# EFFECT OF CORPORATE GOVERNANCE STRUCTURES ON THE SHAREHOLDERS VALUE OF STATE CORPORATIONS LISTED AT THE NAIROBI SECURITIES EXCHANGE

**BY**

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# DECLARATION

This research project is my own original work and has never been presented for a degree at any other university for examination.

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# DEDICATION

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# ABSTRACT

Corporate governance structures are systems of internal controls and practices that enable the management of entities to become profitable units. These structures encompass the framework that describes the rights, duties and tasks of each group including the senior management team, shareholders and board of directors. Corporate governance structures are usually adopted to improve cost effectiveness, enhance productivity and profitability and minimize the conflict between shareholders and management teams. This study attempted to ascertain the influence of CG structures on the shareholder value of state corporations listed at the NSE. The study was for the ten year period between 2009 and 2019. The descriptive research design was used to sample the population of nine state corporations that are listed at the NSE. The study utilized secondary data from various sources including financial statements and annual reports as well as abridged reports of the listed corporations from the NSE. Data analysis was conducted to derive the mean, the maximum and minimum values. The F-test statistic was calculated at significance level of 5% using the regression analysis. Based on the findings, the F statistic was significant at 3.614. Board meetings was found to have a p-value of 0.030 which was insignificant, board size had a p-value 0.498 which was insignificant and firm size had a p-value of 0.358 which was insignificant. Leverage had a p-value of 0.33 which is higher than 0.05 thus the relationship was insignificant. The study determined that CG structures have a positive influence on the shareholder value of listed state corporations. Therefore, the study recommends that board sizes be determined based on the specific requirements of a given firm and the underlying conditions affecting corporations. Also, the board of directors should plan for and attend a significant amount of board meetings per given financial year to improve planning, implementation and monitoring of strategic objectives.

## LIST OF ABBREVIATIONS

**CEO** - Chief Executive Officer

**CG** - Corporate Governance

**EPS** - Earnings per Share

**MPS** - Market Value per Share

**MV** - Market Value

**NSE** - Nairobi Securities Exchange

**ROA** - Return on Assets

**SVC** - Shareholder Value Creation

**TA** - Total Assets

# CHAPTER ONE

# INTRODUCTION

## 1.1. Background of the Study

While evaluating the value of firms to invest in, shareholders analyze notable factors such as inconsistent disclosure of financial records, the level of qualification among the board members and the level of shareowner rights (Mulili & Wong , 2011). These factors make corporate governance a critical determinant of the outcomes of shareholder value for organizations based on the principles and practices applied (Uwazie, 2011). Despite the varying opinions among scholars and analysts, the overriding consensus is that the primary and the legitimate role of corporate governance (CG) structures is to capitalize on shareholder value. Therefore, it was important to evaluate how governance structures influence shareholder value since various studies have highlighted the influence of the CG systems on the performance of firms (Bell, 2016).

Theories such as the agency theory enables the implementation of CG systems to facilitate the control of agents within public companies (Panda & Leepsa, 2017). The theory portrays a scenario where shareholders enter into a contractual relationship to pursue a common goal particularly the maximization of value or wealth. The stewardship theory emphasizes elements such as co-operation and collaboration where company directors act as stewards who safeguard the basic interest of company thus creating value to shareholders. (Keay, 2017). On the other hand, shareholder theory highlights that businesses have a single moral obligation which is to maximize profitability (Castelo, 2013).

In Kenya, publicly listed companies endeavor to generate wealth for their shareholders while making significant profits. According to Capital Markets Authority (2016), CG structures are used to direct and manage the operations of public companies with an aim of ensuring maximum profitability and shareholder value. Shareholders expect public companies to maintain the highest level of performance such as the sustainability of financial returns (Safaricom, 2019). Therefore, corporate governance practices are expected to protect shareholders from the prevalent cases of fraud and misappropriation of funds (Rappaport, 2006). This research study sought to determine the influence of CG structures on the shareholder value of state corporations listed at the NSE.

### 1.1.1. Corporate Governance Structures

CG structures are methods of internal controls and procedures that facilitate the management of individual companies to provide a framework for describing the rights, the duties and tasks of different groups such as the senior management, the board of directors and shareowners within a given organization (Mulili & Wong , 2011). Osei (2014) defines corporate governance structures as the procedures and regulations of engaging in corporate operations. In context, CG structures are the systems of practices and rules that are used to direct and organize companies. Khan (2011) describes corporate governance structures as the procedures and laws that direct organizations in a certain way while administering and controlling operations.

There are various corporate governance structures that entities utilize to manage their operations a determined by the regulations within their country of origin (Osei, 2014). The descriptive CG structure involves the implementation of standards of governing companies including programs, policies and reforms with an aim of alleviating problems that face corporates in developing countries (Iftimoaei, 2018). Another corporate governance structure is the customized CG structure that enables companies to discharge their statutory duties thus ensuring a fair and orderly market as well as the effective management of risks and maximization of shareholder value (Tokyo Stock Exchange , 2009 ).

CG structures are utilized to control and direct company operations (Mulili & Wong , 2011). For example, customizing the CG structure helps companies to fulfill various functions including protecting and securing the interest of shareowners while building progressive relationships with other parties to enhance the company's overall corporate value (Tokyo Stock Exchange , 2009 ). Khan (2011) agrees that utilizing the appropriate corporate governance structure including the axiomatic or normative structure facilitates the elimination of conflict arising from ownership by defining the varying interests of the board and shareowners.

This study measured CG structures using the number of board meetings held per year and the size of the board. Measuring board meetings entails ascertaining the total number of conventions conducted by the firm's board within a given duration (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016). According to Adams and Mehran (2005), the meetings have been discussed in previous literature as significant contributors to firm performance. The measurement of board size is determined by the sum of members on each respective board. In some cases, directors or members of the board are appointed or set on boards of more than one corporation thus getting involved in several companies (Bell, 2016).

### 1.1.2. Shareholders Value

Shareholder value is the fiscal worth that stakeholders of a corporation receive by owning a number of shares within the business (Rappaport, 2006). The creation of shareholder value is impacted by strategic decisions that are undertaken by the board and top-level management teams. Therefore, an increase in the value given to shareholders is generated by the greater returns on the capital invested that is usually greater that the weighted average cost of capital (Corporate Finance

Institute, 2019). Also, shareholder value can be equated to the value given to investors particularly investors and promoters (Chari & Mohanty, 2010).

The importance of shareholder value in the corporate world continues to grow. According to Mäenpää (2016), shareholder value is a critical component that enables companies to make appropriate decisions towards the desired strategies. The main purposes of shareholder value include enhancing the earnings of businesses, maximizing the value of shares in the market and increase the amount and frequency of the wealth remitted to shareholders (Chari & Mohanty, 2010). It is critical to value businesses for a number of reasons that include obtaining a listing, computing capital gains and inheritance tax as well as making a purchase or sale (Rappaport, 2006).

