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RESEARCH ARTICLE

THE CONTRIBUTION OF GOOD CORPORATE GOVERNANCE PRACTICES ON THE FLOW OF INVESTOR INTO NAIROBI SECURITIES EXCHANGE

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ABSTRACT

The introduction of corporate government practices in Nairobi stock exchange saw the Bull Run that kicked off in the Nairobi Securities Exchange in the year 2006, which made the market gain more than 50%. As earnings of companies increased, so did the demand for shares by the public, corporate governance was incorporated as a strategy for the company success. The price appreciation forced many companies to split shares owing to the nature of majority of the Kenyan and foreign investors who wanted to invest in listed companies. Companies such as Kenol/ Kobil (Kenya Oil Company Limited), East African Cables Limited, CMC Holdings Limited, ICDCI (Centum Investments Company Limited) and Barclays Bank Limited that were highly priced opted to split shares to make them accessible to the public, and to benefit the company as well as potential investors. Corporate governance formulated and implemented legislation and enforcement procedure in place within the CMA and the NSE, to curb massive falsification of financial reports, conspicuous dealings in the NSE and illegal collaboration of stockbrokers with the intention to defraud investors. It is good corporate governance that even with the recent collapse of many stockbrokerage firms investor confidence in the capital corporate governance still is high. This study explores the contribution of the corporate governance on investor confidence in Nairobi Securities Exchange; recommend the possible solutions to curb corporate governance irregularities that lead to tremendous loss of investor money and confidence.

INTRODUCTION

Background of the study

According to Brounen, De Jong and Koedijk (2004) Corporate Governance is the formal system of accountability, oversight, and control aimed at removing the opportunity of employees to make unethical decisions. Where as accountability is how closely workplace decisions are aligned with a firm's strategic direction and its compliance with ethical and legal considerations, oversight provides a system of checks and balances that limit employees and managers' opportunities to deviate from policies and strategies and that prevent unethical and illegal activities. While control as the process of auditing and improving organizational decisions and actions (Atje Raymond and Boyan Jovanovic, 1993). A more inclusive approach to cooperate governance has been preferred, one that creates governance systems that consider stakeholders welfare in tandem with cooperate needs and interest thus promoting the development of long-term relationships. The proper governance of companies is as crucial to the world economy as the proper governance of countries. (Acemoglud and Zilibotti, 1997) Corporate governance has emerged as a major policy concern for many developing countries following the financial crisis in Asia, Russia, and Latin America. The collapse of Enron suggests that even the highly industrialized countries such as the U.S. are not immune to the disastrous effects of bad corporate governance. Studies have shown that high corporate governance standards lower the cost of capital, increase the operating performance of industry, and increase the flow of investment (Acemoglud and Zilibotti, 1997). Following the corporate scandals of Enron, WorldCom, and Tyco, more and more countries have embarked on corporate governance reforms to better protect the interests of investors.

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In Africa, significant study has been done on corporate governance. The King's Committee Report and Code of Practice for Corporate Governance in South Africa published in 1994, continues to stimulate corporate governance in Africa (Brewer, 1996). Training, technical innovations and awareness raising support has also been extended by the World Bank and the Commonwealth Secretariat to various African countries such as Botswana, Senegal, Tunisia, Mali, Mauritania, Cameroon, Gambia, Mozambique, Mauritius, Sierra Leone and Zambia to help them put in place appropriate mechanisms to promote good corporate governance. East African Regional conferences were held in Kampala, Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of corporate governance. At the June 1998 Conference, it was resolved that each member state of East Africa be encouraged to develop both a framework and a code of best practice, to promote national corporate governance. In Kenya, the Private Sector Initiative for Corporate Governance continues to liaise with Uganda and Tanzania towards the establishment of a Regional Center of Excellence in Corporate Governance. On October 8, 1999, the Corporate Sector at a seminar organized by the Private Sector Initiative for Corporate Governance formally adopted a national code of best practice for Corporation Governance to guide corporate governance in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation, Although corporate governance is now rather popular, in 1990 it was a murmur, therefore, within this context, that cutting-edge work in the area of corporate governance was only underway in Kenya in 1998. The Capital Markets Authority identifies this in their definition of corporate governance for the purpose of their guidelines. "The process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders"(Capaso, Slavatore, 2008). Therefore, at the core of Corporate Governance is the manner in which the power of a corporation is exercised in the running of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. It is concerned with creating a balance between economic and social goals and between individual and communal goals while encouraging efficient use of resources, accountability in the use of power and stewardship and as far as possible to align the interests of individuals, corporations and society (Adam, Tweneboah, and 2009).

