

**THE EFFECT OF CORPORATE GOVERNANCE ON
FINANCIAL PERFORMANCE OF FIRMS QUOTED AT THE
NAIROBI SECURITIES EXCHANGE UNIVERSITY OF
NAIROBI**

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DECLARATION

This research project is my original work and has not been submitted to any other learning institution.

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This research project has been presented with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my parents, Mr. and Mrs. Owuor for their parental advice, discipline and serving as a corner stone throughout my life.

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ABSTRACT

Corporate governance is no doubt one of the most essential tools and principle used in management and running of entities in modern times. It is a critical component of success that many institutions are embracing today due to its impact on the performance of such institutions. The objective of this research project was to establish the effects of corporate governance on financial performance of firms quoted at the Nairobi Securities Exchange. The research focused on forty-three firms quoted at the Nairobi Securities Exchange in the period commencing January 2012 to 31st December 2016. The study relied mainly on secondary data drawn from audited consolidated annual financial reports of sampled firms listed at the NSE. It detailed the cross-sectional analysis over a duration of five years covering the year 2012 to 31st December 2016 with a bias on quantitative analysis. Inferential and descriptive statistics was employed in verifying the association between corporate governance and financial performance while financial performance was determined by return on assets. Corporate governance on the other hand was determined in terms of board composition, institutional shareholding, firm size and managerial shareholding. Correlation coefficient was used to explain the extent of strength between different variables. Analyzed data was presented in terms tables, pie charts, bar charts and percentages where appropriate. To ascertain the association between financial performance and corporate governance in Kenya, the multiple regression analysis was employed. Quantitative data was analyzed using advanced MS Excel and SPSS Version 21.0 to derive co-efficients of constants of various variables and data preparation. The study confirmed the existence of a direct association between financial performance and corporate governance while inverse association between financial performance and firms' size. Corporate governance entails structures and processes of managing business efficiently with an aim of firm value and profit maximization. Good corporate governance practices enhance long term organizational performance and ensure accountability of managers and transparency thus reduction in corporate risks. Through corporate governance, there is reduction in agency cost since there is separation of control and ownership of companies. Firms achieve their financial performance in terms of profitability in order to be sustainable and it is a measure of efficiency. From the study, there is a direct association between financial performance, board composition, institutional shareholding and managerial shareholding. Successful firms have effective board that aid in drawing and planning of corporate strategy while maximizing shareholders' value. Board members have a fiduciary task to ensure that their firms are well managed. Corporate governance propels firms to gain competitive advantage over their competitors and in effect increase their foreign investment.

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LIST OF ABBREVIATIONS

AFM	Association of Futures Market
ATS	Automated Trading System
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
EA	East Africa
Ltd	Limited
MM	Modigliani and Miller
NSE	Nairobi Securities Exchange
REITs	Real Estate Investment Trusts
SMEs	Small and Medium Enterprises
SOX	Sarbanes Oxley Act
SPSS	Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Corporate governance significantly impacts the success of any firm. Firms that face weak corporate governance structures tend to lack corporate transparency, which eventually increases the cost of capital and transaction costs. *Keasey et al. (1997)* documented that corporate governance are processes that are undertaken for the success of any firm. It entails how companies are controlled and directed while holding management accountable for their actions. Whereas agency problems result to a reduction in value of the firm, managerial ownership leads to balancing of interest of external and internal stakeholders, which triggers sound decision-making resulting to growth in the value of the firm. Good corporate governance practices enhance long-term organizational performance and ensures accountability of managers and transparency hence a reduction in corporate risks. It is worth noting that corporate governance propels firms to gain competitive advantage over their competitors and in effect increase their foreign investment. Moreover, *Chen et al (2003)* argued that making public the information about the firm's corporate governance significantly impacts the value of the firm and reverse relationship to cost of equity capital.

Capital structure is the financing strategy that encompasses a mixture between debt and equity that are mainly employed by firms to boost growth and operations. It is an important concern in corporate financing since the availability and cost of capital affects decision-making processes and investment strategies of firms. Further, the role of capital

structure is vital for the success of any organization. The mix between debt and equity determines the level of firms' value maximization and performance. Through capital structure management, firms gain competitive advantage in the market and improve their profitability levels. Myers (1977) confirmed that to improve firms' investment and dividend payout levels, firms employ high leverage. Financial resources are utilized by firms to achieve their objectives thus capital structure decisions are critical.

Financial performance management entails measurement and cost control intended to create value based systems. Fama & French (2002) described profitability as the ability of a firm to use its resources to raise revenues more than expenses. According to Gill, *et al* (2012), business failure is addressed through sound financial decisions and strategies that drive achievement of organizational objectives and growth. Thus, the importance of financing decisions can lead to corporate failure

1.1.1 Financial Performance

It is the process of determining the outcome of a firm's policies and operations in monetary terms and or the extent to which the financial objectives have been attained. It is therefore an important tool of evaluating the growth of firms. Thus, many firms that fail to grow do so because of poor financial management. Therefore, the assessment of how well a firm is using its resources to raise revenue can be done using its financial performance..

Firms achieve their financial performance in terms of profitability in order to be sustainable and efficient. This is a measure of efficiency. Without achieving profit maximization objectives, firms cannot survive in the long run. Managers undertake activities that maximize revenue while implementing cost containment and management strategies in order to stay afloat. Out of the profitability realized, firms are able to declare dividend and reinvest in profitable investments. According to Fama & French (2002), profitability is expressed in terms of income and expenses with income being the money generated from the activities of the business.

1.1.2 Corporate Governance

Through corporate governance, there is reduction in agency cost because of delinking control and ownership of companies. Yeganeh (2009) defined corporate governance as practices and responsibilities assigned to managers and executives for the sole purpose of strategic direction of a firm in order to achieve its objectives of risk management, profit and shareholders' value maximization. Moreover, it determines growth level, market integrity, financial stability and market confidence. Lack of corporate governance has led to collapse of multitrillion firms like Enron Ltd which necessitated the actualization of the Sarbanes Oxley (SOX) Act by the US government in 2002 (Dah, 2016). It ensures that independent directors form a larger portion of board composition in order to reduce the principle agent conflict, improve financial performance, minimize corporate risk and minimize chances of corporate collapses. Corporate governance entails structures and processes of managing businesses efficiently so as to grow the value of the firm and profit maximization. It's measured using CEO duality, composition of the board, proportion of non-executive directors, and size of the board.

Corporate governance is no doubt one of the most essential tools and principle used in management and running of entities in modern times. It is a critical component of success that many institutions are embracing today due to its impact on the performance of such institutions. *Himmelberg et al (1999)* showed that firm's value is maximized through corporate governance, which determines the contracting of managers and agency costs. Managers own large stakes in firms that face high growth and operate in risky environment with an objective to increase their commitment and rewards.

1.1.3 Effect of Corporate Governance on Financial Performance

Corporate governance entails how resources are efficiently managed in order to maximize both the profit and shareholders' value, which eventually improves lenders' and investors' trust. *Pham et al (2004)* confirmed that institutional shareholding, independent boards and insider ownership reduces the levels of risk in firms. Shareholders value maximization is created through corporate governance thus reduction in the cost of capital. In addition, *Abor (2007)* showed that positive association exists between corporate governance and leverage. According to regulatory framework of a country, board members have a fiduciary task to ensure that their firms are well managed. Firms with large board size tend to maintain high leverage with an aim of raising external debt.

Successful firms have effective board that aid in drawing and planning of corporate strategy while maximizing shareholders' value. *Warokka & Herrera (2011)* undertook a study on East Asian corporate governance where they sampled 532 East Asian firms

located in seven countries that were affected by financial crisis from 1996 to 1997. They utilized multivariate regression model and t-test as statistical methods to test the hypothesis. They found out that firms apply the efficiency risk argument and thus there exists a negative association between ownership, capital structures and performance of firms. Corporate governance views agency costs as a vital factor that determines firms' performance and levels of leverage.

