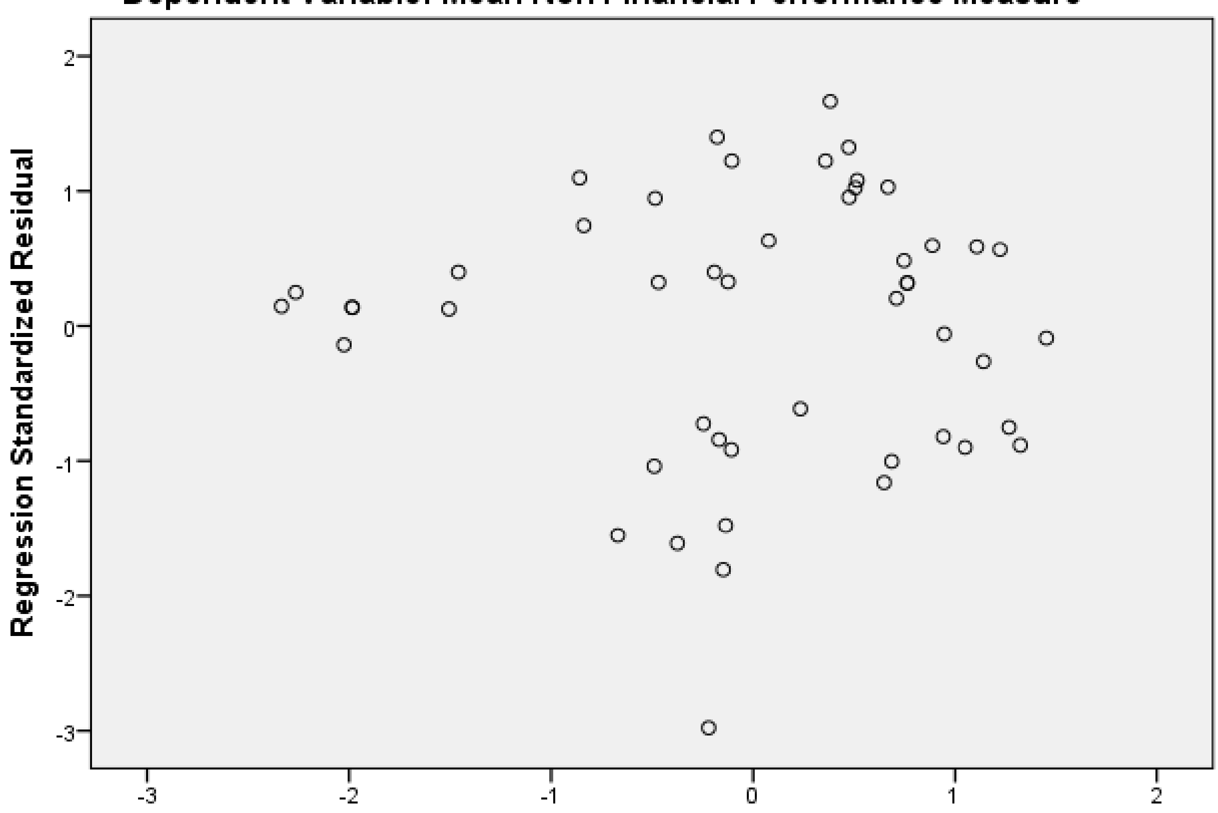


Appendix 9b: PP Plot of Non-Financial Performance and Corporate Governance

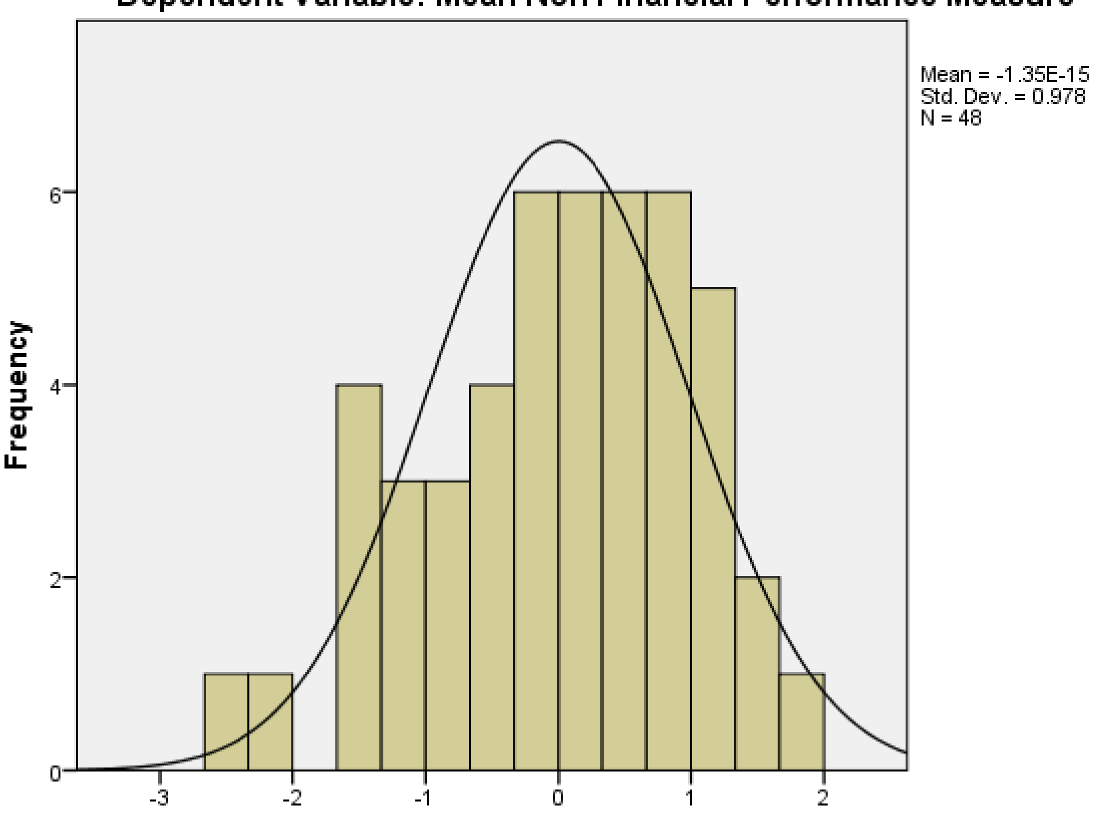


Appendix 9c: Scatter Plot Non-Financial Performance and Corporate Governance

Scatterplot

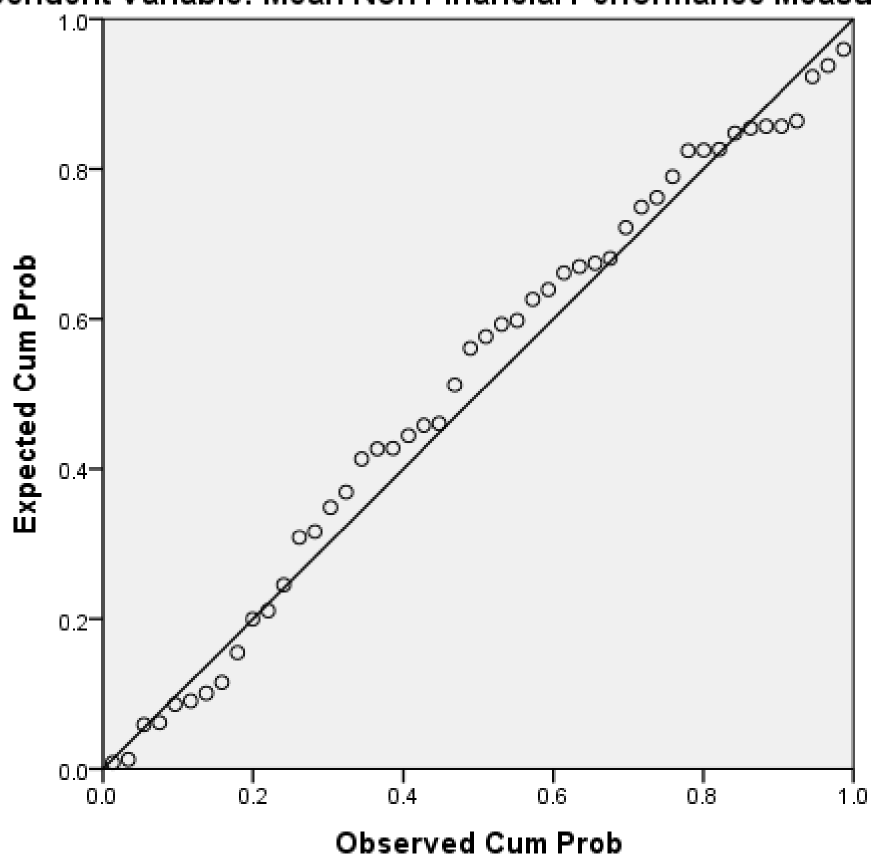


Appendix 10a: Histogram of Mediating effect of Strategy Implementation on the Relationship between Corporate Governance and Non- Financial Performance

