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Corporate Governance And Growth Of Companies In The Capital Markets In Kenya

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Abstract:
Background: *Growth of companies is undoubtedly fundamental in scaling up business performance and shaping a company's future trajectory, essentially enabling entities to become going concerns. Company growth is crucial in accelerating efforts towards improving customer satisfaction and preference for a company's products and services, ultimately influencing business operability and profitability and broader economic growth. However, companies in the capital markets are not experiencing growth as desired. Thus, the need for growth has led firms to explore and adopt emerging global trends and strategies, to support seamless business operations. As capital markets are increasingly becoming more competitive and dynamic, this has compelled companies to push for rapid diversification and adoption of sustainable-led finance models including sound corporate governance practices, given the increased global focus on high-ESG practices. The study aimed to examine the influence of corporate governance on growth of companies in the capital markets in Kenya. The study was anchored on the agency theory.*
Material and Methods: *The study adopted the descriptive research design. The study utilized content analysis and self-administered semi-structured questionnaires for data collection. The census survey was used, where a total population of 48 companies in Kenya's capital markets was sought. Descriptive statistics and inferential statistics were applied. The descriptive statistical tools included frequency, mean and standard deviation whilst the inferential statistics tools included Regression Analysis and Pearson Moment Correlation (PMC). Hypothesis testing was undertaken on the null hypothesis H_o: Corporate governance does not influence growth of companies in the capital markets in Kenya. The researcher collected primary as well as secondary data wherein Capital Markets Authority's Annual Corporate Governance reports for issuers of securities to the public were assessed for the five years of study from 2018-2022. The data collection sheet was utilized to collect secondary data.*
Result: *The study found that Corporate Governance had significant influence on Growth of companies. The results of the multiple regression analysis showed that corporate governance has a positive significant impact on growth of companies in the capital markets in Kenya.*
Conclusion: *The study recommends for greater integration of corporate governance practices in company operations. Whole of government holistic policy considerations need to be drawn to support implementation and entrenching of sound governance practices in business. Research has shown that companies with strong corporate governance practices tend to perform better financially over the long term.*
Key words: *Corporate Governance, ESG, Capital Markets*

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I. Introduction

Growth of companies is a critical component of business performance as investors consider growth an important parameter in determining a company's potential and long-term value proposition, effectively informing an investor's investment-decision. Frešer et al., (2020) suggests that company growth characterizes expansion opportunities, financial resources availability and appropriate motivation, necessary in driving the proper functioning of the business. Growth of companies is imperative as it supports the realization of a company's objectives including increased market share, expansion opportunities and is also fundamental for transformative economic development. Given that markets are increasingly becoming dynamic and competitive, the rapid change is pushing companies to not only strive for success but to also identify mechanisms to sustain their businesses well into the future (Busch, 2021; (Morgan et al., 2020). Thus, in order to support company growth and with

investors increasingly demonstrating preference for entities that align to sustainable finance initiatives, the integration of ESG tenets in business remains central.

Uncertainties and emerging risks such as pandemics are increasingly affecting the business environment actuating the need for better sustainable finance models. Sustainable finance is about integrating environmental, social aspects and corporate governance considerations into financial decision-making while executing various business strategies (Silvola & Landau, 2021). Particularly, corporate governance articulates the decision-making systems and structure through which owners directly or indirectly control a company and brings real benefits to companies whilst laying down a clear framework for defining and achieving set corporate objectives. With the growing calls for companies to align to sustainability frameworks, the capital markets have an important role to play in enabling the operability of the Corporate Governance Code.

Corporate Governance and Growth of Companies in the Capital Markets in Kenya

Corporate governance is undoubtedly a key area of focus and an important tool in driving sustainable finance (IOSCO, 2020). Corporate governance articulates the decision-making systems and structure through which owners directly or indirectly control a company and brings real benefits to companies whilst laying down a clear framework for defining and achieving set corporate objectives (Baker & Anderson, 2010). This is essential in ensuring continuous, verifiable, and transparent ESG reporting and disclosure, buttressing the very significant role of corporate governance and its strong linkage to sustainable finance and company growth (Raval, 2020). As sustainable finance is hinged on long-term value creation and stability of companies, greater emphasis on board adoption of ESG lenses is considered critical in guiding performance ultimately promoting sustainable practices (Emeagwali, 2017). Larcker et al. (2007) found that major financial and corporate scandals are linked to severe shortcomings in corporate governance, and this also hampers the entities' ability to be going concerns.