Ali et al. (2017) carried a research on the impact of corporate governance on financial performance of listed firms in Pakistani and documented a direct association between financial performance and corporate governance since corporate governance practices improves dividend payout strategy and determines the mix levels between debt and equity. In support, Raviv & Harris (1991) argued that bankruptcy costs, firm size and leverage affect performance of firms. Managers work hard to minimize costs thus revenue maximization and in turn, they are rewarded with high perquisites. Leverage affects performance of firms thus a direct relationship to the health of firms and rate of default on debt.

Muya (2013) carried out a study on the effect of capital structure on the financial performance of listed cement manufacturing companies in Kenya. The study's findings indicated that capital structure has an effect on financial performance. Debt to equity levels determine return on capital employed. More so, Olokoyo (2012) studied the impact of capital structure on corporate performance of Nigerian quoted companies. He concluded that firms employ static pecking order and trade off theories in ascertaining

their levels of leverage. The association between performance of firms and leverage is significantly negative.

Financial performance and corporate governance are interlinked and as such, good corporate governance practices and capital structures lead to maximization of both profit and shareholders' value. Managers engage in moral hazard activities that jeopardize the interests of shareholders. On the interest of trade creditors, firms with larger board size pursue low leverage level since board members are viewed as effective monitors of management actions and performance of firms. This study critically looked at the concepts of financial performance and corporate governance of firms. If corporate governance is important, then financial performance of a firm is affected. From the above discussion, the study sought to answer the question; does a relationship exists between financial performance and corporate governance and to what extent? The study further ascertained the impact of corporate governance on financial performance of firms quoted at the Nairobi Securities Exchange between 2012 to 2016.

1.1.4 Nairobi Securities Exchange

It's the main bourse in Kenya providing an electronic platform for quoting and trading of securities. It was founded in 1954 and is considered the leading African Exchange. It provides a platform for trading facility for investors. In 2014, the NSE was demutualized and self-listed. Further, it is managed by board of directors who focus on diversification, operational excellence and innovation in the exchange. (NSE, 2016). Its main aim is to promote growth by encouraging investment, savings and enabling companies to access

cost effective capital through primary and secondary markets. From 1920 to date, NSE has made tremendous growth making it an interesting market for the study. These include: in 1962, NSE was registered under the Societies Act (1954). In 1988, the first privatization took place through NSE where the government of Kenya sold 20% of its stake in Kenya Commercial Bank. In 1990, the CMA was constituted and in 1991, the NSE became a private company limited by shares. In 1996, privatization of Kenya Airways took place and in 1998, CMA published guidelines on disclosure standard requirements by listed firms. In 2009, Automated Trading System (ATS) of government bonds was launched. In 2013, the Board of Association of Futures Market (AFM) admitted NSE as an associate member. As at 31st December 2016, sixty-eight firms were listed in different sectors of the economy. (NSE Website, 2016)

1.2 Research Problem

Corporate governance and financial performance are topics of great interests since various studies carried out give no universally accepted conclusions. Corporate governance entails structures and processes of managing business efficiently so as to optimize the value of the firm and profit. In addition, profit and shareholders' value maximization are key determinants to the success of any company. Firms adhere to the code of corporate governance while maintaining optimal level of debt equity mix so as to improve their performance. Firms increase their levels of leverage with the sole purpose of improving performance and reducing costs. According to *Wen et al. (2002)*, indirect relationship exists between leverage and composition of the board. *Abor (2007)* asserted that corporate governance framework determines the financial decision, which eventually

impacts on financial performance. Corporate governance practices are set out guidelines that aid management in control and management of firms.

Hasan & Butt (2009) found out that there exists negative correlation between level of debt to equity and managerial shareholding and size of the board for firms. Managerial shareholding and corporate governance are key determinants in establishment of the usage of debt and equity for any firm. A study by Abor & Biekpe (2004) concluded that there exists an inverse relationship between capital structure and board size while direct association exists between board skills, composition, CEO duality, and capital structure among Ghanaian SMEs. Financing decisions are determined by structure of corporate governance. Moreover, SMEs that have higher percentage of outside compared to inside directors who are qualified tend to maintain less levels of debt equity. In support, Lorsch & Lipton (1992) showed that negative relationship exists between capital structure and board size. *Ruan et al. (2011)* stated that inverse association exists between capital structure and managerial ownership among China's Civilian run firms.

In contrast, Anuar (2015) studied the relationship between capital structure and corporate governance mechanisms of firms quoted in Malaysia. The research found a direct relationship between capital structure and corporate governance. In concurrence, Lasisi (2017) surveyed the association between organizational performance and corporate governance among firms quoted in Nigerian's Stock Exchange and established that direct association exists between organizational performance and corporate governance.

Likewise, Iqbal & Javed (2017) confirmed that direct significant relationship exists between performance and corporate governance.

In Kenyan situation, *Wanjiku et al. (2011)* found a direct association between corporate growth and leadership style employed by Kenyan firms. Koriata (2010) on the other hand concluded that direct association exists between corporate governance and value of companies in Kenya. Moreover, Njenga (2014) undertook a research on the relationship between financial performance and capital structure of manufacturing firms quoted at the NSE and found out that there is insignificant association between performance and capital structure of firms.

From the above studies, mix, inconsistent and divergent conclusions have been drawn. In addition, the studies were conducted in developed international markets. In emerging and developing markets like Kenya, there is no legal protection framework of stakeholders and sound corporate governance mechanisms thus agency problems are more severe. Corporate governance and financial performance are emerging issues in Kenya, which have led to change in management, delisting of firms from the NSE and fall in firm's performance. Several firms in Kenya like Uchumi supermarket Ltd, Cooper Motor Corporation Ltd (CMC), Kenya Airways Ltd, Mumias Sugar Company Ltd, National Bank of Kenya, Chase Bank Ltd and Imperial Bank of Kenya Ltd have faced serious issues on corporate governance and financial performance. Efforts to revive these firms have not borne fruits as expected despite the massive capital injections. From the studies, corporate governance, financial performance and leverage issues need to be solved hence the need for further research to address the above problems. The study will address the

problem statement since there is limited knowledge on how leverage affects corporate governance and performance and how corporate governance structures can be improved. The study responded to the research question, does a correlation exists between corporate governance and financial performance of firms quoted at the Nairobi Securities Exchange between 2012 to 2016?

1.3 Objective of the Study

To establish the impact of corporate governance on financial performance of firms quoted at the NSE.

1.4 Value of the Study

The study will aid management in setting up structures, which facilitate compliance to sound corporate governance policies that maximizes shareholders' value and profit, increase firm value and reduce agency costs. Corporate managers will be able to utilize their resources efficiently and effectively. It will assist them in managing the agency conflict and maximize shareholders' wealth.

The study will create an avenue to institute tight corporate governance practices and provide a basis of assessing performance of public entities and mitigating unethical non-quantifiable behavior. In addition, it will facilitate the formulation of fiscal policies and economic planning essential for assessing and regulating various sectors of the economy. The study will be useful in setting key performance indicators for public entities and performance contracting appraisals.

The study will help shareholders in appraising and assessing prospective directors eligible for appointment as members of the Board. Shareholders will therefore appoint only qualified persons as board of directors with thorough knowledge on performance and corporate governance in order to protect their interest within the industry. They will also have a way of managing the agency conflict with management.

The study will form a basis of reference for academicians and researchers in their future research, as it will increase the pool of knowledge by providing information on benefits of corporate governance on performance. Since, Kenya does not have a code of corporate governance that protects the stakeholders; this study will form an avenue for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The Chapter covers previous literature done on corporate governance and financial performance with the purpose of answering the research question and objectives. The chapter documents theoretical reviews, empirical reviews and summary of literature review.

2.2 Theoretical Review

Capital structure is the financing strategy that entails mixture between debt and equity that are employed by firms with main aim to boost their growth and operations. To achieve these objectives, different firms adopt different theories namely Modigliani & Miller (MM), agency and signaling theories.

