INFLUENCE OF CORPORATE GOVERNANCE ON STOCK RETURN OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I the undersigned declare that this research project in its form, nature, organization and content is my original work and it has not been presented in any University for Academic purposes.

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BBM 88/13/14

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H.o.D

DEDICATION

This Research Project is dedicated to my family

ACKNOWLEDGMENT

I am grateful to my supervisor Mr. Cyrus Getembe for his professional guidance and positive criticism in coming up with this work. I am also grateful to my family and friends for their support. My sincere gratitude goes to my friends Mitchelle Naomi Lucy and Racheal for their support and encouragement.

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LIST OF ABBREVIATIONS

CAMELS	Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CG	Corporate governance
CGF	Corporate Governance Framework
GDP	Gross Domestic Product
ROA	Return on Asset
ROE	Return on Equity

ABSTRACT

The main objective of the study was to examine the effects of corporate governance on stock return of commercial banks listed at the Nairobi Securities Exchange. Specific objectives of the study were; to determine the effects of information disclosure on the stock return among listed commercial banks in Kenya, to examine the effects of investor relations on stock returns among listed commercial banks in Kenya and to establish the effects of the management team on stock returns among listed commercial banks. This study was conducted in the month of July 2022 and addressed the influence of Corporate Governance on Stock returns of Commercial Banks Listed on the Nairobi Securities Exchange. It adopted a descriptive survey design in which data was collected from different commercial banks that are listed on the Nairobi Stock Exchange. The study utilized secondary data which was collected from the financial records of the banks. Team size and team composition have an influence on stock return. Information disclosure and investor relations do not significantly affect stock return. The study therefore concludes that only team size and team composition have an influence on stock return. Information disclosure and investor relations do not significantly affect stock return. This means that banks should only consider team size and team composition in making decisions about their team structures as these are the two variables that significantly affect stock returns. However, there may be other significant factors that affect stock return besides those used in the model. The research findings revealed that some banks who are members of NSE have not fully embraced corporate governance practices and these should be prevailed upon to ensure they fully comply with corporate governance guidelines. Although there is no empirical evidence to suggest that embracing corporate governance will itself improve stock returns, it is expected to combine with other factors to enhance a bank's stock return in the long run.

CHAPTER ONE

1.1 Background of the Study

According to Shoeyb , Zeynab , & Samin (2016), corporate governance is a system that improves agency problems between managers and shareholders. In the United States, corporate governance has become one of the most topical issues in the modern business world today. Spectacular corporate failures, such as those of Enron, Worldcom, Barlow Clows and Levitt, the Bank of Credit and Commerce International (Riaga, 2020). In the United Kingdom, Peck International and Baring Bank, have made it a central issue, with various governments and regulatory authorities making efforts to install stringent governance regimes to ensure the smooth running of corporate organizations, and prevent such failures (Giroud, 2017). A corporate governance system is defined as a more-or-less country-specific framework of legal, institutional and cultural factors shaping the patterns of influence that shareholders (or stakeholders) exert on managerial decision-making. Corporate governance mechanisms are the methods employed, at the firm level, to solve corporate governance problems (Vincent, 2018).

According to the survey, stock crash of companies such as Adelfa, Enron, Tyco and WorldCom was largely due to weak governance (Giroud, 2017). According to Andreou (2018), the results of many empirical studies conducted in other countries also suggest that the establishment of a good governance system leads to the company's better performance. The International Federation of Accountants (IFAC) in 2004 has defined corporate governance as: responsibilities and practices used by the Team of Directors and managers aimed at determining a strategic direction that ensures achieving objectives, risk control and responsible use of resources. Given the different and incongruent structures of corporate governance system in various countries, the relationship between the components of the corporate governance system with the company's performance is different in the financial markets of developed and developing countries (Koerniadi, 2014).

Corporate governance has become an issue of global significance. There is a need for good governance, especially in the publicly quoted companies in Kenya. Ngugi (1017) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya. Gatauwa (2018) studies the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. Matengo

(2018) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya.

The most important aim of this study is to investigate this issue that whether the components of corporate governance in companies listed in Nairobi Stock Exchange lead to stabilization and increase in their performance (through two performance criteria including return on assets and stock return)? Without doubt, we can say that proper management of the company allows achieving high levels of performance for the entity. The structure of the team, as the most important aspect of corporate governance, has a great impact on the performance of the team and thus firm performance (Fama and Jensen, 1983). According to Mousavi (2017), it is worth noting that the situation in Iran, as a developing country, is different from other developed countries and also developing countries. The existence of these differences has caused Iran to be among the countries that their current laws and practices provide less protection of shareholders and creditors and the range of business owners is not so large in the classification of LaPorta et al. (1998).

According to Vincent (2018), performance can be the result of organization's decisions and actions' measurability that reflects the organization's success and achievements. Organizations' performance evaluation is necessary and accepted standards should be used for this purpose so as to consider different aspects of limitations in activities and the opportunities to use facilities. Various criteria have been used to evaluate and measure business units' performance in accounting studies and researches that can be classified in two general categories of market-based criteria and accounting data-based criteria. By comparison, although market-based criteria are more objective, but at the same time, they are affected by a large number of factors uncontrollable by management, affected (Mousavi, 2017). Therefore, to investigate the relationship between corporate governance and performance of business units, accounting data-based criteria are superior to market-based criteria. In another classification, the criteria for evaluating the performance of business units can be classified as nonfinancial criteria and financial criteria. Financial criteria investigate how the company achieves its financial goals and indicate the attitudes of shareholders toward the company (Giroud, 2017).

There are different views on the use of different variables to assess the company's performance.

