

The Role of Corporate Governance on Performance of Companies Listed At the Nairobi Securities Exchange

¹Samwel OmwengaMakini, ²Zachary B.Awino, ³Kennedy Ogollah,
⁴Peterson O. Magutu

Abstract:Performance of firms concerns more researchers since a country's economy is cushioned by better performing firms. Researchers across the world have attempted to investigate the linkage existing between performance and governance at the corporate level with evidence empirically supporting performance as a result of how firms are governed at corporate level. This study examined companies listed at NSE in the context of Kenya with argument that frauds of accounting nature among firms will well managed if governance at corporate level is effective because lack of effective governance mechanisms can lead to higher levels of frauds especially in accounting. The study majorly was guided by agency theory and Anglo-US model of Corporate Governance. A survey which is cross sectional and descriptive in nature was considered. Structured questionnaires were applied to get primary data from 66 firms listed at the NSE. The rate of return was at 75.76 percent and simple analysis in a regression model tested the hypothesis. Governance at the corporate level influence performance in terms of financial indicators significantly and positively at NSE listed firms. Further performance measured by non-financial indicators was positively and significantly boosted by proper governance at corporate level among NSE firms. Policy makers should develop strategies to enhance effective corporate governance for the firms. For generalization purposes of the results future study should consider all companies for an extended time period.

Key words:Corporate Governance, Firm Performance, Nairobi Securities Exchange.

Date of Submission: 15-04-2020

Date of Acceptance: 30-04-2020

I. INTRODUCTION

The relationship existing among stakeholders of corporations and their desire to achieve their interests is the key recipe for many firms struggling to have good corporate governance. In this regard the culture and also the climate along responsibility, fairness, effectiveness, accountability transparency and consistency is key to governance at corporate level and thus must be deployed entirely among firms that are geared towards performance and the best interest of stakeholders (GhasemiAbadi, Shakeri&Nassiri 2017).Aroraand Sharma (2016) in their argument based on how governance at corporate level, positsthat stakeholder are key to determine which specific assets should be deployed for maximum interests.

Governance mechanisms at corporate level includemultiple of directors, duality of CEOs. Structure of the board, size of the board and audit committee (Vo& Nguyen, 2014).Performance of the firm is the key issue surrounding all the stakeholders and other interested parties with no exception of whether the firm is public, or private and all other profit and nonprofit organizations. The only differing issue is how to define performance among researchers who have gone ahead to define it differently according to the firm's key goals and objectives (Kasomi, 2015).

The study was anchored on Agency theory (Eisenhardt, 1989; Jensen &Meckling, 1976), Environment dependency theory (Ansoff&Survillan, 1993) and the upper echelons theory (Hambrick & Mason, 1984).The transparency of markets and to large extent their efficiency is determined by the framework defining corporate governance which also goes ahead to promote rule of law consistency and balance delegation of duties. The structure upon which performance can be anchored and coupled with monitoring of performance can also be achieved by corporate governance framework (OECD, 1999).The upper echelon theory argues that the outcome of the firm is based on the managerial background characteristics and therefore the performance of firms is the reflection of the top management characteristics (Hambrick & Mason, 1984).

Fairness, accountability, disclosure and transparency forms pillars along the line of modern system of disclosure among corporates. This thus involves providing information to public by corporations in variety of ways (Zabri, Ahmad &Wah, 2016).Lishenga (2012) emphasizes that firms with best corporate governance practices are likely to outperform others in the same industry due to better decision-making process resulting from board expertise. Corporate governance globally assists in the mobilization and usage of resources of the business and necessary capital which can be hectic for individual firms that may need capital to expand on their

operations especially in underdeveloped countries characterized with less established financial institutions and capital markets (McGee, 2009).

Firms striving to achieve performance must focus on the importance of corporate governance which is fundamental in the achievement of economic growth and firm's efficiency. Corporate governance and its implication on firm performance has raised major empirical arguments in strategic management despite being acknowledged in the principles of corporate governance that its effectiveness encourages firms in using resources more efficiently through governance mechanism and therefore improve the firm performance (Okpara, 2011).

Corporate governance studies have demonstrated the existence of a strong positive relationship with organizational performance (Guo and Kumara, 2012; Lishenga, 2012). However, Praptiningsih, (2009) established that there was no direct relationship between corporate governance practices and organizational performance. The government of Kenya clearly need listed firms to steer growth of her economy and more so vision 2030, however, some firms have failed while others perform well. This thus raises an eyebrow to why some firms perform exemplary while others struggle and to some extent fail.

