# EFFECTS OF CORPORATE GOVERNANCE PRACTICES ON INVESTMENT DECISIONS OF LARGE, RETAIL CHAINS IN KENYA


**BY**

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## DECLARATION

**Declaration by Student**

My project is completely unique, and to my knowledge it has not been submitted for consideration for a degree at any other institution or for any other prize.

Signature........................................................ Date 22ND JULY 2022

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**Approval by Supervisors**

We can vouch for the fact that the applicant worked under my direction in order to produce the work that is detailed in this proposal.

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## ABSTRACT

The present economic condition has endured for far too long, and as a result, consumers have every right to expect better results from retail companies. This ought to happen as a consequence of retail chains addressing the causes of bad financial choices and, on occasion, retail chain collapse. These factors include unethical and unprofessional practices, as well as poor management quality. Recent events, like as the financial crisis that hit supermarkets, have brought to light the need of strong corporate governance in ensuring the continued growth and prosperity of firms and the economy as a whole over the long term. This crisis made it abundantly clear that even robust economies, especially those lacking in transparent governance, accountable corporate boards, and shareholder rights, are susceptible to rapid collapse in the event that investors lose faith in the market. Therefore, the issue that has to be answered is how the various aspects of corporate governance effect performance. Therefore, the objective of this research was to determine the extent to which corporate governance procedures have an impact on the investment choices made by significant retail chains that have been operating in Kenya for at least five years. The resource dependence theory, the stewardship theory, and the agency theory served as the foundation for this investigation. The study was carried out using a survey format. The study gathered information and data with the purpose of determining the influence that corporate governance standards have on investment choices made by big retail businesses. All of the big supermarkets that have been in business in Nairobi City County, Kenya for at least five years constituted the study's population. The investigator focused their attention on seven grocery stores that the CAK classifies as being big. Five (5) respondents were selected at random from each grocery store, for a total of thirty-five (35) respondents. To gather primary data, we conducted in-depth interviews, while to compile secondary data, we scoured business websites and internal corporate documents. The analysis of the data was conducted so that significance could be drawn between the study's aims, hypotheses, and findings. Using evidence evaluation, classification, tabulation, and recombination, this was completed. The presented quantitative data was shown using tabulations, bar graphs, and pie charts. Simple and complex linear regressions were performed as part of the study of regression. In each of these cases, the regression was carried out at a different level. The results suggest that corporate governance policies significantly affect the investment decisions of large retail chains. While large supermarkets and chain shops may not implement every possible corporate governance practice, they do have key committees like the governance committee, which meets at least annually to study and report on all matters related to corporate governance. Large grocery shops and retail chains may not implement all of the available corporate governance standards, but it doesn't stop this group from meeting regularly anyhow. The researcher suggests that management should keep and grow a board that is responsible, innovative, and imaginative in addition to one that is more appropriately chosen and operated since transparency is one of the most crucial indications for examining investment selections. Directors should never conduct formal reviews of their own acts, the company, or individual directors; rules for the mandatory retirement age for directors should originate from the highest level of management, and these requirements should be unambiguous.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

### 1.1.1 Corporate Governance Practices

For an economy to be robust and continue to grow, having a reliable financial system is essential. Any economy's monetary and banking structures are dominated to a significant extent by the retail chains (Singh, 2010). The retail sector is a vital aspect of every economy and contributes significantly to its expansion and development. Only with the assistance of retail chains, which accelerate a nation's overall pace of economic expansion, is it feasible to channel the country's accumulated savings into productive industries (Dawood, 2014).

Compliance with corporate governance norms, however, shows that you have trust in your company's future and the huge growth potential that lie ahead of it, and this is the most crucial thing to remember. Compliance with corporate governance standards makes a firm more appealing since it is more clearly governed and directed (Knell, 2006). The recent events give significant proof that weak corporate governance standards in some firms might be a contributing factor in the demise of such organizations. There is a larger chance of default at financial institutions since companies' risk profiles have increased owing to the absence of appropriate governance norms in the commercial sector. Due to the correlation between ineffective risk management and monetary instability, retail and financial institutions are particularly well-served by adhering to formal (or mandatory) corporate governance norms (Singh 2005). The ripple impact of a single shop event may be seen across an entire retail chain. Accordingly, the board and its independent committees in financial institutions place a premium on taking swift remedial steps to prevent defaulting on commitments. These include providing adequate checks and balances, openness and declarations, reliable methods for controlling risks, techniques for limiting the risk, early warning and control systems, and formal corporate governance (Singh 2005).

### 1.1.2 Investment Decisions

Considering the importance of corporate governance, it is logical to assume, at least intuitively, that good investment decisions made by retail chains are linked to good corporate governance. However, as a result of their complexity, it is not possible to provide a straightforward response to the question of which aspect of corporate governance would increase (or worsen) the liquidity of a certain institution (Naser-Ail, Mohammad & Ma'someh, 2013). The primary purpose of the corporate governance is that through financial institutions, the process of transferring funds by the sectors that have surplus to sectors that need additional funds can be mediated. Greater attention is being paid to governance problems, such as board composition configurations and board leadership arrangements, although the effect of these factors on corporate success is still unknown (Dalton et al., 2008).

Many academic papers have shown a connection between good company governance and positive financial outcomes. Meta-analyses of these research consistently find either negative or non-significant associations between variables. This is true even when correlations between board member characteristics and financial success have been conclusively shown (Dalton et al., 2008). According to Hunter and Schmidth (2010, p. 29), for example, it has been hypothesized that seemingly contradictory ruffles in the literature are really completely made up. Truly, there is no such thing as a linked population. In a recent meta-analysis of empirical research, Dalton et al. (2018) revealed that the outcomes varied greatly depending on firm size, the type of fiscal preference indicators, and the operationalization of board composition.

Dalton and Daily (2019) drew the same result after reviewing data from the previous 40 years and 159 investigations. Their results seem to indicate that the make-up of a company's board of directors doesn't have much of an effect on the bottom line. This was the case regardless of the kind of key performance indicators (KPIs) being utilized, the size of the organization, or the metrics being applied to the board of directors. A board that strictly follows the idea of unfettered independence may fail to fulfill its information-gathering, guidance-providing, and resource-dependency responsibilities (Dalton and Daily; 2009). However, if a majority of a board's directors are affiliated with or employed by the firm, the board's ability to monitor and control activities may be diminished (Daily and Dalton, 2004; 2009). As a result, it is not wise to put too much faith on the independence of board members or any one part of board activities and characteristics as a strategy to guarantee the financial success of a business, especially if doing so would jeopardize the execution of other director tasks and responsibilities (Johnson et al., 2003; Dalton & Daily, 2009).

### 1.1.3 Retail Chain Stores in Kenya

The retail chain shops in Kenya are made up of companies that sell goods to customers on a broad basis and have not significantly altered their business strategy in any significant way. The last step in the distribution process before the product is purchased by the end user is retailing. Hawkers, also known as itinerant merchants, flea markets, grocery stores, kiosks, shops, and supermarkets make up Kenya's retail economy. Supermarkets are regarded big scale merchants, whilst the other types of retail establishments are believed to be on a smaller size. Because of the restricted selection available at kiosks and stores, buyers are unable to determine for themselves whether or not a product is of high quality; instead, they must attract the attention of a sales clerk. Customers are left dissatisfied as a result, which creates a demand that has been building up for better options. The availability of these superior options is made possible by supermarkets due to the fact that they contain everything a consumer could possibly need under one roof. In the past, customers would have to spend an entire day running errands. The majority of Kenya's retail industry is comprised of small businesses, but a select few bigger firms, such as supermarkets, also operate there. Historically, the developed world has been associated with supermarkets. Supermarkets, on the other hand, have mushroomed all across the developing world, especially in Sub-Saharan Africa, as urbanization and affluence have increased there (Munyoki, 1997).

Recently, there have been reports of stores in Kenya collapsing, while other shops in the country have reported having bare shelves. The failure of a significant number of supermarkets in Kenya's history, such as Uchumi supermarket, Nakumatt Supermarket, and most recently Tuskys, has been attributed to the financial manager's inability to adequately plan for and exercise control over the supermarkets' respective levels of working capital. This is especially true with regard to the Uchumi supermarket. In light of this, the issue of governance in major retail firms has shot to the forefront in recent years, and the surge in interest in this topic can be traced back to the widespread perception that there has been a governance crisis in each of these contexts. (Chesula, 2018).

## 1.2 Statement of the Problems

Undoubtedly, the present economic condition, which has existed for far too long, merits a more solid, steady, and successful showing from the retail chains. This should happen as a consequence of retailers resolving the issues that lead to bad financial choices and, on occasion, the collapse of retail operations. These factors include unethical and unprofessional practices, as well as poor management quality. Recent financial crises in the grocery industry are just one example of how important effective corporate governance is to the health of both individual companies and the economy as a whole. This crisis made it very clear that even robust economies, in the absence of transparent governance, accountable corporate boards, and shareholder rights, are capable of collapsing in a relatively short amount of time if market confidence begins to erode (Akingunola, Adekunle & Adedipe, 2013). So, the question is how corporate governance impacts on performance in different contexts.

Existing research on corporate governance, however, has mostly looked at how it affects overall performance, thus it doesn't go into enough detail to describe how it affects the various components of performance (Akingunola, Adekunle & Adedipe, 2013; Shungu, Ngirande, & Ndlovu, 2014). An investigation titled "Corporate Governance in Financial Institutions and Its Impact on Risk and Performance" was carried out by Himaj (2014). On the other hand, the chosen governance mechanisms were subjected to a literature review in this particular research, which did not concentrate on a particular setting. Dawood (2014) investigated the variables that have an effect on the profitability of financial institutions in Pakistan over the years 2009-2012. Likewise, this study focused on banking industry and not retail chains and does not adequately describe the effect of corporate governance on investment decision. Furthermore, it was based in the Pakistan context.

In particular, the effect on the aspects corporate governance practices and investments decisions have been scarcely discussed especially in the Kenyan context. The scarcity of such or even closely related studies is more pronounced in the Kenyan context. The few related, though not adequately addressing the interplay between theses aspects, have been conducted in different contexts. Thus there is need for corporate governance practices for large, retail chains in Kenya. After all, improved accountability and transparency are inextricably linked to sound corporate governance practices. The improved flow of investment choices ought to be a natural consequence of the greater openness and accountability that has been implemented. As a result, the purpose of this research was to determine the impact that corporate governance procedures have on the investment choices made by significant retail chains in Kenya.

## 1.3 Objectives

The main research objective was to establish the influence corporate governance practices on investment decisions for large, retail chains in operations for at least five years in Kenya.

## 1.4 Significance of the Study

The study's findings concentrated on expanding and deepening our understanding of how Kenya's retail chains' investment decisions are influenced by corporate governance norms. While the retail sector and the business community may use general corporate governance indicators from theempirical research to influence the development of legislation and the making of educated decisions, This research will give valuable insights on corporate governance to policy and decision makers at varying levels of management in retail chains, hence facilitating the growth of the financial and economic outlook of both individual retail chains and the retail sector as a whole in Kenya. Policymakers and decision-makers may use this data to better control their companies. The study willalso help us learn more about corporate governance practices in the Kenyan retail sector and how businesses there might implement them to ensure their own long-term success. Many different retail chains in Kenya, and especially major supermarkets, will find the research to be highly useful for theiroperations, and more importantly, as a benchmark for making choices to strengthen corporategovernance in the retail business.

The study's findings may serve as a starting point for retail chain officials as they craft measures to improve and streamline the industry's regulatory framework. The report will be used by the government in order to formulate regulations and devise methods for boosting corporate governance practices in significant retail chains across the nation.

## 1.5 Scope of the Study

This study focused only on corporate governance, business characteristics, and liquidity as they relate to the retail chain environment. The importance of the retail chains as a subject of study was highlighted by the fact that the stability of the sector is associated with a sizeable positive externality and that the sector contains key institutions that are responsible for the upkeep of the payment system in the economy, both of which are necessary for the well-being of the economy and the maintenance of financial stability. The researcher was aware of the possibility that the underlying behavior of each supermarket might have had an impact on performance investment choice, which would have led to skewed regression findings.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

The previous research on corporate governance in Kenya's small and medium-sized businesses are discussed in this chapter. In specifically, the chapter discusses many perspectives, including empiricism and theory, about governance; corporate governance procedures; drivers of good governance; the link between governance and the performance of a company; and the conclusion.

## 2.2 Theoretical Review

This inquiry was constructed using the resource dependence theory, the stewardship theory, and the agency theory as its underlying pillars.

### 2.2.1 Resource Dependency Theory

When contemplating how external resources impact the functioning of parastatals, the resource dependency hypothesis is highlighted (Pfeiffer and Salancik, 2003). The underlying idea behind this school of thought is that organizations' choices and actions may be fine-tuned depending on external factors like the availability of a certain resource. This theory also rests on the premise that parastatals have the autonomy to make choices and implement measures that are appropriate for their unique interdependent context. Considering the environment in which a parastatal operates as a business is crucial to the theory, which seeks to account for behavior and its consequences (Pfeiffer & Salancik, 2003). Without being able to successfully acquire the necessary money, most parastatals would have to cease operations.