According to Musau (2007) Investing on shares and stocks in Kenya started in the 1920's when the country was still a British colony. However the market was not formal as there were no rules and regulations to govern stock broking activities. Trading took place on a 'gentleman's agreement.' Standard commissions were charged with investors being obligated to honor their contractual commitments of making good delivery, and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate agents and lawyers who met to exchange prices over a cup of coffee. Because these firms were engaged in other areas of specialization, the need for association did not arise. In 1951, an Estate Agent by the name of Francis Drummond established the first professional stock broking firm. He also approached the then Finance Minister of Kenya, Sir Ernest Vasey and impressed upon him the idea of setting up a stock exchange in East Africa. The two approached London Stock Exchange officials in July of 1953 and the London officials accepted to recognize the setting up of the Nairobi Securities Exchange as an overseas stock exchange (Musau, 2007). The stock market is one of the most important sources for companies to raise funds. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. (Mbugua, 2004) The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate. History has shown that the price of shares and other assets is an important part of the dynamics of economic activity, and can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. In fact, the stock market is often considered the primary indicator of a country's economic strength and development. Rising share prices, for instance, tend to be associated with increased business investment and vice versa. Share prices also affect the wealth of households and their consumption. (Musau, 2007) Therefore, central banks tend to keep an eye on the control and behavior of the stock market and, in general, on the smooth operation of the financial system functions. Financial stability is the raison d'être of central banks. Exchanges also act as the clearinghouse for each transaction, meaning that they collect and deliver the shares, and guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction (en.wikipedia.org/wiki/ Stock market 2010).

Corporate governance plays a fundamental role in the economic development of a company. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic savings and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate growth of the company. (Kuse and Yanamoto, 2004) This is only possible through the development of effective corporate governance. Capital markets, which deal with securities such as stocks and bonds, are associated with financial resource mobilization on a long term basis. By raising capital directly from the investors, they lower the cost of capital. Capital markets also allow for wider ownership among the public, there by distributing risks and wealth amongst smaller investors. For investors, they provide an effective vehicle for making investment choices which suit their own preferences of risk and returns based on available information. As such, corporate governance helps the economy to generate more savings and productive investments. A basic feature of an efficient capital market is constant liquidity, an easy mechanism for entry and exit by investors. This requires sufficient volume and size of transactions in the market (Boyd John Bruce Smith, 1996). According to Chen and Dodd (2002) the emerging markets have seen considerable development since the early 1990s. The market capitalization of emerging market countries has more than doubled over the past decade growing from less than $2 trillion in 1995 to about $5 trillion in 2005. As a percentage of world market capitalization, emerging markets are now more than 12 percent and steadily growing (Chen and Dodd, 2002). The rapid development of corporate governance in emerging market indicates that even the most advanced stock markets are mature. In most stock markets, trading occurs in only a few stocks, which account for a considerable part of the total market capitalization. Beyond these actively traded shares, there are serious informational and disclosure deficiencies for other stocks. There are serious weaknesses in the transparency of transactions on these markets. The less developed corporate governance suffers from a far wider range of such deficits. Compared with the highly organized and properly regulated stock market activity in the US and the UK, most emerging markets do not have corporate governance functioning well. Not only is there inadequate government regulation, private information gathering and dissemination firms as found in more developed markets are inadequate. Moreover, young firms in emerging stock market do not have a long enough track record to form a reputation. As a result, one expects share prices in emerging market to be arbitrary and volatile (Howells and Soliman, 2004).

