THE EFFECT OF CORPORATE GOVERNANCE AND CAPITAL STRUCTURE ON FINANCIAL PERFORMANCE OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE.

BY:

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DECLARATION

This is my original work and it has not been presented for examination in any University or any award in this University or any other institution of higher learning

Signature……. Date …….

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

Signature …… Date …….

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I give my sincere gratitude and thanks keeping to Almighty God for sufficient Grace and Good healthy throughout my studies. My gratitude also goes to my supervisor Mr. James Nganga for his professional guidance and moral support that enable me finished this project. I also extend my gratitude to my lovely parents for their support through my education journey.

DEDICATION

It is my pleasure to dedicate this research project to my family members, Waseges Kandie Linah, Caroline, Enock, Doreen and Willy for inspiration and motivation to pursue my academic dream.

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LIST OF ABBREVIATIONS

CBK: Central Bank of Kenya

CMA: Capital Markets Authority

GEMS: Growth Enterprise Market Segment

NSE: Nairobi Securities Exchange

OECD: Organization for Economic Cooperation and Development

P/E: price-to –earnings

ROCE: return on the capital employed

ROE: return on equity

ROI: return on the investment

SMEs: Small and Medium Enterprises

SPSS: Statistical Package for Social Sciences

ABSTRACT

Corporate failures have lately been experienced by firms in Kenya and these have been related to structures of corporate governance employed. The issues facing Uchumi and Kenya Airways is an indication that even listed firms are not insulated from this corporate failures. Although there are many studies carried out locally on corporate governance and financial performance, these researchers however has not tried to establish the collective effects corporate governance and capital structure has on organizations' financial performance especially for those listed in Nairobi securities exchange. This creates a knowledge gap which this study sought to fill up. The focus of this research was to establish what effect capital structure and corporate governance has on the fiscal performance of firms that have been listed at the NSE. The study's population was all the 64 listed firms at the NSE while the sample for the study was 24 firms listed at the NSE. The independent variables for the study were corporate governance as measured by board size, board composition, board committees and director's shareholding. Capital structure was another independent variable and was measured by gearing ratio. Financial performance was the dependent variable which the study sought to explain and it was measured by ROA. Gathering of secondary data was conducted for a period of 5 years (January 2012 to December 2016) annually. The research design employed for this study was descriptive cross-sectional research design and a multiple linear regression model was used in analyzing the association between the variables. Data analysis was undertaken using the Statistical package for social sciences version 22. The results of the study produced R-square value of 0.249 which means that about 24.9 percent of the variation in the listed firms at the NSE financial performance can be explained by the five selected independent variables while 74.9 percent in the variation of financial performance of NSE listed firms was associated with other factors not covered in this research. The study also found that the independent variables had an average correlation with financial performance (R=0.499). ANOVA results indicate that the F statistic was significant at 5% level with a p=0.000. Therefore the model was considered fit to explain what relationship exists between the selected variables. The results further revealed that board size produced positive and statistically significant values for this study while board composition and capital structure produced negative and statistically significant values for this study. The study further found that board committees and director's shareholding are statistically insignificant determinants of fiscal performance of NSE listed firms at the NSE. This study makes recommendations that measures ought to be put in place to enhance board size as this will improve financial performance of listed firms at the.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

In recent years, matters of Corporate Governance have become crucial in many developing economies. A convenient corporate governance structure in an organization leads to an amazing number of benefits to the organization as sought by shareholders; corporate managers & executive directors (McGee, 2008). Countries with strong corporate governance structures attract funds easily. Firms that guarantee investor rights and have proven corporate governance practices like timely and adequate corporate disclosure and sound board practices attract both domestic and international investors than those which do not. Special attention is targeted towards how corporate governance impacts performance of the organization. Performance of the firm is affected by corporate governance when there is an occurrence of conflict of interest between the shareholders and management and/or between the controlling shareholders and those with minority shares. When managers become part of the board they enjoy more power or even collaborate with board members and controlling shareholders. On the other hand, controlling shareholders power depends on how they can influence board decisions through the voting majorities and other possible means; bias policies will therefore increase since the ratio of voting to cash flow rights will be higher (Melissa, 2012).

Several theories have emerged expounding on corporate governance. The agency theory advanced by Berle and Means (1932) characterizes the relationship between both agent and principal to be that of mistrust and competing interests. Conversely, the Stewardship theory replaces mistrust with goal congruence. It suggests that managers' need for achievement and success can only be realized when the organization performs well. The Stakeholders theory (Clarkson, 1994) recognizes

existence of other persons of interest such as suppliers, customers, other organizations, workers and the surrounding community. The Resource dependence theory (Pfeiffer, 1972) introduces organization's accessibility to resources in addition to separation of ownership. Information resource and strategic linkages with other organizations through the Board are considered to be critical resources for a firm's good performance.

The debate on corporate governance is majorly anchored on levels of influence of Board of Directors verses the choice of executive managing in the process of resolution making. Other traditional approaches to corporate governance have overlooked the distinctive influence company owners have on the board, and by addition, the senior executive, to conduct themselves or make resolution in a defined manner. As a result, research studies on corporate governance have not clearly outlined the difficulties that are essential in the process of corporate governance. Therefore this could be said to be a problem facing corporate governance. According to Hugh *et al*., (2011), the preferences as well as investment choices of owners are subjective with additional factors, to degree to which they can tolerate risks.

Current studies will examine the ways in which corporate governance impacts performance of NSE listed firms. Capital Markets Authority (CMA) has come up with specific course of action regarding favorable practices of corporate governance in all listed firms that operate in Kenya with regard to rising significance of governance hurdles in the emergent as well as developing economies so as to promote growth in both regional capital markets and domestic. For the purpose of the Capital Markets Authority guidelines, the definition of corporate governance presents it to be the process and structure that is employed used in managing and directing a company's business affairs towards improving success and overall corporate accounting with the key intention of maximizing the wealth of shareholders and also considering other stakeholders the interests. Also

these guidelines were developed putting into consideration efforts widely undertaken by various orders by employing task forces and committees like Malaysia, the United Kingdom, the Organization for Economic Cooperation and Development (OECD) South Africa, and Commonwealth Association for Corporate Governance

1.1.1 Corporate Governance

OECD (2015), the report on Principles of corporate governance describes the word corporate governance to be the relationships between the executive of the company, the shareholders, the governing board and also other stakeholders considered to be minority. Additionally, where company's objectives and how to attain those objectives is concerned, corporate governance dictates the structure. According to Adams & Mehran (2003) corporate governance also refers to the means employed by stakeholders to comprehensively supervise the executive and insiders in order to protect their own benefit. Morin & Jarrel (2001) describe it as a structure that checks and protects the interested actors in the marketplace. The said actors include shareholders, managers, suppliers' staff, the board of administration and clients depending on the type of organization in question.

