INFLUENCE OF CORPORATE GOVERNANCE IN FINANCIAL PERFORMANCE OF LAW FIRMS IN NAIROBI CITY COUNTY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

2022

DECLARATION

I declare that this research project is my original work and has not been submitted for a degree in any other university for purposes of examination.

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

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ACKNOWLEDGEMENT

In undertaking this research, I would like to acknowledge the under mentioned key supporters who in diverse ways enabled me to generate this research project. First and foremost, I am deeply grateful to the University of Nairobi for a credible academic process which I went through to achieve the relevant insights, guidelines and instructions which enabled me develop a basic foundation which I have applied to come up with this research project. Secondly, I appreciate the guidance and insights of my supervisors during the writing of this research project. I also extend the same gratitude to the relevant academic units' lecturers from the department, who assisted me during my course work. It was an enriching experience. Thirdly, I thank all my classmates from whom I learned a lot through group discussions and normal interactions during my study period at the university. Finally, I wish to thank my family for the support and encouragement throughout my study. To all my friends, thanks for being a source of encouragement and inspiration throughout the period of this project report.

DEDICATION

This project is devoted to my family for instilling in me virtues of hard work and discipline.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Currently, corporate governance is the heart of success and thus performance of the organizations (Jacoby, 2018). Presently, most organizations are under pressure from lobby groups and shareholders to behave ethically and create value which can best be achieved through sound corporate governance. In an organizational context, corporate governance arises because of existence of agency problems, the conflict of interest and the transaction costs. Theoretically, it is expected that having in place corporate governance mechanisms in an organizations would result into reduction in agency cost and conflict of interest and this would lead to maximizations of the wealth of shareholders and thus performance of an organization (Du-Plessis, Hargovan & Harris, 2018).

This study will be guided by agency theory and stewardship theory. According to Agency Theory by Jensen and Meckling (1975), there may be an agency loss measured by extent to which the owners' returns drop below what they would be if they exercised direct control on the company rather than delegating their authority to the agents. In Agency Theory, shareholders are the principals while managers are the agents. On the other hand, Stewardship Theory developed by Donaldson in 1991 states that, the managers (agents) are believed to be stewards who are required to ensure that the business entities are always run as per the wishes of the principals. The Stakeholders Theory developed by Freeman in 1984 proposes that for any business entity to achieve 2 success, it must create value for all its stakeholders including suppliers, customers, employees, community, investors and owners. Businesses always focus on maximization of

owners' wealth as the top objective but meeting all other stakeholders' interests is equally important (Freeman, 1984)

Law firms are professional and business entities that provide legal services which secure the rights of individuals and organization and facilitate transactions in all businesses, whether private or public. Further, they contribute to government revenues through direct taxes such as income and value added taxes and generation of employment (Jarret, 2019). Law firms in Nairobi County are currently facing stiff challenges in many aspects of their work and unprecedented change in the legal industry. They are operating in a cut-throat competitive environment, which is as a result of the increase in the number of law firms operating in Nairobi County from 2 in 1902 to about 600 in 2016 (Law Society of Kenya Report, 2015). The emergence and development of alternative legal services business structures, and alternative dispute settlement services, where legal services may also be provided by non-lawyers and are substitutes of the traditional legal services, have contributed to the competitiveness in the industry (Sichangi, 2018). Cross border practice that is advocates from Uganda, Tanzania, and Kenya being able to run law firms in any of the three countries has increased the level of competitiveness in the industry (Law Society of Kenya, 2015).

1.1.1 Corporate Governance

Corporate governance indicates the interaction between the management team, the board of directors and shareholders of a business entity. It constitutes of the power and mode of structure determining responsibilities and rights of various people charged with the responsibility of running and maintaining the affairs of the business including the management team, the directors as well as the owners of the entity. It is a system that dictates how the company is to be managed

and controlled with the aim of reducing the conflicting interests between the management and shareholders of the company. Corporate governance simply describes the structures and processes needed to control and direct the interaction between shareholders, the management as well as the board directors of the firm (Ndikwe & Owino, 2016).

Corporate governance is the structure that outlines how various participants in the organization rights and responsibilities are distributed. The participants in the organization include board of directors, shareholders and various stakeholders who clearly states out the rules to be followed and the procedures needed to make decisions of corporate affairs (Kolk, 2018). Good corporate governance leads to high returns to firms while also boosting investor confidence. Good corporate governance increases company valuation and boosts its performance (Gompers et al, 2003). In essence, markets can only operate efficiently and profitably in the presence of investor confidence which is boosted by corporate governance (Bhavik, 2016).

Existence of weak corporate governance in an organization increase incidences of collusion and embezzlement of funds that adversely affects financial performance of a business corporation (Opanga, 2013). Strong corporate governance is characterized by effective boards that monitor all actions and decisions undertaken by the management teams and thus reducing the conflict of interest hence improved financial performance. Despite this fact, the world has witnessed collapse of major companies including the Enron Corporation as a result of the weaknesses in CG. This raises one question on whether companies have realized the value in corporate governance and how it influences their financial performance

By separating company control and ownership, corporate governance lowers the cost of doing business. According to Yeganeh (2019), corporate governance is defined as procedures and obligations allocated to managers and executives only for the strategic direction of a company in order to fulfill its goals of risk management, profit and maximum of shareholders' values. In addition, it influences growth, market integrity, financial stability, and market confidence, all of which are influenced by it. The failure of multibillion-dollar corporations like Enron Ltd. to have adequate corporate governance led to the implementation of the Sarbanes Oxley (SOX) Act by the United States government in 2002. (Dah, 2016). By increasing the proportion of non-executive members on the board, the risk of principal agent conflict is reduced, financial performance is improved, corporate risk is reduced, and the likelihood of a company going under is reduced.

Management structures and practices that help organizations develop in value and maximize profits are referred to as corporate governance. Measured by CEO duality, composition of board, non-executive director ratio, board size, and the percentage of non-executive directors. Today, many institutions are adopting it as a vital component of success, owing to its influence on their performance. When it comes to maximising the value of a company via its management and agency expenses, corporate governance is key, according to Himmelberg and colleagues (2019). In order to improve their commitment and incentives, managers own significant holdings in companies with great development potential but also work in high-risk environments.

1.1.2 Financial Performance

According to financial performance, policies and activities of an organisation are measured in monetary terms (Heremans, 2007). Companies' profitability ratios, gearing metrics, and liquidity

ratios all reflect these results. Despite the fact that profit has long been utilized as a foundation for many business practices, the efficiency with which a company uses its money is what really matters when it comes to determining how quickly a company may expand. To put it another way, financial performance is a broad gauge of a company's present financial status and how it stacks up against its peers (Huthison, 2012). Financial performance, according to Alfred (2007), is a measure of how well a company utilizes its assets and generates revenues.

Every business in the world is in it for the long haul; in order for a company to flourish, it must have a healthy financial outlook at all times. (Heremans, 2007). In order to determine the effectiveness and efficiency of the organization's use of resources, businesses might assess the total output in monetary terms to determine its success. Financial performance analysis may be used by any company to determine the value of its assets.

Hogarty (2012) utilized ROA to assess the performance of investment businesses in Italy, while Rield (2012) used ROA to measure the financial performance of Nigerian enterprises. A research by Aduda, Okiro, and Nina (2015) looked at the impact of corporate governance on the financial performance of companies listed on the Dar es Salaam Stock Exchange.

1.1.3 Corporate Governance and Financial Performance

Corporate governance entails how resources are efficiently managed in order to maximize both the profit and shareholders' value, which eventually improves lenders' and investors' trust. Pham et al (2004) confirmed that institutional shareholding, independent boards and insider ownership reduces the levels of risk in firms. Shareholders value maximization is created through corporate governance thus reduction in the cost of capital. In addition, Abor (2007) showed that positive

association exists between corporate governance and leverage. According to regulatory framework of a country, board members have a fiduciary task to ensure that their firms are well managed. Firms with large board size tend to maintain high leverage with an aim of raising external debt.

