

## INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL PERFORMANCE OF KENYA POWER AND LIGHTING COMPANY

<sup>1</sup> Felix Omondi Ochido & <sup>2</sup> Dr. Jane Njoroge, PhD

<sup>1</sup> MA Student, Department of Public Policy Administration, School of Humanities and Social Sciences, Kenyatta University, Kenya

<sup>2</sup> Lecturer, Department of Public Policy Administration, School of Humanities and Social Sciences, Kenyatta University, Kenya

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### ABSTRACT

Simply put, corporate governance is a set of regulations and norms for operating an organization effectively. Shareholders, workers, creditors, long-term suppliers, and subcontractors are all examples of stakeholders, and their relationships with the firm are reflected in the report. Many studies in the recent past have shown consensus that organizations with established corporate governance systems also show strong performance. Therefore, good corporate governance is being seen as crucial to having an effective board of directors and improving the returns on investments. The researcher wanted to learn more about how corporate responsibility affects the performance of state-run businesses. Since the profitability of Kenya's state-owned businesses is directly tied to their management of their finances, the Kenya Power and Lighting Company was singled out for special scrutiny in the areas of financial transparency, shareholder rights, equal treatment of shareholders, disclosure, and transparency. Three theoretical frameworks— Concept of Stakeholders, Concept of Agents, and Dynamic Capability concept— made use of it in the research. Descriptive research methods were used to provide a thorough account of the topics of the studies. The sample for this research consisted of all 8443 workers of Kenya Power and Lighting Company, using a stratified random sample method, 368 of them were chosen at random. Research indicated that both financial transparency and shareholder rights were favorably related with financial success (correlation coefficients of 0.704\*\* and 0.666\*\*, respectively). Financial success is significantly correlated with how well shareholders are treated ( $r=0.659^{**}$ ). An increase in transparency was shown to have a statistically significant relationship ( $r=0.664^{**}$ ) with better financial outcomes. The R-squared value of 0.513 implied that 51.3% of the total variance in performance at the Kenya Power and Lighting Company can be attributed to the four predictor variables. Factors like as disclosure, financial transparency, the prosperity of the Kenya Power and Lighting Company was shown to be influenced by the company's respect for shareholder rights and the fair treatment of its shareholders. Research highlighted the significance of a sizable shareholder base that cares about the company's performance. This can facilitate easier access to guidance for company leaders, which in turn can improve the effectiveness of Kenya's state-run firms.

**Key Words:** Open Financial Reporting, Shareholder Rights, Fair Treatment, Transparency and Disclosure, Kenya Power and Lighting Company

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## INTRODUCTION

"Corporate governance" describes the mechanisms used to guarantee the efficient operation of businesses. Corporate leadership outlines the duties and responsibilities of several business players, including the board of directors, management, owners, creditors, auditing firms, authorities, and additional stakeholders (Enobakhare, 2020). By considering the broader economic, governing, and economic context of development in the operational environment, effective corporate governance helps firms achieve their aims and aspirations (Enobakhare, 2020). As a result, governance is the process of monitoring and guiding the established operational norms, practices, and decisions (Mullins, 2022).

Sarbanes and Oxley (2002) argue that financial controversies have prompted demands for stricter guidelines and advanced standards for accounting and corporate governance. In reaction to disgraces similar to those involving Worldcom and Enron in 2002, which cost stakeholders above \$180 billion, The US Congress passed the Sarbanes-Oxley Act (Sarbanes & Oxley, 2002) to improve corporate accountability. The Sarbanes-Oxley Act of 2002 was an attempt to correct the underlying problem of lax corporate governance that was seen to have played a role in these massive financial crises.

Cadbury (1992), "business administration" is an approach to controlling and directing corporations. The OECD (2004) describes CG as the framework within which a corporation's management, shareholders, board, and other investors exercise their authority and responsibility in running the business. Miring'u and Muoria (2012), authors of a study on the role of executive boards and governance frameworks in the success of Kenya's state-owned companies, highlighted the importance of this consideration in their findings.

The results or output value of an institution are compared to its desired outputs, goals, and priorities to determine its organizational performance. Profit margin, including earnings, assets ratio, and capital returns; market share, including market shares and marketing; and shareholder return are the three components of corporate profitability that make up an institution's performance, as stated by Richard et al. (2019). The balanced scorecard has been used by many businesses as a tool for enhancing efficiency.

Even within highly regulated industries and institutions, there has been relatively little work done in Kenya's governance in the corporate sector. The poor performance of state enterprises in Kenya throughout the 1990s caused 1 percent of the nation's GDP to be transferred from the central government to parastatals in 1991. Additionally, from 1990 to 1992, parastatals received 7.2 billion shillings in direct subsidies in addition to 14.2 billion shillings in additional indirect subsidies. By 1994, 5.5% of the GDP was being used to fund subsidies given to parastatals or other organizations (CBK Report, 2018). The country's inflation rates at that time were a reflection of deficits that the Central Bank was funding.

Even though Kenya has excellent laws and a modern constitution with specialized oversight agencies, the sustained tendency toward organizational failures, particularly in the public sector, is concerning. Poor corporate governance has caused upheavals in a number of state corporations, including Kenya National Assurance Company (KNAC), National Housing Corporation, Kenya Cooperative Creameries (KCC), which was shut down in 2001, Kenya Meat Commission (KMC), Kisumu Cotton Mills (KICOMI), and Mount Kenya Textiles (Mountex) (Muthumbi, 2007). One instance of a corporate governance violation was when senior executives at KNAC gave themselves allowances that were significantly higher than the allowed amount (Standard Newspaper, 2006). The government revived Uchumi Supermarket Limited after it collapsed following flimsy branch development, inappropriate financing, poor resource management, and significant borrowing that was not directed toward its original goals (Wambugu, 2011). Liquidity issues have been experienced by the National Bank as a result of reckless loan allocations and political involvement, which included the imposition of friends on the board of directors without paying attention to the proper procedures. Kenya Meat Commission, a meat distributor in Africa, the Middle East, and Europe, saw a downfall in the middle of the 1960s as a result of policy confusion, high corruption, and dogmatic favoritism (Wambugu, 2011). Radical involvement and the sale of

equipment to those with strong government connections caused KCC to collapse (Organic Farmer, 2012). The non-meritorious appointments of board members that did not conform to good corporate governance norms were a major factor in the demise and poor management of these state corporations.

