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The link between compliance with corporate governance disclosure code and performance for Kenyan firms

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ABSTRACT

In 2002, The Capital Markets Authority (CMA) of Kenya issued the CMA guideline on Corporate Governance. Listed Companies are required to comply or give reasons for non-compliance with the "guideline". Studies in developed markets investigating the link between compliance and performance of companies have produced mixed results; some have documented weak or non-existent relationship while others have indicated a significant positive relationship between compliance and stock returns. Furthermore, the direction of causality of any relationship is still debatable. We investigated the extent to which differences in the extent of firm level corporate governance disclosures help to explain firm performance in a cross-section of companies listed at the Nairobi Securities Exchange (NSE), an emerging market. We constructed a broad Kenyan corporate governance index (KCGI) for firms listed at the NSE and related it to firm's performance. We observed a positive relationship between governance disclosure practices and firm performance. This has implications for investing community as quality of disclosure could serve as a signal on which investment strategies could be based.

Keywords: Corporate governance, corporate governance index, firm performance.

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INTRODUCTION

Corporations have become the preferred way of organizing productive activities in most countries. Yet one feature of corporations is both its strength and its Achilles heel, that is, the divorce of control from ownership. In a corporation the separation, facilitates the corporation to be run professionally. Yet this separation is the genesis of the agency conflicts that bedevil the corporate form. Proper corporate governance has been touted as the panacea that mitigates the agency conflicts, achieving a level of convergence in the inherently divergent of interests of management and shareholders (Jensen and Meckling, 1976).

Responding to the need to enhance the good governance of corporation, a host of global initiatives have been mooted, prescribing governance principles to guide the effective management and control of these organizations. Most of the initiatives have featured the developed economies. However developing countries are not far behind as witnessed by the recent proliferation of "Codes of Best Practice" from South Africa, Nigeria, and Brazil.

Corporate governance, defined by the organization for Economic Co-operation and Development (OECD, 2003) as the processes by which corporate entities, particularly public liability companies, are directed and controlled, has become a topical issue in many countries. The debate on the role and control of corporations has moved to the top of many national agendas as a result of the spread of US-style shareholder activism, privatizations and the opening-up of markets in the developing countries, financial crises and market crashes, as well as the growing incidence of bad corporate management and outright fraud.

Academic researchers, practitioners, and regulators have come to recognize the importance of good corporate governance - a vigilant board of directors, timely and adequate disclosure of financial information, meaningful disclosure about the corporation, and transparent ownership - in enhancing the well-being of the corporate sector. At the national level, promotion of good corporate governance practice improves the ability of domestic firms to attract more investment from the international investment community (CACG, 1999).

Internationally, the Asian financial crisis of 1997, and the more recent the Enron and Parmalatt crises underscored the importance of structural reforms in the governance of the business sector. Since then, various initiatives have been undertaken to promote such reforms. The international investment community has developed several indices to measure the state of corporate governance. For example, Standard and Poor's Transparency and Disclosure Index (Patel and Dallas, 2002) assesses the transparency and disclosure practices of corporations around the world, while the Crédit Lyonnais Corporate Governance Index (2001) applies some major corporate governance factors - including discipline, transparency, independence, accountability, responsibility, fairness, and social awareness - to rate corporations in different markets. In East Asia, in 2001, ministers of the Asia-Pacific Economic Cooperation countries endorsed guidelines for good corporate governance practices as set out by the Pacific Economic Cooperation Council (PECC, 2001).

Corporate governance refers in essence to the organization of the relationship between owners and managers of a corporation. The term corporate governance has two components: corporate, which refers to corporations or big companies; and governance, which is defined as the act, fact, or manner of governing. The term was defined by the Cadbury Committee (1992), a group set up in the UK in 1991 to examine standards of financial reporting and accountability, as ‘the system by which companies are directed and controlled’.

Lannoo (1999) defines corporate governance as the organization of the relationship between the owners and the managers in the control of a corporation. He goes on to add that a good corporate governance system will be able to tackle the conflicts of interest between managers and owners of a corporation, and resolve them. Although other stakeholders, such as the workforce, government agencies, banks, suppliers and customers, or the public at large, have an interest in corporate control, ultimately, it is the shareholder–manager relationship which is the most essential in corporate governance and which best lends itself to international comparison. It should be noted, however, that in some countries where there is lesser shareholder participation, other ‘stakeholders’ have been given greater say in management (Bhagat and Black, 1999).

More relevantly, in Kenya, The Private Sector Initiative for Corporate Governance (2003) defines corporate governance as:

> “the manner in which the power of a corporation is exercised in the stewardship of the corporation’s total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission”.

From this definition, it emerges that the governance of a successful corporation typically includes an effective board of directors that carries out its responsibilities with integrity and competence, ensuring that the organization obligations to its shareholders are met and that there is full and timely disclosure of performance of the business to its owners and the investments community at large (Colley et al., 2005).

In recent times, the frontiers of corporate governance have been expanding rapidly, in tandem with the increasing gravity of governance challenges to directors, boards, investors, management, regulators and academicians. Yet issues of governance are not new. Corporate governance has been practiced for as long as there have been corporate entities, characterized by the separation of ownership from management and control. Indeed, Adam Smith shows that he understood the issue of corporate governance, even though he did not use the phrase:

> “Directors of companies, being managers of other people’s money, it cannot well be expected that they will watch over it with the same anxious vigilance with which partners in a corporate company watch over their own” (Smith 1776 edn 1976; p 264).

It was not however until the 1980’s that the topic received much attention. For example, Bowes (2000) notes that the proper governance of companies will become crucial to the world economy as the proper governing of countries. A decade earlier Peter Drucker, when examining the challenges managers would face in the 1990’s predicted that: “The governance of business is likely to become an issue throughout the developed world”. (Drucker, 1989).

These predictions have come to pass as evidenced by the interest that the subject of corporate governance has generated in the media, professional, academic literature and society at large. Several reasons can be advanced for this interest in corporate governance.

Firstly, the interdependence between the society and business demand that companies be accountable to the society as company decisions have far reaching effects on the society and the environment. Companies not only provide essential goods and services, they pay taxes, create employment and engage in community-based activities and have thus become development partners with the society. As society becomes increasingly dependent on companies, it (society) becomes more concerned with corporate activities and their governance as they (companies) play a key role in the creation of wealth both at the national and the corporate level. Drucker (1974) says that society will scrutinize company activities and especially those of large and visible business so as to ensure accountability.

Secondly, public attention following high profile corporate scandals and collapses in recent times of companies such as Enron, Parmalatt, WorldCom, the Bank of Credit and Commerce International (BCCI), among others, without any warning wiped out the wealth of shareholders in one fell swoop, resulting in intense pressure to reexamine the governance of corporations. Kenya has had its fair share of financial scams as demonstrated by the collapse of Lonrho, Trust Bank, Euro Bank, Kenya Finance Trust and Uchumi Supermarkets Limited. Many scholars ascribe corporate failure to a weak board, unable to exercise their mandate adequately (Stiles and Taylor, 1993).

Thirdly, the hard economic times and shocks all over the world have exposed corporate weaknesses. The volatility of the world economy has significantly increased the risks faced by companies today. Stiles and Taylor (1993) asserts that in such a non-compromising environment we can no longer afford to overlook corporate fraud, mismanagement and unjustified executive pay awards among other irregularities (Demb and Neubauer,1992; Dimsdale and Prevezer, 1994).

