THE EFFECT OF CORPORATE GOVERNANCE ON EARNINGS MANAGEMENT OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in this or any other University.

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DEDICATION

This project is dedicated to my beloved Mother Khadija, my brother Mohamed, and all my siblings for their support, sacrifices, patience and encouragements throughout my academic endeavors

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LIST OF ABBREVIATIONS

BS–Board Size

CBK– Central Bank of Kenya

CFO– Cash Flow from Operations

CMA–Capital Market Authority

DA– Discretionary Accruals

EM–Earnings Management

GAAP – Generally Accepted Accounting Principles

KRA– Kenya Revenue Authority

NI– Net Income

NSE – Nairobi Securities Exchange

SPSS – Statistical Package for the Social Sciences

TA– Total Accruals

ABSTRACT

Following the spate of well-publish corporate scandals that took its toll with the collapse of once the prestigious companies such as Enron and Worldcom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide. The aim of this research was to determine the effect of corporate governance on earnings management of companies listed at NSE in Kenya. The corporate governance variables used in the study are board size, board independence, audit committee independence and CEO shares while discretionary accrual was used to proxy for earnings management. Sample sizes of thirty (30) companies were selected from listed companies at NSE for the period 2009 to 2013. This gives us a total of 150 company years/data observations. Regression Analysis was used in the analysis of data and result interpreted based on the R-squared R-squared, adjusted R-squared, coefficients of the independent variables and their p-values.

From the findings, the study found that a unit increase in board size will cause an increase in earnings management and statistically significant , further a unit increase in board independence will lead to a decrease in earnings management and statistically significant, a unit increase in audit committee independence will lead to a decrease in earnings management and statistically not significant, a unit increase in CEO shares will lead to an increase in earnings management but statistically not significant and a unit increase in Firm Size will further lead to a decrease in earnings management and statistically significant. The study concluded that earnings management is negatively related to board independence. The study also concluded, that board independence is negatively related to earnings management. The study recommends the need for effective corporate governance practice at board selection level of the companies quoted at NSE. Re-examining the criteria used in selection of directors in the companies and ensure that corporate boards are more independent. This will reduce the earnings management and will ensure that the directors are accountable to the shareholders with a ripple effect of improving investor confidence.

<center>**CHAPTER ONE**</center>

<center>**INTRODUCTION**</center>

1.1 Background of the Study

The separation of ownership from management raises the issue of monitoring managerial activities to ensure investor confidence. Following a spate of well-publish corporate scandals that took its toll with the collapse of once the prestigious companies such as Enron and Worldcom reiterated the need for an investigation into the quality of financial reports and increased the clamoring for a better governance mechanism worldwide. It has been observed by accountants and financial economist that central to these corporate failures is that "there are systematic deficiencies in accounting standards and governance system that generate financial information" (Bowen, Rajgopal and venkatachalam, 2003).

In a bid to prevent such future failure of companies, most nations across the global introduced new code of best governance practices to align managers interest with the wealth maximization objective of the shareholders and ensure that corporate reports communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information. (Bhuiyan, 2009) states that users of accounting information, such as investors, government agencies, auditors and financial analysts, have focused on monitoring corporate governance systems. This lead to increased disclosures about corporate governance, demands for the regulation of systems of corporate governance, and consequentially, enhanced internal controls system. Regulators, academics and practitioners around the world now evaluate corporate governance compliance from inception to the implementation of suitable and sustainable system that takes account of the socio-economic environment relevant to any particular company.

1.1.1. Corporate Governance

Cadbury, (1992) report defined Corporate Governance as a 'System through which business corporations are directed and controlled.' It also refers to it as 'the way in which boards and officers handle the affairs of the corporation'

Corporate governance is creating balance between economic and social goals as well as individuals, corporations and society (Brownbridge, 2007). Governance refers to the manner in which power is

exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002)

Gazette notice NO. 3362 to Market Capital Act of Kenya (Cap.485A) the developed guidelines for good governance practices by listed companies in Kenya, defines the corporate governance as the process and the structure used to direct and manage the business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of stakeholders.

Corporate governance goes beyond clearly establishing relationship between managers and shareholders, the presence of strong governance standards provide better access to capital aids economic growth. Corporate governance ensures that business environment fairness and transparent. The investors believe that a company with good corporate governance will perform better over a period of time and that good governance can reduce the risk and attract further investment (Agrawal et al. (1996). A good corporate governance structure helps ensure that the management properly utilizes the enterprise's resources in the best interest of absentee owners, and fairly reports the financial condition and operating performance of the enterprise (Lin and Hwang, 2010). Dabor and Ibadin, (2013) notes that corporate governance is a factor, that determine whether management will engage in earnings management or not. Studies on earnings management have shown that weak corporate governance is associated with greater earnings management (Beasley, 1996; Klein, 2002 as cited in Dabor and Ibadin, 2013). The function of the corporate governance formation in financial reporting is to ensure compliance with generally accepted accounting principles (GAAP) and to maintain the credibility of corporate financial statements. Properly structured corporate governance mechanisms are expected to reduce earnings management because they provide effective monitoring of management in the financial reporting process. This study will focus on the effect of corporate governance on earnings management, specially the board size, Board independence, Audit Committee independence, CEO shares and firm size.

1.1.2 Earnings Management
Healy and Wahlen (1999), define earnings management as the alteration of firms' reported economic performance by insiders to either mislead some stakeholders or to influence contractual outcomes.

Ronen and Yaari (2008) classified the earnings management into two categories value-enhancing earnings management and opportunistic earnings management and further defined each as "Value-enhancing earnings management is a way for managers to establish rapport with owners by signaling value relevant information without getting into too many cumbersome details. Securing the goodwill of the owners is valuable" while they defined the other type "Opportunistic earnings management is likely because of the conflict of interest between shareholders and management and because, in general, those possessing private information makes it easier to use it to the advantage of its holder at the expense of others"

According to Ronen and Yaari (2008), define earnings management as a "collection of managerial decision that result in not reporting true short-term, value-maximizing earnings as known to management" and further noted that managed earning results from production/investment action before earning are realized, or making accounting choices that affect earnings numbers and their interpretation after the true earnings are realized.