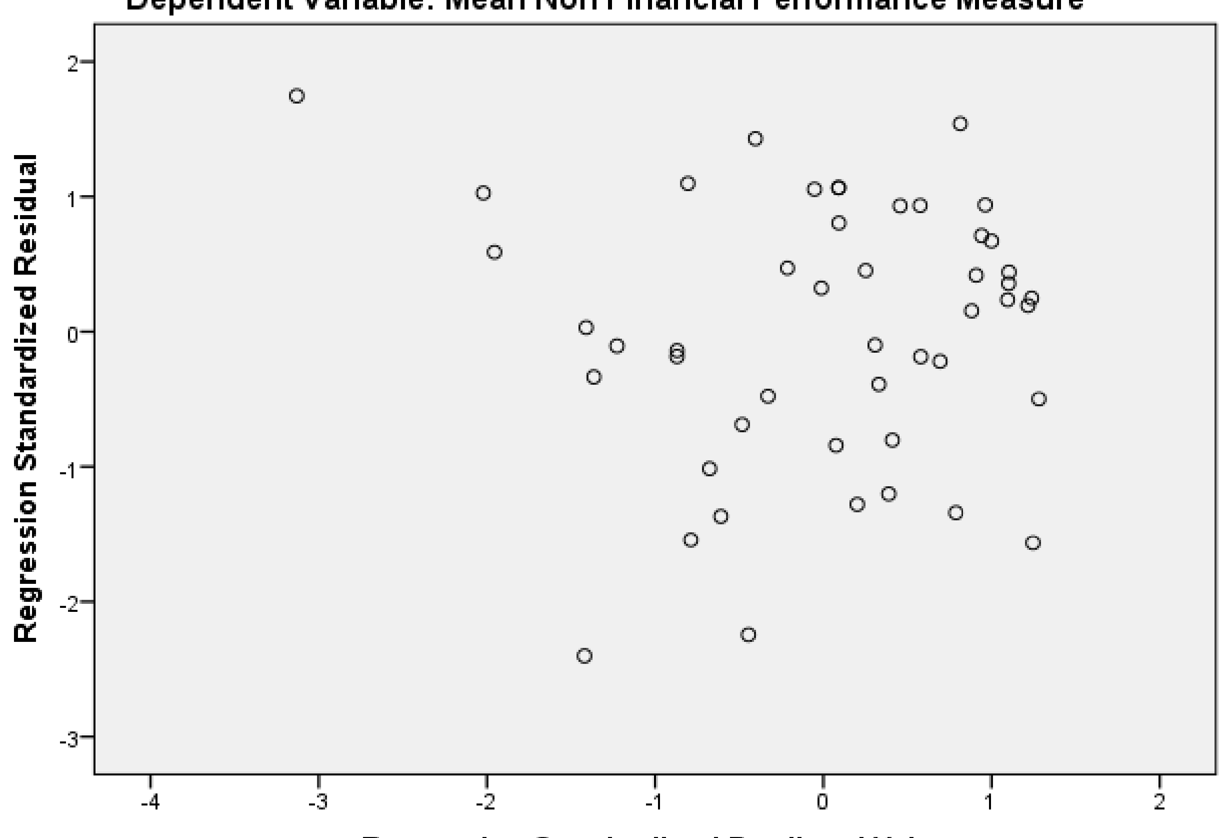


Appendix 10b: PP Plots of Mediating Effect of Strategy Implementation on the Relationship between Corporate Governance and Non- Financial Performance

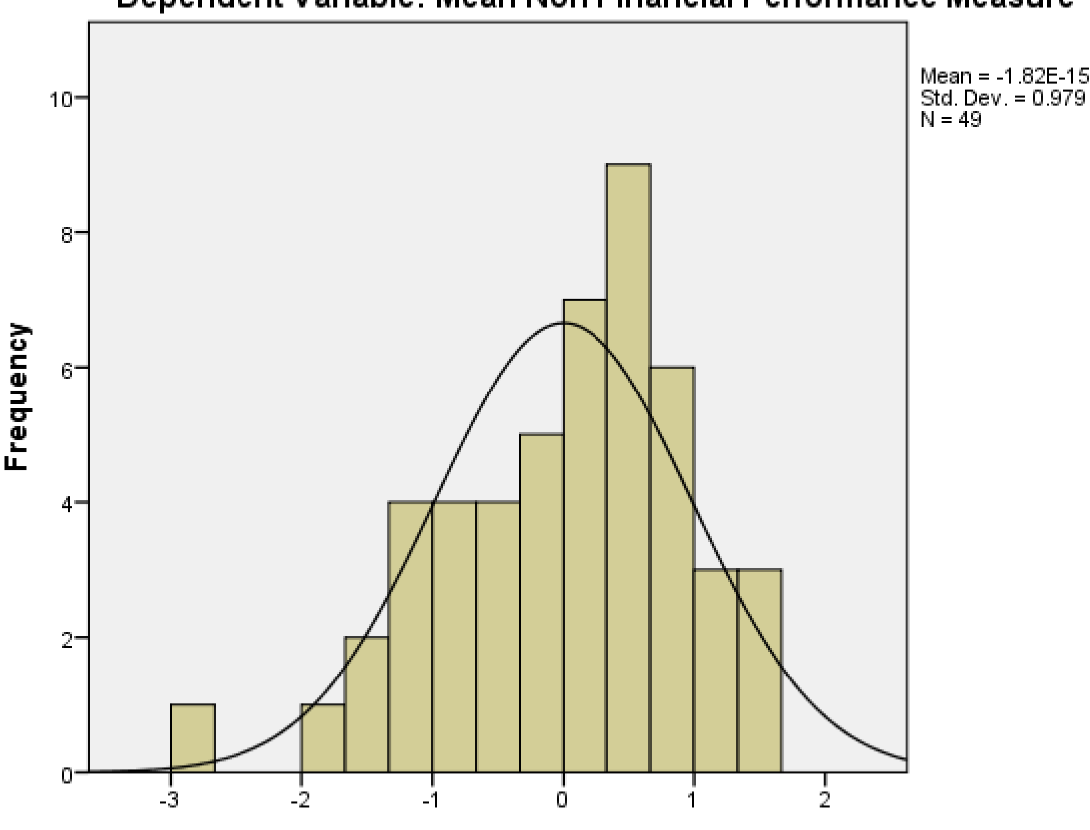
Normal P-P Plot of Regression Standardized Residual



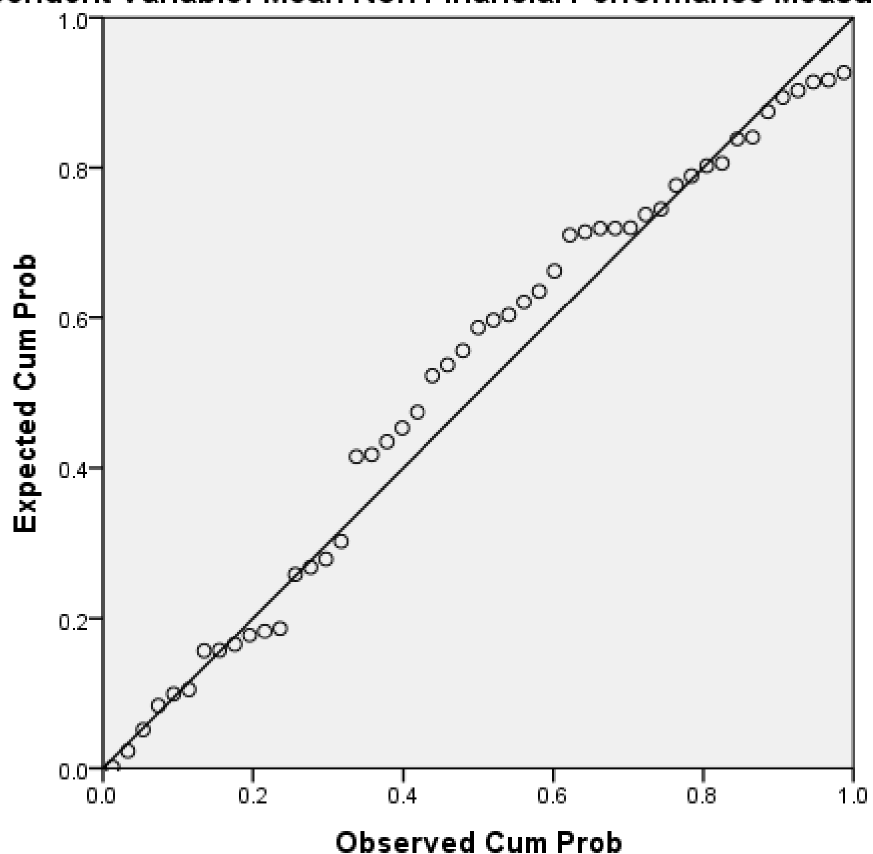
Appendix 10c: Scatter Plots of the Mediating Effect of Strategy Implementation on the Relationship between Corporate Governance and Performance



