Influence of Corporate Governance on Financial Performance of Agricultural Firms Listed on Nairobi Securities Exchange

[1]Dickson Malanga Shikanga, [2]Dr. Clive Mukanzi, [3]Dr. Douglas Musiega

[1]Masters Student, Jomo Kenyatta University of Agriculture and Technology, Kakamega CBD campus, Kenya
[2]Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kakamega CBD campus, Kenya
[3]Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kakamega CBD campus, Kenya

Abstract: **Corporate Governance among companies in Kenya has often been associated with the financing behaviour of the firms. Efforts to revive the ailing and liquidating companies have focused on financial restructuring. A great dilemma for management and investors alike is whether there exists good Corporate Governance (CG) and how various corporate governance principles influence financial performance. Despite the tight regulatory framework, Corporate Governance continues to be weak in Kenya this has led to many companies being characterized by scandals. While most firms listed on the Nairobi Securities Exchange (NSE) have improved in performance, agricultural firms have experienced declining fortunes and some have even been delisted from the NSE over the last decade. Financial and governance problems have been experienced by the companies to an extent that they have been put under statutory management. This has resulted to occasional loss of stakeholders 'wealth and the overall investors' confidence' in the NSE. In spite of the support from the government of Kenya, the agricultural sector has continued to face enormous challenges in with many companies in the sector closing down. This study therefore investigated the Influence of Corporate Governance on Performance of Agricultural Firms listed on NSE. The specific objectives were: to determine the influence of disclosure of accounting and financial reporting systems, influence of institutional shareholding ratio and to determine the moderating effect of government policies and regulations on financial performance of agricultural firms listed on the NSE. The population was all the 7 agricultural firms listed on the NSE for the period of 7 years. Survey design was used in this research. After stratifying the target population using seven departments, 98 respondents were selected using census sampling technique. At each agricultural firm a sample of 14 respondents was selected to represent the entire entity. The study used questionnaire to gather data. To enhance validity, the researcher exposed the instruments to experts for judgment. To assess the reliability of instruments, the test re-test technique was used on participants during the pilot study. The SPSS version 21 was used to analyse questionnaires. The study found that institutional share ratio, debtor's management and disclosure of accounting and financial reporting system have a positive and significant influence on financial performance. Therefore, it was concluded that corporate governance has significant influence on performance of agricultural firms listed on Nairobi Securities Exchange. It was also concluded that government policies and regulations have significant effect on the influence of corporate governance on financial performance. The study recommended that listed firm at NSE should consider their corporate government practices especially disclosure of accounting and financial reporting system and CMA should enact stringent rules and regulations to ensure that listed firms uphold good corporate governance practices.**

Keywords: **Corporate Governance, Financial Performance.**

1. INTRODUCTION

In the 21st century the concept of corporate governance has become important for all medium and large organizations. Corporations work within governance framework which is set first by the law and second by a regulation stemming from the regulatory bodies to which they are subject (Calder, 2008). Corporate Governance is the system by which

organizations are managed, directed and controlled by their directors, employees, shareholders and other stakeholder's showing their powers, rights and obligations (Jedidah,Tumaini & Douglas, 2016). It is also defined as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity (Mang'unyi, 2011). The Organisation for Economic Cooperation and Development first established the basic principles of corporate governance in 1999, and then revised them in 2004 to enhance the basis for an effective corporate governance framework such as the rights of shareholders, role of other stakeholders in corporate governance and the responsibilities of the board (OECD, 2004).

Effective corporate governance is transparent, protects the rights of shareholders and includes both strategic and operational risk management, interested in long-term earning potential as is in actual short term earnings, holds directors accountable for their stewardship of the business and ensures that directors exercise their fiduciary duties responsibly. OECD (2004) the Organisation for Economic Cooperation and Development first established the basic principles of corporate governance in 1999, and then revised them in 2004: ensuring the basis for an effective corporate governance framework; the rights of shareholders and key ownership functions the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; the responsibilities of the board (Kosack & Fung, 2014).

Corporate Governance has not gained prominence in Kenya as is the case in other countries (Ekadah & Mboya, 2011). This has been caused partly by corporate failure or poor performance of public and private companies (Barako.,Hancock. & Izan, 2006). The Private Sector Corporate Governance Trust (PSCGT) Kenya has been the greatest advocate of CG in Kenya. CG framework in Kenya started in 1999 when the Center for Corporate Governance Kenya developed a framework which was voluntary for companies to adopt. The framework was further taken up by the Capital Markets Authority (CMA) in 2000 as draft Corporate Governance practices for listed companies in Kenya. In later years the Capital Markets Authority made it mandatory for the listed companies to adopt those Corporate Governance practices. These Corporate Governance practices mainly dealt with the issues of the board such as board composition, role of audit committee, separation of the role of Chief Executive Officer (CEO) and the Chair. In addition, they focused on the rights of the shareholders. Listed Companies in Kenya must comply with the Companies Act, the regulations of the Capital Markets Authority and the Nairobi Securities Exchange listing rules. Insurance Companies must also comply with regulations by the Insurance Regulatory Authority which released Corporate Governance guidelines in 2011 to be observed by Insurance Companies (Wanyonyi & Olweny, 2013).