Chen, Lin and Zhou (2005) document that accruals are likely to capture evidence of earnings management while Dechow, Sloan, and Sweeney, (1995) provide evidence that the modified Jones model of 1991 is the most powerful instrument to detecting earnings management among the alternative models to measure unexpected accruals. In line with the prior studies (such as Dechow et al, 1995; Jaggi and Leung, 2007) a cross sectional regression of the modified Jones model of (1991) is used to obtain the discretionary components of accruals used to proxy earnings management. The discretionary accruals are estimated as follows: Total accruals are measured as net income minus cash flows from operation. $TA_{i,t} = NI_{i,t} - CFO_{i,t.}$ The discretionary accruals, a proxy for earnings management are estimated by subtracting non-discretionary accruals from total accruals where all accrual variables are scaled by the lagged total assets to control for heteroskedasticity (Chen et al, 2005).

1.1.3 Effect of Corporate Governance on Earnings Management
Theoretical relationship between corporate governance and earnings management existence is demonstrated by theories such as, agency theory predicts that the low level of insider ownership imply a poor alignment of interest between management and shareholders (Jensen and Meckling 1976); that is managers with little ownership may have incentives to manage accounting numbers so as to increase earning-based compensation, relax contractual constraint, or avoid debt

covenants(healy,1985; Houlthausen et al., 1995). Insider ownership can be seen as a way constrain the opportunistic behavior of managers, so the level of discretionary accruals is predicted to be negatively associated with insider ownership (Warfield, Wild & Wild 1995)

Agency theory's validity and lucidity is contingent upon the existence of mechanisms by which firm owners are able to monitor the performance of managers to verify that firm managers are using their own competences, and the firm's resources, to achieve the best returns for the principals (Fama, 1980). Therefore, effective monitoring of managers by the board of directors is very important to ensure reliable and complete financial reporting. Since earnings management misleads users of financial statements by providing them with false information about a firm's true operating performance, the internal corporate governance of the board of directors serves a monitoring role in constraining the occurrence of earnings management (Dibia and Onwuchekwa 2014)

Several empirical studies concluded that there is a various relationship between corporate governance and earnings managements. (Shah, Butt, and Hassan, 2009) who were doing an empirical evidence study on the corporate governance and earnings management in Pakistan listed companies concluded in their study that quality of corporate governance is positively related with earnings management. Muchoki (2013) study on the relationship between corporate governance practices and earnings management for companies quoted in NSE, concluded in his study, that Board independence is negatively related to earnings management. The study further concluded that CEO duality is other corporate governance index that is significantly related to earnings management. However the study disagrees with (Dibia and Ownwuchekwa 2014) study about an Appraisal of Corporate governance mechanisms and earnings management in Nigeria, who find that Board independence, does not exert significant influence on earnings management. The diversity of results can be partly explained by differences in the theoretical perspectives applied and selected research methodologies.

The study aims to enumerate the effect of Corporate Governance on earnings management of listed companies at the NSE. Several studies have sought to understand the relationship between these two concepts corporate governance and earnings managements, by testing effect of some corporate governance mechanisms such as board size, board independence, audit committee independence and CEO shares on earnings managements, to come up with best corporate governance that will monitor managers' discretion, including their discretionary financial reporting.

1.1.4 Nairobi Securities Exchange

Nairobi Securities Exchange was established in 1954, the NSE is the principal securities exchange of Kenya and the leading securities exchange in East Africa, offering platforms for the issuance and trading of equity and debt securities. The NSE is a member of the African and East African Securities Exchanges Associations, and an affiliate member of the World Federation of Exchanges. (www.nse.co.ke)

Companies are listed in Nairobi Securities Exchange after complying with all the corporate governance guidelines in Kenya that were issued by CMA 2002. These guidelines were prepared in recognition of the role of good corporate governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors rights (CMA, 2002). In order to improve on the quality of the financial reporting process, CMA (2002) proposed the establishment of audit committee of at least three independent and non-executive directors who shall report to the board and chaired by an independent and non-executive director.

There are 63 listed companies, these listed companies at NSE are divided into agricultural, automobiles and accessories, banking, commercial and services, construction and allied, energy and petroleum, insurance, investment, manufacturing and allied and telecommunication and technology sectors. (www.nse.co.ke)

1.2 Research Problem

The separation of ownership and control in publicly held corporations encourages conflicts of interest between managers and shareholders (Berle and Means, 1932). Thus a good corporate governance structure helps ensure that the management properly utilizes the enterprise's resources in the best interest of absentee owners, and fairly reports the financial conditions and operating performance of the enterprise (Lin and Hwang, 2010).Therefore, corporate governance manage the utilization of shareholders resource best way possible, hence increasing the shareholder's wealth.

Kenya has experienced a number of corporate failures in the recent past due to weak corporate governance structures within the organizations. According Wairimu, (2010) her article about the corporate governance irregularities in Kenya's financial markets, state that despite the good laws that exist in theory, there is still a window for senior managers to misappropriate shareholders wealth. The study further add that recent irregularities in Kenya involved Nyagah stockbrokers, the stockbrokerage firm put on statutory management in 2008 after failing to meet its financial

obligations. Kenya corporate needs to put in place good corporate governance mechanisms in place that will reduce these irregularities. According to Waweru and Riro, (2013) state that Kenya has also not been spared from the failures in corporate governance experienced in other countries, with recent examples such as in 2006, Uchumi Supermarket was placed under receivership with millions of shareholders' funds, and the collapse of three stock brokerage firms in 2008.