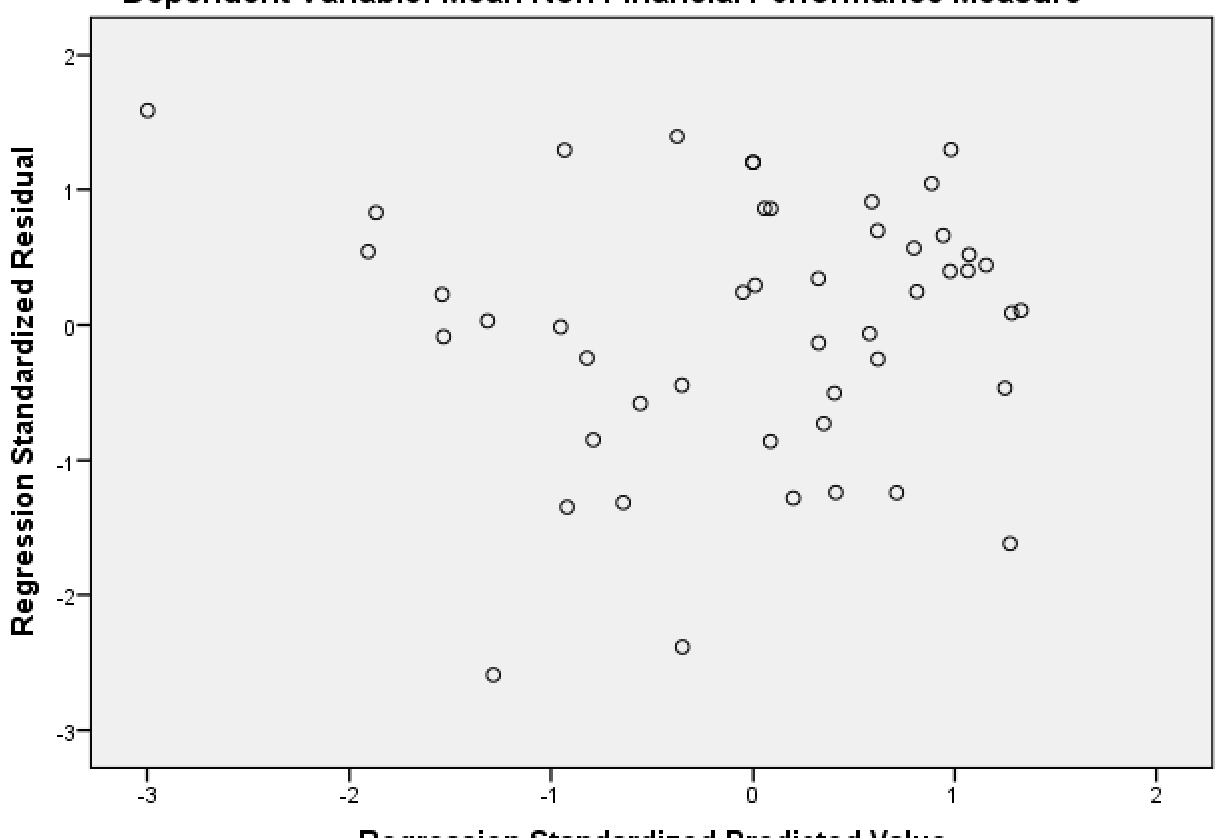
Appendix 11a: Histogram of the Moderating Effect of Industry Competition on the Relationship between Corporate Governance and Performance



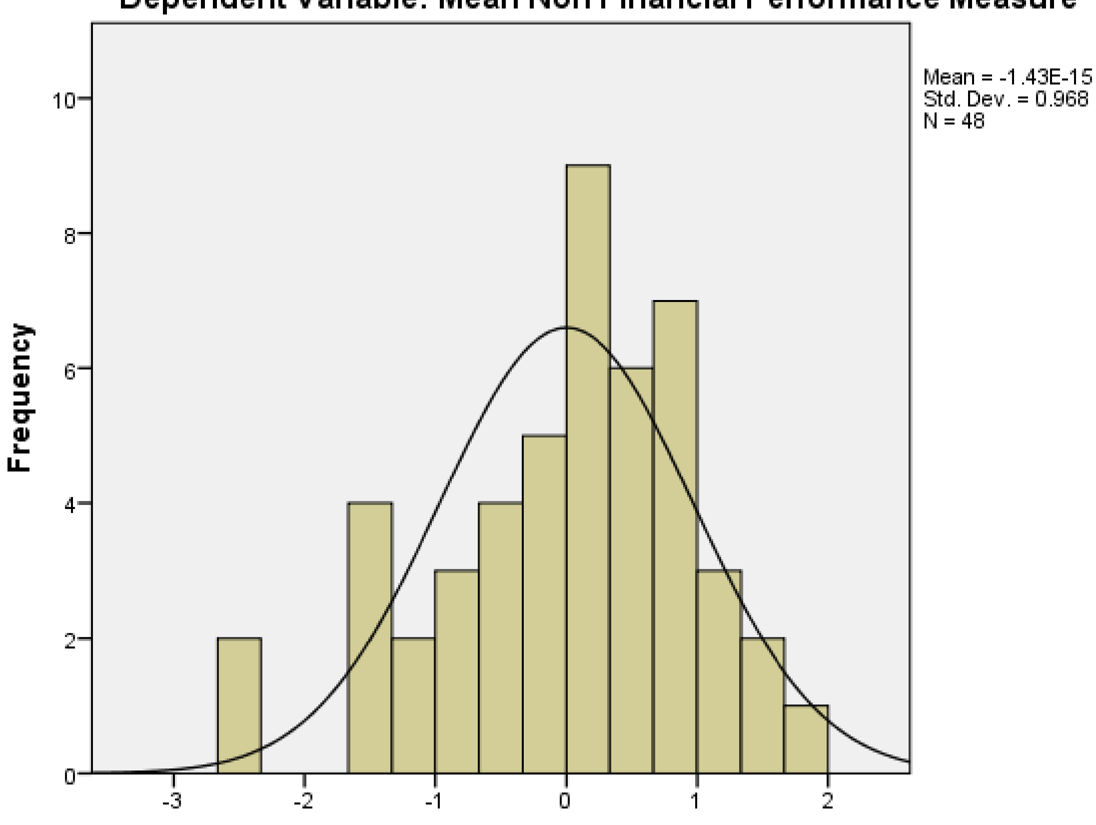
Appendix 11b: PP Plots of the Moderating Effect of Industry Competition on the Relationship between Corporate Governance and Non- Financial Performance