Shareholder value was measured using one of the values of Tobin's Q. Christiano and Fisher (1995) highlight that the Tobin's q is countercyclical hence is associated with price as the most important intermediate input. The Q value used by the study will be the companies' market value per share (MVS) that highlights the price assigned to each share of a firm's security or stock by the market. Finding the market value per share involves calculating the total market value of the firm and then dividing it by the sum of shares outstanding (Bolton, Chen, & Wang, 2005). The method was appropriate than the ROA since the latter focuses more on cost-effectiveness while former measures firm value and performance (Madiwe, 2014).

### 1.1.3. Corporate Governance Structures and Shareholders Value

CG structures are meant to minimize the costs and the conflict between shareholders and managers (Cuñat, Gine , & Guadalupe , 2010). Considering the theory of the firm, maximizing share value serves the greater social good as the nature of the relationships and value created by the existing

CG structures is equivalent to the returns that shareholders receive based on the contractual agreement (Holmstrom & Tirole, 1989). The theory perceives firms as contracts between different parties who share a common interest of maximizing value by minimizing costs. Under the economic theory of firms, companies have an entrepreneurial function that involves utilizing capital and labor to increase the prosperity and wealth of all shareholders (Bylund, 2011).

Corporate governance structures especially the concentration of capital negatively impacts the performance of firms and the creation of shareholder value (Holmstrom & Tirole, 1989). Under the agency theory, the outcomes revealed that the presence of shareholders within the structure of ownership leads to the implementation of effective controls when compared to the presence of external directors. In addition, Cuñat, Gine, and Guadalupe (2010), estimated the impact of CG practices on the shareholder value and the fiscal performance of firms. Clarke, Jarvis, and Gholamshahi (2018) provided insight into how corporate authority creates inequality by impacting the maximization of shareholder value.

### 1.1.4. State Corporations Listed at the Nairobi Securities Exchange

The NSE provides a facility for trading for both local and global investors who seek to gain experience on the nation's and Africa's progress in terms of economic growth (NSE, 2019). State corporations are bodies that are established by an act of Parliament where the Kenyan government has a majority of the shares (Central Depository & Settlement Corporation, 2019). The main institutions being examined are classified into functional categories that include finance, manufacturing, service and energy (Inspectorate of State Corporations, 2019 ). According to the NSE (2019), there are nine (9) state corporations among the 66 listed companies.

Based on the guide for listing companies, the approval is provided by the CMA based on important considerations (NSE, 2019). Under corporate governance, state corporations are expected to uphold the highest level of commitment towards the achievement of organizational objectives in the most transparent and sustainable way (Inspectorate of State Corporations, 2019 ). However, a majority of state corporations have continued to suffer from failures related to poor corporate governance especially commercial corporations. According to Waweru (2017), state corporations in the country especially those listed at the NSE fail to achieve their objectives due to mismanagement and the ever-increasing wastage of resources.

## 1.2. Research Problem

The connotation between CG and shareholder value has been a subject of interest among scholars for decades. The concept of wealth maximization for shareholder is gradually being entrenched into the practices of corporate governance among publicly listed firms (Prempeh & Odartei-Mills, 2015). Cuñat, Gine, and Guadalupe (2010) agree that shareholders regularly vote on good corporate governance structures and provisions that contribute to positive reactions in the stock market. Currently, there is a lot of emphasis on structural reforms within the field of corporate governance with individual aspects such as board independence being attributed to the maximization of shareholder value across different industries (Sinha, 2006).

State corporations in Kenya are governed through systems and processes that seek to maximize the welfare of stakeholders and minimizing any forms of conflict. Simply, CG structures in these corporations entails the methods used by the government to reconcile conflicting interests among stakeholders and the governance structures (Gitari, 2008 ). State corporations are prone to governance issues such as bureaucracy, mismanagement and wastage of resources that have limited their capacity to achieve the desired outcomes particularly financial performance (Miring'u & Muoria , 2011). This element provides the necessary justification for conducting research into how corporate governance impacts the state-owned listed companies.

Globally, Cuñat, Gine, and Guadalupe (2010) estimated the impact of CG provisions on the shareholder value. The study revealed a potential change in investment behavior among investors and performance improvements. Jammu, Kotli, and Khan (2017) revealed that the various models of CG adopted by diverse companies.  Marouan and Moez (2015) highlighted the association between CG structures and the creation of shareholder value with regards to the existence of investors within the structure of ownership. The studies highlighted the significant impact of governance structures on shareholder value among different companies.

In Kenya, Areba (2011), revealed that several factors of CG affect the fiscal performance of commercialized state-owned corporations. Kabaiya (2011) indicated the potential link between CG structures and the fiscal performance of Sacco Societies in Muranga County. However, the studies provide minimal substantial evidence to satisfy the research problem as local studies focus primarily on generalizing the influence of CG on performance (Miring'u & Muoria , 2011). Therefore, there is a noteworthy gap in empirical studies and consequent literature illustrating how corporate governance structures adopted by listed state corporations have impacted shareholder value. Therefore, this study sought to provide an evidence-based response to the question: What is the effect of corporate governance structures on the shareholder value of state corporations listed at the Nairobi Securities Exchange (NSE)?

## 1.3. Research Objective

To determine the impact of corporate governance structures on shareholder value of listed state corporations in Kenya.

## 1.4. Value of the Study

The study outcomes will assist current and potential shareholders in the capital markets to make informed decisions on where to invest. By gaining the necessary insights into how corporate governance influences the shareholder valuation of public companies, individuals and professionals will understand which firms have the ability to create value while meeting their desired goals and objectives. The study outcomes will enable public sector stakeholders to develop appropriate policies and legislations that determine the most effective CG practices in order to curb vices and protect shareholders as well as other stakeholders.

The findings will provide an advanced understanding of how corporate governance influences shareholder value creation (SVC) thus enable the government to develop policies that address the existing and emerging issues. In addition, the study findings will assist senior management teams and boards in public companies comprehend the potential association between CG models and shareholder value. This knowledge will enable them to adopt effective practices, principles and appoint personnel who will improve profitability, relationships between management and shareholders and create more value for stakeholders.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1. Introduction

The section provides a review of literature and theories that relate to CG structures and shareholder value. First, the section offers a theoretical review of theoretical models related to the study variables i.e. CG structures and shareholder value and then proceeds to evaluate the determinants of shareholder value. Then the section critiques previously published studies, describes the conceptual framework and then provides a summary of the review.

## 2.2. Theoretical Review

This study is founded upon the Agency Theory, the Stewardship Theory and the Shareholder Theory.

### 2.2.1. Agency Theory

The theoretical framework was advanced by Jensen and Meckling (1976) while trying to explain the problems entrepreneurs or mangers face under theory of the firm including the complexity of financial structures and issuance of stock. The agency theory provides a discussion of the problems that are found in firms as a result of the distinction between owners and executives (Panda & Leepsa, 2017). The theory can be used to implement the existing governance practices and mechanisms that managers utilize within jointly-held companies or corporations. Simply, the agency theory functions within the stock companies that are owned by individuals or groups of people who are termed as shareholders (Laiho, 2011).