This concept expands upon the earlier explanation of the value of environmental ties between a parastatal and external resources that, if used effectively, might improve performance. As reported by (Hull & Rothenberg, 2008). Ongore and Kobonyo (2011) state that in order to boost the parastatals' overall performance, more attention has been paid to the knowledge resources and other qualities that directors may bring to the table. Some examples of these skills include strategic planning, leadership, board-level management and monitoring, and self-control. Executives might get more training and mentoring from board members, which would result in improved organizational behavior.

According to Del Baldo (2012), the experience and talents of directors, as well as suppliers, buyers, public policy decision makers, social groupings, and legitimacy, are all resources that have the potential to assist in lowering risk and increasing productivity. In line with resource dependence theory, the board should step in and provide the CEO with significant financial, human, and intangible support. Therefore, this theory would suggest that directors' appointments to parastatal boards are warranted because of the information gathering and networking opportunities afforded to them. The idea is relevant to the investigation because it specifies how a board of directors might make the most of the resources at its disposal to improve corporate governance.

### 2.2.2 Stewardship Theory

Stewardship theorists assert that managers and executives should serve as trustees for the company's owners. In order to boost performance, the board should play a supporting role by giving the management team more authority (Shen, 2013). The stewardship principles call for an improved working relationship between the board of directors and the company's senior executives characterized by frequent and open dialogue, mutual trust, and the free flow of information, advice, and agreements (Shen, 2003; Sundaramurthy & Lewis, 2003). Since this idea has the potential to better serve shareholder interests, it might be applied from a more liberal perspective as well. The theoretical foundation is normative, supposing that the authorized directors would use their responsibility appropriately. Extrinsic motivators, such as elaborate compensation structures and incentive plans, are required for the executive team and board of directors.

### 2.2.3 The Agency Theory

Agency theory was first created by economists Alchian and Demsetz (1972), and was then refined by Jensen and Meckling (1976). In this theory, managers will not take action to increase shareholder profits unless there are strong governance systems in place inside the large organization to protect their interests. According to Jensen and Meckling (1976), owners and managers should be seen as principal and agent in their relationship. This allows for the shareholders' and executives' roles to be clearly defined. This theory underlines a key challenge for absent or distant owners or shareholders who rely on the services of professional executives to advocate their interests within the framework of corporate governance. The primary idea behind this thesis is that people generally act in their own self-interest and seize opportunities when they present themselves. Consequently, there is a greater chance that the CEO, in their capacity as agent, may prioritize their personal interests above that of the owner principle. So that the executive's interests are in line with those of the shareholder, it is necessary to incur "agency costs," which are the expenses caused by this need. In addition, there are "agency expenses" associated with keeping an eye on executives' actions to make sure they aren't abusing their position to benefit themselves or the company. These are called "agency expenses," and they must be paid for by the principal in order to lessen the impact of the problem.

The deductive nature of the process underpinning agency theory must be kept in mind. Its ideas have been the subject of a great deal of empirical research, most of which has consisted of the testing of hypotheses with regard to massive data sets. More attention from agency theorists has been paid to testing the various mechanisms put in place to channel executives' vested interests toward the benefit of stockholders. To this day, studies examining the link between good corporate governance and successful businesses have yielded contradictory findings. Despite this, agency theory's underlying assumptions have been crucial in shaping contemporary approaches to corporate oversight. It is crucial to separate board-based processes from those that rely on external market factors in this setting.

It is essential to bear in mind that the deductive process is the foundation upon which agency theory is built. Its concepts have been the subject of much empirical inquiry, however this examination has often included the comparison of many hypotheses using large datasets. It has been the study of agency theorists to determine the efficacy of various mechanisms for ensuring that chief executive officers prioritize shareholder returns above their own compensation. It's possible to find similar practices all around an organization. So far, studies examining the link between good corporate governance and successful business management have shown inconclusive results. However, reforming corporate governance in line with agency theory notions has shown to be a successful procedure. Regarding governance in this context, it is essential to differentiate between board-based and market-focused procedures.

In addition to these external 'market' procedures, the disciplinary impacts of external monitoring, either directly or indirectly, on the performance of companies and their executive staffs must also be taken into consideration. In a purely legal sense, the Annual General Meeting is the occasion at which the directors are given the chance to report directly to their shareholders. The AGM's statutory role has, however, been augmented and misdirected by a variety of other means. This is true whether or not an annual meeting is conducted. Many companies provide presentations for sell-side analysts around the time they report earnings. Thereafter, these sell-side analysts play a crucial role as go-betweens for the firms and the investors. In addition to these annual, high-level briefings, executives often meet with their most significant investors in a far smaller number of private, one-on-one sessions throughout the year.

Agency theory has also been used to guide the internal reform of boards of directors, in addition to these external market and monitoring systems. The extensive implementation of executives share-option plans may be seen as one of its most important and direct contributors to the company's success. Executives' pursuit of self-interest must be consistent with shareholders' interests, therefore these strategies follow logically from the agency's underlying premise.

The inclusion of more independent non-executive members on the board has led to the impression that it is operating in the owner's/best shareholders' interests, even if conflicts between executives and shareholders may be at their highest in the audit, nominations, and pay committees. In addition, the rules that define the separation of the chairman and CEO roles have been more stringent throughout the course of the company's history.

## 2.3 Empirical Review

The study's empirical review was guided by the study's aims. In order to illustrate the need for this study and demonstrate its relation to the previously discussed theoretical frameworks, an empirical review was conducted. The governance index created by these groups is used as a foundation for a wide variety of research projects. Klapper and Love (2014) use data from Credit Lyonnais Securities Asia to create corporate governance indexes for a group of 25 developing countries. They employed a poll with 57 yes/no questions, and Klapper and Love (2014) found the results to be rather reliable. They may be broken down into the following seven groups: self-control, openness, autonomy, responsibility, equity, and awareness of others' needs. Except for the last category, which is only worth

0.10, all the others have a weight of 0.15. S&P reports a T&D index, as mentioned by Durnev and Kim (2015) and Patel et al. (2012). Credit Lyonnais Securities Asia index is defined as somewhat subjective by Durnev and Kim (2015) whereas the S&P 500 is defined as substantially objective. A governance score for US firms was developed by Brown and Caylor (2016) based on information from Institutional Shareholder Services. Bauer et al. (2014) use the Deminor scale. The research by Black et al. (2016) is based on the responses to 38 quantitative questions included in a survey commissioned by the Korean Stock Exchange. One-quarter each goes to shareholder rights, the board of directors in general, outside directors, and transparency and disclosure.

### 2.3.1 Board Structure and Investment Decisions

The board of directors is often regarded as one of the most critical components of effective governance. Chaudhary (2021) investigates how the composition of boards, the actions of boards, and the involvement of institutional investors all have a role in the volatility of stock returns for Indian companies. The selection of non-financial firms from the NSE 500 index as the subject of this essay is the primary emphasis of the paper. We used the system generalized method of moment (GMM) framework developed by Arellano and Bover (1995) and Blundell and Bond to estimate regression models while taking into account endogeneity. This allowed us to take into consideration the effects of endogeneity (1998). It was shown that institutional investors, and notably pressure-insensitive (PI), investors, had an influence on the author's observed volatility in stock returns. Specifically, PI investors were responsible for this effect. In addition, the results of this research contributed to the expanding body of evidence that links institutional investors to the volatility of stock return in a manner that is not linear.

Bhatt and Bhattacharya (2017) studied the effectiveness of various board characteristics in the Indian context. It was considered how many board members had more than one position, how many were not executives, how often board meetings were conducted, and how many board members were present at each meeting. Top companies in India from 2002 to 2012 make up the sample. A board index measuring the quality of the company's governance was developed. The authors find that the board structure of family businesses is adverse to their performance when compared to that of non-family businesses. Contrary to the bulk of research in the Western literature, this one found no significant difference in business success between family-managed and professionally-managed firms.

The goal of the research conducted by Mishra and Kapil (2017) is to find out how different types of board and promoter ownership affect the success of Indian companies. Discussion of data from a study of 391 Indian companies and the effect of corporate governance structures on their bottom lines. These firms were selected at random from the 500 most actively traded businesses in India's CRISIL NSE Index (CNX) (NSE). Tobin's Q and other market-based indicators seem to be more influenced by company governance than accounting-based metrics. Businesses that still have their original investors or founders involved tend to do better financially. Different levels of promoter ownership are found to affect company success in various ways.

The study by Miring'u and Muoria (2011) set out to examine the effect that Corporate Governance has on the efficiency of Kenya's commercial state businesses. The study's goal was to establish whether there was a connection between board size, board composition, and financial performance. This research used a descriptive survey design. The 41 for-profit SCs in Kenya that are registered with the Inspectorate of SCs were assumed to be typical of all SCs in the country. Thirty human resource managers kindly gave their time to fill out the survey. Several statistical methods, including multiple linear regression and descriptive statistics, were used to investigate the information. Research shows that a board of 10 people works best, with at least three of those people coming from outside the company. RoE was shown to be positively correlated with both board size and board composition across all SCs.

Financial performance of Insurers in Ethiopia was examined by Bonsa (2015), who looked at how corporate governance mechanisms affected the industry. The study spanned a decade, from 2005 to 2014, and included data from nine insurance providers collected using a mixed research technique panel. Proxy financial performance for insurers was positively and significantly impacted by factors including chief executive salary, director education and experience, director business management expertise, and director experience in the insurers' sector. There is no statistical evidence to show that having more women on a board improves a company's financial success or increases the effectiveness of the board. Therefore, while establishing industry-wide and firm-specific governance policy, stakeholders should take into account Executive pay, director education and experience, and director business management and industry expertise.

Okumu investigated the relationship between the MBV and ROA of organization traded on the NSE and the qualities corporate governance not limited to committee of audit composition, CEO duality, Composition of the boards as well as it size. The study was published in 2015 and can be found here. The descriptive approach was used as the mode of investigation for this study. Variables related to corporate governance have been proven to have a large influence on Return on Assets but a minor impact on Market to Book Value Ratio and other valuation measures. Nevertheless, both the ROA and the MBV Ratio have the potential to be greatly impacted by the Audit Committee, which is a component of corporate governance. Greater representation of external, external auditors relative to internal directors on the internal auditors is recommended for improved corporate governance.

According to the findings of Chiang and Chia (2015)'s study, increasing levels of corporate openness are associated with better financial results, and as a result, it ought to be regarded as an essential indication of a company's success. According to (Shanikat & Abbadi, 2011), a company's policies and practices should be shown to be in line with relevant laws and regulations via transparent and honest disclosure. According to Linck et al.,(2018) it is the responsibility of the board of directors to provide the company's senior executives with advice and to hold them accountable for the company's activities. External directors' monitoring and advising abilities decline, however, when they have access to a wealth of information about the business (Coles et al (2018). Without knowledge of the firm's investment opportunity set, it is more difficult for an outside board to keep tabs on a company with strong R&D spending, considerable growth prospects, and high volatility.

According to Miring'u and Muoria (2011), successful businesses can only be established and expanded with the help of boards that are not just responsible, innovative, and original, but also boards that are more appropriately elected and managed. According to the recommendation made by Eccles et al. (2012), the governance structure need to be adapted appropriately in order for sustainability to be ingrained in the corporate culture. Executive compensation and the Board of Directors (BOD) were singled out as particularly important components of corporate governance that would help ensure the company's long-term viability and growth. Mallin (2010) concluded that the most essential features of corporate governance were that they helped guarantee an effective and suitable system of controls functioned inside a corporation, whereas Sheikh et al. (2013) showed that internal governance systems had a substantial influence on corporate performance, thereby protecting assets; that it promoted accountability and transparency among company leader.

### 2.3.2 Ethical Practices and Investment Decisions

Watson and Payne (2021) conducted a research to investigate the existing practice of sharing and mining medical data, and their findings revealed the advantages, costs, and ethical concerns associated with this practice. Taking into account the needs and concerns of several stakeholders, the authors formulate an ethical framework to control the dissemination of health records and the collection of information from medical databases. In order to inform the framework, academics, practitioners, and legal experts looked at prior research. In response to a dearth of consumer protections, the authors propose a framework to ensure the open, courteous, responsible, community-oriented, high-quality sharing and mining of medical data (STRACQ). All data sharing and mining must be done in an ethical way, and this framework provides a foundation for doing so based on the concepts of security, openness, respect, accountability, community, and quality.

Chouaibi and Chouaibi, J. (2021) studied the market value of ESG companies by considering the influence of integrating social and ethical ideals into corporate strategy, with the moderating effect of green innovation. The sample included 7,845 observations collected from 2005-2019 in an imbalanced panel. Included in the study were 523 multinational corporations with regional or global headquarters in North America or Western Europe and inclusion on the ESG index. The data suggests that businesses that engage in socially responsible practices tend to see an increase in their stock price. Empirical evidence suggests that social and ethical virtues can increase a company's worth thanks to the moderating effect of eco-friendly innovation, whereas vices hurt it. The findings obtained using the data set's dynamic dimension point to the presence of continuity between company values throughout time.