There are considerable number of studies on corporate governance locally, though most focused on the performance of the firm, no much study about the effect corporate governance on earnings managements, except (Muchoki, 2013) his study about the relationship between the corporate governance and earnings managements on the companies quoted at NSE, where he tested some corporate governance mechanism relationship with earnings managements and Waweru and Riro, (2013) about corporate governance and firm specific characteristics on earnings management by Kenyan listed companies.

Since the studies on these areas in Kenya have been scanty with mixed conclusions. This study will increase the existing knowledge by using a different corporate governance mechanism and different data. Therefore this research seek to answer the question: which corporate governance mechanisms (Board size, Board independence, Audit committee independence and CEO shares) affect earnings management of the companies listed at the NSE?

1.3 Research Objectives
The objective of this study is to investigate the effect of corporate governance on earnings management of companies listed at NSE.

1.3.1 Specific objectives
   I. To establish the effect of board size on the earnings management of listed companies.
   II. To examine the effect of board independence on the earnings management of listed companies.
   III. To examine the effect of audit committee independence on the earnings management of listed companies.
   IV. To examine the effect of CEO shares on the earnings management of listed companies.

1.4 Value of Study

The results of this study are important to investors in developing countries, who must interpret financial statement numbers reported by companies while making investment decisions. Furthermore, the study contributes to our understanding of how corporate governance influences financial reporting in developing economies, such as Kenya.

The study would sensitize the shareholders of companies about the importance of putting in place good corporate governance for the sake of maximizing their wealth.

In terms of the regulations, the empirical results of the study would provide general indicators of that corporate governance that are both useful for KRA, NSE, CMA and CBK.

The study will be of essence to researcher as it shall add to already existing body of knowledge through publishing of its key findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study is an investigation into the effect of selected corporate governance variables and earnings management of the companies listed at the NSE. This section addresses and reviews past studies on the subject and critically reviews relevant literature. The chapter comprises of five sections; theoretical framework, determinants of earnings managements, empirical review, and summary.

2.2 Theoretical Review

This section review significant theories of corporate governance which are related to this study.

2.2.1 Agency Theory

Agency theory is one of the dominant theories of corporate governance. During 1960s and early 1970s economist explore the risk sharing among the individuals or groups (e.g Arrow, 1971; Wilson 1968).This literature described the risk-sharing problem as one that arises when parties in cooperation have different attitude toward risk. (Eisenhardt, 1989) State that agency theory broadened the risk-sharing to include the agency problem that occurs when the parties involved in the corporations have different goals and division of labour.

In agency theory, the separation of ownership and control, is seen as hallmarks of the modern corporation, using their firm-specific knowledge and managerial expertise to gain an advantage over firm's owners, who are absent from the day-to-day affairs of the firm (Dibia and Onwuchekwa 2014). Since the managers are "in control" of the firm, the risk is that they will pursue actions in their own self interest, and not the interest of the owners (Jensen and Meckling, 1976). Agency theory concern is resolving the agency problem that a rise from the divergent desire and goals between the principal (owner) and agent, looking into most efficient contract governing the principal-agent relationship. The main concern of the theory is to develop rules and incentives, based on the implicit explicit contracts, to eliminate or at least, minimize the conflict of interest between principals and agents.

2.2.2. Stewardship Theory

Stewardship theory was developed by Donaldson and Davis (1991 & 1993) as a new perspective to understand the existing relationship between ownership and management of the company. Stewardship Theory has been framed as the organizational behavior counterweight to rational action theories of management (Donaldson and Davis, 1991 & 1993). The main assumptions underlying the prescriptions of stewardship theory is that behaviors of the managers are aligned with the interest of the principal. Stewardship Theory places greater value on goal convergence among the parties involved in corporate governance than on the agent's self-interest (Van Slyke, 2006). This theory holds that there is no conflict of interests between managers and owners.

In stewardship theory, it stresses top of management as steward whose utility function is maximized when shareholders' wealth are maximized. The steward perceives that the utility gained from interest alignment and collaborative behavior with the principal is higher than the utility that can be gained through individualistic, self-serving behaviors (Davis et al., 1997). Stewardship theory is focused on intrinsic rewards that are not easily quantified, such as growth, achievement, and duty while Agency Theory places more emphasis on extrinsic motivation.

2.2.3. Stakeholder's theory

The stakeholder's theory was developed by the Freeman (1984) it is all about identifying the groups who are stakeholders in a corporation and need to be managed, it assume that quickest way to destroy a shareholder value is to ignore the stakeholders. According Miniga (2013) stakeholder theory has become more prominent because of researchers recognition that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders. McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society.

Hetherington (1973) critique the shareholder theory that there is no reason to for shareholder to tolerate the corporate non-profit activity as it appreciably reduces either the dividends or market performance of the stock. Jenson (2001) also critique the shareholder theory for assuming a single-valued objective and argue that the performance is of the firm is not measured only by the by gains to its stakeholders.

2.3 Determinants of Earnings Management

The present study examines the effect of corporate governance on earnings management of companies listed at the NSE. The following paragraphs provide the underlying rationale behind the relationship between each variables and earnings management.

2.3.1 Corporate Governance

One of the determinants of corporate governance is board size. Board size is the total number of executive and non-executive directors in the board. Several literature exits on the effect of board size on earnings management. Jensen (1993) submits that small boards are more effective in monitoring the Chief Executive Officer (CEO's) activities than large boards as large boards concentrate more on "politeness and courtesy" and are therefore easier for the CEO to control.

Yermack (1996) conclude that small boards are more effective monitors than large boards. Implying that, the size of a firm's board should be inversely related to earnings management Also Barnhart and Rosenstein (1998) found that firms with smaller board size perform better than firms with large board size. Agrawal and Knoeber (2001) find that outside directors play a political role by providing advice and insight into the workings of government to influence the government directly. Peasnell, Pope, and Young (2004) found that having a large board is better in reducing earnings management compared to smaller boards. In the same way, Rahman and Ali (2006), documents that large board size is positively related with earnings management. According to Dibia and Onwuchekwa (2014) concluded that association between was seen to be neagative. This is contrary to Xie, Davidson, and DaDalt (2003) who argue that smaller boards are better able to make timely decisions than large boards. Although, they agree that larger boards with diverse knowledge are more effective for constraining earnings management than smaller boards.