2.2.1 Signaling Theory

It was discovered by Ross (1977) who asserted that use of debt capital financing is a sign of expected good prospects by a firm. Firms generate adequate cashflows to cover the repayment of interest and debt obligations thus abide to debt contractual agreements. In addition, managers possess perfect and more information relating to the company than investors. Use of equity is a sign of negative future cashflow prospects of the firm and managers overprice cost of equity to take advantage over the investor.

According to Ross (1977), use of leverage has a positive signaling effect on future prospects leading to growth in the value of the company. In contrast, Pyle & Leland (1977) proved that use of leverage has a negative signaling effect on a future cashflow prospects that leads to decrease in the firm value.

2.2.2 Modigliani & Miller Theory

MM (1958) studied the effect of capital structure on value of the firm and documented that capital structure has no effect on firm's value in a perfect market. In such a market, there is absence of bankruptcy, transaction costs and information released in the market is received by everyone at same time. Corporate financing decisions are the same for both non-leveraged and leveraged firms.

MM (1963) argued that firm value is independent from capital structure. Moreover, firms opt to use debt as a source of financing. Equity capital financing is expensive since dividend paid are not tax deductible thus firms pay tax on all incomes. Firms invest in projects which generate higher rate of return than the cost of capital.

2.2.3 Agency Theory

It strives to solve the principal – agent problems. A study by Jensen & Meckling (1976) argued that managers undertake actions that favor their interests as oppose to shareholders' value maximization. Optimal capital structure is attained when agency costs are maintained at minimal levels. Agency costs are incurred to monitor management actions and to ensure that they are in line as per contractual agreements with debtholders and shareholders. The interests of shareholders and managers are different

since managers have intension to increase and receive high perquisites thus affect profitability of a firm while shareholders prefer actions that maximizes their value. Agency costs are incurred to harmonize these interests.

Cuny & Berens (1995) differed with the above argument and stated that firms prefer debt to maximize shareholders' value. Interest on debt is tax deductible thus firms employ more debt capital financing to improve their profitability levels.

2.3 Determinants of Financial Performance

The following are determinants of financial performance: -

2.3.1 Board Composition

Presence of independent directors in the board increases monitoring, board effectiveness and transparency thus direct association with financial performance, (*Ali et al. ,2017*). Also, monitoring mechanisms within the board ensure that management are answerable to stakeholders, firms comply with the regulatory requirements and there is improvement on quality of corporate governance information. Through this, the management is answerable to the board who possess expertise from various fields translating to direct relationship with financial performance.

2.3.2 Ownership Structure

Financial performance and corporate governance practices ensure that there is reduction in conflict of interest between the agent and the principal. According to Ali (2008), ownership structure determines the extent of information disclosure by a firm since each

shareholder demand different information in order to satisfy their needs. In addition, family owned firms require low level of external financing thus corporate governance practices and information is low. As a result of poor financial performance, appetite for external financing reduces thus inverse association between financial performance and family owned capital structure. Equally, for institutional shareholding, firms need to take the interest of institutions thus direct relationship with financial performance.

2.3.3 Firm's Size

The size of a firm can be determined either through their capital base, market share or area of operational coverage like number of branches. Firm size has the ability to influence its investment decisions and as such, larger firms use their economies of scale in operations to invest in various sectors of the economy in order to maximize revenue and reduce costs. This is eventually impacts positively on firm's performance. According to Anderson (2005), larger firms disclose more information on corporate governance in order to gain competitive advantage as compared to smaller firms resulting into better financial performance. Equally, larger firms use their size to access financing for their programs than smaller ones thus leading to rapid growth.

2.3.4 Firm's Liquidity Level

It measures the firm's ability to settle its maturing debts when due. High level of liquidity increases the level of financial performance and corporate governance disclosure. A study by Wahba (2015) concluded that liquidity level boosts firm's financial performance and ability to disclose corporate governance information. Firms with high liquidity level disclose more corporate governance information in order to distinguish from the others thus increase on the level of financial performance.

2.3.5 Firm's Leverage

Leverage is essential in measuring the firm's ability to use its retained earnings, debt and equity to finance its operational activities. Consequently, employing debt allows the owners of firms to control greater volume of assets than they could if they invested their own money only through implementation of mega projects. According to Donaldson (1961), firms prefer retained earnings to equity to debt because leverage is used to describe the way in which the owners of the firm utilize debt to grow the assets and earnings of the firm. It follows therefore that high level of debt tends to be costly in terms of repayment and interest compelling firms to determine their optimal mix between debt and equity.

2.4 Empirical Review

Various researches have been undertaken on areas of corporate governance and financial performance. Anuar (2015) studied the association between corporate governance mechanisms and capital structure of 60 largest firms quoted in Malaysia from 2000 to 2004. The research revealed that positive association exists between corporate governance and capital structure while an inverse association exists between corporate governance and profitability. *Himmelberg et al* (1999) showed that firm's value is maximized through corporate governance which determines the contracting of managers and agency costs. Managers own large stakes in firms that face high growth and operate in risky environment with an objective to increase their commitment and rewards. Iqbal & Javed (2017) however, confirmed that direct significant relationship exists between performance and corporate governance among 173 manufacturing firms quoted at

Pakistan from 2009 to 2014. Firms adhere to code of corporate governance while maintaining optimal level of debt equity mix thus improvement in firms' performance.

Fosu (2013) undertook a study on performance and capital structure of 257 South African companies quoted at Johannesburg Stock Exchange from 1998 to 2009. The study utilized unbalanced panel data. Moreover, firms operating under utility and financial industries were excluded due to existence of regulatory differences within industries. The study found the existence of a positive significant relationship between leverage and performance. Firms employ monitoring mechanisms to lower the agency costs between shareholders and managers. Managers engage in moral hazards activities that jeopardize the interests of shareholders. Firms increase their leverage levels with the sole purpose to improve performance of firms and reduce costs

According to *Wen et al (2002)*, indirect relationship exists between leverage and composition of board. External directors are effective in monitoring management actions thus management pursue actions that lead to lower leverage level while improving performance of firms. *Wahba (2015)* confirmed the existence of an inverse association between financial performance and corporate governance of firms. Increase in non – executive board of directors negatively affects the CEO duality. On their paper, *Haque et al (2009)* proved that inverse association exists between capital structure and corporate governance among the Bangladesh quoted firms. Firms adopt the agency theory and institute better corporate governance practices in order to improve investor confidence and minimize agency costs. In support, *Shen (2012)* concluded that negative association

exists between firm performance and capital structure among firms operating in Europe. A study by Lorsch & Lipton (1992) showed the existence of a negative association between capital structure and size of the board. A bigger board can engage managers to ensure that low leverage level is maintained which eventually improves the performance of firms.

Anderson et al. (2004) considered that interest of trade creditors and firms with larger board size pursue low leverage level since board members are viewed as effective monitors of management actions and performance of firms. *Ruan et al. (2011)* stated that inverse relationship exists between capital structure and managerial ownership among China's Civilian run companies quoted at the Chinese Stock Market from 2002 to 2007. The study considered 197 Civilian run firms and utilized unbalanced panel data to draw conclusions. *Lasisi (2017)* surveyed the relationship between organizational performance and corporate governance among 39 non-financial companies quoted at the Nigerian Stock Exchange in the period 2011 to 2015. The study employed multiple regression analysis and theoretical framework to draw conclusions. The study concluded that direct relationship exists between financial performance and corporate governance.

In the Kenyan context, *Kondongo & Maina (2013)* studied the effect of debt equity level on performance and found out that inverse relationship exists between the two. *Mwangi et al. (2014)* surveyed the relationship between performance and capital structure of companies in Kenya and established that capital structure has significant indirect association with performance. *Munyua & Kung'u (2016)* studied the association between

agency costs and corporate governance practices in Kenya and found out that there is direct correlation between agency costs and director ownership while no significant association between board composition and agency costs. Moreover, Opanga (2013) found out that the board committees, number of board of directors and frequency of meetings are directly related with financial performance among the Kenyan insurance firms. Lastly, Koech (2013) emphasized that increase in debt equity ratio increases finance costs which eventually affects the profitability of firms.