For example, Andreou et al. (2014) used annual data to calculate the return on assets as operating profit before depreciation divided by the total assets. However, in similar studies, these criteria have been used to investigate the relationship between corporate governance and the company's operating performance (Giroud and Mueller, 2011). From another perspective, evaluation of the performance of companies can be developed into accounting models and economic models. From the perspective of accounting models, accounting profit is the most traditional performance evaluation criteria, which is of utmost importance for investors, shareholders, managers, creditors and securities analysts. Accounting profit is calculated by accrual basis and many scholars believe that it is one of the most important measures of performance. In order to remove failures of performance evaluation models that are due to the use of accounting information, researchers such as Bacidore, Stewart and Suojanen searched for new criteria for evaluating the company's performance. With the advent of theories in the field of economic benefit or residual income, models were proposed to calculate the economic benefit (Stewart, 1991). In these models, net operating profit after tax deduction and cost of capital is defined as economic profit or residual income. In economic models, company's value is a function of profitability, existing priorities, potential investment and the difference of the rate of return and cost of capital (Koerniadi, 2014).

According to Andreou (2018), economic criteria of performance evaluation try to go through some adjustments and convert accounting information to economic information, and make economic information the basis for evaluating the performance of companies. The most important criterion in assessing corporate performance using economic criteria is the economic value added (Ansari and Karimi, 2009). The studies conducted so far, the researchers have used criteria such as Tobin's Q, return on equity (ROE), earnings per share (EPS), annual stock returns (RET) growth in operating profit and growth of net profit after tax deduction to investigate the relationship between companies' corporate governance and business unit's performance and value. In this study, two measures of return on assets (ROA) and stock return (R) are used for measuring the performance of business units. Based on the Tehran Stock Exchange Corporate Governance Code in 2007, since the external components of corporate governance refers to a corporate control market that is not common in Iran, we have used just internal components of corporate governance such as concentration of

ownership, institutional ownership, team independence, team size, CEO duality, CEO tenure

1.1.1 Corporate Governance

Cadbury (2019) considers corporate governance to be a system by which corporate establishments are directed with respect to the allocation of rights and duties among the stakeholders, like the shareholders, team, management team, and other stakeholders. According to Morin and Jarrel (2001), corporate governance is the leadership of a corporation aiming at balancing the interest of the organization and the interests of all the concerned parties such as clients, investors, suppliers and lenders, as well as taking into consideration the interest of the society and environment. This study adopts the definition by the Morin and Jarrel (2001), as the working definition of corporate governance. The management of corporations require well-coordinated leadership from top level managers. The measures of corporate governance as provided by CBK Section 33(4) of the Banking Act cover shareholders, directors, CEO, management and adhering to the code of conduct. Good corporate governance should provide proper incentives for the team and management to pursue objectives. The measures include; (1) transparency and financial disclosure which should cover financial reporting and auditing reports; (2) management teamthat emphasizes on small teams of a maximum 19 members; (3) investor relations and composition covering either block ownership, institutional ownership and managerial ownership, and (4) information disclosure of either internal and external directors, independent team of directors. This study will measure CG on the basis of the outline's framework.

1.1.2 Stock Return

According to Koerniadi (2014), investment return as the total revenue generated from an investment over a specified duration expressed as a proportion of capital employed. A return, also known as a financial return, in its simplest terms, is the money made or lost on an investment over some period of time. A return can be expressed nominally as the change in dollar value of an investment over time. A return can also be expressed as a percentage derived from the ratio of profit to investment (Basuony, Ehab , & Al-Baidhani, 2017). Returns can also be presented as net results (after fees, taxes, and inflation) or gross returns that do not account for anything but the price change. The return comprises of the earnings and the capital gains realized after an investment, which is often expresses in terms of a

percentage. Conclusively, return refers to the profit realized on an investment that arises from increase in value, cash flows and interest paid as proceeds of trade which the investor earns from the investment. Proper management practices that ensures setting of smart firm objectives and policies, financial planning, forecasting and control, efficient allocation of resources, ethical behavior and professionalism of the management teams (agents) impacts the overall stock return of firms (Lee, 2006). Striking a balance between the firm's interests, and the interests of other stakeholders such as clients, investors, suppliers, lenders, and society in general guarantees the existence of into the longer future. Significant developments have been noted with the reforms leading to increased market capitalization and increased turnover even though the number of listed companies has not improved much and fluctuates at around 60 companies. According to Nyasha (2014) the challenges faced by the development of the stock market in Kenya include a lack of awareness, low investor confidence, lack of competitive pressure in the local market, a vulnerability to shocks, and the low level of liquidity in the capital market.

1.2 Statement of the Problem

The Enron scandal in the US that caused the decline of the market value of Enron from USD 80 billion in the month of August 2000 to below USD 1 billion in year 2001 (Simpson, 2016), and the collapse of Dubai Bank, Chase Bank and Imperial Bank in Kenya within a span of eight months between August 2015 and April 2016 points to a gap in governance to the interest of stakeholders. Based on the worldwide demand to fortify CG, CBK issued major guidelines on Corporate Governance to commercial banks in 2001, 2006 and 2013 to deal with the mismanagement and poor performance commonly witnessed in corporate institutions (CBK, 2013). Nevertheless, the mismanagement and collapse of commercial banks have been reported thereafter, thus the need to ascertain whether or not Corporate Governance influence ttock return of banks.

Previous studies in this subject area also give conflicting position on the connection between Corporate Governance and stock return. For instance, Love and Rachinsky (2007) noted that Corporate Governance causes no significant influence on the performance of banks. Equally, Mangunyi, (2011) in a study concluded that there is no noteworthy relationship

existing between CG practices and the investor relations as well as financial performance. Conversely, Otieno (2012) found that Corporate Governance contributes to bank risk minimization, stability, performance, and financial institution's ability to secure liquidity during difficult market conditions. Otieno's finding is in agreement with other studies by Bebchuk, Cohen and Ferrell (2004), Otieno et al 2015 and Linyiru, (2006). The inconsistent positions taken by the previous studies thus points to no consensus on the connection between Corporate Governance and stock return, hence a gap that need to be filled. This study thus pursues to fill the gap to understand the effect of Corporate Governance on stock return of commercial banks traded at Kenyan security exchange.

1.3 Objectives of the Study

The main objective of the study is to examine the **i**nfluence of corporate governance on stock return of commercial banks listed at the Nairobi Securities Exchange. Specific objectives of the study are;

i. To determine the effects of information disclosure on the stock return among listed commercial banks in Kenya.

ii. To examine the effects of investor relations on stock returns among listed commercial banks in Kenya.

iii. To establish the effects of the management team on stock returns among listed commercial banks.