Kenyan parastatals are referred to as state corporations (SCs) under the State Corporation Act of 1987, Cap. 477. SC has several connotations. First, it can be a corporate body that was created by or in accordance with a parliamentary act. Secondly, the president has the authority to issue an order establishing a SC as a legal entity with the purpose of carrying out the tasks listed in the order. After independence, Kenya needed to have a sufficient number of indigenous private enterprises; thus, the parastatals were required by the government to fill the void. In this way, government enterprises promoted the creation of African-owned enterprises (Wamalwa, 2014). The governance of the state corporations appears to be a major problem. Due in part to South Africa's governance issues, certain state enterprises have closed their doors (Kyereboah & Biekpe, 2011).

Kenyan state-run businesses have faced numerous difficulties. Among them are ongoing losses, debt, and financial misappropriation. They have needed the government's help numerous times. All of these issues are the result of inept management. Any organization needs a management staff that is qualified and dedicated to achieving its goals if it is to function effectively. Additionally, the fact that these board members serve on many boards at the same time creates conflicts of interest (Odoyo, Omwonyo, & Okinyi, 2014). In order to address and prevent the aforementioned problems, corporate governance principles are developed and put into practice.

Power transmission, distribution, and sales throughout Kenya are handled by a limited liability company known as KPLC. Although the company is listed on Nairobi's Securities Exchange, the government has a 50.1% stake in the shareholding, making it a state-owned company (kplc.co.ke, 2022). The national transmission and distribution grid is owned and operated by KPLC, which also provides retail services to more than 5.9 million customers nationwide (Kenya Power; Project Mwangaza Bulletin, 2022). Its mission is to serve its customers admirably by transmitting and distributing electricity that meets their needs and is safe and plentiful. For consistency in meeting the expectations and needs of its clients and additional investors, the management, board, and staff of KPLC are dedicated to the success and ongoing improvement of the Quality Management System (QMS) that acts in accordance with ISO 9001:2000. The corporation started change management programs, including Project "Mwangaza," to reach the top-tier rank in the electrical and energy sectors in service delivery. The goal of the change management procedures is to maintain the highest levels of customer satisfaction in addition to the long-term technical aspects and the corporation's capability to make money.

Nairobi North, Nairobi West, Nairobi South, North Eastern, North Rift, Central Rift, Coast, Mount Kenya, South Nyanza, and West Kenya are the 10 zones that make up the company outside of the transmission and telecommunications departments. The Nairobi area controls 53% of the market. Mt. Kenya has a 9% market share, while the coast and western areas each own 19% of the market. KPLC has employed approximately 12,201 employees, who are stationed across the entire nation. According to its vision 2030, which sets a growth goal of 500,000 new consumers a year, KPLC currently provides service to around 19% of the nation's homes.

### **Problem Statement**

Corporate governance in Kenya is deteriorating despite a strict regulatory environment (Mang'unyi, 2017). Muriithi (2016) asserts that scandals have plagued a lot of businesses. Managers and directors have been charged in Kenya with inadequate corporate governance, which has led to corporate scandals. In a continuous effort to repair the troubled organizations, the National Treasury identified 14 of the 18 important state parastatals as having bad financial standing. According to their earnings ranking, the 14 parastatals have been divided into three groups. Due to their high levels of on-loan debt, substantial liabilities, and serious liquidity concerns, Kenya Railways Corporation and Kenya Power Lighting Company, for instance, have been classified as loss-making.

Kenya faces a risk from struggling state-owned enterprises, 18 of which may need as much as Ksh 382 billion (\$3.5 billion) to survive over the next five years. Around one-third of commercial state corporations made losses in the last three consecutive years. The aggregate operational performance of commercial state corporations in FY2019–20 turned negative for the first time in recent years. There is a cumulative yearly shortage of roughly Ksh 70 billion at the three companies (KPLC, KRC, and East African Portland Cement Company) (CBK, 2022). Kenya Post Office Savings Bank (KPOSB), Kenya Broadcasting Corporation (KBC), and East African Portland Cement Company (EAPCC) have all been declared unprofitable due to significant declines in market share (National Treasury Report, 2022).

Corporate governance standards have come under the spotlight as a result of the recently reported significant losses and the numerous unresolved conflicts that have led to court challenges by state corporations. To better understand the connection between corporate governance and ownership structure and their implications for business performance, Mang'anyi (2017) conducted a study in Kenya on a subset of Kenyan banks. Corporate governance (CG) systems and the performance of enterprises quoted on the NSEP were investigated in a study by Muriithi (2016). Otieno (2017) found that approximately 22% of the budgeted money of Kenya's commercial banks went toward elements linked to corporate governance, despite the fact that there was a strong link between proper corporate governance and bottom-line gains. Studying the connection between Kenyan commercial banks' performance and corporate governance policies conducted by Matengo in 2015, Very few of the studies that were analyzed specifically addressed the financial components of CG and how they affected the financial standing of state corporations. By performing an empirical examination of the Kenya Power and Lighting Company, this study addressed a gap in our knowledge of the connection between the management of businesses and the performance of firms controlled by the state.

### **Objectives of the Study**

The primary goal of this study was to analyze the relationship between Kenya Power and Lighting Company's corporate governance practices and its financial outcomes. The specific objectives were;

- Examine how open financial reporting affected Kenya Power Lighting Company, a state-owned firm in Kenya.
- Analyze how shareholder rights affect the bottom line of state-owned businesses.
- Analyze how the Kenya Power Lighting Company would do if its shareholders were treated fairly.
- Determine the effect of transparency and disclosure on state-owned enterprises.