1.1 Statement of the Problem:

Despite the tight regulatory framework, Corporate Governance continues to be weak in Kenya (Mang'unyi, 2011). Study by Muriithi (2009) acknowledge that many companies have been characterized by scandals and directors have acted illegally or in bad faith towards their shareholders. While most firms listed on the Nairobi Securities Exchange have improved in performance, agricultural firms have experienced declining fortunes and some have even been delisted from the NSE over the last decade (Chitiavi et al., 2013). Financial and governance problems have been experienced by the companies to an extent that they have been put under statutory management. This has resulted to occasional loss of stakeholders 'wealth and the overall investors 'confidence in the NSE (Chebii, Kipchumba & Wasike 2011). Despite the support from the government, Kenya has continued facing enormous challenges in the agriculture sector with many companies in the agriculture sector closing down (PDA, 2010). KDB (2010) concluded that over 50% of dairy companies in the country had closed down during the period between 1995 and the year 2010. These include Kitinda Dairy Farmers Co-operative Society in Bungoma County which closed down in 1995 due to board of management failure to manage the society after the investors left. The remaining dairy based companies operate below capacity. Similarly, PDA (2010) reported a similar trend with the crop based companies closing down or operating below capacity. Otieno (2013) revealed the near collapse of Unga Group due to corporate governance issues. The collapse of these agricultural firms' affects over 40% of the total population who are directly and indirectly involved in agricultural production, and over 70% of the rural population depends on it for their livelihood.

However there is a mix up of findings on how best these institutions could have been governed to avoid their collapse. While many have come to the conclusion that good corporate governance results in better financial performance of an organization, Kihara (2006) found out that financial performance of organization is negatively influenced by corporate governance. The researcher recommended further research to cover longer period of study in order to capture longer trade cycles and business trends. These varied findings therefore imply that the relationship between corporate governance and financial performance may not be consistent across firm context. With limited studies on corporate governance on

financial performance of agricultural firms listed on Nairobi Securities Exchange, this study sought to investigate the influence of corporate governance based on independent variables of disclosure of accounting and financial reporting system, institutional share ratio and financial debtors management. Moderating variable used in this study was government policies and regulations. The period of 7 years of study helped to capture longer trade cycles as previous cycles have been of short term.

1.2 Research Objective:

To determine the influence of disclosure of accounting and financial reporting system on financial performance of agricultural firms listed on the Nairobi Securities Exchange.

1.3 Research Question:

1.4 Does disclosure of accounting and financial reporting system have any influence on financial performance of agricultural firms listed on the Nairobi Securities Exchange?

2. LITERATURE REVIEW

2.1 Conceptual Framework:

According Tromp (2012) a concept is an abstract or general idea inferred or derived from specific instances. A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Mugenda and Mugenda (2008) defines conceptual framework as a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. According to Kothari (2014) defines an independent variable also known as the explanatory variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. The goal of a conceptual framework is to categorize and describe concepts relevant to the study and map relationships among them. Such a framework would help researchers define the concept, map the research terrain or conceptual scope, systematize relations among concepts, and identify gaps in literature (Tromp, 2012). In this study, the independent variables are from the corporate governance and the dependent variable is from financial performance.
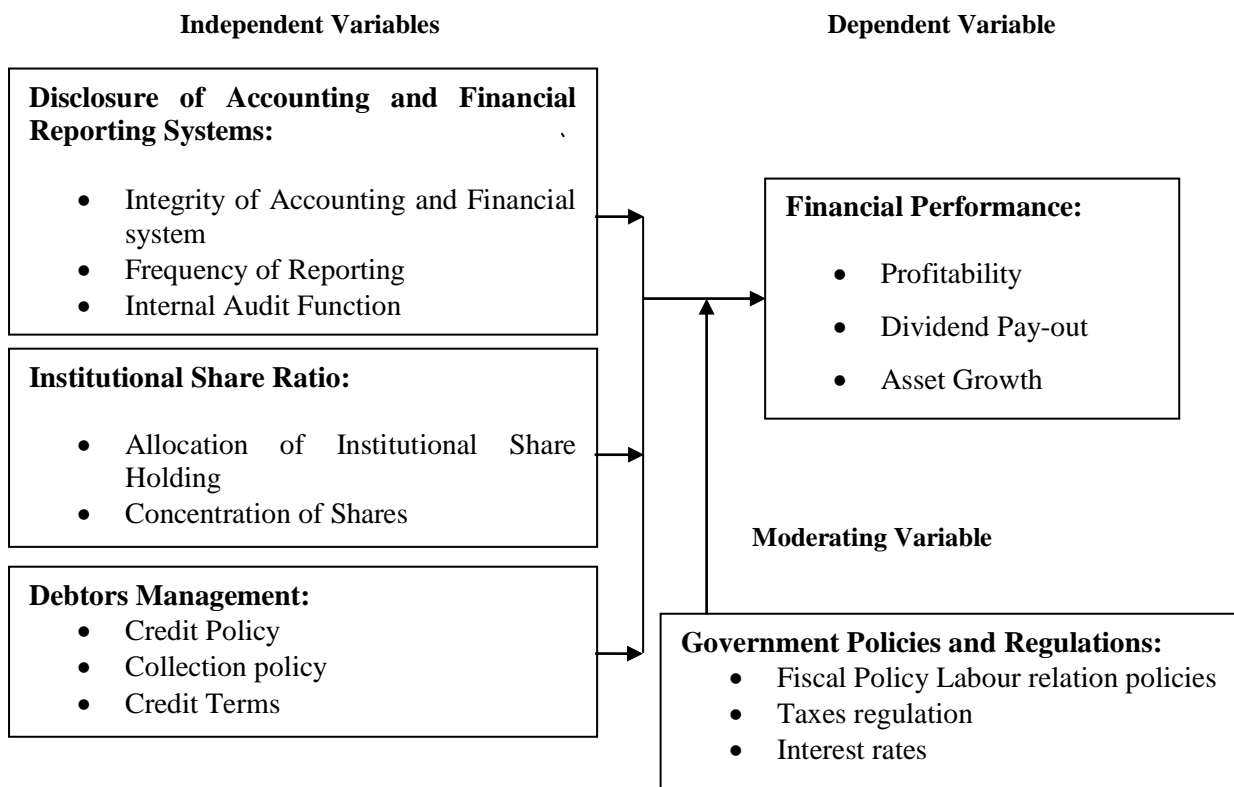
The relationship is clearly shown below in figure 2.1:

Figure 2.1: Conceptual Framework

2.2 Review of Variables:

2.2.1 Disclosure of Accounting and Financial Reporting Systems:

Articles 431–435 of the Companies Act include provisions regarding the use of accounting principles and the types of financial statements to be prepared by a public company. The accounting must be subject to business practices generally accepted as fair, appropriate, and pursuant to the applicable laws. And all accounts and important materials regarding business must be retained for ten years from the time of closing and preparation of the financial statements. Any shareholder holding three percent of the voting rights can request at any time to inspect those accounts. Rehman and Bremer (2016) researched on corporate governance and financial reporting in Japan concluded that high quality laws, codes, guidelines, and institutional arrangements leads to improved corporate governance.

Ferrero (2014) researched on the relationship between financial reporting quality and the level of financial performance on 1, 960 international non-financial listed companies from 25 countries and the special administrative region of Hong-Kong for the period 2002-2010 with the results that greater financial reporting quality has positive influence on financial performance. Lin, Jiang and Xianjian (2015) studied on the impact of the quality of financial reporting on performance during the period 2008–2009 in the United Kingdom. The researchers concluded that firms with high-quality financial reporting had better financial performance during the financial crisis. Lekhanya (2013) carried out a study on Small Medium Enterprises in Kwazulu, Natal, South Africa on use of international financial reporting standards. The results of the survey revealed that most firms do not follow proper international financial reporting standards. They do, however, use traditional methods in recording their cash collections by using exercise books to keep daily records. The researcher recommended that further research should aim to establish financial management training needs of rural Small Medium Enterprises in Kwazulu to enhance financial performance..

2.2.2 Financial Performance:

Financial performance is a subjective measure of how well a firm can use its assets from its primary role of conduction of business and its subsequent generation of revenues (Ngima, 2014). Financial performance is also used as a general measure of a firm's overall financial status over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in totality (Okoth, 2013). The financial performance is measured using accounting key performance indicators such as Return on assets, Earnings before interest and tax (Nelima, 2012). The advantage of these measurements is their general availability, since every profit oriented organization produces these figures for their yearly financial reporting (Chenhall, 2007).

A company can be categorized as global performance if it can satisfy the interests of all stakeholders: managers are interested in the welfare and to obtain profit, because their work is appreciated accordingly; owners want to maximize their wealth by increasing the company's market value (this objective can only be based on profit); current and potential shareholders perceive performance as the company's ability to distribute dividends for capital investment, given the risks they take; commercial partners look for the solvency and stability of the company; credit institutions want to be sure that the company has the necessary capacity to repay loans on time (solvency); employees want a stable job and to obtain high material benefits; the state seeks a company to be efficient, to pay its taxes, to help creating new jobs (Valentin, 2013).

Most firms measure financial performance with commonly used financial measures: return on equity (ROE), return on assets (ROA) and margin on sales. Financial performance measures serves as a basis for evaluating the performance of a corporate entity. The use of equity and debt impact the common performance measures in different ways. A given firm with relatively high use of debt will have higher interest expense and therefore lower net margin. On the other hand, a relatively lower use of equity would result in a proportionately higher return on equity. Therefore, if a corporate entity were to use relatively less debt and more equity, the opposite would be true (Liebrand, 2007). Yang (2011) defines return on assets as the ratio of net income and total assets. It reflects the ability of return on capital; and reflects the management total assets level of listed firms and the condition of reasonably used. The higher operational efficiency of the firm's total assets, the better financial performance firm has. Odalo (2015) used Return on Equity (ROE) and Return on Assets (ROA) to measure financial performance of agricultural firms listed on the Nairobi Securities Exchange. Njagi (2013) used ROE to measure financial performance of agricultural firms listed at Nairobi Securities Exchange. Mahfoudh (2012) used ROA and ROE to measure financial performance of firms listed in the agricultural sector at the Nairobi Securities Exchange.

3. RESEARCH METHODOLOGY

3.1 Research Design:

This study adopted the descriptive survey design. A descriptive survey is usually concerned with describing a population with respect to important variables with the major emphasis being establishing the relationship between the variables (Essendi, 2013). Cooper and Schindler (2011) recommend descriptive survey design due to its ability to produce statistical information about aspects of population that interest policy makers and researchers. This design was ideal for gathering information regarding people's behaviour, feelings and opinion about the organization (Kombo, 2006). It can also be used to determine the reasons or causes for the current status under study (Duba, 2014). The research design attempted to explain the reasons and sources of the observed events, characteristics and correlations. In this research design, the researcher had no control over the independent variables which are disclosure of accounting and financial reporting systems, institutional shareholding and debtors management. The researcher took the effect and examined the data to establish the causes, relationships or associations and their meanings. The study investigated how the independent variables influence the dependent variable.

3.2 Target Population:

Population is the total collection of all elements about which inferences is made in a study (Sekara & Bougie, 2010). This refers to a whole group of individuals, events or objects having a common observable characteristic (Mbaya, 2014). Also Njenga (2014) population refers to an entire group of individuals, events or objects having a common observable characteristic. The population was all the 7 agricultural firms listed on the Nairobi Securities Exchange. The population consisted of heads of departments and their deputies from the listed agricultural firms. The 7 common departments among the agricultural firms listed on the Nairobi Securities Exchange were: Corporation Secretary, Finance and Administration, Human Resource Management, Research and Development, Manufacturing and Processing, Operations and Logistics and Sales and Marketing. This led to 14 respondents for each listed agricultural firm translating to a total of 98 respondents as the target population.