Finally, the globalization of economies and the growth of financial and investment markets in the 1990s has presented an opportunity for institutional investors to deploy their massive funds internationally. As they seek to do so, they are insisting on high standards of corporate governance in the companies in which they must invest (CACG, 1999). Investor confidence can only be enhanced with good corporate practices where there is accountability and transparency. After all, an investor can only trust management once the objectives and the return on their equity have been stated hence the demand for accountability from the directors.

Consequently governments and boards of corporations have been forced to pay attention to fundamental issues of corporate governance as essential for public economic interest. Without investment, companies will stagnate and collapse. If business enterprises do not prosper, there will be no economic growth; no employment, no taxes paid and invariably the country will not develop. The country needs well-governed and managed business enterprises that can attract investments, create jobs and wealth, and remain viable, sustainable and competitive in the global market place. Good corporate governance therefore becomes a prerequisite for national economic development (CACG, 1999).

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector in Kenya on corporate governance are the Capital Markets Authority (CMA), the Nairobi Stock Exchange (NSE), the Center for Corporate Governance (CCG) and Central Bank of Kenya (CBK).

The CMA created a major impact in the development of corporate governance guidelines in Kenya when it issued in 2002 the Capital Market guidelines on Corporate Governance Practices and disclosures. The stated objective of the CMA guidelines on Corporate Governance is to strengthen and promote the standards of self-regulation and bring the level of governance practices in line with international trends.

Despite the plethora of initiatives from diverse quarters pushing the Corporate Governance agenda in Kenyan, studies on corporate governance have restricted themselves to surveys of the state of compliance with, and determinants of, selected governance mechanisms in various sectors (Jebet, 2001; Kitonga, 2002; Mululu, 2005).

The current study will be in the genre of Gompers et al. (2003) (hereafter GIM), Black et al. (2005), Padgett and Shabbir (2005), and da Silveira et al. (2007), studies which take a holistic approach to corporate governance , construct Indices/Scorecards and test whether a governance premium on the value of companies, and their profitability attaches to sound corporate governance. The researcher is not aware of any effort in Kenya that has approached the issue from this perspective. The objectives of this study were:

1. Construct Corporate Governance Index (CGI) for companies listed at the NSE based on guidelines issued by the Capital Markets Authority.
2. Establish a link between Corporate Governance Index and Performance of listed companies.

LITERATURE REVIEW

Importance of corporate governance

Corporate governance is concerned with direction and control of corporate bodies. These activities are far more basic as compared to profitability and performance of companies. They lay the foundation for future progress of business. Corporate governance is the framework that ensures accountability. Proper governance is a prerequisite for enterprise value creation and sustainability.

In less developed countries, corporate governance is a prerequisite for capital market development. New investors can be encouraged to invest in corporate securities only when there is credible corporate governance in force. Without it, investors will not come forward to stake their money in companies and private limited companies will not come forward to list their shares on stock exchanges. Job Kihumba, Chairman of the Private Sector Corporate Governance Initiative (2003) lists six reasons why corporate governance is important in developing economies:

1. The quality of governance at all levels was increasingly being seen as the most important factor for the success of both the politico-economy and its institutions.
2. Corporate governance was increasingly taking centre stage, with the privatization and corporatization of the economies globally.
3. There was greater expectation from society that corporate organizations, especially private ones, should take a more leading role in the debate and implementation of economic revival strategies.
4. In the face of major scandals leading to the collapse of big corporations, especially state owned ones, with disastrous social and economic consequences, it was inevitable that the wider society, led by the mass media, would start questioning how these organizations were run.
5. Shareholders, especially in publicly listed companies were becoming increasingly vocal demanding better transparency and disclosure of information from their directors.
6. Regulatory bodies, notably the CMA and the NSE, were already hinting that they would require good corporate governance practices amongst the publicly listed companies. (p.ii)

Theories of corporate governance

Though a substantial body of research on corporate governance exists, there has been relatively scant theorizing about governance mechanisms (Hermalin and Weisbach, 2001). Furthermore, no single theory extant fully explains the multiplicity of governance mechanisms, necessitating a multi-theoretic approach as suggested by Daily et al. (2003). We review some of these theories below.

Agency theory

The agency relationship is described in the work of Jensen and Meckling (1976). The agency theory identifies the agency relationship where one party, the principal (The Company), delegates work to another party, the agent (Board of Directors). The divorce between management and ownership may result in managers engaging in self serving behaviour at the expense of shareholder interests. Agency theory views Corporate Governance mechanisms as being an essential monitoring device in ensuring that any problems that may be brought about by principal-agent relationships are minimized.

Transaction cost economics

Transaction cost economics (TCE) as expounded by the work of Williamson (1975, 1984) is often viewed as closely related to agency theory. TCE views the firm as governance structure whereas agency theory views the firm as a nexus of contrasts. Williamson (1986) develops a heuristic model of transaction costs and governance structures, in which the critical dimensions, with respect to which transaction costs differ, are identified: the frequency of exchange, the degree of relationship-specific investment, and uncertainty.

Stakeholder theory

The stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. A consequence of focusing on shareholders is maintenance of shareholder value as paramount, whereas when a wider stakeholders group such as employees, providers of credit, customers, suppliers, government and local authority is taken into account the overriding focus on shareholder value becomes less evident. This means that the shareholders have a vested interest in trying to ensure that the resources are used to maximum effect which in turn should be to benefit the society as a whole (Gibson, 2000).

The stewardship model

In the stewardship model ‘managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholder returns’ (Donaldson and Davis, 1991). Donaldson and Davis note that ‘Managers are motivated by achievement and responsibility needs’ and given the needs of managers for responsible, self-directed work, organizations may be better served to free managers from being submissive to non-executive director dominated boards’.

Class hegemony theory

Hegemony is defined as the process by which the dominant classes or class fractions, through their privileged positions propagate values that reinforce their control over politics and the economy. Class-based theorists interpret boards of directors as ways of linking powerful elites into elite class networks (Useem, 1984; Stiles and Taylor, 2001). Class hegemony in the case of Corporate Governance could mean the power of an elite group is perpetuated by ensuring that members of the board come from that one elite class. The primary function of the board is seen to be the maintenance of the power of those in authority.

Managerial hegemony theory

Under this theory, the ruling class elite is management (Vance, 1964). It can be argued that management of any company would have the superior knowledge of the details of business in a certain industry, and thus are best suited to direct the corporation in what would be perceived as the best path for the company. The board of directors is in effect a legal fiction with no real authority and is ineffective in reducing agency conflicts between management and shareholders.

Corporate governance mechanisms

According to Tsui and Gul (2000), corporate governance mechanisms including accounting and auditing standards are designed to monitor managers and improve corporate transparency. A number of corporate governance mechanisms have been identified analytically and empirically. Agrawal and Knoeber (1996) identify seven control mechanisms for the shareholder/ management agency conflict. Of the seven control mechanisms, the use of four is decided by firm's internal decision makers and the use of three is determined by outside parties.

Board meeting frequency

Jensen (1993) argues that boards of well-run companies should be relatively inactive and exhibit few conflicts. Frequently scheduled meetings generate opportunity costs in the form of management time consumed, and cash costs in the form of traveling allowances and fees for board members. Yet real benefits can be derived from such meetings as directors have the opportunity to confer, set strategy and monitor management. Vafeas (1999), for instance, found that meeting frequency was influential in improving operating performance in a manner consistent with agency theory. Mululu (2005) shows that boards increase the frequency of their meetings following poor performance and as a consequence of such increase the performance of firms improve as captured by the increase in firm value.