Epstein and Rejc (2014) contend that sustainable finance is anchored on ESG factors which are rapidly becoming a part of mainstream finance. It is therefore imperative for companies to strive towards achieving excellence in environmental, social, and **governance** priorities in addition to the traditional financial performance. The emergence of key new trends and risks in the financial services industry together with new business models, investment strategies and innovation, activities aimed at entrenching sustainability are increasingly being considered critical in business operations. With the global conversations and efforts around the need to transition to sustainable economies taking centre stage, companies are expected to adopt sustainable led finance models such as sound corporate governance practices.

Problem of the Study

Growth of companies in the capital markets is an important aspect as it is pivotal in supporting businesses to remain going concerns, enables provision of long-term financing, entrenches financial deepening, and contributes to broader economic development and growth whilst enhancing business continuity, longevity, and resiliency (Migliorelli, 2021; Claringbould *et al*., 2019). However, companies in the capital markets are not experiencing growth as desired (Baret *et al*., 2020). Kenya's capital market has expanded slowly with some listed companies reporting losses or issuing profit warnings (CMA, 2018). In the financial year 2016/ 2017, 20 listed companies reported losses and 14 issued profit warnings. In the fourth quarter of 2021, NSE listed companies experienced a decrease in market capitalization compared to the third quarter of 2021, recording a decline from KShs. 2,778.65 billion to KShs. 2,592.92 billion (CMA, 2021). The market capitalization dropped further to KShs. 2425.53 billion in the first quarter of 2022 (CMA, 2022). Accordingly, the failure to solidify a company's growth trajectory could have far-reaching adverse negative effects including significant financial loss and even liquidation. Therefore, companies are continuously exploring new ways for improvement and growth, acknowledging the need to align to and adopt global practices and trends shaping the capital markets for business survival and growth. Part of the growth strategies being employed include embracing sustainable finance initiatives, specifically Environmental, Social and Corporate Governance aligned actions (Schoenmaker, 2017), an important strategy for supporting growth of companies and considered a high priority given the increasing pool of investors committed to sustainable growth while taking keen interest in the companies' ESG actions (European Commission, 2018). In recent years, Corporate Governance has emerged as a key area of focus as investors demonstrate an increased desire to invest in companies that align to global sustainable practices and values. Notably, there are limited sources of information and empirical evidence around corporate governance and growth of companies in Kenya's capital markets. Most of the studies previously undertaken in this area majorly concentrated in other sectors besides capital markets, creating a study gap. Therefore, in order to appreciate the specific corporate governance practices influencing growth of companies, this study contributes to the knowledge on how companies in Kenya undertake governance practices. This study provides a new dimension in understanding the focus topic hence its significance.

Objective of the Study
To examine the influence of corporate governance and growth of companies in the capital markets in Kenya

Research Hypothesis
H_0: Corporate governance do not influence growth of companies in the capital markets in Kenya.

Significance of the Study
The study is also a call to action for companies to integrate corporate governance practices in business. ESG has emerged as a key area of focus imprinting the very significant role of corporate governance not only in accelerating FDIs but growing the country's GDP as well (Epstein & Buhovac, 2014; Gomes *et al*., 2014). Notably, the capital markets industry has made significant progress in entrenching ESG tenets in decision making and this has been exemplified through adoption of CMA's Code of corporate governance for Issuers of securities to the public and Stewardship code for institutional investors. The study has built on existing efforts and provided deeper perspective for consideration by all companies effectively enhancing sustainability.