Good practices of corporate governance are those whereby the environment in which the business operates is fair, processes are transparent and companies held responsible for their actions. Weak corporate governance practices on the other hand usually leads to waste, mismanagement and higher levels of corruptions in those organizations. According to Nabil & Ziad (2014), the aim of corporate governance practices is to ensure there is a balance in power sharing among different shareholders, management as well as directors in order for shareholder value to be enhanced and ensuring the interests of other shareholders is protected. Nabil & Ziad (2014), noted that investor confidence is improved by effective structures of corporate governance which ensure that the

corporate entity is accountable, reliable and quality of public financial information is enhanced and that the capital markets integrity and efficiency is enhanced.

1.1.2 Capital structure

Capital Structure is described as the firm key component source of financing its long-term obligation, which is mainly grouped as debt, equity and other sources of finance. Also capital structure is referred as an organization's combination of various securities employed in financing its operations (Brealey & Myers 2003). The choice involving debt and equity capital is a significant financial decision making facing firms. Equity refers to funding that is availed by the owners of the business for business. The combination of debt and equity provides an optimal capital hence maximizing firm value (Equity value plus debt value) or minimizes cost of capital weighted average (Pandey, 2002). On other hand debt finance may take different forms such as borrowing from financial institutions like listed firms or from issuing bonds, where all attract a return that is fixed. The periods for debt may be short term or long term. Interest is paid to the creditor for utilizing his funds and does not control business operations. As a firm continues to use debt in financing its projects, the ratio of equity to debt increases which also increases the monitoring costs in terms of auditing among other expenses (Brockington, 1990).

There are various account based measures used to measure capital structure. Zingales (1995) recommend that consideration of the analysis objective should be made when selecting a measure. For example, determination of the ratio of total liabilities to total assets can be done as an alternative to what is left for shareholders after liquidation, though it doesn't reflect the risk levels of the default probability of in the near future. The ratio of total debt to capital, whereby capital is represented by total debt plus equity, is considered to be an answer to this predicament and can be taken as the better accounting based alternative for leverage (Rajan & Zingales, 1995). The ratio

of Total Debt to Equity is considered to be a gauge of all future obligations of a firm on the statement of financial position relative to equity. Nonetheless, the ratio can be more perceptive as to what is actually a borrowing, as opposed to other types of obligations that might exist on the statement of financial position under the liabilities section. An example is the labeling of liabilities accounts as "debt" on the statement of financial position, as opposed in the broader category of "total liabilities".

1.1.3 Financial Performance

Financial performance is a phrase used to refer to the monetary measure of a firm's operations over a specified period of time. It reflects the general financial position of the company in a given period of time and also assist in making comparisons among similar firms in the same industry and across the other industries or to compare industries or sectors as a whole (Mishkin, 2007). It is a good measuring tool on how companies employ its resources from the core business activities to make an income. Survival of a business is dependent on its financial performance in the long run. It involves the capacity of the business establishment to generate sufficient benefits from its operations and is considered by many as the main goal of the firm. Financial performance is a good indicator of assessing the how profitable an entity is in utilization of its assets and is often used in gauging the efficiency of the management in converting company resources into profits. Generation of income is done from the trading actions of firm set up. A corporation with high level of profitability has the capability of rewarding its shareholders by providing them with favorable returns on their investment (Sehrish *et al.*, 2011)

Financial performance as a measure of monetary success attained by an individual, team, process and organization is measured in various ways. Commonly used measures of financial performance are broadly classified into accounting based financial metrics like return on investment (ROI),

sales growth, return on capital employed (ROCE), return on assets (ROA), return on equity (ROE) and market based fiscal metrics such as Tobin's Q, market to book ratios, price-to –earnings (P/E) ratios and cash flows per share. Return on assets (ROA) refers to the measure of how efficient management is in generation of revenues by using the assets at their disposal. The value is arrived at through division of the net income after taxes by total assets of the firm. It is a vital measure of the management efficiency. A higher ratio depicts a higher managerial efficiency in the utilization of the company assets and hence firms profitability increase. On other hand, return on equity refers to the measures of how much profit can be generated from the shareholders investments. It is computed by dividing net income after taxes by the total shareholders capital. A higher return on equity (ROE) shows a higher efficiency in the use of shareholders money (Waweru & Kalani, 2009). Return on assets ratio is widely used in measuring the financial performance of an entity and as a result it will be applied in this study as a proxy for the financial performance.

1.1.4 Nairobi Securities Exchange

Nairobi Stock Exchange has 64 listed companies. The companies are also listed in the Fixed Income Securities Market (FIMS), Main Investment Market Segment (MIMS), Growth Enterprise Market Segment (GEMS), and also the Alternative Investment Market Segment (AIMS). The NSE comprises of twelve main industrial sectors which include; Manufacturing and Allied , Investment, Agricultural, Petroleum and Energy, Automobiles and their Accessories, Investment Services, Telecommunication and Technology, Insurance, Construction and Allied , Banking, Commercial and Services.

Different firms that have been listed at the Nairobi Securities Exchange (NSE) have had varied performances. While firms like Safaricom, Equity Bank and Nation Media Group have posted good results, others like Mumias Sugar and Kenya Airways have performed dismally (NSE, 2016).

While the reason for some firms performing poorly and other well may be due the nature of the environment they are working in and that is not under the control of the management or board, studies have shown a significance connection existing between characteristics of the board and firm performance. Firms in 20 share index are blue chip companies which have previously scored high Return on Assets. Their boards have been known to be quite independent since most of them have wrestled themselves out of jaws of family ownership and government control.

The Capital Markets Authority (CMA) has reinforced guiding principles that will ensure strong practices in regards to corporate governance in Kenyan companies that have been publicly listed as a reaction to the increased significance of governance concerns in emerging as well as budding economies, and also to facilitate growth in capital markets both domestically as well as regionally. This is also to acknowledge the role played by excellent practices of governance in performance of corporates, capital formation and also the maximization of the value of shareholders and also securing the rights of the investors. The Authority has as well promoted development of a code that outlines best practices to aide corporate governance that is distributed by the Private Sector Corporate Governance Trust, whose works has also proven to be valuable in developing guidelines and are complementary there to. The guiding principles' aim is facilitation of reinforcement practices of corporate governance in firms that have been listed as well as endorse self-regulation standards in order to align standards of governance with global standars..

1.2 Research Problem

The link existing between capital structure and corporate governance becomes primary role when considering distribution and value generation (Bhagat & Jefferis, 2002). Capital structure interacts with corporate governance instruments and provides a secure efficient way of value creation process and how the value is distributed (Zingales, 1998. Additional majority of the considered

researches focusing on the existing connection between fiscal leverage and firm performance have taken place in already urbanized nations with strong capital markets. The capital market in Kenya is still growing thus the need for these established capital structure theories originating from the developed countries to be put into test in the Kenyan perspective. The results of the conducted study focusing on existing link between a firm's capital structure and its performance are contradictory thus justifying further research

Previous studies conducted on capital structure and corporate governance have explained different reactions. Globally, Rehman & Raoof (2010) indiscriminately selected 19 banks operating in Pakistan from 2005-2006 and investigated the existing link between a firms' practices on corporate governance and the capital structure and discovered a positive relationship. Also according to Rajendran (2012) in his research on Srilankan manufacturing firms regarding the connection between corporate governance and a firm's capital structure discovered that there existed a positive relationship. Contradictory conclusions are reported by Saad (2010) who studied 126 Malaysian publically listed companies and results showed a negative relationship.