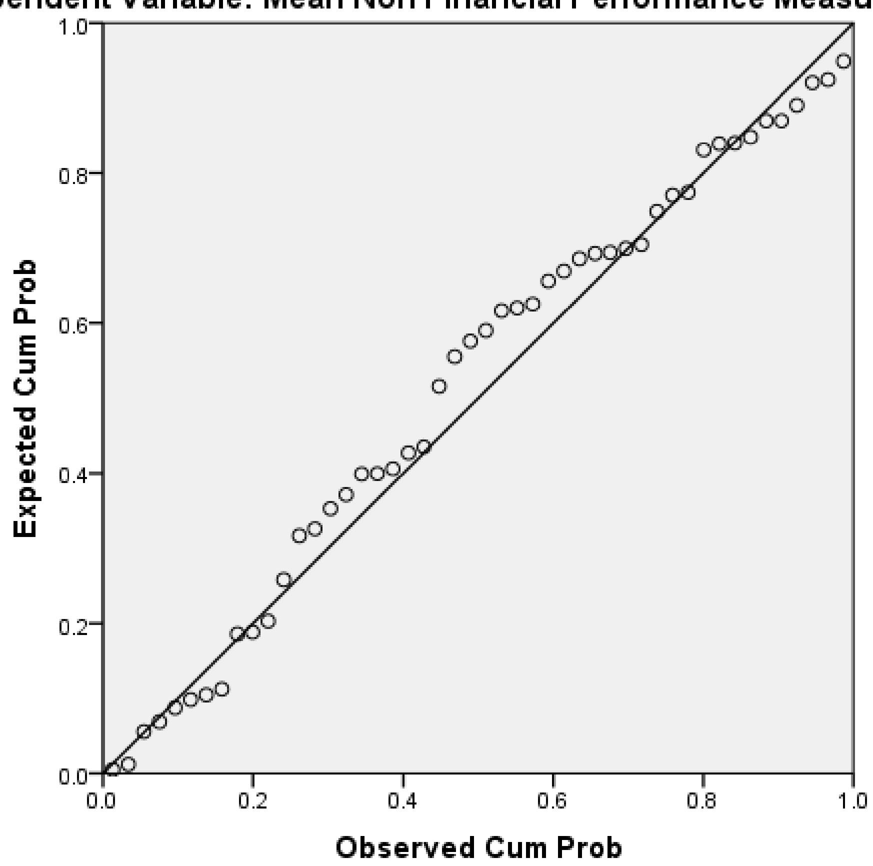
Appendix 11c: Scatter Plots of the Moderating Effect of Industry Competition on the Relationship of between Corporate Governance and Performance



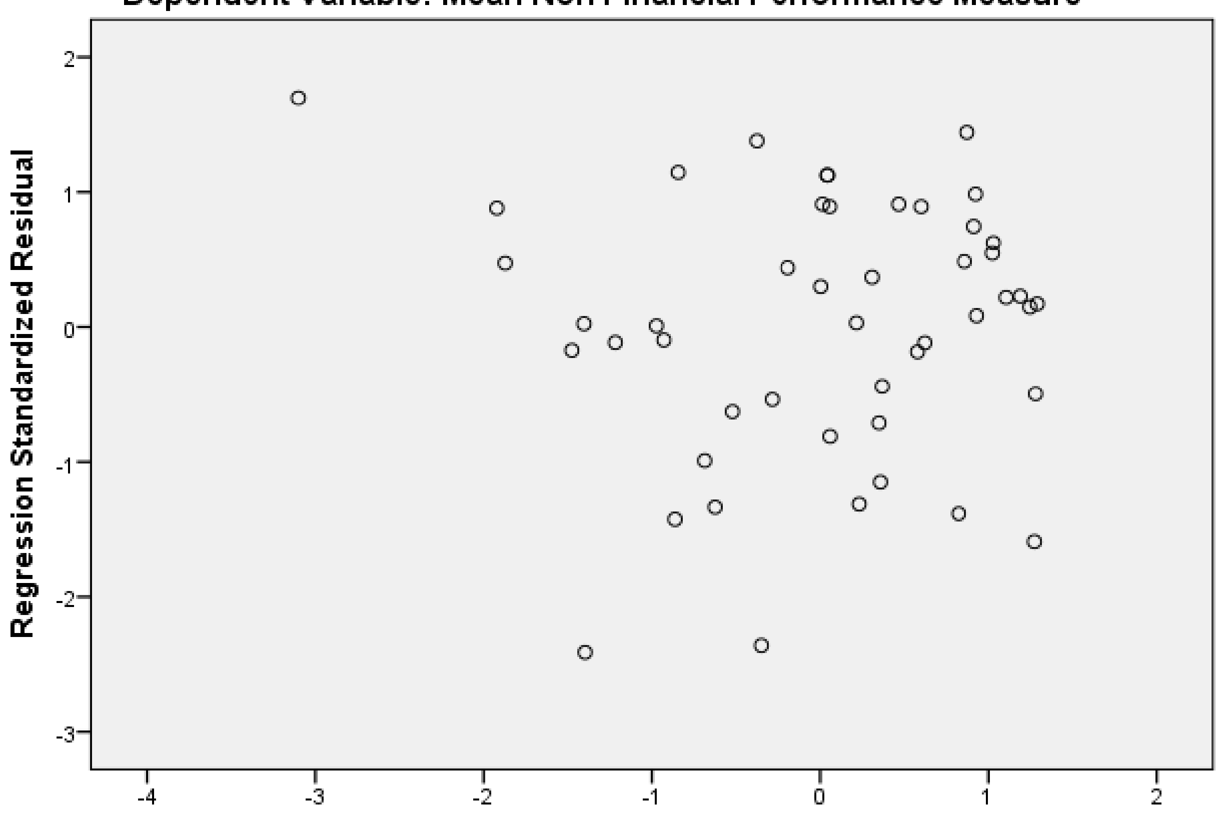
Appendix 12a: Histogram of Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on Non-Financial Performance



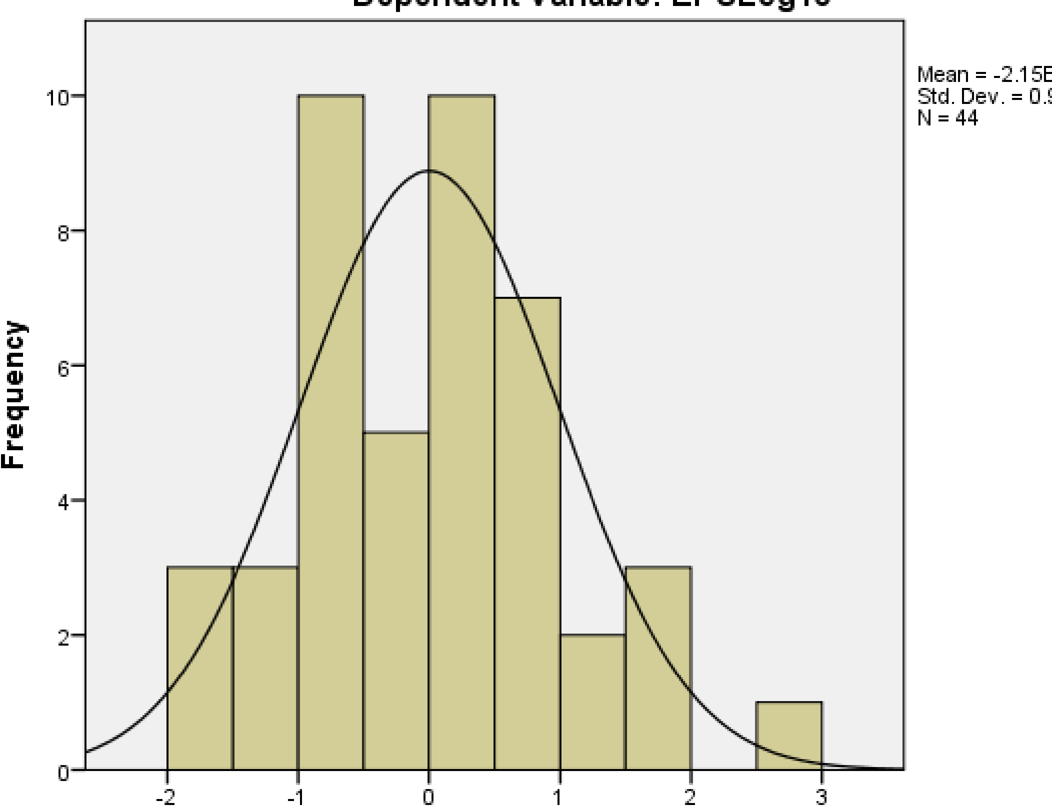
Appendix 12b: P- Plot of Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on Non-Financial Performance



