THE EFFECT OF CORPORATE GOVERNANCE ON EARNINGS YIELD FOR COMMERCIAL BANKS LISTED ON THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This research project is my original work and has not been submitted for examination in any other university.

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This research project has been submitted for examination with my approval as the University supervisor

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DEDICATION

This study is dedicated to my wife, parents and loving siblings. May the Lord bless them all because of the belief and faith they have exhibited in my work. Especially to my wife pursuing business, I dedicate this report for her to understand the principles of corporate governance and business success.

ACKNOWLEDGEMENT

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Lastly, I thank my Parents for nurturing me to further my academic goals. They have been in communication on a daily basis providing all the love, care, advice, and encouragement to keep focused and complete the report.

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ABBREVIATIONS

CBK - Central Bank of Kenya

CMA - Capital Markets Authority

EPS - Earning Per Share

KBA - Kenya Bankers Association

NSE - Nairobi Securities Exchange

OLS - Ordinary Least Squares

ABSTRACT

The objective of the study was to determine how and the extent to which corporate governance at the eleven listed banks at the Nairobi Securities Exchange impacts the earnings yield. It also aimed at reviewing the increasing body of theoretical and empirical studies that have endeavored to examine the range of magnitude and effects of corporate governance practices on the earnings yield. The study employed a cross sectional, and analytical research design in carrying out the research. The target population was all the listed eleven listed banks at the Nairobi Securities Exchange. Secondary sources of data were employed, and data was collected on; the earnings after tax, outstanding shares, share price, corporate governance scores, capital adequacy, customer deposits, and total assets. The unit period of analysis was annual, and data was collected for the period from 2013 to 2017. The period comprised of five years. The control variables, capital adequacy and liquidity, had no significant effect on the earnings yield. The study concluded that that corporate governance and earnings yield have a positive significant relationship. Thus, stronger corporate governance practices lead to higher earnings yields. The study recommended that; the government regulatory institutions can advocate the establishment and maintenance of corporate governance mechanisms to boost firms' earnings. The Central Bank of Kenya can formulate policies and make informed decisions in the area of corporate governance for financial institutions on the backdrop of the information that corporate governance significantly affects positively the banking firms performance. Recommendations can also be made to investment banks, stock brokerage firms, institutional investors, and individual investors, to enable them 'beat the market' and make above average market returns. They can achieve this by investing in firms with good corporate governance practices. The management of diverse firms can also utilize the study findings to strengthen their corporate governance mechanisms in order to improve firm performance.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

The interrelationship between Corporate Governance and Earnings yield is of significant interest because both variables have a direct impact on the financial success of a firm. Ayesa (2011) stated that corporate governance has become a popular discussion theme in developed and developing countries. The governance of organizations is a critical element for the growth and success in the competitive environment and may affect the movement of the Earnings yield ratio in the period under review. Many Commercial banks in Kenya embrace the importance of corporate government and demonstrate governance structures such as board independence, board meetings, chief executive director independence, and directors training among others. This study sought to examine whether there exists an influence of corporate governance on the variability of earnings yield.

The study anchored on four major theories, which have tried to explain the concept of corporate governance and its effect on the financial performance of firms. The Agency theory of corporate governance by Jensen and Meckling (1976) highlighted the conflict of interest between management and shareholders. The Stewardship theory by Davis, Schoorman and Donaldson (1997) argued that managers work as stewards for the shareholders to operate the business of the firm with the objective of wealth maximization. Resource dependence theory by Pfeffer (1973) emphasized the importance of the board of directors in providing access to resources that enhance the firm's performance, and finally the stakeholder theory by Freeman (1984) advocated that managers have a network of internal and external stakeholders to serve.

There is a contextual rationale supported by the study of Adelou and Oseko (2016), he argued that better governance is a prerequisite for better performance. The components of governance creates a control environment that catalyzes and refocuses the strategic path of the firm. Indeed many scholars studied the effect of good governance on performance however not all agree that better governance has a high and positive correlation on the earnings yield. Other factors contribute towards good firm performance.

After a series of financial fraud leading to the fall of large companies, the Sarbanes-Oxley Act was enacted in 2002 in the United States. The act gave birth to new strict guidelines for corporate governance. The guidelines also spelt out the protection of whistle blowers. The guidelines made corporate governance worldwide an important institutional pillar for both the private and public firms (Hwan, Long &Wang, 2010).

1.1.1 Corporate Governance

Hess (1996) defines corporate governance as the process of control and administration of the resources in the interest of the owners of the firm. The Owners appoint the Directors and charge them with the leadership and powers to guide the business towards their popular interests. The emphasis of corporate governance is on ownership control and direction of the company by those charged with responsibility of governance. The chief executive officer and directors manage the affairs of the firm in stewardship and report to the owners in the annual general meeting.

Rambo (2013) asserts that the purpose of the Capital Markets Authority's (CMA) guidelines on good corporate governance is to improve governance in the corporate sector. There had been a trend of commercial banks placed under receivership by the Central bank

of Kenya in the last decade. This situation created more interest to study corporate governance and performance of financial institutions. In this regard, the Capital markets authority has continued to issue corporate governance guidelines for companies listed on the Nairobi security exchange (NSE). This study will focus on the board structure as a proxy of corporate governance and measure the sub components that is board size, board independence, board composition, chairman/CEO split, directors training, directors' evaluation.

1.1.2 Earnings yield

Abraham (2017) defines Earnings yield as the ratio of the net income to stock price, or the reciprocal of the price earnings ratio. The earnings yield represents the percentage of a dollar invested in the shares of the firm. Potential and existing investors are keen on the stability of the earnings yield overtime because it is a measure indicating the firm's ability to make profit. A higher earnings yield shows that the firm efficiently allocates the resources to the best alternative assets.

A favorable earnings yield will depend on the value of the earnings per share. According to David and Randall (1997) the earnings per share is of critical interest to both existing and potential investors. The earnings yield results from taking the EPS over the share price of the firm. An international accounting standard was developed to guide the financial reporting; computations, presentation and disclosure requirements to stakeholders of financial statements.