2.5 Summary of Literature Review

Financial performance and corporate governance are interlinked. Good corporate governance practices and capital structures lead to profit and shareholders' value maximization. MM (1958 and 1963) emphasized that in a perfect market, capital structure is not relevant to performance of firms. Lak (2013) indicated a significant association between performance of firms, value & quality of corporate governance in his study. Mani & Ousama (2011) on the however found no impact of corporate governance on performance of firms among Malaysian quoted firms.

Researches on financial performance and corporate governance are inconclusive thus the issues remain puzzle in corporate finance. In addition, the studies were conducted in developed international markets. In emerging and developing markets like Kenya, there is no sound legal protection framework of stakeholders and corporate governance mechanisms and thus agency problems are more severe. Corporate governance and financial performance have been emerging issues in Kenya which have led to change in management, delisting of firms from the NSE and fall in firms' performance. From this

standpoint, there is need to study the effects of corporate governance on financial performance so as to bridge the research gap. The study considered forty-three firms that have continuously been quoted at the NSE from 2012 to 2016 as at 31st December 2016.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology utilized in the research in order to answer the research question and justify the research objective was covered in this section. It described population, research design, sampling design, methods of data analysis techniques, data collection, variables employed to test hypothesis and statistical techniques and presentations. The multivariate regression model was used to analyze data so as to estimate the association between financial performance and corporate governance of firms quoted at the NSE.

3.2 Research Design

The study employed longitudinal research design that focused mainly on secondary data drawn from annual financial statements of sampled companies quoted at the NSE. It detailed the cross-sectional analysis over a period of five years. Only quantitative analysis was considered for the study. Inferential and descriptive statistics was deployed to verify the impact of corporate governance on financial performance. Financial performance was determined in terms of return on assets while corporate governance in terms of board composition, institutional shareholding and managerial shareholding. Correlation coefficients explained the extent of strength between different variables. From the above, the research design was aimed at solving the research problem thus conclusions drawn were valid and reliable since it reflected what happens in the economy.

3.3 Population of the Study

The research used firms quoted at the NSE as at 31st December 2016. As per Appendix I, there were sixty-seven firms quoted at the NSE in Kenya.

3.4 Sample Design

The research employed purposive sampling design to identify the sample size of forty-three firms (Appendix II) that had continuously been quoted at the NSE from 2012 to 2016. A period of five years was considered since it was reliable and reflected the full business cycle, which is between four to six years. According to Appendix III, the sample size represents 63% of total market capitalization as at 31st December 2016. All firms that operated under insurance and banking sectors were eliminated since their annual reports and financial statements don't reflect standardized classification of long and current assets and liabilities as compared to other companies in other sectors.

Moreover, Hutchings Biemer Ltd was suspended from trading at the NSE while the following firms were quoted between the years 2014 to 2016. These include Deacons (East Africa) Ltd, Nairobi Business Ventures Ltd, Kurwitu Ventures Ltd, and Stanlib Fahari I-REIT Ltd thus were not considered in the study.

3.5 Data Collection

The research assessed the effect of corporate governance on financial performance of firms quoted at NSE. Secondary data needed for the research were sourced from NSE website, NSE publications, consolidated annual reports and financial statements.

Consolidated annual financial reports include corporate governance reports, annual reports from chairperson, CEO, statement of comprehensive income, financial position, cashflows and changes in equity, which showed the overall performance of firms. Data was collected in the period commencing 2012 to 2016.

3.6 Data Analysis and Presentation

Data collected was coded to form a basis for summarization and analysis with aid of descriptive statistics. Descriptive statistics included percentages, maximum, minimum, standard deviation and mean. Analyzed data was presented in terms tables, pie charts, bar charts and percentages where appropriate. To ascertain the association between financial performance and corporate governance in Kenya, the multiple regression analysis was employed. Quantitative data was analyzed using advanced MS Excel and SPSS Version 21.0 to derive co-efficients of constants of various variables and data preparation. More so, T – test was utilized to establish the strength of the association between corporate governance and financial performance in Kenya. In addition, the F-test, adjusted R^2 and R squared were used to test the strength of the model employed.

3.6.1 Analytical Model

It was used to verify the impact of corporate governance on financial performance and to answer the research questions; multiple linear regression analysis model was employed. Financial performance was treated as a response variable and on the other hand, corporate governance as explanatory variable. Corporate governance was measured in terms of board composition, institutional shareholding, managerial shareholding and firm size.

Multivariate linear regression model on financial performance and corporate governance of firms quoted at the NSE: Arshad & Safdar (2009) model.

$$FP = b_0 + b_1BC + b_2SI + b_3MS + b_4FS + E_t \dots \dots \dots (3.1)$$

Let: -

FP = Financial Performance

BC = Board Composition

SI = Shares held by Institutions

MS = Managerial Shareholding

FS = Firm's Size

b_i = Regression Coefficient

E_t = Error Term

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

The Chapter details discussions of the findings from the analyzed data with an aim to reach conclusions on the effect of corporate governance on financial performance of firms quoted at the NSE. Data collected was coded to form a basis for summarization and analysis with aid of descriptive statistics. Descriptive statistics utilized include percentages, maximum, minimum, standard deviation and mean. Analyzed data was graphically presented in terms of tables, pie charts, bar charts and percentages where appropriate. The Chapter is divided into three sections namely: findings of the study, the effect of corporate governance on financial performance of firms quoted at the NSE and summary of the findings.

4.2 Findings of the Study

The Section looks into details various variables of interest from the Multivariate linear regression model as per Chapter three. The firms, which constituted the discussion, were selected based on the descriptive statistics as shown in Appendices IV, V and VI.

4.2.1 Financial Performance

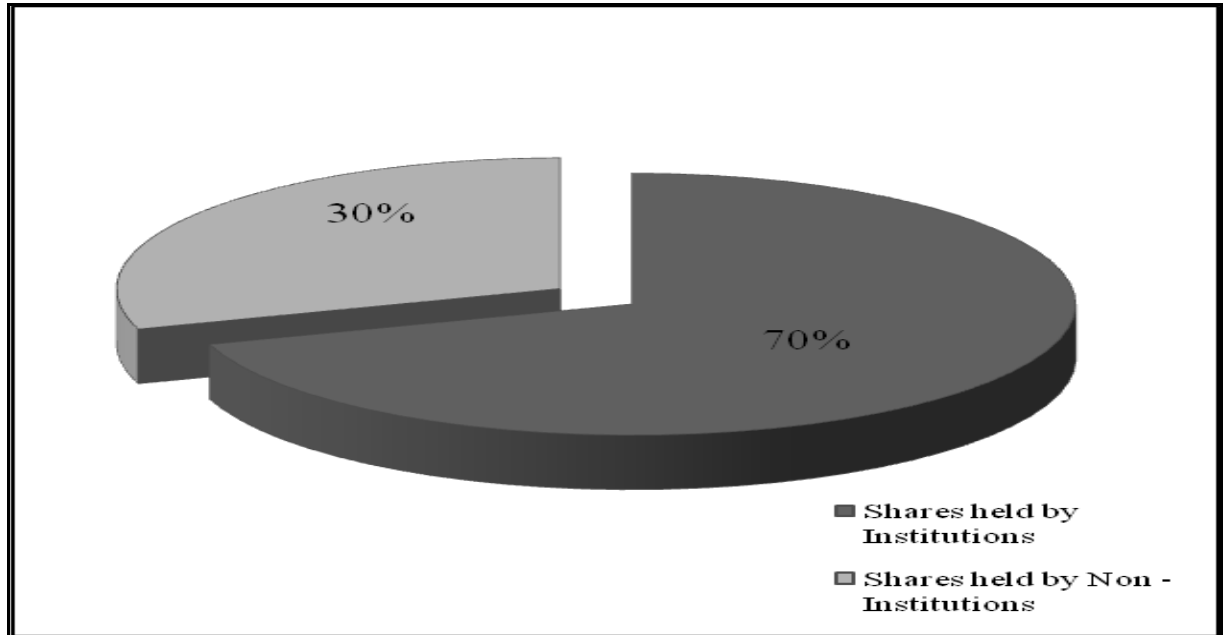
Analyzed data on financial performance is presented in Appendices IV and VI. Financial performance measures the ability of a firm to generate revenue in excess of its expenses out of its available resources. Profit maximization enable firms to stay at a float thus boost their ability to declare dividend and reinvest in profitable investments. From the

forty-three sampled firms, highest financial performance level was recorded by TPS Eastern Africa (Serena) Ltd at 13.613 while the lowest level by Atlas Development and Support Services Ltd at (0.482). TPS Eastern Africa (Serena) Ltd utilized its resources efficiently thus highest financial performance level recorded. The mean financial performance stood at 0.348. In absolute terms, Safaricom Ltd registered the highest profitability level of Kshs. 24,632,110,000 and the least level recorded by Kenya Airways Ltd at Kshs (12,310,800,000). During the period under study, Kenya Airways engaged in over expansion activities namely “Team Mwingu” which adversely affected its profitability level while Safaricom Ltd maintained the market leader in telecommunications industry thus positive prospects recorded. Its market share stood at 71.9% out of the 28-million telecommunication customers in the market.