Locally, Amenya (2015) conducted a study on NSE listed firms to find out the link connecting capital structure and company's financial performance where he established a negative correlation in the capital structure and the fiscal performance of the firms listed. Chomba (2013) did a research study how capital structure impacted corporate governance of NSE listed companies and found a noteworthy and positive correlation existing among corporate governance and the capital structure in NSE listed firms. Mwaniki (2015) examined capital structure and its effects on fiscal performance of the non-monetary corporations that are NSE listed and established that capital structure has statistically major correlation with the financial performance of the NSE listed firms. Chepkwony (2015) did a research on how corporate governance impacted the capital structure of

NSE listed firms and determined that corporate governance impacts the capital structure of NSE listed firms. None of these researchers however has tried to determine combined effects corporate governance together with a firm's capital structure has NSE listed firms' financial performance. This creates a knowledge gap which this study sought to fill up by addressing the question; what effects doe's corporate governance together with capital structure have on NSE listed firms' fiscal performance?

1.3 Research Objectives

The general objectives of the research study was to establish what relationship exists between corporate governance and capital structure on financial performance of NSE listed companies

1.4 Significance of the Study

The research will prove to be beneficial to financial managers in making financing decisions that are in line with shareholders goal of the wealth maximization by availing to them the literature on how corporate governance together with capital structure relate with the fiscal performance of companies in Kenya that have been listed at the NSE. This research will also assist financial managers to determine the most favorable capital structure of the firm so as to enhance financial performance.

This research study will also be of importance to the future researchers and scholars by providing them with information and literature on how financial performance is affected by corporate governance as well as capital structure of NSE listed firms. The findings will also assist the financial regulators such as the CBK in coming up with financial policies to regulate the financial sector in the efforts of enhancing the economic performance.

Also the findings will help business community in appreciating the importance of practicing best corporate governance as well as maintaining a favorable capital structure so as to enhance financial performance of the companies by providing them with detailed information on how the two valuables affect financial performance of firms listed in NSE.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The chapter contains previous scholarly research findings relevant to this research. The chapter also covers the reviews on empirical studies that are relevant as well as the conceptual framework on what effects corporate governance together with capital structure has on NSE listed firms' financial performance.

2.2 Theoretical Review

The segment highlights selected theories and their background and looks at their relevance in answering what impacts corporate governance together with capital structure has on fiscal performance of NSE listed companies. These theories includes; the Agency theory, Modigliani-Miller Propositions and Pecking order theory.

2.2.1 Agency theory

Agency theory whose genesis was from Berle & Means (1932), was advanced by Jensen & Meckling (1976). It is based on agency relationship, which refers to correlation among the firms' principals or owners and agents for example firm's directors and administrators. Principals entrust the daily administrative duties of business to executives. Being agents of shareholders, they are expected to perform and make decisions with the principal's interests in mind, yet it is not guaranteed because the agents may make contrary decisions. Agency problem may occur due to lack of alignment of interests from both parties. This results to agency costs, referring to costs arising from ownership and control separation. This cost refers to the summation of the

expenditures of monitoring incurred by the principal, expenditures of bonding incurred by the agent and the residual costs.

Jensen and Meckling (1976) argued that the separation of ownership and control has reduced the corporation to two participants: managers and shareholders. Ownership and control separation is broadly categorized in various forms. Majority control is the first category where majority of shares are owned some of the shareholders, and the remainders are extensively distributed and only hold a fraction of the shares. Therefore, this results to shareholders being separated from controlling the firm. The subsequent is control by the minority, characterized by wide spread ownership. Refers to effective company control by a faction that owns a little equity share but its control is not only on the power of voting but also in other conditions as well. Another ownership and control category is control by management. It is characterized by inexistence of large quantity of minority shareholders thus resulting to directors or executives taking responsibility in the controlling of the company.

2.2.2 Modigliani-Miller Propositions

Modigliani and Miller (1963) improved on the prior theory on capital structure irrelevance where they contended on the irrelevance of capital structure in determination of a company's value. The theory was anchored on the argument that a tax shield is acquired when debt is use by a firm. Putting these assertions into consideration, organizations could go for a capital structure that is all-debt. On the other hand, Brigham & Gapenski (1996), present that the MM model remains factual just in hypothesis, since in a practical context, there is existence of bankruptcy costs and will probably even grow when there is a tradeoff between equity for debt. They concurred that using debt will result to either increase in firm value, or decrease in capital cost,

because of tax deductibility in charges of interest. Therefore, the worth of a firm can be attained when the debt component is maximized the capital structure.

The capital structure theory was relevant for this research because it acted as a basis that is both vital and analytical. Based on this assumption, firm value is vl = vu = ebit (1-t) / equity + td where td represent savings in tax. Modigliani-Miller Proposition II assumes the similarity of each tax shield, and sustainable in the long term. A firm's worth is improved in the cost of interest because of reduced tax liability, and the shareholder allocation increases as well, and also cash run to creditors. The given formula can be generated from the debt of the firm, the more and bigger the profit in regards to tax saving benefits, the superior the firms' value. Modigliani Miller Proposition II revised capital structure, presented that when market conditions are perfect, the existence of tax shield is not possible, whereas in a financial market that is imperfect, changes in the capital structure will have an effect to the firm's value. Thus, the worth and capital costs of firms with considered leverage alterations in their capital structure , the levered organization will have superior value as compared to the unlevered organization. MM Proposition theory contends that greater debt ratio is good for organizations, however, even though interest tax shield is achieved through borrowing, it may result to costs associated with fiscal distress. Fiscal issues results from broken commitments to creditors or facing hard time honoring the commitment. This ultimately leads to bankruptcy.

2.2.3 Pecking Order Theory

The Pecking order theory of capital structure is regarded to be the dominant theory of capital structure. It originated in 1961 from Donaldson but later went through modifications in 1984 championed by Steward C. Myers and Nicolas Majluf. The theory contends that organizations prioritize financing sources first from internal sources, to equity sources and their consideration is

based on the cost of the financing, whereby equity financing is preferred as a last alternative. Firms therefore utilize funds from internal sources first, then upon depletion, it is followed by the issuance of debt which is then preceded by issuance of equity when debt is longer sustainable. Owing to undesirable effects firms prefer internal and external financing sources. When it's necessary for the firm to source for funds outside, preference is given to debt as compared to equity reason being the less cost of information that is associated with debt matters.

Watson and Head (2007), argue that pecking order theory contradicts the notion of organizations developing a blend of debt as well as equity financing that will minimize their capital costs. Suggestions are put forth by the theory that when considering financing its long-term operations, an organization has a clear and define order in terms of preference regarding the financing sources that are at its disposal. Description given by Fama & French (2002) & Meyers (1984) of a firm's debt presents it to be the accumulation of outcomes of prior investment as well as decisions on capital budgeting.

This theory relies on costs consequent from sharing distorted data between leaders and operating environment and the postulation that the benefits and costs presented by trade-off theory are of less significance in comparison to costs arising from issuance of fresh securities in the existence of distorted data. Advancement of a pecking order theory is anchored on expenses resulting from poor decisions need adhoc measurement of the leader's motivation agreement and some restriction on forms of strategies of financing that the organization may intend to pursue (Brennan and Kraus, 1987).