II. Literature Review

Agency Theory
Drawing from the agency theory as exposited by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976), this conjecture presupposes that given the chance, managers could behave in a self-interested manner, a behaviour that may conflict with the principal's interest (Chrisman *et al.,* 2007; Eisenhardt, 1989; Jensen and Meckling, 1976; Wiseman, Cuevas-Rodríguez, and Gómez-Mejía, 2012). The theory postulates that managers can misappropriate or misreport on funds meant to support ESG actions thereby impeding attainment of ESG goals, specifically corporate governance. This position is empirically supported by Panda & Leepsa (2017) who find an overall negative net effect of internal control weaknesses on (ESG) disclosure performance thereby impeding sustainable finance. Daily *et al.,* (2003) argued that two factors can influence the prominence of agency theory; first, that the theory is a conceptually simple theory that reduces the corporation to two key participants. Namely: managers and shareholders. Second, agency theory suggests that employees or managers in organizations can be self-interested.

In agency theory, shareholders expect the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interest of the principals (Padilla, 2002). Such a problem was first highlighted by Adam Smith in the 18th century and subsequently explored by Ross (1973). The first detailed description of agency theory was presented by Jensen and Meckling (1976). Indeed, the notion of problems arising from the separation of ownership and control in agency theory has been confirmed by Davis, Schoorman and Donaldson (1997). The theory suggests that given the chance, agents will behave in a self-interested manner, a behaviour that may conflict with the principal's interest (Chrisman *et al*., 2007; Eisenhardt, 1989; Jensen and Meckling, 1976; Wiseman, Cuevas-Rodríguez, and Gómez-Mejía, 2012). As such, principals will enact structural mechanisms that monitor the agent in order to curb the opportunistic behaviour and better align with the parties' interests.

Ross (1973) and Mitnick (1975), shaped the theory of agency and came up with two different approaches in their respective works. Ross regarded the agency problem as the problem of incentives, while Mitnick considered the problem occurs due to the institutional structure, but the central idea behind their theories is similar. Ross identified the principal- agent problem as the consequence of the compensation decision and opined that the problem does not confine only in the firm, rather it prevails in the society as well. The institutional approach of Mitnick helped in developing the logics of the core agency theory and it was possibly designed to understand the behaviour of the real world, propagating that, institutions are built around agency.

Eisenhardt (1989) categorised the agency theory into two models such as the positivist agency model and principal–agent model (Harris & Raviv, 1978). Both of these models are based upon the contractual relationship between the principal and agent but principal–agent model is more mathematical. Principal–agent model explains that principals are risk-neutral and profit seekers, while agents are risk averse and rent seekers. Positive agency theory explains the causes of agency problem and the cost involved in it. This theory proposes two propositions. First proposition explains that if the outcome of the contract is incentive based, then the agents act in the favour of principal. Second, if the principal is having information about the agents, then the action of the agents will be disciplined (Panda, 2018).

The theory has relevance and application to this study as it suggests that the principal has two options for reducing agency problems (Eisenhardt, 1989), both of which can curb the agent's opportunistic behaviour. The first is to create a governance structure that enables the monitoring and assessment of the actual behaviour of the agent through entrenching corporate governance standards (Anderson and Reeb, 2004; Chrisman *et al.,* 2007). This structure includes for example, reporting procedures, additional management, or a board of directors (Donaldson and Davis, 1991). The second is to create a governance structure where the contract is based on the

actual outcome of the agent's behaviour (Eisenhardt, 1989). An example of this type of structural mechanism is compensation incentive pay (Chrisman *et al.,* 2007), where pay is provided as an incentive for high performance. Risk is thus shifted to the agent, creating the motivation for the agent's behaviour to align with the principal's interest (Davis *et al.,* 1997; Eisenhardt, 1989). In essence, the principal makes a choice between establishing governance structures based on the agent's actual behaviour or the outcomes of that behaviour (Eisenhardt, 1989). Importantly, considering the numerous benefits brought about by inculcating good corporate governance practices such as protection of shareholder interests, independent board from management and proper financial reporting among others, it is undoubtedly critical to embed strong corporate governance structures and systems in order to help bolster business efficiency, effectiveness and sustainability.

