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Impact of Corporate Control on Corporate Value: Evidence from Nairobi Securities Exchange

David Onguka*, Eramus S. Kaijage, Cyrus M. Iraya, Sifunjo E. Kisaka

Department of Finance and Accounting, School of Business, University of Nairobi, Kenya

Abstract This study aimed at determining the impact of corporate control on corporate value of Nairobi Securities Exchange (NSE) listed firms. The paper tested the hypothesis that there is no significant relationship between corporate control and corporate value improvement as indicated by ROA and Tobin Q. Agency theory is the anchoring theory. The study applied census survey for sixty-four firms listed at the NSE. The time frame of analysis is five years between 2013 and 2017. Out of the 64 listed companies targeted, 58 were analyzed forming 90% of the population. Corporate control index was developed as proxy measures of variables. The study applied census survey given that the population of firms listed at the NSE is not large. Regression analysis and correlation analysis were applied to test the hypotheses. The results of descriptive statistics revealed a significant positive relationship between the variables. The study findings were in line with previous research findings and also provided further insight on the impact of self-determining variable, corporate control on the corporate value. Analyst and investors may apply findings to identify crucial control mechanism in financial markets. The findings can also be useful for policies evaluation and development. The study has also applied important mechanism in CCI to examine the effect of corporate control on corporate value which has provided new insight on the relationship thereby enriching the result.

Keywords Corporate Control, Agency Theory, Corporate Value

1. Introduction

The subject of corporate control has attracted a great number of empirical investigation in finance and economics since the ground breaking seminal publication by Smith [1] on the investigation of the characteristic and source of wealth of nations. Studies have shown that application of prudent corporate governance rules creates confidence in investors to obtain profits.[2-4] However, some previously well-performing blue chip companies have recently been declared bankrupt or sold out after continued making of loss.[5] Corporate Control can be defined as rules and policies set out by management to regulate its affairs and have efficient management of company's resources for enhance value of company and attain maximum shareholders returns.[6]

Companies with good corporate control practices are investor friendly, which enable them to optimize their capital structure by attracting cheaper funding thereby maximizing returns to shareholders. According to Berle and Means [7] separating gap concerning control and ownership is directly proportionate to the size of company and inversely related to equity ownership resulting to increment of agency cost. This results into agency conflict as management start to pursue selfish interest contrary to those of shareholders.[8] The agency costs result from management general inefficiency, embezzlement of funds and investing in less profitable portfolios. Corporate control practices improves company's efficiency and effectiveness through proper supervision and governance thereby minimizing agency conflicts and put interest of management with that of investors in optimizing corporate value.[9]

Locally we have experienced collapse of a number of banks in 1980's, recent operation difficulties being experienced at the National Hospital Insurance Board, Uchumi and Nakummat Supermarkets as well as the continuing huge losses by Kenya Airways and constant bail out by Government of Kenya Airways, Mumias Sugar among others. A number of studies [10-11] have attributed this problem to distinction of ownership and control resulting in divergent of interest between agents and principles which results in agency cost. Recent studies [12-14] postulated that this is a reflection of deep seated corporate control shortcomings such as complacency of board oversight, poor corporate governance and lack of strategic foresight by the management.

Corporate Control

Dor et al.[14] defined corporate control as the broad principal by which business and organization of companies are lead and managed. It is therefore an internal process of directing and governing company's activities and business through people, systems and procedures to achieve the objectives of shareholders and other stakeholders.[11] Corporate controlled can be said to be a part of corporate governance that is focused on the group that holds authority to give major directions and strategies as well as the key decisions on company activities.[15]

Corporate control is a synonym of corporate governance which emphasizes more on authority or taking charge. Although, the two, to some extent can be used interchangeably, the motivation for preferring corporate control to corporate governance was informed by the consideration that the agency theory which was adopted as the anchoring theory is based on agency cost. According to Berle and Means [7], the separating gap between ownership and control is directly proportionate to the size of company and inversely related to equity ownership resulting to increment of agency cost. Meaning that as the corporation grows in size and complexity, the owners or original shareholders (Principles) may not have the technical capacity and time to manage the firm resulting in their relinquishing most if not all of the direct controls to agents (management). This loss of direct control by shareholders results into agency conflict as management may start to pursue selfish interest contrary to those of shareholders [8]. This delegated control may subsequently give rise to agency costs resulting from management general inefficiency, embezzlement of funds and investing in less profitable portfolios. From this reasoning, the action of management geared towards mitigating the agency cost can be appropriately described as corporate control mechanism. Realistically, the establishment of board structure and its composition, the board diversity, how they are remunerated, the setting up of systems to ensure transparency and disclosures, the appointment of internal and external auditors and having corporate ethics to guide board, management and staff activities are purely attempts by the owners or shareholders to regain some form of control, albert indirectly, so as to mitigate agency cost and conflict with the aim of optimizing their return.

According to Sheifer and Vishny [9], corporate control entails a governance mechanism that assures investors that they will get return at the end. As Jensen and Meckling [8] argued, the prime problem stemming from ownership and control is difference in interests that leads to huge agency cost. The chief objective of corporate control is to ensure that appropriate check systems, controls, management structure and governance have been established. This would then optimize returns and minimize losses for the best interest of the shareholders. This is intended to enhance accountability, governance and transparency in such a way as to reduce agency costs through increased productivity and efficiency. Measurement variables of board organization and composition, board diversity, transparency, disclosure and auditing, board wage and corporate moral code were used as proxy for corporate control.