2.3 Determinants of the financial performance

Financial performance can be subjective to particular elements as well as external factors. Particular factors, better described by CAMEL framework, are those that managers have direct

control of, whereas external factors are considered macroeconomic and are industry-specific. The literature analyzed also the important role multiple linear regressions technique in determining the connection between the financial performance of banks and its factors. Finally, it is clear that the numbers of local researches committed to this specific area of bank performance are very limited and that even those studies that have covered the topic tend to concentrate on a single factor and excludes the others.

2.3.1 Capital Structure

Capital structure is a term used to explain the combination of a firm's debt and equity that is utilized by organizations to finance the long-term operations. As presented by Berkley and Myers (2003) capital structure is the grouping of several securities useful in the financing of the firm's undertakings. Also, Brealey & Myers (2003) observed that an organization can give various security using different combinations but the most favorable combination is the one that exploits market value. Akram & Ahmad (2010) argued that capital structure of the company includes the debt and equity component used to finance the business. Equity financing is usually provided by the people who buy the shares of the firm.

Equity finance holders have ownership rights in a company which is determined by the number of owned shares. Being shareholders of the firm, they are obligated to share the risk involved in carrying out the dealings as well as entitlement to shared business profit. A corporation's value is reliant on streams of projected income and also the rate that is utilized to reduce the earnings .The requisite return rate and the capital cost are utilized to discount the earnings of the company. The decision on the organization's capital structure poses an impact on organization's worth by changing cost of capital or earnings expected (Pandey, 2002)

2.3.2 Corporate Governance

Corporate governance is a term used to refer to mechanisms, processes and relationships that are employed when managing and controlling corporations. Structures and principles of governance recognize the allocation of rights and responsibilities for the various stakeholders in the company (like the shareholders, auditors, board of directors, creditors, regulators, managers and other stakeholders) and takes into account regulations and measures decision making in company affairs. Corporate governance entails processes that facilitate companies to set objectives and pursue them considering social environment, regulatory frameworks and also market environment. Mechanisms involved in governance include action monitoring, agreed policies, corporate practices, corporations' decisions, existing agents, and other stakeholders. The practices of corporate governance are impacted by efforts made by managers in an attempt to ensure alignment of the stakeholder's interests. Critical to the corporate structure is the boards of directors. The link capital providers (the shareholders) to the individuals who create value (the managers). This implies or illustrates the role of the board in connecting small, influential team running the firm and a massive, scattered, and comparatively powerless group that only desires to witness the corporation managed effectively (Business Roundtable, 2005). The biggest challenge that corporate governance addresses is balancing managerial powers given to run business while at the same time ensuring that they are accountable for that power. Owners of a company may be distributed globally and be as many as tens of thousands. Consequently voting rights are granted to shareholders to elect and determine legislative body that will keep an eye on how the company is managed on their behalf. Most often directors act on behalf of the owners (or are the owners themselves in firms that are closely held), who's rationale according to the law is to protect the assets owned by the business (Monks & Minow, 2004)

2.4 Empirical Review

Banjeree *et al.,* (2004) conducted a research study on dynamics of a firm's capital structure. The study used a dynamic modification model and panel data methodology on a section of organizations in the UK and also the US to precisely make an establishment regarding determinants of a flexible ideal capital structure. They concluded that organizations normally develop a capital structure that does not take target into consideration and that adjustments made towards target markets are very slow. Lemmon et al (2001) also did a study on debt capability and also conducted tests on theories covering capital structure. Using empirical models estimated by Shyam– Sunder/Myers and Frank /Goya to analyze capital structure determinants in USA, they concluded that the pecking order theory provides a favorable description of financial policies of majority of the companies.

Baner (2004) studied the listed organizations' capital structure in Vise grad countries (Hungary Slovak Republic Czech Republic, Poland) through the period 2000 to 2001. Findings can be accessed on the records that put together listed firms' financial reports. An analysis of six determinants that can potentially affect the capital structure is carried out in this research. These determinants include size, volatility, non-debt tax shields, size of board, profitability, size, tangibility and growth opportunities. The findings indicated a positive correlation between leverage and the size of the board. A negative correlation between leverage and profitability also exists. They also concur with the theory of pecking-order more than with static trade-off models. There is also a negative correlation between leverage, tangibility and non-debt tax shields. A negative link exists between leverage gauged in market value and available opportunities for growth.

A study by Zeitun & Tian (2007) carried out on Jordanian companies indicated a significant negative relationship of company performance when both market based and accounting based variables are employed. While the link connecting variables of capital structure and variables of performance of the firm differ from industry to industry. For firms operating in the engineering sector, there is an insignificant relationship between variable of capital structure and those of performance. Capital structure variables that are account based included debt (those covering short range, long range and also total debt) to total assets plus total debt to total equity whereas those that represented performance was the ROA. The ROE (return on equity) indicated a relationship that is insignificant with firm's capital structure in Jordanian firms. Additionally, the performance measures based on the market included Tobin's Q as well as price earnings ratio

The research conducted by Ebaid (2009) that focused on the economy of emerging market in Egypt indicated a weak relationship between the capital structures selected and firm performance. The findings also indicated a correlation that is insignificant between capital structure variables (like short term debt, long term debt, total debt and also total assets) and performance as gauged by ROE. On the other hand, there is a negative and statistically significant correlation between short term debt and total debt to total assets with firms' performance. Regarding debts taken in the long term with return to assets, there exist a negative insignificant relationship. Moreover, there is an insignificant link between a firm's capital structures and performance when gauged using gross profit margin is also insignificant. Abor and Biekpe (2007) investigate what connection exists among corporate governance and decisions on organization's capital structure in SMEs. Findings indicated a negative correlation between capital structure and the size of the board. Relationships that are positive are however found to exist between capital structure and the firm's board composition, skill set of the board and also CEO duality. There are consistencies noted in the

model's control variables and the typical capital structure theories. The findings imply that policies pursued by SMEs are those that ensure lower debt with bigger size of the board. Notably, SMEs that incorporates a bigger number of external directors, members of the board that are highly qualified and a board system that is one-tiered tend to utilize more debt. From the findings of the study, it is apparent that decisions regarding financing are highly impacted by structures of corporate governance of SMEs in Ghana.

Ahmadpour, Golmohammadi & Ahmad (2012) conducted a research that focused on Corporate Governance and Capital Structure in the Pakistani Textile sector. The rationale behind the research was to explore whether any relationship existed between particular elements of corporate governance together with capital structure in firms listed in Tehran Stock Exchange. Independent variables considered included size of the board, the level of board independence, share ratio in the institution, CEO duality and internal auditing while the independent variable was debt ratio (as a capital structure criterion). The findings reflected the presence of a positive link between concentration of ownership, size of the board, internal auditing and the firm's capital structure but institutional share ratio and firm's capital structure indicated a negative relationship. Furthermore, the findings reflected the absence of a noteworthy link between the company's capital structure and 'Independence of the Board, CEO duality'.