4.2.2 Institutional Shareholding

Institutional shareholding measures to what extent institutions have invested in the firm. Institutions invest in other firms in order to diversify their operations, expand to other markets and generate more profits to boost the overall performance of Group Company. It enables firms to have direct control in terms of critical decisions and appointments to various positions. From Appendix IV, maximum level of institutional shareholding was registered by Nairobi Securities Exchange at 1.292. On average, 70% of shares under firms listed at the NSE are held by institutions portraying the extent to which ownership is held thus influencing the decision-making. Pie Chart 4.1 displays the average proportion of institutional shareholding to total shareholding.

Pie Chart 4.1 Institutional Shareholding to Total Shareholding Ratio (2012 – 2016)



Source: Study Findings (2012 - 2016)

4.2.3 Firm's Size

Firm size measures the extent to which a company has invested in total assets which eventually enables the firm to utilize its total assets to improve its performance. Out of the forty-three sampled firms, the highest level of firm size was recorded by Kengen Ltd at 8.401 while the lowest level by TPS Eastern Africa Ltd at 4.195. On average, firm size stood at 6.744 as shown on table 4.1. Firms listed under Energy and Petroleum Sector requires heavy capital-intensive investment as compared to firms listed under Commercial and Services Sector and this depends on the nature of goods and services provided in the market. Table 4.1 displays the firms' size level (2012 – 2016)

Table 4.1 Firms' Size Level (2012 – 2016)

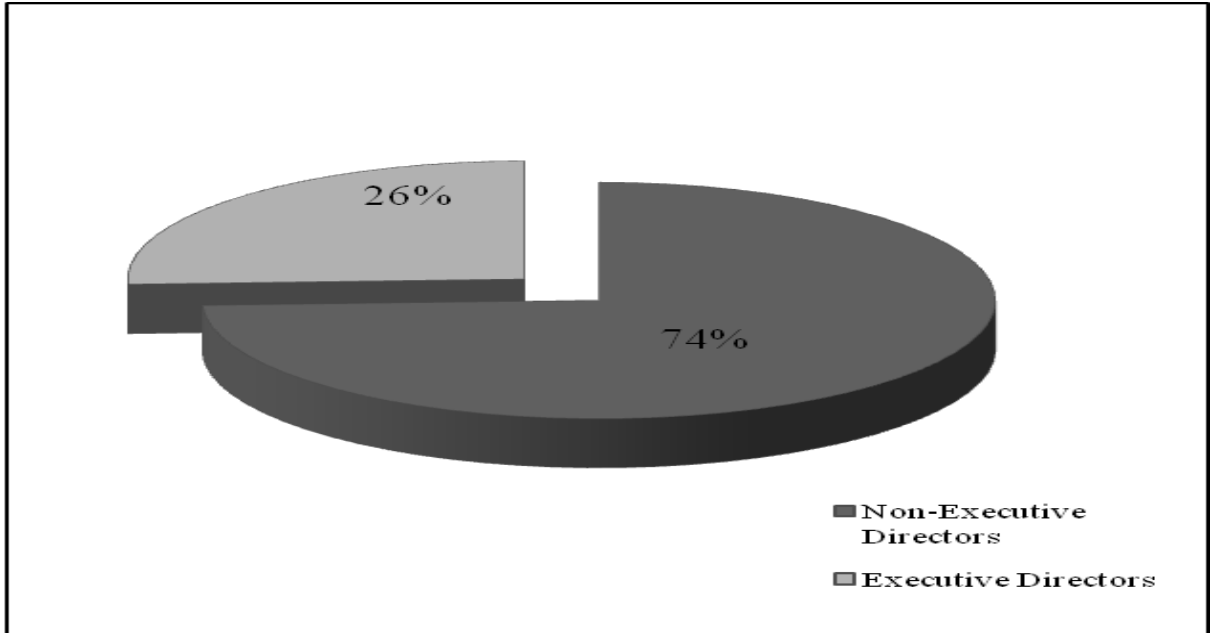
Descriptive Statistics	Firms' Size Level
Maximum	8.401
Median	6.761
Mean	6.744
Minimum	4.195
Standard Deviation	0.887

Source: Study Findings (2012 - 2016)

4.2.4 Board Composition

Board Composition is critical in corporate governance since it determines the level of expertise within the board. Board of directors is drawn from different fields of industry thus, the composition is important. Existence of non – executive directors within the board enables reduction in conflict of interest. From pie cart 4.2, 74% of board composition was constituted by non – executive directors. From Appendix IV, the maximum number of non-executive directors was recorded by Nation Media Group Ltd at 14 which shown the level of expertise in the board thus translating to good financial performance while the minimum level was registered by Limuru Tea Company Ltd at 1. During the period of the study, the average number of board of directors stood at 6. Pie Chart 4.2 displays the proportion of non - executive directors to total directors' ratio.

Pie Chart 4.2 Non-Executive Directors to Total Directors Ratio (2012 – 2016)

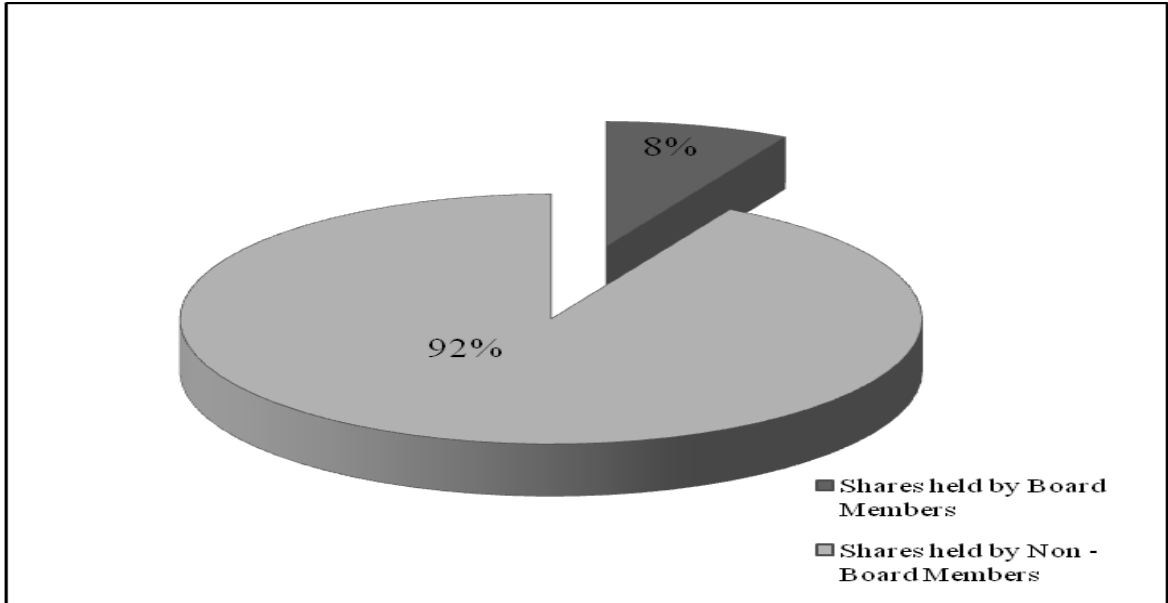


Source: Study Findings (2012 - 2016)

4.2.5 Managerial Shareholding

Managerial shareholding measures to what extent the management held shares in the company. High managerial shareholding enables management to undertake profitable investments in order to increase their level of perks. On the other hand, it may lead to conflict of interest with debenture holders since the management can undertake actions, which are not in line with the debt covenant. From the study, Flame Tree Group Holdings Ltd registered the highest level of managerial shareholding at 82% while on average, the managerial shareholding stood at 8%. Pie Chart 4.3 displays the proportion of managerial shareholding to total shareholding ratio.