Perrow (1986) critiqued that positivist agency researchers have only concentrated on the agent side of the 'principal and agent problem' and opined that the problem may also happen from the principal side. He observed that this theory is unconcerned about the principals, who deceive and exploit the agents. Furthermore, he added that the agents are unknowingly dragged into work with the perilous working environment and without any scope for encroachment, where principals act as opportunistic. He believed in another way that humans are noble and work ethically for the betterment of the firm. This argument persisted in the finance literature and has become a prominent theory known as stewardship theory (Pouryousefi & Frooman, 2017).

Independent **Dependent**

Figure 2.1: Conceptual Framework (Author, 2023)

Corporate Governance and Growth of Companies Theoretical Review

A 2019 WEF report revealed that a solid corporate governance reporting architecture is a strong enabler to effectively managing ESG performance in companies (Tabassum & Singh, 2020). The Capital Market Authority's Code of corporate governance is anchored on seven key principles (CMA, 2020). Namely: Accountability, risk management and internal control; rights of shareholders; board operations & control; stakeholder relations; transparency and disclosure; ethics & social responsibility and commitment to good governance (CMA, 2020). The principles are fundamental in boosting investor confidence hence considered a source of global competitive advantage. Fernando (2006) averred that the benefits of good governance are numerous and include: protecting stakeholders, preventing malpractices, enhancing valuation of firms and ensuring compliance with laws and regulations among others. The CMA Code of corporate governance acknowledges the Board of directors as an important institution in entrenching good governance noting the significance of having competent and qualified members capable of exercising independent and objective judgement.

Tabassum and Singh (2020) investigated the impact of board structure, as component of the corporate governance, on the organisational performance. The variables that were explored by the researchers include board independence, board committees, the duality of the CEO, diversity of the board, and the independence of the audit committees; in terms of how they impact on the performance of organisations. Using secondary data obtained from the annual reports and the statutory returns of companies listed (2009-2011 (604 companies); 2013-2015 (576 companies)) at the Karachi Stock Exchange, Pakistan, the impact of the board structure on the organizational performance was analysed. In terms of the board independence, Tabassum and Singh (2020) found positive correlation between board independence and the Tobin's Q (TQ); however, there is no significant effect of board independence on the Return on Assets (ROA) and Return on Equity (ROE). Thus, board independence is directly and positively linked to the performance of companies. In terms of CEO duality, Tabassum and Singh (2020) found negative correlation with the TQ, ROA, and no significant relationship with the ROE. In addition. Board diversity positively correlates with the performance of firms across the TQ, ROA and ROE.

Arayssi *et al.,* (2020) studied the impact of the board composition on the ESG disclosure levels in the Gulf Cooperation Council countries. Using the data from the Thomson Reuter's database, Arayssi *et al.,* (2020) examined the ESG disclosure scores and information on governance for the publicly listed companies within the GCC countries, between 2008 and 2017. The results show that companies that have higher board independence, as well as more female board participation, there is facilitated transmission of the positive image of the firms through improved social responsibility. The independence of the boards facilitates effective balance between the financial targets of the firms and the social responsibilities. In terms of the ESG activities, the boards that are chaired by CEOs who are less supportive of executing social agenda and ESG, there are challenges associated with the growth of the companies.

Munir *et al.,* (2019) investigated the relationship between corporate governance, and the corporate sustainability on the financial performance of companies. A total of 425 companies with sustainability disclosure and were listed on the Australian Stock Exchange for the year 2014 were used in the study. The results indicate

that corporate governance had a positive link with the sustainability performance of the companies, which then contributes to improved financial performance of the firms. In addition, Munir *et al.,* (2019) showed that corporate sustainability performance is used as the mediation link between the financial performance of the firms and the corporate governance. Thus, it will be important to investigate the effect of the corporate governance with respect to the ESG, on the performance and growth of firms within the Kenya's capital markets.