Musyoka (2009) analyzed the link that existed between the capital structure and corporate governance of NSE listed companies. He analyzed how metrics of corporate governance such as size of the board, the composition of the board, CEO task duality and CEO compensation among other factors effect funding decisions on companies. A census study of the firms consistently listed at the NSE over the financial period 2003/2004 – 2007/2008 was done. Primary data was gathered from CEOs managing the listed firms by employing a validated well-organized questionnaire.

Gathering of secondary data was done through analysis of annual financial statements of the firms targeted. The gathered data was analyzed using GLS regression framework. Findings of the research showed that organizations which had boards that were large in size utilized more debt without paying attention to maturity period, also pointing out a negative and significant correlation between board independence and short-term debts. Moreover, doubling of CEO tasks leads to smaller debt being employed. The study consequently, reaffirms the view that an organization's governance structure has an effect on its decisions on financing. Mang'unyi (2011) did a research that focused on the structure of ownership and corporate governance and ways in which it affected performance and took a case of selected banks operating in Kenya. Findings from the study indicated insignificant distinction between nature of ownership and fiscal performance, and between the structure of banks ownership and practices of corporate governance. Recommendations by this study present that in order to send encouraging indicators and attract potential investors, business entities are supposed to be in the frontline in promoting favorable corporate governance. The Central Bank of Kenya (CBK) ought to intensify its efforts of enforcing and encouraging organizations to ensure adherence to excellent practices of corporate governance in financial companies so as to smoothly run operations efficiently and effectively. Lastly, agencies tasked with ensuring adherence to regulations, the government included, need to encourage and communicate the role of superior corporate governance and how it impacts firm performance across industries

Wambua (2011) conducted a study on how corporate governance affected savings and credit co-operatives (Sacco's) financial performance in Kenya and found that main purpose of best practices in corporate governance is to ensure increased productivity and effectiveness of firms as well as enhancing their capacity of wealth creation for shareholders, increased opportunities for youth

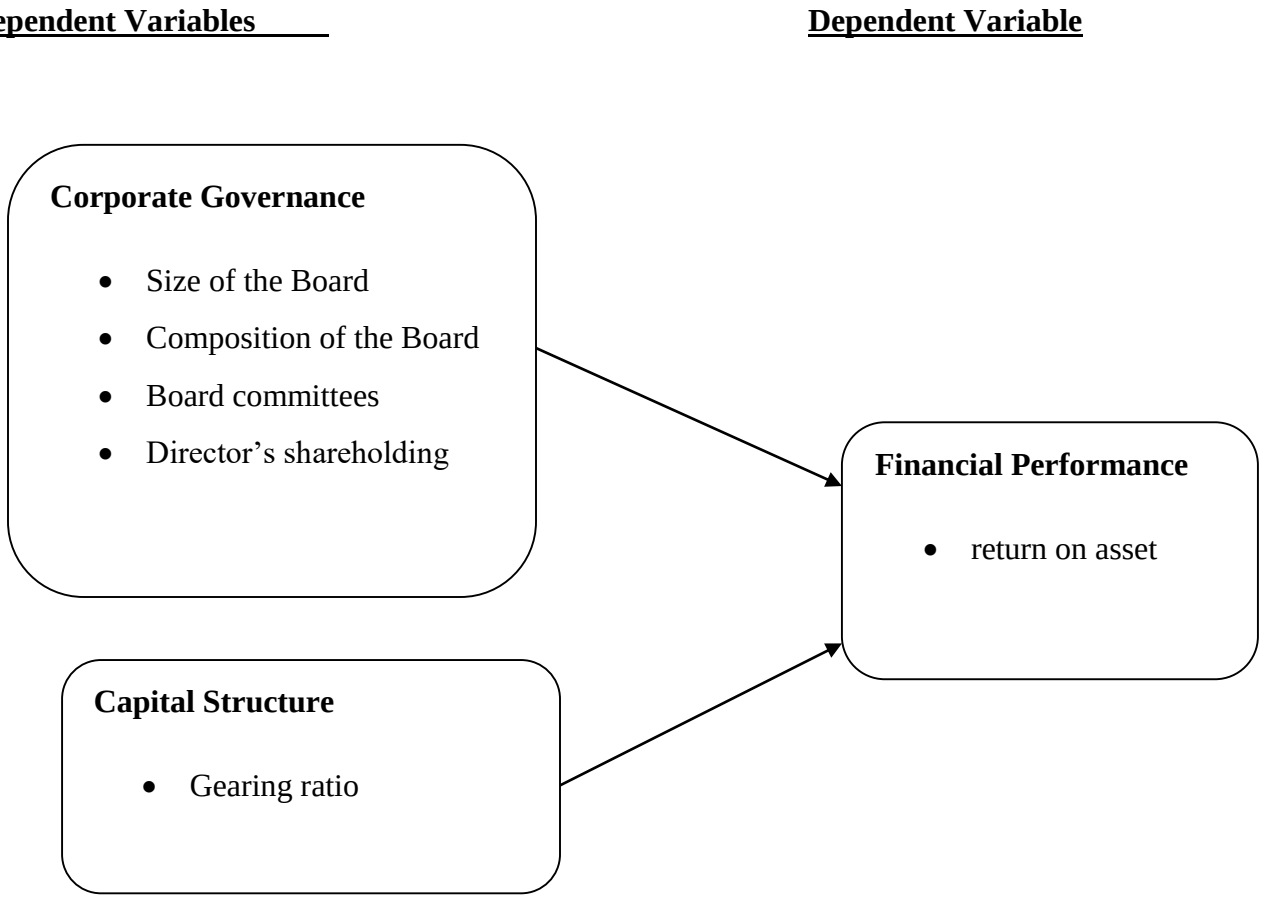
employment with enhanced working conditions for employees as well as superior remuneration to stakeholders. Identified in the research as indicators for better Corporate Governance includes directors as well as committees who are independent, the size of the board, and defined roles for chairman/CEO as well as productive board meetings. He concluded that there a correlation existed between good corporate governance and superior operating performance and also market valuation. Mechanisms of Corporate governance guarantee investors who invest in corporations of ample returns on their investments. A positive impact exists between corporate governance and firm performance, as suggested by findings from previous researches

Maina and Sakwa (2012) conducted a research to comprehend financial distress among NSE listed firms employed a quantitative methodology with the z-score multi-discriminate fiscal analysis model. Results clearly indicated the necessity of improving the fiscal health of the listed corporations. Furthermore a disconnection was eminent in the link between expectations of listed firms with regard to fiscal performance and the increase of benefits from CMA surveillance on them.

2.5 Conceptual Framework

The conceptual framework depicts the link existing between independent variables (corporate governance and capital structure) and the dependent variable (Financial performance).