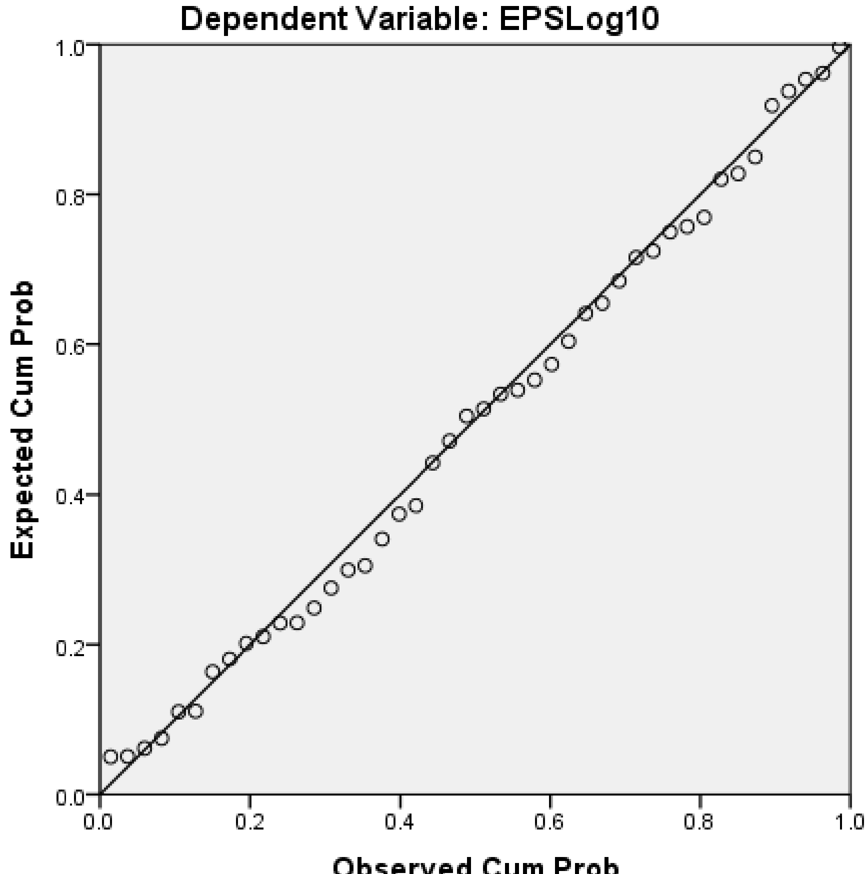
Appendix 12c: Scatter Plots for Joint Effect of Corporate Governance, Strategy Implementation and Industry Competition on Non-Financial Performance



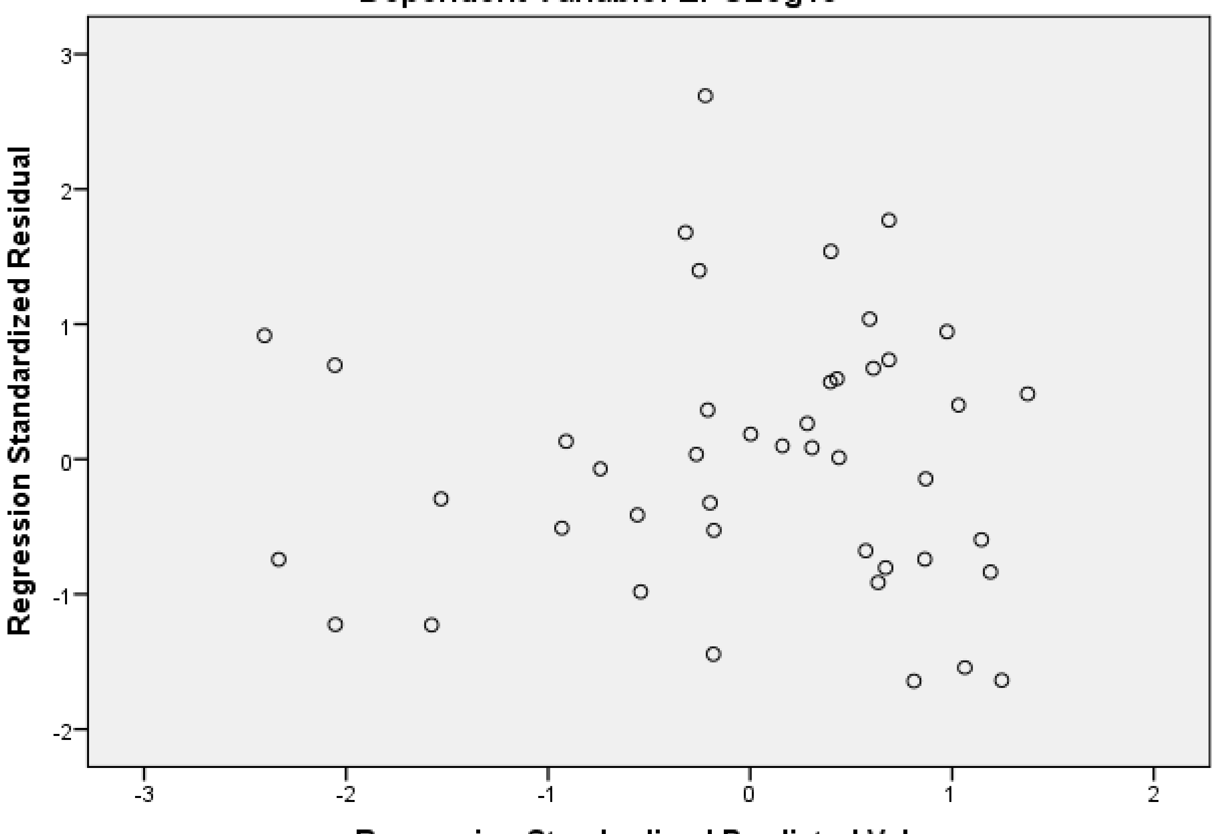
Appendix 13: a Histogram of EPS Log 10 and Corporate Governance



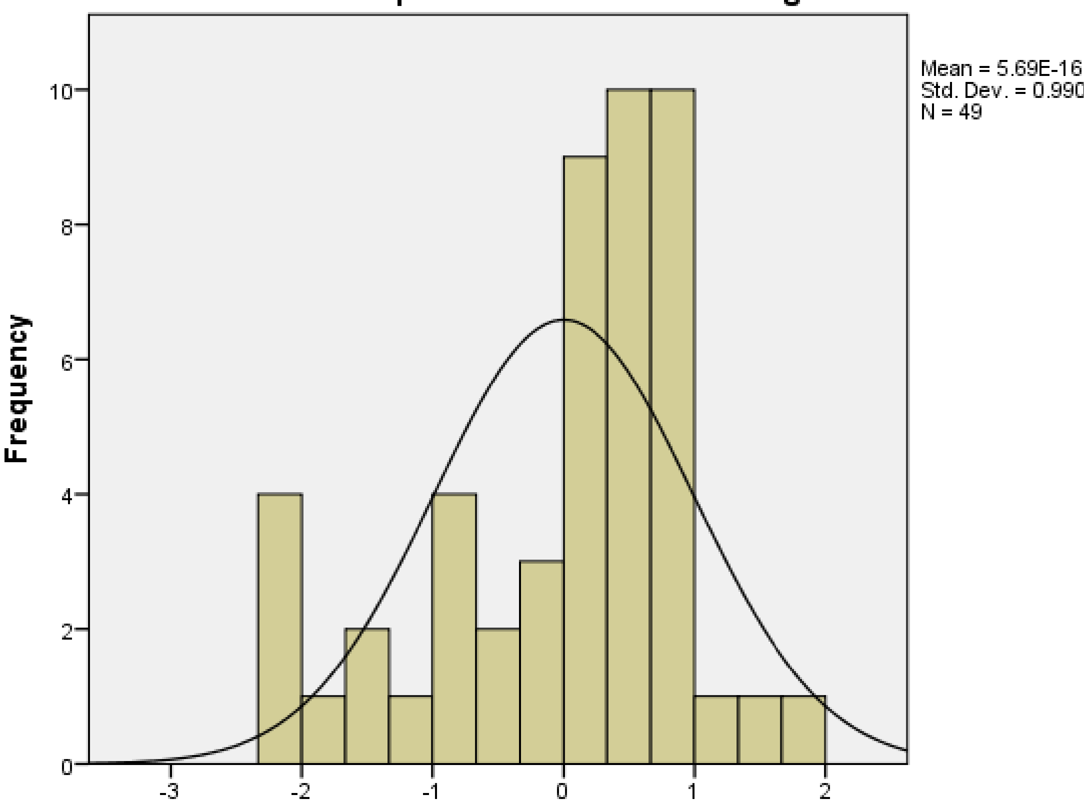
Appendix 13b: Scatter Plots of EPS Log 10 and Corporate Governance