The study was guided by the following research questions;

- Is there a correlation between the Kenya Power and Lighting Company's bottom line such as the amount of information the public has access to?
- How do the rights of Kenya Power and Lighting Company shareholders affect the company's bottom line?
- How does the Kenya Power and Lighting Company's fair treatment of its shareholders affect its bottom line?
- To what extent do openness and disclosure affect Kenya Power and Lighting Company's bottom line?

## **LITERATURE REVIEW**

### **Financial Transparency and Financial Performance**

Due to various financial transgressions committed by European and American corporations in the 2000s, there has been a rise in investors' focus on voluntary openness and transparency during financial reporting, including those involving Enron, Tyco, Parmalat, etc. As a result of these experiences, many rules and voluntarily revealed

information have entered today's financial reporting. Financial reporting today encompasses much more than just the publication of financial statements. In addition to the efficacy of business management systems, investors are now also concerned with information disclosure and transparency. To assist lessen information asymmetry between the companies, financial transparency requires complete disclosure of the financial information. An accurate financial reporting system that runs on strict accounting rules is the aim, all corporate governance systems aspire to achieve, as well as other international regulatory specifications (Fung, 2014). Financial reports require complete and quick disclosure, which helps managers fulfill the shareholders' goal of maximizing wealth because any illegal activity is carefully evaluated to curtail senior managers' discretion in pursuing their own interests. Financial transparency increases investors' ability to make prudent investments since they are better informed about the best capital to use, which lowers the cost of borrowing due to a lower liquidity premium.

Companies' annual reports include both required and optional information. While voluntary information depends on management's assessment of what details ought to be in the yearly report, obligatory material is specified by laws, rules, and accounting standards (Carey, 2108). Financial disclosure aims to introduce and clarify to investors the potentials of companies, promote the capital market's elasticity, ensure improved capital allocation, lower the cost of capital, and facilitate better communication with investors. The voluntary publication of financial information refers to the information disclosure by a company's management that goes above and beyond the requirements of regulations according to generally accepted accounting Standards and Securities and Exchange.

Hsiu (2006) looked into the stock market investment was impacted with the increase on the transparency of financial information. The findings demonstrated that the three facets of transparency which include ownership structure transparency, board structure transparency and financial information disclosure had the greatest impact on stock market investors' behavior. Of course, financial information transparency is what stock market investors are most concerned with.

### **Shareholders Rights and Financial Performance**

Shareholder rights are reflected in the power to vote investors to exert command to change ownership, company's assets, replace opportunistic or ineffective management in order to maximize investor value. An information gap between shareholders and managers is created by inadequate external governance (lower shareholder rights), which, in accordance with traditional theory, increases the incentive for managers to hide information and artificially inflate profits for personal gain. On the flipside, increased shareholder rights give shareholders the ability to put corporate governance measures in place and closely supervise managers. Numerous studies have looked at the effects of giving shareholders additional corporate powers on a firm. The major finding is that stronger business performance and more expansive shareholder rights linked to lowered agency risks (Diamond & Verrecchia, 2021; Shleifer & Vishny, 2017) (Gompers et al., 2016). However, the relationship governing shareholder rights and the caliber of earnings as reported is not specifically addressed herein research. This research aims to answer the question, "Does the existence of attentive and efficient shareholder scrutiny limit managers' ability to participate in opportunistic management of earnings. The study intends to expand on the existing shareholder rights literature to achieve this.

Institutional ownership's role and its impact on profit quality, which are becoming more and more significant in the US financial markets, is a topic that is directly tied to shareholder rights. According to Sias and Starks (2018), significant institutional ownership in stocks climbed from 24% in 2010 to about 50% by the end of 1994. Institutional investors abandoned their conventional passive shareholder positions as their power rose and took an active part in the management of the businesses they owned.

While institutional involvement is increasingly acknowledged as a critical aspect of investor protection systems (Gadhoun, 2020; McConnell & Servaes, 2020), the effect of institutional investors on business success and profitability is still uncertain. Some research suggests that institutional investors are focused on the short-term, while other research suggests that large shareholdings are associated with improved firm performance and less opportunistic self-serving behavior (Porter, 2012; Demirag, 2018; Lang and McNichols, 2019).

This research's secondary objective is to discover how various institutional investor types affect shareholder rights' ability to deter profit-management tactics. The study categorized institutional investors as either transitory or intransient; it examined the possibility that different investors' time horizons affect the link among profit consistency and stockholder protection. When the corporate governance score developed by Gompers et al., (2013) is employed as a surrogate for the robustness of shareholder rights, management is constrained from making deliberate attempts to artificially inflate or deflate accruals.

### **Equitable Treatment of Shareholders and Financial Performance**

A variety of viewpoints among researchers have been attracted to the topic of treating shareholders fairly. Bohrer's (2017) research on buying and selling in connection to protecting ownership rights suggests, among other things, that the original motivation for becoming a minority shareholder may affect a company's financial success. The report outlined various justifications for why investors purchased minority equity stakes in the targeted companies. He listed a number of them, including using a position as a minority stakeholder as a foundation for a full takeover to acquire suitable technologies, markets, or activities in return for token capital power.

The financial success of a firm is probably impacted by corporate governance that emphasizes and honors the role of minority shareholders. In a research examining the effects of minority shareholders, Companies that the Minority Shareholder Watch Dog Group (MSWG) scrutinized had far higher stock returns than companies that were not scrutinized, according to research by Rahman (2019). Multiple hypotheses, including those about the businesses' performance indicators, have been tested and shown to be false, the targeted businesses' earnings significantly increased in comparison to the non-targeted enterprises in the first and second years of MSWG involvement.

Practitioners, academics, regulators, investors, and other stakeholders have all shown a considerable interest in the shareholders' value since the 1990s. According to Jalaja (2020), businesses must work to provide investors with an appropriate rate of return in order to remain relevant and secure sustained funding. This is because competition for shareholders' funds in today's globalized economic environment is growing. Globalization of the capital markets has made it possible for investors to quickly switch their investments to alternatives with higher returns. By only investing in businesses that consider all stakeholders, investors are also adopting a socially responsible attitude.