Successful firms have effective board that aid in drawing and planning of corporate strategy while maximizing shareholders' value. Warokka & Herrera (2011) undertook a study on East Asian corporate governance where they sampled 532 East Asian firms located in seven countries that were affected by financial crisis from 1996 to 1997. They utilized multivariate regression model and t-test as statistical methods to test the hypothesis. They found out that firms apply the efficiency risk argument and thus there exists a negative association between ownership, capital structures and performance of firms. Corporate governance views agency costs as a vital factor that determines firms' performance and levels of leverage.

Ali et al. (2017) carried a research on the impact of corporate governance on financial performance of listed firms in Pakistani and documented a direct association between financial performance and corporate governance since corporate governance practices improves dividend payout strategy and determines the mix levels between debt and equity. In support, Raviv & Harris (1991) argued that bankruptcy costs, firm size and leverage affect performance of firms. Managers work hard to minimize costs thus revenue maximization and in turn, they are rewarded with high perquisites. Leverage affects performance of firms thus a direct relationship to the health of firms and rate of default on debt.

Muya (2013) carried out a study on the effect of capital structure on the financial performance of listed cement manufacturing companies in Kenya. The study's findings indicated that capital

structure has an effect on financial performance. Debt to equity levels determine return on capital employed. More so, Olokoyo (2012) studied the impact of capital structure on corporate performance of Nigerian quoted companies. He concluded that firms employ static pecking order and trade off theories in ascertaining their levels of leverage. The association between performance of firms and leverage is significantly negative.

Financial performance and corporate governance are interlinked and as such, good corporate governance practices and capital structures lead to maximization of both profit and shareholders' value. Managers engage in moral hazard activities that jeopardize the interests of shareholders. On the interest of trade creditors, firms with larger board size pursue low leverage level since board members are viewed as effective monitors of management actions and performance of firms. This study critically looked at the concepts of financial performance and corporate governance of firms. If corporate governance is important, then financial performance of a firm is affected.

1.1.4 Law Firms in Kenya

This is the bar that is associated with its high level of membership currently standing at about 8,000 advocates. The association has the power to give the advice and helps members in respect to the state of operation. By law, one must be a member of the Society to practice as an advocate in Kenya. Membership to the Society is however individual and not corporate. About 995 law firms are operating in Nairobi with about 68 being considered as big company by considering the total number of the employee that it controls. The majority of them are sole proprietorships (LSK, 2016).

Kenya is gradually more observed as an appealing speculation landing place for the worldwide business activities. High level of interest in Kenya conveys the want for higher excellence level of advice legally at home stage and in many circumstances, at a cross border level. On the other hand, the legal system has matured considerably with the emergence of many law faculties in Kenyan Universities, and it is estimated that about 500 advocates will be enrolled annually in Kenya. However the legal practitioner in Kenya is faced with a myriad challenge, key among them is the emergence and the entrance of foreign law firms and especially from the East African region. This firms bring with them expertise in various spheres of their specialization and thus incumbent upon law firms operating in this country and in particular in Nairobi to design strategies that give them a competitive edge in the environment in which they work in.

Legal practitioners are now embarking on specialization as the days of general practition are long gone. Divergent fields that include election law, mining law, constitutional law, company law, procurement law, intellectual property and the voluminous churning of legislation every often calls for a different approach to the practice of law in Kenya. All these pose challenges the Kenyan legal practitioner. On the flipside, contrary, the field of the legal mind has a lot of existing opportunities that one can harness for success. For instance, the cross-border opportunities brought about by the East Africa Community are yet to be harnessed. It requires a rethink on the part of law firms who may have to put in place strategies that will enable them to address the challenges and leverage the opportunities in their operating environment.

1.2 Research Problem

Research on corporate governance and financial performance is a hot issue since there are no widely recognized results from the research that have been carried out. To maximize a

company's worth and profits, corporate governance comprises a set of structures and procedures for effectively running the organization. Profit and shareholder value maximization are also critical to a company's long-term survival. Maintaining an appropriate degree of debt-equity mix is critical to a company's success. Leverage increases are made only for the goal of boosting productivity and lowering expenses.

Existence of sound CG mechanisms calls for strengthening the oversight role of directors to minimize the conflicts of interests in the firm (Rico & Rohman, 2018). Strong corporate governance mechanisms means that the management is motivated to make decisions that are geared towards maximization of the wealth of shareholders and thus financial performance. Hence, firms that are striving to improve on their financial performance must first of all start by strengthening the corporate governance systems in place (Rossi, Nerino & Capasso, 2015). However, more often than not, the management team of most firms is tempted to pursue goals and make decisions that satisfy their personal interest hence conflicts of interest hence adversely affecting firm’s performance financially.

Law firms in Nairobi County are facing numerous challenges. The main challenge is increased competition, which is as a result of the increased number of law firms in the industry. The increased competition poses a great threat to the growth and survival of law firms (Sichangi, 2010). The intangibility, similarity and the high credence qualities of the services provided by law firms, coupled with the fact that advocates are prohibited from advertising, makes it very difficult for clients to be made aware of the services offered by law firms and to evaluate the quality of services offered by law firms preceding to making a purchase obligation (Law Society of Kenya Report, 2015). The difficulty in evaluating services prior to making purchase covenants

often means that customers must rely on signals of value such as the place and people to infer quality or the value that the service will create. Clients also rely on prior experiences to evaluate whether the guaranteed service will meet their anticipations (Jarret, 2012). According to Sichangi (2010), in most cases, clients are not aware of the services offered by the law firms and rely on referrals and word of mouth to make a purchase decision.

On a global scale, Yılmaz (2018) used a case of companies in Oman to establish the interaction between CG and firm's ability to perform financially. It was shown that CG predicts firm's ability to perform financially. Using a case of Italian firms, Rossi, Nerino and Capasso (2015) looked at CG and its interaction with firm's ability to perform financially and noted a direct interaction. Among insurance firms in Bangladesh, Datta (2018) looked at CG and how impacts on FP where a positive relationship was identified. Locally in Kenya, Wanjiru (2013) relied on evidence from listed firms at the NSE to establish how CG predicts their ability to perform and a direct link was identified. Opanga (2013) relied on Kenyan insurance firm to relate CG and its link with FP where a postive link was noted. Nganga (2017) focused on the banking entities in Kenyan context to predict how their corporate governance mechanisms enhance their financial performance and noted a significant relationship.

Therefore, from the aforementioned studies, it is clear that some of them were carried out in advanced countries away from Kenya while other studies were carried out in different sectors and industries way from the law firms' sector hence contextual gap. Other studies relied on primary means of data collection and not secondary data which results into methodological gap. To fill these gaps, the current study seeks to answer the following research question: what is the relationship between corporate governance and financial performance of law firms in Nairobi County?

1.3 Research Objective

To determine the relationship between corporate governance and financial performance of law firms in Nairobi County

1.4 Value of the Study

An important outcome of this research is that it will assist management in putting in place frameworks that make it easier for the company to adhere to good corporate governance standards and hence boost shareholder value and profit while also lowering agency costs. Managers will be able to use their resources more effectively and efficiently. As a result, they will be able to better manage the conflict between their interests and those of their stockholders.

For the research to be successful, it must establish a framework for measuring the performance of public institutions and preventing immoral, non-quantifiable activity. As a result, fiscal policies and economic planning important to analyzing and regulating diverse sectors of the economy will be easier to implement.

Shareholders will benefit from the research by better evaluating and comparing potential candidates for nomination to the board of directors. For the sake of protecting their interests in the sector, shareholders will pick only competent individuals to serve on the board of directors. Managing the tension between management and the agency will also be a consideration.

By giving information on the advantages of corporate governance on performance, the study will be useful to academics and researchers in their future research. In light of the lack of a corporate governance code in Kenya, this study will serve as a starting point for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter discusses the theoretical review and the empirical evidence of the corporate governance systems on the law firms that are domiciled in Kenya. This section further focuses on the corporate governance theories, corporate governance practices and later the empirical literature review. The empirical literature framework includes scholarly done studies and theories with the aim to ascertain the impact of the corporate governance practices on the financial performance among the law firms operating in Kenya. The conceptual framework depicts how the independent variable affects the dependent variable.