3.3 Sampling Technique and Sample Size:

After identifying the target population of 98 officers a census survey was conducted and the study made use of questionnaires. Questionnaires were used to ensure that all targeted members of the population participated in the study (Sindani, 2012). According to Kothari (2010) a sample is a population selected for observation and analysis and used to make inference to the population from which it was obtained. Duba (2014) affirms that the sample size depends on the confidence one needs to have in his data, the level of certainty that the characteristics of data collected is representing, characteristics of total population, margin of error that you can tolerate, accuracy you require for any estimate made from your sample, type of analysis that will be undertaken and the size of total population from which the sample was drawn from. The 7 agricultural firms listed on the Nairobi Securities Exchange were studied. At the agricultural firm a sample of 14 respondents were selected to represent each agricultural firm bringing the sample to 98. The sample involved heads of departments and their deputies from the 7 departments of each of the agricultural firms listed on Nairobi Securities Exchange. The respondents were given questionnaires to fill which were administered on a pick later basis.

3.4 Data Analysis and Presentation:

Data analysis in descriptive survey studies involved a variety of descriptive and inferential statistics. The SPSS version 20 was used to analyse questionnaires. This study used frequencies and percentages because they easily communicate the research findings to the majority of the readers. Frequencies show the number of times a response occurred or the number of subjects in a given category. Percentages was used to compare the sub-groups that differ in proportion and size (Horace, 2014).

According to Mbaya (2014), data must be cleaned, coded and properly analyzed in order to obtain a meaningful report. The data collected was sorted and organized before capturing the same in Statistical Packages for Social Sciences (SPSS) for analysis. The analysis focus on four key variables namely the dependent variable performance of agricultural firms which was measured using profitability, dividend payout and asset growth. The three independent variables are: disclosure of accounting and financial reporting systems, Institutional Share ratio and debtor's management which were evaluated using a questionnaire. The moderating variable of government policy and regulation was used.

The inferential statistics comprised of Pearson correlation and multiple regression analysis at 0.05 significance level. Pearson correlation analysis was used to find out the relationship between independent and dependent variable using R coefficient. When R>0 then the relationship is positive while R<0 then the relationship is negative. Multiple regression produced R^2 which is the coefficient of determination that explains changes in financial performance that is accounted for by the independent variables.

3.5 Model Specification:

Below are the two regression models that was used in analyzing the effects of governance on financial performance of agricultural firms listed on Nairobi Securities Exchange.

Model one

Shows the relationship between independent and dependent variables

$Y = \alpha + \beta_1 DAF + \beta_2 ISR + \beta_3 FDM + e$

Model two

Shows the moderating effect of government policy and regulation on relationship between independent and dependent variables

$Y = \alpha + \beta_1 DAFGPR + \beta_2 ISRGPR + \beta_3 FDMGPR + e$

Where :

Y=Financial Performance

DAF – Disclosure of Accounting and Financial Reporting System

ISR– institutional share ratio

FDM – financial debtor's management

GPR – Government Policy and Regulation

e = Error term normally distributed about the mean of zero

4.   RESEARCH FINDINGS AND DISCUSSIONS

4.1 Disclosure of Accounting and Financial Reporting System:

To measure disclosure of accounting and financial reporting system, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the disclosure of accounting and financial reporting system statements. The pertinent results are presented in Table 4.1.

Table 4.1: Descriptive, Disclosure of Accounting and Financial Reporting System

Description	SD	D	NI	A	SA	Mean	SDV
We recognize the independence of transactions in accounting for receipts and expenditure with effective internal controls.	11.39% (9)	21.52% (17)	11.39% (9)	45.57% (36)	10.13% (8)	3.21	1.22
We recognize the distinctiveness of time intervals and frequent of reporting in accounting for receipts and expenditure	8.86% (7)	13.92% (11)	46.84% (37)	24.05% (19)	6.33% (5)	3.05	.998
We exercise full disclosure of material information in accounting of receipts and expenditure	7.59% (6)	18.99% (15)	31.65% (25)	30.38% (24)	11.39% (9)	3.18	1.11
We employ professional judgment in making estimates of transactions in accounting of receipts and expenditure	6.33% (5)	17.72% (14)	36.71% (29)	13.92% (11)	25.32% (20)	3.34	1.21
We remain unbiased and objective in preparation, disclosure and reporting of financial transactions	3.8% (3)	21.52% (17)	12.66% (10)	32.91% (26)	29.11% (23)	3.62	1.22

More than half of the respondents confirmed that they recognize the independence of transactions in accounting for receipts and expenditure with effective internal controls of which 45.57 %(36) agreed and further 10.13 %(8) strongly agree. With a mean of 3.2152 and standard deviation of 1.22653, the results indicated that there was great dispersion from undecided (Mean=3). However, 11.39% (9) and 21.52% (17) of the respondents strongly disagree and disagree respectively.

In relation to recognizing the distinctiveness of time intervals and frequent of reporting in accounting for receipts and expenditure, majority of the respondents were not sure as shown by 46.84%(37) of the respondents. However, only 30.38% of the respondents were in agreement. Mean of 3.05 and standard deviation of .99870 revealed there was dispersion from the undecided (Mean=3).

Further, the results revealed 30.38% (24) of the respondents agreed and 11.39%(9) strongly agreed that they exercise full disclosure of material information in accounting of receipts and expenditure while 31.65%(25) were undecided. A mean of 3.1899 and standard deviation of 1.11028 indicated that there was great dispersion from the undecided (mean=3)

On employing professional judgment in making estimates of transactions in accounting of receipts and expenditure, 36.71 % (29) of the respondents were undecided while 13.92 % (11) agreed and further 25.32 % (20) strongly agreed. With a mean of 3.3418 and standard deviation of 1.21830, there was great dispersion from the undecided (Mean=3).

