EFFECT OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL PERFORMANCE OF FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

KARANJA GLADYS WAMBUI

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed……………………………… Date……………………………………

GLADYS WAMBUI KARANJA

D63/80301/2012

This Research project has been submitted for examination with my approval as the University Supervisor.

Signed……………………………… Date……………………………………

DR. DUNCAN ELLY OCHIENG (PHD, CFA)

Lecturer, Department of Finance and Accounting

School of Business, University of Nairobi

DEDICATION

I dedicate this project to my father Mr. Karanja Sakuda whom despite being illiterate and living in the rural area, valued education for girls and ensured that not only did I get an education but also a quality education. He persuaded/coerced me to study accounting as I waited for my KCSE results (when I did not see the value of an accounting certificate) which lead to my passion in financial matters and am forever grateful for his action.

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I would like to express my gratitude to my supervisor, Dr. Duncan Elly for the guidance and support which were critical to completion of this study.

I am forever indebted to my husband Eric Magero and my children Moraa Magero and Wanjiru Magero, for their unconditional love, patience, support and encouragement. You are my daylight.

Finally, to God almighty who is the giver of life and wisdom. To God be all the glory.

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ABBREVIATIONS AND ACRONYMS

AGM	Annual General Meeting
ANOVA	Analysis of variance
BOD	Board of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
CGG	Corporate Governance Guidelines
CMA	Capital Markets Authority
COB	Chairman of the Board
COG	Code of Governance
NED's	Non-Executive Directors
NSE	Nairobi Securities Exchange
UNSACCO	United Nations Sacco Society

ABSTRACT

The paper sought to investigate corporate governance on the performance of NSE listed companies at 31 December 2017. From a contextual perspective, the justification for studying this topic is premised on the fact that most of the studies in this area have been done in the US, Britain, Europe and Scandinavian countries. few authors have investigated these variables in Kenya. Data was collected from a census of 65 listed companies in Kenya for a period of five years (2013 -2017). The dependent variable under the study is performance while the independent variables include, CEOs duality, director's independence, education of directors, gender of the directors and the size of the board. The empirical justification for this study rest on the fact that previous local and international studies have not given conclusive results. Some studies indicate a positive result yet others conclude that there is a negative association between the variables. Further some studies concluded that there is no statistically significant relationship between governance and performance. A non-directional two tailed test indicate that the model as constituted above contributes to 10.4 % of the changes in performance. This model was also found to be statistically significant at 95% confidence interval. The Pearson correlation matrix indicate that there is a positive correlation between performance and the number of directors, the number of female directors and directors with post graduate education. Moreover, the results indicate that there is a negative relationship between the number of independent directors and the performance. The paper used the ordinary least square regression model to assess the impact of explanatory variable on the dependent variable at 95% level of significance. The research concluded that there is a positive relationship between the board size and performance. These findings are consistent with the assumptions of the resource dependency theory. The findings also indicate that independence of the board affect performance positively. The level of education also has been found to have a positive significant relationship with performance. These findings support the agency theory assumptions which state that an increase in monitoring leads to increased goal congruence and performance. The positive association between the education level and performance confirms the assertions of resource dependency theory. The negative association between board independence and performance also confirms the moral hazard and adverse selection assumption of the agency theory. Further research should be done on the relationship between board independence and performance of organizations as a stand-alone study. This will give more insights on the moral hazard assumptions and will contribute to literature in this area. The study contributes towards policy development by recommending to CMA that ordinary shareholders should be taken through training on board selection and appointment of directors. This is because it is evident from the findings that shareholders may lack the necessary skills needed to select effective boards.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A study conducted by Bloomfield, (2013) shows that one of the most discussed business agenda is corporate governance. This subject has attracted the attention of stakeholders because of its potential to affect expected performance and general sustainability of a company. The performance of nonperformance of a company is directly related to how a company is governed. Poor governance leads to poor results and employee satisfaction. While good governance leads to better results and improved productivity. These factors underscore the reason behind the increased interest in this subject.

Huang *et al*. (2007) opines that even though the concept of corporate governance was first discussed in 1930s, the Asian finance crisis in the 1990s strengthened its discussion among the business circles. Moreover, the numerous corporate scandals around the world have forced many countries to change and review their corporate governance laws. The Enron case in the United States of America made the congress to institute new laws to protect the investors. In Taiwan the Procomp Informatics Limited corporate fraud case engineered the drastic change of laws regarding corporate governance.

Several challenges involving corporate governance have been recognized in Kenya. The challenges range from fraud to errors and mistakes. The main cause of weak corporate governance is concentrated ownership, poor protection of minority shareholders, weak incentives, to weak information standards. For example, a negative feature of the commercial sector in Kenya is the domination of business by family. Ahmed (2009)

Kenya has recently been hit by various scandals which have led to temporary closure of some companies and in some cases firing of directors. These scandals have shown that corporate governance is important for continuity of a company. For example, the closure of Dubai bank and temporary closure of imperial bank due to flouting Central bank regulation lead to massive panic in the banking industry which is believed to be the cause of the closure of chase bank (since depositors rushed in the bank to claim their deposits hence leading to liquidity problems in the bank).

The scandals in Kenya bank sector have led to loss of jobs for employees due to closure of banks or downsizing of company activities and inaccessibility of cash for customers who had deposits of more than a million (for example the UNSACCO had invested 850 million in Chase bank which they have not yet recovered and thus the UNSACCO directors were sued by some members of the UNSACCO). The failures of these banks not only affect the employees and bank customers but also businesses that depended on the banks customers and employee income and the government in terms of taxes. Corporate governance policies and principles must be formulated and implemented.

1.1.1 Corporate Governance Practices

Shleifer and Vishny (2005) views corporate governance as social laws which are not domiciled on fundamental truths like physical science laws but are agreed upon by a broad spectrum of users. Therefore, the formation of an acceptable code of ethics needs consensus amongst the investors and regulators. Corporate governance laws therefore establish the generally acceptable nature of managing and directing the operations of the company. Regulators enforce these codes by putting them in law and monitoring to measure compliance to the regulations. These laws can also be changed through a political process to address the emerging issues.

The CMA (2002) guideline on corporate management and governance defines governance both as a process and a structure. It is a structure because you need clear separation of powers to limit conflict of interest. It is a process because the practices must be institutionalized through a continuous process of actions over a period of time. The guideline opines that managers and directors must always put their eye on the ultimate goal; shareholders' wealth maximization. Emphasis should be placed in providing information accurate and relevant information to shareholders.

The need for corporate governance can be mainly attributed to the agency problem caused by the principal-agent framework in a company (Jensen and Meckling, 1976). The separation of ownership of a company and management of the company due to formation of companies has led to corporate governance being taken more seriously as shareholders need assurance that the agent (the manager) is acting in the interest of principle (The shareholder).

The composition of the board refers to the number and t integration of board members, while demographics refers to the gender and educational level of director's, board structure which is made up of board leadership (this is defined by if CEO and COB is one person or the two post are held by different people) and board independence (A board is considered independent when the majority of its directors are NED's) (Zahra & Pearce, 1989). Some scholars believe having the right board composition could help in solving or reducing the agency problem.

1.1.2 Financial Performance

Ndirangu, (2014) defined financial performance as the ability of a business venture to maximize the wealth that is entrusted with it. This means that financial performance is a measure of management's stewardship. It measures how well a manager put to use the financial resources put on their hands. The returns earned by a firm also indicates the extent to which the environment appreciates the services and goods produced by a company. Ireri (2011) opine that performance is a tool used to facilitate comparison among firms. The tool helps investors make decision on which industries to invest in and which industries to leave.

Elly (2012) defines financial performance in terms of liquidity that is the amount of cash a company can easily access to settle its debts. Operating cash flow ratio as indicators of performance measures the ability of a company not only to meet its obligations for example repayment of loans and continuing its normal operations but also make new investment without looking for external funding. Palepu et al. (2000) concur that cash flow ratios can be used to answer questions on firms' performance since debt obligations are settled with cash.

On the other hand, Victor, (2014) avers that financial returns are of great importance to stakeholders because it measures the commercial viability of a business venture. A firm is deemed to be of sound health if it can finance its operating activities from its normal Couse of business. These activities include payment of salaries, suppliers' lenders and dividends. Financial performance is also a measure of the going concern of an entity, it gives a reasonable assurance that the business will be in operation in the foreseeable future. This help in boosting employee and investor confidence in the firm.

Ratios are mainly used in analysis of financial performance as they can be used to compare across firms of different sizes or even across industries. There are various ratio categorizes but for this study we shall use profitability ratios as profits are very important for survival of the company since if the company incurs losses it means the company has started eating its capital and if there is no turnaround the business shall eventually die or close, regardless of its liquidity (Clausen, 2009). He proposes the use of profit margin, Return on Asset (ROA), Return on Equity and Net profit margin as a measure of evaluating a firm's performance.

1.1.3 Corporate Governance Practices and Financial Performance

Empirical evidence has produced mixed results regarding the relationship between the board size and financial performance. Yoshikawa and McGuire (2008) argues board with good number of members with expertise leading to better firm performance. While Lipton and Lorsch (1992) argues a small board size is positively related to performance it reduces bureaucracy and ensures efficient and effective management.