2.2 Theoretical Foundation

In this section of the study, key theories that have been advanced in connection with the research variables were reviewed. In order to achieve the research objectives, theories like Agency theory by Meckling and Jensen (1975) and Stakeholders' theory by Freeman (2010) are considered to be the main theories.

2.2.1 Agency theory

Economics' Alchian and Demsetz (1972) and Jensen and Meckling (1976) made contributions to agency theory (1976). The interaction between the principals, such as shareholders, and the agents, such as firm executives and managers, is referred to as agency theory. Shareholders, who act as the company's owners or principals, appoint agents to carry out the necessary tasks.

Directors and management serve as representatives for shareholders when it comes to operating the company (Donaldson and Davis, 1991).

Participants as a whole yearn for a set of common corporate governance principles. This is a major factor in the convergence of corporate governance. Global policymakers, corporations, and other stakeholders may all start using the OECD Principles of Corporate Governance as a conceptual framework (OECD, 1999). All nations, emergent or established, face the challenge of principal-agent costs and each has its own set of policies for dealing with the issues posed by agency costs. Each nation's business framework has a distinct corporate governance model since each country has a different business culture and diverse legal and economic systems in place.

Daily, Dalton and Cannella (2013) concluded that there are majorly two factors that influence the predominance of agency theory. One, is the theory being a simplified theory that deals with two participants in the organization who are the owners and the executives. Two, agency theory says that executive management in organizations can be seen to have interests in the organization. In the application of the agency theory, shareholders who are the owners expect the management to make decisions and act to the investors interest to improve performance. However, the management are likely to make decisions that favor them at the expense of the interests of the principals.

Agency problem normally arises from the conflicting interest among the principal and the agents. The agency problems that occur when the ownership and control is separated in a principal-agent relationship as concluded by (Davis, Schoorman & Donaldson, 2017). In agency theory, the agent can be led by to self-interest, look for opportune scenarios and not putting the interest of

the principal in the forefront. Agency theory was developed to minimize the agent- principal conflicts to ensure wealth maximization (Bhimani, 2018). As a way to compensate management they are given incentives in order to minimize the conflicts of interest. Bebchuk (2019) suggests that where ownership concentration is high wrong use of the company's resources by the majority owners be evidenced with little consideration to the minority shareholders and hence ownership and control should be separated. Holmstrom and Milgrom (2014) argued that while providing managers with a fluctuating incentive payment based on performance, the agents tend to focus on the low risk projects with high returns. This may provide an assessment that is fair, but it may not prevent management misconduct.

In this study the theory will be helpful since in the organization there is an agency relationship existing when the shareholders appoint the management to perform duties in the firm on their behalf (Ross, 2013). The CEO duality aspect will come into play where the management is appointed by the shareholders and hence the CEO cannot be the chairman of the board due to the agency relationship principles. The theory will be of great help in evaluating how CEO duality affects performance. Board independence also will be evaluated using the concepts of this theory. The shareholders transfer the role of making company decisions to the management who should make sound decisions that do not harm the shareholders. An agency problem erupts when the appointed management and board works on its best own interest contrary to the goals of the shareholders. In the securities market the shareholder expects management to perform effectively by increasing the shareholders wealth. According to Berle and Means (2017) managers are accountable and should report to shareholders of the expected earnings. The theory leads to agency costs which must be monitored in order to ensure the strong financial performance is

achieved. The incentives provided to management must be in alignment with the company's performance.

2.2.2 Stakeholder Theory

Stakeholders' theory, by Freeman (1984) was to be used as a management tool. It has however since found new use as a theory of the firm that has high interpretive potential. The theory emulates a framework covering ethics in business, and organization of management that seeks to illuminate the moral and ethical principles in the management of a business or any other organizations. The theory has a major focus on equilibrium of the interests of the stakeholders as the core consideration of corporate policy. The theory has a large contribution to risk management coming up as an addition to implicit contracts theory as well as other forms of agreements, like financing and sales (Moses, 2019).

Stakeholder theory assumes that managers well regulate the various wants for diverse classifications of stakeholders, and fairly distributing the assets and outcomes (Othman et al., 2014). In this study, the stakeholder theory asserts that the managers of corporations must be aware of the interests in an organization as well as its stakeholders, and invest the maximum activities in a bid to be compliant to the acceptable regulations as well as solutions, and article of association and finally the firm's internal laws.

A stakeholder can be referred to or characterized as any section, groups or any other player in the business that can influence or be influenced by the accomplishment of the objectives of the organization. The theory assumes that each party who has an interest in the firm will have their interest achieved highly depending on the level of the responsibility of the management and who have the tendency of misusing the powers given to them. Wheeler et al. (2002) submitted that the theory of stakeholders was based on integrating the sociological and organizational fields.

Firms have responsibility of ensuring stakeholders interests are factored by the management during their decision-making processes without discrimination which hence enhances accountability (Sundaram & Inkpen, 2004). Critiques of the theory argue that the stakeholders interests have never been unified and tend to contradict that of the other stakeholders pointing that ranking of priorities of this interest has never been established (Jamal & Stronza, 2009). The theory has been adopted due to its support of the corporate governance as individual responsibility is owed to every stakeholder in the firm

2.3 Corporate Governance Practices

2.3.1 Board size

The number of directors on an organization's board of governance may be used to assess the board's size. Morten et al. (2001) and other academics have sought to assess the relevance of this corporate governance component in a firm's success. In Sanda et al. (2011), they claim that a bigger board is more successful in its role as a watchdog of the management. Board size Yermack, (1996) advised for a board of 8-10 is often recommended whereas Sanda, (2005) is consistent with the advice of a corporate board size of ten. In principle, the size of the board is a corporate governance feature that protects the interests of the company's shareholders. Monitor, reprimand, and eliminate incompetent management teams are its primary responsibilities.

2.3.2 The board of Directors' Composition

According to Dean and Sharfman (2016), the membership of the board of directors is crucial to the formation of strategy. The boards of directors are in charge of determining the company's course in relation to achieving certain objectives. This approach is vital to law firms because it

offers a framework for achieving expected objectives. The primary responsibility of the boards is to keep a close eye on the process of formulating and implementing company strategy, which is of great importance to shareholders. The process of developing a strategy necessitates that law firms examine the current environment and plan for any upcoming changes (Stahl and Grigsby, 2012). Having a diverse board of directors also makes it easier for legal firms to do thorough resource assessments, distribute money wisely, and devise strategies for optimizing return on investment. The board of directors plays a significant role in strengthening the connection between a business and its environment since they determine the strategic choices, whether formally or informally. If done correctly, board composition gives businesses the ability to cope with threats to their very existence. To establish a healthy balance of power, as claimed by Golden and Zajac (2011), the board has to be constructed in a way to ensure that no one person or block of people can make final decisions. A non-executive director should have relevant expertise, skills, and independence in the industry in which the law firm works, for example, and provide sound judgment to the organization's decision-making process.

2.3.3 Board Audit Committees

The function of the audit committee has been questioned recently. Audit committee membership eligibility criteria, as well as the amount of information that must be made public about audit committee activities, have risen as a result (Carcello & Neal, 2011). The importance of having a well-functioning audit committee in corporations has been highlighted by high-profile scams. The audit committee's independence, size, and frequency of meetings all have a role in its credibility and the accuracy of its financial reporting (Aggarwal, 2013). It was observed that an audit committee's performance was linked to that of a company. They came to the conclusion that having a well-functioning audit committee will help companies perform better. In a research

in India, Narwal and Jindal (2015) showed that members of the audit committee had a negative impact on profitability.

2.3.4 Board Independence

Many think that a company's board of directors is an important source of information for the company's management. Additionally, they are obligated to protect the interests of the whole business and its stakeholders (Aggarwal, 2013). Most independent directors aren't afraid of the CEO in most circumstances. To further limit the amount of perquisites used by managers, they may also have a favorable impact on directors' choices and discussions. Additional decision-making space is provided by the inclusion of independent directors on board of directors (Fama & Jensen, 1983). Resource dependency theory suggests that independent directors serve as intermediaries between corporations and the external environment because of their experience, status, and relationships (Yasser, 2011).