The owners of a private company may want additional capital to invest in new projects within the company. They may also simply wish to reduce their holding, freeing up capital for their own private use. They can achieve these goals by selling shares in the company to the general public, through a sale on a stock exchange. (Bhide, 1993) This process is called an initial public offering, or IPO. By selling shares they can sell part or all of the company to many part-owners. The purchase of one share entitles the owner of that share to literally share in the ownership of the company, a fraction of the decision-making power, and potentially a fraction of the profits, which the company may issue as dividends. In the common case of a publicly traded corporation, where there may be thousands of shareholders, it is impractical to have all of them making the daily decisions required to run a company. Thus, the shareholders will use their shares as votes in the election of members of the investors of the company (Berthelemy, Jean-Claude & Aristomene Varoudakis, 1996). A stock exchange is a form of exchange which provides services for stock brokers and traders to trade stocks, bonds, and other securities. Stock exchanges also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include shares issued by companies, unit trusts, derivatives, pooled investment products and bonds. (Catalan Mario Impard, Gregorio and Musalem Alberto, 2000) To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to such a physical place, as modern markets are electronic units, which gives those advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only (Bhide, 1993). Onyango (1999) indicates that Kenya has over time proved to be the preferred investment point in the East African region due to its strategic location and free market economy which places no significant restriction on the movement of foreign currency in and out of the market. The changes to corporate finance legislation, the most important changes include the promulgation of the new Constitution of Kenya (the 'Constitution'); The Capital markets Act (CMA), recently enacted legislation and other commercial bills pending before Parliament. Within the region, the process of implementing the EAC Common Market Protocol is ongoing. Member states are yet to put in place supporting legislation to fully realize the benefits of the seamless market arrangement. The Capital markets Authority (CMA), the country's capital market regulatory body, has drafted several regulations geared at safeguarding the interests of the investor and reducing the stranglehold that the stock brokers have on the Nairobi Securities Exchange (Onyango, 1999).

Problem statement

Corporate Governance scandals and accounting failures such as Maxwell in the UK and Enron in the US have been dominating business debates during the last decade. Increasing unethical problems are recognized as symptoms of failing Corporate Governance and systems of accountability and control in publicly quoted firms. Apart from the global recession, the NSE has also been hit by a number of regulatory and governance issues. A damaging audit report on the collapsed Nyaga stockbrokers became public, eroding investor confidence. Market regulator, Capital markets Authority, also moved in on Discount Securities, putting the firm under statutory management, sending further panic into the market. The study sought to find out the contribution of corporate governance in Nairobi Securities Exchange to deal with the global recession, the collapse of some stock brokers and increase investor confidence.

Literature review

Investor confidence

Ball (2001) defines investors' confidence as the expectation of future stock market stability which is an important factor in determining stock market volatility. There are all kinds of wacky theories about what drives the stock market and when to be in or out such as the theory of the Summer Rally and the Tiger Woods Effect. According to Atje Raymond and Boyan Jovanovic (1993) reports of major corporate fraud and misconduct in the U.S, that shook investor confidence and raised questions about the integrity of capital corporate governance and their participants. The impact of these scandals was felt not only in the U.S., but also in Canada and throughout the rest of the world. Adelegan (2008) argues that investment decisions are based on information and the quicker and more reliable the information, the less likely it is that decisions will be made on emotion and herd instinct. This is in part due to the trust that investors on Wall Street have that the information underpinning their decisions is accurate and transparent, and that they get it at the same time as everyone else. Bekarert, Harvey and Lundblad (2004) show that regulatory and institutional factors may influence the functioning of stock market corporate governance. For example, mandatory disclosures of reliable information about firms may enhance investor participation and regulations that instill investor confidence in brokers should encourage investment and trading in stock market. Chen and Dodd (2002) argues that cash-flow news contributes to stock return volatility more than expected return news does identifies key indicators of stock market development to be the market capitalization ratio and stock market liquidity. Mbugua (2004) observes that Investor confidence is an important aspect of a country's economic stability. It is so important to weed out villain stockbrokers and dishonest players in the financial sector. The government does not tolerate any wayward stockbrokers and other players in the wider financial sector that are bent on exploiting Kenyans' savings. The need for discipline in the capital market corporate governance is crucial to attracting and maintaining the confidence of investors.

Investor confidence is important so that people continue investing their money in the capital markets. Because 2010 was a great year with the Share Index going up by 37 per cent, making the Nairobi Securities Exchange the second best performing exchange in Africa. This is commendable considering the post election crisis in 2008. In the bid to boost investor confidence, the CMA is positioning itself as a world-class regulator by benchmarking with international best practice and is a member of the International Organization of Securities Commissions (IOSCO) – an international forum for securities regulators. CMA has been a full member of IOSCO since April 2009 after signing a Multilateral Memorandum of Understanding (MMOU) concerning consultation, cooperation and the exchange of information, in recognition of compliance with cooperation and enforcement requirements. For a regulatory authority to qualify to sign the MMOU, it must demonstrate capacity, legally and practically, to meet specific MMOU provisions which are essential for mutual assistance and the exchange of information in order to successfully enforce securities and derivatives laws. By signing the MMOU in 2009, CMA was the 52nd country globally and the fourth in Africa to do so. Musau (2007) identifies a major milestone for CMA is corporate governance, the process of adopting the risk-based supervision model. "Risk-based supervision is really a way of changing how we supervise our market to focus on areas of greatest risk. One of our core values is to be responsive; as a regulator, that implementing the model involved conducting a risk assessment audit. After identifying the gaps, the next step was risk profiling. The risk-based supervision model has seen CMA train its supervision staff extensively and also involved its stakeholders, especially the market intermediaries.