Figure 2.1 shows the conceptual model



2.6 Summary of Literature Review

The reviewed existing literature and empirical findings regarding combined impacts of corporate governance and capital structure on fiscal performance of NSE listed companies produced no results. However, individual evaluation of corporate governance and capital structure separately produced mixed and conflicting results. According to Modigliani & Miller (1963), the worth of the company is independent of the composition of the firm's capital structure. Therefore, the capital structure has no effects on the financial performance. On the other hand, Pecking Order Theory opines the existence of a negative correlation between the capital structures on the financial performance. Moreover, Wambua (2011), Musyoka (2009), Zeitun & Tian (2007) indicated that capital structure has a negative effects of the performance of firms while Mang'unyi (2011) & Ahmadpour *et al*., (2012) indicated that there is no effects of ownership structure together with corporate governance on organization's performance. Musyoka (2009) contended to their being positive connection between the corporate's capital structure and corporate governance on the significance of the firms. This lack of the unified theory and the conflicting empirical results on the combined impacts of corporate governance together with capital structure on NSE listed corporation's financial performance created the need for a further study which motivated this research undertaking.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses methodology employed in completing the research study. It is organized in the following structure; research design, target population, data collection approach and the collection of data analysis section.

3.2 Research Design

According to Ghauri and Gronhaug (2005), research design entails coming up with a specified plan or a specified data collection framework and the successive statistical analysis, which contains the research approach and the objectives which are of much concern to the researcher. The research study made use of descriptive research design in trying to seek answers to the research question. The design is preferred for the reason that it enables the researcher to describe the context area of research, institute the relationship and explain the collected data with aim of establishing the differences and similarities within a given time frame. Therefore, this methodology was applicable for this research, since the researcher intended to gather comprehensive data through explanations and was suitable for categorizing variables and hypothetical constructs. The design is deemed fitting since the central concern is to search the possible correlation and define how corporate governance together with capital structure impacts NSE listed firms' financial performance.

3.3 Population and Sample

According to Kombo and Tromp (2003), Population is a term used to refer to the total group of individuals, objects or items with common characteristic from which data is collected for analysis. A targeted population refers to that considered by the researcher to be viable enough to generalize

the result of the research. The population considered for this research consisted of 64 firms listed at NSE. The sample for the study was 24 listed firms that cut across the various sectors at the NSE.

3.4 Data Collection

Data gathering is the practice of colleting and analysing data on considered variables, in a conventional logical manner that which facilitates answering of affirmed study questions, test hypotheses, as well as assess outcomes. The study utilized secondary data in seeking answers to the research question. Secondary data on the capital structure was collected from the published financial statements and annual reports.

3.5 Data Analysis

Information gathered was cleaned and checked for completeness and consistency in preparation for analysis. Once cleaned, the data was exported into the SPSS version 21 for analysis. Analysis was the done using descriptive and also inferential statistics. Descriptive statistics entailed the use of measures of central tendency like the mean, frequencies, percentages and standard deviation. Alternatively Inferential statistics was used to draw conclusions. Thereafter multiple regressions were used to analyze and determine what effect corporate governance together with capital structure had on fiscal performance of NSE listed companies. The following regression model was used:

$$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Y= Financial performance of firms as measured by ROA

β_0 = Constant Term

β_i = Beta Coefficient of variable i which measures the change Y to change in i

X_1 = Capital structure as measured by the gearing ratio

X_2= Board size as measured by total members forming the board of directors

X_3= Board Composition as measured by number of non-executive directors to total directors

X_4= Board committees as measured by the number of committees in the board

X_5= Directors shareholding as measured by the ratio of directors shareholding to total shareholding

3.5.1 Tests of Significance

The research utilized an F- test to ascertain the implication of independent variables (corporate governance and capital structure) in opposition to the dependent variable which is financial performance. The confidence level was at 95% which indicated the level observed regarding the significance of the variable, where variables with a value of 'p' of 0.05 and below were considered significant whereas those with 'p' values above 0.05 were considered insignificant.

CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

The chapter focused on analysis of the collected data from the Capital Markets Authority to determine how corporate governance together with capital structure impacts fiscal performance of NSE listed companies. Using descriptive statistics, correlation and regression analysis, the results of the study were presented in table forms as shown in the following sections.

4.2 Response Rate

This study targeted 24 firms listed at the NSE as at 31st December 2016. Data was obtained from the 24 firms giving a response rate of 100%. From the respondents, the researcher was able to obtain secondary data on the capital structure, corporate governance, and fiscal performance of listed companies.

4.3 Diagnostic Tests

The researcher carried out diagnostic tests on the collected data. The research assumed a 95 percent confidence interval or 5 percent significance level (both leading to identical conclusions) for the data used. These values helped to verify the truth or the falsity of the data. Thus, the closer to 100 percent the confidence interval (and thus, the closer to 0 percent the significance level), the higher the accuracy of the data used and analyzed is assumed to be.

4.4 Descriptive Analysis

Descriptive statistics gives a presentation of the average, maximum and minimum values of variables applied together with their standard deviations in this study. Table 4.1 above shows the descriptive data on the applied variables. The findings were obtained after carrying out an analysis

using SPSS software five year period (2012 to 2016) for 24 firms listed at the NSE that provided data for this study. The mean, standard deviation, minimum and maximum for all the variables selected for this study are illustrated in the table below.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	120	-50.32%	41.19%	6.6520%	10.99253%
Gearing Ratio	120	-45.03%	232.91%	23.3010%	39.26026%
Board Size	120	4	16	8.88	2.266
Board Composition	120	40.00%	91.67%	79.1648%	10.57155%
Board Committees	120	1	9	3.58	1.532
Directors Shareholding	120	0.00%	52.00%	3.8163%	9.93843%
Valid N (listwise)	120				

Source: Research Findings (2018)

4.5 Correlation Analysis

The association between any two variables used in the study is established using correlation analysis. This relationship ranges between (-) strong negative correlation and (+) perfect positive correlation. Pearson correlation was employed to analyze the level of connection among the listed firms at the NSE' financial performance and the independent variables for this study (Board size, Board composition, Board committees, board shareholding and capital structure).

Findings from the research indicated that the board size has a positive and statistically major correlation with the listed firms at the NSE' financial performance as shown by (r = .305, p = .001). The study also found out that a negative and significant correlation exists between capital structure as represented by gearing ratio with fiscal performance as evidenced by (r =-. 241, p = .008). Board composition and directors shareholding were established to have a correlation that is negative and also insignificant with fiscal performance as evidenced by (r = -.086, p = .348; r = -.020, p = .828). It was also established that board committees have a positive but insignificant relation with fiscal performance of NSE listed firms as evidenced by (r = .089, p = .332). Although the independent variables had an association to each other, the association was not strong to cause Multi-collinearity as all the r values were less than 0.70. This implies that there was no multi-collinearity among the independent variables and therefore they can be used as determinants of dividend payout ratio in regression analysis.