To enhance corporate performance and in the spirit of good business practice aligned to global standards, the reviewed studies are relevant and applicable to this study as it indicates the need for companies to observe good governance practices. Further, it is desirable for companies to observe the minimum requirements enunciated in the code acknowledging that they have a duty of care to shareholders and as such can face legal liability for their acts of omission or commission that conflict with shareholder interests (CMA, 2021). As companies strive to achieve sustainable finance models, corporate governance is not only crucial in enhancing sound financial reporting, accountability, transparency, and disclosure but is important in enabling effective decision-making around sustainability standards and practices (Bryant & Davis, 2012). Better monitoring of ESG factors is therefore attributed to good governance in firms. Notably, the principles of corporate governance including components such as board composition, operations, and size together with the aspect on CEO duality could have a strong influence on sustainable finance (Aluchna & Idowu, 2017).

In order to enhance corporate performance and in the spirit of good business practice aligned to global standards, it is advisable for companies to observe good governance practices. Further, it is desirable for companies to observe the minimum requirements enunciated in the code acknowledging that they have a duty of care to shareholders and as such can face legal liability for their acts of omission or commission that are in conflict with shareholder interests (CMA, 2021). Importantly, considering the numerous benefits brought about by inculcating good corporate governance practices such as protection of shareholder interests, independent board from management and proper financial reporting among others, it is undoubtedly critical to embed strong corporate governance structures and systems in order to help bolster business efficiency, effectiveness, continuity, consistency, and sustainability.

In addition, Kawabata (2019) conducted an empirical analysis of the determinants of climate finance for the financial institutions, from the perspective of external pressures as well as the internal governance. The results showed that senior management engagements in issues climate finance and mobilisation of climate finance (financial investment) are the major initiatives. Moreover, Kawabata (2019) found that engagement of the senior management in the climate finance initiatives is important in providing guidance to the companies to mobilize and adopt climate finance. The findings by Kawabata (2019) shows that the independent variable, corporate governance is imperative in cementing sound governance and a company's long term value proposition necessary for growth.

Further, Growth of companies in the capital markets have been widely studied, with limited research focusing on the specific independent variable on corporate governance within Kenya's capital markets. In the study of the associations between the ESG criteria and the financial profile of companies within Brazil, India, South Africa and China, Garcia *et al.,* (2019) revealed that variables such as environmental, social and governance (ESG) performance, systematic risks and size of the firms have significant impact on the companies. For instance, investors should appreciate the impacts of the systematic risks' levels of firms such as those that arise from climate change; wherein the levels of risks determine the attention and actions of investors (Garcia *et al.,* 2019). Given that the growth of companies can be measured in terms of the adoption of the ESG, size, corporate governance, and financial performance (Bătae *et al.,* 2021; Dalal & Thaker, 2019), the finding by Garcia *et al.,* (2019) provides an insight into how the growth of companies is impacted by governance practices within the capital markets.

Whelan *et al.,* (2021) investigated the aspect of financial performance and the ESG, focusing on the return on investment and stock price, where the results indicated that 58% of the corporate studies showed a positive relationship. Through a meta-analysis of over 1000 studies, the researchers found that the growth of companies is positively impacted by the ESG, with the ESG investing returns indistinguishable from the returns of the conventional investments (Whelan *et al.,* 2021). In addition, the financial performance of the companies in the stock market were found to be positively impacted by the ESG factors including corporate governance over the long-term, and no positive impact on their growth in terms of financial performance over a short-term (Whelan *et al.,* 2021; Atz *et al.,* 2021). Moreover, Whelan *et al.,* (2021) found that firm performance and growth in any economy depends on the ESG integration, which is adopted as the strategy to inspire growth other than the negative screening approaches. The fact that majority of the studies, as provided by Whelan *et al.,* (2021) have focused on the material ESG issues; however, limited studies have investigated the ESG in the developing economies and capital markets such as the case of Kenya's Capital Markets.

III. Research Methodology

Cooper and Schindler (2008) aver that research design characterizes the best suitable framework of research techniques and methods that guide collection, measurement of the data and analysis. Descriptive research design was adopted in this study. Atmowardoyo (2018) describes descriptive research as the research method where an existing phenomenon is described as accurately as possible. The choice of descriptive research was informed by the availability of the subtypes of research methods such as qualitative and quantitative study, construct analysis (Atmowardoyo, 2018; Mittal, 2010; Vanderstoep & Johnson, 2008). The descriptive research design was therefore used to assess the influence of corporate governance on growth of companies in the capital markets in Kenya. Target population comprised 48 listed companies at the bourse (NSE).