1.1.3 Corporate Governance and Earnings yield

Listed Companies present the earnings per share value on the face of the financial statements in compliance with International Accounting Standard (IAS) 33. The reported EPS may have a relationship to the board structure of the firm. This study will investigate the concepts of corporate governance and earnings per share. National regulatory institutions such the CMA, Central Bank of Kenya (CBK), and the Kenya Bankers Association (KBA) have issued guidelines on corporate governance for commercial banks in Kenya. These guidelines are aimed at among other factors; improving the financial performance of the firms. Corporate governance focuses on how all parties interested in the success of firms support management to adopt efficient measures to safeguard the objective of shareholders.

According Ayesha (2011) good corporate governance reduces the risk for the Owners and attracts potential investors. Investors will be attracted to securities in firms that have governance structures designed to control the business risk and financial risk of the operations. The systems of risk identification, evaluation and control will enhance higher profitability and return to the shareholders.

Emmanuel and Hodo (2012) found that the size of the board of directors and the number of the shareholders had positive impact on profitability. The board size and independence of directors plays a key role in ensuring accountability, transparency and honesty of management in execution of their daily duties. Such governance elements provide a favorable environment for high ethical standards at the work place and proper utilization

of the organization resources to achieve the shareholders' objective of wealth maximization.

Donaldson and Preston (1995) stated that the failure of governance systems is a major contributor to the collapse of many organizations worldwide. The governance structures are mechanisms that continually monitor the performance of management and shape the direction of the organization. Lack of proper governance structures can partially explain the collapse of family/community owned banks in Kenya such as Union bank, Business finance, Nationwide finance which all fell in the period about 1984 -1989 before passing of the 1989 banking act.

According to Matama (2008) disclosure and trust, is an integral part of corporate governance. The business policies of the firm and key strategic decisions are made in the board of directors' meetings. Board directors are required to maintain high levels of openness, transparency and independence in discharging their affairs. Weak corporate governance structures lead executive directors to operate the business with selfish interests and at times paves way for financial fraud.

1.1.4 Commercial Banks Listed on the Nairobi Securities Exchange

The laws enshrined in the Kenyan statutes governing banking in Kenya - of interest are the Banking Act, Chapter 488 Laws of Kenya and the Central Bank Act, Chapter 492 laws of Kenya. The Central bank of Kenya is the regulator of commercial banks. CBK places corporate governance a top priority in their supervisory mandate. The growth of commercial banks such as Equity, Kenya Commercial Bank is the effort of a highly

reputable board and professional management team. Currently there are eleven Commercial banks listed on the NSE (see appendix 1).

Kiboi (2015) mentioned that the NSE listing manual highlights that every listed issuer of securities is required to prepare an annual report with audited accounts. The researcher used secondary data from the NSE in the current study. The NSE is the regulated firm mandated to display a platform of all publicly traded securities. Investors buy and sell securities on the NSE through licensed stock brokerage firms. High EPS is an indication of efficient operations and good return on investment of shares in the firm.

1.2 Research Problem

There is a continued struggle for commercial banks to remind profitable in the fast changing economic environment. The resent financial distress and failures for commercial banks is linked to issues of governance and leadership. Caprio and Levine (2002) use the theories of corporate governance to highlight the special problems facing corporate governance of financial intermediaries. Earnings yield determines how efficiently the leadership allocates its resources to maximize profitability and impact growth. Without adherence to strict corporate governance standards, the firm is vulnerable to failure. The study will examine corporate governance to try to establish whether it has any effect on the earnings yield for listed commercial banks on the NSE.

In Kenya between the 1984 and 2005, 34 bank failures were recorded all being attributed to poor performance (Upadhyaya, 2017). Poor performance mentioned in many studies has a correlation to failure to adhere to good corporate governance. Indeed, the CBK has issued three major guidelines on corporate governance to commercial banks in 2001, 2006, and

2016 (Matanda, 2016). The corporate governance guidelines issued by CMA provide minimum governance standards for listed commercial banks. This creates a level of assurance that the resources of the firm are safe from mis-representation and fraudulent activities. The financial services sector is under public scrutiny due to failures of governance and stakeholder relationships which has led to closure of some bank in the recent past - for example the case of the Euro bank, Kenya finance corporation, Trade bank, and Charter house bank.

Abraham, Harris & Auerbach. (2017) examined earnings yield as a predictor of return on assets, return on equity, economic value added and the equity multiplier. Their study was very informative however, it examined organizations in the biotechnology, oil and gas and computer software industries. In addition, their study did not review the relationship between corporate governance variables and earnings yield.

Ashenafi et al. (2013) in their study on corporate governance and impact on bank performance in Ethiopia provide contradictory findings. Their study did not consider other control variables such as liquidity and capital adequacy. In addition, the study was limited to the specific conditions in Ethiopia, which may not apply to the Kenyan environment.

Otieno (2012) reviewed corporate governance factors and financial performance of commercial banks in Kenya and found that it enhances operational stability and liquidity. His study looked at commercial banks as a whole and was not limited to those listed on the NSE. The listed Commercial banks are under stricter regulations and monitoring because their ordinary shares traded publicly compared privately owned banks.

1.3 Research Objective

The objective of the study was to establish the effect of corporate governance on earnings yield.

1.4 Value of the Study

This study will be of value to academicians, researchers, firm policy makers, investors and to the government. To researchers and academicians, it will provide more knowledge on the implications of corporate governance practice on EPS and provide more opportunity for expounded research on the subject and they may use the body of knowledge as a reference for future studies. The study will increase the body of knowledge for academics interested in pursuing further career development in corporate governance and investment analysis. Researchers will obtain an opportunity to identify gaps in the field of corporate governance and performance of commercial banks.

The research will point out gaps for further research and academic interrogation in the theories and literature on the concept of corporate governance. The study will provide critics and informed positions made by other researchers. The study will assist academicians with recommendations for areas of further investigation in the area of corporate governance and performance. The study will demonstrate to academicians the conceptual model in graphical form between the variables of corporate governance and earnings per share.

The research will provide useful information to the CBK to formulate policies and make informed decisions in the area of corporate governance for financial institutions. Policy makers will be able to refer to the findings of the study on issues of corporate governance

in the context of commercial banks in Kenya. The CBK will obtain added knowledge on the significant role that corporate governance plays on performance of Commercial banks in Kenya.

To Investors, the study will widen their knowledge and provide confidence to them in process of allocating assets and advisory services and portfolio management. The findings will provide investors with information on other internal and macroeconomic factors, which influence the variability of performance of commercial banks. Investors are keen to diversify their assets to a combination of securities that reduce risks and earn maximum returns.