The agency theory has attracted significant interest from various disciplines including finance, law, accounting and political science. According to Zogning (2017), the theory illustrates the association between shareowners and management teams. In addition, the theory faces criticism for its inability to provide sufficient knowledge and understanding of the problems associated with corporate governance practices especially in emerging countries (Laiho, 2011). Also, the agency theory usually faces challenges when there are varied interests and goals between the individual and the organization (Panda & Leepsa, 2017).

The relevance of the theory to the study hinges on the understanding that it shows how the agents (board of directors and managers) and principals (shareholders) enter into a set of contractual relationships to pursue shared goals. Board size and multiple directorship tend to determine and control the overall costs thus maximizing firm value (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016). The theory highlights the need to adopt appropriate corporate governance structures to improve shareholder value (Zogning, 2017). To exhaust the possibilities of the wealth of shareholders, management teams within corporations ought to coordinate effectively and work in teams through efficient governance (Jensen & Meckling, 1976).

### 2.2.2. Stewardship Theory

Donaldson (1991) and Davis (1993) postulated the theory when trying to provide an altered perspective on the existing connotation between corporate ownership and the senior management teams (Pastoriza & Ariño, 2008). The theory is closely related to CG structures while highlighting that company executives who utilize the stewardship as a framework are generally motivated by intrinsic rewards (Martin & Butler , 2017). Simply, the stewardship theory holds that company directors are mandated to perform or act as stewards who should not focus on nurturing their economic welfahttps://www.youtube.com/watch?v=Anu-O2Mewi0res but focus on safeguarding the basic interest of the company to create collective value (Keay, 2017).

A critical view of the stewardship theory reveals a number of concerns regarding how the framework provides an understanding of the roles and expectations of management (Keay, 2017). One major criticism is on how of the theory embraces aspects such as the professionalism, trust and loyalty of directors and overlooks the importance of board accountability. In addition, the theory has been marred by mixed empirical findings that support the appropriateness of the theory (Martin & Butler , 2017). The stewardship theory also faces the challenge of facilitating group think or dominated thinking that limits the maintenance of board independence (Pastoriza & Ariño, 2008).

As indicated earlier, the stewardship theory is closely related to corporate governance (Pastoriza & Ariño, 2008). According to Subramanian (2018), the governance structures of the company and the structure of ownership are critical factors towards the achievement of the desired levels of performance. By adopting the appropriate CG practice such as a good ownership structure and remunerating board directors based on the agreed upon ratios, public companies can create the highest level of shareholder value (Keay, 2017). The theory applies to the study as it highlights how managers can apply CG practices to derive shareholder value.

### 2.2.3. Shareholder Theory

Milton Friedman postulated the theory in 1970 based on the understanding that the core function of the company is to generate wealth for its stakeholders particularly shareholders (Castelo, 2013). This theoretical framework believes that business entities have a single moral or social obligation which is to maximize profitability (Brandt & Georgiou, 2016). Shareholder theory can be equated to the idea that executives have the responsibility of creating value to shareholders through seeking profits and facilitating social economic improvements on their behalf (Castelo, 2013).

The prevailing issue of the shareholder theory is the debate between shareholders and stakeholders (Brandt & Georgiou, 2016). The debate between stakeholders and shareholders continues to undermine the significance of the shareholder theory with respect to maximizing firm value (Magill, Quinzii , & Rochet , 2013). In addition, a majority of economists view that corporations particularly public companies should fulfil the exclusive interests of shareholders which translates to maximizing shareholder value. However, the endogenous uncertainties that affect firms implies that they are expected to exert externalities to its employees and consumers especially in non-market based economies (Castelo, 2013).

The relevance of the theory towards the current study is based on its proposition of maximizing shareholder value (Magill, Quinzii , & Rochet , 2013). The theory argues that shareholder value ought to be realized at any given time in the life-cycle of corporates thus ensuring that shareholders get the maximum value from their investments with respect to market value of shares held and earnings per share that result from the business operations (Zhang, 2011). However, by integrating the interests of shareholders and stakeholders, public companies can benefit from market operations that increase the value of stakeholders including employees and shareholders (Brandt & Georgiou, 2016). The theory applies to the study as it predicts the utilization of corporate governance practices to maximize shareholder value.

## 2.3. Determinants of Shareholder Value

Shareholder value is usually delivered to stockholders based on the management’s capacity to improve sales, the flow of cash and total earnings over time. This component enables the evaluation of the value created by corporations hence the importance of establishing the factors that determine shareholder value in publicly listed companies.

### 2.3.1. Firm Size

The size of a business entity is regarded is a fundamental factor that affects the performance of organizations in terms of financial performance, governance systems and shareholder returns (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016). According to Klapper & Love (2004), larger firms are expected to perform better than small firms by taking advantage of the economy of scales and adopting efficient practices due to the availability of sufficient resources. Therefore, firm size is a determinant of shareholder value as large companies utilize the economies of scale and their inherent flexibility to acquire loans to increase productive capacity and profitability (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016).

Measuring firm size involves finding the log of total assets (TA) that is regarded as the representation of company size. Also, total assets can measure firm size since they are a reflection of the competitive strength and the market share of a given company (Klapper & Love , 2004). Based on a company's total assets, one can determine the shareholder value as the logarithm indicates whether a firm is experiencing growth and profitability (Pandey, 2005). Therefore, higher total assets translates into increased shareholder value as companies capture more investors and deliver significant returns (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016).

### 2.3.2. Leverage

Leverage is used to quantify the exposure of firms to fiscal risk (Pachori & Totala, 2012). This concept implies that high financial levels enable shareholders to gain high return on equity.

Financial leverage is usually employed by companies that aim at earning more from fixed charges funds rather that their respective relative costs (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016). As a result, firms can seek higher debt leverage to increase risk premium and the shareholder returns (Matemilola, Bany-Ariffin, & Azman-Saini, 2012). In context, leverage in terms of debt capital increases the available funds for supporting growth and expansion while improving profitability and shareholder value.

Debt capital is a measure of financial debt and is usually provided by eternal creditors as a liability with firms obligated to repay (Pachori & Totala, 2012). Despite the risks associated with debt capital, the use of debt generates superior revenues. This has been evidenced by recent studies that indicate the positive association between debt capital particularly long term debt and shareholder return (Matemilola, Bany-Ariffin, & Azman-Saini, 2012). Therefore, debt capital enables firms to multiply their incomes at various levels of the business thus impacting the desired shareholder returns (Shawtari, Salem, Hussain, Alaeddin, & Thabit, 2016).

## 2.4. Empirical Review

The study identified several empirical research studies both local and international to back the perceived connotation between CG structures and shareholder value. However, the studies provided limited and inconsistent information due to the variability in results.

### 2.4.1. Global Studies

Marouan and Moez (2015) researched on the impact of CG practices on the creation of shareholder value. By utilizing data sets of corporations listed at the Tunisian Securities Exchange from 1997 to 2006, the study revealed that capital concentration and availability of external directors have an undesirable and desirable influence on value creation and performance respectively. The study presents a conceptual gap since the focus is on capital concentration as the variable hence this research will focus on frequency of board meetings, multiple directorship and board size.