Another determinant of corporate governance is board independence. Board independence is the percentage of independent outside directors in the board and is usually referred to nonexecutive directors. According to (Firstenberg and Mikiel, 1980), outside directors are independent of the firm's management and they bring in their experience to the firm. Hermalin and Weisbach (1988) conclude in their study, more independent directors are likely to join board after firm performs poorly. From an agency standpoint, the ability of the board to act as an effective monitoring mechanism depends on its independence of the management (Beasley, 1996). Fama and Jensen (1983) notes that independent directors on boards make the board to act as an effective in

monitoring managers and exercising control on behalf of shareholders. While Bradbury, Mak, and Tan (2006) in Singapore failed to find any association between earnings management and board independence. Davidson, Goodwin-Stewart, and Kent (2005) find empirical support for the effective role of independent directors in constraining earnings management in Australian firms

Audit committee independence is another determinant of corporate governance, according to the Gazette notice NO. 3362 to Market Capital Act of Kenya (Cap.485A) the developed guidelines for good corporate governance (2002) of public listed companies in Kenya orders that the board shall establish an audit committee of at least three independent and non-executive directors who shall report to the board. An audit committee plays an important role in monitoring management to protect shareholders' interest (Hasan and Ahmed, 2012). Independency of the audit committee is an essential quality required to fulfill its oversight function which include oversight of financial statements, external control system. Audit committee has been explored in prior literature and how it relates to earnings management using various constructs of audit committee effectiveness such as size of the board (Yermack, 1996: Xie et al., 2001), composition and independence (Klein, 2002), audit committee meetings (Beasley et al., 2000), financial expertise of committee members (Kalbers and Fogarty, 1993), and financial motivation of independent directors (Chtourou, Bedard and Corteau., 2001).

In Indonesia Murhadi, (2009) investigates whether the effect of good governance practice can reduce earnings management practice done by company. The samples taken were made up of companies registered in the manufacturing sector in the Indonesia Stock Exchange for the period 2005-2007. The result shows that audit committee independence do not have any effect to earnings management. Lin (2006) conducted a research to test the effect of audit committee existence with earning management. The result shows a negative effect, this suggest that audit committee can reduce earnings management practice done by the management. García-Meca and Sánchez-Ballesta, (2009) argue that audit committee independence can improve investor confidence by constraining earnings management

CEO Shares is another determinant of corporate governance. The separation of ownership and control, publicly traded firms are subject to managerial agency problems. Holdings of stocks and stock options become one important mechanism shareholders use to align the interests of management and long term shareholders. Accounting literatures provides evidence on the impact of

COE shares on earnings management. Core and Larker (2002); Hanlon, Rajgopal, and Shevlin, (2003) show evidence that equity-based incentives encourage CEOs to maximize shareholder value. However, the effectiveness of equity-based incentives has been questioned recently after a mass aggressive earnings management cases and the sudden collapse of several high-profile companies. Since CEOs are free to sell their equity holdings, critics (for instance, Levitt 1998; Brown 2002) argue that equity-based incentives encourage CEOs to manage earnings to inflate short term stock prices at the expense of long term firm value. Matsunaga and Park (2001); Guidry, Leone and Rock, (1999); and Balsam (1998) posit that where stock options represent a significant portion of executive compensation, it is most likely that managers have incentives to opportunistically manipulate stock price through accounting adjustments in order to maximize the value of their stock options

2.3.2 Firm Size
Shen, and Chih (2007) detected that large firms are prone to conduct smoothing, but good corporate governance can mitigate the effect on average. The study also observed that a highly leveraged firm with poor governance is prone to be scrutinized closely and thus finds it harder to deceive the market by manipulating earnings. Naz, Bhatti, Ghafoor, and Khan, (2011) investigated the impact of firm size on earnings management and find no statistical significance between firm size and earnings management in Pakistan. Rhee (2003) examined the relationship between corporate earnings management and the firm size. The earnings of the small, medium and large companies in relation to their size and the beginning of the market value of each year were observed for a sample data of 18 years. They find that company size had a strong impact on the earning management. They also discovered that Small sized companies were avoiding the addition of earnings management as compared to the medium and large companies.

2.4. Empirical Review
Considerable number of studies has been done about the effect corporate governance mechanisms on earnings managements globally. Some analyzing results of previous studies of earnings managements on one of the corporate governance mechanism as García-Meca and Sánchez-Ballesta, (2009) while other investigates effect of several corporate governance mechanisms on earnings management. The followings are both internally and locally empirical studies done.

2.4.1 International Evidence

A study by Shah, Butt and Hassan, (2009) on corporate governance and earnings management an empirical study on Pakistan listed companies, where a set of listed Companies have been investigated to analyze the relationship for the year 2006 found out that there is positive relationship between corporate governance and earnings management.

According to Bhuiyan, (2010) study determinants and consequences of corporate governance regulation –New Zealand Evidence examines the effects of corporate governance compliance on managerial opportunistic behavior, Using free cash flow as a measure of total accruals, a comparative analysis of the Jones Model, Modified Jones Model and Performance Matched Accruals Model was conducted and results revealed that managerial discretion reduces as corporate governance regulation compliance increases and minimizes discretionary accruals.

Swastika, (2013) study on Corporate Governance, Firm Size, and Earning Management: Evidence in Indonesia Stock Exchange, using data from the year 2005 annual reports of 51 food and beverages listed companies, including the composite index, the results showed that corporate governance variables, namely board of director and audit quality, as well as firm size are statistically significant in explaining earning management measured by discretionary accruals.