Capital Market Authority (2015) report confirms that issues in the corporate governance in the companies listed at the Nairobi Securities Exchange have resulted to much attention crises including ineffective oversight by the board, inconsistency in auditing and accounting standards, weak regulatory and legal systems and wrong application of governance practices. There has therefore been a continued effort to address corporate governance challenges in the companies listed at NSE through privatization policies and the adoption of the CACG and OECD which have resulted to the developing the principles that enhance the effectiveness of corporate governance (OECD, 2004). There is no consensus on how governance at corporate level and performance relate (Baydoun et al., 2013). It is thus prudent that an influence of governance at corporate level is measured against performance especially at those firms listed at NSE.

II. MATERIALS

Fauzi and Locke (2012) contend that administration instruments in governance should be lined up with, and correlative to, outside governance components for performance to be figured it out. The responsibility of top management and the board to firm proprietors and different investors relies exclusively upon corporate administration practices (Kolk, 2008). Resource dependency perspective opined that certified and capable board individuals are key assets which give a key linkage to various outer assets (Ingley and van der Walt, 2011). The board considered powerful is managed by the board with highest capabilities therefore requiring expertise and honesty coupled with best decisions making abilities (Hilmer, 2008).

A study by Manini and Abdillahi, (2015) discussing how productivity of the banks are influenced by factors considered like orientation of the gender, board and the size of the review council considering 2014 as the year of analysis within forty two Kenya banks found that the size of advisory committee, the capital and more so the size related to board registered to significant impact with an argument that size in terms of board does no influence financial aspects whereas size of the bank significantly affects financial aspects.

Kiel and Nicholson (2003) in recognizing board role established a significant role to performance of the firm and very essential in governance. Size of the board is key to the performance of any firm and therefore must be taken into serious considerations. Yermack (2011) uncovers that the worthiness of any firm in relation to profitability is when boards are checked at the lowest level possible. This is argued in the sense that those firms with bigger boards tend to conflict a lot thus affecting normal operations or slowing down process of making decisions. Further Lipton and Lorsch (1992) gives an insight that frees riding is likely to arise especially where boards are enormous. This will therefore automatically lead to slow in efficiency to the boards and thus generating a slow in firm outcome. Klein (2014) also discusses the importance that a CEO places on a board if he must perform well. If firms are bigger, boards that are enormous are key since it involve complex processes that require complex decisions from diverse expertise who form the board (Yermack, 2011).

Rosenstein and Wyatt (2016) indicates that those directors a firm can acquire from without the firm increases the value of the firm in terms of profits and other performance measures. Brickley et al. (1994) found in their study that securities exchange is much related to directors deemed external. Yermack (2011) however disputed and registered that directors from outside the firm does not necessarily influence performance. Forsberg (1989) also did not at any point found any connection between outside directors and performance of the firm. Agrawal and Knoeber (2012) also indicated that politics plays a role in boards where some are untouchable and thus limits the decisions which eventually lower the level of performance to the firms. Preview has laid bare conceptual, contextual and methodological gaps among the perception of how governance at corporate level impacts or rather influences performance. Specifically, the contradicting results from various studies validate the need for this current study.

III. METHODS

The study was based on a positivist philosophy approach. The main reason for the study adopting the positivist philosophy was based on the argument that the study set to empirically and objectively analyze the relationships existing among the variables and the hypothesis were drawn from the theories. A cross-sectional survey design which is descriptive by nature was adopted with 66 NSE firms considered. Primary and secondary data were used which were collected using questionnaires and review from firms' records. The study used primary data collected using questionnaires. A close-ended questionnaire was used to collect primary data relating to the all variables. The questionnaire enabled the researcher to collect views of respondents on the manifestations of the variables of the study. The questionnaire adopted a 5-likert scale. Before administering the data collection instrument, respondents were assured of complete confidentiality and anonymity regarding their responses. For this study, both descriptive and inferential statistic (mean scores, standard deviations, percentages and frequency distribution) were used including the regression model at a 95 percent confidence level.

IV. RESULTS

The study examined how governance at corporate level impacts performance of firms especially at NSE in Kenyan context using data obtained from the surveyed firms with a null hypothesis tested at 95% confidence level and the results shown in Table 1