### **Disclosure and Transparency & Financial Performance**

Suchada (2017) performed research on how transparency, disclosure, corporate performance and the board of directors. The one hundred Thai enterprises listed between 2014 and 2017 served as his sample population. For his research, he differentiated between full disclosure, the first of the three categories of disclosure, and the last of the twelve categories of disclosure. Having calculated the significance level of 10% using performance measures such as the return on investments and Tobin Q, he determined that openness and honesty had little impact on the most important metrics. This is because the cost of capital falls and the knowledge gap between management and shareholders narrows as more financial data is made public. At the third and highest degree of transparency, reviewing and specifying accounting policies has been shown to improve both operating financial performance and business value.

To evaluate the transparency of Turkish companies registered on the Istanbul Stock Exchange in 2017, Balic (2018) examined the policies and practices of 52 companies. S&P & the Corporate Governance Forum of Turkey (CGFT) conducted a survey over three consecutive years with the goal of providing a comparative view into Turkish companies' disclosure practices, monitoring and evaluating corporate responses to regulations and market conditions. Study found that the laws and regulations governing corporations have improved in both quality and enforcement over the past several years. The new legislative and regulatory framework includes the 2003 Corporate Governance Guidelines, the 2003 Capital Markets Board of Turkey directions on audit and accounting standards and procedures, and the 2003 Banking Regulatory and Supervisory Agency directives.

Wanyonyi and Olweny (2021) studied the effect of governance practices on the profitability of publicly traded insurance companies in Kenya from 2016 to 2020. The research set out to determine if there was a correlation between the size and make-up of boards and the financial health of publicly listed insurance businesses. There are 45 firms in the population at large, as reported by the Insurance Regulatory Authority's database, thus they randomly selected six to study. Organizational financial success was found to be highly connected with Corporate Governance practices. There was an adverse relationship between the number of board members and the financial performance of NSE-listed insurance firms. The efficiency of the board of directors was a significant indicator of the company's financial health. Both executive and independent directors are necessary, but the board's make-up should be decided based on each individual's expertise in a particular field. It was also noted that NSE-traded insurance companies profited from using leverage. According to the research, when the CEO and Chair positions were kept separate, publicly listed insurance firms saw a dramatic improvement in their financial performance.

### **Financial Performance**

The key indicators of the business's future sustainability are the focus of this analysis. Income from assets (IFA) and return on equity (ROE) are two metrics that have been employed by many scholars to evaluate a company's financial performance, as evidenced by the studied literature (Peters & Bagshaw, 2014). Earnings per share (EPS), stock price, Mujahid and Abdullah (2014) used a variety of accounting metrics, financial metrics, such as ROA and ROE, to gauge the health of their investors' portfolios. Flammer utilized the net profit margin (2013) and return on assets (ROA) as his primary metrics.

As a result, profitability was utilised as a metric of financial success in this analysis of the aforementioned businesses (Ratio of Asset Return to Equity Earnings). Return on assets (ROA) is the company's revenue from operations represented as a percentage of its total assets. In order to evaluate businesses, Matolcsy and Wright (2011) advocated using the ROIA metric. Breakdown is as demonstrated; a company's return on assets may be calculated using the following formula:  $EBIT / \text{Average Total Assets (book value)}$ . Yasser, Entambang, and Mansor (2011) employed profit margin (PM) and return on equity (ROE) to assess business performance. It is possible to demonstrate a company's profitability by detailing the return on the shareholders' investment. Following is a rough method for calculating return on equity:  $\text{Profit After Taxes} / \text{Equity} - \text{Market Value}$ .

### **Theoretical review**

#### **Stakeholder Theory**

Since academics understood that a corporate entity's actions have an impact on the outside world and necessitate that the institution be held accountable to groups other than its immediate shareholders, the stakeholder theory has gained popularity. Companies, "(Freeman, 2003) were no longer just a resource for investors; because of their existence inside society, they also have obligations to that society. Actually, Freeman (2003) suggested that communities produce revenue if its members volunteer collectively to aid those in need. Jenson and Murphy (2004) criticized a few single valued aim assumed in this theory, and suggested that other important factors, when assessing a company's success. Other factors including interpersonal interactions, the working

environment, and the information passing from upper management to lower ones should also be taken into consideration.

The two basic concepts about stakeholder management are the misuse of the executive authority paradigm and the model of stakeholders. It is possible for managers to use the disproportionate authority granted to them under Anglo-American corporate governance systems for their own personal advantage, at the detriment of investors and the entire society. This viewpoint's proponents contend that the institutional restraints now in place on managerial behavior, including the audit system, managers can still abuse their positions of authority even when there are non-executive directors present and the possibility of a takeover exists. In all but the most severe abuses, shareholders are uninterested because they are safeguarded by liquid asset markets. Share options are one incentive mechanism that allows managers to justify their unusual overpaying, which some believe to be a sign of the crisis in governance (Freeman, 2003). Since CEO salaries have increased considerably more quickly than average wages and there is, at best, little correlation between compensation and management achievement, the issue of administrative overpay is particularly tied to the abuse of executive power (Jiang, 2004).

### **Agency Theory**

Agency theory argues that a person (agent) facilitates the goals of the principal by acting on behalf of the principal (Gadi, 2015). As a result, the agent advances the business's interests as well as those of the proprietors. According to Jensen and Meckling's (1976) idea, the business is an artificial structure that facilitates transactions between separate contracts. The shareholders' remaining equity entitlement on the company's cash flows and resources, according to the theory, remains one of the most significant contracts a company enters into.