Pie Chart 4.3 Managerial Shareholding to Total Shareholding Ratio (2012 – 2016)



Source: Study Findings (2012 - 2016)

4.3 The Effect of Corporate Governance on Financial Performance of Firms Quoted at the NSE (2012 to 2016)

Quantitative data was collected and analyzed using SPSS Version 21.0 to derive coefficient of constants of various variables as presented in table 4.3 below.

Summarized Multivariate linear regression model on financial performance and corporate governance of firms quoted at the NSE:-

$$FP = 5.661 + 3.883BC + 2.185SI + 0.295MS - 1.446FS + E_t \dots \dots \dots (4.3)$$

From analyzed output in table 1.3, financial performance is directly related to corporate governance in terms of board composition, shares held by institutions, managerial shareholding while inversely related to firm's size. It is clear that firms which employ good corporate governance practices tend to post positive financial performance. The p – value was used to explain the random variables that existed in the multivariate linear regression model and it confirmed that positive association exists between financial performance and corporate governance. Analysis of variance (ANOVA) was utilized to test for significance of the multivariate linear regression model. Significance F stood at 0.004, which is less than 0.05 implying that the model has high chances of giving correct prediction thus the model is suitable for the study.

SUMMARY OUTPUT

Regression Statistics

Multiple R	0.801
R Square	0.640
Adjusted R Square	0.574
Standard Error	1.039
Observations	43

Analysis of Variance - ANOVA

	<i>df – degree of freedom</i>	<i>SS – Sum of squares</i>	<i>MS – Mean squares</i>	<i>F</i>	<i>Significance F</i>			
Regression	4	59.021	14.755	4.605	0.004			
Residual	38	121.764	3.204					
Total	42	180.785						

	<i>Standard Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P- value</i>	<i>Lower 95% Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	5.661	2.195	2.579	0.014	1.217	10.105	10.105
Board Composition	3.883	1.858	2.091	0.043	0.123	7.644	7.644
Shares Held by Institutions	2.185	1.112	1.964	0.057	(0.067)	4.436	4.436
Managerial Shareholding	0.295	1.736	0.170	0.866	(3.219)	3.809	3.809
Firm's Size	(1.446)	0.348	(4.153)	0.000	(2.151)	(0.741)	(0.741)

Table 4.3 The Analyzed Output for the Effect of Corporate Governance on Financial Performance of Firms Quoted at the NSE (2012 to 2016)

Source: SPSS Analyzed Output (2012 - 2016)

From table 4.3, the p – value was 0.004 which is less than the α at 0.05 thus reject the null hypothesis. From the analyzed output of multivariate linear regression model at confidence interval of 95%, coefficient of determination stood at 0.801 indicating that the fitness of the model for the study, R square at 0.640 implying the significance between financial performance and corporate governance and Adjusted R square at 0.574 indicating the extent to which variables considered explained the aspect of financial performance. In conclusion, positive association exists between financial performance and corporate governance of firms quoted at the NSE (2012 to 2016).

From analyzed output in table 4.3, financial performance is directly related to corporate governance in terms of board composition, shares held by institutions, managerial shareholding while inversely related to firm's size. It is clear that firms which employ good corporate governance practices tend to post positive financial performance. The p – value was used to explain the random variables that existed in the multivariate linear regression model and it confirmed that positive association exists between financial performance and corporate governance.

4.4 Summary of Data Analysis, Findings and Discussions

The study revealed that direct association exists between financial performance and corporate governance while inverse association between financial performance and firms' size. Corporate governance was researched in terms of board composition, institutional shareholding and managerial shareholding. Corporate governance entails structures and processes of managing business efficiently with an aim of firm value and profit maximization. Good corporate governance practices enhance long term organizational

performance and ensure accountability of managers and transparency thus reduction in corporate risks. Through corporate governance, there is reduction in agency cost since there is separation of control and ownership of companies.

Firms achieve their financial performance in terms of profitability in order to be sustainable and it is a measure of efficiency. Managers undertake activities that maximize revenue while implementing cost containment and management strategies in order to stay at a float. Out of the profitability realized, firms are able to declare dividend and reinvest in profitable investments. From the study, there is a direct association between financial performance, board composition, institutional shareholding and managerial shareholding. Successful firms have effective board that aid in drawing and planning of corporate strategy while maximizing shareholders' value. Board members have a fiduciary task to ensure that their firms are well managed. Managers engage in moral hazards activities that jeopardize the interests of shareholders. On the interest of trade creditors, firms with larger board size pursue low leverage level since board members are viewed as effective monitors of management actions and performance of firms.

Firms adopt the agency theory and institute better corporate governance practices in order to improve investor confidence and minimize agency costs. Agency problems lead to decline in value of firm. Managerial ownership leads to balancing of interest of external and internal stakeholders which triggers sound decision making thus increase in firm's value. Moreover, it determines growth level, market integrity, financial stability and market confidence. It ensures that independent directors form a larger portion of board

composition in order to reduce the principle agent conflict, improve financial performance, minimize corporate risk and minimize chances of corporate collapses. Managers work hard to minimize costs thus revenue maximization and in turn they are rewarded with high perquisites. Firm's value is maximized through corporate governance which determines the contracting of managers and agency costs. Managers own large stakes in firms that face high growth and operate in risky environment with an objective to increase their commitment and rewards.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The Chapter summarizes previous discussions in various chapters with an intention to draw conclusions on the study. It is divided into four sections namely: summary, conclusions, limitations of the study and recommendations for further studies.

5.2 Summary of the Study

The study sought to determine the effect of corporate governance on financial performance of firms quoted at the NSE between 2012 to 2016. Financial performance was determined in terms of return on assets while corporate governance in terms of board composition, institutional shareholding and managerial shareholding. The sample size represented 63% of total market capitalization. Secondary data was sourced from NSE website, NSE publications, consolidated annual reports and financial statements. Variables of interest were selected and multiple regression analysis was employed.

From the findings as per Chapter four, direct association exists between financial performance and corporate governance while negative relationship between financial performance and firm's size. Corporate governance is critical for any success of any firm. From the study, firms that face weak corporate governance structures tend to lack corporate transparency, which eventually increases the cost of capital and transaction costs.

Corporate governance framework ensures that independent directors form a larger portion of board composition in order to reduce the principle agent conflict, improve financial performance, minimize corporate risk and minimize chances of corporate collapses. Managerial ownership leads to balancing of interest of external and internal stakeholders, which triggers sound decision making thus increase in firm's value. Good corporate governance practices enhance long-term organizational performance and ensure accountability of managers and transparency thus reduction in corporate risks.

5.3 Conclusions on the Study

Corporate governance and financial performance are topics of intense interests and are interlinked. They have been emerging issues in Kenya, which have led to change in management, delisting of firms from the NSE and fall in firms' performance. Corporate governance entails structures and processes of managing business efficiently with an aim of maximizing firm value and profit. Firms adhere to code of corporate governance while maintaining optimal level of debt equity mix thus improvement in firm's performance. In addition, managerial shareholding and corporate governance are key determinants in establishment of the usage of debt and equity for any firm.