Board composition

For the board to effectively play its oversight role of monitoring some scholars argue that it should be composed of a majority of outside directors (Fama 1980). It is argued that outside directors will exhibit considerable independence from top management. There is evidence that supports effectiveness of board independence. For example, Mace (1971) reports evidence that poor performance or poor proposals will be opposed by outside directors. Weisbach (1988) found that outside dominated boards are significantly more likely to respond to poor performance by dismissing the CEO. Brickley et al. (1994) also finds evidence suggesting that outside directors' act in the shareholders' interest in their decision in the adoption of poison pill provision. Brickley and James (1987), further, found that the proportion of outside directors is significantly lower on boards of banks in states that restrict banking acquisitions.

Insider share ownership

Berle and Means commented that where managers hold little equity in the firm and shareholders are too dispersed to enforce value maximization, corporate assets may be deployed to benefit managers rather than shareholders. Managers in such situation may shirk, consume large amounts of perquisites, engage in empire building or make suboptimal investment and distribution decisions. To induce management not to engage in opportunistic behavior, measures need to be taken to align their interests with those of shareholders by making them part owners of the firm (Jensen and Meckling, 1976).

Executive compensation

One way to counter selfish pursuit of personal interests by managers is to grant them, ex-ante highly contingent, long term incentive. Such incentive contracts can take a variety of forms, including share ownership, stock options, or a threat of dismissal if income is low (Fama, 1980). The optimal incentive contract is determined by the managers' risk aversion, the importance of his decisions, and his ability to pay for the cash flow ownership upfront (Stiglitz, 1975; Holmstrom, 1979, 1982).

Large block holders

The most direct way to align cash flow and control rights of outside investors is to concentrate share holdings. This can mean that one or several investors in the firm have substantial minority ownership stakes, such as 10 or 20 percent. A substantial minority share holder has the incentive to collect information and monitor the management, thereby avoiding the traditional free-rider problem. He also has enough voting control to put pressure on the management in some cases, or perhaps even to oust the management through a proxy fight or a takeover (Shleifer and Vishny, 1986). Large shareholders thus address the agency problem in that they both have a general interest in profit maximization, and control over the assets of the firm to have their interests respected.

Takeovers (market for corporate control)

Takeovers 'can be viewed as rapid fire mechanisms for ownership concentration' (Shleifer and Vishny, 1997:756). Substantial theory and evidence supports the idea that takeovers address governance problems (Jensen 1988; Scarfstein, 1988). Palepu (1986) shows that takeover targets are often poorly performing firms and their managers are removed once the takeover succeeds (Martin and McConnell, 1991). Jensen (1986, 1988), argues takeovers can solve the free-cash flow problem, since they usually lead to distribution of the firm's profit to investors over time. Takeovers are widely interpreted as the critical governance mechanism in the USA, without which managerial discretion cannot be effectively controlled (Easterbrook and Fischel, 1991; Jensen, 1993).

Large creditors (debt financing)

Significant creditors, such as banks, have large investments in the firm, and want to see the returns on their investments materialize. Their power comes in part because of a variety of control rights they receive when firms default or violate debt covenants (Smith and Warner, 1979) and in part because they typically lend short term, so borrowers have to come back at regular short intervals for more funds. As a result, banks and other large creditors are in many ways similar to the large shareholders.

METHODOLOGY

Research design

This was an analytical study of the relationship between the value, and the corporate governance rating, of companies listed at the NSE. The ratings of companies were calculated and the correlation tested between performance and corporate governance.

Population and sample

The population of the study was all companies listed at the NSE, for the period 2003 to 2007 using panel data. We focused only on companies that have been listed continuously for the coverage period 2000 to 2007. This will make a sample for a sample of about 35 companies out of the population of listed companies numbering 55.

Operational definition of variables

The variables of the study were derived from ft the CMA guidelines to measure the extent of companies' disclosure practices. We also used information from companies' financial statements and stock market data.

CMA corporate governance guidelines

We define below the governance mechanisms (board characteristics) which may, by and large, determine board activity and how they were measured.

Board size

The Companies Act is silent on the board size (it sets a minimum of 2 directors) of public listed companies in Kenya (Companies Act, 1948). The CMA guidelines on corporate governance practices (2002:125) however provide that:

> "The size of the board should not be too large to undermine an interactive discussion during boarding meetings or too small such that the inclusion of a wider expertise and skills to improve the effectiveness of the board is compromised."

Ultimately, the size of the board is however a product of the company's relationships with the environment. If the organization has requirements for co-opting important external elements of its environments, the greater this need for co-optation, the more members the organization will probably have to place on its board. Pfeffer (1972) also hypothesizes that the number of directors an organization has will be directly related to the size of the organization. Thus we expected to find that as board size increases board activity would also increase to compensate for increasing process losses.

In this study, board size (*brdsize)* was measured by the number of directors on the company's board.

Inside ownership

Inside ownership refers to the proportion of equity held by insiders. I hypothesized that if board activity is a good proxy for active monitoring by the board of directors, then board activity should be a substitute for high levels of inside ownership in disciplining managers. More specifically, as inside ownership rises insiders have incentives to protect shareholder's interest. We expect performance to be positively related the proportion of insider ownership. In this study insider ownership was measured by director shareholding (*direcrhlding).*

Unaffiliated owners of large equity blocks

We define unaffiliated block holders as those shareholders owning more than five per cent of common stock, whether persons or institutions that are not related to firm executives and their relatives, or employee stock ownership plans. This information is in the company's annual reports. Block holdings *(blockhldings)* include institutional shareholders who hold over 20% of a company's equity.

Corporate governance quality

This study employed the proxy for corporate governance quality originally built by Leal and Carvalhal-da-Silva (2007) after ensuring the index construction was adapted to Kenyan situation and was line with CMA guidelines. Leal and Carvalhal-da-Silva created an index called "Corporate Governance Practices Index" (CGI). The Kenyan version to be known as the Kenya Corporate Governance Index *(KCGI*) is computed from the responses to forty five binary and objective questions, all of them assessed using publicly available secondary data. Each positive answer added one point, so that the final score for each firm ranges from 0 to 45 (worst to best corporate governance quality). The index was constructed, taking into account four dimensions deemed important by the literature. These four were employed to assess corporate governance quality as to: disclosure; board composition and functioning; ethics and conflicts of interest; and shareholder rights. Appendix 1 shows the list of questionnaires used to construct the index (KCGI).

This study used an equally weighted version of the index because it is easier to reproduce and was sufficient for the task.

Also, although equally weighting all 45 questions entailed a subjective evaluation, it has been argued in the literature that this procedure is probably less questionable than imposing more complex weighting schemes.

Control variables

The model used governance related, while controlling for leverage and firm size – variables which may affect the firm performance:

Leverage *(lev)*: was measured by the ratio of total liabilities to total assets.
Size *(size)*: was measured by the log of Total sales.

Firms' performance

The study used three measure of firm performance. First, the firm's performance was measured by a simplified version of Tobin's Q approximated by Market to book value.

Tobin's Q = Market equity/Book equity.

Secondly, the firm's performance was measured by return to total assets.

ROA (return on assets) = Earnings before interest and taxes (EBIT) divided by book value of assets

Thirdly, another measure of profitability used is the return to equity.