Table 4.2: Correlation Analysis

		ROA	Board Size	Board Composition	Board Committees	Directors Shareholding	Gearing Ratio
ROA	Pearson Correlation	1	.305**	-.086	.089	-.020	-.241**
	Sig. (2-tailed)		.001	.348	.332	.828	.008
	N	120	120	120	120	120	120
Board Size	Pearson Correlation	.305**	1	.522**	.360**	-.022	-.015
	Sig. (2-tailed)	.001		.000	.000	.812	.868
	N	120	120	120	120	120	120
Board Composition	Pearson Correlation	-.086	.522**	1	.351**	.210*	-.024
	Sig. (2-tailed)	.348	.000		.000	.021	.796
	N	120	120	120	120	120	120
Board Committees	Pearson Correlation	.089	.360**	.351**	1	-.006	.082
	Sig. (2-tailed)	.332	.000	.000		.948	.374
	N	120	120	120	120	120	120
Directors Shareholding	Pearson Correlation	-.020	-.022	.210*	-.006	1	.116
	Sig. (2-tailed)	.828	.812	.021	.948		.205
	N	120	120	120	120	120	120
Gearing Ratio	Pearson Correlation	-.241**	-.015	-.024	.082	.116	1
	Sig. (2-tailed)	.008	.868	.796	.374	.205	
	N	120	120	120	120	120	120

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

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research Findings (2018)

4.6 Regression Analysis

Financial performance was regressed against five predictor variables; board size, board composition, board committees, directors shareholding and capital structure. The regression analysis was executed at a significance level of 5%. The critical value obtained from the F – table was measured against the one acquired from the regression analysis.

The study obtained the model summary statistics as illustrated in the table 4.3 below.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.499[a]	.249	.216	9.73353%	1.567

a. Predictors: (Constant), Directors Shareholding, Board Committees, Gearing Ratio, Board Size, Board Composition

b. Dependent Variable: ROA

Source: Research Findings (2018)

R squared, being the coefficient of determination points to the deviations in the response variable that that is a consequent to variations in the predictor variables. From the outcome as illustrated in table 4.3 above, the R square value was 0.249, a discovery that 24.9 percent of the deviations in financial performance of listed firms at the NSE is caused by changes in board size, board composition, board committees, directors shareholding and capital structure. Other variables not included in the model justify for 75.1 percent of the variations in financial performance of the NSE

listed firms. Also, the results point to their being an average correlation among the selected independent variables and the financial performance as shown by the correlation coefficient (R) equal to 0.499. A durbin-watson statistic of 1.567 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

Table 4.4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3578.908	5	715.782	7.555	.000[b]
	Residual	10800.540	114	94.742		
	Total	14379.448	119			

a. Dependent Variable: ROA

b. Predictors: (Constant), Directors Shareholding, Board Committees, Gearing Ratio, Board Size, Board Composition

Source: Researcher (2018)

The significance value is 0.00 which is less than p=0.05. This implies that the model was statistically significant in the efforts to predict how board size, board composition, board committees, director's shareholding and capital structure affects the listed firms at the NSE' financial performance.

Coefficient of determination was used as an indicator of the direction of the association between the independent variables and the listed firms at the NSE' financial performance. The p-value under sig. column was used as an indicator of the significance of the association between the dependent and the independent variables. At 95% confidence level, a p-value of less than 0.05 was

interpreted as a measure of statistical significance. As such, a p-value above 0.05 indicates that the dependent variables have a statistically insignificant association with the independent variables. The results are indicated in table 4.5

Table 4.5: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	17.573	6.894		2.549	.012
	Gearing Ratio	-.073	.023	-.262	-3.179	.002
	Board Size	2.336	.478	.482	4.883	.000
	Board Composition	-.408	.105	-.393	-3.884	.000
	Board Committees	.544	.643	.076	.847	.399
	Directors Shareholding	.115	.094	.104	1.225	.223

a. Dependent Variable: ROA

Source: Research Findings (2018)

From the output above, it is evident that board composition and capital structure produced negative and statistically noteworthy values (high t-values, $p < 0.05$). Board size was also found to have an effect that is positive and statistically major on listed firms' financial performance while board committees and directors' shareholding were found to have an insignificant effect on financial performance as evidenced by (t= .847, p= .399) and (t= 1.225, p= .223) respectively.

The following regression equation was estimated:

$Y = 17.573 - 0.073X_1 + 2.336X_2 - 0.408X_3 + 0.544X_4 + 0.115X_5$

Where,

Y = Financial performance measured by ROA

X_1 = Capital structure

X_2= Board size

X_3= Board composition

X_4= Board committees

X_5=Director's shareholding

On the estimated regression model above, the constant = 17.573 shows that if selected dependent variables (board size, board composition, board committees, director's shareholding and capital structure) were rated zero, the listed firms at the NSE' financial performance would be 17.573. An increase in unit in size of board would result to an increase in fiscal performance as indicated by a positive coefficient while an increase of unit in capital structure and board composition results to a drop in financial performance of the listed firms at the NSE as indicated by coefficients with negative values.

4.7 Discussion of Research Findings

The study sought to determine the association between corporate governance together with capital structure in fiscal performance of NSE listed corporations. In this research, corporate governance was identified as one of the independent variable with four measures. The size of the board was gauged using the quantity of the members forming the board. Board committees were determined by numerical quantification of board committees while independence of the board was gauged by the quotient of the non-executive directors to the total quantity of board of directors. Measurement of director's shareholding was done as a ratio of directors' shareholding to the total capital held by a firm. Capital structure was the other independent variable and was gauged through gearing ratio.

Financial performance was the dependent variable which the study sought to explain and it was measured by return on assets.

The Pearson correlation coefficients between the variables revealed that board size reflected a positive and statistically important correlation with listed companies' financial performance. The study also ascertained a negative and important correlation existing between capital structure and monetary performance while board composition and director's shareholding had a negative and insignificant correlation with financial performance. Number of committees had a positive but insignificant correlation with NSE listed firms' financial performance.

The model summary revealed that the independent variables: board size, board composition, board committees, director's shareholding and capital structure explains 24.9 % of variations in the dependent variable as shown by the value of R^2 which suggests the existence of factors not considered and that account for 75.1% of changes in the listed firms at the NSE' financial performance. The confidence levels is at 95% considering the F-value is 7.555. This indicates a positive statistical significance of the overall multiple regression model as well as its adequacy as a model in predicting as well as explaining the extent to which the independent variable influences the listed firms at the NSE' financial performance.

The research findings are concurrent with those of Wambua (2011) who conducted a research on how corporate governance affected savings and credit co-operatives (Sacco's) financial performance in Kenya and found that superior corporate governance purposes to grow revenue as well as improve effectiveness of companies and also improve their capability to generate more wealth for shareholders, grow the opportunities of employment and provide improved working terms for employees as well as stakeholders gains. The research identified indicators of Good

Corporate Governance which include directors that are independent, committees that are independent, the size of the board, dividing the roles of chairman/CEO and also regular board meetings. In conclusion he pointed out that superior corporate governance has a correlation with improved operating performance as well as market valuation. Adoption of good mechanisms for corporate governance provides assurance to investors in corporations about receiving satisfactory profits resources invested. It is evident that corporate governance positively influences corporate performance.