Non-executive directors are effective in monitoring management actions thus management pursue actions that lead to lower leverage level while improving performance of firms. Firms adopt the agency theory and institute better corporate governance practices in order to improve investor confidence and minimize agency costs. Managers engage in moral hazards activities that jeopardize the interests of shareholders. Firms increase their leverage levels with the sole purpose to improve performance of

firms and reduce costs. The firm's value is maximized through corporate governance, which determines the contracting of managers and agency costs. Managers own large stakes in firms that face high growth and operate in risky environment with an objective to increase their commitment and rewards. Managers undertake activities that maximize revenue while implementing cost containment and management strategies in order to stay at a float. Out of the profitability realized, firms are able to declare dividend and reinvest in profitable investments.

In conclusion, the study revealed that direct association exists between financial performance and corporate governance of firms quoted at the NSE between 2012 to 2016. Corporate governance entails structures and processes of managing business efficiently with an aim of firm value and profit maximization. It was measured in terms of board composition, board size, proportion of non-executive directors and CEO duality. Firms adopt the agency theory and the study is line with prior studies done. A study by Lak (2013) indicated that a significant association exists between performance of firms, value and quality of corporate governance. In addition, Iqbal & Javed (2017) confirmed that direct significant relationship exists between performance & corporate governance among 173 manufacturing firms quoted at Pakistan from 2009 to 2014. Firms adhere to code of corporate governance while maintaining optimal level of debt equity mix thus improvement in firms' performance. Moreover, Oponga (2013) established that the board committees, number of board of directors & frequency of meetings are directly related with financial performance among the Kenyan insurance firms.

5.4 Limitations of the Study

In the course of the study, there were various challenges faced. Firstly, some firms changed their accounting years, which eventually affected their year-end reporting period. The study assumed that year-end financial results are as per the reported period depending on the accounting period. Second challenge faced was during data collection. Some firms experienced lack of consistent information in some years. The study derived the average to sought out this challenge.

Thirdly, the study excluded firms quoted under insurance & banking sectors, but they adhere to corporate governance framework. As per appendix III, these sectors constitute 37% of the market capitalization. Fourthly, financial statements are prepared based on accounting principles, policies & concepts that lies on various assumptions. Different firms implement different policies thus lack of consistence across various sectors in the economy. Lastly, the country experienced hot political temperatures, which adversely affected my research period.

5.5 Recommendations for Further Studies

Based on the findings, the study advocates for further studies on the following areas namely: Study of corporate governance practices in insurance & banking sectors. These two sectors accounts for 37% of market capitalization thus implementation of corporate governance practices by the regulator on these sectors might affect other sectors in the research. Secondly, study of financial performance & corporate governance as per industry. The study considered the overall market. A study as per each sector might give different results.

Thirdly, a study on capital structure, liquidity & corporate governance & how they relate to one another. Capital structure determines the extent of mix between debt & equity while liquidity determines the ability of a firm to honor its obligations as they fall due. These two decisions will depend on corporate governance framework in place by a firm. Lastly, a study on corporate governance & growth in profitability. This will enable firms to implement corporate governance practices, which improves growth in profitability & thus maximization of value of firm.

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APPENDICES

Appendix 1: Listed Firms at the NSE as at 31 December 2016

Sector	Listed Companies	
Agricultural	1. Kakuzi Company Ltd 2. Kapchorua Tea Company Ltd 3. Limuru Tea Company Ltd 4. Rea Vipingo Ltd	5. Williamson Tea Kenya Ltd 6. Eaagads Ltd 7. Sasini Ltd
Automobiles & Accessories	8. Sameer Africa Ltd 9. Marshalls East Africa Ltd	10. Car & General Kenya Ltd
Banking	11. CFC Stanbic Holdings Ltd 12. Diamond Trust Bank Ltd 13. I & M Holdings Ltd 14. Housing Finance Company Ltd 15. Barclays Bank Ltd 16. NIC Bank Ltd	17. Standard Chartered Bank Ltd 18. National Bank of Kenya Ltd 19. Kenya Commercial Bank Ltd 20. The Co-operative Bank of Kenya Ltd 21. Equity Group Holdings Ltd
Commercial & Services	22. Express Kenya Ltd 23. Hutchings Biemer Ltd 24. Standard Group Ltd 25. Deacons East Africa Ltd 26. Scan Group Ltd 27. TPS Eastern Africa Serena Ltd 28. Longhorn Publishers Kenya Ltd	29. Kenya Airways Ltd 30. Uchumi Supermarket Ltd 31. Nation Media Group Ltd 32. Deacons (East Africa) Ltd 33. Atlas Development and Support Services Ltd 34. Nairobi Business Ventures Ltd
Construction & Allied	35. Athi River Mining Ltd 36. Crown Paints Ltd 37. Bamburi Cement Ltd	38. East African Portland Cement Ltd 39. East African Cables Ltd
Energy & Petroleum	40. Kenol Kobil Ltd 41. KenGen Ltd 42. Umeme Ltd	43. Kenya Power & Lighting Company Ltd 44. Total Kenya Ltd
Insurance	45. Pan Africa Insurance Holdings Ltd 46. Britam Holdings Ltd 47. Kenya Re-Insurance Corporation Ltd	48. CIC Insurance Group Ltd 49. Jubilee Holdings Ltd 50. Liberty Kenya Holdings Ltd
Investment	51. Olympia Capital Holdings Ltd 52. Home Afrika Ltd 53. Kurwitu Ventures Ltd	54. Trans – Century Ltd 55. Centum Investment Ltd
Investment Services	56. Nairobi Securities Exchange	

Manufacturing & Allied	57. British American Tobacco Kenya Ltd 58. B.O.C Kenya Ltd 59. East African Breweries Ltd 60. Flame Tree Group Holdings Ltd 61. Mumias Sugar Company Ltd	62. Unga Group Ltd 63. Carbacid Investments Ltd 64. Eveready East Africa Ltd 65. Baumann Company Ltd 66. Kenya Orchards Ltd
Telecommunication	67. Safaricom Ltd	
Real Estate Investment Trust	68. Stanlib Fahari Ltd	

Source: CMA & NSE (2016)

Appendix II: Sample of the Study

1. Athi River Mining Limited
2. Atlas Development and Support Services Limited
3. B.O.C Kenya Limited
4. Bamburi Cement Limited
5. British American Tobacco Kenya Limited
6. Car and General
7. Carbacid Investments Limited
8. Centum Investment Limited
9. Crown Paints Limited
10. Eaagads Limited
11. East African Breweries Limited
12. East African Cables Limited
13. East African Portland Cement Limited
14. Eveready East Africa Limited
15. Express Kenya Limited
16. Flame Tree Group Holdings Limited
17. Home Afrika Limited
18. Kakuzi Co. Limited
19. Kapchorua Tea Co. Limited
20. KenGen Limited
21. Kenol Kobil Limited
22. Kenya Airways Limited
23. Kenya Orchards Limited
24. Kenya Power & Lighting Company Limited
25. Limuru Tea Company Limited
26. Longhorn Publishers Kenya Limited
27. Marshalls East Africa Limited
28. Mumias Sugar Company Limited
29. Nairobi Securities Exchange
30. Nation Media Group Limited
31. Olympia Capital Holdings Limited
32. Rea Vipingo Plantations Limited
33. Safaricom Limited
34. Sameer Africa Limited
35. Sasini Limited
36. Scan Group Limited
37. Standard Group Limited
38. Total Kenya Limited
39. TPS Eastern Africa Serena Limited
40. Trans – Century Limited
41. Uchumi Supermarket Limited
42. Unga Group Limited
43. Williamson Tea Kenya Limited

Source: CMA & NSE (2016)