According to Fama (2009) Nairobi Securities Exchange report of low investor confidence levels due to weak corporate governance structures has cost investors billions in losses as traders irregularly traded in investors 'shares. One of the most recent irregularities in Kenya involved Nyagah Stockbrokers. A stockbrokerage firm put on statutory management in 2008 after failing to meet its financial obligations. Consequently, over 25,000 investors lost vast amounts of money, lodging claims to the Capital Corporate governance Authority for compensation through the Investor Compensation Funds (ICF). The CMA spent Shs302 million to paying investors a maximum of Shs50,000, since the State could not afford to compensate the full amount invested, Nyagah stockbrokers top management (owners and directors) assets were to be sold in order to compensate each and every investor of the firm. Based on a forensic audit done by PricewaterhouseCoopers (PwC) that was leaked to the public. PwC reported the firm might have gone down with about Shs1.3billion of public funds and in addition to this diversion of funds by management, fraud by the staff, occurrences of collusion by other stockbrokers in the NSE, and even office of the regulator (Fama, 2009).The collapse of stockbrokers has, over the years resulted in a confidence crisis at the NSE. In the last 3 years, two others Francis Thuo and Discount Securities Limited have also gone under taking with them millions of investor funds and trust in the bourse. Discount Securities Limited especially risked NSSFs workers pension fund losing billions invested. There was also the suspension of Bob Mathew's stockbrokerage licenses and insufficient funds to meet investors 'obligation (Fama, 2009) Common concerns raised involved corporate governance, investor's complaints touching on certain brokers, some money that was not adding up and overdrawn bank and clearing accounts. Concerns have also been raised that some brokers are living off their investors' money by selling their shares without their authorization, while others are failing to effect instructions promptly or pay proceeds at the end of 5years as is required under NSE regulations. Therefore, recent move of commercial banks in buying out stockbrokerage licenses and institute good corporate governance practices by maintaining integrity, accountability and increasing efficiency and effectiveness may be the answer to the current investor confidence issue.

Corporate governance

According to Mbugua (2004) The Nairobi Securities Exchange is primarily responsible for regulating members and the conduct of listed companies through its various rules and regulations. Of particular importance is its role in monitoring and enforcing continuing listing obligations, which are geared towards ensuring comprehensive and timely disclosure, particularly of material information pertaining to the performance of listed companies. (Musau, 2007) Despite its role, the NSE up to 2007 was limited in the extent of control it can have over the market intermediaries, it could not control the makeup or structure of the investors or in the appointment process of top administrative posts. Consequently, the NSE until 2007 had no punishment or sanction powers over the listed companies. They merely suggested on the best practices but had no real power to ensure that listed companies complied with the best practices of corporate governance. This created a gap for companies to compromise and it thus important to note that it was between these periods that the major fraudulent activities by stockbrokerage firms occurred. Musau (2004) during the 2007-08 budget speech the government acknowledged the need to protect the integrity of the stock exchange and to protect the small investors from unscrupulous market players; the NSE additional sanction powers came into effect in 2008. These additional sanction powers are held in the 2009, April 'Market Intermediaries regulation' and the 'Conduct of Business Market Intermediaries regulations'. They are intended to regulate activities by stockbrokers in the NSE by setting up clear rules and punishment for irregularities in their transactions and operations. The corporate Governance Market Intermediaries regulation' develops a Corporate Governance Framework which ensures that; there is strategic guidance of the market intermediary, effective monitoring of the management by the board, and the board's accountability; and timely and accurate information is available on all material matters relating to the market intermediary, including its financial structure, performance, ownership and governance. Secondly it develops an Accountability and Responsibility framework that requires the board of public listed companies to have formal schedule of matters specifically reserved to create conflicts. Paramount to the codes of conduct is the identification of areas of conflict of interest and the adoption of appropriate policies to curb this unethical issue. In the event where the conflict of interest between the organization and the investors cannot be avoided, then full disclosure to the investor is necessary in order to minimize damage to the investor and to put the investor's interests ahead of its own. Areas regarding money laundering the 'Corporate Governance Market Intermediaries regulations' requires that in each occasion a investor places an investment order with a market intermediary, the market intermediary ought to obtain details as to the origin and source of the money or funds used or to be used for the investment (Capital Corporate market Authority, 2009). Where the money or funds originate from outside Kenya then a confirmation from the remitting entity of the nature of its business and details as to the source of the money or funds is therefore necessary (Capital market Authority, 2009, April 15).