Dibia and Onwuchekwa, (2014) study about the appraisal of corporate governance mechanisms and earnings management in Nigeria, where he examined the effect of corporate governance mechanisms on a sample size of ninety (90) companies that were selected for the period 2006 to 2011, found out that board size and firm size are associated with earnings management, while board independence, audit committee independence, audit type and CEO shares are not associated to earnings management.

2.4.2 Local Evidence

Mugetha,(2010) study about the relationship between selected macroeconomic variables and earnings management for companies quoted at the NSE, using Data for fifteen firms over a period of five years (2005 to 2009) and found out that a weak relationship exists between earning management and the specified macroeconomic variables such as inflation rate, interest rate, money supply and foreign exchange rate. The study further concluded that other factors other than

the macroeconomic environment of companies quoted at the NSE motivate managers to engage in earnings management.

Study by the Waweru and Riro, (2013) about corporate governance and firm specific characteristics on earnings management by Kenyan listed companies, using panel data obtained from the annual reports of the 37 companies listed on the Nairobi Stock Exchange (NSE) for five year period from year 2006 to 2011, the study found that ownership structure and Board Composition were the main corporate governance characteristics influencing earnings management by Kenyan listed.

In addition study by Muchoki (2013) relationship between corporate governance practices and earnings management for companies quoted at the Nairobi Securities Exchange study adopted a descriptive research design and used population consisted of the 49 companies that had been continuously and actively trading at the NSE between January 2010 and December 2012, and concluded that corporate governance mechanisms such as ownership concentration, board size, board independence, board activity and CEO duality have positively influence earnings management

2.5 Summary of Literature Review

The most results of various empirical studies indicate that some corporate governance mechanisms have influence on earnings managements, though there are contrary results when it comes to the specific corporate governance mechanisms, for example the study by Muchoki (2013),the relationship between corporate governance and earnings management that corporate governance found out that ownership concentration, board size, board independence, board activity and CEO duality have positively influence earnings management. Contrary to the study by Dibia and Onwuchekwa, (2014) who found out that Board independence are not associated with earnings management.

Understanding the need for good corporate governance is the first step on the path to successful implementation of corporate governance mechanisms. There's need to understand the issues that each organization has and how good corporate governance mechanisms help achieve the maximum benefit. The effects of corporate governance on the firms' earnings management have been subject to numerous empirical studies in the literature review. Different studies highlighted have yielded mixed results. Nevertheless, the studies are characterized by a lack of standardization; they differ in terms of country focus, choice of governance mechanisms, data sources and the choice of the statistical methodology being applied.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter the research methodology is presented in the following order, research design, target population, data sample, and data collection procedures and data analysis techniques.

3.2 Research Design

This study used a descriptive research design, in order to look at the effect of corporate governance on Earnings management. According to Mugenda and Mugenda (2003), descriptive research is a process of collecting data in order to test hypothesis or to answer questions concerning the current status of the subjects in the study. Thus, the design was more appropriate for this study, since the researcher intended to collect detailed information through description and was useful for identifying the variables and hypothetically construct.

3.3 Population

A population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated, according to Mugenda & Mugenda (2003). The population of this study comprised of companies listed at the Nairobi Securities Exchange (NSE).Listed companies were appropriate for the study since they were public entities operating under strict Corporate Governance regulations, making their financial and accounting disclosures reliable. There are 63 companies currently listed in NSE, the target population consisted of 30 companies that have continuously and actively trading in NSE period between 2009 to 2013. Census study approach due to small population selected (Appendix II).

3.4 Data Collection

Secondary data have been collected from published annual reports. Specifically, the data have been collected from the portion expounding on corporate information, statement of Corporate Governance such the number of directors, proposition of executive and non executive directors in the board, proposition of executive and non executive directors in the audit committee and CEO shares. The financial data included; net income, cash flow from operations, accounts receivables, and net property, plant and equipment the selected companies. This data will cover the period 2009 to 2013.

3.5 Data Analysis
Data collected have been mostly quantitative and analyzed using descriptive statistics, correlation analysis and multiple regression analysis facilitated by SPSS.

3.5.1 Analytical Model
The study used the following multiple regression model;

$$DA_{it} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \pounds$$

Where DA_{it} represents Discretionary accruals, for Company i in year t. Discretionary accruals, a proxy for earnings management are estimated by subtracting non-discretionary accruals from total accruals where all accrual variables are scaled by the lagged total assets. β_0 is the line intercept, β_1-β_5 is the co-efficient of independent variables X1, X2, X3, X4, and X5 and are independent variable representing.

X_1 represents Board Size is the total number of executive and non-executive directors in the board, have been measured by no of directors in the board.

X_2 represents Board independence is the percentage of independent outside directors in the board and is usually referred to nonexecutive directors; have been measured by ratio of non executive directors to total number of directors.

X_3 represents audit Committee independence is the percentage of independent and non-executive directors in the audit committee, have been measured by the ratio of non executive directors in audit committee to the total number of audit committee.

X_4 represents CEO Shares; have been measured by the percentage of the shares owned by the Managers.

X_5 represents size of the firm size, is a control variable and measured by natural logarithm of book value of assets as reported in the annual reports.

$\pounds$ represents the error term

3.5.2 Test of Significance

The P – values of results of the multiple regression analysis have been used to test for significance of the relationship between the variables. The conventional probability of 0.05 (5%) is used to test for significance where any p – value of less than 0.05 will indicate a significant relationship.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter consists of data analysis, presentation and discussion of the findings. It therefore presents findings on the effect of corporate governance on earnings management of companies listed at the NSE. The study was carried out among thirty firms listed at the NSE. Secondary data from year 2009 to 2013 was collected. Regression Analysis was used in the analysis of data.