The agency theory offers a solution to corporate governance's fundamental issue of far-off or nonexistent shareholders who must pick capable executives to operate on their behalf. This model's key premise remains that the agent is probably opportunistic and self-interested, which is consistent with neo-classical economics. As a result, the CEO is more likely to put their personal interests ahead of that of the owner principal (Gadi, 2015). The principal will have to pay agency expenses to address these issues. These costs prompt the necessity to create incentives that balance the executive's and the general public's interests, shareholders and from the need to keep an eye on executive behavior to stop the exploitation of owners interests (Roberts, 2014).

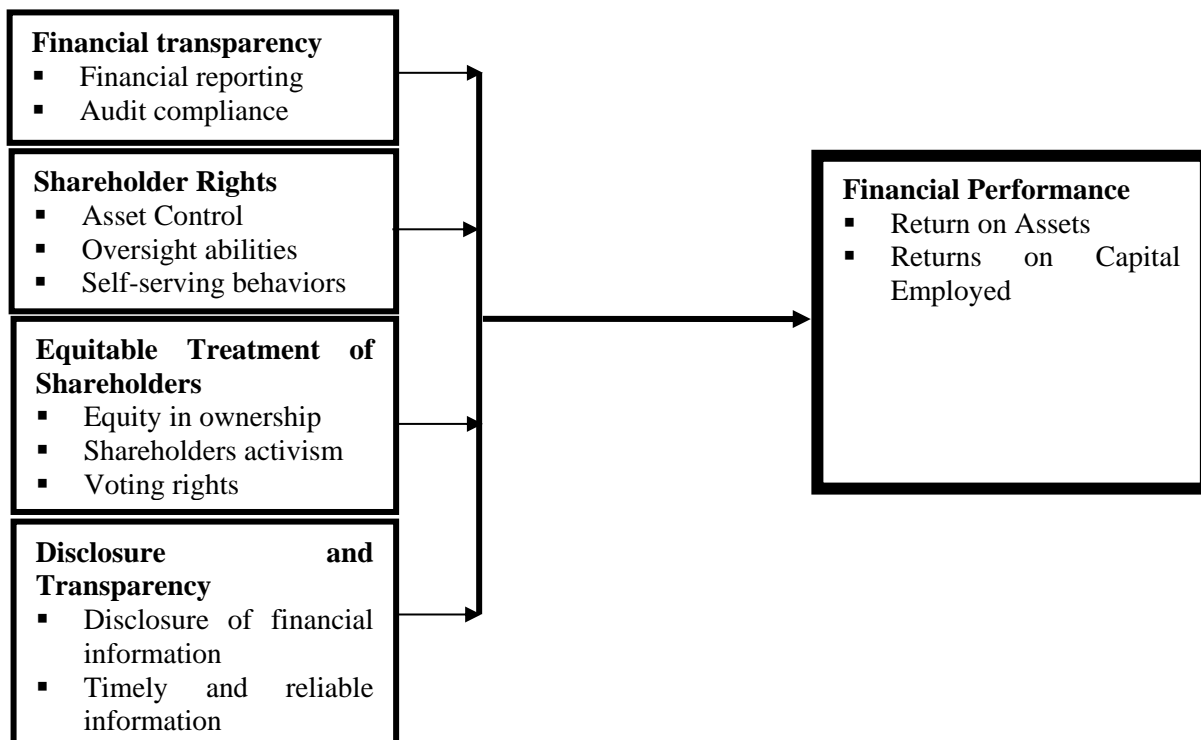
### **Dynamic Capability Theory**

Teece et al., (1997) developed this concept to explain how the company can alter through time. "Dynamic capabilities" are resources, both internal and external, that are essential for a business to embrace, learn from, and reorganize its processes and investments in order to boost effectiveness. It is suggested that companies increase their asset worth by diversifying the assets they own. Dynamic capacity hypothesis was proposed by Porter (1991) to explain how a firm's actions impact the reorganization of its reserves in response to external factors. As a result, a company can enter the market and remain competitive in a dynamic environment (Pisano, 2017).

While the company tries to reorganize its internal and external resources, it is essential to figure out ways to save money by focusing on making activities more efficient as well as effective (Teece, 2016). Nonaka & Toyama (2015) argue that for an institution to react well to changes in the environment, it must react quickly to market dynamics among competing companies. The theory is useful for the study because it shows how both outside as well as inside resources affect how well an institution does (Jeng & Pak, 2016). The theory states that an institution which wants to start competing and do well in a changing environment could perhaps reorganize its skills to keep up with the changes. Institutions could stay competitive by making sure their core competencies match the competitive dynamics and circumstances. As one of the theories that my research is based on, it argues that dynamic capabilities are strongly linked to how well a business performs, and that this link is greater in companies with more technological capacity.



## Conceptual Framework



**Independent variables**

**Dependent Variable**

**Figure 1: Conceptual Framework**

## METHODOLOGY

Methods of descriptive research were used for the survey. A total of 8443 workers at Kenya Power and Lighting Company were surveyed for this study (Kenya Power and Lighting Company, HR Report, 2023). The researcher employed the Cochran's correction formula to determine the optimal size of the sample.

Quantitative and descriptive primary data were employed in the study. Open-ended as well as closed-ended inquiries were included in the questionnaire to ensure completeness. The questions that were open ended allowed the researcher to elicit a more in-depth reaction since there were no predefined alternatives for the researcher to choose from.

Cronbach's Alpha was used to check the survey's reliability and accuracy. The reliability coefficient, Cronbach's Alpha, was determined using SPSS version 26. After the polls were checked, coded, & imported into SPSS 26, analysis could begin. The above made sure that the information was correct, matched other details, is registered the same way, comprehensive, and also set up in a way that made coding as well as tabulation easier. With entering data, the information gathered was written down and saved. In data processing, descriptive statistics was used. Both comparative and relative frequencies (%) were employed for descriptive purposes in this investigation. The central tendencies and the allowable range of numbers were determined using both the mean and the standard deviation. Several inferential statistics were also calculated, including multiple regressions, the examination of variance (ANOVA) and the product-moment correlation of Pearson.