Table 1: Influence of Corporate Governance on and Overall Financial Performance

Model Summary										
Model	R	R ²	Adjusted R ²	SE	Change R ²	Statistics F	df1	df2	Sig. F	Durbin-Watson
					Change	(Change)			Change	
1	.652 ^a	.426	.414	.55125	.426	35.574	1	48	.000	.836
ANOVA ^a										
Model	Sum of Squares		df	Mean Square	F	Sig.				
1	Regression	10.810	1	10.810	35.574	.000 ^b				
	Residual	14.586	48	.304						
	Total	25.396	49							
Coefficients ^a										
Model	Unstandardized Coefficients		t	Sig.	Standardized Coefficients					
	B	Std. Error			Beta					
1	(Constant)	.983	.356	2.761	.008					
	Corporate Governance	.663	.111	5.964	.000					

a. D V: Performance (Financial)

b. Predictors: Corporate Governance, (Constant),

The study found a moderate relationship between corporate governance and overall financial performance (R= .652). Coefficient of determination (R² =.426) indicates that corporate governance explains 42.6% of variation in overall financial performance. Other variables not included in the study accounts for 57.4 percent. The model was overall significant (F=35.574, p- value = 0.000<0.05). The standardized beta coefficient indicates that corporate governance individually statistically significantly contribution to financial performance (Beta = .663, t = 5.964, p< 0.05). This gives an insight with the fact that governance at the corporate level predicts in a positive direction how performance especially financial is achieved at NSE related firms thus hypothesis in a null form rejected.

The findings agree with Al-Bashir (2017) who demonstrated the significance of having a corporate governance to build the firm's capacity to accomplish its goals inside a particular framework from within as an establishment dependent on the law and the principles of technique and the regulatory structure with clear powers and duties and equity in the use of guidelines, instructions and all levels of administration with no influence by the individual or the individuals that is the cursor on the continuation of the business and progress. Mousavi et al. (2010) found a noteworthy connection between the centralization of proprietorship and return on assets

V. CONCLUSION

The study found that corporate governance dimensions positively significantly influence firm performance. Board structure had the highest mean indicating a strong relationship and influence on firm performance. The investigation set up that boards of firms recorded at the NSE are distinct as far as gender and

that the diversity of board individuals are required in the stewardship of the association such as education and industry experience. Investors ought to have a serious enthusiasm for guaranteeing that the board is set up with accomplished and experienced executives as top managerial staff is vested with the obligation of guaranteeing that the investors' cash is not squandered. The study found that the existence of independent committees and the number of board meetings held annually enhances the organization's financial performance. the study found that most firms operated under multiple directorships. These directors would have more understanding and information about industry; in this way, they are fit for settling on better key choices. The results of test of hypothesis established that there was statistically significant relationship between corporate governance and performance of firms listed in the NSE thus firms should put more emphasis on corporate governance dimensions with positive impacts on their performance.

IMPLICATION OF THE STUDY

From the foregoing results and conclusion, this study has supported the agency theory. Shareholders and managers are therefore expected to run their organizations with the laid down procedures and in harmony with best corporate governance practices. The research also supports the earlier finding in this area and gives efficacy of good corporate governance

ACKNOWLEDGMENT

I thank God for enabling me reach this far. The completion of this research was as a result of immense support and encouragement from many people. I would like to express my heartfelt gratitude and appreciation to my supervisors: Professor Zackary B. Awino, Doctor Kennedy Ogollah and Doctor Peterson O. Magutu who conscientiously and patiently guided and encouraged me throughout this journey. Their invaluable advice, support, constructive critique, rigorous contributions, and personal commitment went beyond the call of duty.

REFERENCES

- [1]. Adams, R. B., & Mehran, H. (2005). *Corporate performance, board structure and its determinants in the banking industry*, in EFA 2005 Moscow Meetings.
- [2]. Agrawal, A. & Knoeber, C. R., (2012). *Corporate Governance and Firm Performance*. In: C. R. Thomas & W. F. Shughart, eds. Oxford Handbook in Managerial Economics. 2nd ed. New York, NY.: Oxford University Press.
- [3]. Ansoff, H. I., Sullivan, P. A., Antoniou, P., Chabane, H., Djohar, S., Jaja, R., ... Wang, P. (1993). Empirical proof of a paradigmatic theory of strategic success behaviors on environment serving organizations. In D. E. Hussey (Ed.), *International review of strategic management* (pp. 173-203). New York, NY: John Wiley
- [4]. Arora, A., & Sharma, C. (2016). Corporate governance and firm performance in developing countries: evidence from India. *Corporate governance*.
- [5]. Baydoun, N., Maguire, W., Ryan, N. & Willett, R. (2013). Corporate governance in five Arabian Gulf countries. *Managerial Auditing Journal*, 28(1), 7-22.
- [6]. Eisenhardt, K.M. (1989). Agency theory. An assessment and review. *Academy of Management Review*, 14, 57-74.
- [7]. Fauzi, F., & Locke, S. (2012). Board Structure, Ownership Structure and Firm Performance: A Study of New Zealand Listed-Firms. *Asian Academy of Management Journal of Accounting and Finance (AAMJAF)*, 8(2), 43-67.
- [8]. Forsberg, Richard (1989), "Outside directors and managerial monitoring", *Akron Business and Economic Review* 20, 24-32
- [9]. Ghasemi A, Abadi, M., Shakeri, A., & Nassiri Aghdam, A. (2017). Introducing a Model to Measure the Corporate Governance Index in Usury-Free Banking. *Journal of Money and Economy*, 12(1), 55-71.
- [10]. Guo, Z. & Kumara, U. (2012). Corporate governance and firm performance of listed in Sri Lanka. *Social and Behavioural Sciences*, 40, 664-667.
- [11]. Hambrick, D. C., Humphrey, S. E., & Gupta, A. (2015). Structural interdependence within top management teams: A key moderator of upper echelons predictions. *Strategic Management Journal*, 36(3), 449-461.
- [12]. Hilmer, F. G. (2008). *Strictly Boardroom* (2nd edition). Melbourne: Melbourne: Information Australia.
- [13]. Ingle, C. B., & Van der Walt, N. T. (2011). The Strategic Board: The Changing Role of Directors in Developing and Maintaining Corporate Capability. *Corporate Governance: An International Review*, 9(3), 74-185.
- [14]. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.