Cuñat, Gine, and Guadalupe (2010) examined the significance of CG on shareholder valuation to provide evidence on how the various provisions of governance affect the performance of firms and market value. By sampling various governance proposals from shareholder meetings, the study found out that the market tends to react positively to the approval of governance-related shareholder proposals. This research presents a conceptual gap as the focus as the focus was on shareholder proposals as a CG practice. Therefore, the study will focus on the link between CG structures and shareholder value.

Clarke, Jarvis, and Gholamshahi (2018) studied how corporate authority increases inequality in terms of the maximization of shareholder value and inflated executive remuneration. The research relied on data from publicly listed corporations in Anglo-American countries in the last two decades. The findings were that the utilization of the agency theory and maximization of shareholder value results in socio-economic inequalities. The study presents a conceptual gap as the focus was on the connotation between corporate authority and socio-economic inequalities.

A study by Jammu, Kotli and Khan focused on market capitalization as one of the measures of shareholder value. The authors sought to find out the role of CG mechanisms in creating shareholder value. The research collected panel and longitudinal data relating to a PSX-100 listed company between 2006 and 2015. The outcomes revealed that the governance dimensions have a noteworthy effect on shareholder value creation. This research presents a contextual gap as the focus was on listed companies in the Pakistani Stock Exchange hence cannot be generalized to the Kenyan context.

Ibrahim, Ahmad, and Khan (2016) studied how Malaysian companies improve shareholder value through the implementation of CG mechanisms. The study observed the influence of governance practices on shareholder value using the metrics of ROA and ROE. The study findings revealed the association amongst corporate governance models and shareholder value. The study presents a conceptual gap as the focus was on the ROA and ROE as the measurement metric hence this research will focus on market value per share as the metric of measuring shareholder value.

### 2.4.2. Local Studies

Njagi (2011) researched on the influence of the application of CG structures on the fiscal outcomes of companies in the Kenyan sugar industry. The research used the casual and censor approach to identify and evaluate the performance of seven sugar companies operating between 2005 and 2011. The findings were that the variables of CG impact financial performance. This study presents a conceptual gap as the focus was on financial performance hence this study will emphasize on the association between CG structures and shareholder value.

Yegon, Sang, and Kirui (2014) studied the influence of CG mechanisms on agency cost on firms providing quoted services in Kenya. The authors' utilized data from a sample of 9 firms selected based on their capitalization of markets in the NSE between 2008 and 2012. The findings were that enhanced levels of institutional and director ownership reduce the agency cost. This research presents a conceptual gap as the focus was on agency cost as the dependent variable.

Mwangi (2012) sought to investigate how board size, the dualism of the CEO, board composition and leverage affect listed firms. The research listed companies as at the end of 2012. The research revealed that there was a substantial connection between CG models and the fiscal results of firms listed at the NSE. This research highlights a conceptual gap as the focus was on the influence of

CG on fiscal performance hence this research will investigate the association between CG structures and shareholder value.

Ombayo (2011) researched on governance practices of listed firms and examined how they impact fiscal performance of publicly traded firms. The research utilized a sample of 20 listed companies and collected data on their performance between 2005 and 2008. The findings were that companies with audit committees that featured a sufficient number of independent directors and conducted regular and formal appraisal their CEO's experienced increased profits. This study presents a conceptual gap as it focuses on the influence of CG systems on fiscal performance.

Maina (2011) analyzed the financial reports of listed companies establish whether these firms comply with the mandatory disclosure requirements of the CMA. The research utilized data obtained from yearly reports of companies in 2010. The findings were that a majority of these companies observe disclosure requirements. The focus on mandatory disclosure and financial performance presents a conceptual gap hence this research will concentrate on the link between CG structures and shareholder value.

## 2.5. Conceptual Framework

The framework provides a figurative description of the association between the study variables:

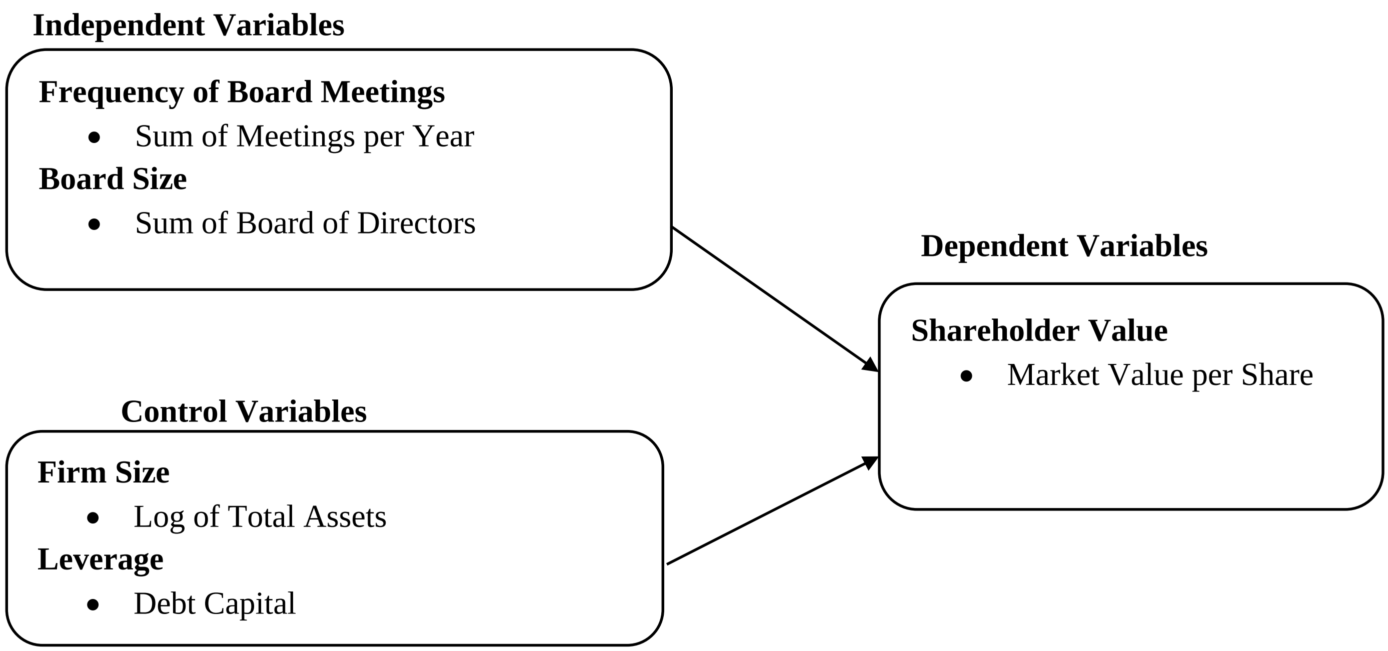


**Figure 2.1 Conceptual Model**

**Source: Researcher, 2019**

## 2.6. Summary of Literature Review

The section focused on four major topics including the theories associated with CG structures and shareholder value, the determinants of shareholder value, related empirical studies and a conceptual framework. From the review of literatures, it is apparent that the selected theories including the agency theory highlight the association between the study variables. The determinants of shareholder value offer insight into how the control variables including firm size and leverage determine the creation of value for shareholders. The empirical studies reveal the potential correlation between CG structures and shareholder value.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1. Introduction

The section illustrates the research design, population and then explains the sample size particularly the criteria selection. In addition, the chapter provides the data collection technique, diagnostic tests, the operationalization of variables, the analytical model, the test of significance and the methods of analyzing data.