The multiple regression analysis was specified as follows;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where,

- Y = Financial Performance
- X<sub>1</sub> = Financial Transparency
- X<sub>2</sub> = Shareholders Rights
- X<sub>3</sub> = Equitable Treatment of Shareholders
- X<sub>4</sub> = Disclosure and Transparency
- ε = Error Term
- β<sub>0</sub> = Constant Term

## RESULTS

### Descriptive Statistics

The study set out to answer the question, "Did disclosure and transparency policies impact the performance of the Kenya Power and Lighting Company, shareholder rights, equal treatment of shareholders, and financial transparency. In order to gauge the extent to which they agreed with statements on corporate governance indices, respondents were provided with a five-point Likert scale. There was a five-point "strongly agree" scale and a one-point "strongly disagree" scale. With a score of 1, you severely disagreed, 2 for disagreed, 3 for were neutral, 4 for agreed, and 5 for were very much so in agreement.

### Financial Transparency

The main goal of the research was to gauge how participants interpreted claims about financial openness. Table 1 displayed the descriptive statistical data.

**Table 1: Financial Transparency**

| Statement   | N   | Mean   | Std. Deviation |
|---|-----|--------|----------------|
| In order to eliminate information asymmetry between businesses, complete financial disclosure is required.  | 333 | 4.8875 | .35556         |
| Good financial reporting in accordance with intricate accounting rules is a cornerstone of every company governance structure.  | 333 | 4.9250 | .26505         |
| When managers have access to timely and complete financial information, they are better able to achieve the aim of maximizing shareholder value.                                  | 333 | 4.7468 | .60908         |
| Since investors will have more information to make educated decisions about capital allocation, the cost of borrowing is lowered due to a lower liquidity premium.                | 333 | 4.2625 | 1.02801        |
| The goals of financial transparency include attracting investors, increasing capital market liquidity, ensuring more efficient capital deployment, and lowering capital expenses. | 333 | 4.0125 | 1.18529        |
| The level of voluntary disclosure is strongly correlated with the firm's performance.   | 333 | 4.9625 | .19118         |
| Valid N (list wise)   | 333 |        |                |

**Source: Author (2023)**

The majority of respondents, as evidenced by their answers, saw a connection between financial openness and the effectiveness of state enterprises. An overwhelming majority of respondents (M=4.963, S.D=0.191) agreed that a company's success has a major impact on voluntary disclosure. Based on the data collected, a substantial majority of those polled believed (M=4.925, S.D= 0.265) that reliable financial reporting that abides with the complex accounting laws is essential for any corporate governance system. The information also revealed that a substantial percentage of those polled were in agreement (M=4.888, S.D=0.356) that financial transparency

necessitates the complete revelation of fiscal information in order to lessen information asymmetry between businesses. The majority of respondents (M=4.747, S.D=0.609) agreed that shareholders' objective of maximizing of wealth is helped by financial reports, comprehensive and rapid disclosure. Furthermore, some respondents agreed (M=4.263, S.D=1.028) that with Since investors will have more information to make educated decisions about capital allocation, the cost of borrowing is lowered due to a lower liquidity premium. Finally, the majority of respondents (M=4.013, S. D=1.185) agreed that the goals of financial transparency include attracting investors, increasing capital market liquidity, ensuring more efficient capital deployment, and lowering capital expenses. The results showed that financial openness significantly affects the State Corporation's performance.

All corporate governance systems should strive for accurate financial reporting that adheres to rigorous accounting regulations and other international regulatory specifications, as discovered in the study and confirmed by Fung (2014). According to research by Carey (2018), financial disclosure has the following goals: to introduce and clarify to investors the potentials of firms; to enhance the flexibility of the capital market; better capital allocation, lower capital costs, and more open lines for interaction between businesses and financiers are all goals.

### Shareholders Rights

The purpose of this research was to learn from participants how shareholder rights affect business outcomes. Table 2 below shows the responses are summarized.

**Table 2: Shareholders Rights**

| Statement  | N   | Mean   | Std. Deviation |
|--|-----|--------|----------------|
| When stockholders have voting rights, it means they have some say in how the company is run. | 333 | 4.9750 | .15711         |
| Ineffective management might be replaced by the company's shareholders.                      | 333 | 4.6500 | .74799         |
| Shareholders are able to monitor the management meticulously                                 | 333 | 4.8125 | .57575         |
| Greater shareholders rights are associated with improved performance                         | 333 | 4.8000 | .51312         |
| Greater shareholder rights is associated with superior corporate performance                 | 333 | 4.8625 | .41319         |
| Shareholder rights results in less opportunistic self-serving behaviour                      | 333 | 4.0983 | 0.26065        |
| The trustworthiness of financial reports is enhanced by well-protected shareholder rights.   | 333 | 3.9983 | 0.83065        |
| Valid N (list wise)  | 333 |        |                |

Investor Rights, as measured by SPSS, represent the authority of participating shareholders to influence the use of a company's assets (M=4.975, S.D = 0.650). Large majorities of respondents also agreed "There is a correlation between increased ownership rights and successful business outcomes." (M=4.863, S.D = 0.413). The research found that shareholders may keep close tabs on management (M= 4.813, S.D= 0.576). The relationship between shareholder rights and increased performance was also identified. The median estimate of 4.800 validates this. The computed standard deviation of 0.513 suggested that the replies were consistent. Strong shareholder rights are said to increase the credibility of financial reports, according to the study (M= 4.098, S.D= 0.261). According to the results, protecting the interests of stockholders is crucial to the success of State Corporations like the Kenya Power and Lighting Company.

The study findings were in line with Diamond & Verrecchia, (2021); Shleifer & Vishny, (2017); Gompers et al., (2016) increased shareholder rights give shareholders the ability to put corporate governance measures in place and closely supervise managers. Their major finding was that stronger business performance and more expansive shareholder rights linked to lowered agency risks. Cheng et al., (2016) in support asserted that shareholder rights are reflection of the power relationships between shareholders and managers. The study

suggested that voting shareholders are encouraged to oust the current leadership in order to increase the company's worth.