Census survey characterizes a complete enumeration of every constituent or everything in a population under study (Tarozzi & Deaton, 2009). A population of 48 listed companies operating within the capital markets in Kenya was contextualized. The choice of census survey has been based on the supporting literature and the fact that the Capital Market Authority's 2020-21 State of Corporate Governance Report, comprised an assessment of 48 listed companies (CMA, 2020) informing the select target population. In this study, both primary and secondary data was collected from the listed companies. A self-administered semi-structured questionnaire was used. The respondents were required to fill in the questionnaire by themselves, and without any interviewer. The choice of questionnaire as the data collection tool was informed by its practical nature in collecting the data from the respondents, where the companies, from their diverse backgrounds and locations, was reached within a short time, and at comparatively low costs. Similarly, secondary data was collected from the CMA's Annual Corporate Governance reports between the period 2018-2022 using a data collection sheet. Reports were obtained from the CMA website.

The research instrument was tested for reliability using Cronbach Alpha statistic. The reliability of the instrument that was used in the study form the heart of the competence and effectiveness of the study (Thanasegaran, 2009). The overall Cronbach Alpha was 0.858 which was above 0.7. According to George and Mallery (as cited in Kimaku, Omwenga & Nzulwa, 2019) Cronbach Alpha above 0.7 is an indication that the collected data using the research tool is reliable. In terms of data analysis, the Statistical Package for Social Science (SPSS) was used as the software for the data analysis. Further, a multiple regression model was used to study the relationship between the independent variable and the growth of companies within the context of Kenya's capital markets. The researcher used descriptive statistics to explain the scores of data. Mean standard deviation and percentages were used to present the study findings.

Independence of Residuals - Durbin–Watson Statistic

Durbin-Watson statistic was used to test for the presence or otherwise of autocorrelation. When there is autocorrelation, this means that the regression underestimates the standard error of the coefficients, and the predictors can seem to be significant when in actual sense that is untrue. Data shows absence of first order autocorrelation if the Durbin-Watson values lies between 1.5 and 2.5. From table 4.16 below, the Durbin-Watson value was 2.270, implying no autocorrelation detected.

Table 3.1: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.833[a]	.693	.687	.33065	2.270

Heteroskedasticity Test

Homoscedasticity violations frequently result in confidence intervals that are either incredibly narrow or incredibly wide because they tend to prevent careful evaluation of forecast errors of standard deviation. The Breusch-Pagan test was used in this work to evaluate heteroscedasticity. The error variances were assumed to be equal and to be a multiple function of variables, which was the null hypothesis for this test. Normally, homoscedasticity is confirmed when the p-value exceeds the significance level. (0.05).

Table 3.2: Breusch-Pagan test for Heteroscedasticity

Ho: Constant0variance	
Variables: Fitted0with values of Growth of Companies	
Chi2 (1)0	0.850
Prob>chi20	0.35640

The p-value was 0.3564, which was higher than the significance limit of 0.05, as shown in Table 4.6. This suggests that the regression model contained homoscedasticity.

IV. Research Findings and Discussion

Researcher used descriptive statistics to describe the scores of data obtained using percentages, mean and standard deviation. To gather information about the independent variable on Corporate Governance, five statements around five corporate governance principles were asked. On the statement "To strengthen the CG principle on 'Board operations and control', it is proper to consider all aspects of diversity including gender diversity" 90.9% agreed to the statement whereas 6.8% of the respondents disagreed to the statement, with a mean of 4.49 and standard deviation 0.956. On the statement "The Code of corporate governance has addressed the issue around CEO duality, by providing for a distinct CEO and Board chairperson, fundamentally separating the functions of the Chairperson from that of CEO thus promoting greater transparency and accountability" 95.4% agreed to the statement whereas 2.3% disagreed with the statement, with a mean of 4.23 and standard deviation 0.950. On the statement "The significance of entrenching corporate governance (CG) practices in companies, is pivotal in enhancing ethics and social responsibility, 88.6% of the respondents agreed to the statement whereas 6.8% of the respondents disagreed to the statement, with a mean of 4.52 and standard deviation 0.795. Regarding the statement "There is an increased need for organizations to develop company strategies that promote sustainability and the role of the Board in development and watching is critical as part of commitment to good governance.", 93.2% of the respondents agreed to the statement whilst 6.8% of the respondents disagreed with the statement, with a mean of 4.43 and standard deviation 0.883. On the statement "It is necessary for companies to undertake assessment of its stakeholder relations in order to identify areas for improvement and build confidence" 70.4% agreed to the statement whilst 20.5% of the respondents disagreed with the statement, with a mean of 3.71 and standard deviation 1.145. Overall, findings imply an increased level of implementation of the CG Code amongst issuers.