Lastly, over half of the respondents confirmed that they remain unbiased and objective in preparation, disclosure and reporting of financial transactions with 32.91% (26) agreeing and additional 29.11% (23) strongly agree. A mean of 3.6203 and standard deviation of 1.22269 imply that there was great dispersion from agree (mean=4)

4.2 Financial Performance:

To measure financial performance of agricultural firms listed in NSE, a set of six statements were formulated. The respondents were asked to indicate the extent of agreement with each of the financial performance statements. The pertinent results are presented in Table 4.2

Table 4.2: Descriptive for Financial performance

	SD	D	NI	A	SA	Mean	SDV
My organization profit have increased for the last five years	3.8% (3)	17.72% (14)	22.78% (18)	21.52% (17)	34.18% (27)	3.6456	1.23036
My organization salary for the employees have improved in the recent years	2.53% (2)	18.99% (15)	20.25% (16)	35.44% (28)	22.78% (18)	3.5696	1.11727
My organization have grown in size in terms of the assets	2.53% (2)	13.92% (11)	17.72% (14)	48.1% (38)	17.72% (14)	3.6456	1.01322
My organization capital base has increased from previous years	3.8% (3)	10.13% (8)	11.39% (9)	59.49% (47)	15.19% (12)	3.7215	0.97319
My organization has increased the number of employees in the recent past.	7.59% (6)	8.86% (7)	7.59% (6)	51.9% (41)	24.05% (19)	3.7595	1.14595
My organization dividend payout has increased for the last five years.	3.8% (3)	22.78% (18)	24.05% (19)	41.77% (33)	7.59% (6)	3.2658	1.02167

The findings revealed that more than half of the respondents confirmed that their organization profit has increased for the last five years of which 21.52% (17) agreed and additional 34.18% (27) strongly agree. A mean of 3.6456 and standard deviation of 1.23036 implies that there is great dispersion from agree (mean=4). It was also revealed that more than half of the respondents confirmed that their organization salary for the employees has improved in the recent years of which 35.44% (28) agree and additional 22.78% (18) strongly agree. A mean of 3.5696 and standard deviation of1.11727 implies that there is great dispersion from agree (Mean=4).

On organization size in terms of the assets, 48.1% (38) of the respondents agreed and additional 17.72% (14) strongly agree with a mean of 3.6456 and standard deviation of 1.01322. This implies that there was dispersion from agree (mean=4). The results also revealed that organization capital base has increased from previous years as indicated by 59.49 % (47) of the respondents who agreed and 15.19% (12) who strongly agree. A mean of 3.7215 and standard deviation of 0.97319 implies there is dispersion from the mean.

Regarding the increase in the number of employees in the recent past, 51.9% (41) agreed and 24.05 %(19) strongly agree with a mean of 3.7595 and standard deviation of 1.14595. This implies that there is great dispersion from agree. Lastly, less than half of the respondents confirmed that organization dividend pay-out has increased for the last five years of which 41.77% (33) agreed and 7.59% (6) strongly agree with a mean of 3.2658 and standard deviation of 1.02167. This implies that there is great dispersion from the undecided (mean=3).

The study investigated the respondent's level of agreement on dividend policy using five statements. Dividend per share was used to operationalize dividend policy. The respondents showed their level of agreement with the statements and the results of the respondents are as shown in table 4.3 below

Table 4.3: Descriptive Dividend Policy

No.	Opinion Statements	SD %	D %	N %	A%	SA %
1	The organization's dividend payment has increased over the years	34.3	5.7	8.6	28.6	22.9
2	The organization has a higher dividend per share than the industry average	8.6	17.1	20.0	25.7	28.6
3	The organization has a good improve of dividend per share over the years	28.6	8.6	20.0	22.9	20.0
4	There has been an improvement in the bank dividend yield over the years	17.1	17.1	11.4	25.7	28.6
5	Dividend provide a signal to investors about the company performance	20.0	8.6	17.1	34.3	20.0

Asked on whether the organization dividend payment has increased over the years 34.3% of the respondents strongly disagreed, 5.7% of the respondents disagreed, 8.6% were neutral, 28.6% agreed and 22.9% strongly agreed. Asked whether the organization has a higher dividend per share than the industry average 8.6% of the respondents strongly disagreed, 17.1% disagreed, 20 were neutral, 25.7% agreed and 28.6 strongly agreed. Asked on whether the organization has had an improvement in dividend per share over the years 28.6% of the respondents strongly disagreed, 8.6% disagreed, 20% were neutral, 22.9% agreed and 20% strongly agreed. Asked on whether the organization has had an improvement dividend yield over the years, 17.1% of the respondents strongly disagreed, 17.1% disagreed, 11.4% were neutral, 25.7% agreed and 28.6% strongly agreed. Asked on whether dividend provides a signal to investors about the company performance 20% of the respondents strongly disagreed, 8.6% disagreed, 17.1 were neutral, 34.3% agreed and 20% strongly agreed.

4.3 Sampling Adequacy:

Table 4.4 Kaiser-Meyer-Olkin (KMO) Test of Sampling Adequacy:

In order to establish the validity of study variables, tests of sampling adequacy were used. This enabled the study identify whether the items were appropriate for further analysis. Table 4.4 below shows Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's test of sphericity.