2.4 Financial Performance

Financial performance shows the industry's business sector outcomes and financial health over a specific period by showing how well an organization uses its resources to maximize shareholder wealth and profitability (Farrukh, 2016). Alfred (2007) defines financial performance as a measure of the proper use of resources based on its operations and revenue generation. Tobin's Q market performance measure compares a company's value from financial markets to the value of its assets (Tobin, 1969). Financial performance is generally measured by the calculation of ratios like profitability ratios and liquidity ratios on the financial statements

Financial performance is a significant factor which is used to determine firm's strengths and weaknesses relative to its competitors. Financial performance is also a fundamental determinant

for determining a company's strengths and weaknesses relative to other companies in the same industry. Financial performance helps an enterprise know its value. Brealey et al. (2009) indicate that profitability, solvency, liquidity levels, financial efficiency, and repayment capacity can be used to measure financial performance.

Yasser et al. (2011) measured financial performance using ROE and profit margin while Besho (2019) used the ROA as a measure of the financial performance of firms listed in the NSE. Bhagat and Black (2002), used Tobin's Q, Asset Return (Operating Income/ Assets), Sales/ Assets Ratio, Operating Margin (Operating Income/ Sales), Employee Sales and Asset Growth, Sales, Operating Income, Employees and Cash Flows as dependent variables to measure firm performance. In the current study, measuring the financial performance of the NSE listed companies was done by looking at ROA

2.5 Empirical literature review

Financial performance in India was studied by Aggarwal (2013), who looked at the impact of corporate governance on 20 listed firms. Regression, correlation, t-test, and F-test were used to analyze data from 2010-11 and 2011-12, respectively. There were ROA, ROE, ROCE, and PBT as the dependent variable. Employee, community, and environmental factors are the independent variables. Size of company was also taken into consideration. According to the findings of the research, good corporate governance has a considerable influence on financial results.

Board size and business success were explored in a research by Malik et al., (2014). The Pareto method was used to examine this correlation in Pakistani banking. 14 Pakistani banks were selected as a representative sample for the period from 2008 to 2012. The impact of corporate governance procedures on a bank's performance was examined using a variety of models. They

contradicted previous research on corporate governance and business performance. The most important conclusion was that the size of the board had a considerable impact on the bank's performance. In Pakistan, a big board size was shown to have a positive effect on the bank's performance.

Insurance businesses' financial performance in Kenya has been studied by Opanga (2013) to determine how many directors, how many motions passed at a meeting, how many committees, and how often meetings are held. The research utilized an 80 percent sample of the 45 insurance companies in Kenya between 2010 and 2012. An AGM's number of resolutions approved, board committee size and the number of directors on the board were all shown to be positively connected with the company's financial success. Although certain resolutions may have no influence on the company's financial success, this research hypothesized that a large number of resolutions voted in a general meeting would affect financial performance.

Akeyo (2012) discovered a favorable correlation between corporate governance and the performance of International Non-Governmental Organizations (INGOs) in Somalia. It was the goal of his research to determine the influence of corporate governance procedures on performance. Researchers discovered that the majority of INGOs used a variety of governance strategies. All four corporate governance procedures (audit, disclosure, board meetings, and board size and composition) were examined independently and jointly in the research. In a separate research, it was shown that INGOs' performance was positively correlated with corporate governance, however the link was negligible. A poor link between performance and the four corporate governance principles was found. In light of her results, she came to the

conclusion that poor corporate governance frameworks led to misuse of resources, earnings management, incompetence, and a lack of transparency.

According to Ochola (2013), a study of 16 fund managers in Kenya, the following findings were found: on average, the size of the board of directors was 5, board meetings were held between four and six times a year, and insider shareholding by managers on average was 82% in 2009, which was the highest percentage. According to his findings, corporate governance greatly impacted the performance of fund managers and that neglecting to adopt corporate governance would severely impact their performance.

On the Kenya Revenue Authority, a state-owned firm, Kemboi (2013) conducted an investigation on how corporate governance affects revenue collection (SOE). Revenue collection is adversely impacted by board size, but board effectiveness, board functions, policy and decision-making are favourably impacted by revenue collection, according to the results of the research According to the findings of this research, better corporate governance has a beneficial impact on revenue.

According to Chepkosgei (2013), board composition had a significant impact on the financial performance of Kenya's 43 commercial banks from 2005 to 2009. Only ROE and ROA were shown to be significant predictors of board size, average tenure, percentage of female directors, occupational experience of the directors, and ratio of non-executive directors. Researchers determined that earlier studies on the significance of independent directors in increasing financial performance were lacking in data. The study, on the other hand, did not provide any

recommendations on the appropriate board composition for companies looking to maximize their financial success.

Aduda (2011) conducted a research on the commercial banks listed on the Nairobi Stock Exchange (NSE) in December 2008 to examine the relationship between CEO salary and financial performance. By looking at the financial accounts of the institutions that participated in his research, he came up with secondary data for his census. The data was analyzed using SPSS and a multiple regression model. The study came to the conclusion that CEO pay in Kenya had a weak negative correlation with bank performance. He said that at major commercial banks, size is a crucial criteria for determining the amount of pay for top executives.

2.6 Research Gap

Although this phrase is most often associated with financial health, it may also be used as a way to compare the financial health of different businesses in the same industry or across other sectors of the economy. The profitability ratio, solvency ratio, liquidity ratio, financial efficiency ratio, and payback capacity of a business for a specific time may all be used to gauge financial performance. As an example, Aggarwal (2013) looked at the impact of corporate governance on India's financial performance using ROA, ROE, ROCE, and PBT as measures of performance. While ROE and the Tobin Q ratio were used by Aduda et al. (2013) to assess performance. Even in the context of Sri Lanka, India, Azeez (2015) found that corporate governance has a significant impact on business performance.

Table 2.1: Research Gap

Author	Focus of the Study	Research Findings	Research Gaps

Aggarwal, (2013)	Impact of corporate governance on corporate financial performance in India	According to the findings of the research, good corporate governance has a considerable influence on financial results	This study was based in India while the current study focus in Kenya which have different operating environment in Kenya
Opanga, (2013)	The relationship between corporate governance and financial performance: A study of insurance firms in Kenya	An AGM's number of resolutions approved, board committee size and the number of directors on the board were all shown to be positively connected with the company's financial success	The study focused on insurance firms in Kenya while the current study will focus on law firms
Aduda (2011)	The relationship between executive compensation and firm performance in the Kenyan banking sector	The study came to the conclusion that CEO pay in Kenya had a weak negative correlation with bank performance. He said that at major commercial banks, size is a crucial criteria for determining the amount of pay for top executives	The study did not investigate the effect of corporate governance practices and financial performance
Chepkosgei, (2013).	The influence of board of directors composition on financial performance of commercial banks in Kenya	Only ROE and ROA were shown to be significant predictors of board size, average tenure, percentage of female directors, occupational experience of the directors, and ratio of non-executive directors	The study focused on financial performance of commercial banks in Kenya and not law firms

2.7 Conceptual Framework

It is a theoretical underpinning of study which offers the blueprint of the study (Grant & Osanloo, 2014).