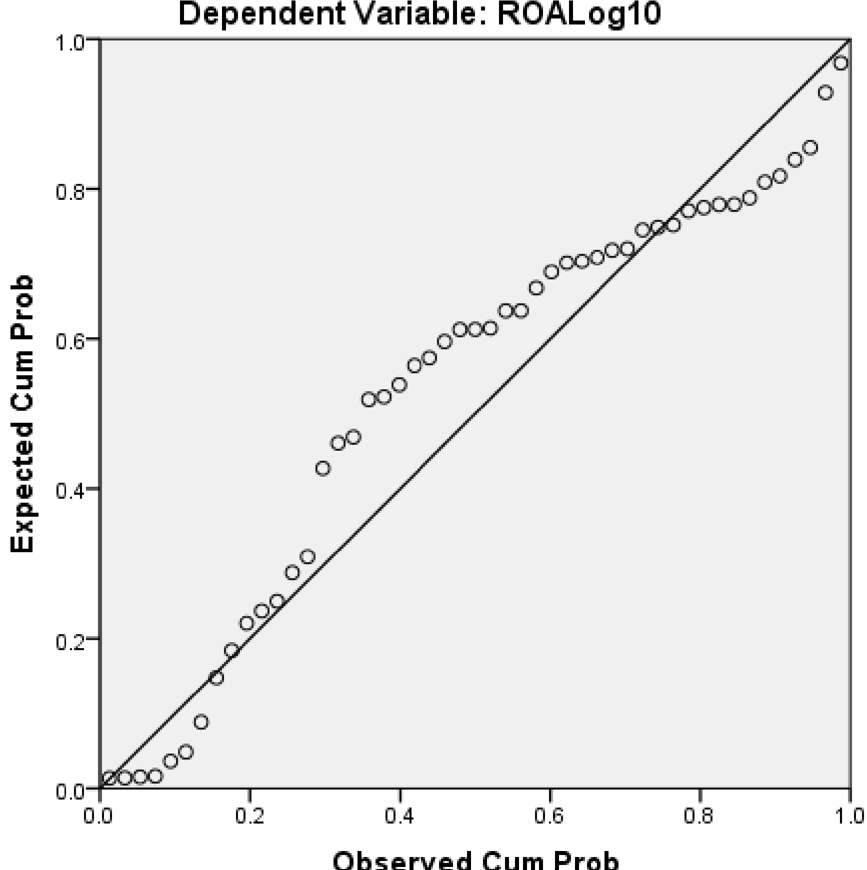
Appendix 13c: Scatter Plot of EPS Log 10 and Corporate Governance



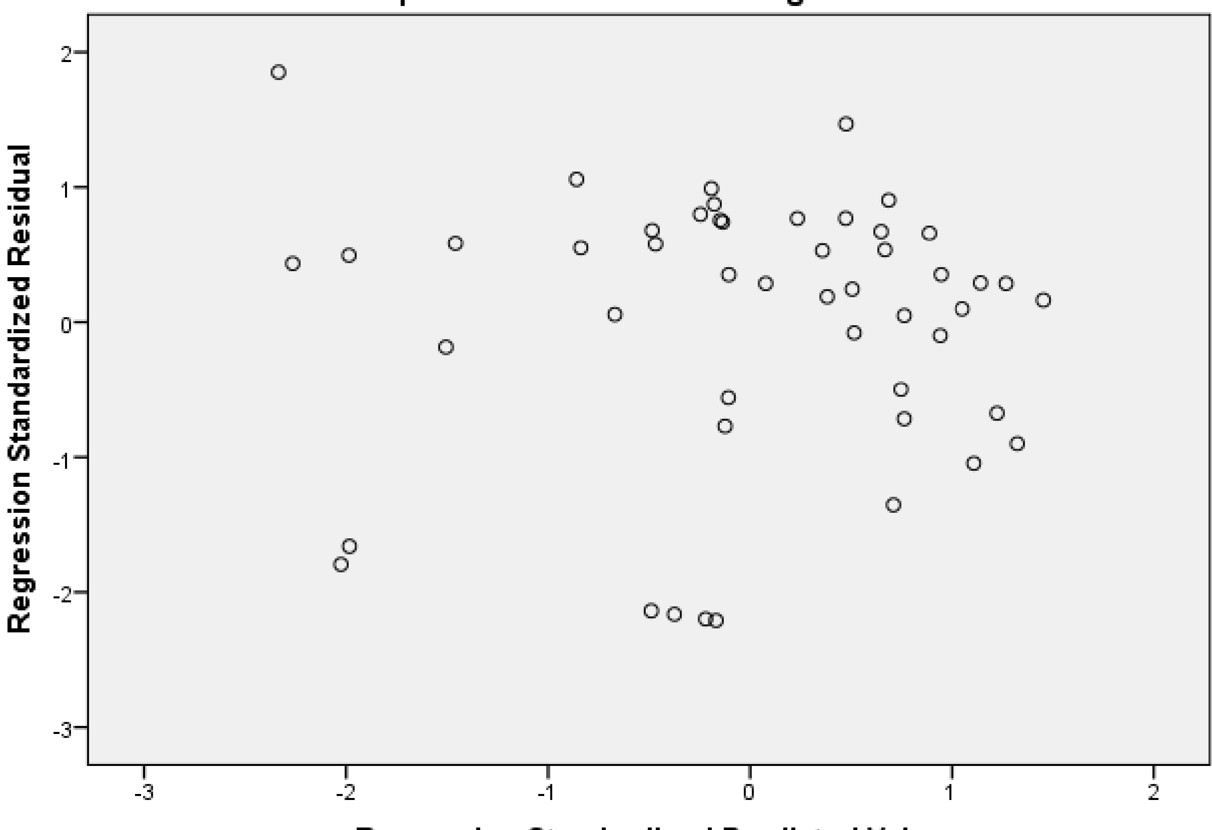
Appendix 14a: a Histogram of ROA Log 10 and Corporate Governance



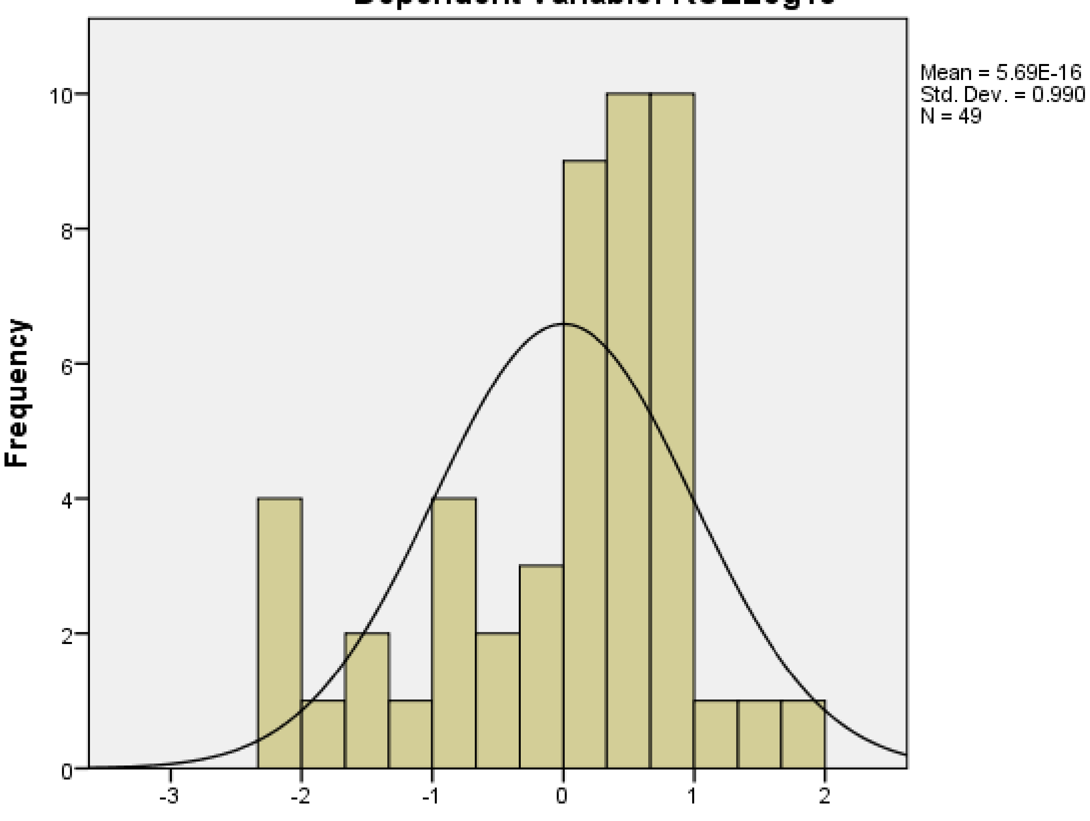
Appendix 14b: P-P Plots of ROA Log 10 and Corporate Governance