The study will provide additional knowledge on the ratios of financial performance specifically earnings per share. The research will discuss the importance of earnings per share to the decision-making process of investors. The findings will assist the investors understand the interpretation of the varying values of earnings per share; that is what a high or low earnings per share figure means to the firm.

The study will provide government institutions with a body of knowledge for further research and development in the area of corporate governance. The study will assist regulatory institutions with knowledge on the effectiveness of the guidelines for corporate governance in the banking sector of Kenya. The research findings will provide a reference point for understanding the effect of corporate governance on the EPS in the context of financial institutions.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter will provide information of the theoretical framework of corporate governance and earnings per share. The study examined other determinants of earnings per share and review empirical studies on the concepts of corporate governance and earnings per share drawn from global, regional and local researchers. Finally, the study aimed at pointing out the gaps which still remain in the theoretical framework of the concepts of corporate governance and earnings per share.

2.1 Theoretical Review

The study reviewed scholarly theories developed to examine the concepts of corporate governance and earnings per share. The review included the period, assumptions, critics and findings of the studies.

2.1.1 Agency Theory of Corporate Governance

Jensen and Meckling (1976) brought a new concept of agency theory and still today many studies in finance, corporate governance and organization theories use this theoretical framework. The relationship in one in which the principal delegates an agent to perform work. Their paper highlights the conflict of interest between the principals and agents. The agents are the management charged with the responsibility to operate the business on behalf of the principals who are the owners. The theory is limited due to its narrow view of the problems facing a firm that is the agency problems between the management and shareholders.

According to Berle and Means (1932) the agency relationship is between the owners and management and this creates a conflict of interest because of deferring priorities of the parties. Their study also acknowledges other stakeholders such as the creditors and bondholders. In their study, they did not address the benefits for separation of management from shareholders and incentives for management to work in the best interest of the owners. They further did not address the need for efficient monitoring of management.

Fama and Jensen (1983) extended the agency problem in terms of costs involved in monitoring of management by shareholders. They went further to distinguish the agency relationships between private partnerships, financial and non – financial corporations and donor agency relationships. They also suggested that to monitor management, a larger proportion of outside directors would be important. Their study was limited to the costs of the agency relationship in a firm. They did not look at other factors such as incentives given to the managers to motivate them to attain shareholders value maximization.

2.1.2 Stewardship Theory

Daily *et al.* (2003) argue that executives and directors are inclined to protect their reputations by ensuring efficient business processes to maximize financial performance. The directors will therefore design internal controls and procedures to ensure efficient and transparency in the business processes to safe guard the resources of the firm.

Davis, Schoorman and Donaldson (1997) argued that management gained more satisfaction attaining firm’s goals than their own desires. The goal of the firm is wealth maximization. This broad objective leads to increased shareholder value and firm value at large. Their theory explains the objectives of managers and how they are aligned to the

objectives of the firm. The managers act as stewards for the shareholders to operate the business of the firm and report the performance in the annual general meeting. The shareholders appoint independent auditors to examine the financial statements and give an opinion on whether the financial performance presents a true and fair view. The theory does not consider the role of the immediate industry environment in performance of the firm.

2.1.3 Resource Dependency Theory

The resource dependency theory developed by Pfeffer (1973) and Pfeffer, and Salancik (1978), emphases the important role played by board of directors (BODs) in providing access to resources that would enhance the firm's performance. The resources comprise the factors of production which management manipulates to generate revenue for the firm. The most important resources are the capital requirements and quality human resources. The theory is limited to the resources available to the firm without considering the fact that without quality management the resources may be misappropriated.

According to Dalton *et al.,* (1999), the theory of resource dependency favors larger boards. A large board size brings to the firm a wealth of directors with divergent experience, expertise, and knowledge. Other factors such as quality of the management and availability of adequate capital are critical to higher firm value.

2.1.4 Stakeholder Theory

The stakeholder theory developed by Freeman in 1984 defines stakeholders as "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman, 1984). Theory advocates that managers in organizations have a network of

internal and external stakeholders to serve; such as employees, shareholders, suppliers, business partners, the government and the general public. The stakeholder theory looks beyond the shareholders unlike the agency theory. The agency theory focuses on the contractual relationship between management and shareholders with a sole objective of maximizing shareholders wealth. However, the managers' actions affect other interested parties and they should be accountable to all stakeholders.

Managers are expected to consider the interests of people who are affected by a firm's policies and operations (Frederick *et al.,* 1992). The operational objectives and procedures should integrate the interests of the internal, micro and macroeconomic environment factors. This will assure wider support to the economic activities of the firm.

2.2 Determinants of Earnings yield for Commercial Banks listed at the NSE

The study reviewed other determinants of earnings yield discussed below. Earnings yield is the proxy for firm financial performance. Capital adequacy influences the variability of earnings. Capital is the amount of own fund available to support the banks (Athansasglou et al.2005). Capital is generated from the owners and going forward through the issue of shares to the public. Capital adequacy is the optimal amount of own fund required by the firm to meet the long-term investment plans. Capital is generated through the issue of shares to the public. Capital can also be generated by reinvesting the distributable profits back into the business and issuing bonus shares to the owners instead of dividend payouts.

Liquidity determines the level of bank performance. According to Dang (2011) adequate level of liquidity is positively related with bank profitability. Liquidity is the ability of the bank to settle the obligations especially to depositors. The most important liquidity ratios of a bank are customer deposit to total asset and total loan to customer deposits. Another important aspect of liquidity is the ability of the firm to meet the present obligations when they fall due. Therefore, liquidity means that the firm has sufficient current assets to pay the current liabilities when they are due for settlement.

2.3 Empirical Studies

Dahya and McConnell (2002) analyzed the effect of the Cadbury recommendations to discrete board tasks. Their study found a strong positive relationship between CEO turnover and firm performance. Strict compliance and practice of the guidelines in the code was associated with high performance. The continued existence of the CEO is determined by the performance of the firm.