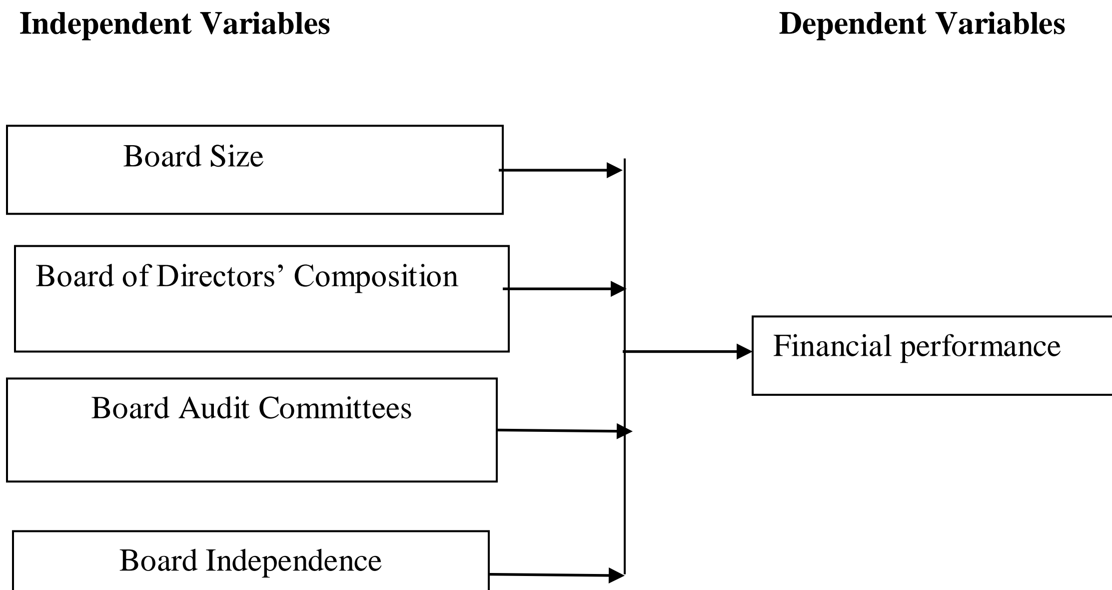


Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research design, target population, and data collection and analysis were all covered in this chapter.

3.2 Research Design

To put it another way, a research design is a blueprint for carrying out an investigation's stated objectives. Descriptive research methodology was used to determine the impact of corporate governance procedures on the financial performance of law firms during the COVID 19 worldwide pandemic, according to the findings. The descriptive research approach helped to confirm and describe the qualities and factors that are being examined. The design identified the specific features of a given circumstance and allow for a high degree of flexibility and precision.

3.3 Population

A populace is a group of people, processes, or products that can be tested and summarized in a single sentence (Yin, 2003). An examination study's goal population should be expressly positive and the investigational unit acknowledged, but this isn't always easy to do. The study's target population was 257 legal companies in and around Nairobi City County (Kenyan Lawyers directory, 2021)

3.4 Sampling Design

According to Saunders et al (2016), many topics could not be answered because of time, money, and access constraints. Therefore, a sampling approach must be used to limit the quantity of data

by examining data from a subset. A target population also established by the researcher, which will make the population more manageable. Because of this, the study used a purposive sampling method to sample 77 law firms, which represents a 30% share of the overall target population. Many studies have shown that samples that are between 10% and 30% of the population may be considered credible. To answer research questions, researchers utilized a method known as purposeful sampling, which focuses on the features of a population that are of interest.

3.5 Data Collection

Primary data was gathered via the use of specially designed, closed-ended questionnaires for this study. Using the research goals as a guide, construct statements and questions for inclusion in the survey. Each section of the questionnaire was broken down into three sections. Section A provided background information, Section B focused on the corporate governance practices implemented by Nairobi County law firms, and Section C examined the link between the financial performance of Nairobi County law companies and the corporate governance methods employed. In order to facilitate data analysis, the questionnaire included closed-ended questions. This provided researchers a chance to get a more detailed answer from their subjects. Drop-and-pick distribution was used to distribute the surveys. Top-level executives, financial managers, and supervisors will make up the intended audience.

Reliability is termed as the extent to which the data collection instrument can yield consistent results after repeated trials (LoBiondo-Wood and Haber, 2014). Internal consistency was used in accessing the reliability of the research instruments in this proposed study using Cronbach's Alpha. Cronbach's Alpha ranges between 0-0.9, whereby the reliability increases with an increase in the alpha value. Reliability of 0.7 or higher was considered acceptable. High

reliability of the data collection instruments is essential to capture all the required data by the study (LoBiondo-Wood and Haber, 2014).

Validity is defined as the level to which the data collection instrument can measure the intended attributes of the study (Cooper, Schindler & Sun, 2006). Content validity was used in accessing the validity of the instruments of data collection. Content validity entails the appropriateness of the instruments in addressing the research objectives, as well as its clarity and understandability. This was achieved through developing a draft questionnaire in coordination with the study supervisor, pre-testing, and later evaluating its effectiveness before the actual study was conducted.

3.6 Data Analysis

Statistical software for the social sciences was used to code and evaluate the quantitative data collected from respondents (SPSS). The first aim was studied using descriptive analysis, which will employ measurements of central trends. A frequency table and percentages were used to show the study's results. Correlation and regression analysis was also used to examine the relationship between corporate governance practices and law firm financial performance. Law companies' financial success and corporate governance policies were linked using regression analysis. The regression model that was used for data analysis was:

$$\mathbf{Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$$

Where;

α is model intercept

β_1, β_2, β_3, and β_4 are the various intercepts

Y is the financial performance

X_1 is board size

X_2 is the board of director's composition

X_3 is board audit committees

X_4 is board independence

ε represents the error in the model

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

The purpose of the research was to examine the the influence of corporate governance in financial performance of law firms in Nairobi city county. This chapter gives the results gained from the study an analyzed in line with the guiding objective. It further outlines data analysis, presentation and interpretation of the results.

4.2 Response Rate

The researcher distributed 77 questionnaires out of which 69 questionnaires were answered to the researchers' expectations and returned. Out of the remaining 8, 3 respondents did not return the questionnaires while 5 respondents were rejected as they did not answer the questions to the expectations of the researcher. Therefore, the data analysis is based on 69 respondents. This translates the response rate to 89.61% which is within the prescribed response rate according to Mugenda and Mugenda (2003).

Table 4.2: Response Rate

No. of questionnaires Returned	Target No. of respondents	Response Rate (%)
69	77	89.61%

Source: (Researcher, 2022)

4.3. General Information

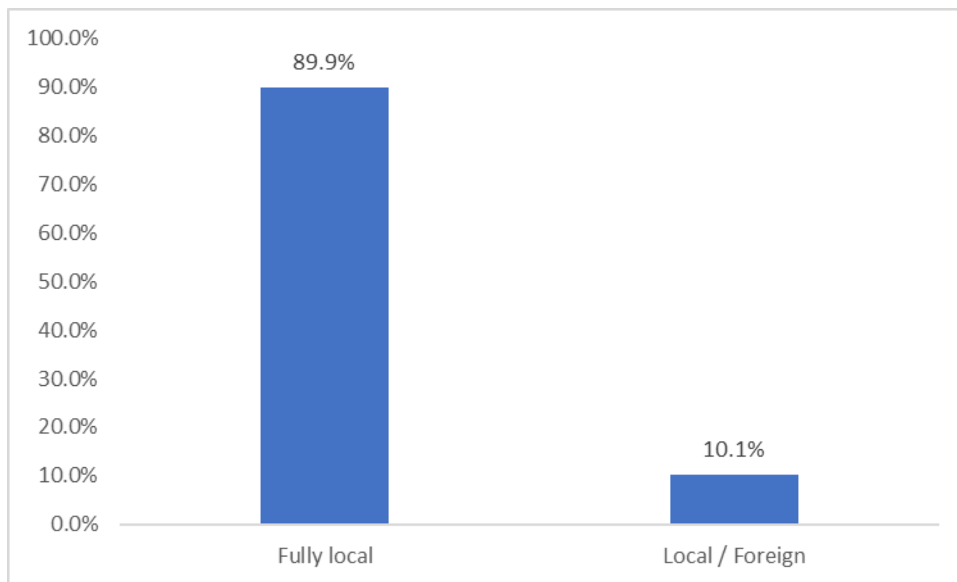
It is crucial to determine the general information of the respondents' legal firms in order to get the credibility of the information sourced. In this study this was done by analyzing such variables

as law firm legal formation, law firm's ownership as well as the years that law firms have operated in Kenya

4.3.1 Law Firms Ownership

The researcher was interested in establishing the law firm's ownership. Figure 4.2 shows the study findings