The corporate Governance market intermediary thus maintains this information obtained from the investor as part of the records. Since insider trading became such an issue, the Codes of business conduct also regulate Investor transactions. In the event an investor's order has been received the stockbrokers must effect the execution of that order without delay and deal on the terms that are the best available to the investor. In addition, market intermediary should also take reasonable steps to ascertain if any of its investors are insiders and maintain records accordingly to assist in the monitoring of insider dealing. The Regulations also require stockbrokers to inform the CMA of any fraud on the market intermediary or by any of its employees; any

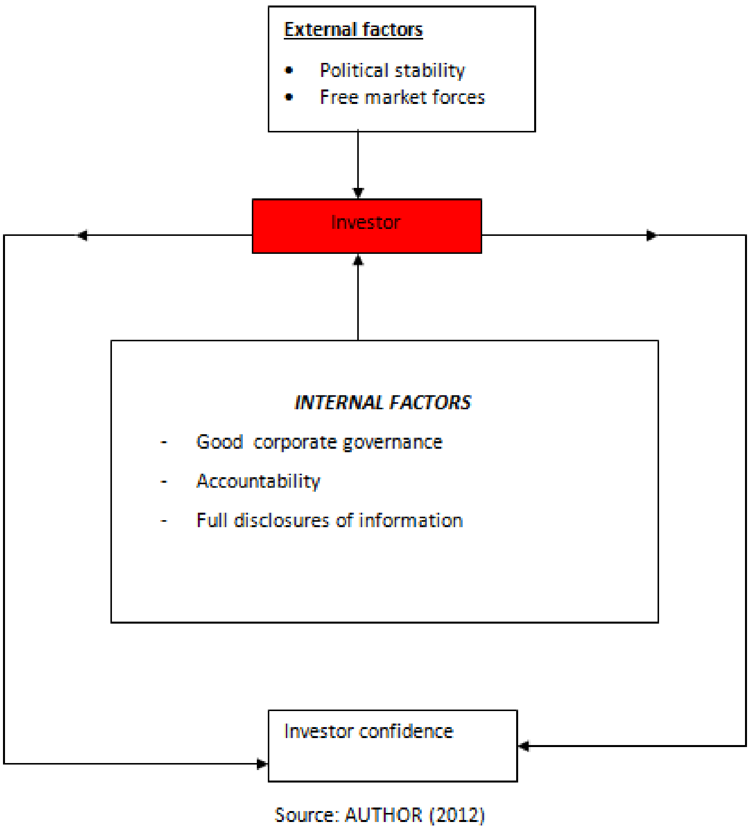

Fig.1. Conceptual framework

it for decision to ensure that the direction and control of the market intermediary is firmly in its hands (Fama, 2009) While 'corporate Governance Market Intermediaries regulations' encompass the governance of public listed companies the 'Conduct of Business Market Intermediaries regulations' gives the code of business conduct of market intermediaries in their handling of arising ethical issues that disciplinary action against any of its key personnel; any action against it that may lead to bankruptcy (Capital markets Authority, 2009). These codes are to ensure that there is no discrepancy between the Exchange and the Authority; enhancing information symmetry and stemming market manipulation. The Automated Trading System (ATS) at the NSE has been running since 2006, making transactional processes easier for stockbrokers who can access the NSE from their offices via a Wide Area Network (WAN). The NSE runs this ATS system but the stockbrokers control the orders in it; this creates the probability of fraud. The Exchange is limited in fully monitoring the stockbrokers, to counter this; the investor signs a ‘trading order form’ to authorize the order. The NSE thus handles any complaints by investors about stockbrokers and irregularities investigated through their broker back office system in the process of boasting investor confidence. The back office system of the ATS curbs irregularities by putting up a Kshs.5 million fine on stockbrokers or a prison sentencing and even a complete ban from trading. Corporate governance of members of the NSE is emphasized owing to the collapse of over 6 stockbrokerage firms due to lack of sufficient capital by 2010, December 31 investment banks were expected to increase their capitalization to Kshs.250.0 million from the current Kshs.30million and stockbrokers to Kshs.50.0 million from Kshs.5million (Fama, 2009).