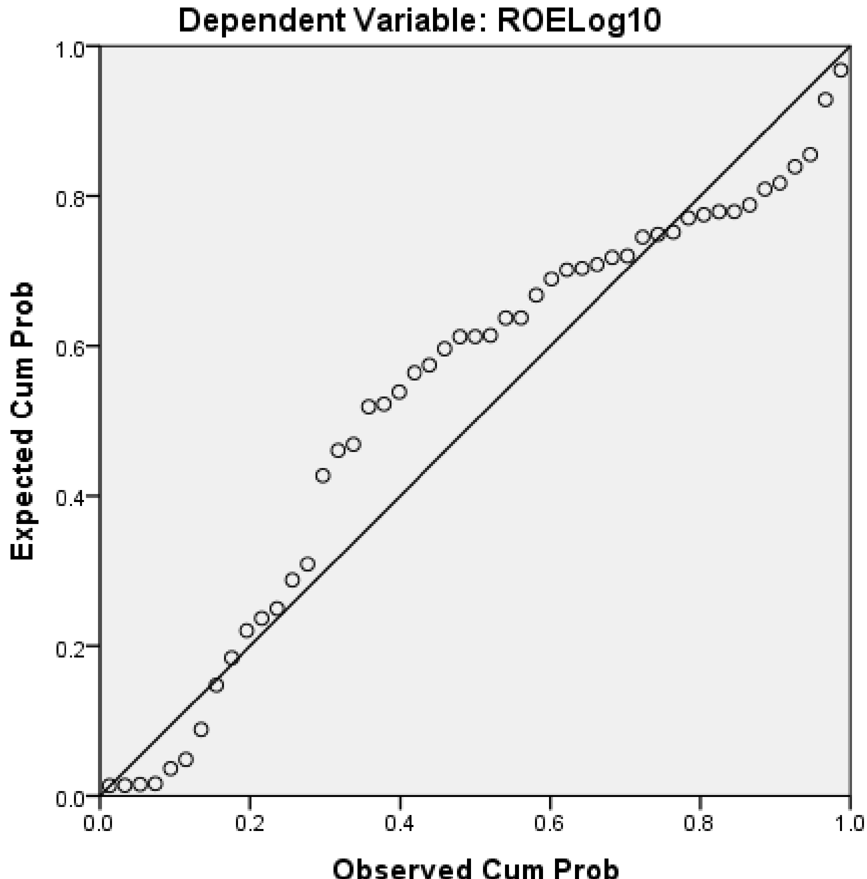
Appendix 14c: Scatter Plots of ROA Log 10 and Corporate Governance



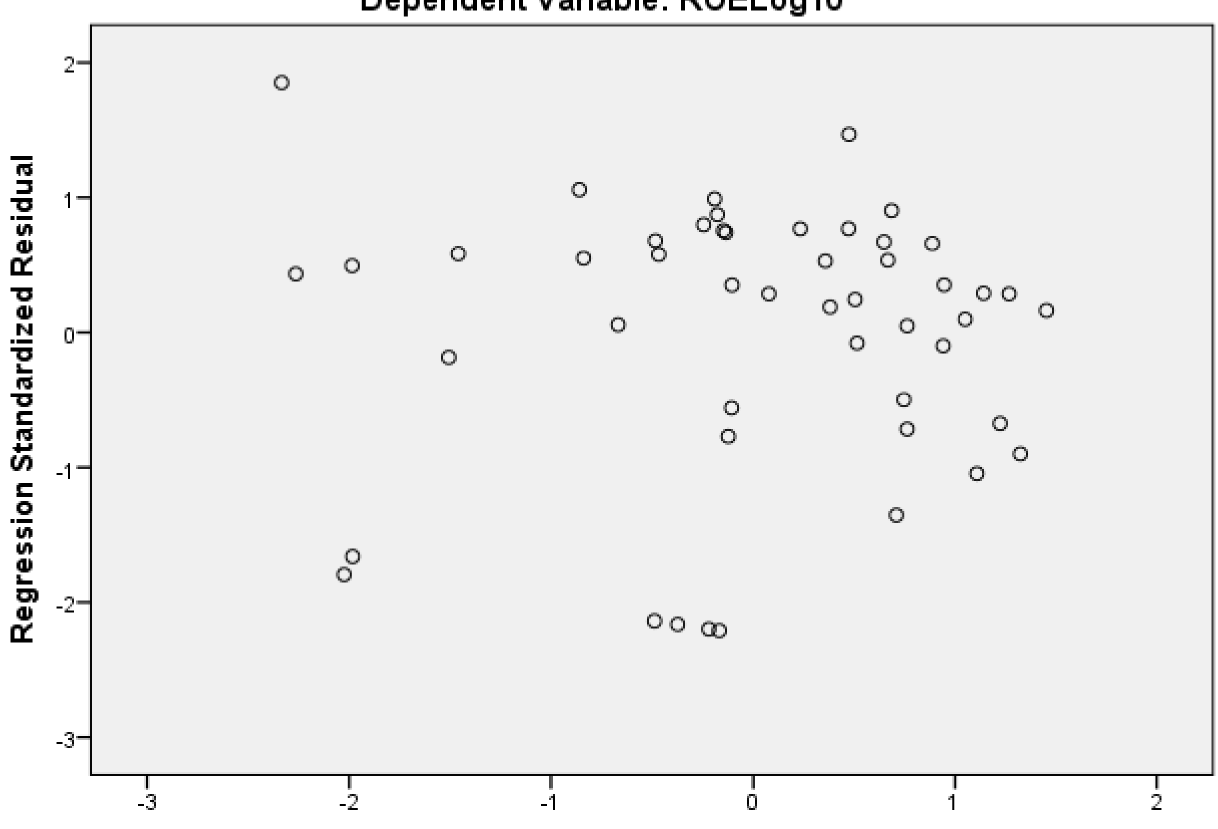
Appendix 15a: a Histogram of ROE Log 10 and Corporate Governance



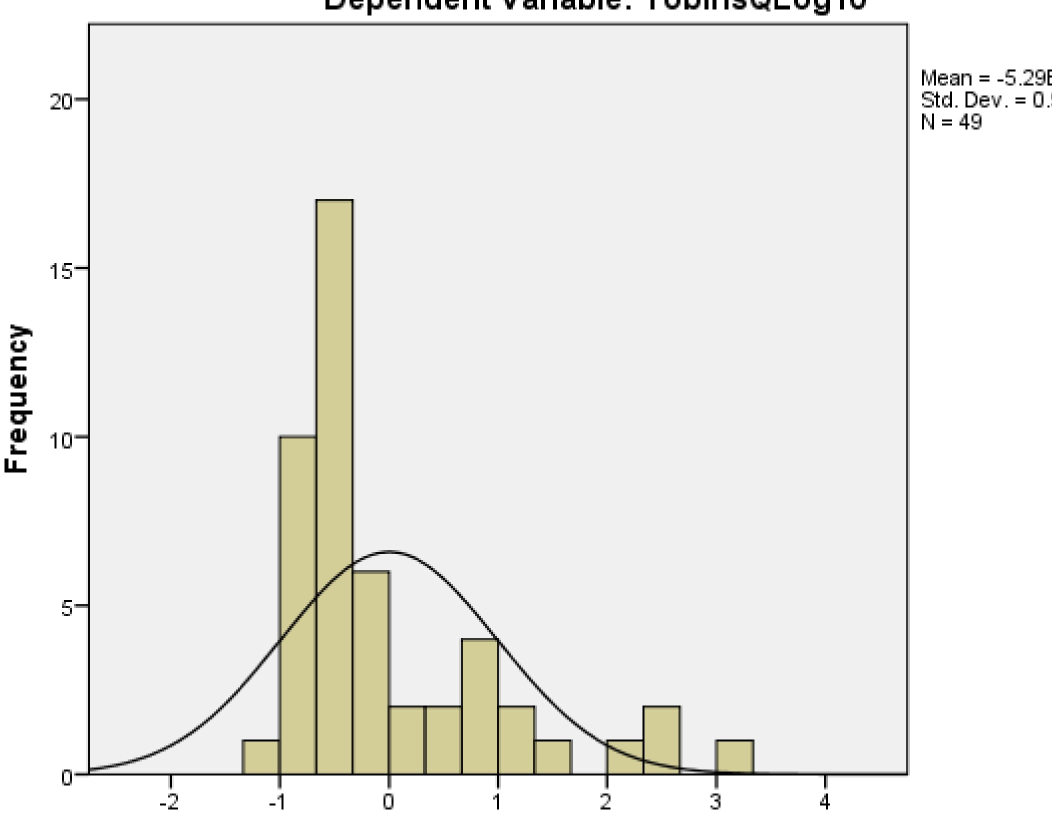
Appendix 15b: P-P Plots of ROE Log 10 and Corporate Governance