1.4 Research Questions

This study sought answer the following research questions

i. What are the effects of information disclosure on the stock return among listed commercial banks in Kenya?

ii. What are the effects of investor relations on stock returns among listed commercial banks in Kenya?

iii. What are the effects of the management team on stock returns among listed commercial banks?

1.5 Significance of the Study

This study will benefit the following groups of people;

Commercial Banks

Commercial banks and other financial institutions across the country will get valuable information on the role that corporate governance plays in the stock returns among listed companies. The study through its findings and recommendations will provide the institutions with detailed information on how sound corporate governance can be adapted to the advantage of the companies.

Policy Makers

The study through its findings and recommendations will provide policymakers in the financial sector with data and information that will enable them to develop sound corporate governance policies that not only benefit the organization but also the community at large. Given the dynamics in the banking sector by technological invention and innovation, this study will provide a platform for knowledge expansion and growth among players in the financial industry and other companies that are listed in the stock market.

Customers and Community

Some of the corporate governance strategies and methods involved engaging customers and communities at different levels. Since businesses do not operate in isolation, this study will

propose a framework through which the commercial banks will apply different corporate strategies which involve frequent engagement of communities and which will give the customers better service and value for their money paid to the banks for serviced rendered.

Other Scholars

This study gathered additional information that will help bridge the existing knowledge gap. The study therefore provides a foundation for future research studies on the same or related field of study to be undertaken by other scholars.

1.6 Scope of the Study

This study was conducted in the month of July 2022 and addressed the influence of Corporate Governance on Stock returns of Commercial Banks Listed on the Nairobi Securities Exchange. It adopted a descriptive survey design in which data was collected from different commercial banks that are listed on the Nairobi Stock Exchange. The study utilized secondary data which will be collected from the financial records of the banks. Data presentation was done by use of tables as well narratives.

1.7 Limitations and Delimitation of the Study

The study focused on the influence of corporate governance on the stock return of commercial banks listed on the Nairobi securities exchange and therefore other factors which equally influence stock returns were left out. The researcher might not get all the data for all commercial banks that are listed in the stock markets since some of the financial information might be missing. The study therefore concentrated on commercial banks whose financial information has been published in full. These findings were projected to suit other players in the same sector.

1.8 Conceptual Framework

This study was based on the concept of Corporate Governance and how it affects corporate governance on return the on stock of the company. Corporate governance involves a significant number of elements such as information disclosure, investor relations and management team and supervisor. These elements work together in a right and balanced proportion to achieve the overall goal of the company.

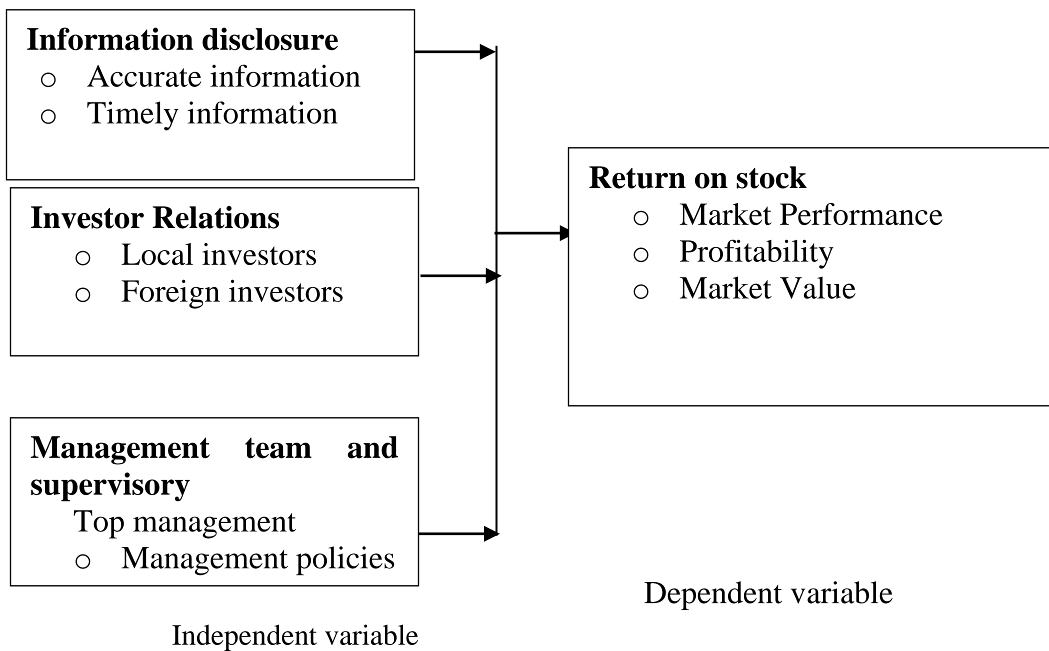

Fig 1 Conceptual Framework Model

Disclosure is the process of making facts or information known to the public. Proper disclosure by corporations is the act of making its customers, investors, and any people involved in doing business with the company aware of pertinent information. Information disclosure should be accurate and timely. Investor relations (IR) is a strategic responsibility whereby organizations manage communications between their executive leadership and the financial community. IR provides an accurate account of company affairs to investors, which helps them to make informed decisions about whether to invest in the company. They monitor the decisions of the Team and help in building effective corporate governance practices in the firm. Large institutional investors can convey private information that they obtain from management to other shareholders. Management develops and implements corporate strategy and operates the company's business under the team's oversight, with the goal of producing sustainable long-term value creation. A return is a change in the price of an asset, investment, or project over time, which may be represented in terms of price change or percentage change. A positive return represents a profit while a negative return marks a loss. Most investors would view an average annual rate of return of 10% or more as a good ROI for long-term investments in the stock market (Basuony, Ehab , & Al-Baidhani, 2017).