Board independence is achieved when majority of directors are independent non-executive directors (NED). It is believed that boards dominated by NEDs are more active in monitoring actions and decision made by the executive directors in running the organization (Fama & Jensen, 1993). The presence of independent directors on board gives greater weight to board`s discussions and decision (Heravia, Saat, Karbhari & Nassir, 2011). They bring in more skills, knowledge and network to the organization which in return increases firm's performance due to increase in expertise necessary for strategy (Kamardin, 2011).

Mallin (2010) averred that CEO duality that is having one person to double up as the CEO and the chairperson of a company compromises the board independence. This is because this situation creates a conflict of interest as all power is vested upon an individual. It also reduces the surveillance role of the board and can lead to poor performance of a firm. The results of Sanda *et al.,* (2005) support Mallin (2010) assertions. Their research found out that having two independent individuals to take up the positions of CEO and board chair leads to increased return on investment. This is attributable to increased monitoring from the board and hence more accountability from the managers. On the other hand Daily and Dalton (1992) research concluded that there was not statistically significant relationship between the firms performance and CEO duality.

Smith et al. (2006) argues that a more gender diverse may improve firm performance due to the board generating a better public image of the firm. Female directors on boards provide motivation to others and are source of legitimacy for the board. (Hillman et al. 2007; Singh & Vinnicombe 2004). This argument which is the same as that of Smith et al (2006) seems that presence of women on board is not for purpose of contributing to the company performance but more of a flower girl position where they are to be seen but not heard.

Board of directors is responsible for monitoring management on behalf of shareholders (Edem & Noor 2014). They must be well equipped with knowledge on corporate ethics, accounting and finance related issues to make well informed decision. (Nicholson and Kiel, 2004; Fairchild and Li, 2005; Adams and Ferreira, 2007).

1.1.4 Financial Performance of Firms Listed at Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) is the sole licensed securities exchange in Kenya and it is the 5th largest in Africa. Founded in 1954, NSE has a 62-year heritage in listing equity and debt securities (2015, NSE Hand book). The (NSE) has played an important role in mobilizing resources and providing a means by which companies can raise capital, by providing companies with an opportunity to be privatized. The NSE has ensured that ownership of such companies is widely distributed among members of the public (Otieno, 2010).

Wetukha (2013) sought to investigate the association between governance and financial performance of NSE listed firms. His research concluded that the parameters of good governance such as independence of board, size of the board and CEO duality are positively correlated with return on investments. Surprisingly the study concluded that companies with more gender diverse boards performed poorly as compared to companies with imbalanced boards. While Maina (2005) found no significant relationship between firms' performance and board composition practices (that is board independence and CEO duality) for companies listed at NSE. Ongoso (2014) found a positive association between board size, board independence, gender diversity and firm financial performance for companies listed at NSE.

1.2 Research Problem

Interest in the subject of corporate governance and its relationship with corporate performance is global. From a contextual perspective literature is awash with studies from the United States of America, Britain, Europe and Scandinavian countries. On the other hand, little has been done in developing countries like Kenya, Uganda, Nigeria and other countries in Africa. Moreover, even the few studies that have been conducted are inconclusive on the relationship between governance and return on investment.

Jensen (1993), Yermack (1996) investigated the link between board size and the performance of an enterprise. His research concluded that the fewer the board members the higher the likelihood that the firm will perform better. However similar studies conducted by Mehran (1995) and Klein (1998) found opposing results. These studies aver that the value of the firm is not statistically related to the board size. They concluded that the number of independent directors do not actually affect the performance of the company. Molonko (2004) also concluded that the size of the board and the ratio of independent to non-independent directors have a negative relationship with the performance of the firm. These findings were later affirmed by the research of Ujunwa (2012), who concluded that corporate governance had no statistical impact on performance. His study however averred that the level of education and the nationality of board members do affect the performance of the firm.

Waweru (2015) found that board size, proportion of independent NED’s and CEO duality had a positive relation to firms’ value. Wetukha (2013) finds that firms value is insignificantly related to CEO duality and gender diversity, while board size, non-executive directors and proportion of executive directors have a positive influence on firm performance. Kigotho (2014) concludes there was a positive relationship between board size, CEO duality and firms’ performance.

Most studies in Kenya regarding corporate governance have placed much attention on case studies that is reviewing the operations of one organization. There are also a significant number of studies that concentrate on the corporate governance practices in an industry. This study is based on corporate governance for entire companies listed at NSE as it is more diverse and hence it can help companies to review how their peers are performing. Also, since these companies vary in size, ownership and cut across different industries, some of the findings are likely to be more representative of other companies in Kenya and hence appeal to wider interest groups than the single sector industries. The study aims to address the questions: What is the extent of corporate governance practice in companies quoted at NSE? And how do these practices relate with performance of those organisations?

1.3 Research Objective

The objective was to investigate the corporate governance link on financial performance of NSE listed firms.

1.4 Value of the Study

This study will assist the managers of various listed firms in NSE to comprehend the association that may exist between their governance systems and return on investments. They will also be able to evaluate their governance principles.

The government is an investor in other companies that are not listed in the stock exchange. The government can use the results of these studies in improving governance issues in these other companies. The government should especially consider using the results of this studies in parastatals which use the tax payers' funds in there day to day operations to ensure that the tax payers achieve value for money.

This study adds to the existing empirical literature on the relationship between governance and return on invested equity. The study can be used by future researchers and academic Institutions as a reference in their studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers ownership structure, capital structure, board composition and other issues on corporate governance and its effects on financial performance of listed Companies at The Nairobi Securities Exchange.

2.2 Theoretical Framework

Theory is a set of interrelated thinking which is rationalized by general ideas (Neuman, 2006). Theory is informed by abstract thinking which reflects the actual environment. Corporate governance is a subject matter of many theories such as the stewardship theory and the agency theory. Other theories reviewed in this chapter apart include stakeholder theory and the resource dependence theory.

2.2.1 The Agency Theory

Agency theory as proposed by Ross, (1973) and Fama, (1980) posits that information asymmetry between the managers and directors and between directors and the shareholders is the main motivation behind competing interest among the stakeholders. These competing interests usually limit the shareholder’s wealth maximization goals and hence end up hurting the interest of owners (Blair, 1995). Mangers are capable of perusing their own personal wealth maximization interest because the board of directors does not have as much information about the running of the company as the managers do. This therefore limits the monitoring role of the board.

The complexities of modern economies have led to a separation of ownership and control. Shareholders either lacks the expertise or the time to manage their business thus they are forced to hire manager to run their enterprises. As such it is near impossible that an average investor will understand the complex operations of the company they have invested in. This creates an opportunity for management to take advantage of the situation to maximize their own wealth and not the owners.

There are two main causes of goal incongruence between management and the shareholder are adverse selection and moral hazard. Per Eisenhardt (1989), adverse selection occurs when the principal does not know how to assess the technical competencies of the agents, that is to say that the board of directors may not have effectively assessed the ability of managers at the point of hiring thus leading to hiring of individuals who lack the technical competence to deliver. On the other hand moral hazard is the conscious decision taken by competent managers not to give their best in their work. This is manifested through professional negligence or conscious neglect of duty. These two problems have been proven to contribute to negative performance of firms.

Fama and Jensen, (2005) proposed a separation of power between management of the firm, directors and owners of the firm. Mangers should not be allowed to make decisions which are disproportionate to the shareholders' wealth maximization. This can only be attained with effective monitoring from the board of directors. Shareholders must also have the capacity to identify dysfunctional boards and change them in good time. They also suggest in their study that management's earning should not be based on earnings of the company as this will create an environment for earnings management.

It is clear from the foregoing that agency theory provides a solid base for assessing the impact of corporate governance on the performance of an enterprise. Brennan and Solomon, (2008) opine that the board of directors is an intermediary between the owners and managers of a firm. The play the role of conflict resolution by ensuring that mangers discharge their duties effectively and that they take decisions which are geared toward maximizing shareholders' wealth both in the short run and in the long run.

To counter the agency problem, NED's have been introduced in the boards as a check for executive director excesses. It is recommended that the nomination and remuneration committee that nominates and set directors salaries should be composed of independent directors. Additionally, Kenya's corporate governance guideline recommends that the salaries of executive directors should be determined by the committee of remuneration (CMA COG guidelines, 2002). The agency theory proposes that managers may take actions that are detrimental to the company success as long as they benefit them personally. Based on this theory director are seen as a monitoring the behavior of the managers as such this theory would prefer independent director as majority in the board. It also advocates separation of roles and powers between CEO and Chairman.

2.2.2 The Stewardship Theory

The stewardship theory as proposed by Davis, Schoorman and Donaldson (1997) opines that managers are inclined to maximize shareholders' wealth because their wealth is equally maximized in the process. The research conducted by Muth and Donaldson (1998) revealed that managers are servants who derive their fulfillments and pleasure from serving their masters; the shareholders. The theory takes an optimistic view of the human kind and assumes people of the human kind are motivated by doing well to others.

This theory assumes that the manager's interest and shareholders interest are aligned. The managers gain satisfaction as the company performance improves as this brings recognition among the peers and bosses. This theory recommends having executive directors and CEO duality since directors who double as company employees have more knowledge on the company's operation and hence in a much better position to set the strategies of the company. This theory contradicts agency theory which assumes manager's interest is achieved though monetary rewards only.