4.2 Regression Analysis

Regression analysis is a statistical tool for the investigation of relationships between variables. Usually, the investigator seeks to ascertain the cause effect of one variable upon another. In this chapter the study uses the regression tools like model summary and Coefficients to establish the relationship and the variation between the dependent and independent variable for the model of each year of study period and also model for whole five years.

4.2.1: Year 2009

Table 4.1 Model Summary for Year 2009

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.630[a]	.397	.260	25334142.72369

Predictors: (Constant), Firm size, CEO shares, Audit Committee independence, Board Independence, Board Size

Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.260, an Indication that there was a variation of 26%

Earnings management of selected companies listed at the NSE due to changes in the Independent variable which are corporate governance variables (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 26% Changes in the Earnings management of the selected companies listed at NSE could be accounted for by independent variables. R is the correlation coefficient which in our case above was .630. This shows that there was a semi-strong positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.2 Coefficients for 2009

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	138229847.034	43915460.543		3.148	.005
Board Size	1855094.035	4601163.166	.133	.403	.691
Board Independence	-3506898.220	4575042.254	-.250	-.767	.452
Audit Committee independence	-3807327.163	5669548.119	-.119	-.672	.509
CEO shares	.094	.171	.099	.548	.589
Firm size	-6259400.795	2553202.279	-.513	-2.452	.023

Dependent Variable: DA

Source: Research Findings.

The Regression equation for 2009 was established as:

$Y = 1.65 + 0.133X_1 - 0.250 X_2 - 0.119 X_3 + 0.099 X_4 - 0.513 X_5$

From the above Regression equation for Year 2009 it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.133, Also a unit increase in Board Independence would lead to a decrease in earnings

management by a factor of 0.250, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.119, on the hand also a unit increase in CEO shares would lead to an increase in EM by a factor of 0.099. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.513. This therefore shows that among the five variables BS greatly affect the EM.

4.2.2: Year 2010
Table 4.3: Model Summary for 2010

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696[a]	.484	.377	20683496.51945

Predictors: (Constant), Firm size, CEO shares, Audit Committee independence, Board Independence, Board Size

Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.377, an Indication that there was a variation of 37.7% Earnings management of selected firms listed at the NSE due to changes in the Independent variables which are corporate governance mechanisms (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 37.7% change in the Earnings management of the selected companies listed at NSE could be accounted for by independent variables. R is the correlation coefficient which in our case above was .696. This shows that there was a semi-strong positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.4 Coefficients for 2010

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	127993884.679	34859638.184		3.672	.001
Board Size	7273758.983	4094449.421	.583	1.776	.088
Board Independence	-7995118.359	3644266.408	-.643	-2.194	.038
Audit Committee independence	-4793995.446	4762509.566	-.157	-1.007	.324
CEO shares	.149	.121	.186	1.235	.229
Firm size	-6331668.769	1963100.842	-.603	-3.225	.004

Dependent Variable: DA

Source: Research Findings.

The Regression equation for 2010 was established as:

Y =1.63+ 0.583X$_1$-0.643 X$_2$-0.157 X$_3$+0.186 X$_4$-0.603 X$_5$

From the above Regression equation for Year 2010 it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.583, Also a unit increase in Board Independence would lead to a decrease in Earnings management by a factor of 0.643, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.157, on the hand also a unit increase in CEO shares would lead to an increase in EM by a factor of 0.186. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.603. This is therefore shows that among the five variables BS greatly affect the EM.

4.2.3: Year 2011
Table 4.5 Model Summary for 2011

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.491[a]	.241	.083	27588899.07521

Predictors: (Constant), Firm size, CEO shares, Audit Committee independence, Board Independence, Board Size

Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.083, an Indication that there was a variation of 8.3% Earnings management of selected firms listed at the NSE due to changes in the Independent variables which are corporate governance mechanisms (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 8.3% change in the Earnings management of the selected listed firms could be accounted for by independent variables. R is the correlation coefficient which in our case above was .491. This shows that there was a weak positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.6: Coefficients summary for 2011

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	74037976.057	46245039.928		1.601	.122
Board Size	1932399.120	4949688.543	.144	.390	.700
Board Independence	-6721850.248	4781753.708	-.506	-1.406	.173
Audit Committee independence	-3973421.979	6463811.108	-.118	-.615	.545
CEO shares	.063	.205	.061	.307	.761
Firm size	-1849430.815	2516761.010	-.156	-.735	.470

a. Dependent Variable: DA

Source: Research Findings.

From the above table, the regression equation for 2011 was established as:

$Y = 1.575 + 0.144X_1 - 0.506 X_2 - 0.118 X_3 + 0.061 X_4 - 0.156 X_5$

From the above Regression equation for Year 2011 it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.144, Also a unit increase in Board Independence would lead to a decrease in Earnings management by a factor of 0.506, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.118, on the hand also a unit increase in CEO shares would lead to an increase in EM by a factor of 0.061. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.156. This is therefore shows that among the five variables BS greatly affect the EM.

4.2.4 Year 2012
Table 4.7 Model Summary for 2012

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.690[a]	.476	.367	22611002.34536

Predictors: (Constant), Firm size, CEO shares, Audit Committee independence, Board Independence, Board Size

Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.367, an Indication that there was a variation of 36.7% Earnings management of selected firms listed at the Nairobi Securities Exchange due to changes in the Independent variables which are corporate governance mechanisms (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 36.7% change in the Earnings management of the selected listed firms could be accounted for by independent variables. R is the correlation coefficient which in our case above was .476. This shows that there was a weak positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.8 Coefficients for 2012

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	152258273.195	38127881.850		3.993	.001
Board Size	4014354.173	4232192.927	.303	.949	.352
Board Independence	-4726767.122	3922368.451	-.361	-1.205	.240
Audit Committee independence	-5334463.200	5280790.605	-.161	-1.010	.322
CEO shares	.126	.170	.124	.741	.466
Firm Size	-7098311.948	2089216.635	-.634	-3.398	.002

Dependent Variable: DA

Source: Research Findings.