- [15]. Kasomi M. Fredrick (2015): Top Management Team Diversity, Compensation Schemes, Strategic Choices and Performance of Kenyan State Corporations
- [16]. Kiel, G.C. and Nicholson, G.J. (2003), *Boards that Work: A New Guide for Directors*, McGraw Hill, Sydney.
- [17]. Klein, A., (2014). Firm performance and board committee structure. *Journal of Law and Economics* 41, 137–165
- [18]. Kolk, A. (2008). Sustainability, accountability and corporate governance: exploring multinationals' reporting practices. *Business Strategy and the Environment*, 17(1), 1-15.
- [19]. Lishenga, J. (2012). Corporate governance reaction to declining firm performance: Evidence from NSE. *African Journal of Business Management*, 1.
- [20]. Lipton, M. & Lorsch, J.W., (1992). A modest proposal for improved corporate governance. *The business lawyer*, 48(1), pp.59–77
- [21]. Maina, F.G., M.M.Sakwa. 2012. Understanding Financial Distress among Listed Firms in Nairobi Stock Exchange: A Quantitative Approach using the Z-Score Multi-Discriminant Financial Analysis Model. Proceedings of the JKUAT Scientific, Technological and Industrialization Conference, 482.
- [22]. Manini, M. M., & Abdillahi, U. A. (2015). Corporate governance mechanisms and financial performance of commercial banks in Kenya. *IOSR Journal of Business and Management*, 17(3), 25-40.
- [23]. McGee, R. W. (2009). Corporate governance in transition economies: a comparative study of Armenia, Azerbaijan and Georgia. *International Journal of Economic Policy in Emerging Economies*, 2(3), 228-240.
- [24]. Mousavi, Z., Moridipoor, H., Jari, A., 2010. Evaluating the effect of corporate governance mechanisms on the performance of companies listed in Tehran stock exchange. *Quarterly financial accounting (in Persian)* 2(6), pp. 141-155.
- [25]. OECD, (1999). *OECD Principles of Corporate Governance*. Paris: OECD
- [26]. OECD (2004). *OECD Principles of Corporate Governance*, Organization for Economic Cooperation and Development. OECD.
- [27]. Okpara, J. O. (2011). Corporate governance in a developing economy: barriers, issues, and implications for firms. *Corporate Governance*, 11(2), 184–199.
- [28]. Praptiningsih, M. (2009). Corporate governance and performance of banking firms: evidence from Indonesia, Thailand, Philippines, and Malaysia. *JurnalManajemendanKewirausahaan*, 11(1), 94-108.
- [29]. Rosenstein, S and J.C Wyatt (2016), “Outside Directors, Board Effectiveness and Shareholders Wealth”, *Journal of Financial Economics*, vol 26, pp 175-191.
- [30]. Sekaran, U. & Bougie, R. (2009). *Research method for business: a skill building approach*. London: A John Wiley and Sons Ltd United Kingdom.
- [31]. Vo, D. H., & Nguyen, V. T. Y. (2014). Managerial ownership, leverage and dividend policies: Empirical evidence from Vietnam’s listed firms. *International Journal of Economics and Finance*, 6(5), 274-284.
- [32]. Yermack, D. 1996, “Higher market valuation of companies with a small board of directors”, *Journal of Financial Economics*, vol. 40, No. 2. 185-221
- [33]. Zabri, S. M., Ahmad, K., & Wah, K. K. (2016). Corporate governance practices and firm performance: Evidence from top 100 public listed companies in Malaysia. *Procedia Economics and Finance*, 35, 287-296.

SamwelOmwengaMakini,etal. “The Role of Corporate Governance on Performance of Companies Listed At the Nairobi Securities Exchange.”*IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, 25(4), 2020, pp. 56-60.