Table 4.4: Kaiser-Meyer-Olkin (KMO) and Bartlett's Test

Factors	KMO Test	Bartlett's Test of Sphericity			Determinant
		Chi- Square	df	Sig.	
Disclosure of accounting and financial reporting system	.798	208.874	10	.000	0.063
Institutional share ratio	.814	186.973	10	.000	0.084
Financial debtors management	.821	213.933	10	.000	0.059
Government policies and regulations	.755	156.362	10	.000	0.126
Financial Performance	.842	289.501	15	.000	0.021

Williams et al (2012) stated that KMO of 0.50 is acceptable degree for sampling adequacy with values above 0.5 being better. Disclosure of accounting and financial reporting system (0.798), Government policies and regulations (0. 755), Institutional share ratio (0. 814), Financial debtors management (0. 821), and Financial Performance (0. 842). Bartlett's Test of sphericity which analyses if the samples are from populations with equal variances produced p-values less than .05 ($p < .001$) thus indicating an acceptable degree of sampling adequacy. Disclosure of accounting and financial reporting system had a chi-square value of 208.874 ($p <.001$), Institutional share ratio (186.973, $p <0.001$), Financial debtors

management (213.933, $p < 0.001$), Government policies and regulations (156.362, $p < 0.001$), and Financial Performance (289.501, $p < 0.001$). Determinant values are more than 0: Disclosure of accounting and financial reporting system (0.063), Institutional share ratio (0.084), Financial debtors management (0.059), Government policies and regulations (0.126), and Financial Performance (0.021).

4.4 Correlation Results for Disclosure of Accounting and Financial Reporting System:

The study adopted Pearson correlation to determine the association between the independent and dependent and also check Multicollinearity between the variables. A Pearson value greater than 0.8 shows the existance of Multicollinearity.

The Pearson correlation analysis was used to investigate the relationship between disclosure of accounting and financial reporting system and financial performance. The results are as shown in are Table 4.5

Table 4.5: Correlation Results for Disclosure of Accounting and Financial Reporting System

		Disclosure of Accounting and Financial Reporting	Financial Performance
Disclosure of Accounting and Financial Reporting	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	79	
Financial Performance	Pearson Correlation	.567[**]	1
	Sig. (2-tailed)	.000	
	N	79	79

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

In determining the effect of Disclosure of Accounting and Financial Reporting System on financial performance of agricultural firms listed on the Nairobi Securities Exchange, the study established a coefficient of correlation (r) as 0.567**. The objective answered what is the influence of Disclosure of Accounting and Financial Reporting System on financial performance of agricultural firms listed on the Nairobi Securities Exchange as per the first research question of the study. This implies that the financial performance increases with increase in Disclosure of Accounting and Financial Reporting System and decrease in Disclosure of Accounting and Financial Reporting System lead to decrease in financial performance. The results indicated that the relationship between Disclosure of Accounting and Financial Reporting System and financial performance is positive, moderate and significant.

4.5 Regression Results of Disclosure of Accounting and Financial Reporting System:

Regression analysis was used to tell the amount of variance accounted for by one variable in predicting another variable. Regression analysis was conducted to find the proportion in the dependent variable (financial performance) which can be predicted from the independent variable (Disclosure of Accounting and Financial Reporting System). Table 4.6 shows the analysis results.

Table 4.6: Regression Results of Disclosure of Accounting and Financial Reporting System

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.567[a]	.321	.312	.7251	
ANOVA					
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.143	1	19.143	56.403	.000[a]
	Residual	40.491	77	.526		
	Total	59.634	78			

The results revealed a coefficient of determination (r^2) of 0.312. Meaning Disclosure of Accounting and Financial Reporting System can explain 31.2 % of the variance in financial performance of agricultural firms listed on the Nairobi Securities Exchange. The adjusted r square attempts to produce a more honest value to estimate r square for the population. The F test gave a value of $F(1, 77) = 56.403$, $P<0.01$, which was large enough to support the goodness of fit of the model in explaining the variation in the dependent variable .It also means Disclosure of Accounting and Financial Reporting System is a useful predictor of financial performance.

The regression equation for Disclosure of Accounting and Financial Reporting System becomes:

Y = 1.892 + 0.521DAF

From the regression equation it means that when Disclosure of Accounting and Financial Reporting System increase by 0.521 %, financial performance will change by 1% in the same direction. This result is similar to correlation findings where Disclosure of Accounting and Financial Reporting System is positively correlated to performance. These finding agrees with Waleed (2014) who found out that disclosure was significantly and positive related with financial performance. Similar results were obtained with Wanjiku (2016) who found out that disclosure of information significantly correlated with return on assets. Matama's (2008) results that transparency and disclosure played a huge role in the corporation's financial performance as stakeholders tend to invest in entities that they trust with regards to their CG practices. Ayorinde et al. (2012) the corporate governance disclosure index is positively correlated at 0.775 with financial performance. This further indicates that banks that disclose more on corporate governance issues are likely to perform better than those that disclose less.

However, the findings contradicts Kutto (2016) found a negative weak correlation between disclosure of information and financial performance of the regional development authorities in Kenya. The negative correlation between disclosure of information and financial performance is explained by the fact that investors may view disclosure of more information as an attempt of management of unlisted commercial banks trying to impress them in order for them to buy shares of the commercial bank.

4.6 Corporate Governance and Financial Performance:

The main objective of the study was to investigate the influence of corporate governance on performance of agricultural firms listed on Nairobi Securities Exchange. Corporate governance was considered under to construct of institutional share ratio, financial debtors management and disclosure of accounting and financial reporting system. This section considered overall corporate governance on financial performance both using multiple correlation matrix and multiple linear regression. The results of the correlation between corporate governance and financial performance pertinent results are summarized in Table 4.7.