Malllit (2012) sought to determine the impact of corporate governance on the share prices of companies listed in the NSE. The study was conducted on listed companies in Kenya. The researcher analyzed the data using regression analysis. The study found a strong link between the share price and corporate governance. The researcher also found that majority of the firms listed in the NSE had adopted good corporate governance practices which enhanced balance of power. Given the findings, the researcher observes the good will for listed companies to comply with the corporate governance guidelines provided by CMA. However, it should be mentioned that the number of listed companies on the NSE remains

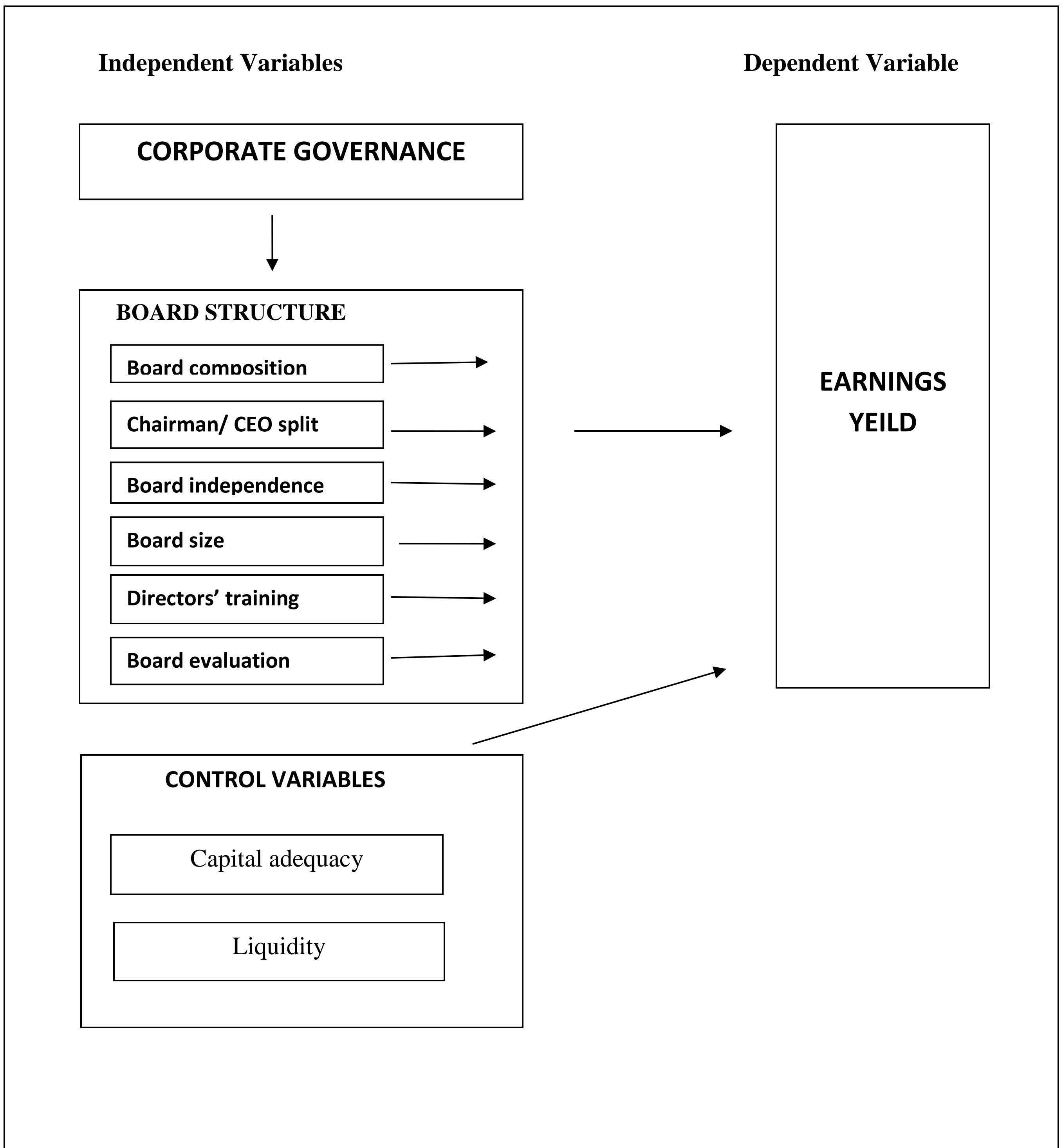
a small portion. Many firms are not yet able to meet the listing requirements at the NSE due to various factors unique to individual firms.

Otieno (2012) assessed corporate governance and financial performance of commercial banks in Kenya. The objective was to determine the magnitude of the relationship between the variables. The researcher applied Correlation and regression analysis. They found that corporate governance contributes towards financial stability and liquidity. The performance of banks is also attributed to other industry and technological factors other than corporate governance.

2.4 Conceptual Framework

The conceptual framework presents the quantitative relationship between the independent variables and dependent variable employed in the study. This functional relationship is given by; $Y = f(Xi)$. The dependent variable is earnings yield (Y) while the independent variable is corporate governance (Xi) while the. The control variables are capital adequacy and liquidity. The conceptual framework is developed from the review discussed above and presented in diagram in the subsequent page.

Figure 2.1: Conceptual Model



2.6 Summary of Literature Review

The review of theories indicates a gap between corporate governance and performance of organizations. One of the key measures of organization financial performance is earnings yield. According to the empirical studies cited, firms which have strong corporate governance structures are likely to post a high financial performance compared to those without or with weak corporate governance structures.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter illustrates the data collection procedures, methodology and analysis tools applied in the study. The methodology includes research design, target population, data collection procedures and analysis. The methodology demonstrates a systematic account of how the above activities are carried out in order to address the purpose of the study; to analyze the effect of corporate governance on earnings per share for commercial bank listed at the NSE.

3.1 Research Design

The researcher used a cross sectional, and analytical research design in carrying out the study. The study applied multiple correlation and regression models to analyze the variables of the study.

3.2 Population

The study analyzed all the commercial banks that are listed at the NSE. Currently there are eleven commercial banks listed on the NSE (see appendix III).

3.3 Data Collection

The study will use secondary data collection methods to gather information about the influence of corporate governance on earnings per share for commercial banks listed at the NSE. The study will examine data for a five-year period from the year 2013 to 2017. The secondary sources of data collection will include; review of journals, academic papers and

published annual reports. The lists and tables of data collected from the secondary sources will be presented in the appendices of the research proposal.