Capital Markets Authority corporate governance

Capital markets Authority has worked to improve market confidence by laying out rules and regulations to govern operation of players in the Nairobi Securities Exchange market. For a longtime, disclosure requirements were insufficient and there was inadequate protection of investors. At the same time, outdated laws and cumbersome licensing complicated entry, impeded efficient operation and discouraged orderly exit (Musau, 2007). In 2002, the Capital markets Authority, working with the Nairobi Securities Exchange, developed a new legal and regulatory framework that conforms to the best international practices. Of the rules so developed, the key ones in ensuring corporate disclosure by listed companies include the Nairobi Securities Exchange Listing Manual, the Capital markets–Securities, Public Offers, Listing and Disclosures- Regulations 2002, the Capital markets Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya (Development, 2003). The Capital Corporate governance Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya 2002 were established in response to the growing importance of governance issues both in emerging and developing economies and to promote growth in domestic market (Mbugua, 2004).

The contribution of corporate governance

According to Alkedf Lucy (2003) corporate managers are, in accordance this view, to reconcile stakeholders and shareholders’ needs and interests though strategies capable to raising both economic and social and environmental standards. If the decision making process within corporate hierarchies were captured and controlled by one set of stakeholders, other stakeholders might eventually cease to cooperate, to withhold inputs in the future, and try to withdraw inputs over which they have influence. The complex nature of modern corporations implies that shareholders investment is better protected though the care and respect of those “external” assets. Breaches of social or environmental laws bring penalties and sanctions to Corporations and diminish shareholder’s revenues. In the absence of imperative laws, lack of respect for social, environment issues can have disastrous consequences for the Corporation’s activities and profitability. (Onyango, 1999).

Kuse and Yanamoto (2004) indicates that corporate governance through the protection of a wider set of interests can be regarded as an alternative way of efficiently conducting Corporate Governance. Taking into consideration other stakeholders’ interests is often regarded as fairly recent in development, and Freeman is generally cited as its landmark. However neither this idea nor many of its practices are new. From a philosophical standpoint it has been related with expansion of democratic ideas from a practical perspective. (Kuse and Yanamot0 2004) Corporate Governance deals with Corporations organization and decision making structures. One of its main purposes is to ensure the efficient confluence of otherwise competing interests that are affected by Companies’ activities. The debate about the relationship between shareholders’ interests (those of investors and owners of the issued shares of the Corporation) and other stakeholders’ or “other constituents”’ interests (those related to a varied number of constituencies such as employees, citizens the Community where the Corporation interacts, etc) are as old as Corporations.

RESEARCH METHODOLOGY

This study adopted a descriptive survey on the companies that are listed by NSE and those that are not listed. The study provided both quantitative and qualitative data description of target population. A descriptive survey was used because it enabled the researcher to consider a large target population, easy data collection and ability to understand entire population; it was also suitable for extensive research.

Target population

The target population for the study was 140 consisting of 60 listed companies and those not listed in Nairobi Securities Exchange and 80 companies which are not listed in NSE.

Sample size

δ= range Where range= 140 – 80 = 60
6
= 60 =10
6

$$n = \frac{(Z\delta)^{2N}}{(N\text{-}l)E^2 + (Z\delta)^2} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\text{Kothari} \quad (1985)$$

$= (1.96 \text{ X } 10)^2 \text{X}140 = 53782.4$
$139\text{X } ((2)^2 + (1 .96\text{X}10)^2 \quad 940.16$
$= 57$

Where; n is the sample size,
δ Is population standard deviation
Z- Is the corresponding 95% confidence level.
N is the population size,
E is the error.
Therefore, the sample consisted of 57 of the companies. The researcher expected to obtain a sampling error of ±2 companies only.