Campos et al. (2012) use the OECD's (2019) principles of corporate governance to construct a corporate governance grade as a surrogate for an organization's actual degree of governance. This governance score is based on 15 different elements across three different corporate governance categories: ownership and shareholder protection (including things like distributed and anti-takeover defenses, meeting notification, transparent ownerships, and one share/one vote), the board of directors (board committees, written board guidelines, board size, and outside and independent directors), and transparency and disclosure (independent audits, timely disclosure, disclosure, broad and accounting standards).

To learn how Corporate Governance affects the bottom line of state-owned enterprises, Gitari (2018) looked at the new KCC as a case study. He investigated the Board of Director's part in the company's Governance structure, since they are the ones responsible for day-to-day operations. From what we can see, the Board of Directors of New Kenya Cooperative Creameries has been following sound principles of corporate governance. Consistent evaluation and tweaking of these processes has led to better financial outcomes for the cooperative. Principles of corporate governance include the Board's appointment and leadership, the company's structure, mission and values, the distribution of power within the Board, open lines of communication, regular evaluations of the Board's effectiveness, responsibility toward stockholders and other interested parties, and concern for the community and the environment.

A corporate governance index that may be evaluated in an unbiased manner has been calculated by Gompers et al. (2013) for 1,500 US corporations. The Investor Responsibility Research Centre compiled 24 anti-takeover legislation and shareholders' rights to form this index. This is how we calculate the Governance Index (GI): For any restriction that restricts shareholder rights, Gompers et al. (2013) deduct one point from a company's score (increases managerial power). Simply adding one point for each existing provision yields the GI (or absent). In addition to this, Gompers et al. (2013) calculate a sub index for every provision type. However, the benefits of being open and easy to replicate outweigh the issue that the index does a poor job of reflecting the relative impacts of the many regulations. The index is calculated entirely by Gompers et al. (2013) based on the shift in power, and does not need any evaluations of the efficiency or wealth consequences of these provisions.

Using information from 18 Kenyan businesses, Jacob (2011) studied how corporate governance methods varied across parastatals and how that related to financial outcomes. According to the study's findings, adhering to corporate governance regulations may improve a company's bottom line. These results are in line with what has been found before in empirical study on corporate governance, which posited that regulatory state companies' adoption of different corporate governance principles aids in the improvement of such organizations' financial performance.

### 2.3.3 CEO Duality and Investment Decisions

There has been much debate about the issue of whether or not the offices of chairman and CEO need to be kept distinct. The question of whether or not a company should have a separate chairman and chief executive officer (CEO) has generated significant debate. Wijethilake and Ekanayake (2020) used the resource dependency theory to reconcile the differences between the agency and stewardship viewpoints on the connection between CEO dualism and business performance. A multiple regression model is used to examine data on 212 big companies listed on the Colombo Stock Exchange in Sri Lanka. There are 20 distinct markets represented by these firms. The findings of this research, which analyzed all 212 publicly traded firms in Sri Lanka, provide credence to the agency theory by demonstrating that having a CEO who acts in a dual function may be detrimental to a company's performance when the CEO also has strong informal influence.

Teti et al. (2017) wanted to find out if certain corporate governance systems had an effect on how well mergers and acquisitions work. From 2009 through 2013, a total of 1,596 purchases were made on the

US market. These purchases were the subject of regression analyses. The success of an organization's acquisitions was correlated with factors including the level of fixed remuneration for the CEO, board duality, and board independence. Furthermore, the data shows that buyers benefit greatly from their acquisitions, as seen by the positive cumulative abnormal return they get after their disclosure.

Having a separate chairman and chief executive officer is, according to Jensen (2013), beneficial for shareholders. Separating the two functions has been linked to improved financial metrics for major corporations, including a better price-to-book multiple (Yermack, 2006), return on assets ratio (Pi and Timme, 2003), and cost effectiveness ratio. If the same person has both roles, it will be more difficult for the board to fire the CEO if they are unsuccessful (Shivdasani & Zenner, 2004). Because of this, the board may be less flexible and less able to respond to unexpected drops in performance (Goyal & Park, 2002).

Nonetheless, Brickley et al. (2017) find that it is not the case that delegating these responsibilities improves business outcomes. The CEO takes on additional power and responsibility when the roles of chairman and CEO are merged, for instance, and the chairman must distinguish themselves from the other candidates in order to be selected (Brickley et al., 2007). So, the chairmanship is a prize for a new CEO who really delivers the goods. In addition, this is an unstated vote of confidence from independent directors. If this is the case, then mandating that corporations split the roles of chairman and executive would rob boards of directors of a potent incentive to attract and retain new chief executive officers (Brickley et al., 2007).

Duk-Ho Kima et al. (2013) looked at how poor management hurts Korean factories' output. We used multivariate analysis to determine that there is a strong connection between a company's overall success and the quality of its corporate governance. In 2013, Duc and Thuy looked into the prospect of putting a number on the correlation between corporate administration and the functioning of

Vietnamese enterprises. Seventy-seven publicly traded companies were examined using the flexible generalized least squares (FGLS) method between 2006 and 2011. Several elements of corporate governance, such as the proportion of female board members, the number of titles held by the CEO, board member salary, and board member tenure, have been demonstrated to affect a company's bottom line. Regardless of this fact, board measures have a detrimental impact on the execution of businesses.

### 2.3.4 Audit Committees and Investment Decisions

In order to fulfill its role as a control mechanism, the audit committee needs to keep up a certain level of activity by holding meetings more frequently (Bédard et al., 2004). This is particularly important for companies that want to stay out of the crosshairs of the Securities and Exchange Commission (SEC) when it comes to regulatory action (Abbott et al., 2004; McMullen & Raghunandan, 2006). With a few notable differences, the drivers of good governance that will be discussed in this section are, for the most part, relatively comparable to the strong governance indicators that were found by Larcker et al. (2014). Since the success of debt and anti-takeover measures depends on other factors that are specific to a given organization, they are not considered to be governance tools.

Vasile (2013) conducted study to determine how the internal corporate governance of Romanian banks affects their overall performance. His examination concentrated on the organizational structure of the firm, as well as its ownership makeup and an index of corporate governance that had been produced internally. According to the findings of the study, which used a method called multiple regression analysis, the internal corporate governance index had a detrimental effect on the performance of the bank. Reducing the company's susceptibility to external risks by increasing the number of independent board members and implementing improved corporate governance processes in a counter-cyclical approach.

Hopper et al. (2019) presents our concluding study, which is an in-depth examination and analysis of management accounting research conducted in less developed nations over the course of many decades. They use a theoretical framework called "cultural political economics" to make sense of the findings from 75 separate studies published in the academic literature since 1980. The end result is an elucidating and empirically significant explanation of how different types of management accounting relate to different ideal and practical stages of transition that emerging countries go through, from the tyranny of colonial authority to the polarization of market capitalism.

Luyima's (2015) study aimed to look at how corporate governance affected the performance of insurance firms in Kenya. This descriptive cross-sectional analysis found that insurance company profitability was positively correlated with corporate governance practices. This is especially true when looking at how well insurance firms perform in terms of training and development as well as budgeting and forecasting. Having this connection has been demonstrated to boost efficiency as well. The tenets of corporate management have a favorable effect on both a business' bottom line and its consumers' pleasure.

## 2.4 Conceptual Framework

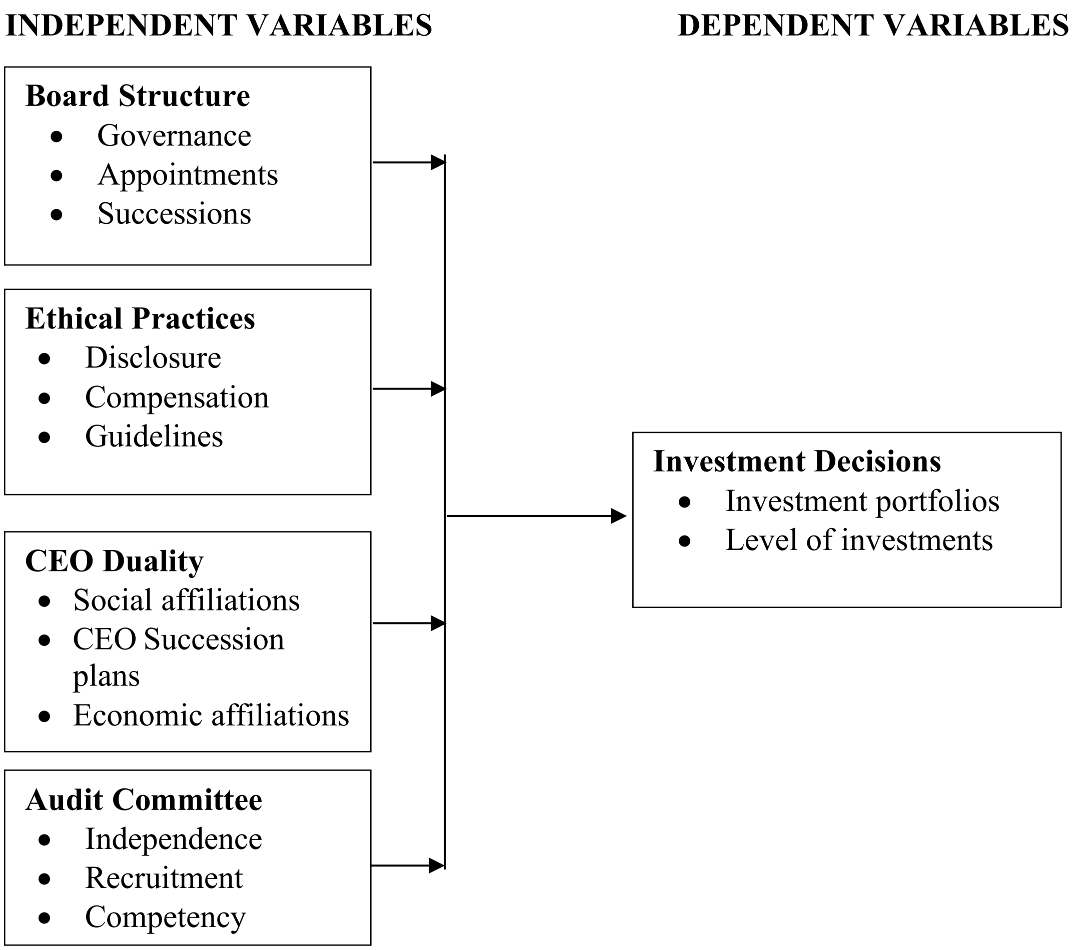



**Figure 2.1: Conceptual Framework**

**Source: Researcher 2019**

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter discusses the research design for the study, the target population, sample size and sampling strategy, data collecting process and instruments, kind of data, research instrument, data collection method, pilot study, data validity and dependability. A data analysis and a data presentation are also included in this chapter.

## 3.2 Research Design

A survey was used to gather data for the research. Cost-effective data collecting is a barrier that may be overcome, as pointed out by Mugenda and Mugenda (2003). The study's main objective was to determine whether, and how much, corporate governance regulations influenced the investment choices of major retail firms.

## 3.3 Population of the Study

The sample included all of the major supermarkets in Nairobi City County, Kenya that have been open for business for at least five years. There are 51 large supermarkets that had been in operations within Nairobi City County for five years (Competition Authority of Kenya, 2019). The size of a supermarket may be evaluated based on the number of locations, annual revenue, number of workers, and square footage of retail space (Kamau, 2008). According to the number of locations, the supermarkets in Nairobi were divided into the following categories:

**Table 3.1: Supermarkets in Nairobi City County**

| Description | Number of Branches | Population |
|---|---|---|
| Small | Less than 3 Branches | 11 |
| Medium | 3 – 7 Branches | 20 |
| Large | Above 7 branches | 14 |

***Source: (Competition Authority of Kenya, 2019)***

Therefore, the researcher targeted 7 supermarkets that are demarcated as large by the CAK. Five (5) respondents were drawn from each supermarket giving a total of 35 respondents

## 3.4 Research Instruments

This study drew from a variety of different types of literature. Primary data came from in-person interviews, while secondary data came from a wide range of resources including the organization's database and online presence.

The information was collected from the shop's employees through questionnaire. Ogula (2018) argues that questionnaires are superior to other methods for collecting data from the general public because they are a well-developed, well tested instrument. This allowed the researcher to more accurately collect data. Some of the items on the survey were open-ended, while others were multiple-choice. When answering a closed-ended question, the responder is presented with a set of options from which to choose the most relevant one. Open-ended questions gave researchers the opportunity to obtain more in-depth information. As a result, the data had both quantitative and qualitative aspects to them.

## 3.5 Data Collection Method

The respondents were given questionnaires in a "drop and pick" format to fill out at their own leisure. The researcher gave the questionnaire to the respondents and told them to fill it out in their own time.

After one week, the researcher came and collected the completed forms. This allowed them to devote their complete focus to reading, comprehending, and filling out the forms.

## 3.6 Pilot Study

Before deploying the research equipment with the planned sample, the investigator performed an initial test, sometimes known as a pilot study. The pilot study allowed the researcher to fine-tune the instrument by incorporating feedback, making changes depending on what was seen, adding new components, removing others, and calculating how long it took respondents to complete the questionnaire. According to Mugenda (2013), the pilot study helped researchers determine if their research processes were adequate and identified potential issues that might be resolved, which ultimately saved them time.