3.4 Data Analysis

The data was organized in simple tables and graphs. The researcher then analyzed the organized data using multiple regression and correlation analysis tools to obtain an in-depth understanding of the direction of the relationship and magnitude respectively between corporate governance and earnings per share. The main independent variable in the study was corporate governance while the dependent variable was earnings yield. The researcher measured the corporate governance in terms of the ownership structure and board size. The study measured the effectiveness of the board using the number of board committees and expertise of the committee members. Earnings yield is a performance measure derived by taking the net profits less the preferred dividends over the weighted average number of shares. The researcher then presented the results from the annual reports in tables, graphs and charts.

3.4.1 Diagnostic Tests

The study applied various diagnostic tests that include; tests for normality, linearity, auto correlation, and multicollinearity. The researcher used the measures for Skewness and Kurtosis to assess normality. Correlation analysis was applied to assess multicollinearity.

3.4.2 Analytical Model

The analytical model described the possible relationship between earnings yield, corporate governance and control variables. The model was given by the function below;

$$Y = \alpha + b_1X_1 + b_2X_2 + b_3X_3$$

Where;

Y= Earnings yield – Earnings per share (EPS) / Share price (SP)

α: Constant when all the independent variables equal to

b_1: Intercept of the model.

X_1: Corporate Governance – measured by the score in the data collection tool

X_2: Capital adequacy – measured by capital adequacy ratio.

X_3: Liquidity – measured by financial ratio of customer deposits to total assets.

3.4.3 Test for Significance

The research tested the significance of the model using the ANOVA, R-Squared, T and F-tests. The T and F- test determine the statistical significance of the research. The significant of the regression coefficients was tested by T-test and the determination of significance of regression equation by the F-test.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.0 Introduction

This section provides output of the fieldwork in form of a presentation, interpretation and discussion of the findings. The chapter divided into three sections includes; correlation analysis statistics, regression analysis, and the interpratation and discussion of findings.

The study analyzed the effect of corporate governance on earnings yield for a period of five years, from 2013 to 2017. The population was all the Elven listed Commercial banks. The reason why banks listed at the NSE were chosen is that the CBK the regulator of commercial banks, places corporate governance at top priority in their supervisory mandate. Thus, the corporate governance measures in banks are superior when compared to other quoted firms.Data will be obtained from the individual banks' websites, the NSE and the Capital Markets Authority (CMA).

4.1 Correlation Analysis

Correlation analysis establishes whether there exists an association between two variables lying between (-) strong negative correlation and (+) perfect positive correlation. Pearson correlation was employed to analyze the level of association between stock returns and real interest rates. The analysis was done both for the null lag and one period lag data. The study employed a confidence interval of 95%, as it is the most utilized in social sciences. A two tailed test was utilized

Table 4.1: Correlation Analysis

		Earnings Yield	Corporate Governance	Capital Adequacy	Liquidity
Earnings Yield	Pearson Correlation	1	.501**	.094	.055
	Sig. (2-tailed)		.000	.495	.689
	N	55	55	55	55
Corporate Governance	Pearson Correlation	.501**	1	.027	-.178
	Sig. (2-tailed)	.000		.845	.194
	N	55	55	55	55
Capital Adequacy	Pearson Correlation	.094	.027	1	.256
	Sig. (2-tailed)	.495	.845		.059
	N	55	55	55	55
Liquidity	Pearson Correlation	.055	-.178	.256	1
	Sig. (2-tailed)	.689	.194	.059	
	N	55	55	55	55

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

The study findings in Table 4.1 above indicate that corporate governance is significantly correlated at the 1% significance level (hence, also at the 5% level) to the earnings yield. The findings indicate that there is a positive relationship between the two variables. There is no significant correlation at the 5% significant level between the predictor variables, thus this signifies that there is no multicollinearity.

4.2 Regression Analysis

The Analysis of Variance was conducted using the F test and P value while the model coefficients test of significance utilized the T test and P value. The critical value obtained from the F test and T test and P value were compared with the values obtained in the analysis. Some diagnostic tests were also included in the study as a pre-test of the suitability of conducting the regression analysis.

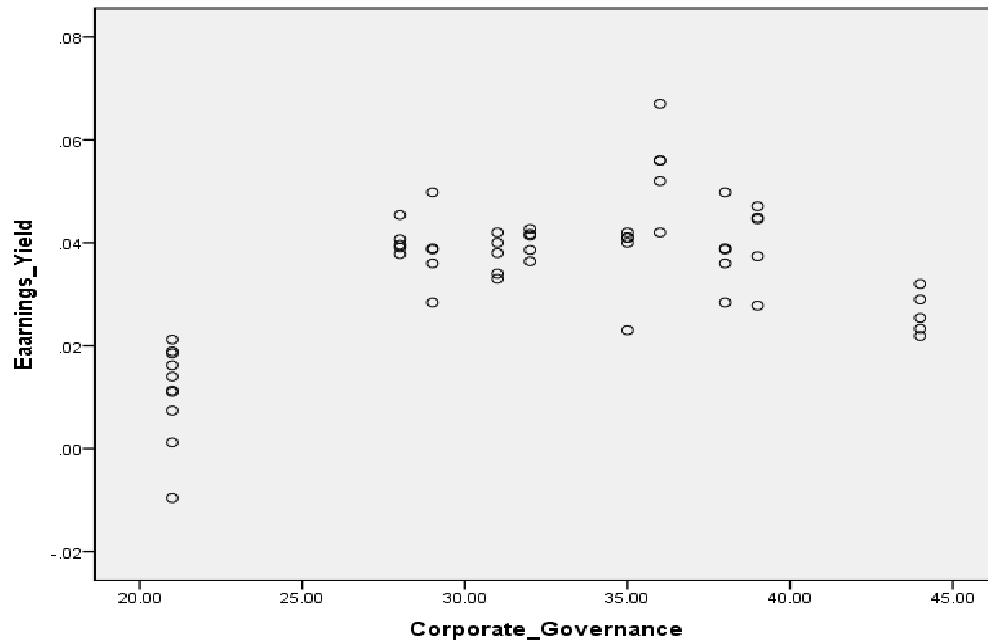
The test for normality was conducted using the skewness and kurtosis statistics. The data in a series does not exhibit a normal distribution because if it has skewness that is the range of -0.8 to +0.8, and a kurtosis within the range of -3 to +3. From the skewness and kurtosis statistics of the variables displayed in Table 4.3 below; it is evident that the earnings yield and corporate governance data series is normally distributed, but capital adequacy and liquidity data series have conflicting results. In case the kurtosis and skewness conditions conflict, the kurtosis condition is preferred. Hence capital adequacy and liquidity are normally distributed.