## 3.2. Research Design

This constitutes the methods that are acquired by the researcher and enable the answering of the study questions objectively, accurately and validly (Areba, 2011). The descriptive design was utilized by the researcher to solve the study problem. The study used the design to provide the necessary information thus highlighting the prevailing status of the phenomena while describing the existing aspects with regards to the study variables (Cooper & Schindler , 2008 ). Therefore, the research design is appropriate towards establishing the association between study variables.

## 3.3. Population

This concept refers to individuals, as well as groups or events that exhibit similar behavioral and physical characteristics (Friedman, Furberg, & DeMets , 2010). The targeted population for the research study was all the state corporations listed at the NSE as at 31st August 2019. The study applied the census technique since all the nine (9) corporations that constitute the listed state corporations will be included in the sample. Census methods enable the listing of the elements into a group and then measure their characteristics thus providing detailed information on most of the elements in the study population (Iftimoaei, 2018).

## 3.4. Data Collection

Secondary data was utilized to answer the research questions. The researcher obtained secondary data from various sources particularly the financial declarations or statements and annual published reports of the 9 listed state corporations. These statements and reports were between 2009 and 2018. In addition, the data was obtained from updated market and equity statistics as well as analysis from the NSE website.

## 3.5. Data Analysis

The descriptive data collected was evaluated using the SPSS version 22 software. The quantitative data was examined using the multiple regression analysis. The data analysis used both descriptive and inferential statistics including mean, standard deviation, frequencies and percentages and the findings was presented using tables. The correlation and linear regression analysis was utilized.

### 3.5.1. Diagnostic Tests

The study used the t-test (two tailed) and multi-collinearity test. Multicollinearity test is the assessment of whether more than two variables indicate unstable estimates and significantly high standard errors (Williams, 2015 ). The test for multicollinearity will be through the variance inflation factor (VIF) that is measured by finding the extent of inflation of the regression coefficient due to the presence of correlation among the variables (O'brien, 2007). If the VIF is above five then the variables are highly correlated thus failing the multicollinearity test.

The t-test is a arithmetic test that encompasses comparing the means of a pair groups (Kim, 2015). The technique is one of the most widely used statistical tests. The study will compute the t-test based on the two-sample that assumes equal variances. To conduct the t-test, the researcher will estimate the standard deviation of the pair of samples and pool them to find the weighted average. The assumption will be that the samples from two relatively normal population are independent, both sample sizes are below 30 and the unknown variances are unequal (Armitage & Berry, 1994).

### 3.5.2. Operationalization of the Variables

Operationalization of variables defines the independent and dependent variables and provides the measurement metric for each variable. Below is how the variables are operationalized;

**Table 3.1. Operationalization of Variables**

| Variable | Definition of Variable | Previous Studies | Operationalization |
|---|---|---|---|
| Frequency of Board Meetings ($X_1$) | Refers to the sum of meetings conducted by the board in a given year (Adams & Mehran, 2005). | Shawtari, Salem, Hussain, Alaeddin and Thabit (2016), (Adams & Mehran, 2005) | Sum of board meetings per year |
| Board Size ($X_2$) | Refers to the sum of directors on the board (Lipton & Lorsch, 1992) | (Areba, 2011), Shawtari, Salem, Hussain, Alaeddin and Thabit (2016), | Sum of board members |

| | | | |
|---|---|---|---|
| | | (Miring'u & Muoria , 2011) | |
| Firm Size ($X_3$) | Refers to the total assets of a firm including value added, sales and employees (Klapper & Love , 2004) | Shawtari, Salem, Hussain, Alaeddin, & Thabit (2016), | Log of total assets |
| Leverage ($X_4$) | Defined as the amount of debt from external creditors (Pachori & Totala, 2012) | Shawtari, Salem, Hussain, Alaeddin and Thabit (2016), Matemilola, Bany-Ariffin and Azman-Saini (2012) | Debt ratio |
| Shareholder Value (Y) | Refers to the price at which a company's stock sells in the market (Rappaport, 2006). | (Ibrahim, Ahmad, & Khan, 2016) | Market value per share |

**Source: Researcher, 2019**

### 3.5.3. Analytical Model

The dependent variable will be shareholder value while the independent variable will be: board composition, ownership structure and board composition. The mutliple regression model below will guide the study;

$$\mathbf{Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon,}$$

Where;

$Y_i$ = Shareholder Value; measured by market value per share

$\alpha$ = Constant

$X_1$ = Frequency of Board Meetings; measured by the sum of board meetings per year

$X_2$ = Board Size; measured by the sum of board members

$X_3$ = Firm Size; measured by log of total assets

$X_4$ = Leverage; measured by Debt Ratio

$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$ = Co-efficient of determination,

$\varepsilon$ = the stochastic error term

### 3.5.4. Test of Significance

To assess the significance of the impact of the CG structures on shareholder value, the researcher will conduct an F Test and Variance Analysis. The research will test the level of significance at 5%.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

This section offers a discussion of the data analysis, the study results and then provides an interpretation. The researcher utilized secondary data that was derived from the abridged annual reports of the sampled firms which comprised of the listed state corporations. The study also obtained data from the NSE website, current market as well equity statistics. The descriptive and inferential statistics, correlation analysis and regression analysis were conducted in this study.

## 4.2 Descriptive Statistics

The study used board meetings, multiple directorship, firm size, board size, leverage and market value per share as the variables for determining the association between CG structures and shareholder value of state corporations that are listed at the NSE. Below is a summary of the descriptive representations including mean, standard deviation, the minimum values and maximum values of the study variables;

**Table 4.1: Descriptive Analysis**

| | N | Maximum | Minimum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Board Meetings | 90 | 18.00 | 4.00 | 10.92 | 5.06 |
| Board Size | 90 | 11.00 | 8.00 | 10.83 | 2.10 |
| Total Assets | 90 | 9.40 | 8.50 | 10.34 | 0.75 |
| Debt Capital | 90 | 8.20 | 7.20 | 8.82 | 1.11 |
| Market Value Per Share | 90 | 7.95 | 0.423 | 3.67 | 4.143 |

**Source: Researcher, 2019**

Based on the findings above, the maximum value for board meetings was 18.00, the minimum value was 4.00, the mean 10.92 and the standard deviation was 5.06. Board size had a maximum value of 11.00, a minimum value of 8.00, and a mean of 10.83, while the standard deviation was 2.10. The maximum value for the firm size was 9.40, the minimum value was 8.50, the mean was 10.34 and the standard deviation was 0.75.