CHAPTER TWO

2.0. LITERATURE REVIEW

2.1 Introduction

This chapter highlights the theoretical foundations on which the study has been anchored. It explains three different theories that relates to the research topic and a critical review of these theories and their short comings. The chapter also presents empirical review which addresses the studies done by other scholars in the same field and ends with the literature gap and summary.

2.2 Theoretical Review

This study has adopted two theories; the agency theory and stakeholder theory. Agency theory has been found relevant in this study due to the fact that it provides an explanation on the conflict that exist between the interest of the agents mandate to manage the resources of the company and that of the shareholders. Whereas the agents or management of organization usually prefers retention of profit and ploughing back the same into the business, shareholders are always interested in getting returns on their investment. Stakeholder's theory on the other hand is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and others who have a stake in the organization.

2.2.1 Agency Theory

Agency theory is a business principle that is used to give an explanation and also to resolve the issues that exist in the relationship between business principals and their agents (Barry & Nyberg , 2018). Ideals the theory is a principle that explains the relationship that exist between the shareholders, principals and executives of the company as the agents. According to Tosi & Katz (2016) when the interests of firms' owners and managers (agents) diverge; one posited solution to this "agency problem" is that firms align owner and agent interests through agents' equity ownership and the structure of their compensation. Such incentive alignment involves two related components: (1) financial alignment, whereby an agent's economic rewards cavalry with those of owners through ownership and/or compensation and (2) alignment of preferences and actions, whereby the agent's preferences become more aligned with those of owners, and the agent's choice of actions, though still motivated by self-interest, are more consistent with owner interests. How financial alignment is created (e.g., through the use of

outcome-based contracts, stock options, etc.), however, may also affect agents' risk preferences, causing them to make either riskier or less risky decisions than is optimal from the shareholders' perspective (Aggarwal, 2019).

Although management researchers exhibited early optimism about the potential for agency theory to further understanding of organizational behavior. According to Sekreter (2017), this enthusiasm is clearly waning. Management researchers increasingly question the validity of agency theory as it pertains to financial alignment and the alignment of managerial preferences and actions. Summarizing this view, Dalton et al. stated that the evidence regarding chief executive officer (CEO) compensation as a monitoring mechanism remains unsettled. Two meta-analyses of CEO compensation studies generated much more pointed criticism. Incentive alignment as an explanatory construct for CEO pay is weakly supported at best citing a negligible relationship between CEO equity ownership and organization performance, similarly concluded that there is little evidence to support agency theory's emphasis on alignment of financial interests and of agent preferences and actions through equity ownership.

2.2.2 Stakeholders Theory

Shareholder theory states that the primary objective of management is to maximize shareholder value (O'Connell & Ward, 2020). This objective ranks in front of the interests of other corporate stakeholders, such as employees, suppliers, customers and society. Shareholder theory argues that shareholders are the ultimate owners of a corporate's assets and thus, the priority for managers and teams is to protect and grow these assets for the benefit of shareholders. Shareholder theory assumes that shareholders value corporate assets with two measurable metrics, dividends and share price. Therefore, management should make decisions that maximize the combined value of dividends and share price increases. However, shareholder theory fails to consider that shareholders and corporates may have other objectives that are not based on financial performance (Sullivan & Feller, 2019). For example, as early as 1932, Berle and Means argued that corporations have a variety of purposes and interests including encouraging entrepreneurship, innovation and building communities. This wider view is gaining more traction in recent decades as evidenced by an increased interest in ethical investment funds. This suggest that shareholders and potential shareholders are not only interested in financial gains but are also interested in corporates being socially responsible

(Letza & Sun, 2018). It would seem, therefore, that shareholder value creation is important, however, needs to be balanced with other stakeholders' interests. This is referred to as an enlightened approach to shareholder value maximization.

2.3 Empirical Review

During the 1980s financial institutions became substantial investors in corporate shares. Financial institutions pursue wealth maximization as their primary investment objective (O'Connell & Ward, 2020). This increased attention from well-informed investors and led to pressure on directors to deliver high returns on their tangible assets. If high returns are not reported, then corporates faced the risk being taken-over and broken up. This shifted the priorities of corporates to cost-cutting, divesture, outsourcing and off-shoring as managers did whatever was necessary to meet the earnings expectations of the market (Becht, 2015). Improvements in information technology in the 1980s and 1990s also resulted in easier access to information on corporates, increased interest from a wider range of investors and hence greater liquidity in the stock market. In particular, it enabled more trading by transient shareholders whose main focus is liquidating short-term abnormal gains. The shift in focus to reporting short-term gains is argued to conflict with the long-term sustainability of corporates.

2.3.1 Effects of information disclosure on the stock return among listed commercial banks in Kenya

Since modern financial reporting systems are heavily dependent on technology and associated controls, any review of internal controls would not be complete without addressing controls around information security. An insecure system would not be considered a source of reliable financial information because of the possibility of unauthorized transactions or data manipulation, each of which can compromise data integrity. There‘s been a lot of debate about the impact of new government and industry regulations on IT departments, especially in the financial services sector (Balakrishnan, Anindya , & Panagiotis , 2019). The financial services sector has long been presumed to practice superior information security, largely because of the preciousness of its assets and the fact that its business is carried out almost entirely on IT systems.

A study based on interviews with 100 IT managers in UK financial services companies reveals that given the current level of investment in technologies that help companies comply with

regulations such as SOX, around 60% of IT managers from financial services companies believe the demand on IT to deal with compliance issues will increase over the coming three years (Carr 2006). Indeed, the study states that most respondents are not satisfied with their current capabilities to perform tasks necessary for compliance such as document management and archiving. Further, it also reports that —most financial companies are only just beginning to scratch the surface in areas such as the archiving of electronic messages and digitized phone records. This becomes even more important in the face of a recent study that shows how susceptible the financial services industry is to targeted scans and probing attacks (Schneier 2005). Counterpane tracked the thirteen major vertical markets using attack data between January 2005 and October 2005. The study found although the financial industry ranks second highest in attacks, it is actually the most vulnerable to security breach.