ROE (return on book equity) = Net income divided by book value of equity.

The model

Accordingly, the full model to be tested was the following:

$$FirmPerformance = \beta_1 CGI + \beta_2 brdsize + \beta_3 size + \beta_4 lev + \beta_5 blockhldings + \beta_6 directrhlding$$

DATA ANALYSIS AND FINDINGS

Analysis of corporate governance disclosures

The study aimed at documenting the financial statement disclosures of the 54 companies listed at the NSE for their financial years ending in the calendar year 2007. Data was available for only 35 companies which formed the sample of study

While there is increasing tendency to disclose different aspects of corporate governance, the disclosure practices and the content of disclosures among the selected companies did not vary widely. It appears most listed companies have converged in their reporting practices. Two factors contributing to the convergence can be cited. First is the effect of the issuance of the CMA guideline which, though voluntary, nevertheless had a compelling influence, with companies striving to comply. Second is the fact that almost all companies on the NSE are audited by about four audit firms in the "big Five" league. This narrows the areas of discretion.

We use a broad, multifactor corporate governance index (CGI), which is based on scores to objective governance survey questions in Table 1. These questions cover aspects of corporate governance recommended by Capital Markets Authority (2002) Guidelines on Corporate Governance in Public Listed Companies in Kenya.

In total, we collect 45 governance proxies clustered into four categories: (1) Disclosures (financial), (2) Board structure and functioning, (3) Ethics, and (4) Shareholder rights. For each firm the aggregate rating is an unweighted sum of the points across all proxies, ranging from 0 (minimum) to 45 (maximum). Table 1 shows the resulting descriptive statistics of the corporate governance index. The rating over the 35 firms in our sample is slightly skewed to the left. More than 40% of the firms have a rating between 34 and 37. It should also be noted that an equal weighting scheme for the different proxies makes no attempt to accurately reflect the relative importance of individual governance practices, but it has the advantage of being transparent and allows easy interpretations.

As seen in Tables 2 and 3, the range in the disclosure item scores among the selected companies is narrow. With a maximum of 45 disclosure items and the average score of 32.74, or 72.75%, one company received the highest score of 41 or 89%. At the low end, also one company received a score of 26, or 55.55%.

To assess whether an equal weighting scheme is appropriate, Table 2 shows the correlation matrix for all sub-indices (that is, the ratings of the five governance categories in our survey). All correlations are positive, but in general not very high. This indicates that our weighting scheme avoids double-counting by assigning undue weights to some governance practices (while neglecting others), which would lead to biases in our aggregate rating. Only the correlation between the categories 'board structure and functioning' and 'shareholder rights' are above 0.5. This, however, should not impose a problem, because these two governance categories are hardly regarded as substitutes.

Results for control variables, subindices and board composition

We return in this part to *OLS*, and describe results for the control variables we use in our base *OLS* regression (Section *A*). We then consider the predictive power of each subindex (Section *B*), individual governance elements (Section *C*), and board composition in particular

Table 1. Corporate governance disclosure index questionnaire checklist.

Disclosure Item	Total score	Total possible score	% of score
I. **Financial disclosures**			
1. Financial and Operating Results	35	35	1
2. Related Party Transaction	33	35	.945
3.Critical accounting policies	35	35	1
4. Corporate reporting framework	6	35	.171
5. Statement of directors' responsibility	33	35	.945
6. Risk and estimates in preparing and presenting financial statements	6	35	.8
7. Segment reporting	28	35	.8
8. Information regarding future plan	19	35	.543
9. Dividend	35	35	1
Total sub-index - disclosures	230	315	73.06
II. Non-financial disclosures			
A. Company objectives			
10. Information about company objectives	10	35	.286
B. Ownership and shareholders' rights			.971
11. Ownership Structure	34	35	1
12. Shareholder Rights	35	35	1
13. Size of board	35	35	1
14. Composition of board	35	35	1
15. Division between chairman and CEO	34	35	.971
16. Chairman Statement	35	35	1
17. Information about Independent Director	23	35	
18. Role and functions of the board	30	35	.857
19. Organizational Hierarchy	12	35	.343
20. Changes in Board Structure	16	35	.457
21. Compliance with different legal rules	35	35	1
22. Audit committee	35	35	1
23. Remuneration committee	32	35	.914
24. Any other committee	32	35	.914
25. Composition of the committee	29	35	.829
26. Functioning of the committee	31	35	.886
27. Organizational code of ethics	14	35	.4
Total sub-index - shareholder rights	520	630	82.5
D. Members of the Board and key executives			
28. Biography of the board members	22	35	.629
29. No. of directorship held by individual members	2	35	.057
30. No. of board meeting	24	35	.686
31. Attendance in board meeting	8	35	.229
32. Director stock ownership	11	35	.314
33. Director remuneration	28	35	.229
Total sub-index - board structure	95	210	45.238
E. Material issues regarding employees, environmental and social stewardship			
34. Employee relation/Industrial relation	24	35	.686
35. Environmental and social responsibility	25	35	.714
F. Material foreseeable risk factors			
36. Risk assessment and management	28	35	.800

Table 1. Continues.

37. Internal control system	17	35	.486
38. Auditor appointment and rotation	30	35	.943
39. Auditor fees	33		
III. Annual General Meeting			
40. Notice of the AGM	34	35	.971
41. Agenda of the AGM	34	35	.971
IV. Timing and means of disclosure:			
42. Separate Corporate Governance statement/ separate section for corporate governance	34	35	.971
43. Annual report through internet	34	35	.971
44. Any other event	31	35	.886
45. Compliance with CMA notification	20	35	.57

Financial statements were examined to determine whether or not they report on the disclosure issues listed below. ‘YES’ scored 1, while ‘NO’ scored 0.

Table 2. Frequency distribution of total score by individual company.

Total score	Number companies	Cum. number of companies	%	Cum. %
21 - 25	1	1	2.94	2.94
26 - 30	8	9	23.53	26.47
31 - 35	19	28	55.88	82.35
36 - 40	7	35	17.65	100

The total scores are determined as set out in Table 3. The highest score was 45. Source: Compiled and Computed from the Annual Report of the Concerned Company.

Table 3. Descriptive statistics of the KCGD index.

Mean	33.71429
Median	34
Mode	35
Standard deviation	3.214
Kurtosis	0.145523
Skewness	-0.14305
Range	15
Minimum	26
Maximum	41
Count	34

(Section *D*). Two important results emerge. First, the power of *KCGI* is not sensitive to how we construct this index, and comes from the cumulative effect of all five sub-indices. Second, Kenyan firms, with 50% outside directors have significantly higher share prices than firms with fewer outside directors. This effect appears to be causal. This is strong evidence that greater board independence predicts higher share prices in emerging markets.

Results for control variables

Extensive control variables were used to limit omitted variable bias. The rationale, and *OLS* regression results, is analyzed in Table 3 for each control variable.

Firm size

Consistent with prior research (e.g., Lang and Stulz, 1994), the coefficient on *ln*(SALES) is negative and highly significant. Our results are similar if we substitute *ln*(ASSETS) for *ln*(SALESs), or use a 6 powers functional form of *ln*(assets) or *ln*(sales).

Firm leverage

Leverage can affect both Tobin's *q* and a firm's governance practices. Governance may also affect a firm's access to credit (Bhojraj and Sengupta, 2003). We control for debt/market value of equity (when we use market/book as a dependent variable, we use debt/book value of assets as a control variable). This control is positive and significant.