In summary the theory implies that directors and managers are good servants of the shareholder. These managers are assumed to derive their satisfaction by maximizing shareholders wealth. Ongoso (2014) investigated this phenomenon and concluded that senior executives and directors actually feel satisfied when the company is performing. This is because over time they tend to develop some ownership and attachment to the firm. Therefore, the performance of the firm becomes a personal goal.

2.2.3 The Stakeholders Theory

Freeman (1999) defined stakeholder as an interested party in an outcome or results of another enterprise. In this case stakeholders are limited to people who have an interest in the performance of the firm. The stakeholder theory looks at the manager's job as managing all the stakeholders' interest and not just the shareholders interest. From Freeman definition there are various stakeholders of a business the list includes but not exhaustive suppliers, customers, employees, government, local communities and the environment.

The theory opines that enterprises exist to serve the interests of various stakeholders. Management must therefore adopt a sensitive attitude towards solving the problems of the various stakeholders. They must allocate their time and resources to ensure that the various interest group within the entity are well served and that no party feels neglected (Abrams, 1951). however, in doing so management must consider the cost and the benefit of meeting the demands of the stakeholders.

The works of Jensen (2001) has recently refined the stakeholder's theory. This research was motivated by the fact that traditional stakeholder's theory did not consider the conflicting demands of an organization's stakeholders. The theory as originally proposed did not provide a frame work for manager to follow in cases where there was a clash of interest. Therefore, managers were given the latitude to decide whose interest to prioritize. In his new rebranded theory of "enlightened stakeholder theory" Jensen (2001) provide a guide of what managers should do in case of a conflict. He opines that managers should be guided by long term goals as opposed to short term needs. He argues that if mangers took care of long term interest then all stakeholders will be satisfied.

The major difference between stakeholder's theory and the other two theories is the assumption that the managers should cater for various interest while agency theory and stewardship theory expects the manager to cater for shareholders' interest only.

2.2.4 Resource Dependence Theory

The resource dependency theory was proposed by Johnson et al (1996). Their work concluded that the appointment of directors represents an organization's need for the skill set and resources that an organization needs. The theory opined that organizations have a way in which they select individuals with resources and qualities which they need. Hillman, Canella and Paetzold (2000) confirmed that in the eye of enterprises natural persons represent resources which they need for their success. Directors bring with them information, skill set and access to suppliers and buyers and for this the organization is willing to pay them for their efforts and connections. For example, a lawyer who is a member of the board would provide free legal advice during BOD deliberation which would be charged if a lawyer was hired to advise the board.

The belief that business enterprises larger boards will outperform their counterparts with smaller boards is premised on the resource dependency theory. Alexander, Fennell, and Halpern (1993) conducted a research to find out the relationship between board size and the performance, their research concluded that the; larger the board size the better the performance of the company. This research seems to validate the findings of Provan (1980) who concluded that an organizations ability to secure critical resources needed for it survival is heavily dependent on the number of directors it has.

The resource theory expects director to bring a resource to the company. The resource could be in term of skills or contacts (for example contacts to suppliers, customers or policy setters). This theory favor’s a diverse board that consist inclusion of female directors (as this group have a different perspective from their male counter parts) and higher education qualification degrees as these individuals bring a certain academic skill to the board. The theory favors also a large board as each director bring in a unique resource hence the more directors in the board the more resources coming to the company.

2.3 Determinants of Financial Performance

A firm performance is not only influenced by a firm CG but there are other attributes that affect the firms Performance. For example, a firm's culture can lead to one firm having better financial performance than another comparable firm in the same business environment due to ability to be flexible and take risk. Below is a detailed discussion of other firm attributes that affect a firm's financial performance.

2.3.1 Capital Structure

The capital structure of firm details the sources of funds which a company uses to finance its operational, investing and financing activities. It is the ratio of shareholders' contribution as compared to the contribution of outsiders (lenders) in financing the company. Empirical evidence indicates that firms with a mix of outsiders' funds tend to perform better than firms run by shareholders' contribution alone. Aduda, Okiro and Omoro (2015) concluded that repayment of principal and interest puts a heavy burden on the shoulder of management and as such this improves profitability of the firm. The manager has to make optimal decisions which can lead to maximizing the wealth of shareholders and at the same time pay out the lenders. The risk of liquidation is equally another pressure on management. Debt capital unlike equity capital can lead to foreclosure and subsequent liquidation. Naturally managers are aware of this and are highly likely to work hard to meet the interest payments.

2.3.2 Ownership Structure

Concentrated Ownership is where shares are held by few numbers of individuals as such this individual have control over the firm and they are also referred to as blockholders. Blockholders can influence performance by being active in supervision of the management's decision since they have skills time and attention to a firm performance also the threat of them leaving due to poor performance act as a deterrent to managers being involved in actions that affect performance of a firm.

There is no agreement on whether presence of blockholders has positive or negative effect on financial performance. Shleifer and Vishny (1997) concluded that firms whose owners held tightly to the management and control underperformed firms with delegated authority. This is because entrepreneurs usually do not poses all the necessary skills needed to run the organization effectively. Denis and McConnell (2003) found conflicting results. Their study concluded that centralization of managerial power had a positive correlation with the performance of the organization. Becker et al. (2011) also confirmed that owner managed forms outperformed firms where ownership is separated from control.

2.4 Empirical Review

Existing literature on corporate governance have concentrated on separate elements or categories of corporate governance in areas of board independence, board size, CEO-Chairman duality, ownership, audit committee, independence of directors, and remuneration committee. The studies have resulted to different conclusions depending on the method used or determinant of financial performance applied (Marikio, 2014).

Duc et al. (2013) they examined how corporate governance affect performance of the companies the Southeast Asian country of Vietnam. Using the flexible generalized least square technique for a period of five years, the research concluded that good corporate governance practices are positively correlated with return on investments. The research found out that companies with good governance structures (such as having women directors, separating the roles of CEO from those of the board chairman, hiring board members with sufficient work experience and education) outperformed their counterparts with weak governance structures. These results were found to be consistent and predictive for all the seventy-seven listed companies under the study.

Akpan et al. (2014) examined the influence of board characteristics on the sales volume of 90 Nigerian companies listed in the Nigerian Stock Exchange. The variables were studied for a period of 3 years, from 2010 to 2012 all years inclusive. The paper concluded that there was a direct positive association between board size and performance of a company. That is to say that companies with larger boards outperformed companies with smaller boards. These findings are consistent with the assumptions of the resource dependency theory. They also concluded that the level of education of board members affect results positively. However, board equity, independence and age of board members were found to have no significant influence on the performance.

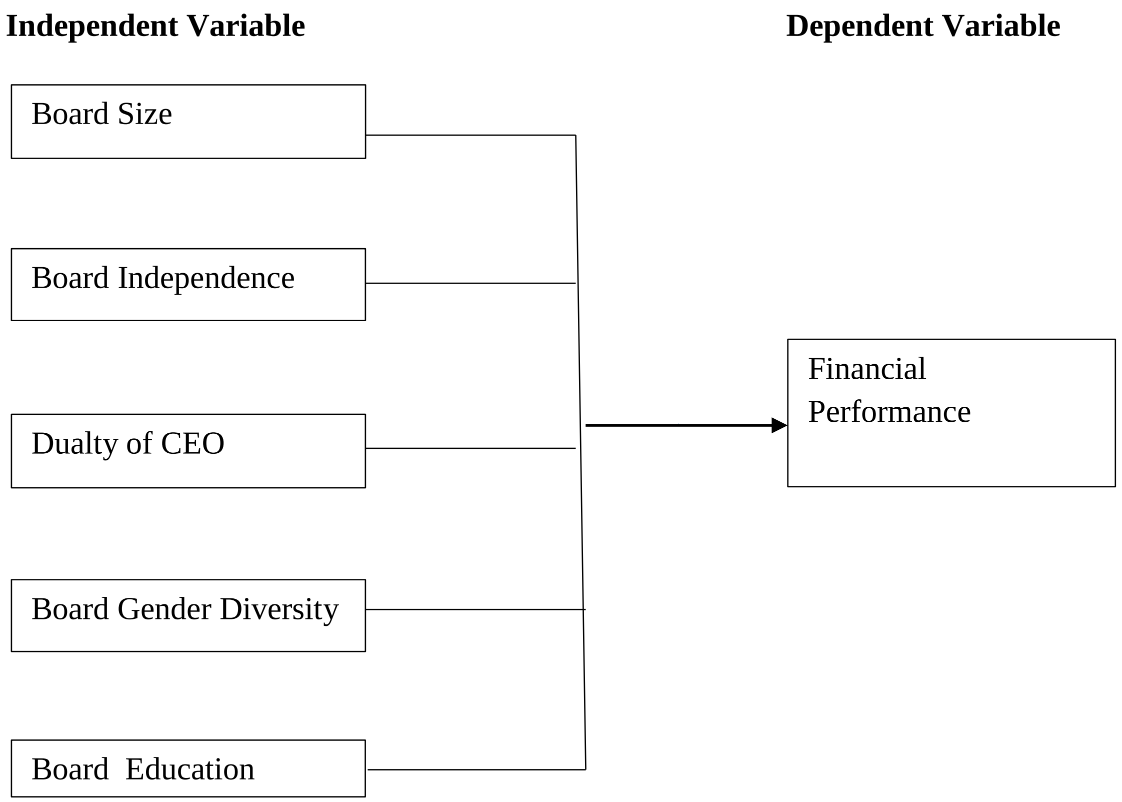
Kigothi (2014) analyzed the association between corporate governance and financial performance of the 62 public companies in Kenya. Data was obtained from a sample of 48 companies listed at the NSE for the period January 2009 to December 2013. Corporate governance was measured through the following proxies; board size, board composition, and CEO Chairman duality. The results indicated that there was a positive correlation between board size and performance. On the other companies whose chief executives directors doubled up as the chairman underperformed those with clear separation of duties between the CEO and the board chairman. These results were statistically significant at 95% confidence levels.