As for leverage in terms of debt capital, the maximum value was 8.20 while the minimum value was 7.20. The mean for the variable was 8.82 while the standard deviation was 1.11. Market value per share had a minimum and maximum value of value of 0.423 and 7.95 respectively and a mean of 3.67. The standard deviation for market value per share was 4.143

## 4.3 Diagnostic Tests

### 4.3.1 Tests for Multicollinearity

Multicollinearity assesses whether more than two variables indicate are unstable estimates and have significantly high standard errors. The test was conducted using the variance inflation factor (VIF) that is measured by finding the degree to which the regression coefficient variation is inflated due to the presence of correlation among the variables. However, the variables of the study had a VIF below 5 as indicated by the table below;

**Table 4.2: Tests for multicollinearity**

| | Collinearity Statistics | | |
|---|---|---|---|
| Model | B | Tolerance | VIF |

| | | | |
|---|---|---|---|
| 1 (Constant) | 26.291 | | |
| Board Meetings | .046 | .799 | 1.251 |
| Board Size | -.001 | .895 | 1.117 |
| Firm Size | -1.948 | .657 | 1.525 |
| Debt Capital | -.337 | .776 | 1.288 |

**Source: Researcher, 2019**

## 4.4. Correlation Analysis

**Table 4.3: Correlation Analysis**

| | Market Value/Share | Board Meetings | Board Size | Total Assets | Debt Capital |
|---|---|---|---|---|---|
| Market Value/Share | 1.000 | | | | |
| Board Meetings | -0.058 | 1.000 | | | |
| Board Size | -1.222 | 0.093 | 1.000 | | |
| Total Assets | -0.365 | 0.356 | 0.310 | 1.000 | |
| Debt Capital | -0.230 | -0.116 | 0.202 | 0.380 | 1.000 |

**Source: Researcher, 2019**

It should be noted that the correlation between the variables was at 0.05 significance level. Based on table 4.3, the correlation analysis indicated the existing negative connotation between the sum of board meetings held and shareholder value. The link was also insignificant as the correlation coefficient was 0.058 and the p-value was 0.30 thus being higher than 0.05. Furthermore, the results indicated the negative link between the size of the board and the market value of shares as highlighted by the correlation efficient of -1.222 and p-value of 0.498. This value was higher than 0.05 thus implying that the association was insignificant. Furthermore, firm size had a negative connotation with shareholder value and the resulting effect was found to be significant since the correlation co-efficient was -0.365.

Consequently, firm size which was measured by the log of total assets was determined as insignificant as the p-value was 0.358. Leverage or debt capital which implied the amount of capital raised from debts had a positive relationship with shareholder value being measured by the market value of company shares. In context, the impact of leverage on the value of shares was positive as determined by the correlation coefficient of -0.230. The connotation was insignificant as the p-value was 0.404 which is higher than the significance level of the study that was 0.05.

### 4.4.1. Regression Analysis

**Table 4.4: Model Summary**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .381[a] | .145 | .105 | 3.921 | .527 |

**Source: Researcher, 2019**

The correlation coefficient for the model is 0.381 thus implying that there exist a connotation between the variables. The adjusted R square was 0.105 with the value implying that 10.5% of the influence of the variables of corporate governance was elaborated by the model.

**Table 4.5: ANOVA**

**ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 222.066 | 5 | 55.517 | 3.614 | .009[b] |
| | Residual | 1305.640 | 84 | 15.360 | | |
| | Total | 1527.706 | 89 | | | |

**Source: Researcher, 2019**

The results in table 4.5 above highlight that the value of the F statistic was 3.614. Therefore, with the level of significance at 5%, the statistic was significant. However, the p-value was 0.009 which was a lesser value compared to 0.05 thus implying that the model used was significant.

**Table 4.6: Regression Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 26.291 | 5.981 | | 4.396 | .000 | | |
| | B. Meetings | .046 | .092 | .056 | .499 | .619 | .799 | 1.251 |
| | B. Size | -.001 | .209 | .000 | -.003 | .997 | .895 | 1.117 |
| | Total Assets | -1.948 | .688 | -.350 | -2.831 | .006 | .657 | 1.523 |
| | Debt Capital | -.337 | .424 | -.090 | -.794 | .429 | .776 | 1.288 |

**Source: Researcher, 2019**

From the table 4.6 above, board meetings had a positive effect on shareholder value as the findings indicate that a unit increase in the sum of board meetings held per year causes a rise in the market share price by 0.046. A unit increase in the sum of board members was confirmed to cause a decrease in shareholder value due to the negative effect. Firm size was discovered to have a negative influence on the value created for shareholders by causing a -1.948 decrease in the value of shares owned by different stakeholders as per unit increase. Leverage also had a negative impact with the debt ratio causing a 0.337 decrease in shareholder value per unit increase.

In terms of the standardized beta coefficient, board meetings had a coefficient of 0.056 which can be translated to imply that the sum of board meetings held by the board had an effect on shareholder value. Board size had a beta coefficient of 0.000 thus implying that the sum of board members had a weak positive influence on shareholder value. Firm size was also discovered to have a weak negative influence on shareholder value with the beta coefficient being -.350. The standardized beta coefficient for leverage of -0.090 which implies that debt capital had a strong negative influence on shareholder value.

## 4.5. Interpretation of the Findings

According to the tabulated descriptive statistics, on average, the board meetings was confirmed to exhibit a growth trend in state corporations listed at the NSE as highlighted by a minimum value and a maximum value of 4.00 and 18.00 respectively. The values had a large variation thus confirming their significant growth. The growth in size and composition of state corporations listed at the NSE can be ascribed to the utilization of CG structures. During the same period, shareholder value was found to exhibit a significant variation where some firms experienced a rise in the market value of shares while other experienced a decrease in shareholder value. A decrease in shareholder value can be attributed to poor corporate structures that have been adopted by each respective state corporation.

From the outcomes of the regression analysis, the study proved that the corporate governance variables had a varied influence on shareholder value. The research analyzed four independent variables which included board meetings, board size, firm size and leverage were able to describe their impact on shareholder value up to 10.5 % as indicated by the adjusted R square. This implied that the four variables of corporate governance causes a 10.5 % effect on shareholder value while the residual 89.5 % is impacted by confounding factors that are not included in the current study.

From the table 4.7, board meetings had a positive effect on shareholder value as the findings indicate that a unit increase in the amount of meetings held by the board per year causes a slight dip in the market share price by 0.046. A rise in the sum of board members was confirmed to cause a decrease in shareholder value due to the negative effect. Firm size was discovered to have a negative influence on shareholder value by causing a 1.948 decrease in the value of shares owned by different stakeholders per unit increase. Leverage has a negative impact with the debt capital causing a 0.337 decrease in shareholder value per unit increase.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1. Introduction

This section provides a summary and conclusions for the study as well as recommendations for future policy. The section also covers the precincts of the study and the suggestions that guide further research.

## 5.2. Summary of Findings

This study focused on establishing how shareholder value within listed state corporations at the NSE was influenced by the adoption of CG structures. The results of the study indicated the existence of a positive connotation between CG structures and the maximization of shareholder value. This is evidenced by the varying impacts of the independent variables or factors on shareholder value in terms of the market value of each share as distributed across the study period. Corporate governance structures are the procedures and regulations that govern how companies engage in corporate operations. These systems encompass the practices that companies adopt to direct and organize firm operations as well as improving performance. However, due to the ever-changing challenges that influence the local and global markets, business consider implementing effective CG structures to improve their fiscal results.