The Regression equation for 2012 was:

$Y = 1.729 + 0.303X_1 - 0.361 X_2 - 0.161 X_3 + 0.124 X_4 - 0.634 X_5$

From the above Regression equation for Year 2012 it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.303, Also a unit increase in Board Independence would lead to a decrease in Earnings management by a factor of 0.361, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.161, on the hand also a unit increase in CEO shares would lead to an increase in EM by a factor of 0.124. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.634. This is therefore shows that among the five variables BS greatly affect the EM.

4.2.5 Year 2013
Table 4.9 Model Summary for 2013

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.691[a]	.477	.368	22434376.29 833

 Predictors: (Constant), Firm size, CEO shares, Audit
Committee independence, Board Independence, Board Size

Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.368, an Indication that there was a variation of 36.8% Earnings management of selected companies listed at the NSE due to changes in the Independent variables which are corporate governance mechanism (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 36.8% change in the Earnings management of the selected listed firms could be accounted for by independent variables. R is the correlation coefficient which in our case above was .691. This shows that there was a semi-strong positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.10 Coefficients for 2013

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	147373374.203	36854073.839		3.999	.001
Board Size	3726943.844	4166182.725	.283	.895	.380
Board Independence	-4697910.760	3898538.679	-.361	-1.205	.240
Audit Committee independence	-5203485.438	5243057.898	-.158	-.992	.331
CEO shares	.133	.164	.136	.809	.426
Firm size	-6734615.136	1984261.786	-.623	-3.394	.002

Dependent Variable: DA

Source: Research Findings.

The Regression equation for 2013 was:

$Y = 1.723 + 0.283X_1 - 0.361 X_2 - 0.158 X_3 + 0.136 X_4 - 0.623 X_5$

From the above Regression equation for Year 2013 it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.283, Also a unit increase in Board Independence would lead to a decrease in Earnings management by a factor of 0.361, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.158, on the hand also a unit increase in CEO shares would lead to an increase in EM by a factor of 0.136. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.623. This is therefore shows that among the five variables BS greatly affect the EM.

4.2.6 Year 2009 to 2013

Table 4.11 Model Summary for the five years period

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635[a]	.403	.382	21895787.87856

Predictors: (Constant), Firm size, CEO shares, Audit
Committee independence, Board Independence, Board Size
Source: Research Findings.

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the Independent variable. From the findings above displayed on the table the value of the Adjusted R square was 0.382, an Indication that there was a variation of 38.2% Earnings management of selected companies listed at the NSE due to changes in the Independent variables which are corporate governance mechanism (Board Size, Board independence, Audit committee independence and CEO shares) at 95% confidence interval. This therefore shows that 38.2% change in the Earnings management of the selected listed firms could be accounted for by independent variables. R is the correlation coefficient which in our case above was .635. This shows that there was a semi-strong positive relationship between the study variables which are Earnings management and corporate governance mechanisms.

Table 4.12 Coefficients for the five years period

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	130249477.744	16287908.246		7.997	.000
Board Size	3795485.659	1819329.923	.286	2.086	.039
Board Independence	-5516923.370	1701674.301	-.419	-3.242	.001
Audit Committee independence	-4384881.651	2245007.631	-.135	-1.953	.053
CEO shares	.119	.067	.126	1.780	.077
Firm size	-5831377.498	900685.182	-.522	-6.474	.000

Dependent Variable: DA

Source: Research Findings.

The Regression equation the five years period was:

Y =1.664+ 0.286X$_1$-0.419 X$_2$-0.135 X$_3$+0.126 X$_4$-0.522 X$_5$

From the above Regression equation for the Year five year period (2009 to 2013) it was revealed that a unit increase in BS would lead to an increase in Earnings Management of the Listed Companies at the NSE by a factor of 0.286, Also a unit increase in Board Independence would lead to a decrease in Earnings management by a factor of 0.419, furthermore a unit increase in Audit committee Independence will lead to a decrease in EM by a factor of 0.135, on the hand also a unit increase in CEO shares would lead to an increase in Earnings Managements by a factor of 0.126. Lastly a unit increase in Firm size would lead to a decrease in EM by a factor of 0.522. This is therefore shows that among the five variables BS greatly affect the Earnings Management.

4.3 Interpretation of the Findings

From the findings above of the 30 companies listed at the NSE from year 2009 to 2013, it was revealed that the adjusted R squared range from. 0.083 to 0.377. This clearly showed that there was a variation of Earnings management due to changed in the Independent variables which are corporate governance mechanisms. It further stipulated that changes in Earnings management of the listed companies at the NSE could be accounted for by the corporate governance mechanisms. The study further found that there was a weak positive relationship between Earnings management and the corporate governance mechanisms of the 30 selected companies listed at the NSE.

The coefficient of Board Size, Board Independence, Audit Committee Independence, CEO shares and Firm Size are 0.286, -0.419, -0.135, 0.126 and -0.522 respectively and implying that there is negative impact on Board Independence, Audit Committee Independence and Firm Size. The study finds that Board independence is one of the major CG mechanisms that constrain the earnings management level in the firm. This serves as a timely reminder to regulators that if they wish to protect investors it is their duty to ensure that the boards of directors governing the companies are capable of independent supervision of management

Audit Committee independence is found to be one of the corporate governance mechanisms in constraining earnings management. This governance attribute is likely to provide shareholders with the greatest protection in maintaining the credibility of a firm's financial statements.

The coefficient of firm size -0.522 is suggesting that there is a negative impact of firm size on earnings management. This explains that a unit increase in the number of asset will bring about 0.383066 decreases in earnings management. This is in line with to Sun and Rath (2009) who observe that small firms indulge more in earnings management. Birtgsterhler and Dicher (1997) also find that small firms manage earnings to circumvent the small negative or small decrease in earnings. However, contrary to the works of Shen and Chih (2007) who detected those large firms are prone to conduct income smoothing.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
From the analysis and data collected the following discussions, conclusions and recommendation Were made. The responses were based on the objectives of the study which was to establish the effect of corporate governance on earnings management of companies listed at the Nairobi securities exchange.