Block holdings

Share ownership is an important element of corporate governance, but the relationship between ownership and firm value is unclear and possibly nonlinear. We control

Table 4. Regression estimates of the full model for all dependent variables.

Explanatory	Dependent-Tobin's Q	Dependent-ROA	Dependent-ROE
CGDI	-2.09** (-2.01)	-.37 (-.82)	.73 (.40)
Board size	-.37 (-.54)	-1.22*** (-4.13)	-1.95 (-1.5)
Size-log (SALES)	-.0033 (-1.58)	.0019 (1.69)	.0023 (.62)
Leverage	-4.51 (-.44)	-11.21*** (-2.62)	-65.28**** (-3.73)
Block holdings	-.06 (-.60)	-.02 (.70)	-.03 (-.19)
Director holdings	-.11 (-.73)	-.04 (-.42)	0.21 (.69)
R-squared	.26	.07	.042
No. of observations	35	35	35

*, **, *** denote significance at the 0.10. 0.05, and 0.01 level. t-statistics are in parenthesis.

for ownership by including the shareholding proportion of the largest shareholder (whether an individual or a firm. The analysis shows that the level of block holding did not significantly influence the findings.

Board size

Our results are similar if we include board size as a control variable. We consider board size variable as number of directors. Board size is insignificant.

Kenya corporate governance index (KCGI)

Our results are similar if we include a subjective corporate governance index, which we construct based on 45 questions in our guide on various corporate governance issues. The subjective index could predict firm value and performance because management attitudes influence investor beliefs about management quality, or because it proxies for governance elements that were omitted from *KCGI*. The coefficient on the subjective index is small and insignificant.

Table 4 shows the results of OLS heteroscedasticity-consistent estimations of the determinants of firm-level market valuation. The dependent variables are Tobin's Q. Return on Assets, and the Return on Equity. The regressor variables are defined as follows*: log(SALES)* denotes the logarithm of sales (for the year 2007), *Board size* is the number of board members for 2007, and *leverage* is computed as the ratio of total liabilities to total assets (end 2007), *block holding* is the proportion of share capital of over 22.5% held by an individual or institution and *director holding* is proportion of capital held by directors (Table 5).

Results for sub indices and reduced indices

Table 4 contains our *OLS* results for sub-indices. In row (1), we regress Tobin's *q* on each of our five sub-indices, included one at a time in separate regressions, in each case replacing *KCGI* in our base *OLS* regression: Each sub-index is significant at the 1% level or better.

In row (2), we control for the other sub-indices by adding, as a control variable for each sub-index, a Reduced Index (0~80) that equals (*KCGI* - indicated sub-index). We show results for sub-indices in row (2A) and for each Reduced Index in row (2B). All sub-indices have positive coefficients, but the coefficients and *t*-statistics decline, as expected. Board Structure and Disclosure sub-indices remain significant. Shareholder Rights Sub-index is marginally significant. In row (3), we include all five sub-indices in a single regression, with similar results.

Table 6 shows ordinary least squares regressions of Tobin's q on KCGI and each sub-index. Control variables and sample (n = 494) are the same as in our base OLS regression. In row (1), we replace KCGI with the indicated sub-index, without a separate control for the rest of the corporate governance index. In row (2), we add a control variable for a "Reduced Index" which equals the sum of the other four sub-indices. In row (3), we include all five sub-indices as separate independent variables. *, **, and *** respectively indicate significance levels at 10%, 5%, and 1% levels. T-values, based on White's heteroskedasticity-consistent standard errors, are reported in parentheses. Adjusted R2 is shown for each regression. Significant results (at 5% level or better) are shown in boldface.

As can be seen in Table 7, since each sub index is significant in row (1), almost any weighting will produce an overall index that is significant in explaining Tobin's *q*. Moreover, the coefficients on sub indices are similar in magnitude, ranging in row (1) from .0064 to .0133 and in row (3), from .0040 to .0106. Thus, subindex weights are unlikely to greatly affect the coefficient or significance of *KCGI*.

We confirm the intuition that our results for *KCGI* are not sensitive to subindex weights in two ways. First in row (2B), each Reduced Index is statistically strong, and coefficients vary only from 0.0057 to 0.0072. The

Table 5. Descriptive statistics of the formulae and sub-indices.

Parameter	Minimum	Maximum	Mean	Std. Dev.	Kurtosis	Skew
ROA	-0.23	0.3	0.066273	0.083696	5.455427	-0.49726
ROE	-6.35	0.54	5.88E-05	1.127262	33.3152	-5.74414
KCGI	26	41	33.71429	3.213679	0.145523	-0.14305
BRDSIZE	5	17	10.14286	2.745508	0.084614	0.104098
LNSA-SIZE	20.50621	27.36778	22.45333	1.298008	4.978955	1.598582
LEV	0.01	0.89	0.550588	0.232626	-0.59611	-0.0897
BLCKHLDG	0	0.82	0.425588	0.239547	-0.65979	-0.4298
DRCTHLDG	0	0.82	0.132824	0.234741	1.785192	1.69139
ROA	-0.23	0.3	0.066273	0.083696	5.455427	-0.49726
Subindices						
DSCSR	4	8	6.571429	0.884032	0.990635	-0.63581
SHRHRGHT	10	17	14.57143	1.719879	0.182218	-0.75382
BRDSTR	0	6	2.714286	1.426048	-0.58567	0.15147
ETHICS	0	12	9.428571	2.186667	9.378435	-2.30558

$$ROA, ROE = \beta_0 + \beta_1 KCGI + \beta_2 BRDSZ + \beta_3 LNSALE + \beta_4 LEV + \beta_5 BLCK + \beta_6 DRCT$$

Table 6. OLS results relating corporate government disclosure and firm value.

KCGI or sub-index	KCGI	Fin. disclosure	Share holder right	Board structure	Ethics
1. Dependent variable: Tobin's q	0.0064** (2.77) .2832	0.0066*** (3.73) .2973	0.0089*** (3.13) .2906	0.0116*** (3.23) .2705	0.0084*** (6.12) .3334
2A. Coefficient on sub index, with control for Reduced Index		0.0040* (1.73) .3343	0.0070*** (3.08) .3329	0.0051 (1.31) .3330	0.0060** (3.28) .3345
2B. Coefficient for Reduced Index (sum of remaining sub indices) (from same regression as column *2A*)		0.0072*** (5.62) 0.3345	0.0062*** (5.14) 0.3329	0.0067*** (5.06) 0.3330	0.0065*** (5.51) 0.0067*** 0.3328
3. Coefficients from single regression with all sub indices		0.0043* (1.73) 0.3320	0.0068*** (2.92) 0.3320	0.0052 (1.33) 0.3320	0.0062** (2.48) 0.3320

Table 7. Descriptive statistics of sub-indices.

Parameter	Minimum	Maximum	Mean	Std. deviation	Kurtosis	Skew
Financial disclosure	4	8	6.57	0.884	0.99	-0.636
Shareholder rights	10	17	14.57	1.72	0.182	-0.754
Board structure	0	6	2.71	1.43	-0.586	0.151
Ethics	0	12	9.43	2.19	9.38	-2.306

significance of each Reduced Index is lower than for *KCGI*. This is consistent with the predictive power of *KCGI* reflecting the combined effect of all subindices, including the less powerful Shareholder Rights and Board

Table 8. Correlation matrix for corporate governance sub-indices.