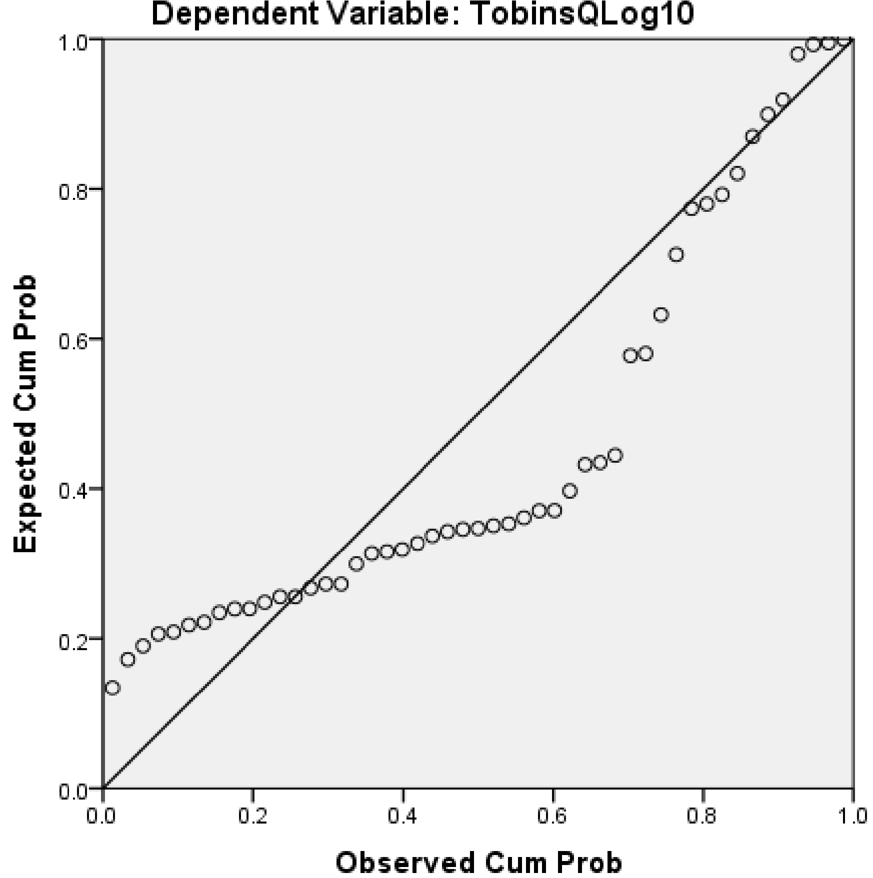
Appendix 15c: Scatter Plots of ROE Log 10 and Corporate Governance



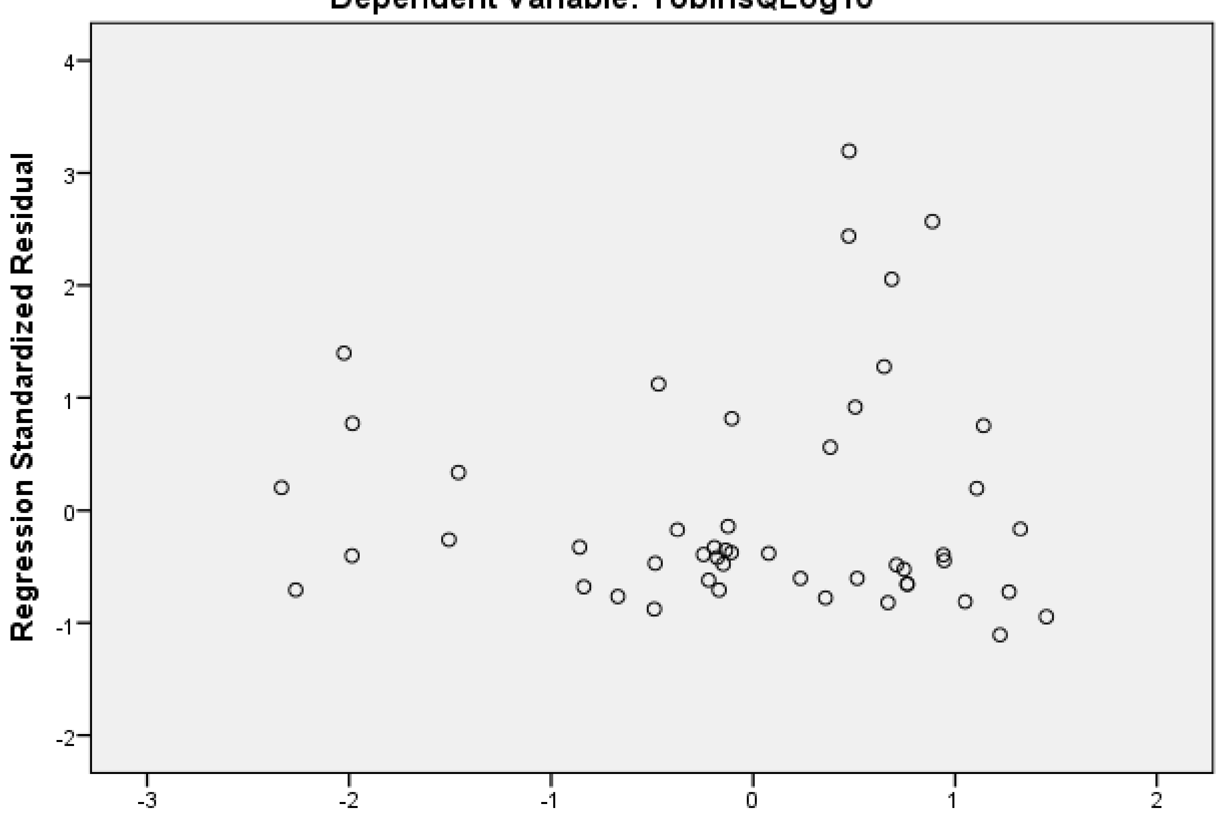
Appendix 16a: Histogram of Tobin's Q Log 10 and Corporate Governance



Appendix 16b: P-P Plots of Tobin's Q Log 10 and Corporate Governance



Appendix 16c: Scatter Plots of Tobin's Q Log 10 and Corporate Governance



Appendix 17: Ordinal Regression for the Relationship between Corporate Governance and ROA

Summary

R	R^2	Adjusted R	Apparent prediction Error
.235	.0056	.035	.945

ANOVA

	Sum of Squares	df	Mean Square	F	Sig
Regression	2..702	1	2.702	2.743	.104
Residual	15.585	47	.985		
Total	16.338	48			

Coefficients

	Standardized Coefficient				
	Beta	Standard Error	df	F	Sig
Corporate Governance	.235	.352	1	1.542	.130

Predictors: Corporate Governance.
Dependent Variable: ROA.

Appendix 18: Ordinal Regression for the Relationship between Corporate Governance and ROE

Model Summary

Model	R	R^2	Adjusted R^2	Apparent Prediction Error
1	.0235[a]	.055	.0035	0945

a. Predictors (Constant) Corporate Governance.

ANOVA [a]

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	2.702	1	2.702	.463	.500[b]
Residue	46.298	47	.985		
Total	49.000	48			

a. Dependent Variable ROE.

b. Predictors (Constant) Corporate Governance.

Coefficients [a]

Model	Standardized Coefficients		df	F	Sig
	B	Std Error			
Corporate Governance	.235	1.522	1	.463	.500

a. Dependent Variable ROE.

Appendix 19: Ordinal Regression for the Relationship between Corporate Governance and Tobin's Q

Model Summary

Model	R	R2	Adjusted R2
1	.0294	.087	.067

a. Predictors (Constant) Corporate Governance.

ANOVA [a]

Model	Sum of Squares	df	Mean Square	F	Sig
Regression	4.249	1	4.249	4.462	.040[b]
Residue	44.751	47	.952		
Total	49.000	48			

a. Dependent Variable Tobin's Q.

b. Predictors (Constant) Corporate Governance.

Coefficients [a]

Model	Standardized Coefficients		df	F	Sig
	B	Std. Error			
Corporate Governance	.294	.336	1	.768	.385

a. Dependent Variable Tobin's Q.