Descriptive Statistics

Table 3.1: Corporate Governance frequencies

Corporate Governance	SA%	A%	N%	D%	SD%	Mean	Std
Board operations & control: To strengthen the CG principle on 'Board operations and control', it is proper to consider all aspects of diversity including gender diversity.	61.4 **27**	29.5 **13**	2.3 **1**	2.3 **1**	4.5 **2**	4.49	0.956
Transparency and disclosure: The Code of corporate governance has addressed the issue around CEO duality, by providing for a distinct CEO and Board chairperson, fundamentally separating the functions of the Chairperson from that of CEO thus promoting greater transparency and accountability.	45.4 **20**	50.0 **22**	2.3 **1**	2.3 **1**	0 **0**	4.23	0.950
Ethics & social responsibility: The significance of entrenching corporate governance (CG) practices in companies, is pivotal in enhancing ethics and social responsibility.	56.8 **25**	31.8 **14**	4.5 **2**	4.5 **2**	2.3 **1**	4.52	0.795
Commitment to good governance: There is an increased need for organizations to develop company strategies that promote sustainability and the role of the Board in development and monitoring is critical as part of commitment to good governance.	50.0 **22**	43.2 **19**	0 **0**	4.5 **2**	2.3 **1**	4.43	0.883
Stakeholder relations: It is necessary for companies to undertake assessment of its stakeholder relations in order to identify areas for improvement and build confidence. **Valid N 44**	22.7 **10**	47.7 **21**	9.1 **4**	18.2 **8**	2.3 **1**	3.71	1.145

Regression Analysis: Multiple regressions were used in the study to determine the relationship between the independent variable (Corporate Governance), and the dependent variable (growth of companies in the capital markets in Kenya). As shown in Table 3.3, the regression summary model of corporate governance and growth of companies resulted to a coefficient of determination of $r^2=0.962$ ($p=0.000<0.05$). This signified that 96.2% growth of companies in the capital markets can be explained by corporate governance that was significant.

Table 3.3: Model Summary

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.981[c]	.962	.961	.18960	.180	364.963	44	44	.000

a. Predictors: (Constant), X1

ANOVA

The study also sought to investigate the causal effect of the independent variables (Corporate Governance) and the dependent variable (growth of companies in the capital markets in Kenya). The findings represent the model of fitness, ANOVA tests and the regression of coefficients. The ANOVA analysis show that the independent variable was significant in predicting the dependent variable. This study employed the Analysis of Variance (ANOVA) to assess the model's suitability for the data. The model was deemed to be a good fit for the data because the calculated F exceeded the F crucial, and the p-value (0.000) was below the significance threshold (0.05).

Table 3.4: Regression Coefficients

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-31.158	.034		-.001	.999		
	X_1	90.038	.085	-.164	-3.259	.000	.496	2.016

a. Dependent Variable: growth of companies in the capital markets in Kenya

The following model was fitted**,**

Y =31.158+ 90.038Corporate Governance

The study findings revealed that corporate governance have positive and significant effect on growth of companies (β2=90.038, p value=0.000). The association was significant as significant level (0.05) was more than p-value (0.000). This denotes that increase in corporate governance will lead to a 90.038 improvement in growth of companies. These findings concur with, Mbugua (2017) observed that state corporations in Nakuru had corporate governance mechanisms that had a significant impact on how financial resources were used efficiently.