Adhiambo (2014) studied the relationship between governance and performance in the banking sector. Forty-three commercial banks regulated by the central bank of Kenya were selected for this study. Multiple regression model was adopted to analyze the relationship between the dependent and the independent variable for a period of e five years beginning January 2009 to December 2013.The research concluded that board size and performance had a negative relationship. Her findings contradict the conclusions of Kigothi (2014) who found a positive relationship. However there was a point of convergence with regards to education. Both studies concluded that the higher the education level of board members leads to better performance of companies.

Mutisya, (2006) studied how stock prices are affected by corporate governance. The research was conducted using simplistic multivariate regression model to analyze the five-year data on all the listed public companies in Kenya during the period 2000 – 2005. The dependent variable under the study was the market to book value while the independent variables comprised of a number of governance proxies such as size of the board, number of meetings held by the board, number of non-executive directors as a proportion of total directors, number of executive directors as a proportion of total directors. The study concluded that the size of the board was positively correlated with performance. The number of meetings was equally found to affect performance positively. The gender was not a statistically significant determinant of stock prices. This means that the market does not pay a premium for the shares of companies with gender balanced boards.

2.5 Conceptual Framework

The conceptual framework seeks to link CG with firm performance. The agency, stewardship, stakeholder and resource theory analyses the internal CG mechanisms.



Source: Author (2018)

2.6 Summary of Literature Review

The section elaborated on four theoretical perspectives; agency theory that supports management monitoring by directors, stewardship theory backing managerial empowerment, resource dependence theory viewing directors as a resource supplier and stakeholder theory proposing equity among all stakeholders. The CG variables illustrated in the section included; board size or the number of directors in the board, independence of the board which is the proportion of independent directors on board, CEO duality or the holding of CEO and CO position by one person, gender diversity or proportion of female directors on the board and the educational level of directors on board.

Empirical literature covered in the chapter both global and local, show evidence that there is a strong association between governance and performance of enterprises. There is however no convergence on the findings. For example, the case of gender diversity some studies show that there is a positive relation to financial performance while some states there is no significant effect on the return on investment. Some shows the CEO duality has positive effect on financial performance other have negative effect. This further reinforces the need for this study to build more knowledge in this inconclusive issue of effect on CG on financial performance.

Table 2.1: Summary of Key Studies and Research Knowledge Gap

Author	Field of study	Methodology	Findings	Research/knowledge gap
Jensen (1993) and Yermack (1996)	The association between board size and the performance of Vietnamese companies	generalized least square technique	Negative relationship between board size and performance	These results oppose the findings of most research who concluded that there is a positive relationship between size and performance. Mehran (1995) and Klein (1998) found positive results.
Adhiambo (2014)	Corporate governance and the performance of the banking sector.	Ordinary least square	Negative relationship between board size and performance.	Her findings contradict the conclusions of Kigothi (2014) who found a positive relationship.
Mutisya, (2006)	Effects of corporate governance on the stock prices of listed firms in Kenya.	simplistic multivariate regression model	The paper concluded that there is no relationship between the gender of board members and performance of the company.	The findings differ materially with other studies which found a positive relationship.
Ujunwa Augustine (2012)	Board characteristics and financial performance of Nigerian listed firms	The study employed the use of random effects and fixed effects generalized least squares regression methods	The study concluded that board size, CEO duality and gender diversity were negatively linked with firm performance, whereas board nationality, board ethnicity and the number of board members with a PhD qualification were found to have a positive relationship with the firm performance.	The study contradicts the previous research concluded that board size, CEO duality and gender diversity are positively related with performance.
Ngoe Omondi (2011)	Effects of board structure on performance of listed companies in kenya	The peer used fixed effect and random effect regression model	The study concluded that the size of the board and the ratio of independent to non-independent directors have no relationship with the performance of the firm.	The research gap is premised on the fact that some studies found a positive relationship between the independence of the directors and the performance of the company. Yet This study indicates that there is no relationship.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

Specifically, the chapter looks at the research design, the sample and sampling procedures, data collection issues used in the study.

3.1 Research Design

This study employed the use of descriptive research design. This design allows the researcher to make inferences about the general population.

3.2 Population

According to Mugenda and Mugenda, (2003), a population is a well-defined set of elements. The target population is all firms listed at the NSE as at 31st December 2017. (Appendix 1)

3.3 Sample Design

The sample chosen consist of 57 companies listed continuously in the Nairobi Stock Exchange in the year 2013-2017.

3.4 Data Collection

This study used secondary data from Published and unpublished data. Annual financial reports of individual listed firms were analyzed over the five-year period where income before tax was extracted and used as a measure of financial performance. Board structure data was obtained from corporate governance disclosure of individual listed firms in NSE which is a requirement for listed firms. The specific board structure data collected is found on the data collection template (Appendix 2)

3.5 Diagnostic Tests/ Data Reliability or Validity

Diagnostic tests determine the goodness of the multiple linear regression models. Thus, the regression model was preceded by diagnostic tests. The diagnostic tests included: Durbin Watson (DW) test, and Shapiro-Wilk test of normality.

3.6 Data Analysis

To estimate the impact of board composition on financial performance of companies listed on NSE the study used regression model. The ANOVA analysis was employed to test the hypothesis and Pearson correlation test was used to indicate the direction of the linear relationship. Below is summary of both tools of analysis:

The regression model used in the research is given below.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + ẹ$

Where:

The dependent variable was the Company's performance as measured by natural logarithm of income before tax

Y= Ln (Income before tax)

β_0 = Constant Term

$\beta_1 \ldots \beta_4$ = Beta coefficients

Independent variables were:

X_1= Board SIZE (BS), which was measured by the number of directors in the board.

X_2= Board independence measured by the proportion of non-executive directors to the executive director on the board.

X_3= CEO Duality: a dummy variable that took the value one. if the CEO is also the chairman of the board and otherwise 0.

X_4= Gender Diversity of the Board this was measured as a percentage of women directors on the board

X_5= Education of the board was measures as a percentage of the board holding a masters education

e = error term

3.6.1 Test of Significance

The research used a two tailed P-test to test statistical significance of the individual explanatory variables on the variability of stock returns. The F-statistics was used to test the overall validity of the model in explaining the variation in stock returns at 95% confidence level and 5% level of significance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents results of analyzed data, which are presented, inform of tables. The chapter describes the response rate, data reliability and descriptive statistics, correlation analysis results, regression analysis results and the interrelation of the study findings.

4.2 Data Reliability

Data was collected from the financial statements of listed firms at the NSE. These financial statements are audited by independent professional accountants. These reports provide reliable information because they are prepared in accordance with the provisions of international financial reporting standards. These standards help in ensuring that the financial statements portray the events and transactions faithfully and reliably.

4.3 Descriptive Statistics

Table 4.1: Descriptive Statistics

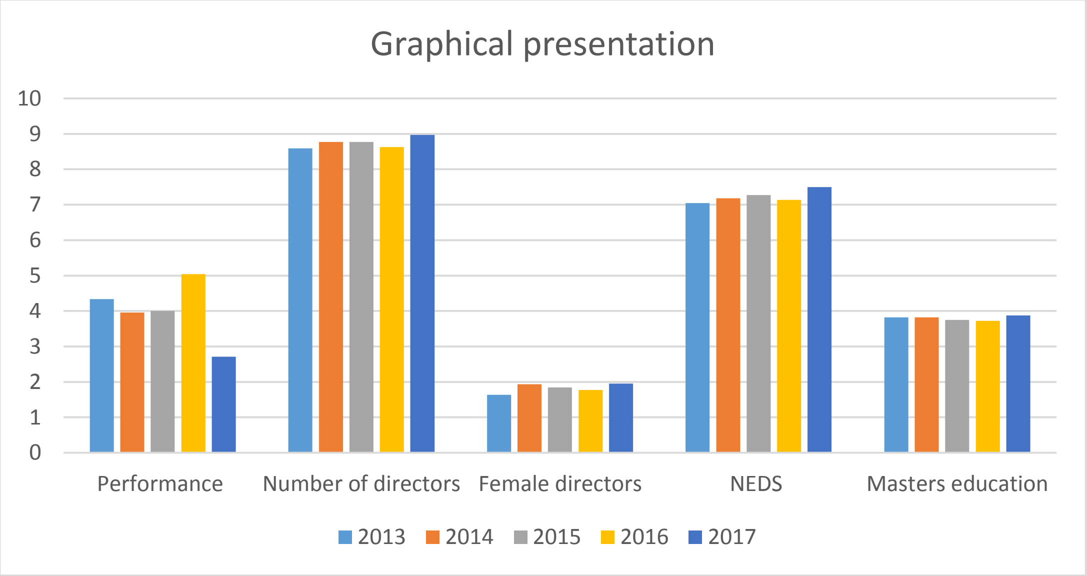
	Mean	**Std. Deviation**	**N**
Performance	4,027,095,920	1,970,151.67	215
Number of directors	8.74	2.195	215
Number of female directors	1.82	1.221	215
NEDs on the board	7.22	2.273	215
Directors with masters education	3.8	2.335	215

Source: Research Findings (2018)

The table 4.1 shows the descriptive statistics of the research findings. The research investigated 51 listed companies for a period of five years, there were 215 observations under study. The research indicates that of all the firms investigated they have separated the roles of CEO and the chairman.