### Equitable Treatment of Shareholders

The study sought to determine whether equitable treatment of shareholders had a significant impact on performance. Table 3 graphically displays the results.

**Table 3: Effect of Equitable Treatment of Shareholders**

| Statement  | N   | Mean   | Std. Deviation |
|--|-----|--------|----------------|
| The Company abides with the legal requirements when it comes to shareholder rights.  | 333 | 4.8571 | .42035         |
| Individual shareholders, international investors, institutional investors, and significant shareholders are all treated the same by the company. | 333 | 4.8875 | .35556         |
| The policy was established by the Company to encourage and stress equitable treatment of all shareholders.                                       | 333 | 4.9750 | .15711         |
| Both minority shareholders and insider trading are closely monitored to ensure that all shareholders are treated equally.                        | 333 | 4.8625 | .47049         |
| Valid N (listwise)   | 333 |        |                |

As can be seen from the responses, the great majority of people believe that state-owned firms can only thrive if they treat their shareholders fairly. A large proportion of those surveyed (M=4.975, S.D= 0.157) think the company has a policy in place to promote and emphasise fair treatment of all shareholders fairly and equitably. The majority of respondents (M=4.888, S.D= 0.356) also agreed that the corporation handles its owners fairly regardless of whether they are small individual investors, large institutions, or foreign governments. A large number of those who responded also felt that shareholders were handled properly (M=4.863, S.D.=0.470) in terms of minority shareholder treatment and monitoring of the use of inside knowledge. The results showed that the Kenya Power and Lighting Company benefited much from fair treatment of its shareholders.

Similarly, Rahman (2019) discovered that businesses that the Minority Stakeholder Watch Dog Group (MSWG) focused on had much higher stock returns than broad businesses. Outcomes of numerous hypothesis tests including the performance metrics of the firms, the targeted businesses' earnings significantly increased in comparison to the non-targeted enterprises in the first and second years of MSWG involvement. Jalaja (2020) on the other hand contends that managers who actively engage in the firm's process of discovering sound investment possibilities and acting to maximize their potential value produce value that promotes growth and long-term improvement

### Effect of Disclosure and Transparency

The study purposed on ascertaining whether or not State Corporations in Kenya benefit from disclosure and transparency. Results are displayed in table 4.

**Table 4: Effect of Disclosure and Transparency**

| Statement   | N   | Mean   | Std. Deviation |
|---|-----|--------|----------------|
| The cost of capital decreases as the level of financial disclosure increases.   | 333 | 4.9375 | .29095         |
| There is a favorable correlation between operating financial success and openness and disclosure of relevant information. | 333 | 4.8750 | .36888         |
| Financial information is made available to all stakeholders in a timely manner and is guaranteed to be accurate.          | 333 | 4.5843 | .23785         |
| Valid N (listwise)  | 333 | 4.6000 | .70442         |

**Source: Researcher (2023)**

According to the comments, most people do believe there is a connection between openness, transparency, and productivity. The results showed that most people agreed (M=4.9375, S.D= 0.29095) that the lower the cost of capital, the greater the transparency and disclosure in financial information. The majority of respondents (M=4.600, S.D= 0.704) also agreed that the organization's information is easily available to anybody who needs it. The data also showed that the majority of respondents believe (M=4.875, S.D=0.3689) that greater openness and disclosure leads to better operating financial performance. The results also show that the company provides accurate and timely financial information disclosure. The average calculation showed this to be correct at 4.584. Responses were consistent among respondents, as the computed standard deviation of.2379 demonstrates. The results showed that the Kenya Power and Lighting Company benefited much from openness and honesty in their operations.

The results were in line with Suchada (2017) who asserted that a company's value as an investment opportunity is affected by its level of openness and disclosure at the second level because of the 5% significant level. Consistent with these findings is the research of Balic (2018), who found that both the efficacy and effectiveness of business management laws and regulations have grown in recent years. The results of the study corroborated those of Murage (2020), who also discovered that successful board structures and chairpersons were linked to the financial success of parastatals, as well as the use of effective appointment, selection, induction, training, and development practices for board members.

### Regression Analysis

#### ANOVA

Purpose of this research was to choose the appropriate ANOVA for illustrating regression model significance. Table 5 displays the results.

**Table 5: Analysis of Variance (ANOVA)**

| Model |            | Sum of Squares | Df  | Mean Square | F      | Sig.              |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1     | Regression | 10.833         | 4   | 2.708       | 32.072 | .000 <sup>b</sup> |
|       | Residual   | 27.552         | 328 | .084        |        |                   |
|       | Total      | 38.385         | 332 |             |        |                   |

a. Dependent Variable: Performance

b. Predictors: (Constant), Transparency, Shareholders rights, Equitable Treatment of Shareholders and Disclosure & Transparency

The purpose of this research was to examine the reliability of a multiple regression model. Model reliability was assessed with the use of the F-statistic.  $F(4, 126) = 32.072, P=0.000$  indicates that the model is accurate. This means that there is a statistically significant relationship between financial transparency, shareholder rights, equitable treatment of shareholders, disclosure, and transparency, and the financial success of Kenya Power and Lighting Company.

#### Model Summary

The purpose of this research was to calculate the model's goodness of fit. Table 4.9 displays the results.

**Table 6: Model's Goodness of Fit Statistics**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .716 <sup>a</sup> | .513     | .497              | .29060                     |

a. Predictors: (Constant), Financial Transparency, Shareholders rights, Equitable Treatment of Shareholders and Disclosure & Transparency

The model's goodness of fit measure as measured by the adjusted R-square ( $R^2$ ) was (0.497). which was calculated as a percentage was 49.7% which showed that all the four predictor variables (financial transparency,

shareholders rights, equitable treatment of shareholders and disclosure ) explain 49.7% of the total variation in financial performance at the Kenya Power and Lighting Company. This implies that the stochastic disturbance error term ( $\epsilon$ ) covers 50.3%. The study deduced that other factors other than the corporate governance practices.