Sampling technique

The population was divided into six sub sector companies as follows:

Manufacturing sector companies ………….30 companies.
Retailing sector companies ……………….50 companies.
Banking sector companies …........................9 companies
Farm sector companies …………….........….30 companies.
Insurance sector companies ………….……. 9 companies.
Property development sector companies ..…12 companies.
Simple random sampling was conducted within each stratum

Sampling procedure

Number of respondents interviewed in each stratum was calculated by proportionate sampling method as follows:

Table 1. Sampling Table

Companies	Sample number
Manufacturing sector companies - 30 / 140 X 57	12 companies
Retailing sector companies – 50 / 140 X 57	20 companies
Banking sector companies – 9/140 X 57	4 companies
Farm sector companies – 30/140 X 57	12 companies
Insurance sector companies– 9/ 140 x 57	4 companies
Property development companies – 12 / 140 X 57	5 companies
Sample companies	57 companies

Source: author; 2012

Stratified sampling was employed to group population into homogeneous subsets that share similar characteristics and to ensure equitable representation of the population in the sample. The Sampling technique ensured that subgroups are proportionately represented while accounting for the difference in subgroup characteristics. Simple random sampling was used in each stratum to select the respondents. This technique ensured each respondent in the strata had equal and independent chance of being included in the sample.

Data collection instruments

The researcher used self administered questionnaire to collect data from the respondents. This approach was consistent with a phenomenological approach and it was the most appropriate for this research because it enabled the researcher to collect as more data as possible. There were two types of data that were collected, that is primary and secondary data. The questionnaire comprised of both closed and open ended questions which were drawn in accordance with the set objectives of the study. They questionnaires were used as a tool to collect data as they were appropriate to collect a lot of information over a short period of time.

Quality control

The following quality control was used to ensure reliability and validity of the data collection tools; for any given research finding to be accepted and for it to test the objectives, the research tools must be reliable and valid. In other words, data collection techniques must exhaust all aspects under study as well as providing an opportunity of assessing the validity of information gathered. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials where as validity of a test is a measure of how well a test measure what it is supposed to measure First, randomization. Which include a random selection of respondents? This was because the sample was fairly large to create equivalent representatives samples that are essentially similar in all the relevant variables that would influence investors. The second one was to hold factors constant. The external variables were kept the same for all respondents. Reliability for secondary data was ascertained by taking into account the intended consumer of the information.

Data analysis

Descriptive and Inferential statistics with the help of Statistical Package for the Social Sciences (SPSS) was applied in this research in organizing, coding and analyzing quantitative data collected. The descriptive statistics involved standard deviation and coefficient of variation was used in the research specifically to measure the degree of disparity and consistency of responses to statements on investor confidence. The two models, that is the EMSI model and caldero-Rosseli model were regressed together. The lower the coefficient variation the more consistency/uniformity such responses are, regarding the variable under investigation. The SPSS is comprehensive and integrated for managing, analyzing and displaying data.

Data Analysis and Findings

This section deals with data analysis and interpretations of research findings. The data in this study was summarized and presented in the form of tables, standard deviations, Regression analysis. F test for Fit Statistics and Hypothesized Alternative Models.

Table 1. Model summary

R	R square	adjusted R square	std. error of estimate	change statistic R square	F change	df1	df2	sig F Change
0.527(a)	0.278	0.275	18.68179	0.278	14.690	1	298	0.000

Note. Predictors: (Constant), investor confidence. Source: research data.2012

Analysis in Table 1 shows that the coefficient of determination (the percentage variation in the dependent Variable being explained by the changes in the independent variables) R2 equals 0.278, that is, investor confidence explain 27.8% of corporate governance for investor confidence 72.2% unexplained. The P-value of 0.000 (less than 0.05) implies that the model of corporate governance is significant at the 5% level of significance.

Table 2. ANOVA

	Sum of squares	Df	Mean square	F	Sig.
Regression	40,027.940	1	40,027.940	114.690	0.000 (a)
Residual	104,004.726	298	349.009		
Total	144,032.667	299			

Notes. Predictors: constant, corporate governance. Dependent variable: investor confidence. Source: research data, 2012

ANOVA findings (P-value of 0.00) in Table 2. show that there is correlation between the predictor's variables (corporate governance) and response variable (investor confidence). The study used regression analysis to find the association between corporate governance and investor confidence in Nairobi Securities Exchange. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that the model was moderately significant. This is demonstrated in the part of the analysis where R2 for the association between corporate governance and investor confidence was 27.8%. The results obtained from the regression model show that there is an effect of corporate governance on investor confidence level with 27.8% possibility of corporate governance in predicting the variance in investor confidence.