An additional stream of literature in accounting has analyzed the trade-offs faced by firms in disclosing and presenting financial information. Earlier work in finance has tried to establish a link between financial reporting and economic consequences (Aggarwal, 2019). There is no empirical agreement on whether firms are more likely to disclose good news or bad news. Indeed depending on size, firms use different disclosure strategies if the costs and benefits associated with disclosure and nondisclosure vary with firm size. Based on this observation, Tucker and Zorowin (2006) argue that larger firms are more likely to pre-disclose bad news.

2.3.1 Effects of investor relations on stock returns among listed commercial banks in Kenya.

Economic theory implies that a commitment by a firm to higher levels of disclosure should lower the information asymmetry component of its cost of capital (Aggarwal, 2019). A commitment to increased disclosure reduces the extent of information asymmetries arising either between the firm and its shareholders (current and prospective) or by means of reduced adverse selection among buyers and sellers of the firm's shares (Letza & Sun, 2018). Suggests greater firm visibility can widen its investor recognition, broaden a firm's investor base, and in this way lower its cost of capital (Giroud, 2017). Prior empirical work has uncovered several channels through which greater voluntary disclosure and heightened firm visibility can impact the cost of capital, such as through improved analyst and investor following, advertising and press coverage, or listings on major stock exchanges around the world.

Research conducted to date has presented conflicting evidence on the economic value of IR. Some studies uncovered positive consequences of IR activity toward greater analyst following and media attention, broader investor base, enhanced liquidity in share trading, lower cost of capital, anpotentialrket valuations. But there is a potentially dark side to IR. Hong and Huang (2005) offer an insiders' perspective on IR activity, suggesting that firms may undertake such investments not necessarily to improve share valuations, but to enhance the liquidity of their own block of shares in case they have to sell their stakes. Their model shows how insiders (Clarke , 2016)**.**

2.3.3 Effects of the management team and Supervisory on stock returns among listed commercial banks

The results of many empirical studies conducted in other countries also suggest that the establishment of a good governance system leads to the company's better performance (Balatbat et al., 2016; Gompers et al., 2013). The International Federation of Accountants (IFAC) in 2004 has defined corporate governance as: "responsibilities and practices used by the Team of Directors and managers aimed at determining a strategic direction that ensures achieving objectives, risk control and responsible use of resources". Given the different and incongruent structures of corporate governance system in various countries, the relationship between the components of the corporate governance system with the company's performance is different in the financial markets of developed and developing countries. Hence, the most important aim of this study is to investigate this issue that whether the components of corporate governance in companies listed in Tehran Stock Exchange lead to stabilization and increase in their performance (through two performance criteria including return on assets and stock return)? Without doubt, we can say that proper management of the company allows achieving high levels of performance for the entity. The structure of the team, as the most important aspect of corporate governance, has a great impact on the performance of the team and thus firm performance (Fama and Jensen, 2019).

It is worth noting that the situation in Iran, as a developing country, is different from other developed countries and also developing countries. The existence of these differences has caused Iran to be among the countries that their current laws and practices provide less protection of shareholders and creditors and the range of business owners is not so large in the classification of LaPorta et al. (2020). Performance can be the result of organization's decisions

and actions' measurability that reflects the organization's success and achievements. Organizations' performance evaluation is necessary and accepted standards should be used for this purpose so as to consider different aspects of limitations in activities and the opportunities to use facilities. Various criteria have been used to evaluate and measure business units' performance in accounting studies and researches that can be classified in two general categories of market-based criteria and accounting data-based criteria. By comparison, although market-based criteria are more objective, but at the same time, they are affected by a large number of factors uncontrollable by management, affected (Gani and Jermias, 2019). Therefore, to investigate the relationship between corporate governance and performance of business units, accounting data-based criteria are superior to market-based criteria.

2.4 Summary of Literature Review

Taking an enlightened shareholder value approach is not as clear cut as pursuing financial objectives that result in stronger financial ratios, higher dividends and increases in share price. Setting non-financial objectives is difficult as there are measurement and reporting issues with limited guidance from policymakers. However, financial performance and sustainability are not divorced from each other. Share price is a vital indicator of corporate performance. It reflects the underlying value of the corporate, including is potential future sustainability. Financial performance is important not only for shareholders but also for other stakeholders. For example, without financial sustainability, employees' future income stream is at risk, suppliers' future income stream is at risk, customers' access to products is at risk and the public cannot benefit from the infrastructure funded by tax and direct investment by corporates. A significance number of studies have been conducted in different sectors but no such studies have been conducted among listed commercial banks in Kenya and therefore necessitates the study.

CHAPTER THREE

3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter presented the research design and methodology that the researcher intends to use in conducting the study. It describe the research design, the target population, sampling design and sampling technique, data collection procedure and data analysis.

3.2 Research Design

According to Cresswell & Creswell (2014), a research design is the 'procedures for collecting, analyzing, interpreting and reporting data in research studies. It is the overall plan for connecting the conceptual research problems with the pertinent (and achievable) empirical research. In other words, the research design sets the procedure on the required data, the methods to be applied to collect and analyze this data, and how all of this is going to answer the research question (Gray, 2014). The study will adopt the descriptive research design to address the effects of corporate governance on return on stock among listed commercial banks. This design is appropriate since it enable the researcher to analyze the data without manipulating the variables of the study.

3.3 Target Population

Mugenda & Mugenda (2003) defines target population as a complete set of individuals, cases or object with some common observable characteristics of a particular nature distinct from other population. The target population is the group of individuals that the intervention intends to conduct research in and draw conclusions from. The target population include 11 commercial banks that are registered in Kenya and listed in the stock market.

Table 3.1 Listed Commercial Banks in Kenya

BBK	Barclays Bank of Kenya
STB	Stanbic Bank
DTB	Diamond Trust Bank
EQTY	Equity Bank
HFCK	Housing Finance Group Kenya
I&M	I&M Holdings Ltd
KCB	Kenya Commercial Bank
NBK	National Bank of Kenya
NIC	National Industrial Credit Bank
SCBK	Standard Chartered Bank Kenya
COOP	Cooperative Bank of Kenya

3.4 Sample size and sampling technique

According to Gray (2014) sample size refers to the number of participants or observations included in a study. It influences two statistical properties; the precision of our estimates and the power of the study to draw conclusions. The study adopted census sampling design in which all the listed commercial banks were taken for a sample.