The study findings established the existence of a positive connotation between the size of the board and shareholder value. The results revealed that a relative increase in the total number of board members improves the shareholder value. The sum of board meetings per annum was discovered to insignificantly and negatively impact shareholder value. Consequently, firm size was established to have a negative association with shareholder value. Companies with large assets tend to have an increased purchasing power that enhances performance in terms of production, financial management and distribution of commodities when compared those firms with relatively smaller assets. However, as the firm size increases, the impact of these assets on the shareholder value is significantly low. In addition, leverage had a negative and an insignificant impact on shareholder value.

Therefore, a larger board size potentially reduces shareholder value as the higher number of board members tends to lower the value of shares that are available to the public. However, the relationship is deemed insignificant by the findings of the study. Board meetings per year entails the total number of conventions conducted within a given financial year. These board meetings enables the company to review its past performances, analyze the current situation and plan for the future which improves financial performance. The increase in financial and operational performance improves the overall position of the company thus influencing an increase in shareholder value.

Firm size refers to the amount of assets owned by a given company including the number of employees, levels of sales and value added on commodities. An increase in firm size was discovered to have a negative influence on market price per share. In addition, the increase in the sum of assets held by a state corporation is insignificant along with having a negative association with shareholder value. On the other hand, leverage was defined as the total amount of debt capital from external creditors. The factor had a significantly low and negative impact on shareholder value with an increase in debt capital causing a small change in shareholder value. ANOVA was utilized to determine the power of the model used in the data analysis. Based on the regression analysis outcomes, the independent factors including board meetings, board size, firm size, firm size and leverage explained their impact of shareholder value up to 10.5% with rest being attributed to factors that were not considered within the study.

## 5.3. Conclusions

From the research findings, it was apparent that the sum of board meetings had a moderate relationship with shareholder value. The relationship was found to be significant. Board size was confirmed to have a negative association with shareholder value as the correlation stood at -1.222. This value indicates as weak negative association between board size and shareholder value that was also significant. The sum of board meetings per year were discovered to have a negative and insignificant association with shareholder value. Firm size had a positive association with shareholder value with the connotation being found to be insignificant. Firm size had a p-value of 0.358 which was higher than the level of significance which was 0.05. Debt capital had a negative as well as an insignificant association with shareholder value. This suggests that an increase in debt capital negatively influences the amount of shareholder value.

Furthermore, the study revealed that the implementation of corporate governance structures had a positive connotation with shareholder value. The study focused on four independent factors including board meetings, board size, firm size and leverage. These factors were discovered to have a positive association with the market value of shares held by various stakeholders. This conclusive statement is supported by the findings of previous studies where the related variables were analyzed to prove the perceived existence of a positive connotation between CG structures and shareholder value within companies. This research study provides similar conclusions to Jammu, Kotli and Khan (2016) who concluded that corporate governance mechanisms influence the creation of shareholder value in firms listed in the Pakistani Securities Exchange.

## 5.4. Recommendations

Board size was discovered to be among significant determinants of shareholder value creation within corporations hence the study recommends that business entities ought to appoint the appropriate number and diversity of board members. By having the required number of board members who possess the desired educational and technical expertise, this ensures the corporation meets its financial and organizational obligations that tend to have an impact on shareholder value. Also, the board efficiency emanates from having the right number of board members who direct the operations and achievement of the underlying goals and objectives. This study recommends that board sizes be determined based on the precise requirements of a given firm including the underlying conditions that influence the outcomes of the specified corporations.

Board meetings were also discovered to have a positive association with shareholder value. The study recommends that entities ought to conduct sufficient number of meetings per year to ensure that corporations have consistent review of their performance and development of future plans that have an influence of shareholder value. Therefore, the board of directors within corporations should plan for and attend a significant amount of board meetings per given financial year to improve factors such as planning, implementation and monitoring of strategic objectives. These meetings should be evenly spread out across the year based on quarterly timelines where the board reviews and plans for corporate activities after every three months. This ensures that the corporation is on track in terms of financial performance and the improvement of shareholder value over a period of time.

## 5.5. Limitations of the Study

The entire procedure of collecting, compiling and analyzing data as well as report writing was costly as the activity required immense sacrifice and focus to achieve the desired objectives. Despite, the limited fiscal resources, the study process was successful as each stage of the research process was completed.

The study also faced time constraints especially during data collection, analysis and report writing since the study relied on secondary data that was obtained from various sources comprising of company websites and annual reports as well updated market and equity statistics. The limited time was not sufficient to facilitate the effective data collection and analysis. However, the researcher utilized the available time efficiently.

This study relied on secondary data to for compilation and analysis. Therefore, critical aspects particularly the qualitative elements that influence shareholder value were not captured by the model. To make the study more conclusive while capturing the required information, the study should have utilized both qualitative and quantitative data.

## 5.6. Suggestions for Future Research

The researcher recommends that a future study to be carried out based on primary data to enable the determination of different outcomes. These outcomes can then be compared to the results from the secondary data obtained from the current study to ascertain any possible variations. By utilizing both forms of data, the researcher will be able to capture the most important elements in researcher.

The study further recommends that future studies focus on the challenges that listed state corporations face while implementing corporate governance structures. Corporate governance systems are among the fundamental aspects of corporate success. However, the arising challenges and constraints are considered as the significant determinants of the implementation of preset goals and objectives.

Finally, the study suggests a study be conducted on non-listed state corporations to ascertain the influence of adopting corporate governance structures on shareholder value on these firms. Furthermore, a study can be conducted to ascertain the influence of CG structures on the shareholder value of all listed firms in Kenya.

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# APPENDICES

## Appendix 1: State Corporations Listed at the NSE

1) National Bank of Kenya

2) Kenya Reinsurance Corporation

3) KenGen

4) Kenya Power & Lighting Co.