5.2 Summary
The main objective was to establish the effect the effect of corporate governance on earnings management of companies listed at Nairobi Securities Exchange. To achieve the objective the researcher sampled 30 firms which engaged in corporate governance and from the year 2009 through year 2013 was looked at. These data was collected from their annual financial statements from year 2009 to 2013.

The research findings indicated that there was a semi-strong positive relationship between the independent variables and the dependent variable which were in our case corporate governance variables and Earnings managements respectively.

5.3 Conclusion
From the findings it was revealed that corporate governance affects the earnings management. It would therefore be safe given the above findings to conclude that Corporate Governance has a semi-strong positive relationship with the Earnings management. Further conclusions were that a unit increase in board size will cause an increase in earnings management, a unit increase in board independence will lead to a decrease in earnings management, a unit increase in Audit Committee independence will lead to a decrease in earnings management, a unit increase in CEO shares will lead to an increase in earnings management and a unit increase in firm size will further lead to an decrease in earnings management. The study concludes that board independence is negatively related with earnings management. The study also concludes that adding more independent directors to the board could reduce the level of earnings management.

5.4 Policy Recommendations

From the findings and conclusions, the study recommends the need for effective corporate governance practice at board selection level of the companies quoted at NSE. Re-examining the criteria used in selection of directors in the companies and ensure that corporate boards are more independent. This will reduce the earnings management and will ensure that the directors are accountable to the shareholders with a ripple effect of improving investor confidence**.**

5.5 Limitations of the Study

The only use of secondary data was a limiting factor since only financial results could only be achieved and not detailed corporate governance of the company and most of the companies report their financial statements in different months.

It was also difficult to establish the companies which engage in earnings management and financial statements had to be scrutinized to establish the DA the proxy of earnings management.

On the other side ,the research adopted a linear regression analysis in the assumption that a linear relationship exist between Corporate governance variables and earning management while there could be a possibility of a non-linear relationship.

The model may misestimate accruals, because it assumes that all changes in credit sales are the result of an earnings management activity. It also may provide bias accruals, because it omits expenses. Dechow et al. (1995) explain that a weakness of the Jones (1991) model lies in its inability to capture the impact of sales-based manipulations, because Jones (1991) assumes changes in sales are associate with nondiscretionary accruals.

5.6 Recommendations for Further Study

Not so many studies have been done on this area of research here in Kenya, therefore it's still a raw field and there is so many gaps which further studies can bridge it. A study could be carried out to establish Earnings managements for non-listed companies in Kenya. Further research may be directed in comparing the findings of this study with findings that relate to firms operating in other developing countries of Africa

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Appendix I: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MSC FINANCE PROGRAMME

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P.O. Box 30197
Nairobi, Kenya

DATE 27/8/2014

TO WHOM IT MAY CONCERN

The bearer of this letter ...... MUSA KAMYE RULLE ......

Registration No ...... D63/65101/2013 ......

is a bona fide continuing student in the Master of Science (Finance) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
FOR: MSC FINANCE CO-ORDINATOR
SCHOOL OF BUSINESS

Appendix II: Companies Listed at Nairobi Securities Exchange as at 31st December. 2013

1	Eaagads Ltd
2	Kakuzi Ltd
3	Kapchorua Tea Co. Ltd
4	The Limuru Tea Co. Ltd
5	Rea Vipingo Plantations Ltd
6	Sasini Ltd
7	Williamson Tea Kenya Ltd
8	Car & General (K) Ltd
9	CMC Holdings Ltd
10	Marshalls (E.A.) Ltd
11	Sameer Africa Ltd
12	Barclays Bank of Kenya Ltd
13	CFC Stanbic of Kenya Holdings Ltd
14	Diamond Trust Bank Kenya Ltd
15	Equity Bank Ltd
16	Housing Finance Co.Kenya Ltd
17	I&M Holdings Ltd
18	Kenya Commercial Bank Ltd
19	National Bank of Kenya Ltd
20	NIC Bank Ltd
21	Standard Chartered Bank Kenya Ltd
22	The Co-operative Bank of Kenya Ltd
23	Express Kenya Ltd
24	Hutchings Biemer Ltd
25	Kenya Airways Ltd
26	Longhorn Kenya Ltd
27	Nation Media Group Ltd
28	Scangroup Ltd
29	Standard Group Ltd

30	TPS Eastern Africa Ltd
31	Uchumi Supermarket Ltd
32	ARM Cement Ltd
33	Bamburi Cement Ltd
34	Crown Paints Kenya Ltd
35	E.A.Cables Ltd
36	E.A.Portland Cement Co. Ltd
37	KenGen Co. Ltd
38	KenolKobil Ltd
39	Kenya Power & Lighting Co Ltd
40	Kenya Power & Lighting Ltd
41	Kenya Power & Lighting Ltd
42	Total Kenya Ltd
43	Umeme Ltd
44	British-American Investments Co.(Kenya) Ltd
45	CIC Insurance Group Ltd
46	Jubilee Holdings Ltd
47	Kenya Re Insurance Corporation Ltd
48	Liberty Kenya Holdings Ltd
49	Pan Africa Insurance Holdings Ltd
50	Centum Investment Co Ltd
51	Olympia Capital Holdings Ltd
52	Trans-Century Ltd
53	A.Baumann & Co Ltd
54	B.O.C Kenya Ltd
55	British American Tobacco Kenya Ltd
56	Carbacid Investments Ltd
57	East African Breweries Ltd
58	Eveready East Africa Ltd
59	Kenya Orchards Ltd
60	Mumias Sugar Co. Ltd

61   Unga Group Ltd

62   Safaricom Ltd

(Source: NSE website, 2014)