	Financial. disclosure	Shareholder rights	Board structure	Ethics
Financial. disclosure	1.000			
Shareholder rights	0.205823	1.000		
Board structure	0.063325	0.584178	1.000	
Ethics	0.052166	0.347458	0.285655	1.000

Procedure subindices.

This optimal index is:

KCGI optimal = 0.1303 * Shareholder Rights Index + 0.2061 * Board Structure Subindex + 0.1576 * Ethics sub-index + 0.1879 * Disclosure Subindex.

This optimal index would take an *OLS* coefficient of .0064 (t = 6.12), only modestly higher than the coefficient of .0066 (t = 6.30) for actual *KCGI*.

Table 8 shows the correlations among the five corporate governance sub-indices. The aggregate corporate governance rating (CGR) consists of governance proxies in four categories: (i) financial disclosure, (ii) shareholder rights (iii) board structure and functioning and (iv) ethics. Each sub-index is constructed using an equal weighting scheme for the respective survey questions.

CONCLUSIONS

In this paper, we report evidence that corporate governance is an important factor in explaining the market value of NSE listed companies, and that this effect is likely causal.

We construct a corporate governance index (*CGI*, 0~100) for 35 of the 55 companies listed on the Nairobi Stock Exchange. We employ extensive control variables. We find an economically significant correlation between *CGI* and firm market value.

We also find evidence that Kenyan firms with 50% outside directors are more highly valued. Firms with 50% outside directors have 0.13 higher predicted Tobin's q (roughly 40% higher share price), with similar coefficients for firms for whom 50% outside directors are mandatory and firms that voluntarily adopt this practice. This suggests that outside directors can be valuable in an emerging market country, even if the outside director requirement is imposed by law rather than voluntarily chosen.

Better corporate governance does not appear to predict higher firm profitability. It does appear to predict lower cost of external capital, perhaps because investors expect insiders to engage in less self-dealing. It is an open question to what extent the higher share prices of better governed firms reflect an increase in total firm value, versus a decline in private benefits of control enjoyed by insiders.

RECOMMENDATIONS

From the findings of the study, it is evident that corporate reporting by listed companies in the country is of a satisfactory level. But we need to take cognizance of several challenges.

1. Disclosure alone in the annual reports shall not be enough. Practice of good corporate governance must also be emphasized. Practice together with disclosure can facilitate and stimulate the performance of companies, limit the insiders' abuse of power over corporate resources and provide a means to monitor managers' opportunistic behavior.
2. Within the current type of analysis, scope may be widened by covering the corporate governance disclosure practice by Kenyan public limited companies over a number of years to find out the extent of importance the organizations are emphasizing on this issue.
3. The CMA guideline has had an impact on the reporting practices of quoted companies; so has Central Bank requirements on the financial statement of financial institutions. The majority of business organizations, however, fall outside the purview of the CMA and the Central Bank. There is need to assess the gaps and loopholes in the governance and related reporting for such private companies. Scholarly effort should be directed in this sector.
4. Further research is necessary using time series techniques and panel data to evaluate the improvements and trends over time. This can help ascertain the drivers (or impediments) to advancement in proper governance practices and reporting.
5. Further analysis may also include managerial perceptions studies and stakeholders' perceptions studies.
6. Steps should be taken for mandatory compliance of the CMA notification and for reducing the gap between disclosure practices especially for companies not quoted at NSE.

Limitations of the study

The findings of the study may be limited in the generalizability because of several data and methodological weaknesses:

1. First, the whole population of the 54 listed companies could not be studied because of inaccessibility of their financial statements. A clearer picture of the companies' practices would be gleaned only if the full population were used.
2. Moreover, in this project all the disclosure items are given same weight. Although this helps to reduce subjectivity, the market may place higher emphasis on certain elements of governance.
3. Also, some aspect of governance may be considered to be a basic component or prerequisite to implementing others and thus should be given more weight.

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Appendix

APPENDIX 1														
Corporate Governance Disclosure Index Questionnaire Checklist.															
Financial statements will be examined to determine whether or not they report on the disclosure issues listed below. 'YES' will sc															
DISCLOSURE ITEM	diamond	equityu	hfck	jubilee	kcb	k-re	nbk	nic	scb	arm	bambu	bat	ea cables	ea brewe	ea port
I. **Financial Disclosures:**															
1. Financial and Operating Results	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
2. Related Party Transaction	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
3.Critical accounting policies	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
4. Corporate reporting framework	0	0	0	0	0	0	0	1	0	0	1	0	0	1	0
5. Statement of directors' responsibility	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0
6. Risk and estimates in preparing and presenting fina	0	0	0	0	1	0	1	0	1	0	0	0	0	0	0
7. Segment reporting	0	1	1	1	1	1	1	1	0	1	0	1	1	1	0
8. Information regarding future plan	0	1	1	0	0	1	0	1	0	1	1	1	0	1	0
9. Dividend	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
TOTAL SUBINDEX - DISCLOSURES	**5**	**7**	**7**	**6**	**7**	**7**	**7**	**8**	**6**	**7**	**7**	**7**	**6**	**8**	**4**
II. Non- financial disclosures															
A. Company Objectives:															
10. Information about company objectives	0	0	0	0	0	0	0	1	0	0	1	0	0	1	0
B. Ownership and Shareholders' Rights :															
11. Ownership Structure	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1
12. Shareholder Rights	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
13. Size of board	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
14. Composition of board	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
15. Division between chairman and CEO	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1
16. Chairman Statement	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
17. Information about Independent Director	1	1	1	0	1	1	0	1	1	0	1	1	1	1	0
18. Role and functions of the board	1	1	1	1	1	0	1	1	1	0	1	1	1	1	1
19. Organizational Hierarchy	1	1	1	0	0	1	0	0	0	0	1	1	1	0	1
20. Changes in Board Structure	0	1	0	0	1	0	0	0	1	0	1	0	0	1	0
21. Compliance with different legal rules	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
22. Audit committee	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
23. Remuneration committee	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
24. Any other committee	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1
25. Composition of the committee	0	1	1	1	1	1	1	1	1	1	1	0	1	1	1
26. Functioning of the committee	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1
27. Organizational code of ethics	1	1	0	1	1	1	0	1	1	0	1	0	0	0	1
TOTAL SUBINDEX - SHAREHOLDER RGH	15	17	15	13	16	15	13	16	16	10	17	14	15	16	15
D. Members of the Board and key executives:															
28. Biography of the board members	1	1	1	0	1	0	0	1	1	0	1	1	1	1	0
29. No. of directorship hold by individual members	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0
30. No. of board meeting	1	1	1	0	1	1	1	1	1	0	1	0	1	1	0
31. Attendance in board meeting	1	0	1	0	1	0	1	1	1	0	0	0	0	0	0
32. Director stock ownership	0	0	0	1	1	0	0	0	0	0	0	0	1	1	0
33. Director remuneration	1	0	1	1	1	1	1	1	1	1	1	0	1	0	1
TOTAL SUBINDEX-BRD STRUCURE	4	2	4	2	6	2	3	5	4	1	3	1	4	3	1
E. Material issues regarding employees, environmental and social stewardship															
34. Employee relation/Industrial relation	1	0	1	0	1	1	0	1	1	1	1	1	1	1	1
35. Environmental and social responsibility	1	0	0	0	1	1	0	1	1	1	1	1	0	1	1
F. Material foreseeable risk factors :															
36. Risk assessment and management	1	1	1	1	1	1	1	1	1	1	0	1	1	0	1
37. Internal control system	1	1	1	1	0	0	0	1	1	0	0	1	1	0	1
G. Independence of Auditors:															
38. Auditor appointment and rotation	1	1	1	1		0	1	1	1	1	1	1	1	1	1
39. Auditor fees	1	1	1	1		1	1	1	1	1	1	1	1	1	1
III. Annual General Meeting:															
40. Notice of the AGM	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
41. Agenda of the AGM	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
IV. Timing and means of disclosure:															
42. Separate Corporate Governance statement/ sepa	1	1	1	1	1	1	0	1	1	0	1	1	1	1	1
43. Annual report through internet	1	1	0	1	1	1	1	1	1	0	1	1	0	0	1
44. Any other event	1		1	1	1	1	1	1	1	1	1	1	1	1	1
V. Best practices for compliance with corporate governance															
45. Compliance with CMA GUIDELINES	0	1	1	1	1	0	0	1	0	0	1	1	1	0	1
TOTAL SUBINDEX - ETHICS	11	9	10	10	9	9	7	12	11	8	10	12	10	8	12
GRAND TOTAL	35	35	36	31	38	33	30	41	37	26	37	34	35	35	32