In general, there are more than three directors with postgraduate degrees, the findings indicate that there are averagely seven independent directors sitting in the boards of the companies under study. Moreover, the results indicated that on average, there is one female director sitting in the board of directors. Finally, the average income before tax is 4,027 million.

Figure 4.1: Descriptive Statistics



Source: Research Findings (2018)

From the figure above, it can be seen that performance decreased in 2014 by 9% followed by a slight increase of 1% in 2015 and a 26% increase in 2016.The average total number of directors increased by 2%, 0%, -2%, 4% in 2014, 2015, 2016 and 2017 respectively. The average number of independent directors increased by 2%, 1%, -2% and 5% for the years 2014, 2015, 2016 and 2017.

4.4 Pearson Correlation

Table 4.2: Pearson Correlation

Pearson Correlations	Performance	Number of Directors	Number of Female Directors	NEDS on the Board	Directors with masters education
Performance	1				
Number of directors	0.017	1			
Number of female directors	0.008	.445**	1		
NEDS on the board	-0.084	.920**	.412**	1	
Directors with masters education	.215**	.418**	.249**	.393**	1

Source: Research Findings (2018)

Table 4.2 shows the correlation analysis between the enterprise performance and corporate governance measures such as number of directors in the board, number of female directors and independent directors. The statistical analysis indicates that there is a positive correlation between performance and the number of directors, the number of female directors and directors with masters' education. Moreover the results indicate that there is a negative relationship between the number of independent directors and the performance. However CEO duality and performance has no correlation because all the companies under the study have separated the roles of CEO from those of the chairman.

4.5 Diagnostic Tests

Table 4.3: Model Summary

Model Summary					
Model	R	R Sq.	Adjusted R Sq.	Std. Error of the Estimate	Durbin-Watson
1	.347a	0.121	0.104	1865000	0.632

Source: Research Findings (2018)

The adjusted R square of 0.104 means that 10.4% of the performance of the companies is explained by corporate governance.

4.5.1 Test of Serial Correlation

The research employed the use of Durbin Watson test to investigate whether there were serial correlations between the independent variables over time. The test of serial correlation runs between 0-4 with higher figure indicating the presence of serial correlation. Figures between 0-2 indicate no correlation while figures between 2-4 indicate serial correlation. In this research the Watson test has a value of 0.623 which means that there is no serial correlation.

4.5.2 Test of Normality

Table 4.4: Test of Normality

	Kolmogorov-Smirnova			**Shapiro-Wilk**		
Tests of Normality	Statistic	df	Sig.	Statistic	df	Sig.
Performance	0.13	215	0	0.888	215	0.094
Number of directors	0.121	215	0	0.963	215	0.092
Number of female directors	0.253	215	0	0.804	215	0.087
NEDS on the board	0.119	215	0	0.974	215	0.075
Directors with masters education	0.137	215	0	0.929	215	0.061

Source: Research Findings (2018)

The Shapiro–Wilk Test of Normality was used to find out if the data is normally distributed. The null hypothesis for this test is that data is normally distributed. The null hypothesis is rejected if the significance value is below 0.05. In this case the significance values are well above 0.05 and so we keep the null hypothesis and conclude that the data is approximately normally distributed.

4.6 Analysis of Variance

Table 4.5: Anova Analysis

ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.02	4	2.51	7.203	.000b
Residual	73.04	210	0.35		
Total	83.06	214			

Source: Research Findings

The ANOVA test is a statistical test used to find out if the model as is designed is statistically significant. The null hypothesis for the ANOVA test is that the variables as explained in model do not explain the changes in the performance of the study. The significance level of 0.000 shows the probability of the Null hypothesis being true. In this case we reject the null hypothesis and conclude that the independent variables explain the changes in performance. The model is statistically significant.

4.7 Regression Analysis

The research used least square regression method to analyze the effects of corporate governance on the performance of public companies. In this regression methodology, the null hypothesis tested was; there is no relationship between performance and corporate governance. This null hypothesis is tested at 95% confidence interval and is accepted if the significance level is greater than 0.005. The P value in the table shows the probability of the null hypothesis being true. A lower figure therefore means that the null should be rejected, higher figures above 0.05 indicating increased possibility of the null being true.

4.7.1 Hypothesis Testing of for Independent Variables

Table 4.6: Regression Analysis

Coefficients	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
Model	**B**	**Std. Error**	**Beta**		
(Constant)	-0.358	0.549		-0.652	0.515
Number of directors	0.473	0.153	0.527	3.104	0.002
Number of female directors	-0.03	0.117	-0.018	-0.255	0.799
NEDS on the board	-0.576	0.143	-0.664	-4.016	0
Directors with masters education	0.22	0.06	0.261	3.646	0

Source: Research Findings

Y= $0.47X_1 - 0.57X_2 + 0.22\ X_5 - 0.03X_4 - 0.35$

The research employed the use of a two tail P test to assess the statistical significance of independent variables at 95% level of confidence. The SPSS test the null hypothesis that each coefficient given in the equation above is not different from zero. The significance values represent the probability that the coefficients are zero. To reject this null hypothesis, the values in the significance column must be less than 0.05. This means that the probability of the coefficient being zero must be less than 5% for that variable to be statistically significant.

The results indicate that the constant and the number of female directors sitting in a board have a significance value of 0.515 and 0.799 respectively this means that the probability of the null hypothesis being true is 51.5 % and 79.9 % respectively. We therefore accept the null hypothesis which states that the coefficients of the constant and that of the gender of directors is not different from zero. This is because the significance values are more 0.05 and meaning that it is highly probable that the coefficients are not different form zero.

On the other hand, the significance level of the coefficients of the size of board, board independence and the level of education of board member are 0.002, 0.00, and 0.00 respectively. These figures represent the probability of these coefficients being zero. The research therefore rejected the null hypothesis and accepted the alternate hypothesis which states that the coefficients of the three variables are different from zero. This means that they have a statistically significant influence on the movements of performance.

4.8 Discussion of Research Findings

From the analysis above, the research findings indicate that the performance of the companies under study will decrease by 0.35 million. This is the level of performance which is not dependent on the variables under study. However, this finding can be ignored since it is not statistically significant. There is a 51.5 % chance that the coefficient of 0.35 is not different from zero. The research also indicates that there is a positive relationship between the size of the board and performance. An increase in the size of the board leads to an increase in revenue by 0.47 million. These findings are consistent with the assumptions of the resource dependency theory as proposed by (Johnson et al, 1996). The theory opined that directors come with resources or access to resources and concluded that increasing the number of directors will result in an increase in performance (Hillman, Canella & Paetzold, 2000).

The findings also indicate that independence of the board affect performance negatively, it indicates that an additional independent director leads to a decrease in performance by 0.57 million. The level of education also has been found to have a positive statistically significant relationship with performance. An increase in the number of directors with post graduate degree increases performance by 0.22 million. These findings are consistent with the findings of other related studies. Duc et al., (2013) sought to find out whether the education level of directors affected performance. Their study found out that firms who hired well educated directors outperformed their counterparts.

The research also indicated that the gender of the directors is not a statistically significant driver of performance. These findings affirm the conclusions of Mutisya, (2006) who studied how gender affects the stock prices of public firms and arrived at similar conclusions. These results are also consistent with the findings of Akpan et al (2014) who examined the impact of gender on the performance of public companies in Nigeria. Their study concluded that the presence or absence of female directors in the board did not affect the performance. All the companies under the study had separate individuals holding the position of CEO and chairman and as such CEO duality has been dropped by the model as a variable because it is constant across all the observations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter documents the summary of research findings and conclusions based on results. Additionally, this chapter presents the policy recommendations supported by statistical facts. There is a discussion on the limitations of the study and how the challenges were resolved. Finally, the chapter gives suggestion for further research.

5.2 Summary

The study seeks to examine the impact of corporate governance on the performance of firms listed at the NSE. The dependent variable under the study was performance measured by return on assets. The independent variables include board size, independence of directors, and the level of director’s education, directors gender and CEO duality. The Four theories reviewed include the agency theory, resource dependency theory, stewardship theory and stakeholder theory. Data was collected from a census of all the 51 listed companies at the NSE for a period of five years (2013-2017).

Preliminary analysis using the two tailed Pearson correlation matrix indicated that there is a positive correlation between performance and the number of directors, the number of female directors and directors with postgraduate education. While independence of directors was found to be negatively correlated with performance. These correlations were found to be statistically significant at 95 % confidence level.