### Regression Coefficients

The purpose of this research was to calculate the coefficients of the numerous regression variables. The results are shown in Table 7.

**Table 7: Multiple Regression Variable Coefficients**

| Model |                                     | Unstandardized Coefficients |            | Standardized Coefficients | T     | Sig. |
|-------|-------------------------------------|-----------------------------|------------|---------------------------|-------|------|
|       |                                     | B                           | Std. Error | Beta                      |       |      |
| 1     | (Constant)                          | 1.330                       | .688       |                           | .195  | .846 |
|       | Financial Transparency              | .875                        | .245       | .437                      | 3.141 | .004 |
|       | Shareholders Rights                 | .883                        | .212       | .636                      | 2.777 | .014 |
|       | Equitable Treatment of Shareholders | .854                        | .118       | .106                      | 2.846 | .013 |
|       | Disclosure and Transparency         | .861                        | .163       | .400                      | 3.221 | .002 |

a. Dependent Variable: Performance

Performance = 1.330 + 0.875 \* Financial Transparency + 0.883\* Shareholders Rights + 0.854\* Equitable Treatment of Shareholders + 0.861\* Disclosure & Transparency

X1 was found to be statistically significant and positively related to Y ( $\beta_1 = 0.875$ ,  $P = .004$ ).

X2 was found to be statistically significant and positively related to Y ( $\beta_2 = 0.883$ ,  $P = .014$ ).

X3 was found to be statistically significant and positively related to Y ( $\beta_3 = 0.854$ ,  $P = .013$ ).

X4 was found to be statistically significant and positively related to Y ( $\beta_4 = 0.861$ ,  $P = .002$ ).

The research found that performance equals 1.330 if financial transparency, shareholders' rights, equitable treatment of shareholders, and disclosure and transparency all equal zero. The research also found that, all else being equal, a one-unit improvement in financial transparency would lead to a 0.875 unit increase in performance; a one-unit improvement in shareholders' rights would yield a .883 unit increase in performance; a one-unit increase in equitable treatment of shareholders would result in a 0.854 increase in performance. The results showed that financial openness, Shareholders' rights, Equitable Treatment of Shareholders, and Disclosure & openness all had an effect on KPLC's performance.

### Discussion of Results

The study established substantial positive relationship between financial transparency, shareholders' rights, equitable treatment of shareholders, disclosure, and transparency at state firms, according to the study's findings. This suggests that there is a direct and substantial relationship between the predictor factors and KPLC's financial success. A study by Hsiu (2006) in collaboration demonstrated that the three facets of transparency which include ownership structure transparency, board structure transparency and financial information disclosure had the greatest impact on stock market investors' behavior.

Table 7 displays the results of a regression study that demonstrated a positive and statistically significant correlation between shareholder rights and the financial performance of State Corporations. Nthama (2010) and Kimosop (2011) came to similar conclusions, arguing that shareholder rights and the frequency of board meetings have a favorable effect on the value of a company.

The regression coefficients ( $\beta$ ) of the equitable treatment of shareholders, disclosure and transparency was statistically significant ( $p < .05$ ) at 95% confidence level. The findings were in line with Jalaja (2020) who found out that businesses must work to provide investors with an appropriate rate of return in order to remain relevant and secure sustained funding. This is because competition for shareholders' funds in today's globalized

economic environment is growing. Suchada (2017) in support, performed research on how transparency, disclosure, and the board of directors affect company success. His study found out that a company's value as an investment opportunity is affected by its level of openness and disclosure at the second level because of the 5% significant level.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

The research found that the Kenya Power and Lighting Company's performance was affected by factors like financial transparency, shareholder rights, equal treatment of shareholders, disclosure, and transparency. According to the research, solid financial reporting that satisfies the various complicated accounting standards and regulatory requirements throughout the world is the cornerstone of every corporate governance structure.

The results of this research also demonstrated that the financial transparency of a state was significantly affected by the performance of its firms. Separating the data into strategic, non-financial, and financial categories allowed us to draw the conclusion that voluntary disclosure of strategic and non-financial information is impacted by corporate performance.

The research suggests that the Kenya Power and Lighting Company's corporate governance standards should place a premium on the impact of fair treatment of shareholders on the company's success. Value creation, according to the findings of the study, is achieved when managers take part in the process by which a company determines which investments will provide the greatest returns and then implements those decisions to maximize those returns. The study also found that public companies should consider capital appreciation, market value, regular income return on investment, leverage, and profit dividend payout ratio consistency when deciding how to fairly reward their shareholders.

### **Recommendations for Policy Implications**

In order to have meaningful influence over the operations of state-owned firms, the study concludes that there must be widespread ownership of a large number of shares. This will make it simpler for the company's leadership to get timely advice and direction in times of crisis. The powerful large shareholder should avoid conflicts of interest and be as opportunistic as feasible. The report advises business executives to devise effective measures to counteract political involvement, ethnic bias, and nepotism—three of the most significant obstacles to successful performance in the workplace.

The study also suggests fostering shareholders' willingness and ability to monitor management, establishing an environment that will make stakeholders and investors feel like they belong to the company, and creating stakeholder independence in the management guidelines. Feedback, maintaining commitments, openness, accountability, and consumer social responsibility initiatives, sensitivity to environmental conservation, etc. are all incentives for important stakeholders to take ownership.

### **Recommendations for Further Studies**

Based on the literature reviewed and the study's results, the study implied the need for further investigation. This would include, first, a replication of this study for validation purposes. Second, to better represent actual conditions on the ground, comparable research should be conducted with a bigger sample of public sector firms. Third, comparable research should be conducted, but with a new set of businesses from the private sector this time. Fourth, given the relatively high CEO turnover, the same research may be done using multiple metrics for corporate governance, such as responsiveness, efficiency, effectiveness, ethics, and observance of the rule of law. This will improve people's familiarity with corporate governance procedures and boost the efficiency of state-run corporations.

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