Corporate Governance Disclosure Index Questionnaire Checklist.											
Financial statements will be examined to determine whether or not they report on the disclosure issues											
DISCLOSURE ITEM	ea port	eveready	kpl&c	kengen	mumias	sameer	unga	Express	TTL SCOF	TTL PSSBL	% SCORE
I. **Financial Disclosures:**											
1. Financial and Operating Results	1	1	1	1	1	1	1	1	35	35	1
2. Related Party Transaction	1	1	1	1	1	1	1	1	33	35	0.942857
3.Critical accounting policies	1	1	1	1	1	1	1	1	35	35	1
4. Corporate reporting framework	0	0	0	0	0	0	0	0	6	35	0.171429
5. Statement of directors' responsibility	0	1	1	1	1	1	1	1	33	35	0.942857
6. Risk and estimates in preparing and presenting fina	0	0	0	0	0	0	0	0	6	35	0.171429
7. Segment reporting	0	1	1	0	0	1	1	1	28	35	0.8
8. Information regarding future plan	0	1	0	0	1	1	1	1	19	35	0.542857
9. Dividend	1	1	1	1	1	1	1	1	35	35	1
TOTAL SUBINDEX - DISCLOSURES	**4**	**7**	**6**	**5**	**6**	**7**	**7**	**7**	**230**	**315**	**73.01587**
II. Non- financial disclosures											
A. Company Objectives:											
10. Information about company objectives	0	1	0	1	1	0	1	0	10	35	0.285714
									10		
B. Ownership and Shareholders' Rights :											
11. Ownership Structure	1	1	1	1	1	1	1	1	34	35	0.971429
12. Shareholder Rights	1	1	1	1	1	1	1	1	35	35	1
13. Size of board	1	1	1	1	1	1	1	1	35	35	1
14. Composition of board	1	1	1	1	1	1	1	1	35	35	1
15. Division between chairman and CEO	1	1	1	1	1	1	1	1	34	35	0.971429
16. Chairman Statement	1	1	1	1	1	1	1	1	35	35	1
17. Information about Independent Director	0	1	0	0	1	0	1	0	23	35	97.14
18. Role and functions of the board	1	1	1	1	1	1	1	1	30	35	0.857143
19. Organizational Hierarchy	1	0	0	0	0	1	0	0	12	35	0.342857
20. Changes in Board Structure	0	1	1	1	1	0	1	1	16	35	0.457143
21. Compliance with different legal rules	1	1	1	1	1	1	1	1	35	35	1
22. Audit committee	1	1	1	1	1	1	1	1	35	35	1
23. Remuneration committee	1	1	1	1	1	1	1	1	35	35	1
24. Any other committee	1	1	1	1	1	1	1	0	32	35	0.914286
25. Composition of the committee	1	1	1	1	1	1	1	0	29	35	0.828571
26. Functioning of the committee	1	1	1	0	1	1	1	1	31	35	0.885714
27. Organizational code of ethics	1	0	0	1	0	0	1	0	14	35	0.4
TOTAL SUBINDEX - SHAREHOLDER RGHT	15	16	14	15	16	14	17	12	520	630	82.53968
D. Members of the Board and key executives:											
28. Biography of the board members	0	1	1	1	1	0	1	0	22	35	0.628571
29. No. of directorship hold by individual members	0	0	0	0	0	0	0	0	2	35	0.057143
30. No. of board meeting	0	0	0	1	1	1	1	0	24	35	0.685714
31. Attendance in board meeting	0	0	0	0	0	0	0	0	8	35	0.228571
32. Director stock ownership	0	0	1	0	1	0	1	0	11	35	0.314286
33. Director remuneration	1	0	1	1	1	1	1	1	28	35	0.8
TOTAL SUBINDEX-BRD STRUCURE	1	1	3	3	4	2	4	1	95	210	45.2381
E. Material issues regarding employees, environmental and social stewardship									0		
34. Employee relation/Industrial relation	1	1	1	0	1	1	0	0	24	35	0.685714
35. Environmental and social responsibility	1	1	1	1	1	1	0	0	25	35	0.714286
F. Material foreseeable risk factors :											
36. Risk assessment and management	1	0	1	1	0	1	1	1	28	35	0.8
37. Internal control system	1	0	1	0	0	0	0	1	17	35	0.485714
G. Independence of Auditors:											
38. Auditor appointment and rotation	1	1	1	1	1	1	1	1	30	35	0.857143
39. Auditor fees	1	1	1	1	1	1	1	1	33	35	0.942857
III. Annual General Meeting:											
40. Notice of the AGM	1	1	1	1	1	1	1	1	34	35	0.971429
41. Agenda of the AGM	1	1	1	1	1	1	1	1	34	35	0.971429
IV. Timing and means of disclosure:											
42. Separate Corporate Governance statement/ sepa	1	0	1	1	1	1	1	1	31	35	0.885714
43. Annual report through internet	1	1	1	0	0	1	0	0	20	35	0.571429
44. Any other event	1	1	1	1	1	1	1	1	30	35	0.857143
V. Best practices for compliance with corporate governance											
45. Compliance with CMA GUIDELINES	1	1	1	1	0	1	0	1	23	35	0.657143
TOTAL SUBINDEX - ETHICS	12	9	12	9	8	11	7	9	329	420	78.33333
GRAND TOTAL	32	33	35	32	34	34	35	29	1174	1575	74.53968

APPENDIX 1

Corporate Governance Disclosure Index Questionnaire Checklist.

Financial statements will be examined to determine whether or not they report on the disclosure issues listed below. 'YES' will score 1, while 'NO' SCORES 0.