Table 4.2: Skewness and Kurtosis Statistics

	Earnings Yield	**Corporate Governance**	**Capital adequacy**	**Liquidity**
Skewness	-0.74535	-0.18910	1.43996	1.17396
Kurtosis	1.05626	-0.74488	1.62932	1.54222

The test for homoscedacity was conducted in order to ascertain that each individual predictor variable has a linear relationship with the response variable. The test for homoscedacity was mainly done using scatter plot diagrams. For the data series corporate governance, the results are displayed in Figure 4.1.

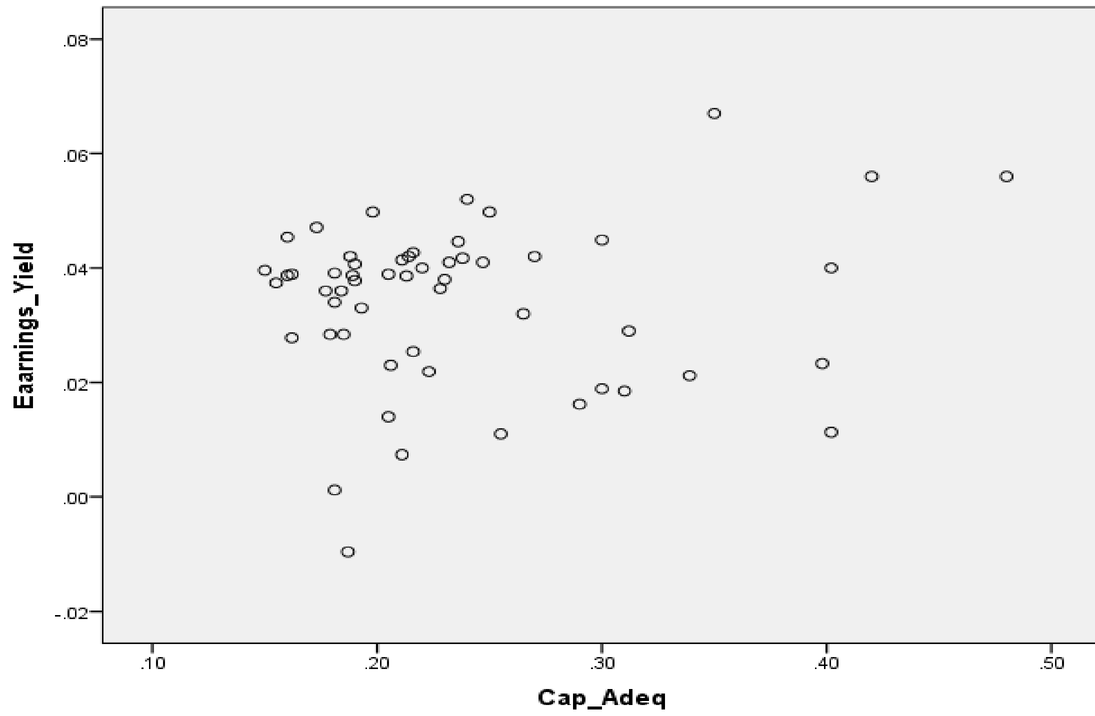
Figure 4.1: Corporate Governance Scatter Plot



The plotted points indicate that there is no linear relationship between corporate governance and earnings yield. Thus, there is presence of a heteroscedacity between the two variables.

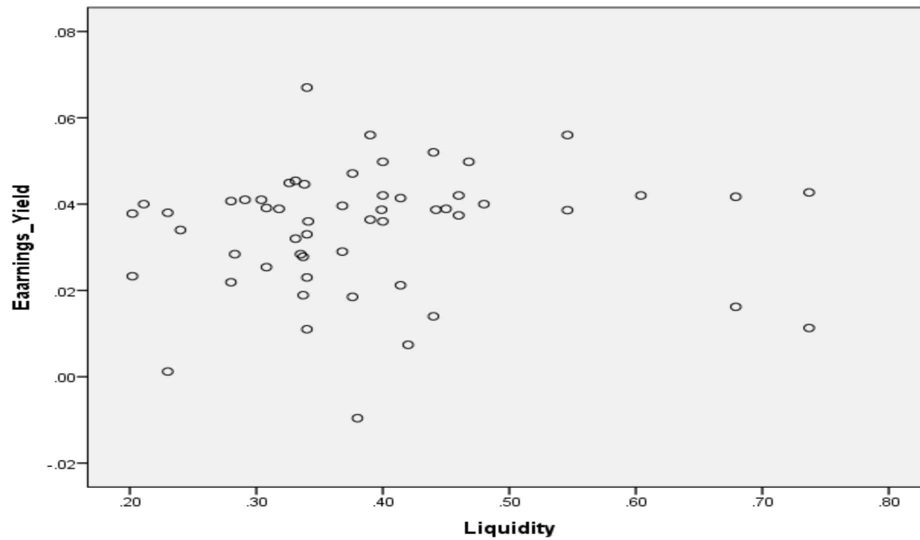
For the data series capital adequacy, the results are displayed in Figure 4.2 in the subsequent page. The plotted points indicate that there is a linear relationship between capital adequacy and earnings yield. Thus, there is presence of a homoscedacity between the two variables.

Figure 4.2: Capital Adequacy Scatter Plot



For the data series liquidity, the results are exhibited in Figure 4.3 below. The plotted points indicate that there is a linear relationship between liquidity and earnings yield. Thus, there is presence of a homoscedacity between the two variables.

Figure 4.3: Liquidity Scatter Plot



For the condition of linearity to be met, there must be the underlying condition of normality and homoscedacity to be met first. The data series corporate governance is normally distributed as shown in Table 4.2, however it is heteroscedastic as it is exhibited in Figure 1 and hence it is not linearly related to earnings yield. Table 4.2 displays that capital adequacy and liquidity are normally distributed, in addition, Figure 2 and Figure 3 indicate that they are homoscedastic. Hence, the two variables are linearly related to earnings yield.

When the regression analysis was done, the results obtained are indicated below.