### 3.6.1 Instrument validity

Ogula (2018) defines validity as the degree to which a research instrument assesses the constructs for which it was designed. In this particular investigation, the piloting was carried out in advance of the primary research. This was accomplished by taking a representative sample of five members of staff from a wide variety of grocery departments. The researcher was able to identify whether there would be any ambiguity in any material via the use of this piloting, and if there was any, it was altered or addressed by both piloting and through the use of expert judgment.

### 3.6.2 Instrument Reliability

According to the definition provided by Mugenda (2013), reliability is the extent to which a research instrument consistently provides the same outcomes or data across numerous testing occasions. In this study, a "test retest" approach was utilized, in which the same respondents filled out the identical questionnaires twice, with a two-week gap between the administrations each time, and a reliability correlation coefficient was determined between the two sets of data.

A regression was performed on both sets of data using the formula for Pearson's product moment correlation coefficient in order to arrive at Pearson's product moment correlation coefficient (r).

$$r = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{\left[n\sum X^2 - (\sum X)^2\right]\left[n\sum Y^2 - (\sum Y)^2\right]}}$$

Where $X$ = first set of scores; $Y$ = second set of scores;

$\sum X$ = the sum of the first set of scores;

$\sum Y$ = the sum of second set of scores;

$\sum X^2$ = the sum square of first set of scores;

$\sum Y^2$ = the sum square of second set of scores;

$\sum XY$ = the sum of cross product of $X$ and $Y$

$n$ = total number of respondents.

If the coefficient is closer to 1 (higher than 0.7), then the method may be regarded dependable for data collection.

### 3.7 Data Analysis

It was determined whether or not the data gathered from the field were accurate. According to Mugenda (2013), such data has to be cleaned, coded, keypunched into a computer, and then evaluated.

Researchers are able to derive meaningful conclusions from the data only after doing such an analysis and looking at the findings of such analysis. Data of both a qualitative and quantitative nature were obtained from the research. Descriptive statistics were employed for the study of the quantitative data, with frequencies, percentages, and averages serving as the primary indicators of central tendency. First, the qualitative information was categorized into several topics that were in line with the aims ofthe research. Text analytics and document analysis were both incorporated in the content analysis of the qualitative data. The analysis of the data was conducted so that significance could be drawn between the study's aims and methods, as well as the research questions and issues that prompted the investigation. This was accomplished by analyzing the evidence, classifying it, tabulating it, and then recombining it with other pieces of information. The given numerical data was tabulated, shown as bar graphs, and depicted as pie charts for easier visual analysis. The frequencies, percentages, mean, and standard deviation of the data were efficiently shown using tables. However, qualitative data needed in-depth descriptions of the information, which were organized into themes and presented in paragraph form. This was done in order to demonstrate the relevance of the information.

In the process of carrying out the analysis of regression, both simple and multiple linear regressions were carried out; in each of these cases, the regression was carried out at a variety of levels. The models was expressed as follows:

Where Y is investment decision

$X_1$ is board structure

$X_2$ is Ethical practices

$X_3$ is CEO duality

$X_4$ is the Audit Committee

$\beta_i$ being the coefficient value for the respective variables in the model

$\alpha_i$ is autonomous value for the overall model

$e_i$ is the error term for the respective model

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

### 3.11 Diagnostic Tests

Before data is subjected to multiple regression analysis diagnostic tests were done. The following are the diagnostic tests that was used in the study. These tests are as follows- normality, autocorrelation, multicollinearity and heteroscedasticity.

#### 3.11.1 Normality Test

A number of normality tests were carried out in order to determine whether or not the data set can be adequately characterized by a normal distribution and to determine the likelihood that a random variable that lies underneath the data set is normally distributed. If the results of the Shapiro-Wilk test showed that the probability was less than 0.05, then the data were regarded to have a normal distribution (Saunders, et al., 2009).

### 3.11.2 Heteroscedasticity Test

The test for heteroscedasticity was carried out so that researchers could determine whether or not the residuals of observations in the regression model have a comparable variance. A significance value greater than 0.05 was used while doing the Glejser and Graphic tests in order to confirm that the points were not distributed in a regular manner, which would indicate the absence of heteroscedasticity (Glejser, 1969). To test for null hypothesis for homogeneity of variance, Levene's statistic was used where P value of 0.5 was used.

### 3.11.3 Test of Linearity

It was determined by performing a linearity test whether or not the relationship between the variables under study and their respective predictors is linear. It is vital to run this test in order to determine whether or not the data can be submitted to a linear regression. This is because the anticipated linearity of the data in the correlation and regression analyses led to this result. We used an analysis of variance test to check for a linear connection between the independent variables and the dependent variable, and found one if the F-value was more than 0.5 and the P-value was less than 0.5.

### 3.11.4 Autocorrelation Test

A test for autocorrelation was carried out to check that the prediction errors are independently distributed. A test for autocorrelation was also performed to ensure that the covariance and correlations between the different disturbances are both null. This was done so that we could be positive that none of the disturbances were influencing one another in any way. During the use of the empirical method, the autocorrelations were measured with the assistance of the Durbin and Watson tests. The existence of autocorrelation in the models' residuals was indicated by a Durbin Watson scale with values between <1.5 and >2.5 (Garson, 2012).

### 3.11.5 Test of Multicollinearity

Tests of multicollinearity were carried out in order to determine if the explanatory factors had a linear connection with one another or whether there was a perfect correlation between them. During this test, we determined R's value by measuring its resistance. The presence of multicollinearity was indicated by correlations with a high value of R with coefficients >0.3 (Saunders, et al., 2012). In addition, in order to determine that there is no multicollinearity between the independent variables, a tolerance value that is more than 0.1 and a variance inflation factor (VIF) that is lower than 10 were used.

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

This section includes an examination of the data, drawn conclusions, and discussion. The purpose of this research was to examine how corporate governance principles affected the financial decisions of leading retailers in Nairobi County, Kenya. This chapter is broken up into parts depending on the study variables that were conducted, and those sections are as follows: board structure; ethical procedures; CEO duality; and audit committee. Demographic information and diagnostic tests are also presented and the response rate.

## 4.2 Response Rate

This study targeted management of large retail chains sampled from different departments as shown in Table 4.1.

**Table 4.1: Response Rate**

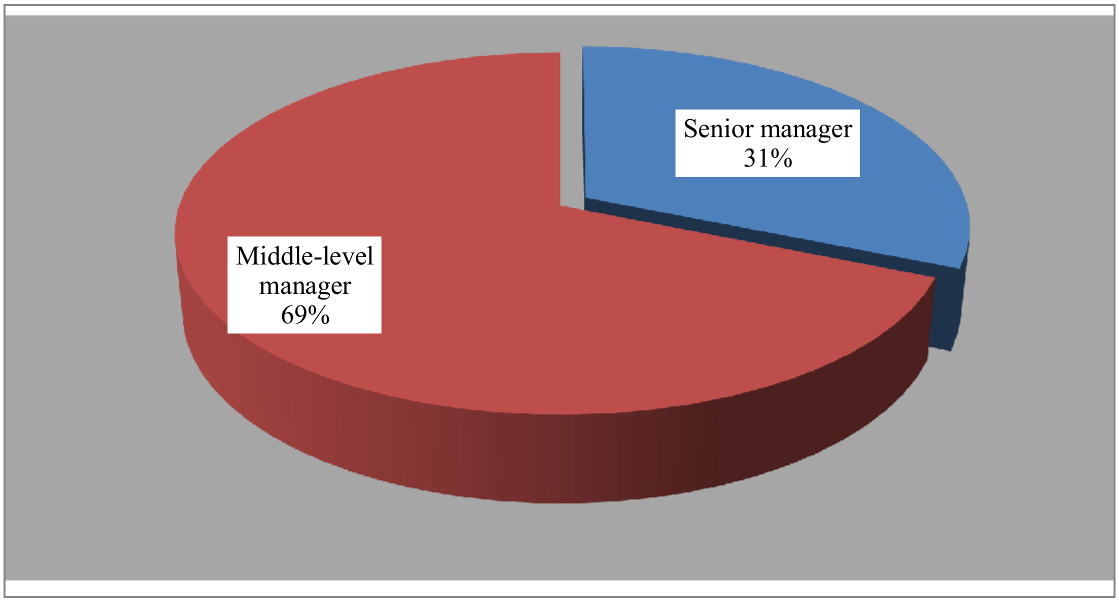
| Departments | Target Responses | Achieved Responses | Achieved responses (%) |
|---|---|---|---|
| Operations | 7 | 6 | 85.7% |
| Finance and Administration | 7 | 7 | 100.0% |
| Marketing | 7 | 6 | 85.7% |
| Human Resource | 7 | 6 | 85.7% |
| Procurement | 7 | 5 | 71.4% |
| Total | 35 | 30 | 85.7% |

The respondents were given 35 questionnaires, and 30 were properly filled out and sent back. This converts to an overall response rate of 85.7 percent. The different departments of respondents registered response rate as follows: operations (85.7%), finance & administration (100.0%), marketing (85.7%), human resource (85.7%), and procurement (71.4%) as shown in Table 4.1. In order for quantitative data to be considered properly unbiased, a response rate of at least 65% is suggested, as stated by Nulty (2008); hence, the response rate for this study was suitable.

## 4.3 Demographic and General Information

This section was based on the respondents' management level in the organization (Figure 4.1), their respective highest level of education (Figure 4.2), and the duration they had served in the organization (Figure 4.3).

**Figure 4.1 Management Level in the organization**




As shown in Figure 4.1, 69 percent of the respondents were middle-level managers while 31 percent were senior Manager. This indicates that majority of the management staff in large retail chains in Kenya Nairobi City County, Kenya, are middle-level managers.

**Figure 4.2: Highest Level of Education**

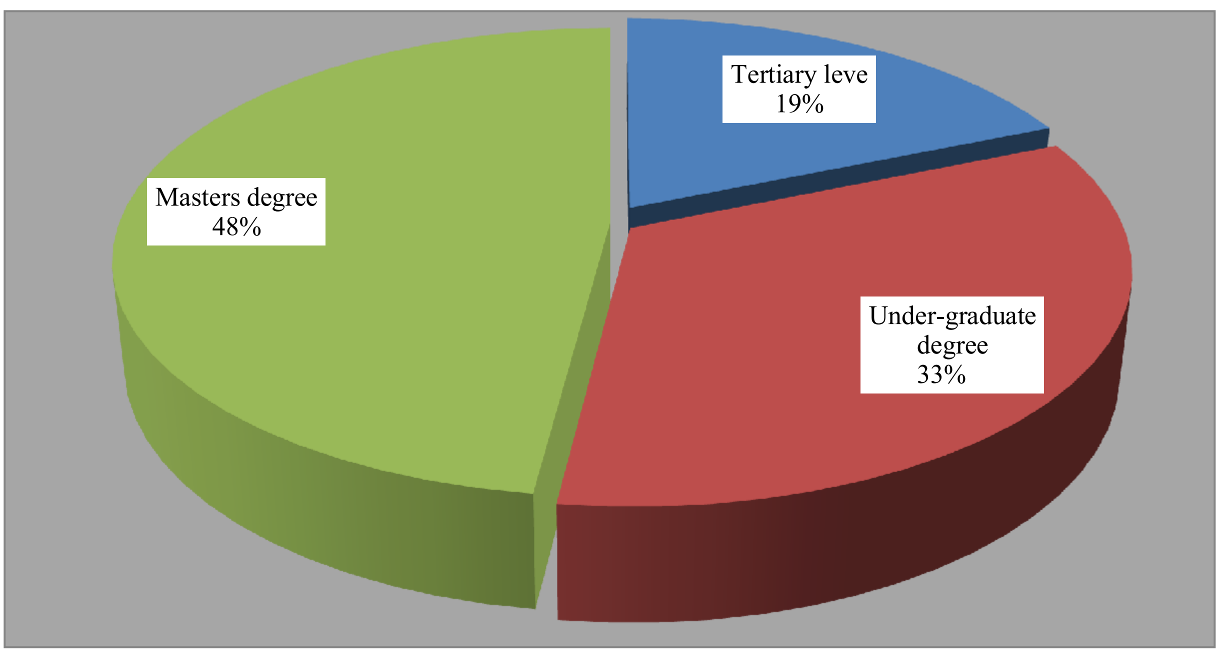
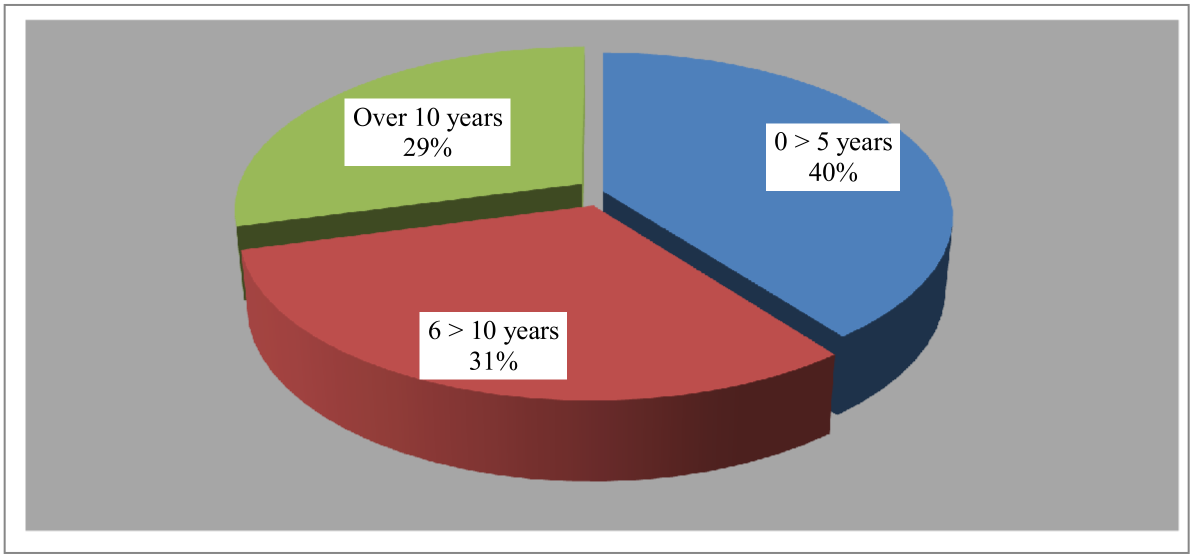



Figure 4.2 reveals that 48 percent of the respondents had attained masters degrees, 33 percent had under-graduate degrees while 19 percent had attained tertiary level of education. This is an indication

that majority of management staff in large retail chains in Kenya Nairobi City County, Kenya are undergraduate and Masters' degree holders.