DISCLOSURE ITEM	uni	kaku	rea	c&g	cmc	kq	nmg	scan	tps	uchu	bbk	centu	cfc	diamond	equityu	hfck	jubilee	kcb	k-re	nbk	nic	scb	arm	bambu	bat	ea cables	ea brewe	ea port	eveready	kpl&c	kengen	mumias	sameer	unga	Express	TTL SCOI	TTL PSSBL	% SCORE
I. Financial Disclosures:																																						
1. Financial and Operating Results	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
2. Related Party Transaction	1	1	0	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	33	35	0.942857
3.Critical accounting policies	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
4. Corporate reporting framework	1	0	0	0	0	0	0	0	1	0	0	0	1	0	0	0	0	0	0	0	1	0	0	1	0	0	1	0	0	0	0	0	0	0	0	6	35	0.171429
5. Statement of directors' responsibility	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	33	35	0.942857
6. Risk and estimates in preparing and presenting financial statements	0	0	1	0	0	0	0	1	0	0	1	0	0	0	0	0	0	1	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	6	35	0.171429
7. Segment reporting	0	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0	1	0	1	1	1	0	1	1	0	0	1	1	1	28	35	0.8
8. Information regarding future plan	0	0	0	1	1	1	1	0	0	0	1	0	1	0	1	1	0	0	1	0	1	0	1	1	1	0	1	0	1	0	0	1	1	1	1	19	35	0.542857
9. Dividend	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
TOTAL SUBINDEX - DISCLOSURES	**6**	**6**	**6**	**7**	**6**	**7**	**7**	**6**	**7**	**6**	**8**	**6**	**8**	**5**	**7**	**7**	**6**	**7**	**7**	**7**	**8**	**6**	**7**	**7**	**7**	**6**	**8**	**4**	**7**	**6**	**5**	**6**	**7**	**7**	**7**	**230**	**315**	**73.01587**
II. Non- financial disclosures																																						
A. Company Objectives:																																						
10. Information about company objectives	0	1	0	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	1	0	1	0	1	1	0	1	0	10	35	0.285714
																																				10		
B. Ownership and Shareholders' Rights:																																						
11. Ownership Structure	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	34	35	0.971429
12. Shareholder Rights	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
13. Size of board	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
14. Composition of board	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
15. Division between chairman and CEO	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	34	35	0.971429
16. Chairman Statement	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
17. Information about Independent Director	1	0	1	0	0	1	1	1	1	0	1	1	1	1	1	1	0	1	1	0	1	1	0	1	1	1	1	0	1	0	0	1	0	1	0	23	35	97.14
18. Role and functions of the board	1	1	1	1	1	1	0	0	1	1	0	1	1	1	1	1	1	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	30	35	0.857143
19. Organizational Hierarchy	0	0	0	0	1	0	0	0	0	0	0	1	1	1	1	1	0	0	1	0	0	0	0	1	1	1	0	1	0	0	0	0	1	0	0	12	35	0.342857
20. Changes in Board Structure	1		0	0	0	1	1	0	0	1	0	1	0	0	1	0	0	1	0	0	0	1	0	1	0	0	1	0	1	1	1	1	0	1	1	16	35	0.457143
21. Compliance with different legal rules	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
22. Audit committee	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
23. Remuneration committee	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	35	35	1
24. Any other committee	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	0	32	35	0.914286
25. Composition of the committee	1	0	1	0	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	0	29	35	0.828571
26. Functioning of the committee	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	1	1	1	1	1	0	1	1	1	1	31	35	0.885714
27. Organizational code of ethics	1	0	0	0	0	1	0	0	0	0	0	0	1	1	1	0	1	1	1	0	1	1	0	1	0	0	0	1	0	0	1	0	0	1	0	14	35	0.4
TOTAL SUBINDEX - SHAREHOLDER RGHTS	16	13	14	12	14	16	13	13	14	15	13	16	16	15	17	15	13	16	15	13	16	16	10	17	14	15	16	15	16	14	15	16	14	17	12	520	630	82.53968
D. Members of the Board and key executives:																																						
28. Biography of the board members	1	0	1	0	0	1	1	0	1	0	1	1	0	1	1	1	0	1	0	0	1	1	0	1	1	1	1	0	1	1	1	1	0	1	0	22	35	0.628571
29. No. of directorship hold by individual members	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	35	0.057143
30. No. of board meeting	1	0	1	1	1	1	0	1	1	1	0	1	1	1	1	1	0	1	1	1	1	1	0	1	0	1	1	0	0	0	1	1	1	1	0	24	35	0.685714
31. Attendance in board meeting	0	0	0	0	0	0	0	0	0	0	0	1	1	1	0	1	0	1	0	1	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0	8	35	0.228571
32. Director stock ownership	0	0	0	1	0	1	0	0	1	0	0	1	0	0	0	0	1	1	0	0	0	0	0	0	0	1	1	0	0	1	0	1	0	1	0	11	35	0.314286
33. Director remuneration	1	1	1	1	1	1	0	1	1	1	0	1	1	1	0	1	1	1	1	1	1	1	1	1	0	1	0	1	0	1	1	1	1	1	1	28	35	0.8
TOTAL SUBINDEX-BRD STRUCURE	3	1	3	3	2	4	1	2	4	2	1	5	3	4	2	4	2	6	2	3	5	4	1	3	1	4	3	1	1	3	3	4	2	4	1	95	210	45.2381
E. Material issues regarding employees, environmental and social stewardship																																				0		
34. Employee relation/Industrial relation	1	1	1	1	0	1	0	0	1	0	1	0	1	1	0	1	0	1	1	0	1	1	1	1	1	1	1	1	1	1	0	1	1	0	0	24	35	0.685714
35. Environmental and social responsibility	1	1	1	1	0	1	1	1	1	0	1	1	1	1	0	0	0	1	1	0	1	1	1	1	1	0	1	1	1	1	1	1	1	0	0	25	35	0.714286
F. Material foreseeable risk factors:																																						
36. Risk assessment and management	1	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	0	1	0	1	1	0	1	1	1	28	35	0.8
37. Internal control system	0	0	0	1	1	1	0	1	1	1	0	0	1	1	1	1	1	0	0	0	1	1	0	0	1	1	0	1	0	1	0	0	0	0	1	17	35	0.485714
G. Independence of Auditors:																																						
38. Auditor appointment and rotation	1	1	1	1	0	1	0	1	1	1	1	1	1	1	1	1	1		0	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	30	35	0.857143
39. Auditor fees	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	33	35	0.942857
III. Annual General Meeting:																																						
40. Notice of the AGM	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	34	35	0.971429
41. Agenda of the AGM	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	34	35	0.971429
IV. Timing and means of disclosure:																																						
42. Separate Corporate Governance statement/ separate section for corporate governance	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	1	1	0	1	1	1	1	1	0	1	1	1	1	1	1	31	35	0.885714
43. Annual report through internet	0	0	1	0	1	1	1	1	0	0	1	0	1	1	1	0	1	1	1	1	1	1	0	1	1	0	0	1	1	1	0	0	1	0	0	20	35	0.571429
44. Any other event	1	0	1	0	1	0	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	30	35	0.857143
V. Best practices for compliance with corporate governance																																						
45. Compliance with CMA GUIDELINES	1	1	1	0		0	1	0	1	1	1	1	1	0	1	1	1	1	0	0	1	0	0	1	1	1	0	1	1	1	1	0	1	0	1	23	35	0.657143
TOTAL SUBINDEX - ETHICS	10	8	10	9	8	11	9	11	11	9	11	9	12	11	9	10	10	9	9	7	12	11	8	10	12	10	8	12	9	12	9	8	11	7	9	329	420	78.33333
GRAND TOTAL	35	28	33	31	30	38	30	32	36	32	33	36	39	35	35	36	31	38	33	30	41	37	26	37	34	35	35	32	33	35	32	34	34	35	29	1174	1575	74.53968