Figure 4.2: Law Firms Ownership



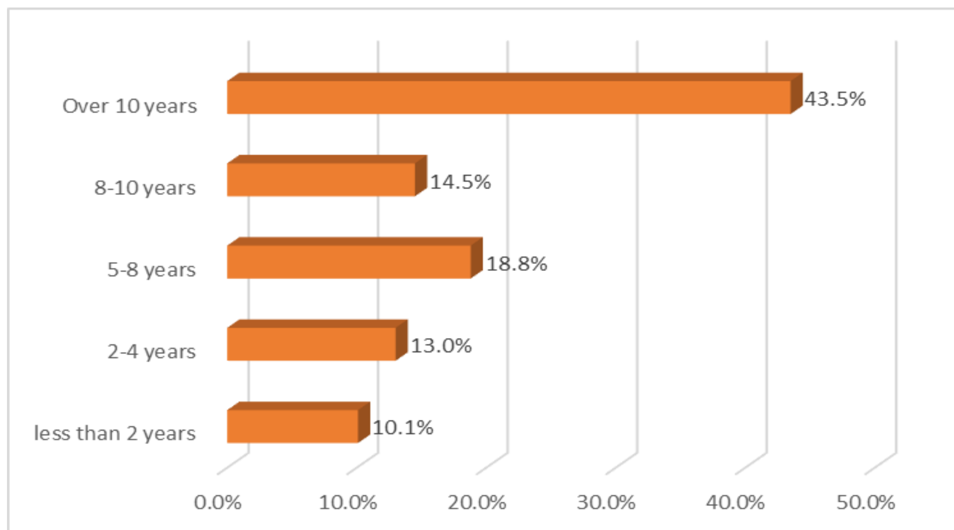
Source: (Researcher, 2022)

The results show that 89.9% of the companies were locally owned while 10.1% were locally / foreign owned. This implies that bulk of law firms in Kenya are locally owned.

4.3.2 Years Law firms have been in Operation

The study sought to establish the year's law firms have been in operation. Figure 4.3 presents results findings

Figure 4.3: Years Law firms have been in Operation



Source: (Researcher, 2022)

As per figure 4.3 above, most of the respondents as indicated by 43.5% opined that their firm has been operating for over 10 years, 18.8% indicated 5-8 years, 14.5% indicated 8-10 years, 13% indicated 2-4 years while 10.1% indicated less than 2 years. This is an indication that most of the law firms in Nairobi city county Kenya have been in operation for a long period of over 10 years and thus higher chances of obtaining reliable data with regards to the influence of corporate governance in financial performance of law firms in Nairobi city county

4.3.3 Law Firms legal formation

The legal formation of the respondents' law firms was sought. The study findings are as presented in Table 4.3

Table 4.3: SME legal formation

	Frequency	Percent
Sole proprietorship	6	12.2

Partnership	13	26.5
Limited company	30	61.2
Total	**49**	**100.0**

Source: (Researcher, 2022)

Based on the study findings, the majority of the law firms in Kenya were limited company 44(63.8%) and partnership was 17(24.6%). The law firms which were sole proprietorship were only 8(11.6%). This is an indication that most of law firms in Kenya were limited company

4.4 Corporate Governance

4.4.1 Board Size

The study sought to establish the extent of agreement with various statements on the impact of Board Size on financial performance of law firms in Nairobi city county. The status of this variable was rated on a 5 point Likert scale ranging from; where: 1= very small extent, 2=small extent, 3= medium extent, 4= large extent and 5=very large extent. The study findings are depicted in Table 4.4.

Table 4.4: Board Size

	N	**Mean**	**Std. Deviation**
Cost-effective and efficient, lean board size is the best option.	69	4.33	0.78
The agency issue is eliminated when the board size is small enough.	69	4.48	0.58
Larger boards are better able to keep tabs on their	69	3.87	1.36

company's performance.			
Larger boards outperform smaller ones in terms of effectiveness.	69	4.03	1.04
Control over a company's direction is much easier with a smaller board.	69	4.32	0.72

Source: (Researcher, 2022)

Based on the study findings, majority of the respondents indicated to a very large extent that the agency issue is eliminated when the board size is small enough (mean=4.48; SD=0.58), cost-effective and efficient, lean board size is the best option (mean=4.33; SD=0.78), control over a company's direction is much easier with a smaller board (mean=4.32; SD=0.72) and that larger boards outperform smaller ones in terms of effectiveness (mean=4.03; SD=1.04). In addition, respondents agreed to a large extent that larger boards are better able to keep tabs on their company's performance (mean=3.87; SD=1.36). This is an implication that agency issue is eliminated when the board size is small enough, cost-effective and efficient, lean board size is the best option, control over a company's direction is much easier with a smaller board and that larger boards outperform smaller ones in terms of effectiveness

4.4.2 Board of Directors' Composition

It was the interest of the researcher to establish the extent of agreement with various statements on the impact of Board of Directors' Composition on financial performance of law firms in Nairobi city county. The status of this variable was rated on a 5 point Likert scale ranging from; where: 1= very small extent, 2=small extent, 3= medium extent, 4= large extent and 5=very large extent. The study findings are depicted in Table 4.5.

Table 4.5: Board of Directors' Composition

	N	Mean	Std. Deviation
Board members are adequately represented by non-executive directors.	69	4.16	0.88
The board's networking prowess has helped to strengthen the company's ties with other organizations.	69	4.32	0.76
Corporate executives have the appropriate qualifications to carry out their responsibilities.	69	4.38	0.64
A wide range of expertise is represented among the board's directors, including finance, accounting, management, strategic planning, and administration.	69	3.93	0.67
There is a wide range of experience among the directors, ranging from ethnic to professional to civil	69	3.43	1.29

Source: (Researcher, 2022)

As per the study findings, majority of the respondents indicated to a very large extent that corporate executives have the appropriate qualifications to carry out their responsibilities (mean=4.38; SD=0.64), the board's networking prowess has helped to strengthen the company's ties with other organizations (mean=4.32; SD=0.76) and that board members are adequately represented by non-executive directors (mean=4.16; SD=0.88). In addition, respondents indicated to a large extent that wide range of expertise is represented among the board's directors, including finance, accounting, management, strategic planning, and administration (mean=3.93; SD=0.67) and that there is a wide range of experience among the directors, ranging from ethnic to professional to civil (mean=3.43; SD=1.29). This implies that corporate executives have the appropriate qualifications to carry out their responsibilities, the board's networking prowess has

helped to strengthen the company's ties with other organizations and that board members are adequately represented by non-executive directors.

4.4.3 Board audit committees

Respondents were asked to indicate the extent of agreement with various statements on the impact of Board audit committees on financial performance of law firms in Nairobi city county. The status of this variable was rated on a 5 point Likert scale ranging from; where: 1= very small extent, 2=small extent, 3= medium extent, 4= large extent and 5=very large extent. The study findings are depicted in Table 4.6.

Table 4.6: Board audit committees

	N	Mean	Std. Deviation
member(s) of audit board committee are professionally qualified accountants	69	4.04	1.12
The audit board committee have an audit committee charter (terms of reference)	69	4.30	0.86
The audit board committee composed entirely of non executive directors	69	4.20	1.04
Frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports	69	4.09	1.01
strong audit committee would assist the firms to achieve better performance	69	4.30	0.77

Source: (Researcher, 2022)

As per the study findings, majority of the respondents indicated to a very large extent that the audit board committee have an audit committee charter (terms of reference) (mean=4.30; SD=0.86) strong audit committee would assist the firms to achieve better performance (mean=4.30; SD=0.77), the audit board committee composed entirely of non executive directors (mean=4.20; SD=1.04), frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports (mean=4.09; SD=1.01) and that member(s) of audit board committee are professionally qualified accountants (mean=4.04; SD=1.12). This implies that the audit board committee have an audit committee charter (terms of reference) strong audit committee would assist the firms to achieve better performance, the audit board committee composed entirely of non-executive directors, frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports and that member(s) of audit board committee are professionally qualified accountants

4.4.4 Board independence

The study sought to indicate the extent of agreement with various statements on the impact of Board independence on financial performance of law firms in Nairobi city county. The status of this variable was rated on a 5 point Likert scale ranging from; The status of this variable was rated on a 5 point Likert scale ranging from; where: 1= very small extent, 2=small extent, 3= medium extent, 4= large extent and 5=very large extent. The study findings are depicted in Table 4.6.