**Figure 4.3: Duration in the Organization**




According to the data shown in Figure 4.3, forty percent of the respondents had served for a length of less than five years, thirty-one percent had served for a length that ranged from five to ten years, and twenty-nine percent had served for a length that lasted more than ten years.

These findings indicate that majority of management staff in large retail chains in Kenya Nairobi City County, Kenya had served for a period of less than ten years.

## 4.4 Diagnostic Tests

Tests for normality, multicollinearity, heteroscedasticity, and autocorrelation were used in the diagnostic procedures. These analyses were conducted to ascertain the level of internal consistency between the study variables and the items included in each of the research variables.

### 4.4.1 Test of normality

To ascertain whether the sampled data followed a normal distribution, a normality test was performed. Because parametric testing requires data to be regularly distributed, this assessment was crucial. The test was carried out with the assistance of the One-Sample Kolmogrov-Smirnova and Shapiro-Wilk tests, as well as the test of skewness and kurtosis, in addition to the Normal Q-Q plot and the One-Sample Kolmogrov-Smirnov Test.

**Table 4.2: Test of normality**

| | Kolmogorov-Smirnova | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Board structure | 0.347 | 30 | 0.159 | 0.931 | 30 | 0.298 |
| Ethical practices | 0.294 | 30 | 1.442 | 0.835 | 30 | 0.267 |
| CEO duality | 0.339 | 30 | 2.002 | 0.903 | 30 | 0.289 |
| Audit committee | 0.374 | 30 | 2.155 | 0.883 | 30 | 0.283 |
| Investment decisions | 0.295 | 30 | 0.271 | 0.883 | 30 | 0.283 |

a. Lilliefors Significance Correction

A p-Value is applied to the data in order to ascertain whether or not the observed distribution demonstrates a substantial departure from a totally normal distribution. When compared to a normal distributions, the p-value little less below 0.05 indicates that the data set deviates considerably. This difference may be cause for concern if it is significant enough to warrant such consideration. In the event that it is more than 0.05, then there is not a significant departure from the normality expectation value. The data for all of the variables that were considered throughout the course of this inquiry followed a normal distribution, as is evident by looking at Table 4.2. This is shown by the fact that the p-value for each variable was larger than 0.05 when assessed using either the Kolmogrov-Smirnova or the Shapiro-Wilk tests.

**Table 4.3: Skewness and kurtosis**

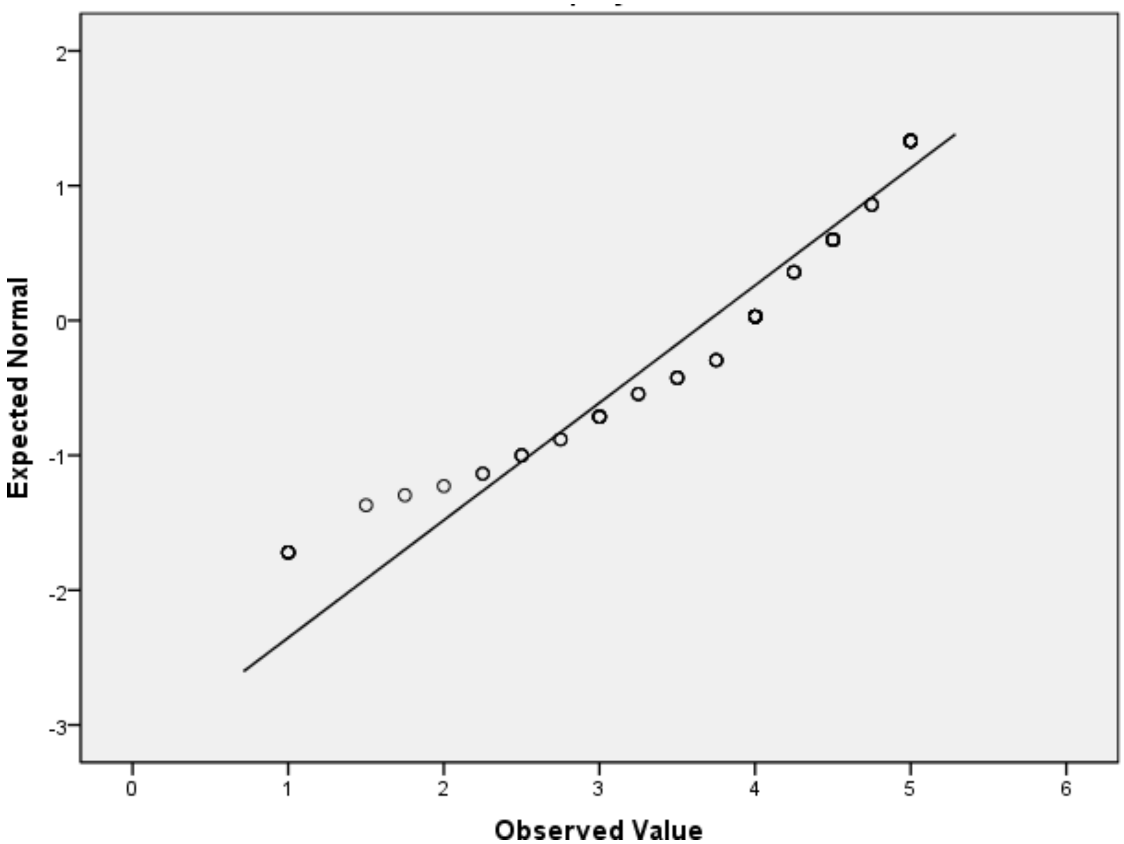
| | Skewness | | Kurtosis | |
|---|---|---|---|---|
| | Statistic | Std. Error | Statistic | Std. Error |
| Board structure | -0.635 | 0.267 | -0.418 | 0.529 |
| Ethical practices | -0.899 | 0.267 | 0.814 | 0.529 |

| | | | | |
|---|---|---|---|---|
| CEO duality | -0.766 | 0.267 | 0.906 | 0.529 |
| Audit committee | -1.114 | 0.267 | 0.958 | 0.529 |
| Investment decisions | -0.984 | 0.267 | 0.235 | 0.529 |

The value of skewness indicates the degree to which the distribution of a given variable is symmetrical. It is said that a distribution is skewed when there is an excessive amount of weight placed on either the right or left tail of the distribution when analyzing the responses to a variable. The value of kurtosis may be used to determine whether or not the distribution is overly peaky. As shown in Table 4.3, the highest skewness was witnessed on board structure (-0.635) with the lowest being on audit committee (-1.114). This implies that all variables had negatively skewed distribution. For kurtosis, CEO duality had the highest index (0.906) with board structure having the least (-0.418).

According to the findings of Hair et al. (2017), a pattern of responses is considered to have a normal distribution when both the skewness and the kurtosis values are equal to zero. Researchers have a vanishingly small chance of ever seeing a situation like this one.If the number is +1 or –1, this is a sign of a severely skewed distribution, which may be considered as a general guideline for skewness. If the value is in between –1 and +1, the distribution is about normal. According to the standard rule that is used to kurtosis, if the number is more than one, the distribution can be deemed to have an excessively peaky profile. To continue along these lines, a kurtosis value that is lower than –1 is suggestive of a distribution that is too uniform. Distributions that display skewness and/or kurtosis with values that are greater than these criteria are regarded as nonnormal. This therefore confirms that all the variables were drawn from a normally distributed population.

**Figure 4.4: Normal Q-Q plot of Investment Decisions**




It was critical to conduct further normality tests on investment preference since a violation of normality does not affect the predictors but does affect the dependent variable. The one that needed to be examined in depth was called the dependent variable. In addition, the assumptions of the model dictate that the errors should follow a normal distribution since the distribution of Y depends on the predictors. Given that Y is the only other random variable in the model, this is as a result of the fact that it is anticipated that the errors would follow a normal distribution (Tabachinick and Fidell, 2007). In order to get this result, a standard Q-Q plot was used. If the data points are distributed according to a normal model, they will congregate in a narrow band along the diagonal. Points that veer wildly from the straight line are indicative of data that does not fit a normal distribution. Normality of the dependent variable in the data is shown in Figure 4.4.

In a summary, the data that were used for the sample in this research were from a population that followed a normal distribution. This evaluation was essential due to the fact that parametric testing is predicated on the assumption of normally distributed data.

### 4.4.2 Test for Multicollinearity

Acceptance and Difference Multicollinearity was assessed by examining Inflation Factor (VIF). The formula for determining tolerance in SPSS is 1-R2, and it indicates tolerance in terms of collinearity. If the tolerance value is not too high, the variable that is the subject of this analysis is almost equivalent to a linear combination of the independent variables that are already a component of the equation. Because of this, the variable in question should not be added to the equation that describes regression. All of the factors that contribute to the linear connection will each have a limited margin of error. The Variance Inflation Factor, often known as VIF, is equal to 1/Tolerance, and it is neither less than 1 nor larger than 1. There is no established VIF value that can be used to determine whether or not multicollinearity is present. Values of the VIF that are higher than 10 are often considered to be an indication of multicollinearity and, as a result, a reason for worry.

**Table 4.4: Test for multicollinearity**

| Variable | Tolerance | VIF |
|---|---|---|
| Board structure | 0.426 | 2.346 |
| Ethical practices | 0.269 | 3.719 |
| CEO duality | 0.411 | 2.434 |
| Audit committee | 0.486 | 2.058 |

a. Dependent Variable: Investment decisions

Table 4.4 displays VIF values of 2.346, 3.719, 2.434, and 2.058 for board structure, ethical practices, CEO duality, and audit committee, respectively, indicating low levels of multicollinearity and supporting the inclusion of all four independent variables with stable beta in the regression equation.

### 4.4.3 Test for Homoscedasticity

In the field of statistics, a sequence (or a vector) of random variables is said to be homoscedastic if all of the sequence's random variables have the same value for their finite variance. A different name for this concept is the homogeneity of variance. Heteroscedasticity is the term used to describe the supplementary concept. It is easier to handle mathematically and computationally if homoscedasticity is assumed. If the data are not distributed normally, the Pearson coefficient may overestimate the strength of fit. This may happen when homoscedasticity is violated severely. The researchers here utilized a homoscedasticity test called the Breusch-Pagan test, named after its developers, Trevor Breusch and Adrian Pagan.

**Table 4.5: Breusch - Pagan Test for Homoscedasticity**

| Breusch -Pagan Test Statistic | Degrees of Freedom | p-Value |
|---|---|---|
| 0.722 | 1 | 0.856 |

The Breusch-Pagan test makes the assumption of homoscedasticity in its null hypothesis, which may be phrased as follows:

Null Hypothesis ($H_0$): The data (residuals) is homoscedastic

Alternative Hypothesis ($H_1$): The data is heteroscedastic

The decision rule is:

If p-Value $< \alpha$; then null hypothesis is rejected.

If p-Value $> \alpha$; then we fail to reject the null hypothesis.

Where $\alpha$ is the level of significance (alpha)

The test for homoscedasticity in this research revealed a p-Value of 0.856 (Table 4.5), indicating that we cannot reject the null hypothesis and must conclude that the data (residuals) is homoscedastic.

## 4.5 Board Structure

This section sought to address the influence of board structure on the investment decisions of large retail chains in Kenya Nairobi City County, Kenya as shown by Table 4.6.