Table 4.7: Correlation Matrix

Variables	Mean	Std Dev	DAF	ISR	FDM	FP
DAF	3.2835	0.95144	1			
ISR	3.481	0.94164	.472**	1		
FDM	3.5089	0.70231	.377**	.587**	1	
FP	3.6013	0.87438	.567**	.706**	.651**	1

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

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

DAF- disclosure of accounting and financial reporting system, **ISR**- institutional share ratio and **FDM**- financial debtor's management, **FP**-Financial performance

The results indicated that the relationship between disclosure of accounting and financial reporting system and financial performance is positive and significant (r = .567**). Similarly, the relationship between institutional share and financial performance is positive and significant (r =706**) and the relationship between Financial debtor's management and financial performance is positive and significant (r =.651**). This implies that corporate governance construct have positive and significant influence on financial performance of agricultural firms listed on the Nairobi Securities Exchange.

4.7 Regression for Corporate Governance Dimensions on Financial Performance:

Multiple Linear Regression analysis for corporate governance dimensions on financial performance was done so as to find out the effect of corporate governance dimension jointly on the financial performance of agricultural firms listed on the Nairobi Securities Exchange. This aided in coming up with the coefficients of the study model as well as R square of the study. The results are as shown in Table 4.8

Table 4.8: Regression Analysis of Independent Variables and Financial Performance

R	R^2	Adjusted R^2	df	F	Sig.
.797[a]	.635	.620	(3,75)	43.446	.000[b]

a. Predictors: (Constant), Institutional Share ratio, financial debtors' management, Disclosure of accounting and financial reporting system

b. Dependent Variable: Financial performance

In Table 4.8, the findings further established that the linear relationship between Financial Performance and the three predictor variables; the disclosure of accounting and financial reporting system, institutional share ratio, and Financial debtors management is positive and linear. The coefficient of correlation was 0.797, (r=0.797). The coefficient of determination (r^2) was 0.635, and this shows that 63.5% of the variations in the financial performance can be explained by the three predictor variables in the study and the remaining 36.5% of the variations in financial performance is explained by other factors not captured in the model.

From the ANOVA results the F test gave a value of F (3, 75) =43.446, $p < .01$, which was large enough to support the goodness of fit of the model in explaining the variation in the dependent variables. It also means corporate governance is a useful predictor of financial performance of agricultural firms listed on the Nairobi Securities Exchange

Table 4.9: Coefficients of the Independent Variables and Financial performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	.140	.328		.426	.671
DAF	.238	.073	.259	3.240	.002
ISR	.367	.085	.396	4.325	.000
FDM	.399	.108	.321	3.683	.000
a. Dependent Variable: Performance					

From table 4.9, disclosure of accounting and financial reporting system, institutional share ratio and financial debtors management carried positive and significant predictive power (P<0.05). If Corporate governance is held at zero or it is absent, the financial performance will be 0.140, p>0.05. This implies that though performance will be positive but it will be insignificant. When institutional share ratio and financial debtor's management are controlled, disclosure of accounting and financial reporting system with a beta of 0.238 is at statistically significant level and is a good predictor of financial performance implying that an increase in disclosure of accounting and financial reporting system by one percent will result to significant increase in performance by 0.238. When financial debtors management and disclosure of accounting and financial reporting system are controlled, institutional share ratio with a beta of 0.367 is at statistically insignificant level implying that an increase in Institutional share ratio by one percent will result to significant increase in performance by 0.367. Lastly, when institutional share ratio and disclosure of accounting and financial reporting system are controlled, financial debtor's management with a beta of 0.399 is at statistically significant level implying that an increase in financial debtor's management by one percent will result to significant increase in performance by 0.399.

A regression of the three predictor variables against financial performance established the multiple linear regression model as below as indicated in Table

Financial Performance = 0.140 + 0.238 **DAF** +0.367 **ISR** + 0.399 **FDM**

5. FINDINGS

The first objective was to determine the influence of disclosure of accounting and financial reporting system on financial performance of agricultural firms listed on the Nairobi Securities Exchange. Results from the likert scale indicated that over half of the respondents confirmed that their organization recognize the independence of transactions in accounting for receipts and expenditure with effective internal controls as well as remain unbiased and objective in preparation, disclosure and reporting of financial transactions. The findings show that disclosure of accounting and financial reporting system had a positive and significant correlation with financial performance of agricultural firms listed on the Nairobi Securities Exchange. This implies that an increase in disclosure of accounting and financial reporting system by agricultural firm listed on NSE would result to increase in financial performance in the same direction. This also indicates that disclosure of accounting and financial reporting system is a significant predictor of the financial performance of agricultural firms listed on the Nairobi Securities Exchange.

From the aforementioned results, the following discussion can be adduced. Firstly, the findings of current study have received enormous support from theoretical literature. Ongore and Obonyo (2011) acknowledge that financial performance is direct consequence of corporate governance practices and characteristics adopted by management of an organization. This affirms the proposition of principal agency theory which states shareholders who are owners or principals of a company delegate the duties of running the affairs of a firm to managers or agents. Results from disclosure of accounting and financial reporting system revealed that most of the firms remained unbiased and objective in preparation, disclosure and reporting of financial transactions and reports which have increased shareholder confidence in the management. This is in line with principal-agency theory where the management should act in the best interest of shareholders, suppliers, customers and other interested stakeholders.

6. CONCLUSION

It can be concluded that there exists a positive and significant relationship between Disclosure of accounting and financial reporting system and financial performance of agricultural firms listed on the Nairobi Securities Exchange this means that when firm increases their disclosure of accounting and financial reporting, their financial performance will increase significantly. It was noted that the firms remain unbiased and objective in preparation, disclosure and reporting of financial transactions and they exercise full disclosure of material information in accounting of receipts and expenditure which increase the confidence of existing investors as well as attracting new investors.

7. RECOMMENDATIONS

The results found that disclosure of accounting and financial reporting system significantly affects financial performance of listed firms. This implies that the more the information disclosed by the listed firms, the higher the financial performance. The study therefore recommends that the listed firms should disclose more information regularly to their stakeholders in order to improve their financial performance.