Table 4.7: Board independence

	N	Mean	Std. Deviation

On behalf of our shareholders, our Board oversees and protects the interests of the company's management.	69	4.33	0.85
Controlling the manager's choices is an important role of non-executive directors (NEDs).	69	4.49	0.68
Non-executive directors broaden the range of experience and expertise available to board members.	69	4.25	0.69
Financially, non-executive directors are not affiliated with the company's management.	69	4.20	0.72

Source: (Researcher, 2022)

According to the study findings, majority of the respondents indicated to a very large extent that Controlling the manager's choices is an important role of non-executive directors (NEDs) (mean=4.49; SD=0.68), on behalf of our shareholders, their Board oversees and protects the interests of the company's management (mean=4.33; SD=0.85), non-executive directors broaden the range of experience and expertise available to board members (mean=4.25; SD=0.69) and that financially, non-executive directors are not affiliated with the company's management (mean=4.20; SD=0.72). This portrays that controlling the manager's choices is an important role of non-executive directors (NEDs), on behalf of our shareholders, their Board oversees and protects the interests of the company's management, non-executive directors broaden the range of experience and expertise available to board members and that financially, non-executive directors are not affiliated with the company's management

4.5 Financial Performance

Respondents were asked to indicate the extent of agreement with various statements on financial performance of law firms in Nairobi City County. The status of this variable was rated on a 5 point Likert scale ranging from; The status of this variable was rated on a 5 point Likert scale ranging from; where: 1= very small extent, 2=small extent, 3= medium extent, 4= large extent and 5=very large extent. The study findings are depicted in Table 4.8.

Table 4.8: Financial Performance

	N	Mean	Std. Deviation
In the previous five years, your company has seen a significant increase in ROA.	69	3.62	1.58
Your company's return on assets (ROA) is higher than the industry standard.	69	3.91	0.98
In the previous five years, your company's ROE has improved significantly.	69	4.39	0.77
Tobin's q has improved significantly in your company over the previous three years.	69	4.04	0.78
In the previous three years, your company has increased its asset use.	69	4.03	0.69
In the previous three years, your company's cost structure has improved.	69	3.35	1.25

Source: (Researcher, 2022)

As per the study findings, majority of the respondents indicated to a very large extent that in the previous five years, their company's ROE has improved significantly (mean=4.39; SD=0.77), Tobin's q has improved significantly in their company over the previous three years (mean=4.04; SD=0.78) and that in the previous three years, their company has increased its asset use (mean=4.03; SD=0.69). In addition, respondents indicated in a very large extent that their company's return on assets (ROA) is higher than the industry standard (mean=3.91; SD=0.98), in the previous five years, their company has seen a significant increase in ROA (mean=3.62; SD=1.58), in the previous three years, their company's cost structure has improved (mean=3.35; SD=1.25). This implies that in the previous five years, Law firms ROE has improved significantly, Tobin's q has improved significantly in Law firms over the previous three years and that in the previous three years, Law firms has increased its asset use

4.6 Regression Analysis

A multiple regression analysis was performed to test the association among predictor variables.

Table 4.9: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	0.889[a]	0.790	0.753	0.896

Adjusted R squared can be attributed to independent variable changes which cause the variance in the dependent variable. From the table above, the R squared value was 0.79, which implied 79% variation on financial performance of law firms in Nairobi City County due to changes in Board size, Board of directors' composition, Board audit committees, and board independence at 95% confidence interval. This indicates that 79% of financial performance of law firms in Nairobi City County, can be attributed to the foregoing variables. The study findings show a strong positive association among the study variables at an R value of 0.889.

Table 4.10: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.84	4	19.460	21.015	0.00000
	Residual	59.26	64	0.926		
	Total	137.104	68			

a. Predictors: Board size, Board of directors’ composition, Board audit committees, and board independence

b. Dependent Variable: Financial performance of law firms in Nairobi City County

The ANOVA statistics in the table above show a significance level of 0.00000 which indicates that the model and the data thereof can be relied upon to make conclusive inferences. The critical value (2.45 from F-table) was less than the F calculated (21.015) which is an indication that the foregoing independent variables were significantly influencing financial performance of law firms in Nairobi City County.

Table 4.11: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.936	0.765		5.145	0.0000
Board size	0.741	0.236	0.646	3.140	0.0032
Board of directors’ composition	0.667	0.215	0.526	3.102	0.0035
Board audit committees	0.737	0.123	0.645	5.992	0.0000

Board independence	0.549	0.2654	0.442	2.069	0.0452

The overall regression model was:

$Y = 3.936 + 0.741X_1 + 0.667X_2 + 0.737X_3 + 0.549X_4$

Board size has a positive influence on financial performance of law firms in Nairobi City County. It indicates that any unit increase in the board size will cause financial performance of law firms in Nairobi City County to increase by 0.741. Increase in board of directors' composition was confirmed to cause an increase in the financial performance of law firms in Nairobi City County due to the positive effect by 0.667. Board audit committees showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County by 0.737 as a result of a unit increase. In addition, board independence showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County by 0.549 as a result of a unit increase. The significance values indicate that all the independent variables were significant as they all had a significance level of less than 0.05. The highly significant variable was board audit committees followed by board size

4.7 Discussion of Research findings

The study established that board size has a positive influence on financial performance of law firms in Nairobi City County. In line with the study findings, Sanda et al. (2011), they claim that a bigger board is more successful in its role as a watchdog of the management. Board size Yermack, (1996) advised for a board of 8-10 is often recommended whereas Sanda, (2005) is consistent with the advice of a corporate board size of ten. In principle, the size of the board is a

corporate governance feature that protects the interests of the company's shareholders. Monitor, reprimand, and eliminate incompetent management teams are its primary responsibilities.

The study established that increase in board of directors' composition was confirmed to cause an increase in the financial performance of law firms in Nairobi City County due to the positive effect. Similar to the study findings, Dean and Sharfman (2016) opined that the membership of the board of directors is crucial to the formation of strategy. The boards of directors are in charge of determining the company's course in relation to achieving certain objectives. This approach is vital to law firms because it offers a framework for achieving expected objectives. The primary responsibility of the boards is to keep a close eye on the process of formulating and implementing company strategy, which is of great importance to shareholders. The process of developing a strategy necessitates that law firms examine the current environment and plan for any upcoming changes (Stahl and Grigsby, 2012). Having a diverse board of directors also makes it easier for legal firms to do thorough resource assessments, distribute money wisely, and devise strategies for optimizing return on investment. The board of directors plays a significant role in strengthening the connection between a business and its environment since they determine the strategic choices, whether formally or informally. If done correctly, board composition gives businesses the ability to cope with threats to their very existence

The study revealed that board audit committees showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County. In tandem with the study findings, Carcello & Neal, (2011) opined that the function of the audit committee has been questioned recently. Audit committee membership eligibility criteria, as well as the amount of information that must be

made public about audit committee activities, have risen as a result. The importance of having a well-functioning audit committee in corporations has been highlighted by high-profile scams. The audit committee's independence, size, and frequency of meetings all have a role in its credibility and the accuracy of its financial reporting (Aggarwal, 2013).

The study revealed that board independence showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County. Similar to the study findings, Aggarwal (2013) opined that the company's board of directors is an important source of information for the company's management. Additionally, they are obligated to protect the interests of the whole business and its stakeholders. Most independent directors aren't afraid of the CEO in most circumstances. To further limit the amount of perquisites used by managers, they may also have a favorable impact on directors' choices and discussions. Additional decision-making space is provided by the inclusion of independent directors on board of directors (Fama & Jensen, 1983).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This part illustrates the overview, inferences as well as recommendations of the study. The main aim of this project was to evaluate the influence of corporate governance on finance performance of Law Firms in Nairobi City County.

5.2 Summary of the Study

The study established that agency issue is eliminated when the board size is small enough, cost-effective and efficient, lean board size is the best option, control over a company's direction is much easier with a smaller board and that larger boards outperform smaller ones in terms of effectiveness. In addition, the study revealed that corporate executives have the appropriate qualifications to carry out their responsibilities, the board's networking prowess has helped to strengthen the company's ties with other organizations and that board members are adequately represented by non-executive directors.