**Table 4.6: Board Structure**

| Statement | Stron ly Disagree | Disagree | Neutral | Agree | Stron ly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| The board of directors of the firm votes on and then approves the company's strategic plan after the board has considered it. | 0.0 | 0.0 | 4.2 | 41.7 | 54.2 | 4.500 | 0.577 |
| The board of directors is in charge of setting the compensation paid to the chief executive officer. | 0.0 | 2.1 | 2.1 | 31.3 | 64.6 | 4.583 | 0.640 |
| The board of directors is responsible for upholding the integrity of the organization's accounting and reporting procedures at all times, and they must do so in order to avoid liability. | 0.0 | 0.0 | 14.6 | 35.4 | 50.0 | 4.354 | 0.721 |
| The board is responsible for evaluating how well the governance processes are working. | 0.0 | 0.0 | 6.3 | 39.6 | 54.2 | 4.479 | 0.612 |
| Disclosure is overseen by board members throughout the process. | 0.0 | 0.0 | 16.7 | 37.5 | 45.8 | 4.292 | 0.735 |
| The majority of board members are independent directors rather than executive officers. | 0.0 | 0.0 | 4.2 | 39.6 | 56.3 | 4.521 | 0.577 |

| Statement | Stron ly Disagree | Disagree | Neutral | Agre | Stron ly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| There are predetermined standards that are used to pick directors. | 0.0 | 0.0 | 0.0 | 50.0 | 50.0 | 4.500 | 0.500 |
| The CEO is responsible for creating meeting agendas for the board. | 22.9 | 33.3 | 41.7 | 2.1 | 0.0 | 2.229 | 0.823 |
| Directors are the ones who decide who will serve as CEO. | 0.0 | 0.0 | 8.3 | 47.9 | 43.8 | 4.354 | 0.629 |
| Directors have the authority to censure or remove the CEO. | 0.0 | 2.1 | 18.8 | 31.3 | 47.9 | 4.250 | 0.829 |
| The board of directors, as well as the corporation as a whole and each individual board member, are subjected to formal performance reviews. | 22.9 | 41.7 | 22.9 | 4.2 | 8.3 | 2.333 | 1.124 |
| The board of directors has a Governance Committee that gets together at least once a year to look into corporate governance concerns and give suggestions to the whole board. | 0.0 | 0.0 | 0.0 | 41.7 | 58.3 | 4.583 | 0.493 |
| The Nomination Committee is made up of members of the board of directors, and its responsibilities include supervising director nominations, offering advice on board member selections, and engaging in succession planning. | 0.0 | 0.0 | 0.0 | 47.9 | 52.1 | 4.521 | 0.500 |
| The bulk of the nominating committee consists of non-executive directors who are not affiliated with the company. Two additional publicly traded firms may have the CEO as a director. | 0.0 | 2.1 | 35.4 | 29.2 | 33.3 | 3.938 | 0.876 |

| Statement | Stron ly Disagree | Disagree | Neutral | Agre | Stron ly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| There is a statutory age of retirement for board directors. | 10.4 | 22.9 | 33.3 | 16.7 | 16.7 | 3.063 | 1.215 |
| In the event that their employment status changes, directors are obligated to submit their resignations. | 0.0 | 0.0 | 14.6 | 41.7 | 43.8 | 4.292 | 0.706 |
| **Average** | 3.5 | 6.5 | 13.9 | 33.6 | 42.4 | 4.049 | 0.722 |

As can be seen in Table 4.6, the respondents were almost unanimous in their agreement that it is the responsibility of the board of directors to determine how much the CEO should be compensated (mean = 4.583, standard deviation = 0.640) nonetheless, they do still have a Governance Committee that investigates anything in the firm that has anything to do with Corporate Governance and that meets at least once per year (mean = 4.583, standard deviation = 0.493) as well as a nominating committee to steer the process of board selections, provide suggestions to the board, and participate in the company's succession planning (mean = 4.521, standard deviation = 0.500). Therefore, the board's actions and decisions are crucial to the formalized governance practices of financial organizations and its autonomous committees' accountability for ensuring adequate safeguards, openness and declarations, reliable methods for controlling risks, strategies for reducing risk, prevention of default, early warning systems, and prompt remedial measures (Singh 2005).

Nevertheless, the board of directors is dominated by non-executive members (mean = 4.521, standard deviation = 0.577). Data from 159 studies covering 40 years was analyzed by Dalton and Daily (2009) found no significant evidence of a correlation between board makeup and financial actions. This held true despite differences in business size, evaluation techniques, and the types of investment metrics used. A board may have no outside influence yet still fall short in areas like as experience, advice, and resource reliance (Dalton and Daily; 2009). However, if there are a lot of insiders and company insiders on the board, it may not be able to keep things under control (Daily and Dalton, 2004; 2009). The quality of investment decisions cannot be ensured by putting too much weight on the independence of board members or any one component of board responsibilities and attributes (Johnson et al., 2003; Dalton and Daily, 2009).

Respondents also agreed that the company's strategic strategy is discussed and approved by the board of directors (mean = 4.500, standard deviation = 0.577), and the existence of explicit criteria for selecting directors (mean = 4.500, standard deviation = 0.500).

However, the board is responsible for keeping an eye on how well the governance processes are working (mean = 4.479, standard deviation = 0.612) in addition to preserving the honesty of the company's method of accounting for financial transactions (mean = 4.354, standard deviation = 0.721). Though they did believe that board members should be the ones to appoint the CEO (mean = 4.354, standard deviation = 0.629), also disclosed was the need that directors submit resignations whenever their employment status changed (mean = 4.292, standard deviation = 0.706) as well as board members supervising the process of disclosure (mean = 4.292, standard deviation = 0.735) although directors can discipline/fire the CEO (mean = 4.250, standard deviation = 0.829).

In additionally, those polled said that the nominating committee consisted mostly of non-executive directors and independence of the board. Chief Executive Managers are limited to be on the board of no upwards of two other publicly traded companies (mean = 3.938, standard deviation = 0.876) but they were moderate that a mandatory retirement age for directors exists (mean = 3.063, standard deviation = 1.215). They denied, however, that directors ever conduct formal evaluations of the company or any of its directors (mean = 2.333, standard deviation = 1.124), neither does the CEO decide what will be discussed at board meetings (mean = 2.229, standard deviation = 0.823). On average the board structure had a mean of 4.049 and a standard deviation of 0.722. This suggests that most top-level executives at Kenya's largest retail chains in Nairobi City County have created an annual meeting of a governance committee to review the company's practices in all areas of corporate governance as well as a nominating committee to oversee board appointments, advise the board, and participate in succession planning for the organization.

## 4.6 Ethical Practices

This section discussed the effect of ethical practices on the investment decisions of large retail chains in Kenya Nairobi City County, Kenya as depicted by Table 4.7.

**Table 4.7: Effect of Ethical Practices on Investment Decisions**

| Statement | Stron ly Disagree | Disagree | Neutral | Agree | Stron ly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| A company's independent auditors are made public by the board of directors. | 0.0 | 0.0 | 6.3 | 37.5 | 56.3 | 4.500 | 0.612 |
| All parties involved have free and equal access to all documentation. | 0.0 | 6.3 | 22.9 | 27.1 | 43.8 | 4.083 | 0.954 |
| Managerial ownership and remuneration are both made public by the board. | 4.2 | 18.8 | 33.3 | 20.8 | 22.9 | 3.396 | 1.150 |
| The Corporate Governance Guidelines established by the Board of Directors are detailed in the proxy statement. | 0.0 | 0.0 | 0.0 | 41.7 | 58.3 | 4.583 | 0.493 |
| The proxy statement provides the guidelines for conduct that have been set by the board. | 0.0 | 2.1 | 27.1 | 31.3 | 39.6 | 4.083 | 0.862 |
| **Average** | 0.8 | 5.4 | 17.9 | 31.7 | 44.2 | 4.129 | 0.814 |

Table 4.7 displays the respondents' opinions about whether or not the board's rules on Corporate Governance are included in the company's proxy statement (mean of 4.583, standard deviation of 0.493). They also agreed that the board discloses the corporation’s independent auditors (mean = 4.500, standard deviation = 0.612), the information is available to all parties involved without discrimination (mean = 4.083, standard deviation = 0.954) and at the same time the company's proxy statement includes the board's regulations for adhering to a code of ethics and behavior (mean = 4.083, standard deviation = 0.862). However, they moderately agreed that the board discloses managerial ownership and compensation (mean = 3.396, standard deviation = 1.150). Averagely the influence of ethical practices on investment decisions has a mean of 4.129 and a standard deviation of 0.814.

Campos et al. (2002) propose a corporate governance grade that stands in for the level of governance in a given organization by considering the principles of corporate governance established by the OECD in 2009. This governance score is based on 15 distinct elements, and it considers three distinct facets of corporate governance: shareholder protection and ownership (including, one share/one vote,meeting notification, and dispersed and transparent ownerships and anti-takeover defenses), board ofdirectors (written board guidelines, board committees, board size, and outside and independent directors), and disclosure and transparency (broad and timely disclosure, independent audits, accounting standards, disclosure).

From these findings, there is an indication that majority of management staff in large retail chains in Kenya Nairobi City County, Kenya agreed that ethical practices have influence on investment decisions.

## 4.7 CEO Duality

This section aimed at addressing the influence of CEO duality on the investment decisions of large retail chains in Kenya Nairobi City County, Kenya as depicted by Table 4.8.

**Table 4.8: CEO Duality**

| Statement | Stron ly Disagree | Disagree | Neutral | Agre | Stron ly Agre | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| The position of CEO cannot be held simultaneously with that of Chair of the Board. | 0.0 | 0.0 | 0.0 | 18.8 | 81.3 | 4.813 | 0.390 |
| The board's chairman is an elected official without executive power.; in this role, he or she presides over board meetings but does not participate in the decision-making process. | 8.3 | 18.8 | 16.7 | 22.9 | 33.3 | 3.542 | 1.338 |

| Statement | Stron ly Disagree | Disagree | Neutral | Agree | Stron ly Agree | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| All relevant parties are aware of the selection and appointment procedure for board directors. | 0.0 | 0.0 | 12.5 | 35.4 | 52.1 | 4.396 | 0.699 |
| Directors from outside the company get together without the CEO and report how often they get together. | 0.0 | 4.2 | 31.3 | 27.1 | 37.5 | 3.979 | 0.924 |
| There is a personal or professional connection between at least one member of the board of directors and the company, its highest-ranking executives, or its most influential shareholders. | 0.0 | 0.0 | 8.3 | 33.3 | 58.3 | 4.500 | 0.645 |
| This company's board of directors does not include any past company CEOs. | 0.0 | 0.0 | 0.0 | 56.3 | 43.8 | 4.438 | 0.496 |
| There is a CEO succession plan in place that has been authorized by the board. | 10.4 | 41.7 | 29.2 | 14.6 | 4.2 | 2.604 | 0.995 |
| **Average** | 2.7 | 9.2 | 14.0 | 29.8 | 44.3 | 4.039 | 0.784 |

As shown in Table 4.8, the respondents strongly affirmed that the Chief Executive Officer is not at the same time the Chairman of the board (mean = 4.813, standard deviation = 0.390). Separating the roles of CEO and chairman is beneficial for shareholders, as mentioned by Jensen (2003), therefore this makes sense. In a similar vein, major organizations that divide the two tasks into different departments have greater price-to-book multiples (Yermack, 2006), return on assets ratios (Pi and Timme, 2003), and cost efficiency ratios (Pi and Timme, 2003). In addition, when the same person holds the positions of CEO and chairman, it is more difficult for the board of directors to fire a CEO who is not meeting performance expectations (Shivdasani and Zenner, 2004). Since of this, it is far more difficult for a board to react to major declines in performance because it restricts the board's flexibility (Goyal and Park, 2002).

Respondents also believed that there are social and economic ties between board members and other members of the company's management or major owners (mean = 4.500, standard deviation = 0.645), and there was no former CEOs of this corporation who sat on the board (mean = 4.438, standard deviation = 0.496). Additionally, all stakeholders are familiar with the procedure used to choose and nominate directors (mean = 4.396, standard deviation = 0.699) whereas directors who have independence disclosed how often they convened without the CEO (mean = 3.979, standard deviation = 0.924). They also revealed that the board chairman was a non-executive director with no executive responsibilities (mean = 3.542, standard deviation = 1.338) although they refuted that a board-approved CEO succession plan is in place (mean = 2.604, standard deviation = 0.995).

The mean of CEO duality is 4.039, and its standard deviation is 0.784. This gives CEO duality an average score. Duc and Thuy (2013) investigated the possibility of quantifying the connection that exists between the corporate administration and the operation of businesses in Vietnam. Between 2006 and 2011, 77 publicly traded firms were analyzed using the FGLS approach. It was shown that several elements of corporate governance, such as the number of female board members and whether or not the CEO has numerous positions, how much board members are paid, and how long they stay on the job, all affect a company's return on equity (ROA). Despite this, though, board actions tend to impede a company's ability to really get things done.

Therefore, these findings indicate that a majority of management staff in large retail chains in Kenya Nairobi City County, Kenya strongly affirmed that the Chief Executive Officer is not at the same time the Chairman of the board and there were no former CEOs of this corporation who sat on the board.

## 4.8 Audit Committee

As can be seen in Table 4.9, the purpose of this component of the questionnaire was to investigate the impact that audit committees have on the investment choices made by significant retail chains in Kenya Nairobi City County.