Regression Model Parameter Estimates

Model	Unstandardized Coefficients B	Standardized Coefficients Std. Error	Beta	T	Sig
Constant	.-572	0.75		-7.627	0.00
Corporate governance	.983	0.55	0.970	17.975	0.00
Investor confidence	.056	0.006	.525	9.728	0.00

a. constant Variable; corporate governance b. dependent variable investor confidence

The relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company. Corporate governance brings new outlook and enhances a firm's corporate entrepreneurship and competitiveness. The study examined the role of corporate governance and its effect on the investor confidence in Nairobi Securities Exchange in Kenya. it was evident that there is a positive relationship between corporate Governance and investor confidence since their coefficient estimates are positive and the P-values less than 0.05.since the critical value is 42.56. lack of corporate governance makes it difficult for leadership to make critical decisions. However, a standard deviation of 2.434 suggests that while corporate governance in Nairobi Securities Exchange has relative large interest on investor confidence. Notes. Alternative 1 (only indirect effect): the investor confidence on the Nairobi Securities exchange Alternative 2 (only direct effect): good corporate governance in Nairobi securities exchange. GFI = goodness-of-fit index; AGFI = adjusted goodness-of-fit index; CFI = comparative fit index; IFI = incremental fit index; SRMR = standardized root mean square residual; RMSEA = root-mean-square error of approximation; AIC = Akaike information criterion. The findings of the study delineate the significance of corporate governance on investor confidence in the Nairobi securities, enduring involvement with stock on investors' knowledge of investment products.

Analytical regression model

The two models, that is the EMSI model and caldero- Rosseli model were regressed together in a multiple linear regression model, The summary of the analysis is shown in the table bellow; based on the assumption that normality and independence of errors.

Fit Statistics for Hypothesized and Alternative Models

MODEL	X^2	Df	X^2/df	GFI	AGFI	CFI	IFI	SRMR	RMSEA	AIC
Hypothesized model	58.082	21	2.766	0.953	0.899	0.941	0.942	0.052	0.081	10.082
Alternative 1	66.415	23	2.888	0.948	0.898	0.931	0.932	0.053	0.084	110.4115
Alternative 2	153.1	23	6.656	0898	0.8	0.792	0. 796	0.159	0.146	197.098

Y= b0 +b1 x1 –b2 x2 +b3 x 3 +c

Where b0=1010.260
b1= 6.899
b 2 =-0.001
b 3 = 1.5.9E-05

the r 2 is 0.986 this means that 98.6% of the variation in the investor confidence 20 share or stock market index can be explained by multiple regression models. The study further tested the hypothesis and found out that there is no significant relationship between corporate governance and investor confidence. H 0: b 1 =b 2 =b 3=0 and H 1: at least one b. = 0 the level of significance of 0.05 was chosen as critical value of F distribution table was determined to be 6.59 because F=93.616>F u = 6.59 H 0 was rejected and concluded that at least one explanatory variables the R is 0.993 which shows the is an existence of a significant relationship between corporate governance and investor confidence in the Nairobi stock exchange.

Summary conclusion and Recommendation

Summary and conclusion

Investor confidence is an important aspect of a country's economic stability. It is so important to weed out villain stockbrokers and dishonest players in the financial sector. The government does not tolerate any wayward stockbrokers and other players in the wider financial sector that are bent on exploiting Kenyans' savings. The need for discipline in the capital market corporate governance is crucial to attracting and maintaining the confidence of investors. Table 1 shows that the coefficient of determination (the percentage variation in the dependent Variable being explained by the changes in the independent variables) R2 equals 0.278, that is, investor confidence explain 27.8% of corporate governance for investor confidence 72.2% unexplained. The P-value of 0.000 (less than 0.05) implies that the model of corporate governance is significant at the 5% level of significance. Table 2 show that there is correlation between the predictor's variables (corporate governance) and response variable (investor confidence). The study used regression analysis to find the association between corporate governance and investor confidence in Nairobi Securities Exchange. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that the model was moderately significant.

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Recommendation

The government should enforce measures to ensure that companies have corporate governance practices that concern agencies that are very keen in the supervisory role through the relevant committees to ensure that all regulations are enforced as required e.g. books of accounts are well kept and audited as they should be.

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