Findings for secondary data

The secondary data drawn from the rolled-out Annual Corporate Governance reports retrieved from CMA website for the period 2017 to 2022 was used in this study. Secondary data encompasses information gathered from previous documented studies to examine relationships, concepts and contextualize findings and considered useful in complimenting primary data information. The data collected was based on five out of the available seven corporate governance principles: (1) Board operations and control, (2) Transparency and disclosure, (3) Ethics and social responsibility, (4) Commitment to good governance, (5) Stakeholder relations. The CG Code provides minimum standard requirements especially with regard to ESG criteria, within which listed companies are expected to operate. From table 3.5, the study found that the five principles of corporate governance have registered significant improvements on the implementation of the CG code, from 2018 to 2022 based on an annual assessment of the listed companies. This implies that the corporate governance aspect of ESG has significantly been entrenched in companies' business and is shaping how businesses transact their operations. Notably, in 2017/18 and 2018/19, implementation of the Code principles was relatively lower as compared to assessments undertaken in 2020, 2021 and 2022 as depicted in Table 3.5.

Table 3.5: Corporate Governance Principles Assessment for Listed Companies

Particulars		Extract from the CMA Annual Corporate Governance (CG) Report Assessment Scores (%)			
Financial year	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
1. Board operations and control	56.40	62.28	71.68	68.65	70.32
2. Transparency and disclosure	52.25	58.28	71.24	70.38	72.50
3. Ethics and social responsibility	51.18	57.20	68.00	69.13	69.48
4. Commitment to good governance	58.89	63.72	77.20	67.13	76.98
5. Stakeholder relations	49.49	53.74	68.71	69.47	70.27

The findings demonstrate a significant relationship and compliments those found in primary data, where corporate governance uptake registered significant improvements as at 2022. In 2019/20 the corporate governance assessment of all the five principles recorded significant improvements. However, in 2020/21 businesses suffered from COVID -19 related effects and this led to a slight decline in performance as compared to those of the previous year. However, in 2021/22 businesses adopted post COVID-19 recovery strategies which enabled businesses to realize stability, continuity, and performance. As at 2021/22, Board operations and control principle recorded a performance of 70.32%, Transparency and disclosure recorded 72.50%, Ethics and social responsibility recorded 69.48%, Commitment to good governance recorded 76.98%, Stakeholder relations recorded a performance of 70.27%. The findings are aligned to those of the primary data which recorded an average percentage of above 70% across all the five corporate governance principles implying that execution of the CG Code was high amongst listed companies. The findings are consistent with that of Tabassum and Singh (2020) that found the impact of board structure, as component of the corporate governance, board independence, CEO duality and board committees have a significant effect on a firms' organisational performance.

V. Summary of Findings, Conclusions and Recommendations

The results of the multiple regression analysis showed that corporate governance has a positive significant influence on growth of companies in the capital markets in Kenya. Based on findings, the study rejected the null hypothesis (***H_0:*** Corporate governance does not influence growth of companies in the capital markets in Kenya) and concludes that corporate governance significantly influences the growth of companies in the capital markets in Kenya.

Corporate governance had positive influence on the dependent variable. The study therefore recommends greater integration of corporate governance practices in company operations. Initiatives such as the Corporate Governance Code and the Nairobi Securities Exchange (NSE) ESG Guidelines buttress the growing recognition of the importance of corporate governance and sustainable finance practices in Kenya. These initiatives aim to promote transparency, accountability, and responsible decision-making amongst listed companies in Kenya. Furthermore, research has shown that companies with strong corporate governance practices tend to perform better financially over the long term. For example, a study by the World Economic Forum found that companies with good ESG performance tend to have higher financial returns as compared to their peers. In conclusion, corporate governance and sustainable finance initiatives can have a positive impact on the growth of companies in the capital markets in Kenya. As investors and other stakeholders increasingly prioritize sustainability and responsible decision-making, companies that prioritize good corporate governance and sustainability are likely to be better positioned for long-term success.

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