Further, the study established that the audit board committee have an audit committee charter (terms of reference) strong audit committee would assist the firms to achieve better performance, the audit board committee composed entirely of non-executive directors, frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports and that member(s) of audit board committee are professionally qualified accountants

Also, the study revealed that controlling the manager's choices is an important role of non-executive directors (NEDs), on behalf of our shareholders, their Board oversees and protects the

interests of the company's management, non-executive directors broaden the range of experience and expertise available to board members and that financially, non-executive directors are not affiliated with the company's management. Moreover, the study revealed that that in the previous five years, Law firms ROE has improved significantly, Tobin's q has improved significantly in Law firms over the previous three years and that in the previous three years, Law firms has increased its asset use

5.3 Conclusion

The study concludes that agency issue is eliminated when the board size is small enough, cost-effective and efficient, lean board size is the best option, control over a company's direction is much easier with a smaller board and that larger boards outperform smaller ones in terms of effectiveness. In addition, the study concludes that corporate executives have the appropriate qualifications to carry out their responsibilities, the board's networking prowess has helped to strengthen the company's ties with other organizations and that board members are adequately represented by non-executive directors.

Further, the study concludes that the audit board committee have an audit committee charter (terms of reference) strong audit committee would assist the firms to achieve better performance, the audit board committee composed entirely of non-executive directors, frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports and that member(s) of audit board committee are professionally qualified accountants

Also, the study concludes that controlling the manager's choices is an important role of non-executive directors (NEDs), on behalf of our shareholders, their Board oversees and protects the interests of the company's management, non-executive directors broaden the range of experience

and expertise available to board members and that financially, non-executive directors are not affiliated with the company's management. Moreover, the study concludes that that in the previous five years, Law firms ROE has improved significantly, Tobin's q has improved significantly in Law firms over the previous three years and that in the previous three years, Law firms has increased its asset use

Board size has a positive influence on financial performance of law firms in Nairobi City County. It indicates that any unit increase in the board size will cause financial performance of law firms in Nairobi City County to increase by 0.741. Increase in board of directors' composition was confirmed to cause an increase in the financial performance of law firms in Nairobi City County due to the positive effect by 0.667. Board audit committees showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County by 0.737 as a result of a unit increase. In addition, board independence showed a positive impact on financial performance of law firms in Nairobi City County which means that it increases financial performance of law firms in Nairobi City County by 0.549 as a result of a unit increase. The significance values indicate that all the independent variables were significant as they all had a significance level of less than 0.05. The highly significant variable was board audit committees followed by board size

5.4 Recommendations

Given that there is increasing complexity of business today, there is need for financial reports to include a more comprehensive corporate governance statement as investors rely on information they receive from companies in making their investment decisions. Failure of corporate governance practices have intensified incidences where management manipulates financial

reports for different purposes and thus making it difficult for shareholders to build confidence in them.

The study proposes that board size, board independence appears to have a positive effect on the firm performance. Hence, this study recommends that shareholders should promote board size and board independence so as to increase or improve the firm performance. This means that commercial banks should broaden the size of the board and also maintain or increase the number of outside directors.

The study recommends that the management of law firms should seek to ensure greater diversity of non-executive board members and continuous supervision of executive board members to reduce the risk of the company through rigorous checks and balances.

5.5 Limitations of the Study

Non-commitment of some respondents to offer required information due to distress of fault finding gave rise to delays. The researcher booked advanced appointments and pledges of commitment were made on policy of confidentiality of responses in order to address these concerns.

Some respondents were reluctant to provide information that they viewed as confidential to the company. Respondents were also reluctant to offer information for fear that the information would be used against them. Further, most of the targeted respondents had very busy schedules making it hard to fill in the feedback forms within the stipulated time. The stringent policies of the firms also lengthened the process due to many bureaucratic processes involved. The researcher handled the problem by carrying an introductory letter from the university

The study's limitations included the limited time set aside for the research and the scope. This limitation was overcome by starting the research early in the period set aside. This ensured the maximum amount of time possible was spent in the research and last minute rush was avoided.

5.6 Suggestion for Further Research

It will be necessary to conduct another study by drawing attention to other industries instead of law firms so as to represent useful and reliable information which depicts actual events throughout all economic sectors

It will be necessary to conduct another study covering a wider sample and geographical area. Additionally, the study should employ a comparative analysis approach on law firms across the 47 counties.

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondent,

<u>**REF: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH PROPOSAL**</u>

My name is Victor Okonda Akanga and I am a student at the University of Nairobi, where I am pursuing an MBA. I must do a research project as part of my MBA degree requirements. Aside

from that, I'm working on my "impact of corporate governance on the financial performance of legal businesses in Nairobi County" research project simultaneously. You've been chosen to participate in the research because your business is in the study's focal region. Please fill out the questionnaire attached to this letter if you have the necessary information. You can be certain that any information you share with us will be kept private. It means a lot to me that you took part.

Thank you for your kind words.

Yours sincerely,

Victor Okonda Akanga

Appendix II: Research Questionnaire

Only academic data will be gathered from this questionnaire. Confidentiality is guaranteed for all information provided. If you can, please answer all of the questions in the area given.

SECTION A: BACKGROUND INFORMATION

1. Name of the organization (optional)

…………………………………………………

2. Please indicate the law firm's Ownership

Fully local [ ]

Local / Foreign [ ]

3. How long has your law been in operation?

a) Less than 2 years [ ]

b) 2–4 years [ ]

c) 5-8 years [ ]

d) 8-10 years [ ]

e) More than 10 years [ ]

4. Please indicate your law firm legal formation

a) Sole proprietorship [ ]

b) Partnership [ ]

c) Limited company [ ]

SECTION B: Extent of adoption of corporate governance practices

5. Law firms' financial performance may be improved by using the following corporate governance measures. What steps has your company taken to implement the following Best Practices? Please provide examples. 1–5 on a scale of 1–5. (where: 1- to a very small extent, 2-

to a small extent, 3- to a medium extent, 4- to a large extent and 5- to a very large extent). When it's suitable, tick the box.

Statements	1	2	3	4	5
Board size					
Cost-effective and efficient, lean board size is the best option.					
The agency issue is eliminated when the board size is small enough.					
Larger boards are better able to keep tabs on their company's performance.					
Larger boards outperform smaller ones in terms of effectiveness.					
Control over a company's direction is much easier with a smaller board.					
Board Composition					
Board members are adequately represented by non-executive directors.					
The board's networking prowess has helped to strengthen the company's ties with other organizations.					
Corporate executives have the appropriate qualifications to carry out their responsibilities.					
A wide range of expertise is represented among the board's directors, including finance, accounting, management,					

strategic planning, and administration.					
There is a wide range of experience among the directors, ranging from ethnic to professional to civil					
Board Audit Committees					
member(s) of audit board committee are professionally qualified accountants					
The audit board committee have an audit committee charter (terms of reference)					
The audit board committee composed entirely of non executive directors					
Frequent meetings, independence and numbers of members of audit committee can ensure credibility and quality of financial reports					
strong audit committee would assist the firms to achieve better performance					
Board independence					
On behalf of our shareholders, our Board oversees and protects the interests of the company's management.					
Controlling the manager's choices is an important role of non-executive directors (NEDs).					
Non-executive directors broaden the range of experience and expertise available to board members.					
Financially, non-executive directors are not affiliated with					

the company's management.					

SECTION C: Financial performance outcomes

6. What are your thoughts on the following performance indicators at your company? 1 strongly agree, 2 agree, 3 neutral, 4 disagree and 5 strongly disagree

Statements	**1**	**2**	**3**	**4**	**5**
In the previous five years, your company has seen a significant increase in ROA.					
Your company's return on assets (ROA) is higher than the industry standard.					
In the previous five years, your company's ROE has improved significantly.					
Tobin's q has improved significantly in your company over the previous three years.					
In the previous three years, your company has increased its asset use.					
In the previous three years, your company's cost structure has improved.					