**Appendix III: Market Capitalization of Listed Companies under the NSE as at 31st
December 2016**

Sector	Market Capitalization for the population (Kshs)	Market Capitalization for the sample (Kshs)
Agricultural	27,404,365,745	27,404,365,745
Automobiles and Accessories	2,553,278,206	2,553,278,206
Banking	646,581,774,909	
Commercial and Services	65,528,626,308	65,528,626,308
Construction and Allied	93,501,076,375	93,501,076,375
Energy and Petroleum	81,762,321,122	81,762,321,122
Insurance	112,859,112,069	
Investment	34,379,740,409	34,226,332,409
Investment Services	4,816,968,750	4,816,968,750
Manufacturing and Allied	332,792,614,633	332,792,614,633
Telecommunication	677,105,733,200	677,105,733,200
Real Estate Investment Trust		
Total	2,079,285,611,726	1,319,691,316,748
Proportion of sample to population market capitalization		63%

Source: CMA & NSE (2016)

Appendix IV: Summary of Main Descriptive Statistics (2012 – 2016)

Descriptive Statistics	Financial Performance	Institutional Shareholding	Firms' Size	Board Composition	Managerial Shareholding
Mean	0.348	0.700	6.744	0.743	0.083
Median	0.029	0.771	6.761	0.786	0.000
Standard Deviation	2.050	0.276	0.887	0.160	0.170
Maximum	13.613	1.292	8.401	0.919	0.823
Minimum	(0.482)	0.001	4.195	0.263	0.000

Source: Study Findings (2012 - 2016)

Appendix V: Summary of Mean Statistics of Variables (2012 – 2016)

List of Companies	Financial Performance	Institutional Shareholding	Firms' Size	Board Composition	Managerial Shareholding
TPS E. African Serena Limited	13.618	0.909	4.195	0.811	0.00007
British American Tobacco (K) Ltd	0.234	0.935	7.244	0.773	0.00001
Rea Vipingo Plantations Limited	0.232	0.778	6.543	0.800	0.03958
Nation Media Group Limited	0.195	0.612	7.071	0.919	0.00011
Safaricom Limited	0.176	0.793	8.147	0.857	0.00012
Carbacid Investments Limited	0.166	0.222	6.408	0.783	0.24477
Nairobi Securities Exchange	0.151	1.292	6.185	0.896	0.00060
East African Breweries Limited	0.140	0.881	7.782	0.786	0.00001
Flame Tree Group Holdings Limited	0.124	0.088	6.040	0.400	0.82285
E. African Portland Cement Limited	0.117	0.493	7.624	0.889	0.44752
Centum Investment Limited	0.115	0.962	7.623	0.688	0.00001
Bamburi Cement Limited	0.085	0.738	6.616	0.718	0.00007
Kakuzi Co. Limited	0.079	0.809	6.360	0.762	0.01573
B.O.C Kenya Limited	0.074	0.829	5.969	0.875	0.54237
Longhorn Publishers Kenya Limited	0.071	0.704	5.503	0.263	0.00001
Limuru Tea Company Limited	0.071	0.728	6.921	0.762	0.00004
Williamson Tea Kenya Limited	0.058	0.803	6.313	0.611	0.00394
Kapchorua Tea Co. Limited	0.053	0.771	7.083	0.686	0.13684
Scan Group Limited	0.048	0.598	6.907	0.868	0.00017
Unga Group Limited	0.036	0.952	7.546	0.571	0.00001
Total Kenya Limited	0.029	0.845	7.119	0.872	0.00040
Sasini Limited	0.028	0.833	6.572	0.516	0.00001
Crown Paints Limited	0.028	0.001	4.855	0.667	0.00001
Kenya Orchards Limited	0.027	0.860	6.897	0.735	0.00025
Car and General	0.027	0.990	8.346	0.889	0.00005
KPLC	0.024	0.927	6.613	0.595	0.00001
Standard Group Limited	0.023	0.817	8.401	0.909	0.00022
KenGen Limited	0.007	0.435	6.223	0.594	0.14547
Olympia Capital Holdings Limited	(0.002)	0.670	7.402	0.679	0.00001
Kenol Kobil Limited	(0.002)	0.765	6.868	0.853	0.00841
East African Cables Limited	(0.008)	0.791	6.556	0.839	0.00018
Sameer Africa Limited	(0.008)	0.735	7.595	0.689	0.00001
Athi River Mining Limited	(0.018)	0.358	6.534	0.884	0.00001
Home Afrika Limited	(0.024)	0.617	5.763	0.333	0.00001
Eaagads Limited	(0.040)	0.292	7.326	0.872	0.19382
Trans – Century Limited	(0.044)	0.681	5.658	0.800	0.00506
Express Kenya Limited	(0.089)	0.835	8.139	0.836	0.29316
Kenya Airways Limited	(0.093)	0.463	7.400	0.902	0.20017
Mumias Sugar Company Limited	(0.097)	0.585	5.933	0.744	0.05429
Eveready East Africa Limited	(0.115)	0.001	5.740	0.857	0.00001
Marshalls East Africa Limited	(0.182)	0.582	6.761	0.875	0.26193
Uchumi Supermarket Limited	(0.482)	1.123	5.936	0.450	0.16896
Atlas Development Limited					

Source: Study Findings (2012 - 2016)

Appendix VI: Mean Firms' Financial Performance Level (2012 – 2016)

List of Companies	Net Profit after Tax. Kshs. '000	Total Assets Kshs. '000	Financial Performance
TPS E. African Serena Limited	213,345	15,672	13.618
British American Tobacco (K) Ltd	4,092,089	17,519,382	0.234
Rea Vipingo Plantations Limited	809,649	3,489,039	0.232
Nation Media Group Limited	2,304,100	11,787,340	0.195
Safaricom Limited	24,632,110	140,299,378	0.176
Carbacid Investments Limited	424,980	2,560,175	0.166
Nairobi Securities Exchange	231,358	1,529,780	0.151
East African Breweries Limited	8,507,153	60,581,659	0.140
Flame Tree Group Holdings Limited	135,656	1,097,210	0.124
E. African Portland Cement Limited	2,374,018	19,379,334	0.123
Centum Investment Limited	4,928,847	42,104,066	0.117
Bamburi Cement Limited	4,844,000	41,977,200	0.115
Kakuzi Co. Limited	351,206	4,133,837	0.085
B.O.C Kenya Limited	180,912	2,292,907	0.079
Longhorn Publishers Kenya Limited	68,435	930,098	0.074
Limuru Tea Company Limited	22,698	318,260	0.071
Williamson Tea Kenya Limited	592,339	8,330,025	0.071
Kapchorua Tea Co. Limited	119,043	2,056,585	0.058
Scan Group Limited	636,779	12,110,058	0.053
Unga Group Limited	386,866	8,076,026	0.048
Total Kenya Limited	1,276,704	35,183,395	0.036
Sasini Limited	375,212	13,153,983	0.029
Crown Paints Limited	105,929	3,730,938	0.028
Kenya Orchards Limited	2,015	71,541	0.028
Car and General	215,346	7,890,577	0.027
KPLC	5,875,958	221,656,426	0.027
Standard Group Limited	100,446	4,100,121	0.024
KenGen Limited	5,826,889	251,806,803	0.023
Olympia Capital Holdings Limited	12,491	1,672,460	0.007
Kenol Kobil Limited	(41,338)	25,259,963	(0.002)
East African Cables Limited	(12,479)	7,382,148	(0.002)
Sameer Africa Limited	(28,748)	3,593,524	(0.008)
Athi River Mining Limited	(320,636)	39,313,280	(0.008)
Home Afrika Limited	(60,257)	3,419,429	(0.018)
Eaagads Limited	(14,091)	579,061	(0.024)
Trans – Century Limited	(839,463)	21,175,844	(0.040)
Express Kenya Limited	(20,224)	455,106	(0.044)
Kenya Airways Limited	(12,310,800)	137,852,600	(0.089)
Mumias Sugar Company Limited	(2,346,030)	25,133,497	(0.093)
Eveready East Africa Limited	(83,262)	857,921	(0.097)
Marshalls East Africa Limited	(63,172)	549,576	(0.115)
Uchumi Supermarket Limited	(1,048,563)	5,763,097	(0.182)
Atlas Development Limited	(415,140)	862,155	(0.482)

Source: Study Findings (2012 - 2016)