REFERENCES

[1] Barako, D., Hancock, P. & Izan, Y. (2006). Relationship Between Corporate Governance Attributes and Voluntary Disclosure in Annual Reports:The Kenyan Experience. Journal of Financial Reporting,Regulation and Governance, 5 (1), 155-173.

[2] Calder, A. (2008). Corporate Governance ; A practical Guide to Legal framework and Code of Practice. Philadelphia, United States of America: Kogan Page.

[3] Chebii E., Kipchumba S. & Wasike E. (2011). Relationship between Firm Capital Structure and Dividdend payout ratio: Companies listed at Nairobi Securities Exchange Journal of Economics, Finance and Management Science, 2(5), 280-296.

[4] Chitiavi, S., Musiega, G., & Maokomba, Y. (2013 Capital Structure andCorporate Governance practices. Evidence from Listed Non-Financial Firms on Nairobi Securities Exchange Kenya. Journal of Business and Management, 10(2), 08-16.

[5] Ekadah, J., & Mboya, J. (2011). Effect of board gender diversity on the performance of Commercial Banks in Kenya. European Scientific Journal. 8 (7), 24-56.

[6] Ferrero, J. (2014). Consequences of Financial Reporting Quality on Corporate Performance: Evidence at the International level. Journal of Economic Studies. 41(1), 49-88.

[7] Horace, D. (2014). The Relationship between Corporate Governance Structures and Financial Performance of Manufacturing Firms in Kenya. African Journal of Business management , 7(2), 103-112.

[8] Jedidiah, M., Tumaini, M., & Douglas, R. (2016). Effectiveness of Corporate Governance on Detection of Accounting Frauds Within Kenyan Universities. International Journal of social science and Infromation Technology. , 2 (6), 65-76.

[9] Kihara, M. (2006). Relationship between Ownership,Governance Structure and Performance of Firms Listed with Nairobi Securities Exchange. International journal of research in Management Science and Technology , 2 (3), 11-66

[10] Kombo, D. (2006). Proposal and Thesis writing: An introduction. (1st ed.). Nairobi: Paulines publications Africa, Don Bosco Printing Press.

[11] Kosack, S., & Fung, A. (2014). Does Transparency Improve Performance ? International Journal of Social Sciences and Information Technology .1 (7), 51-53.

[12] Kothari, C. (2014). Research Methodology:Methods and Techniques (2nd ed.). New Delhi, India: New Age International Publishers.

[13] Lekhanya, M. (2013). Risks And Factors Contributing Towards Rural Entrepreneurial Orientation Growth of Business in an Emerging Economy. Archives of Current Reseach International journal , 4 (1), 1-26.

[14] Liebrand, T. (2007). Corporate Governance and firm performance a study of Sri Lankan Manufacturing Company. Journal of Economy and Sustainable Development, 7(5), 67-78

[15] Mahfourth D. (2013). Finance : A quantitative Introduction (1st ed.). New York, United States of America: Cambridge University Press.

[16] Mang'unyi, E. E. (2011). Ownership structure and corporate governance and its effect on performance. A case of Selected Banks in Kenya. International Journal of Business Administration. 2 (3), 54-59

[17] Matama, K. (2010). The relationship between corporate governance and financial performance among broadcasting stations in Kenya. Journal of Financial Reporting, Regulations and Governance. 2(1), 106-125.

[18] Njagi, C. W. (2013). The Relationship Between Capital Structure And Financial Performance Of Agricultural Firms Listed At Nairobi Securities Exchange. Archives of Current Reseach International , 4 (1), 1-26.

[19] Ngima, K. (2014). The Relationship Between Corporate Governance and Financial Performance Of Commercial Bnaks Listed At Nairobi Securities Exchange. International Journal of Business Administration. 6 (3), 54-59

[20] OECD. (2004). Organisation for Economic Cooperation and Development. Principles of Corporate Governance . OECD, Paris.

[21] Odalo W. (2013). Factors affecting Fiancial performance of listed companies at Nairobi Securities Exchane in Kenya. Research Journal of Finance and Accounting , 4 (15), 99-104.

[22] Otieno, M. (2013). The Effect of Corporate Governance on Financial Performance of Commercial Banks in Kenya. African Journal of Business management . 6(2), 79-86

[23] Rehman, K. & Bremer, M. (2016) Effective Corporate Governance and Financial Reporting in Japan. Asian Academy of Management. Journal of Accounting and Finance.12 (1), 92-122.

[24] Schindler, P. (2011). Businness Research Methods (11th ed.). New Delhi, India: McGraw Hill Publishing Co. Ltd.

[25] Tromp, D. (2012). Proposal and Thesis writing: An introduction. (1st ed.). Nairobi: Paulines publications Africa, Don Bosco Printing Press.

[26] Waleed S. (2014). Impact of Ownership Structure and Corporate Governance on Capital Structure of Pakistani listed Companies. International Journal of Business and Management , 4 (2), 50-57.

[27] Wanjiku, W. (2016). The relationship between corporate governance and financial performance among broadcasting stations in Kenya. The Kenyan Experience. Journal of Financial Reporting, Regulations and Governance. 3 (2), 155-173.

[28] Wanyonyi, D. & Olweny, T. (2013). Effects of Corporate Governance on Financial Performance of Listed Insurance Firms in Kenya. International Journal of Research in Management Science and Technology. 3 (4), 276-296.

[29] Xianjian, H. (2015). Does High-Quality Financial Reporting Mitigate the Negative Impact of Global Financial Crises on Firm Performance? Evidence from the United Kingdom. Australasian Accounting, Business and Finance Journal. 8(1), 1-28.

[30] Yang, P. (2011). Board Structure and Corporate Financial Performance. African Journal of Business management. 8(1), 13-22