3.5 Data Collection

The researcher purposes to collect required data from existing secondary sources. This included published annual financial reports, bank investor relations information published by the respective companies between the period under study of between 2010 and 2019. The required data included; stock prices and returns of the entire sampled bank covering the study period. Data on independent variable on Corporate Governance included; information disclosure investor relations management team, managing firm's liquidity and minimizing operating costs; investor relations, composition made public of the respective banks. The data collected enabled the researcher investigate the effect of corporate governance practices adopted by the respective banks on the stock return of profit-making banks operating in Kenya.

3.6 Data Analysis and presentation

SPSS version 23 was applied in the data analysis. Data analysis helps in the interpretation of data and help take a decision or answer the research question (Giroud, 2017). Presentation requires skills and understanding of data. Findings were quantitatively presented with the use of graphs and tables. Descriptive statistics such as mean, standard deviation, skewness and kurtosis were utilized in summarizing the data obtained from the banks. Inferential statistics included regressions and Pearson correlation. Statistics is the world's leading statistical software that is used to solve business and research problems by using ad hoc analysis, hypothesis testing and predictive analysis.

CHAPTER FOUR

4.0 DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents analysis, findings and presentation of secondary data that was collected from the financial reports of the 11 commercial banks that are listed in the stock market and which formed the basis of the target population in this study. The main objective of the study was to determine the effects of corporate governance on the return on stock among listed commercial banks. In this case, the independent variables included information disclosure, investor Relations and Management Team and Supervisory while the independent variable was the return on stock. The study adopted regressions analysis to establish the relationship between the variables based on the objectives of the study. ANOVA was therefore used to ascertain the suitability of the analytical model. ANOVA was used to test if the survey resulted were significant and it helps the researcher to establish the need to reject the null hypothesis or accept the alternate hypothesis. It also used three or more data to and information regarding the relationship between dependent and independent variables. The findings have been presented in tables, figures and narratives.

4.2 Descriptive Analysis

Descriptive analysis presents coefficients that summarizes a given dataset which can be classified as either a representation of the entire population or sample of the population. This is broken down into measures of central tendency and measures of variability. Measures of central tendency include mean, mode and median while measures of variability include variance, minimum, maximum, Kurtosis and Skewness

Table 4.1 Descriptive Analysis

Variables	Minimum	Maximum	Mean	Standard deviation
ROA	-0.136	0.104	0.027	0.028
Liquidity ratio	0.100	0.900	0.430	0.220
Credit Risk	-0.200	1.000	0.085	0.260
Interest Rate Risk	0.200	23.900	2.923	2.492

Foreign exchange risk	0.100	22.600	0.996	2.307

Diagnostic Tests

Diagnostics test was done on the data that was collected. A post-estimation and pre-estimation tests were performed before the regressions model was obtained. The pre-estimation test performed include the Unit Root test and multi-collinearity while post-estimation test included normality test, test for test for autocorrelation and heteroscedasticity. The above helped in avoiding regression results from occurring. The study therefore presumed a significance level of 5% or 95% confidence interval so as to make variable deductions on the data adopted. Diagnostic tests were useful for ascertaining the falsity or truth of the data. Therefore, the nearer to 100% the confidence interval, the more accurate the data used is presumed to be. In this case, the tests conducted were normality test multicollinearity test, heteroskedastic tests and autocorrelation test.

Normality Test

The study used Shapiro-Wil test and Kolmogorov-Smirnov test for normality testing. The study established that the level of significance was 5% and the outputs of the tests depicted in the table 4.1

Table 4.1 Normality test.
kolmogorov-Smrnova

	Statistic	df	Sig
ROA	0.486	53	0.234
Information disclosure	0.326	53	0.112
Investor relations	0.408	53	0.207
Management team	0.394	53	0.179

The null hypothesis is that the data is distributed normally. If the Shapirowilk test and

Kolmogorov- Smirnov tests contradict, the later test is picked over the former because it is more statistically sound. Since the p value in both tests of all the variables is greater than the α (0.05), then the null hypothesis is not rejected. Hence the data series of all the variables is normally distributed. The findings above indicated that data was normality distributed since the p values were greater than 0.05. Therefore, the null hypothesis of normal distribution was accepted meaning the researcher failed to reject the null hypothesis.

4.4 Regression Analysis

The Model below presents the results when stock Return was measured using ROA after the regression.

4.1 Model Summary

Stock return as measured by ROA was regressed against four predictor variables; Information disclosure, Investor relations and Management team. With the values being regressed at 5% significance, the critical value from the F–table was compared with the value from the regression one acquired from the regression. The summary statistics are illustrated in table below.

Table 4.2 Model Summary for ROA

Model	R	R square	Adjusted R square	Std. Error of the estimates	Durbin Watson
1	.559[a]	.312	.293	.0259	2.261

A. Predictors: (Constant) Information disclosure, investor relations, team management.

B. Dependent variable:

ROA R squared, is the coefficient of determination which shows deviations in the response variable resulting from variations in predictor variables. From illustration in table 4.2 above, this value was 0.312, which meant that 31.2 percent variations in stock return of banks result from variations in the independent variables. Other variables not considered are responsible for 68.8 percent variations in bank performance. Additionally, the findings showed the existence of a strong relation between independent variables performance as indicated by correlation coefficient (R) equal to 0.559. A Durbin Watson statistic of 2.261 indicated n serial correlation in the variable residuals because the value was greater than 1.5.