The research findings concluded that there is a positive relationship between the size of the board and performance of the company. These results are consistent with the provisions of resource dependency theory which is the anchor theory for the study.

The theory opines that the hiring of additional directors represents an additional resource to the organization. This is because these directors come with new information, access to customers or critical resources needed by the organization to survive. Alexander, Fennell, and Halpern (1993) also conclude that there is a positive relationship between performance and board size.

The results also found a significant indirect link between independence of the board and the performance of the company. Independence of board leads to effective performance. The agency theory identifies with these results. The theoretical explanation for the negative relationship emanates from the fact that shareholders may lack the technical expertise needed to assess the competencies of the directors. The BOD may not have been properly assessed at the point of hiring thus leading to hiring of directors who cannot properly discharge their oversight roles (Eisenhardt,1989). This therefore leads to an increase in cost in terms of salaries paid without a matching level of productivity.

On the other hand, the negative relationship between the independence of the board and the performance of listed firms can be associated to the moral hazard problem. Sometimes the principles can select competent board who later on neglect their duties. These board members may even collude with managers to defraud the company. Moreover, there could have been a conflict of interest where the BOD influence the supply of critical goods needed for production. Most of the time these contracts are awarded at exorbitant prices. These two problems have been proven to contribute to negative performance of firms.

The results also found a positive relationship between education and performance. This means that firms with more educated directors outperformed their counterparts whose boards have less educated boards. This is in line with the resource dependency theory, which opines that firms hire directors who pose the resources they need for survival (Hillman, Canella & Paetzold, 2000). Directors bring with them information, skill set and access to suppliers and buyers and for this the organization is willing to pay them for their efforts and connections.

The results also found gender diversity of the board is not a statistically significant driver of performance. These results indicate that there is no tangible benefit that a company gain by having a gender balanced board. These findings desert the proposition of resource dependence theory which postulates that gender diversity has a positive impact on performance. However, these findings are consistent with the stewardship theory which proposes that directors are usually motivated by the performance of the companies they manage. The theory takes an optimistic view of life and opines that performance is self-driven by the desire to achieve.

The lack of statistical significance between gender and performance confirms the findings of Ongoso (2014) investigated this phenomenon and concluded that senior executives and directors irrespective of their gender usually feel satisfied when the company is performing. This eliminates the importance of gender in the selection of directors because the only thing needed is the motivation of the directors. The study concluded that over time directors tend to develop some ownership and attachment to the firm. Therefore, the performance of the firm becomes a personal goal not a gender issue. These findings are also validated by the prepositions of the stakeholder theory. The theory states that the performance of an organization is guaranteed by the ability of the firm to take care of the stakeholders needs with minimal cost. An organization which finds the optimal mix of activities which satisfies many of the competing interest will definitely outperforms its counter parts. Therefore, the gender diversity of the board does not necessarily lead to high performance but the optimal mix of activities.

5.3 Conclusions

The study concluded that performance of listed firms and good governance has a positive relationship. There was a positive relationship between the size and performance. This is attributable to the fact that directors represent access to resources and as such an increase in the number of directors lead to an increase in the resources controlled by a company. The level of education was also found to have a positive relationship with performance. In the same breadth education can be seen as information resource added to the organization. Therefore, appointing a director with post graduate degree indicates an increase in the informational asset of the organization. Independence of the board was also found to be positively correlated. This is consistent with the agency theory which postulates that increased monitoring leads to alignment of goals and hence increased focus on shareholder wealth maximization (Hillman, Canella & Paetzold, 2000).

The study concluded that there is a negative relationship between independence of the board and performance. This could be attributable to the lack of competencies by the shareholders to assess the suitability of the BOD. It can therefore be concluded that generally speaking shareholders/investors in the Kenyan market do not poses the necessary skills to comprehend the complexities of the business environment. There is therefore a need to retrain the investors on how to compose effective boards.

The study also concluded that performance and size are positively associated. The study there agitates for the inclusion of more directors in the companies. This is because hiring of directors boost the performance of companies. The study also found positive relationship between the directors' education and the performance of companies. This means that firms should on board educated directors with Masters degrees because they are presumed to add more value than directors without post graduate degrees. This is in line with the expectations of the resource dependency theory. Shareholders must therefore be careful in the selection of the BOD to ensure that they get maximum returns for their money.

The study also concluded that gender diversity of the board is not a statistically significant driver of performance. These findings confirm the prepositions of the stakeholder theory and stewardship theory. The stewardship theory opines that performance of an enterprise is directly linked to the motivation of the directors. The theory further explains that directors derive their motivation from the performance of the company. It takes the optimistic view that directors will always be motivated by wellbeing of the companies they run. That they feel good if their company outperform other companies.

On the other hand, the stakeholder theory opine that an organizations performance is premised on how well it serves the competing interest of the stakeholders at an optimal cost. This therefore eliminates the need for gender diversity within boards a firm need only to take care of stakeholders' interest to survive. These findings are in direct contrast with the proposition of the resource dependency theory. This theory postulates that gender diversity is a significant factor in the performance of a company. The theory assumes that having gender diverse boards actually leads to better performance because of the inclusion of differing perspective in decision making and oversight roles. This empirical evidence deserts this belief and contributes to the literature.

5.4 Recommendations

The researcher recommends that companies should re-skill and re-tool their directors. This is because the level of education and the skill set of directors are found to have a positive impact on the performance of the company. Moreover, the study has concluded that the size of the board affect performance positively. This means that these directors represent critical resources needed by the organization for its success. Therefore, the study recommends that organizations should therefore look for directors with influence and power in the society. These directors represent resources and their inclusion in the board will increase the competitiveness.

The research also indicates that independence of board of management affect performance negatively. This is because of lack of competencies by shareholders to access the suitability of the BOD. There is therefore a need to retrain the investors on how to compose effective boards and have orientation training for the non-executive training.

5.5 Limitations of the Study

One of the fundamental challenges in the research process was the getting the education level of the directors. This is because there is no one registry of information in Kenya where one can get the updated information of director's education. The researcher resolved this problem by doing research in the database of the institute of directors and through other professional databases such as LinkedIn.

The researcher also faced the problem of insufficient information some of the companies had not complied with the CMA requirements of publishing general purpose financial statements. Moreover, some of the statements lacked the profile of their directors hence making it difficult for the researcher to assess the education level of directors. The researcher resolved the problem by requesting the full set of published accounts from the company auditors.

The other challenge faced by the researcher was the accuracy of information in the websites of the listed companies. Most of the companies do not update their websites whenever there is a change in directorship. This was a fundamental problem since one of the variables under study was the composition of the board. The researcher solved this problem by visiting the companies and verifying the correct board composition.

5.6 Suggestion for Further Studies

A study should be carried on the effect of corporate governance on private companies, however this research is likely to face the challenge of data because most private companies do not publish their research work and may be disinclined to disclose their figures. All the same with the fall of Nakumatt a leading retail company in Kenya one should endeavor to find the corporate governance issues in that sector and relate it to performance.

The researcher also proposes a sectorial survey on the effects of corporate governance on listed companies in east Africa. The justification for this is premised on the fact that the three countries have a different cultural setting and belief system and it would be important to investigate the effects of those intercultural differences on corporate governance and structure.

A study researcher also proposes for a study to be done to determine the industry effect on corporate governance. The hypothesis to be tested in this case should be whether there is a statistically significant difference in the corporate governance structures of various industries. The justification for this is since some industries have predominantly family run businesses yet the ownership structure for some industry is public in nature. The difference in the ownership structure is likely to affect the corporate governance issues and eventually affect the performance.

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APPENDICES

Appendix I: Firms Listed at NSE as at 31ST December 2017

AGRICULTURAL

1 Eaagads Ltd
2 Kakuzi Ltd
3 Kapchorua Tea Co. Ltd
4 The Limuru Tea Co. Ltd
5 Sasini Ltd
6 Williamson Tea Kenya Ltd

AUTOMOBILES & ACCESSORIES

7 Car & General (K) Ltd
8 Marshalls (E.A.) Ltd
9 Sameer Africa Ltd

BANKING

10 Barclays Bank of Kenya Ltd
11 CFC Stanbic of Kenya Holdings Ltd
12 Diamond Trust Bank Kenya Ltd
13 Equity Group Holdings Ltd
14 Housing Finance Group Ltd
15 I&M Holdings Ltd
16 KCB Group Ltd Ord
17 National Bank of Kenya Ltd
18 NIC Bank Ltd
19 Standard Chartered Bank Kenya Ltd
20 The Co-operative Bank of Kenya Ltd

COMMERCIAL AND SERVICES

21 Atlas African Industries Ltd
22 Express Kenya Ltd
23 Hutchings Biemer Ltd
24 Kenya Airways Ltd
25 Longhorn Publishers Ltd