**Table 4.9: Audit Committee**

| Statement | Stron ly Disagree | Disagree | Neutral | Agre | Stron ly Agre | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| The audit committee for my retail chain has been in operation for some time. | 0.0 | 0.0 | 12.5 | 39.6 | 47.9 | 4.354 | 0.692 |
| Only non-executive directors who are completely unaffiliated with the business are allowed to serve on the Audit Committee. | 0.0 | 0.0 | 12.5 | 43.8 | 43.8 | 4.313 | 0.682 |
| Members of the Audit Committee are required to meet certain standards of financial literacy. | 2.1 | 8.3 | 31.3 | 31.3 | 27.1 | 3.729 | 1.015 |
| The audit committee's independence, both in reality and in appearance, is a priority. | 0.0 | 0.0 | 8.3 | 37.5 | 54.2 | 4.458 | 0.644 |
| Members of the audit committee are selected with great care and then step down. | 0.0 | 0.0 | 8.3 | 60.4 | 31.3 | 4.229 | 0.586 |
| Relationships of productive collaboration exist between the audit committee and upper management. | 0.0 | 4.2 | 14.6 | 41.7 | 39.6 | 4.167 | 0.825 |
| **Average** | 0.3 | 2.1 | 14.6 | 42.4 | 40.6 | 4.208 | 0.741 |

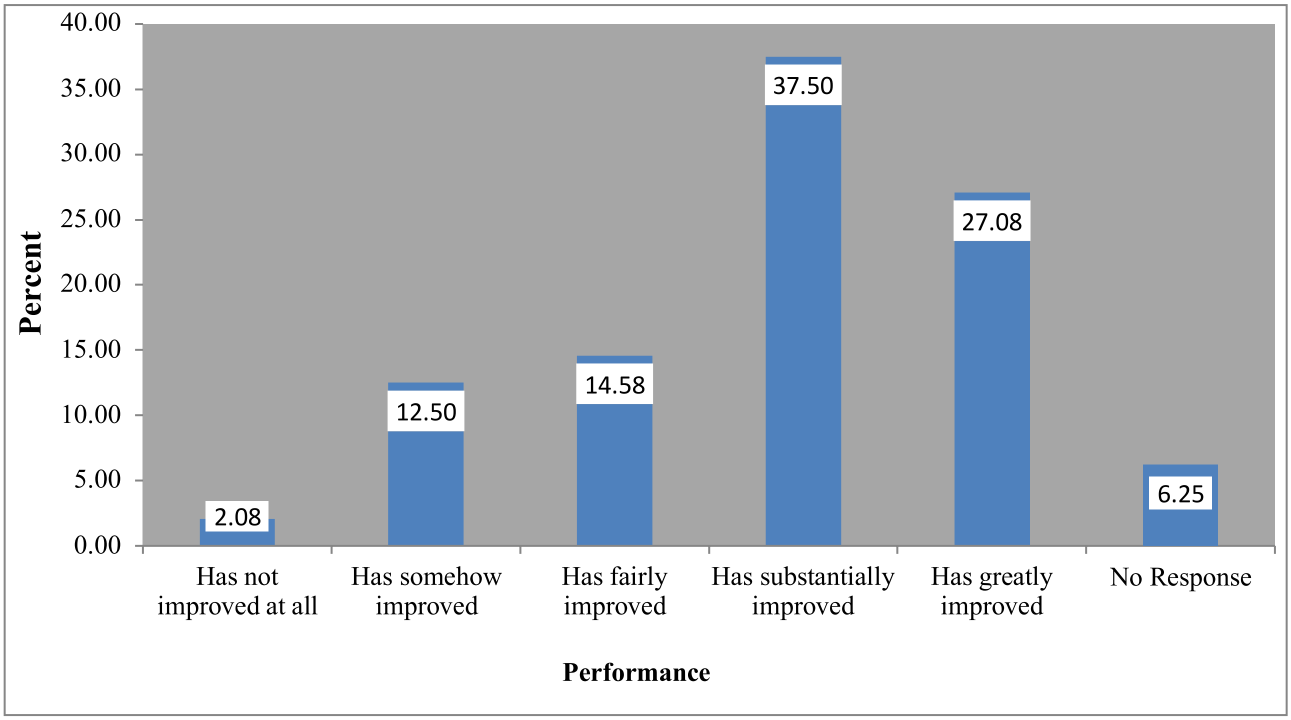
As shown in Table 4.9, the respondents strongly agreed that the independence of the audit committee was real as well as perceived (mean = 4.458, standard deviation = 0.644) and at the supermarket is an established audit committee (mean = 4.354, standard deviation = 0.692). Bédard et al. (2004) argue that the audit committee has to have more frequent meetings in order to perform its function as a control mechanism. The authors of that research concluded as much because they recognized the importance of avoiding difficulty with the Securities and Exchange Commission (SEC) to the survival of any firm (McMullen and Raghunandan, 2006; Abbott et al., 2004).

There was also consensus among responders that the audit committee consisted only of non-executive directors who had any management ties to the corporation (mean = 4.313, standard deviation = 0.682, and at the same time Members of the audit committee were chosen with great care and have since retired (mean = 4.229, standard deviation = 0.586). In addition to this, the audit committee has positive and productive working ties with top executive (mean = 4.167, standard deviation = 0.825) despite the fact that members of the Audit Committee are equipped with a particular degree of financial expertise (mean = 3.729, standard deviation = 1.015). On average the influence of audit committee had a mean of 4.208 and a standard deviation of 0.741. These results show that the vast majority of top-level executives at Kenya's largest department stores believed that the audit committee's independence was both actual and perceived, and that it was made up entirely of non-executive directors with no vested interests in the firm.

## 4.9 Rating Investment Decisions as a Result of Corporate Governance Practices

This section sought to address the individual rating of investment decisions as a result of corporate governance practices in large retail chains in Kenya Nairobi City County, Kenya as shown in Figure 4.5.

**Figure 4.5: Investment Rate**




As revealed by Figure 4.5, 37.5 percent of the respondents indicated that investment decisions in their respective retail chains had substantially being guided by corporate governance practices, 27.08 percent said that the investment decisions had improved greatly while 14.58 percent said the decisions fairly improved. Others (12.5%) indicated that the organization had somehow improved yet 2.08 percent refuted that the organization hadn't improved at all. However, 6.25 percent had no response. This indicates that majority of management staff in large retail chains in Kenya Nairobi City County, Kenya believed that there was improvement in investment decisions as a result of corporate governance practices.

## 4.10 Inferential Statistics

Analysis of variance, regression coefficients, and correlation coefficients were used to draw inferences about the relationships between the variables.

### 4.10.1 Correlation Analysis

Table 4.7 displays the results of a correlation analysis showing the linear link between each of the variables. Pearson's Correlation Product These correlation coefficients were calculated using a two-tailed, 95% confidence interval test.

**Table 4.10: Correlation Analysis**

| | | Board structure | Ethical practices | CEO duality | Audit committee | Investment decisions |
|---|---|---|---|---|---|---|
| Board structure | Pearson Correlation | 1.00 | 0.27 | .515** | .503** | .596** |
| | Sig. (2-tailed) | | 0.06 | 0.00 | 0.00 | 0.00 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Ethical practices | Pearson Correlation | 0.27 | 1.00 | .583** | .402** | .605** |
| | Sig. (2-tailed) | 0.06 | | 0.00 | 0.01 | 0.00 |
| | N | 48 | 48 | 48 | 48 | 48 |
| CEO duality | Pearson Correlation | .515** | .583** | 1.00 | .469** | .648** |
| | Sig. (2-tailed) | 0.00 | 0.00 | | 0.00 | 0.00 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Audit committee | Pearson Correlation | .503** | .402** | .469** | 1.00 | .671** |
| | Sig. (2-tailed) | 0.00 | 0.01 | 0.00 | | 0.00 |
| | N | 48 | 48 | 48 | 48 | 48 |
| Investment decisions | Pearson Correlation | .596** | .605** | .648** | .671** | 1.00 |
| | Sig. (2-tailed) | 0.00 | 0.00 | 0.00 | 0.00 | |

| | | | | | |
|---|---|---|---|---|---|
| N | 48 | 48 | 48 | 48 | 48 |

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

It was discovered that every single variable correlates favorably with every other variable. Correlation indices for board structure, ethical practices, CEO duality, and audit committee with respect to investment choices ranged from .596.605.648, and .671, respectively; at both the 0.05 and 0.01 thresholds of statistical significance, every result was found to be significant.

### 4.10.2 Coefficient of Determination

The explanatory factors' (predictors') ability to account for variation in the dependent variable was calculated using the coefficient of determination (R2). Therefore, the extent to which variations of one unit in investment choices may be accounted for by norms of corporate governance.

**Table 4.11: Coefficient of Determination**

| R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|
| .822a | 0.676 | 0.646 | 0.118 |

a. Predictors: (Constant), Audit committee, CEO duality, Ethical practices, Board structure

b. Dependent Variable: Investment decisions

According to Table 4.8, the estimated standard error is 0.128 and the R-Squared value is 0.676. As much as 67.6 percent of the diversity in investment selections may be attributed to corporate governance practices (such as audit committee, CEO duality, ethical standards, and board structure). The remaining 32.4% may be attributed to factors that are not taken into consideration here.

### 4.10.3 Analysis of Variance

The purpose of this analysis of variance (ANOVA) was to find out how far apart the means of the different variables were, both generally and in terms of the other variables and the data.

**Table 4.12: Analysis of Variance**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 1.260 | 4 | 0.315 | 22.454 | .000a |
| Residual | 0.603 | 43 | 0.014 | | |
| Total | 1.864 | 47 | | | |

a. Predictors: (Constant), Audit committee, CEO duality, Ethical practices, Board structure

b. Dependent Variable: Investment decisions

Table 4.9 displays the results of a two-tailed test with a 95% level of confidence: $F(4, 43) = 22.424$ at 2. Moreover, a p-Value of $0.000 < 0.05$ was also found. This demonstrates the importance of company governance procedures in explaining investment choices.

### 4.10.4 Regression Coefficients

Table 4.13 displays the results of this process, which was used to create a regression model.

**Table 4.13: Regression Coefficients**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | 0.684 | 0.375 | | 1.824 | 0.075 |
| Board structure | 0.218 | 0.095 | 0.248 | 2.284 | 0.027 |
| Ethical practices | 0.205 | 0.077 | 0.289 | 2.647 | 0.011 |
| CEO duality | 0.148 | 0.093 | 0.193 | 1.589 | 0.019 |
| Audit committee | 0.274 | 0.086 | 0.340 | 3.176 | 0.003 |

a. Dependent Variable: Investment decisions

According to the data, investment choices would stay at 0.684 if all the predictors (board structure, ethical practices, CEO duality, and audit committee) were to be kept the same. Furthermore, there is a 0.218-unit increase in the frequency with which investment decisions are made for every one unit increase in the board structure. Similarly, an increase of one unit in ethical procedures, one unit in CEO duality, and one unit in the presence of an audit committee all linked to a rise of 0.205, 0.148, and 0.274, respectively, in investment choices. All of the predictors had p-Values <0.05 at the 95% confidence level, indicating that they each significantly impacted investment choices. Therefore, the four factors are once again prime predictors of financial outcomes. The model is briefly described below:

$$\mathbf{Y = 0.684 + 0.218X_1 + 0.205X_2 + 0.148X_3 + 0.274X_4}$$

Where Y is the dependent variable (investment decisions)

$X_1$ = board structure

$X_2$ = ethical practices

$X_3$ = CEO duality

$X_4$ = audit committee

In a nutshell, the terms and circumstances that govern the implementation of corporate governance processes inside a given organization will influence the investment choices made by that company.

# CHAPTER FIVE

# SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

In this chapter, a summary of the results, a conclusion, and some suggestions are presented. Additionally, the chapter includes recommendations for future research.

## 5.2 Summary of Key Findings

### 5.2.1 Board Structure

According to the data, the vast majority of respondents wholeheartedly agreed that decisions about the CEO's compensation are made by the board of directors (mean = 4.583, standard deviation = 0.640) whereas they did, however, have a Governance Committee that looked at everything in the firm that having to do with Corporate Governance and that met at least once a year (mean = 4.583, standard deviation = 0.493) moreover, the company has a nominating committee whose job it is to steer the board nominations process, provide recommendations to the board, and participate in succession planning (mean = 4.521, standard deviation = 0.500)

In addition, they reached a consensus that the company's board should review the strategic plan and give it their stamp of approval (mean = 4.500, standard deviation = 0.577), and the existence of explicit criteria for selecting directors (mean = 4.500, standard deviation = 0.500) while on the other hand, the board is responsible for evaluating how well the governance processes are working (mean = 4.479, standard deviation = 0.612) also safeguarding the reliability of the company's accounting procedures (mean = 4.354, standard deviation = 0.721). They did agree, however, that the board of directors should be the ones who choose the CEO (mean = 4.354, standard deviation = 0.629), they also revealed that whenever there is a change in the directors' employment status, they are obligated to submit their resignations (mean = 4.292, standard deviation = 0.706) as well as board members supervising the process of disclosure (mean = 4.292, standard deviation = 0.735) although directors can discipline/fire the CEO (mean = 4.250, standard deviation = 0.829).