Table 4.3 Analysis for variance of ROA

Model		Sum of squares	Df	Mean square	F	Sig
1	Regression	.054	5	.011	16.235	.000
	Residual	.120	179	.001		
	Total	.174	184	.012	16.235	.000

ANOVA results produced a value of 0.000 lower than p=0.05. This confirms the sufficiency of the model in predicting how the independent variables affects performance as measured by ROA. Coefficients of determination were utilized in indicating the direction of the relation between the variables. The p-value under sig. column indicated the significance of the relation between the dependent and the independent variables. At 95% confidence, a p-value lower than 0.05 was recognized as a measurement of statistical significance. As such, a p-value greater than 0.05 shows that a weak association exists between the variables. The findings are illustrated in the table 4.3.

4.2. Model Coefficients for ROA

	Model		Unstandardized B	Std. Error	standardized Beta	t	Sig
1	(Constant)		2.347	7.046		.333	.771
	Information Disclosure	X1	5.507	1.144	0.689	4.814	.041
	Investor relations	X2	-24.887	4.813	-.681	-5.171	.035
	management teams	X3	5.592	3.747	.226	1.492	.274

Stock return=2=347+5.507X 1-24=887X2+ε

From the model, the results revealed that when all factors are kept constant, the stock return will be kept at 2.347. A unit increase in information disclosure will cause a 5.507 change on stock return when all other factors are kept constant. Similarly, a -24.887 change on stock return is made as result of a unit increase in investor relations when all other factors are kept

constant. Furthermore, A unit increase in management team would result to a change of -3.049 and -1.246 respectively when all other factors are kept constant.

4.7 Discussion on results

In terms of magnitude, the findings indicated that Information disclosure had the highest influence on Stock return, followed by Investor relations and Management team. The P-Values also indicated that only information disclosure and investor relations are significant in the bank's Stock Return. Management team, the number of team directors ranged from 3 to 7. Banks with larger number of team members performed better than those with smaller team. This can be explained by the fact that bigger management teams bring in diversity of ideas and experiences which positively contribute to financial performance. However, there is caution on the size of the management team. Very big management teams can also be a problem in terms of reaching quality decisions. Some of the decisions end up being compromises and some team members may also become joy riders.

Information disclosure, had significant but negative effect on financial performance. Firms with teams with a higher percentage of non- executive directors performed poorly compared to those with a smaller proportion. This could be interpreted to mean that the non-executive directors had negative influence or interfered with running of the firms such that they returned poor Performance compared those with smaller percentages of non-executive directors. This could be the reason why CMA's recommendation is one third of the team members as non-executive directors. Firms need to strike a balance between advantages of independence brought by non-executive directors and the disadvantage of interference. It could also imply that it is not just the proportions in terms of numbers but other factors like the expertise the non-executive directors bring into the firm matters.

Investor relations had a positive but insignificant relationship with stock return. Banks with more insider ownership performed better than their counterparts. However, the relationship was insignificant meaning that how a bank is owned does not seem to influence the stock return of the of banks. However, the results could have been influenced by the respondents who found the question sensitive. Transparency and financial composition had a negative

but insignificant effect on stock return. This could be explained by the fact Transparency and financial composition is regulated in terms of what information is to be disclosed, at what frequencies, timing and mode of communication. For this reason, all firms reported high information disclosure but their financial results were varied meaning that information disclosure did not influence their stock return. Findings concur with Sujeewa (2015) who conducted a study on how CG influenced the banks in Sri Lanka in terms of their stock returns. The study used primary as well as secondary data. Interviews were applied to collect the primary data of the research, while the yearly bank reports provided secondary data to the researcher. The study had a target population of 24 profit-making banks and a sample population of 8 commercial banks. The study collected data for the period between 2015 and 2019. To assess the relationship between profitability and Corporate Governance, regression model was used. In the analysis of data, Panel data analysis was used. The study found that Corporate Governance impacted Stock returns of banks positively.

CHAPTER FIVE

5.0. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section discusses the main findings of the study, draws conclusions based on the findings of the study and also make recommendations.

5.1.2 Summary of Findings

The objective of the study was to determine the relationship between corporate governance and stock return of the 11 listed Commercial banks at Nairobi Securities Exchange. The study used regression analysis to find the relationship between information disclosure, investor relations and management team and stock return on the other. Forecasting model was developed and tested for accuracy in obtaining predictions. The findings of the study indicated that the model was significant. This is demonstrated in the part of the analysis where R2 for the association was 98%. All the predictor variables were also linearly related with the dependent variable thus a model five predictor variables could be used in predicting stock return. On investor relations, the study found that there is a significant positive correlation between Team size and Stock return. This means that firms with bigger teams had reported better performance over the period under study. This is consistent with the findings of Kajola (2008) who found a positive and significant relationship between Team size and Return on Equity. However, the findings are inconsistent with those of Ness et.al. (2010) who found no relationship between investor relations and Stock return. With respect to management team, the study found a significant negative correlation between Team composition (the proportion of non-executive directors in the team) and Stock return. This means that banks with a smaller percentage on non-executive directors are likely to have better stock returns than those with a greater proportion of non-executive directors.

Management team the percentage of non-executive directors had significant but negative effect on financial performance. Firms with boards with a higher percentage of non-executive directors performed poorly compared to those with a smaller proportion. This could be interpreted to mean that the non-executive directors had negative influence or interfered with running of the firms such that they returned poor Performance compared those with smaller percentages of non-executive directors. The findings contrast those of Khan et.al.

(2007) who found that companies with a higher percentage of non- executive directors reported better stock returns. According to the findings of the study, the frequency of team meetings had negative but insignificant effect on stock return. This may be interpreted to mean that it is the quality of the discussions in the meetings and not necessarily the number of meetings itself that matters. These findings contract those of Mutisya (2006) and Langat (2006) whose studies revealed a positive relationship between frequency of team meetings and stock return.

Investor relations had a positive but insignificant relationship with stock return. Banks with more insider ownership performed better than their counterparts. However, the relationship was insignificant meaning that how a bank is owned does not seem to influence the stock return of the of banks. However, the results could have been influenced by the respondents who found the question sensitive.