26 Nairobi Business Ventures Ltd

27 Nation Media Group Ltd

28 Standard Group Ltd

29 TPS Eastern Africa Ltd

30 Uchumi Supermarket Ltd

31 WPP Scangroup Ltd

CONSTRUCTION & ALLIED

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

ENERGY & PETROLEUM

37 KenGen Co. Ltd

38 KenolKobil Ltd

39 Kenya Power & Lighting Co Ltd

40 Total Kenya Ltd

41 Umeme Ltd

INSURANCE

42 Britam Holdings Ltd

43 CIC Insurance Group Ltd

44 Jubilee Holdings Ltd

45 Kenya Re Insurance Corporation Ltd

46 Liberty Kenya Holdings Ltd

47 Pan Africa Insurance Holdings Ltd

INVESTMENT

48 Centum Investment Co Ltd

49 Home Afrika Ltd

50 Kurwitu Ventures Ltd

51 Olympia Capital Holdings Ltd

52 Trans-Century Ltd

INVESTMENT SERVICES

53 Nairobi Securities Exchange Ltd Ord 4.00

MANUFACTURING & ALLIED

54 A.Baumann & Co Ltd

55 B.O.C Kenya Ltd

56 British American Tobacco Kenya Ltd

57 Carbacid Investments Ltd

58 East African Breweries Ltd

59 Eveready East Africa Ltd

60 Flame Tree Group Holdings Ltd

61 Kenya Orchards Ltd

62 Mumias Sugar Co. Ltd

63 Unga Group Ltd

TELECOMMUNICATION & TECHNOLOGY

64 Safaricom Ltd

REAL ESTATE INVESTMENT TRUST

65 STANLIB FAHARI I-REIT. Ord.20.00

Appendix II: Data Collection sheet for the relationship between corporate governance and financial performance of companies listed at Nairobi security exchange

Name of Firm

Year	**2013**	**2014**	**2015**	**2016**	**2017**
Income before Tax					
Number of directors					
Number of female directors					
Number of NEDS on the board					
Number of directors holding a masters education					
CEO duality takes value 1 in presence of duality zero otherwise					

Appendix III: Data on Corporate Governance and Performance of Listed Companies.

No	Company	Year	Income before tax in millions	Number of directors	Number of female directors	Number of NEDS on the board	Number of directors holding a master's education
1	ARM Cement Ltd	2013	2,000	8	0	5	2
2	ARM Cement Ltd	2014	2,018	9	0	6	2
3	ARM Cement Ltd	2015	(3,539)	9	0	6	2
4	ARM Cement Ltd	2016	(3,979)	9	0	7	2
5	ARM Cement Ltd	2017	(7,521)	9	0	7	3
6	Bamburi Cement Ltd	2013	5,516	11	2	9	6
7	Bamburi Cement Ltd	2014	5,801	10	2	7	5
8	Bamburi Cement Ltd	2015	8,458	9	2	6	5
9	Bamburi Cement Ltd	2016	8,271	9	0	6	5
10	Bamburi Cement Ltd	2017	4,116	10	3	7	7
11	Barclays Bank of Kenya Ltd	2013	11,134	7	2	2	3
12	Barclays Bank of Kenya Ltd	2014	12,293	10	5	6	6
13	Barclays Bank of Kenya Ltd	2015	12,074	8	3	6	5
14	Barclays Bank of Kenya Ltd	2016	10,852	8	4	6	6
15	Barclays Bank of Kenya Ltd	2017	10,361	8	4	6	6
16	Britam Holdings Ltd	2013	3,121	9	1	8	3
17	Britam Holdings Ltd	2014	3,212	9	1	8	4
18	Britam Holdings Ltd	2015	(1,195)	9	1	8	4
19	Britam Holdings Ltd	2016	4,239	8	1	6	3
20	Britam Holdings Ltd	2017	866	9	2	7	4
21	British American Tobacco Kenya Ltd	2013	5,469	8	1	6	2
22	British American Tobacco Kenya Ltd	2014	6,095	9	2	7	2
23	British American Tobacco Kenya Ltd	2015	7,139	9	2	7	2
24	British American Tobacco Kenya Ltd	2016	5,911	9	2	7	2
25	British American Tobacco Kenya Ltd	2017	4,867	9	3	7	1
26	Carbacid Investments Ltd	2013	635	4	0	4	0
27	Carbacid Investments Ltd	2014	597	5	0	5	0
28	Carbacid Investments Ltd	2015	580	5	0	5	0
29	Carbacid Investments Ltd	2016	548	5	0	5	0
30	Carbacid Investments Ltd	2017	457	6	1	6	1
31	Centum Investment Co Ltd	2013	3,249	9	1	8	5
32	Centum Investment Co Ltd	2014	4,011	9	2	8	6
33	Centum Investment Co Ltd	2015	8,818	9	2	8	6
34	Centum Investment Co Ltd	2016	10,873	9	2	8	6
35	Centum Investment Co Ltd	2017	8,943	11	3	10	9

36	CFC Stanbic of Kenya Holdings Ltd	2013	7,224	11	3	8	1
37	CFC Stanbic of Kenya Holdings Ltd	2014	7,700	12	3	9	1
38	CFC Stanbic of Kenya Holdings Ltd	2015	7,359	11	2	8	2
39	CFC Stanbic of Kenya Holdings Ltd	2016	6,049	8	2	7	2
40	CFC Stanbic of Kenya Holdings Ltd	2017	5,401	9	3	8	3
41	CIC Insurance Group Ltd	2013	1,671	12	4	11	2
42	CIC Insurance Group Ltd	2014	1,390	12	4	11	2
43	CIC Insurance Group Ltd	2015	1,339	12	3	11	2
44	CIC Insurance Group Ltd	2016	114	12	3	11	2
45	CIC Insurance Group Ltd	2017	519	12	3	11	2
46	Crown Paints Kenya Ltd	2013	333	6	1	3	2
47	Crown Paints Kenya Ltd	2014	151	5	0	2	1
48	Crown Paints Kenya Ltd	2015	217	7	1	4	1
49	Crown Paints Kenya Ltd	2016	272	7	1	4	1
50	Crown Paints Kenya Ltd	2017	398	6	0	3	1
51	Diamond Trust Bank Kenya Ltd	2013	7,235	10	2	9	4
52	Diamond Trust Bank Kenya Ltd	2014	8,521	11	2	10	4
53	Diamond Trust Bank Kenya Ltd	2015	9,565	10	2	9	4
54	Diamond Trust Bank Kenya Ltd	2016	10,996	9	2	8	3
55	Diamond Trust Bank Kenya Ltd	2017	10,098	11	2	10	5
56	E.A.Cables Ltd	2013	585	7	0	6	4
57	E.A.Cables Ltd	2014	507	7	0	6	4
58	E.A.Cables Ltd	2015	(1,087)	6	0	5	3
59	E.A.Cables Ltd	2016	(810)	6	0	5	3
60	E.A.Cables Ltd	2017	(927)	5	0	4	3
61	E.A.Portland Cement Co. Ltd	2013	1,419	7	1	6	3
62	E.A.Portland Cement Co. Ltd	2014	(374)	6	0	5	3
63	E.A.Portland Cement Co. Ltd	2015	7,342	6	0	5	4
64	E.A.Portland Cement Co. Ltd	2016	3,735	7	0	6	4
65	E.A.Portland Cement Co. Ltd	2017	(1,713)	7	0	6	4
66	East African Breweries Ltd	2013	11,115	11	4	9	5
67	East African Breweries Ltd	2014	10,407	11	3	9	5
68	East African Breweries Ltd	2015	14,151	9	3	7	5
69	East African Breweries Ltd	2016	13,619	11	2	9	5
70	East African Breweries Ltd	2017	13,307	11	2	9	4
71	Eveready East Africa Ltd	2013	60	8	5	7	5
72	Eveready East Africa Ltd	2014	(248)	8	5	7	5
73	Eveready East Africa Ltd	2015	(99)	8	5	7	5
74	Eveready East Africa Ltd	2016	(219)	6	4	5	3
75	Eveready East Africa Ltd	2017	249	6	4	5	3
76	Housing Finance Group Ltd	2013	1,480	7	0	6	3
77	Housing Finance Group Ltd	2013	1,480	7	0	6	3