5) East Africa Portland Cement Company

6) National Oil Corporation of Kenya

7) Nairobi Securities Exchange Ltd

8) Mumias Sugar Co. Ltd

9) Uchumi Supermarkets

**<u>National Bank of Kenya</u>**

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 3.0 | 3.5 | 4.0 | 4.0 | 4.0 | 5 | 5 | 5 | 5 | 5 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 18 | 20 | 23 | 33 | 16 | 8 | 11 | 14 | 8 | 13 |
| Board Size ($X_2$) | Sum of Board Members | 10 | 12 | 11 | 13 | 10 | 9 | 10 | 11 | 10 | 11 |
| Firm Size ($X_3$) | Log of Total Assets | 10.7 | 10.8 | 10.8 | 10.8 | 11.0 | 11.0 | 11.1 | 11.0 | 11.0 | 11.1 |
| Leverage ($X_4$) | Log of Debt Capital | 7.4 | 7.5 | 7.4 | 7.5 | 7.1 | 7.6 | 7.5 | 7.5 | 7.4 | 7.3 |

## KENYA REINSURANCE CORPORATION

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Shareholder Value (Y) | Market Value Per Share | 1.00 | 1.50 | 1.50 | 1.50 | 2.00 | 2.00 | 2.50 | 2.50 | 2.50 | 2.50 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 12 | 14 | 13 | 10 | 8 | 8 | 11 | 21 | 10 | 22 |
| Board Size ($X_2$) | Sum of Board Members | 11 | 11 | 11 | 12 | 12 | 11 | 11 | 11 | 12 | 11 |
| Firm Size ($X_3$) | Log of Total Assets | 10.2 | 10.2 | 10.3 | 10.4 | 10.5 | 10.5 | 10.6 | 10.6 | 10.7 | 10.6 |
| Leverage ($X_4$) | Log of Debt Capital | 6.8 | 6.8 | 7.1 | 7.4 | 7.2 | 7.1 | 7.4 | 7.2 | 7.8 | 7.2 |

## KenGen

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 0.50 | 0.50 | 1.00 | 1.00 | 1.50 | 1.50 | 2.00 | 2.00 | 2.50 | 2.50 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 10 | 12 | 9 | 8 | 8 | 14 | 9 | 12 | 13 | 8 |
| Board Size ($X_2$) | Sum of Board Members | 14 | 14 | 13 | 13 | 13 | 12 | 11 | 11 | 11 | 13 |
| Firm Size (X3) | Total Assets | 11.0 | 11.1 | 11.2 | 11.2 | 11.3 | 11.4 | 11.5 | 11.6 | 11.6 | 11.6 |
| Leverage ($X_4$) | Debt Capital | 11.4 | 10.7 | 9.6 | 9.7 | 11.0 | 10.0 | 10.0 | 10.0 | 10.3 | 10.0 |

**KENYA POWER AND LIGHTING CO.**

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 0.50 | 0.50 | 1.00 | 1.00 | 1.50 | 1.50 | 2.00 | 2.00 | 2.50 | 2.50 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 13 | 14 | 15 | 12 | 12 | 14 | 7 | 15 | 15 | 15 |
| Board Size ($X_2$) | Sum of Board Members | 12 | 12 | 12 | 12 | 12 | 11 | 11 | 11 | 11 | 12 |
| Firm Size ($X_3$) | Log of Total Assets | 10.9 | 11.0 | 11.1 | 10.3 | 11.1 | 11.4 | 11.4 | 11.5 | 11.5 | 11.6 |
| Leverage ($X_4$) | Log of Debt Capital | 10.0 | 9.2 | 10.3 | 9.7 | 10.6 | 10.2 | 10.0 | 9.9 | 10.0 | 10.2 |

## EAST AFRICA PORTLAND CEMENT COMPANY

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 2 | 2 | 3 | 4 | 4 | 4.50 | 4.50 | 5 | 5 | 5 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 7 | 6 | 9 | 8 | 8 | 9 | 11 | 12 | 16 | 7 |
| Board Size ($X_2$) | Sum of Board Members | 9 | 9 | 9 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| Firm Size ($X_3$) | Log of Total Assets | 10.1 | 10.1 | 10.1 | 10.2 | 10.2 | 10.2 | 10.4 | 10.5 | 10.5 | 10.6 |
| Leverage ($X_4$) | Log of Debt Capital | 9.5 | 9.5 | 9.6 | 9.4 | 9.5 | 9.5 | 9.2 | 9.4 | 9.2 | 9.5 |

## NATIONAL OIL CORPORATION OF KENYA

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Shareholder Value (Y) | Market Value Per Share | 2.5 | 2.5 | 3.0 | 3.0 | 3.5 | 3.5 | 4.0 | 4.5 | 5.0 | 5.0 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 7 | 8 | 6 | 10 | 12 | 11 | 10 | 12 | 11 | 11 |
| Board Size ($X_2$) | Sum of Board Members | 10 | 9 | 11 | 12 | 14 | 13 | 15 | 15 | 12 | 11 |
| Firm Size ($X_3$) | Total Assets | 9.6 | 9.7 | 9.7 | 9.9 | 9.9 | 9.8 | 10.0 | 10.0 | 10.1 | 9.9 |
| Leverage ($X_4$) | Debt Capital | 8.9 | 8.8 | 9.1 | 9.3 | 9.4 | 9.4 | 9.5 | 9.3 | 9.2 | 9.4 |

## NAIROBI SECURITIES EXCHANGE

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 1.00 | 1.00 | 1.00 | 1.00 | 10.50 | 20.50 | 24.75 | 14.65 | 19.70 | 14.55 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 10 | 9 | 9 | 8 | 7 | 18 | 9 | 8 | 7 | 4 |
| Board Size ($X_2$) | Sum of Board Members | 8 | 9 | 9 | 9 | 9 | 8 | 11 | 11 | 10 | 11 |
| Firm Size ($X_3$) | Log of Total Assets | 8.5 | 8.6 | 8.7 | 8.9 | 9.1 | 9.2 | 9.3 | 9.3 | 9.3 | 9.4 |
| Leverage ($X_4$) | Log of Debt Capital | 7.3 | 7.6 | 7.6 | 7.2 | 7.6 | 8.1 | 8.2 | 8.2 | 8.0 | 8.1 |

**MUMIAS SUGAR CO. LTD**

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 0.50 | 1.00 | 1.00 | 1.50 | 1.50 | 2.00 | 2.00 | 2.00 | 2.50 | 2 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 4 | 4 | 4 | 8 | 15 | 10 | 20 | 18 | 21 | 15 |
| Board Size ($X_2$) | Sum of Board Members | 12 | 12 | 15 | 12 | 11 | 11 | 12 | 12 | 8 | 7 |
| Firm Size ($X_3$) | Log of Total Assets | 10.2 | 10.3 | 10.4 | 10.4 | 10.4 | 10.4 | 10.3 | 10.4 | 10.4 | 10.2 |
| Leverage ($X_4$) | Log of Debt Capital | 9.3 | 9.4 | 9.3 | 9.3 | 9.3 | 8.7 | 9.7 | 9.4 | 9.7 | 9.9 |

## UCHUMI SUPERMARKETS

| VARIABLE | DESCRIPTION | YEAR | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Shareholder Value (Y) | Market Value Per Share | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 5 | 5 | 5 | 5 | 5 |
| Board Meetings ($X_1$) | Number of Board Meetings per Year | 4 | 6 | 5 | 6 | 4 | 6 | 4 | 8 | 5 | 8 |
| Board Size ($X_2$) | Sum of Board Members | 5 | 5 | 7 | 10 | 8 | 12 | 14 | 13 | 14 | 14 |
| Firm Size ($X_3$) | Log of Total Assets | 9.4 | 9.5 | 9.6 | 9.7 | 9.7 | 9.7 | 9.8 | 9.7 | 9.6 | 9.6 |
| Leverage ($X_4$) | Log of Debt Capital | 8.9 | 8.7 | 8.5 | 8.3 | 8.6 | 8.0 | 8.4 | 8.6 | 9.0 | 9.2 |