According to the responses, the majority of the nomination committee consists of independent directors who do not hold executive positions. The chief executive officer typically sits on the boards of no more than two additional public corporations (mean = 3.938, standard deviation = 0.876) but they were moderate that a mandatory retirement age for directors exists (mean = 3.063, standard deviation = 1.215). On the other hand, they disproved the notion that directors officially analyze either the operations of the business or the actions of individual directors (mean = 2.333, standard deviation = 1.124), the agenda for the board meeting is not established by the Chief Executive Officer either (mean = 2.229, standard deviation = 0.823). On average effect of the board structure and the investment decisions had a mean of 4.049 and a standard deviation of 0.722.

### 5.2.2 Ethical Practices

The great majority of respondents feel that the firm proxy statement adequately informs shareholders of the board's corporate governance rules (mean = 4.583, standard deviation = 0.493). They also agreed that the board discloses the corporation’s independent auditors (mean = 4.500, standard deviation = 0.612), all parties involved have the same level of access to the relevant information (mean = 4.083, standard deviation = 0.954) and During this period, the firm's proxy statement will also include board rules on the code of ethics and behavior(mean = 4.083, standard deviation = 0.862). However, they moderately agreed that the board discloses managerial ownership and compensation (mean = 3.396, standard deviation = 1.150). Averagely the influence of ethical practices on investment decisions had a mean of 4.129 and a standard deviation of 0.814.

### 5.2.3 CEO Duality

According to the findings, the vast majority of respondents were in agreement with the assertion that the post of Chairman of the Board was not held by the CEO (mean = 4.813, standard deviation = 0.390).

In addition, the respondents were of the opinion that there are monetary and social relationships that bind directors to the company, its top management, or its big shareholders (mean = 4.500, standard deviation = 0.645), and there was no former CEOs of this corporation who sat on the board (mean = 4.438, standard deviation = 0.496). In addition, the procedure for choosing and nominating directors is openly discussed with all relevant parties (mean = 4.396, standard deviation = 0.699) whereas the independent directors got together without the chief executive officer and disclosed the total number of times they got together (mean = 3.979, standard deviation = 0.924). They also revealed that the board chairman was a non-executive director with no executive responsibilities (mean = 3.542, standard deviation = 1.338) despite their denial, it seems that a CEO succession plan has been authorized by the board (mean = 2.604, standard deviation = 0.995). On average the influence of CEO duality on the investment decisions had a mean of 4.039 and a standard deviation of 0.784.

### 5.2.4 Audit Committee

Respondents were unanimous in their approval of the audit committee's perceived and real independence (mean = 4.458, standard deviation = 0.644) and at the grocery store, a reputable auditing committee was in place (mean = 4.354, standard deviation = 0.692).

The respondents were also in agreement that the audit committee is made up only of non-executive directors who are not affiliated with the corporation (mean = 4.313, standard deviation = 0.682) and at the same time, members of the audit committee were retiring after being selected with great care (mean = 4.229, standard deviation = 0.586). In addition, the audit committee has positive and productive working ties with top management (mean = 4.167, standard deviation = 0.825) despite the fact that members of the Audit Committee are equipped with a particular degree of financial expertise (mean = 3.729, standard deviation = 1.015). On average the influence of audit committee on the investment decisions had a mean of 4.208 and a standard deviation of 0.741.

### 5.2.5 Investment Decisions

From the findings, 37.5 percent of the respondents indicated that investment decisions in their respective retail chains had substantially been guided by corporate governance practices, 27.08 percent said that the investment decisions had improved greatly while 14.58 percent said the decisions fairly improved. Others (12.5%) indicated that the organization had somehow improved yet 2.08 percent refuted that the organization hadn't improved at all.

## 5.3 Conclusions

To summarize, the practices of corporate governance have a considerable impact on the investment choices made by major retail chains. Even though large supermarkets and chain stores might not use all of the corporate governance practices available to them, they do have important committees, such as a governance committee, that investigate all issues in the company that are related to corporate governance and hold meetings at least once a year. This committee also meets despite the fact that corporate governance practices might not be used to their full potential. In addition to that, there is a nominating committee that is in charge of leading the process of board nominations, making recommendations to the board, and being engaged in the company's succession planning. Every interested party is aware of the company's selection and appointment process for directors, as well as the board of directors' role in reviewing and approving the company's overall strategic plan. Large retail chains have well-established audit committees, the independence of which is at least as strong as it is made up to be, and they have productive working relationships with the top management. The board of directors has personal and/or professional ties to at least one member of the company's executive management or its five biggest shareholders. On the other hand, they challenged the notion that directors officially analyze their actions, the organization, and the individual directors, and that the CEO is the one who decides what will be discussed at board meetings.

## 5.4 Recommendations

Since board openness is so important in determining the soundness of investment decisions, the author suggests that it is in the best interests of management to maintain and expand a board that is responsible, innovative, and imaginative via better election and administration. A board of directors should never conduct an official evaluation of its own activities, the firm, or individual board members. The top management should have clear instructions on the obligatory retirement age for directors, and directors should be required to retire at that age. The assessment of directors need to be carried out by a distinct independent organization or committee, and it ought to be done so from a point of neutrality.

## 5.5 Further Research

The only factors that were taken into consideration were diverse board membership, ethical business practices, chief executive duality, and the existence of an audit committee. Finding consistent relationships between the attributes of boards of directors, the functions of boards of directors, and financial returns calls for a complete examination of the literature on the effect of corporate governance on investment choices. This is as a result of the fact that strategic management may also be explained by a variety of other factors.

The researcher suggests doing a comparable cross-sectional survey of the other supermarkets in the region and comparing the results to gain a fuller picture of the influence of corporate governance practices, since this study was a case study of important retail chains in Nairobi City County, Kenya.

This study should also be contextualized in other corporations that exercise corporate governance and results compared to those of the large retail chains stores.

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## APPENDICES

### APPENDIX II: QUESTIONNAIRE

### SECTION I. GENERAL INFORMATION

1) What is your current position within the company?

a) Senior manager ☐

b) Middle-level manager ☐

2) Would you kindly specify your department?
a) Internal Audit ☐
b) Operations /Technical ☐
c) Finance ☐
d) Corporate Services ☐
e) Human Resources ☐
f) Any other, please specify………………………………………

3) What is the greatest level of schooling you have obtained?
Tertiary level ☐ Under-graduate degree ☐ Master's degree ☐

4) How long have you been a manager at the supermarket where you work?

0 > 5 years ☐ 6 > 10 years ☐ Over 10 years ☐

### SECTION II: BOARD STRUCTURE

Please mark the score that most properly reflects each of the following assertions as you assess them, in your view, the qualities that are shown on the board in your grocery store, using the scale that has been supplied below. The scale goes from one (**1**) for strongly disagreeing to five (**5**) for strongly agreeing with, a score of two (**2**) would indicate disagreement, a score of three (**3**) would indicate neutrality and a score of four (**4**) would indicate agreement

| Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 1) The directors' board reviews and approves the company's strategic strategy. | | | | | |
| 2) The CEO's compensation is set by the directors' board.. | | | | | |
| 3) The responsibility of ensuring everything is in order falls on the directorial board that the accounting and reporting processes followed by the organization are conducted in an honest manner. | | | | | |
| 4) The board is accountable for ensuring that the governance processes are carried out in an effective manner, and it is their obligation to monitor this efficiency. | | | | | |
| 5) Members of the board are responsible for overseeing the disclosure procedure. | | | | | |
| 6) Directors with no executive responsibilities make up the vast bulk of the board.. | | | | | |
| 7) There are predetermined standards that are used to pick directors. | | | | | |
| 8) The CEO is the one who determines the agenda for the board meeting. | | | | | |
| 9) The Directors' board is the one who decides who will be the CEO. | | | | | |
| 10) Directors are able to censure or dismiss the CEO. | | | | | |
| 11) Directors are responsible for conducting formal evaluations of their own work, the business, and each director | | | | | |
| 12) The Steering Committee operates under the direction of the directors' board, which meets at least once a year to look into corporate governance concerns. | | | | | |
| 13) Nominees for the directors' board are overseen by the Nomination Committee, which also contains suggestions to the entire board and participates in the organization's plans for the next generation of leadership. | | | | | |
| 14) Members of the nominating committee who are not executive officers make up the majority. The CEO serves on the boards of directors of no more than two other publicly traded companies. | | | | | |
| 15) There is a certain age at which directors are required to retire. | | | | | |
| 16) If the director's employment situation changes, the director is obligated to submit their resignation. | | | | | |

## SECTION III: ETHICAL PRACTICES

Please score the following assertion on the scale given, selecting the number that best represents your view of the ethical procedures of your local supermarket. The scale goes from one (**1**) for strongly disagreeing to five (**5**) for strongly agreeing with, a score of two (**2**) would indicate disagreement, a score of three (**3**) would indicate neutrality and a score of four (**4**) would indicate agreement.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| 17) The directors' board will announce who the company's independent auditors are. | | | | | |
| 18) There is an equal distribution of available information to all parties. | | | | | |
| 19) The board is transparent about the ownership and salary of the management staff | | | | | |
| 20) The corporate proxy statement contains the guidelines for corporate governance established by the Directors' board. | | | | | |
| 21) The company's proxy statement includes the instructions for the directors' board about the code of ethics and behavior. | | | | | |

**SECTION IV: CEO DUALITY**

Please score the following assertion on the scale given, selecting the number that best represents your view of the audit committee in your grocery store using the scale that has been supplied below. The scale goes from one (**1**) for strongly disagreeing to five (**5**) for strongly agreeing with, a score of two (**2**) would indicate disagreement, a score of three (**3**) would indicate neutrality and a score of four (**4**) would indicate agreement.

| | | | | | |
|---|---|---|---|---|---|
| 22) The position of Chairman of the Board is not held concurrently by the CEO | | | | | |
| 23) It is customary for a non-executive director who is not affiliated with the company to serve as chairman of the board. | | | | | |
| 24) The procedure for choosing and nominating directors is openly discussed with all relevant parties. | | | | | |
| 25) The company's independent directors get together without the CEO and declare the total number of times they get together. | | | | | |
| 26) There are financial and social ties that bind the directors' board to either the firm itself, its upper management, or its major owners. | | | | | |
| 27) There are no past CEOs of this company currently serving on the directors' board. | | | | | |
| 28) A CEO succession plan that has been authorized by the board is in place | | | | | |

## SECTION V: AUDIT COMMITTEE

Please score the following assertions on the scale given, selecting the number that best represents your view about the audit committee in your grocery store using the scale that has been supplied below. The scale goes from one (**1**) for strongly disagreeing to five (**5**) for strongly agreeing with, a score of two (**2**) would indicate disagreement, a score of three (**3**) would indicate neutrality and a score of four (4) would indicate agreement.

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| 29) An audit committee has been set up at my grocery store. | | | | | |
| 30) An audit committee has been set up at my grocery store. | | | | | |
| 31) Each member of the Audit Committee is equipped with a certain degree of financial expertise | | | | | |
| 32) There is a process to follow in order to | | | | | |
| 33) The audit committee's independence, both in practice and in appearance, is uncompromised. | | | | | |
| 34) Members of the audit committee are selected with care and eventually step down. | | | | | |
| 35) There are productive working connections between the audit committee and top management. | | | | | |

**APPENDIX II: List of Large Supermarkets within Nairobi City County**

1. Saltes Supermarket
2. Venture Mini Supermarket
3. Park &shop supermarket ltd
4. Naks Supermarkets Lt
5. Horyal supermarket
6. Galmart Supermarket
7. Rikana Supermarket
8. Ukwala supermarket
9. Top people supermarket
10. Lumar Supermarket
11. Amana Eastleigh Supermarket
12. Seraben Supermarket
13. Amal Supermarket Ltd
14. Alliance Supermarket Ltd
15. Horyal supermarket
16. Bei Poa Supermarket
17. Fairlane Supermarkets Ltd
18. Starehe Supermarket
19. Tuskys Supermarket
20. Mustard Supermarket
21. Eastmatt supermarket
22. Aflose Supermarket Ltd
23. Nova Supermarket

24. Raken Supermarket Ltd
25. Nuru Supermarket Ltd
26. Neibas Supermarket
27. Green Forest Supermarkets Ltd
28. Vantage Supermarket Ltd
29. Fairrose Supermarket Ltd
30. Sakim supermarket
31. Ibrahim supermarket
32. Homechoice supermarket
33. Wananchi supermarket
34. Ridgeways Supermarket
35. Naivas Supermarket
36. Happy valley supermarket
37. Acacia Supermarket Ltd
38. Jawa supermarket
39. Wayaki way supermarket
40. Fair Mart Supermarket
41. Rosjam Supermarket
42. Right Supermarket Ltd
43. Banshi Supermarket
44. Whitestar Supermarket
45. Esajo Supermarket

(Source: Retail Trade Association, 2019)

EFFECTS OF CORPORATE GOVERNANCE PRACTICES ON INVESTMENT DECISIONS OF LARGE, RETAIL CHAINS IN KENYA

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