5.2 Conclusion

This study sought to test the effect of firm specific corporate governance variables on stock return on listed commercial banks at Nairobi Security Exchange. The results of study are mixed with some variables Team Size and Team Composition, dictating significant positive relationship, investor relations revealing a positive but significant relationship, while information disclosure and frequency of team meetings revealed negative but insignificant relationship with stock return. The study therefore concludes that only team size and team composition have an influence on stock return. Information disclosure and investor relations do not significantly affect stock return. This means that banks should only consider team size and team composition in making decisions about their team structures as these are the two variables that significantly affect stock returns. However, there may be other significant factors that affect stock return besides those used in the model.

5.3 Recommendations

This study makes the following recommendations on policies and further research.

5.3.1 Recommendations on Policy

The research findings revealed that some banks who are members of NSE have not fully embraced corporate governance practices and these should be prevailed upon to ensure they fully comply with corporate governance guidelines. The Team shall disclose in NSE annual Report its statement as to whether NSE is applying by the recommended Corporate Governance practices stipulated in the code of Corporate Governance practices issued by CMA. Provided that where NSE has not fully applied the recommended Corporate Governance practices, the Team shall indicate the steps being taken to ensure the application of such practices. The Team of NSE shall regularly review this Team Charter as need arises to ensure it meets the needs of NSE. The Company secretary shall initiate the review process in consultation with the Chairperson of the Team. Although there is no empirical evidence to suggest that embracing corporate governance will itself improve stock returns, it is expected to combine with other factors to enhance a bank's stock return in the long run.

5.3.2 Recommendations for further research

This study was conducted using secondary data and relied on information provided by the respondents. The same study could be conducted using primary data for comparison purposes to find out whether the findings would be consistent. The study also used ROA as the stock return measure. The same study could be conducted using other stock return measures like Return on Capital Employed (ROCE) and Return on Equity (ROE). Further, the scope of the could be expanded to include in the target population those other firms that trade in the NSE through NSE member firms but are not themselves stock brokerage firms. Since corporate governance is a relatively new field of study, this same study could be repeated in future years to check the impact of new regulations that are continuously being introduced by CMA to govern the operations of stock brokerage and investment banks in Kenya. This study was based on six aspects of corporate governance namely team size, team composition, Chair duality, ownership structure (insider ownership) and frequency of team meetings. Further study may be carried out including more corporate governance aspects in the model for a more complete picture of the effect of all corporate governance aspects on a bank's stock return.

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APPENDIX I
Letter of Introduction

I am a student pursuing a Bachelor Degree in Business Management from The Marist International University. I am carrying out a survey on Influence of Corporate Governance on Stock Return of Commercial Banks Listed at the Nairobi Securities Exchange. The outcome of the study will help create awareness on the importance of Corporate Governance among financial institutions. Information gathered will be kept highly confidential. Your input in responding to the questionnaire is highly appreciated**.**

APPENDIX II

The following is the list of registered Commercial banks in Kenya.

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya
6. SBM Bank
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of KenyaCredit Bank
11. Bank of Kenya
12. Diamond Trust Bank

13. Dubai Islamic Bank
14. Ecobank Kenya
15. Equity Bank
16. Family Bank
17. First Community Bank
18. Guaranty Trust Bank Kenya
19. Guardian Bank
20. Gulf African Bank
21. Habib Bank AG Zurich
22. Housing Finance Company of Kenya
23. I&M Bank
24. Bank Kenya (In receivership)
25. Jamii Bora Bank
26. Kenya Commercial Bank
27. Mayfair Bank
28. Middle East Bank Kenya
29. National Bank of Kenya
30. NIC Bank
31. Oriental Commercial Bank
32. Paramount Universal Bank 34. Prime Bank (Kenya)
33. SBM Bank Kenya Limited
34. Sidian Bank

35. Spire Bank
36. Stanbic Bank Kenya
37. Standard Chartered Kenya
38. Trans National Bank Kenya
39. United Bank for Africa
40. Victoria Commercial Bank

Source: CBK (2022)

APPENDIX III

Profitability Efficiency Matrix for commercial banks

Number	Bank	Efficiency	Profitability
1	ABC Bank	96.5%	0.41%
2.	Bank of Africa	83.28%	-1.12%
3.	Bank of Baroda	62.72%	3.33%
4.	Bank of India	71.07%	3.32%
5.	Barclays Bank	97.40%	2.63%
6.	Citibank	60.48%	3.58%
7	Commercial Bank of Kenya	72.84%	2.28%
8.	Consolidated Bank	99.49%	-2.47%
9.	Co-operative Bank	98.50%	3.24%
10.	Credit bank	101.00%	0.72%
11.	Development Bank of Kenya	170.76%	2.08%
12.	Diamond Trust Bank	86.84%	2.09%
13.	Dubai Bank	50.03%	-13.75%
14.	Ecobank	58.26%	-1.13%
15.	Equity Bank	87.14%	3.65%
16.	Family bank	97.30%	0.61%
17.	First Commercial Bank	76.65%	0.653
18.	Guaranty Trust Bank	77.90%	1.03%
19.	Guard Bank	82.72%	1.33%
20.	Gulf African Bank	84.87%	1.23%
21.	Habib Bank Ltd	74.93%	1.85%
22.	Housing Finance Company Ltd	135.39%	0.39%
23.	I&M Bank	96.92%	3.27%

24.	Jamii Bora Bank	130.59%	-1.54%
25.	KCB Bank	92.16%	3.21%
26.	Middle East Bank(k)	84.89%	-0.42%
27.	M-oriented Bank Ltd	100.69%	0.46%
28.	National Bank of Kenya	63.46%	-0.20%
29.	NIC Plc Bank	103.52%	2.32%
30.	Paramount Bank Limited	85.26%	1.43%
31.	Prime Bank	76.71%	2.72%
32.	SBM Bank	230.80%	-3.89%
33.	Sidian Bank	98.86%	-0.24%
34.	Spire Bank Ltd	87.56%	-10.05%
35.	Stanbic Bank Ltd	95.97%	2.09%
36.	Standard Chartered	71.06%	2.86%
37.	Transnational Bank	91.99%	0.28%
38.	UBA KenyaBank Ltd	97.00%	-0.38%
39.	Victoria Commercial Bank	106.23%	2.28%
		87.56%	1.23%