78	Housing Finance Group Ltd	2014	1,401	9	2	8	5
79	Housing Finance Group Ltd	2014	1,401	9	2	8	5
80	Housing Finance Group Ltd	2015	1,754	7	1	6	3
81	Housing Finance Group Ltd	2015	1,754	7	1	6	3
82	Housing Finance Group Ltd	2016	1,366	9	3	8	3
83	Housing Finance Group Ltd	2016	1,366	9	3	8	4
84	Housing Finance Group Ltd	2017	312	9	3	8	3
85	Housing Finance Group Ltd	2017	312	9	3	8	4
86	Jubilee Holdings Ltd	2013	3,151	8	0	8	2
87	Jubilee Holdings Ltd	2014	3,949	11	1	11	4
88	Jubilee Holdings Ltd	2015	4,145	11	1	11	4
89	Jubilee Holdings Ltd	2016	4,563	9	1	9	3
90	Jubilee Holdings Ltd	2017	5,161	9	1	9	3
91	KCB Group Ltd Ord	2013	20,123	11	2	9	7
92	KCB Group Ltd Ord	2014	23,787	10	3	9	6
93	KCB Group Ltd Ord	2015	26,538	11	3	9	6
94	KCB Group Ltd Ord	2016	29,091	11	3	9	6
95	KCB Group Ltd Ord	2017	29,114	9	2	7	6
96	KenGen Co. Ltd	2013	4,026	11	3	10	5
97	KenGen Co. Ltd	2014	4,158	11	4	10	5
98	KenGen Co. Ltd	2015	8,690	11	3	10	7
99	KenGen Co. Ltd	2016	11,264	11	3	10	7
100	KenGen Co. Ltd	2017	11,534	11	3	10	8
101	KenolKobil Ltd	2013	564	6	1	4	1
102	KenolKobil Ltd	2014	1,995	6	1	4	1
103	KenolKobil Ltd	2015	2,782	6	1	4	1
104	KenolKobil Ltd	2016	3,538	4	0	3	1
105	KenolKobil Ltd	2017	3,680	5	2	4	1
106	Kenya Airways Ltd	2013	(10,826)	11	0	9	5
107	Kenya Airways Ltd	2014	(4,861)	11	0	9	5
108	Kenya Airways Ltd	2015	(29,712)	11	2	9	4
109	Kenya Airways Ltd	2016	(26,099)	11	2	9	5
110	Kenya Airways Ltd	2017	(10,202)	9	2	8	5
111	Kenya Power & Lighting Co Ltd	2013	6,570	10	3	9	4
112	Kenya Power & Lighting Co Ltd	2014	11,016	9	2	8	3
113	Kenya Power & Lighting Co Ltd	2015	12,254	9	2	8	4
114	Kenya Power & Lighting Co Ltd	2016	12,082	9	2	8	4
115	Kenya Power & Lighting Co Ltd	2017	10,912	8	1	7	4
116	Kenya Re Insurance Corporation Ltd	2013	3,269	11	3	10	7
117	Kenya Re Insurance Corporation Ltd	2014	3,920	11	3	10	9
118	Kenya Re Insurance Corporation Ltd	2015	4,514	11	3	10	9
119	Kenya Re Insurance Corporation Ltd	2016	4,218	11	3	10	8

120	Kenya Re Insurance Corporation Ltd	2017	4,559	11	3	10	8
121	Liberty Kenya Holdings Ltd	2013	1,299	5	1	4	0
122	Liberty Kenya Holdings Ltd	2014	1,347	5	1	4	0
123	Liberty Kenya Holdings Ltd	2015	954	5	1	4	1
124	Liberty Kenya Holdings Ltd	2016	942	6	1	5	1
125	Liberty Kenya Holdings Ltd	2017	1,103	6	1	5	1
126	Longhorn Publishers Ltd	2013	151	7	2	6	2
127	Longhorn Publishers Ltd	2014	147	8	2	7	3
128	Longhorn Publishers Ltd	2015	96	9	3	8	5
129	Longhorn Publishers Ltd	2016	139	9	3	8	5
130	Longhorn Publishers Ltd	2017	179	9	3	8	5
131	Nairobi Securities Exchange Ltd Ord 4.00	2013	379	9	2	8	6
132	Nairobi Securities Exchange Ltd Ord 4.00	2014	442	8	2	7	6
133	Nairobi Securities Exchange Ltd Ord 4.00	2015	381	11	3	10	6
134	Nairobi Securities Exchange Ltd Ord 4.00	2016	233	11	3	10	7
135	Nairobi Securities Exchange Ltd Ord 4.00	2017	269	11	3	10	7
136	Nation Media Group Ltd	2013	3,587	15	4	14	10
137	Nation Media Group Ltd	2014	3,624	14	3	13	10
138	Nation Media Group Ltd	2015	2,823	15	3	14	9
139	Nation Media Group Ltd	2016	2,460	15	2	14	8
140	Nation Media Group Ltd	2017	1,955	15	2	14	9
141	National Bank of Kenya Ltd	2013	2	9	2	6	4
142	National Bank of Kenya Ltd	2014	1,303	9	2	6	4
143	National Bank of Kenya Ltd	2015	(1,637)	8	1	7	4
144	National Bank of Kenya Ltd	2016	80	9	1	8	4
145	National Bank of Kenya Ltd	2017	785	9	1	8	4
146	NIC Bank Ltd	2013	5,010	11	1	9	4
147	NIC Bank Ltd	2014	6,231	12	2	10	4
148	NIC Bank Ltd	2015	6,397	12	2	10	4
149	NIC Bank Ltd	2016	6,167	11	2	9	3
150	NIC Bank Ltd	2017	5,601	11	2	9	3
151	Olympia Capital Holdings Ltd	2013	11	7	0	6	4
152	Olympia Capital Holdings Ltd	2014	28,360	7	1	5	4
153	Olympia Capital Holdings Ltd	2015	1	6	1	3	4
154	Olympia Capital Holdings Ltd	2016	27	6	1	3	4
155	Olympia Capital Holdings Ltd	2017	51	5	1	2	4
156	Pan Africa Insurance Holdings Ltd	2013	833	9	2	7	3
157	Pan Africa Insurance Holdings Ltd	2014	1,153	8	2	7	1
158	Pan Africa Insurance Holdings Ltd	2015	54	8	2	7	2
159	Pan Africa Insurance Holdings Ltd	2016	317	8	1	7	2
160	Pan Africa Insurance Holdings Ltd	2017	247	8	1	7	4
161	Safaricom Ltd	2013	25,451	9	2	8	5

162	Safaricom Ltd	2014	34,984	9	2	8	4
163	Safaricom Ltd	2015	46,150	9	4	8	5
164	Safaricom Ltd	2016	55,763	9	4	8	5
165	Safaricom Ltd	2017	70,632	10	3	9	5
166	Sameer Africa Ltd	2013	457	6	0	5	0
167	Sameer Africa Ltd	2014	(69)	6	0	5	0
168	Sameer Africa Ltd	2015	6	6	0	5	0
169	Sameer Africa Ltd	2016	(865)	7	1	6	0
170	Sameer Africa Ltd	2017	27	8	3	7	0
171	Sasini Ltd	2013	158	8	1	7	5
172	Sasini Ltd	2014	62	8	1	7	5
173	Sasini Ltd	2015	1,039	8	1	7	6
174	Sasini Ltd	2016	760	7	1	6	6
175	Sasini Ltd	2017	521	7	1	6	6
176	Standard Chartered Bank Kenya Ltd	2013	13,355	9	2	6	3
177	Standard Chartered Bank Kenya Ltd	2014	14,346	8	2	5	3
178	Standard Chartered Bank Kenya Ltd	2015	9,160	8	2	6	4
179	Standard Chartered Bank Kenya Ltd	2016	13,288	11	3	7	7
180	Standard Chartered Bank Kenya Ltd	2017	10,071	11	3	7	7
181	Standard Group Ltd	2013	300	7	1	4	2
182	Standard Group Ltd	2014	326	8	1	5	2
183	Standard Group Ltd	2015	(396)	8	1	5	2
184	Standard Group Ltd	2016	269	8	1	5	2
185	Standard Group Ltd	2017	(282)	8	1	6	2
186	The Co-operative Bank of Kenya Ltd	2013	10,872	12	1	11	3
187	The Co-operative Bank of Kenya Ltd	2014	10,916	12	1	11	3
188	The Co-operative Bank of Kenya Ltd	2015	15,383	12	1	11	3
189	The Co-operative Bank of Kenya Ltd	2016	17,724	12	1	11	3
190	The Co-operative Bank of Kenya Ltd	2017	16,399	12	1	11	4
191	Total Kenya Ltd	2013	2,085	5	3	4	2
192	Total Kenya Ltd	2014	2,276	5	3	4	2
193	Total Kenya Ltd	2015	2,619	5	3	4	2
194	Total Kenya Ltd	2016	3,935	7	2	6	1
195	Total Kenya Ltd	2017	4,132	7	2	6	1
196	Uchumi Supermarket Ltd	2013	486	7	3	6	3
197	Uchumi Supermarket Ltd	2014	433	6	3	5	4
198	Uchumi Supermarket Ltd	2015	(3,513)	8	3	7	5
199	Uchumi Supermarket Ltd	2016	(2,671)	9	3	8	8
200	Umeme Ltd	2013	3,115	7	0	6	3
201	Umeme Ltd	2014	3,354	6	0	4	3
202	Umeme Ltd	2015	5,785	10	1	7	3
203	Umeme Ltd	2016	5,355	11	2	8	4

204	Umeme Ltd	2017	1,205	11	2	8	3
205	Unga Group Ltd	2013	389	8	2	7	1
206	Unga Group Ltd	2014	568	8	2	7	1
207	Unga Group Ltd	2015	636	8	2	7	1
208	Unga Group Ltd	2016	738	8	2	7	1
209	Unga Group Ltd	2017	192	8	2	7	1
210	Equity Group	2013	19,004	12	1	9	8
211	Equity Group	2014	22,364	12	2	10	10
212	Equity Group	2015	23,958	9	2	7	0
213	Equity Group	2016	24,927	9	2	7	6
214	Equity Group	2017	26,882	9	2	8	4
215	Trans-Century Ltd	2013	859	8	1	7	4
216	Trans-Century Ltd	2014	(2,114)	8	1	7	4
217	Trans-Century Ltd	2015	(2,956)	7	0	6	4
218	Trans-Century Ltd	2016	(1,615)	3	0	2	1
219	Trans-Century Ltd	2017	(4,722)	7	1	6	6