Table 4.3: Variable Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.524[a]	.274	.231	.01245	.883

a. Predictors: (Constant), Liquidity, Corporate Governance, Capital Adequacy

b. Dependent Variable: Earnings Yield

From the outcome in Table 4.3 in the previous page, the value of R square was 0.274, a discovery that 27.4% of the deviations in earnings yield is explained by the variables;

corporate governance, capital adequacy, and liquidity. Other variables not included in the model justify for 72.6% of the variations in the performance of the eleven banks listed in the NSE.

To test for autocorrelation, Durbin-Watson statistic was applied which gave an output of 0.883 as displayed in Table 4.3 in the preceding page. The data used in this panel is serially autocorrelated since it does not meet this threshold.

Table 4.4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.003	3	.001	6.421	.001[b]
1	Residual	.008	51	.000		
	Total	.011	54			

a. Dependent Variable: Earnings Yield

b. Predictors: (Constant), Liquidity, Corporate Governance, Capital Adequacy

The study findings in Table 4.4 indicate that the model employed in the study is significant because the p value obtained is less than the critical value of 0.05. The study indicates a p value of 0.001, which is more than the critical value. A critical value of 2.78622883 was obtained from the F-Test tables. The F statistic indicated in the study findings is more than the critical value. This implies that the model is statistically significant in predicting how corporate governance, capital adequacy, and liquidity affect the performance of the eleven banks listed in the NSE.

Table 4.5: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.008	.011		-.763	.449	-.031	.014
	Corporate Governance	.001	.000	.524	4.310	.000	.001	.002
	Capital Adequacy	.008	.023	.045	.361	.720	-.038	.055
	Liquidity	.016	.014	.137	1.089	.281	-.013	.045

a. Dependent Variable: Earnings Yield

From the results contained in Table 4.5 above, it is evident that the predictor variable corporate governance has a statistically significant relationship at the 5% level of significance with earnings yield. It has a p-value which is less than the critical value of 0.05. The T-Test critical value of ± 2.004045 was obtained from the T tables. It was a two tailed test at the 5% significance level. Only the T value of corporate governance lies outside the range of the critical value. The variables capital adequacy and liquidity do not have an effect on the earnings yields of the eleven listed banks. This is because they have p-values which are greater than the critical value of 0.05. The regression equation below was thus estimated:

$$\mathbf{Y = -0.008 + 0.001X_1 - 0.008X_2 - 0.016X_3}$$

Where;

Y: Earnings yield

X_1: Corporate Governance – measured by the score in the data collection tool

X_2: Capital adequacy – measured by capital adequacy ratio.

X_3: Liquidity – measured by financial ratio of customer deposits to total assets.

4.3 Interpretation and Discussion of Findings

The study sought to determine how corporate governance affect earnings yield per share. The effect of each of the independent variable on the dependent variable was analyzed in terms of strength and direction.

The test for correlation in Table 4.1 shows that that the variable corporate governance is significantly correlated to earnings yield. The findings imply that there exists a positive link between the two variables. However, the correlation of the capital adequacy and liquidity indicate that there is no significant relationship between each of the two predictor variables and earnings yield. The fact that no significant correlation was found among the independent variables suggested non-existence of multi-collinearlity.

The kurtosis and skewness statistics indicate that all the variables employed in the study are normally distributed. However, the test for homoscedacity showed that only capital adequacy and liquidity are homoscedastic, hence it is only these two variables that are linearly related with earnings yield. In the regression analysis, the analysis of variance as exhibited Table 4.4, shows that the model developed is significant as evidenced by the F and P values obtained when compared to the critical values. This implies that corporate governance, capital adequacy, and liquidity can be able to estimate the earnings yields figures of the eleven banks listed in the NSE.

The model coefficients in Table 4.5 indicate that only corporate governance impacts the earnings yield. It exhibits a positive significant relationship between the two variables. The model developed implies that; the constant -0.008 shows that if the predictor variable had a zero value, the dependent variable would equal to that value. The corporate governance

coefficient of 0.001 shows that a unit increase in the predictor variable would lead to an increase in the response variable by 0.001.

The study found out that corporate significantly affects positively the financial performance of business enterprises. The study findings resonate with that of the study conducted by Adelou and Oseko (2016), who argue that better governance is a prerequisite for better performance. The study findings are also in agreement with studies conducted by Emmanuel and Hodo (2012), Donaldson and Preston (1995), Matama (2008), Malllit (2012), and Lopokoiyit (2012) that better corporate governance practices significantly affect the financial performance in a positive manner.

The study established through the R square statistic that other factors not included in the study mainly impact earnings yield. 27.4% of the deviations in earnings yield is explained by the variables included in the study while other variables not included in the model justify for 72.6% of the variations in the performance of the eleven banks listed in the NSE. This resonates with the findings of a study conducted by Otieno (2012) which established that the performance of banks is attributed to other industry and technological factors other than corporate governance. The findings that capital adequacy and liquidity do not significantly affect earnings yield conflict with those of the study done by Lopokoiyit (2012) that other determinants like availability of adequate capital and liquidity are significant to the performance of banks.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 Introduction

This section discusses the summary of the research findings and draws conclusions and recommendations for further studies in the subject area. It also discusses the limitations faced in the research work.

5.1 Summary

This study aimed at determining the effect of the effect of corporate governance practices on earnings yield. The unit period of analysis was annual, and data was collected for the period from 2013 to 2017. Secondary data was collected on; the profit after tax, outstanding shares, corporate governance measures, capital adequacy, customer deposits, and total assets. The study employed the use of correlation analysis, and regression analysis to establish the effect of corporate governance on earnings yield.

The study established that the effect of corporate governance on earnings yields of the eleven listed banks exhibited a positive significant relationship between the two variables. This was revealed in the correlation and regression analysis. The model applied in the study showed that a unit increase in corporate governance would result in an increase in the earnings yield in the eleven banks listed in the NSE by a factor of 0.01. However, capital adequacy and liquidity do not have a significant effect on earnings yield. However, the overall model was significant in predicting the earnings yield as evidenced by the F test and significance test carried out in the analysis of variance.

5.2 Conclusion

Corporate governance has a significant positive relationship with earnings yield, higher corporate governance measures lead to higher earnings yield of the eleven banks listed in the NSE.

Thus, the study concludes that main independent variable selected for this study, corporate governance, to a large extent influence earnings yield. However, the other variables, capital adequacy and liquidity, has no effect on earnings yield.