This study's findings are in conflict with Ebaid (2009) who researched on Egypts' emerging market economy and arrived on the findings which indicated a very weak connection between capital structure selected and performance. He unearthed an inconsequential connection between capital structure variables that is short term debt, long term debt and total debt to total assets and performance as gauged by the ROE (return on equity). In regards to long term debt in connection to return on assets, a negative inconsequential relationship exists. Additionally, the connection of capital structure and its effect on performance as gauged by the gross profit margin is considered of no consequence as well.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter is a presentation of summary of the results as shown in the former chapter, conclusions arrived at which will be anchored on the research findings and also the limitations encountered in the course of the study. Included also is the recommendations that policy makers can implement when formulating policies so as to achieve the expected financial performance for NSE listed companies. Lastly the chapter presents suggestions for further research which can be useful to future researchers.

5.2 Summary of Findings

The research sought to examine how corporate governance together with capital structure impacted fiscal performance of NSE listed firms. The independent variables were board size, board composition, board committees, directors' shareholding and capital structure. The descriptive cross-sectional research design was employed in the study. Secondary data was obtained from the Capital Markets Authority and was analyzed using SPSS software version 22. The study used annual data for 24 companies that are listed at the NSE over a five years period starting from January 2012 to December 2016.

In light of the findings, the size of the company board indicated to have a connection that is positive and significant with the fiscal performance of NSE listed firms. The findings also indicated a positive and insignificant correlation between board committees and with fiscal performance. Board composition and director's shareholding were established to have a negative insignificant association with the fiscal performance of NSE listed firms. Capital structure as measured by

gearing ratio reflected a negative and considerable relationship with fiscal performance of NSE listed companies.

The co-efficient of determination R-square value was 0.249 which means that about 24.9 percent of the variation in financial performance of the listed firms at the NSE can be connected by the five selected independent variables while 75.1 percent in the variation of financial performance was associated with other factors not covered in this research. The study also found an average correlation between the independent variables and the listed firms at the NSE' financial performance (R=0.499). ANOVA results indicate that the F statistic was at 5% significance level with a p=0.000. Therefore the model was fit in explaining the association between the selected variables.

The regression results show that when all the independent variables selected for the study have zero value the listed firm's financial performance will be 17.573. An increase in unit in board size will have effect and cause an increase in fiscal performance as indicated by a positive coefficient while an increase on unit in capital structure and structure of board would result to a drop in fiscal performance of listed firms at the NSE as indicated by coefficients with negative values.

5.3 Conclusion

It can be concluded from the findings that the NSE listed firms' financial performance is notably affected by the size of the board. The study therefore concludes that a unit increase in this variables leads to a significant increase in fiscal performance of NSE listed companies. Findings from research show that board composition and capital structure have a noteworthy impact on NSE listed firms' financial performance of and therefore this research study concludes that a unit increase in either board composition or capital structure leads to a significant decrease in financial

performance. The study also found that board committees and directors' shareholding are not significant determiners of financial performance and therefore this study concludes that board committees and board shareholding do not have a significant effect on financial performance.

This study concludes that independent variables selected for this study board size, board composition, board committees, directors' shareholding and capital structure influence to a major degree the fiscal performance of NSE listed firms in Kenya. It is thus justified to make conclusions that fiscal performance of companies listed in the NSE are significantly influenced by these variables as illustrated by the value of p in anova summary. Putting into consideration that the 24.9% changes in the financial performance are explained by the five independent variables imply that the variables not included in the model explain 75.1% of variations in fiscal performance of NSE listed firms.

This finding concurs with Muigai (2014) who also did a research study to determine the correlation between selected corporate board dynamics (board size, composition of executive and non-executive members and the gender diversity in corporate boards) and financial performance. The population of forty three licensed listed firms at the NSE in Kenya was used from 2009 to 2013. The research study found a strong negative correlation of composition of board and performance and no positive significant relationship between gender diversity among directors and firm performance, while a correlation that is positive exists between the size of the board and performance.

The research findings also concur with Wambua (2011) who conducted a study on how corporate governance affects fiscal performance of Saccos operating in Kenya and found that excellent corporate governance focuses on profitability increment and organizational efficiency as well as

their improved capacity to generate shareholders wealth, increased opportunities for employment with enhanced working environment and terms as well as stakeholders benefits. The research identified indicators of Good Corporate Governance which include directors that are independent, committees that are independent, the size of the board, dividing the roles of chairman/CEO and also regular board meetings. In conclusion he pointed out that superior corporate governance has a correlation with improved operating performance as well as market valuation. Adoption of good mechanisms for corporate governance provides assurance to investors in corporations about receiving satisfactory profits resources invested. It is evident that corporate governance positively influences corporate performance.

5.4 Recommendations

The study established a positive and significant impact of board size of listed firm's fiscal performance. Recommendations made from this study include putting in place measures to enhance board size as this will improve financial performance. The findings indicate that bigger boards are more likely to perform better than small boards and so listed firms should strive to increase their board sizes. The regulator of listed firms can also help in achieving this by coming up with regulations regarding the adequate board size that listed firms should have.

The study found out that the board composition had a major negative effect on financial performance of listed firm's financial performance. The study recommends that firms should make important decisions regarding the composition of the board as a high percentage of non-executive directors to total directors have been found to negatively influence performance. Organizations should maintain a low percentage of non-executive directors if they are to maximize shareholders' wealth which is the key objective of a firm.

The study found out that a negative relationship exists between financial performance and capital structure of firms listed at the NSE. This study recommends that listed firms' management and directors should aim at increasing their asset base by coming up with measures and policies aimed at enlarging the listed firms' assets as this will eventually have a direct effect on fiscal performance of the firms. Additionally, directors and management should work towards maintaining adequate levels of debt financing as high debt levels have been established to have a significant negative impact on fiscal performance.

5.5 Limitations of the Study

The scope of this research was for five years 2012-2016. It has not been determined if the results would hold for a longer study period. Furthermore it is uncertain whether similar findings would result beyond 2016. A longer study period is more reliable as it will take into account major economic conditions such as booms and recessions.

Data quality stood out as the principal limitation in this research. This fact presented challenges regarding the true position of the actual situation. The data that has been used is only assumed to be accurate. There is also a great inconsistency in the measures used depending on the prevailing conditions. Secondary data was employed in the study which was already existent as opposed to primary data which was raw information. The study also considered selected determinants of and not all the factors impacting fiscal performance of listed firms at the NSE mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with

certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

5.6 Suggestions for Further Research

The research concentrated on corporate governance together with capital structure and their effect on fiscal performance of NSE listed firms and relied on secondary data. A research study where data employed will majorly rely on primary data i.e. in depth questionnaires and interviews covering all the 64 listed firms at the NSE is recommended so as to compliment this research.

The study was not exhaustive of the independent variables affecting fiscal performance of firms listed at the NSE and this study gives recommendations that further studies be conducted to incorporate other variables like management efficiency, growth opportunities, industry practices, age of the firm, political stability and other macro-economic variables. Establishing the effect of each variable on financial performance will enable policy makers know what tool to use when controlling the financial performance.

The study concentrated on the last five years since it was the most recent data available. Future studies may use a range of many years e.g. from 2000 to date and this can be helpful to confirm or disapprove the findings of this study. The study limited itself by focusing on listed firms. The recommendations of this study are that further studies be conducted on other non-listed institutions operating in Kenya. Finally, due to the inadequacies of the regression models, other models such as the Vector Error Correction Model (VECM) can be used to explain the different associations between the variables.

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