The conclusion resonates with that of Ayesha (2011) that good corporate governance is important in reducing risk for investors, attracting investment capital and improving the performance of companies. Investors will be attracted to securities in firms that have governance structures designed to control the business risk and financial risk of the operations. The systems of risk identification, evaluation and control will enhance higher profitability and return to the shareholders.

5.3 Recommendations

Policy recommendations are that since corporate governance has been established to exhibit significant positive effect on earnings yield, the government regulatory institutions can advocate the establishment and maintenance of corporate governance mechanisms to boosts firms' earnings. The CBK can formulate policies and make informed decisions in the area of corporate governance for financial institutions on the backdrop of the information that corporate governance significantly affects positively the banking firms performance.

Recommendations can also be made to investment banks, stock brokerage firms, institutional investors, and individual investors, to enable them 'beat the market' and make above average market returns. They can achieve this by investing in firms with good corporate governance practices. The management of diverse firms can also utilize the study findings to strengthen their corporate governance mechanisms in order to improve firm performance.

5.4 Limitations of the Study

Due to time and cost limitations, the scope of the study has been limited to five years, between 2013 and 2017. Thus, it has not been determined if the result findings would hold for a longer time period. Furthermore, it is uncertain whether similar findings would result beyond 2017. Since the study employed secondary sources of data, some of this data was not readily available; especially data on capital adequacy and the corporate governance measures, and it took great lengths to obtain it. Some data could also not be used in its raw form, for instance real interest rates. The researcher was involved in continuously editing the data to allow further processing and analysis.

5.5 Recommendations for Further Study

First, there are many variables affecting earnings yield, apart from the ones considered in the study. Further research can be done to identify these factors. The current study's scope was limited to five years. further research can be done beyond ten years to ascertain if the findings would hold. Thus, future studies may use a range of many years, for instance, from 1970 to date and this can be helpful to confirm or disapprove the findings of this study. The scope of the study was also limited to the Kenyan context where the eleven banks

listed in the NSE were examined. Researchers in other East African, African, and other global countries can conduct the study in these jurisdictions to ascertain whether the current study findings would hold.

Secondary data was solely utilized in the study, alternative research can be employed using primary sources of data like in-depth questionnaires and structured interviews to be administered to the senior firm management. These can then approve or disapprove the current study findings.

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APPENDICES

Appendix I: Data Collection Tool

Tick the appropriate box ***(Yes = 1, No = 0)***

	Yes	**No**
Is the Chairman independent and not an executive director?		
Has the announcement to the public for results been shorter than two working days following the Board meeting?		
Does the firm promptly disclose significant market sensitive information?		
Are full Board meetings held on a quarterly basis?		
Are Board members given briefings before Board meetings?		
Is the audit committee in control of the Internal audit and accounting controls and procedures?		
Does the firm have system for evaluation of Board members?		
Are there proper bylaws to govern Board procedures and meetings?		

Appendix II: List of the 11 Commercial Banks listed on the Nairobi Securities Exchange as at 30th June 2018

1. Kenya commercial bank
2. CFC Stanbic
3. Cooperative bank
4. National bank
5. Equity bank
6. Barclays bank
7. Standard Chartered Bank
8. I&M Holdings
9. Diamond trust bank
10. NIC bank
11. Housing Finance Company

Source: Nairobi Securities Exchange website-www.nse.co.ke

Appendix III: Research Data

COMPANY	Year	Earnings Yield	Corporate Governance	Capital adequacy	Liquidity
Barclays	2013	0.04980	38	0.250	0.468
	2014	0.03890	38	0.162	0.450
	2015	0.03870	38	0.160	0.442
	2016	0.03600	38	0.184	0.341
	2017	0.02840	38	0.179	0.283
Diamond Trust Bank	2013	0.04980	29	0.198	0.400
	2014	0.03890	29	0.205	0.318
	2015	0.03870	29	0.189	0.399
	2016	0.03600	29	0.177	0.400
	2017	0.02840	29	0.185	0.335
Standard Chartered Bank Kenya Ltd	2013	0.04490	39	0.300	0.326
	2014	0.04460	39	0.236	0.338
	2015	0.04710	39	0.173	0.376
	2016	0.02780	39	0.162	0.337
	2017	0.03740	39	0.155	0.460
NIC Bank	2013	0.04170	32	0.238	0.679
	2014	0.04140	32	0.211	0.414
	2015	0.04270	32	0.216	0.737
	2016	0.03860	32	0.213	0.546
	2017	0.03640	32	0.228	0.390
National Bank	2013	0.01100	21	0.255	0.340
	2014	0.01400	21	0.205	0.440
	2015	0.00740	21	0.211	0.420
	2016	-0.00960	21	0.187	0.380
	2017	0.00120	21	0.181	0.230
KCB Bank	2013	0.03780	28	0.190	0.202
	2014	0.03960	28	0.150	0.368
	2015	0.04540	28	0.160	0.331
	2016	0.03910	28	0.181	0.308
	2017	0.04070	28	0.190	0.280
I&M Bank	2013	0.04000	35	0.220	0.211
	2014	0.04200	35	0.214	0.460
	2015	0.02300	35	0.206	0.340
	2016	0.04100	35	0.247	0.304
	2017	0.04100	35	0.232	0.291
HFCK	2013	0.01890	21	0.300	0.337
	2014	0.01850	21	0.310	0.376
	2015	0.01620	21	0.290	0.679
	2016	0.02120	21	0.339	0.414
	2017	0.01130	21	0.402	0.737
Equity Bank	2013	0.05600	36	0.480	0.546

	2014	0.05600	36	0.420	0.390
	2015	0.06700	36	0.350	0.340
	2016	0.05200	36	0.240	0.440
	2017	0.04200	36	0.270	0.604
Co-operative Bank	2013	0.04000	31	0.402	0.480
	2014	0.04200	31	0.188	0.400
	2015	0.03300	31	0.193	0.340
	2016	0.03400	31	0.181	0.240
	2017	0.03800	31	0.230	0.230
CFC Stanbic	2013	0.02330	44	0.398	0.202
	2014	0.02900	44	0.312	0.368
	2015	0.03200	44	0.265	0.331
	2016	0.02540	44	0.216	0.308
	2017	0.02190	44	0.223	0.280