Corporate Value

It is defined as how well a company utilizes its primary capital to generate returns and optimize its value. It supports the efficient and effective application of a company's resources to achieve general company goals which include stakeholder's wealth maximization and income maximization.[3] Value creation can also be defined as the attainment of predetermined targets, objectives, and goals within a given timeframe.[16] Corporate control effects company's value because it minimizes expropriation by management, increases effectiveness in investments and the improvement of available cash flows for owners.[17]

A good performance indicator should be measurable, applicable and important to the company.[15] Performance measures used in this empirical research can be classified as accounting based means or market oriented means. Firm performance was measured by market price of resources acquired and market value by Tobin's Q. Return on asset (ROA) measures the effectiveness of capital employed.[3] It measures how efficient and effective management is in employing company resources to generate corporate value.[18] In this respect, Tobin's Q can be said to be a combination of historical (accounting performance) and futuristic (market value expectation).

The Nairobi Securities Exchange

Globally, security exchanges plays fundamental role in corporate regulations measures aimed at optimizing corporate value. In Kenya, the NSE is the regulatory body charged with ensuring compliance to corporate governance principles intended to eliminate weaknesses identified by previous studies. Although NSE has met most of its objectives, a number of companies listed at the NSE still faces fiscal and control challengers due to dispersed ownership structures resulting from floating of shares to the public, increasing debt levels as agency cost increases and corporate control failures due to inadequate monitoring [18]. The erosion of confidence in the economy can be attributed to weak regulatory framework. Local shareholders have lost interest in trading in the stock exchange because of crash in share prices in the last few years as evidenced by declining share price.

The Capital Market Authority of Kenya has enacted rules and regulations on governance practices to have accountable and responsible business operations among the listed companies. This move underscored the role of corporate control, capital formation and shareholders' value optimization through effective management of company assets. The collaboration between NSE and CMA has enabled a reasonable acceptance of corporate governance practice but this yet to gain widespread application. Laws have been instituted to guide and enforce governance structures for the listed firms and these include the companies Act and the CMA act [11].

Nevertheless some companies registered at the NSE keep exhibiting fundamental weakness and poor performance. A few of them have collapsed while some are in the brink of failures [13]. The latest downfall of Imperial Bank, Dubai bank and Chase bank and continuing poor performance shown by Kenya Airways, Uchimi Supermarket among others have eroded, to some extent, the public confidence in its ability to regulate the corporations. This has resulted in increased capital flight, weak capital formation and poor economic performance. Argument is still alive on whether it is the control failure, financial distress or nature of the ownership or combination of these that is responsible for the failure. The study therefore aims at establishing the impact of corporate control on firm performance after controlling for firm size, firm age and asset tangibility.

Research Problem

The subject of corporate control has attracted a great empirical investigation in finance and economics since the ground breaking seminal publication by Smith [1] on the investigation of the characteristic and source of wealth of states. Berle and Means [7] subsequent publication on division of ownership and management narrowed down the problem to agency cost and conflict. The agency problem arising from differing interest of managers and shareholders eventually affect corporate value. Managers may take steps to increase the size of company plus their pay, while the corporate value is not substantially increased. This is a major concern to shareholders. The high profile corporate underperformance leading to failures like the collapse of significant corporations in USA and Europe such as J.P Morgan, Lehman Brothers, Fredie Mac, Worldcom, Parmalat in Italy, Air Zimbabwe in Zimbabwe and Master Bond Group in South Africa have been linked to corporate control issues and other fraudulent activities. In addition, the general low corporate value growth across the globe has put into question the effectiveness of existing corporate control structures.[21] These corporate failures shows that rules of the corporate control are problematic and not exhaustive enough to regulate converging interests. Consequently, there is need to re-look at corporate control and governance afresh and fixed good principles to enhance corporate performance.[15] There is obviously a need to determine the loss of confidence in the capital market by current and potential investors, the insolvency of a number of large corporations in Kenya, regionally and worldwide and reason for persistent agency problem.

The fundamental understanding in the field of corporate control has its basis on the fact that there is a potential problem originating from the agency conflict which is necessitated by the growth in size and complexities of corporation.[22] According to Dignam & Galanis [23], the management and the board have been tasked with the pursuit of impactful corporate control which is of great importance to the society as a whole since it improves the utilization of resources. Therefore resources will always flow to where it is effectively and efficiently utilized and managers who fail to do this are eventually replaced or the business collapses. The underperformance leading to collapse of significant corporations like WorldCom and Enron among others underscores the importance of good corporate control [19]. A standardized structured corporate control index (CCI) was made as a proxy for corporate control. The index values range was between 0 and 100 where the high the score, the better the company is governed.

It is important to examine Kenyan companies' performance based on adherence of corporate regulations and control. The assumption that compliance to the corporate code of good practice would positively impact corporate value has received criticism by other researches.[24] Additional corporate control mechanism may exist which can possibly influence corporate performance or interact strongly with corporate governance codes than previously assumed. Besides, the research gives current proof about which sub variables contributes to corporate value growth. The question is - what is the impact of corporate control on corporate value of NSE listed companies?

Research Objective

The research is intended to establish the influence of corporate control on the corporate value growth of NSE listed companies.

2. Literature Review

Agency Theory

It was advanced by Jensen and Meckling [8] who posit it as an arrangement in which the principle delegates the control and management of the business to the agents (managers) who are expected to act for the benefit of shareholders. This mutual relationship is often affected by conflicting interests between the principle and agents. The theory stems from agency relationship that exists in a corporate environment in which there is fiduciary duty on the management (agent) to the shareholders (Principal) to work for the principal's best interest. The research applied agency theory as the main theory in determining the impact on company value of corporate control. This theory attempts to improve corporate control in order to optimize company value by mitigating agency problems resulting in reduced agency cost. It adopts a narrow perspective definition which put emphasis on shareholders' interest - as opposed to stakeholders' interest – whose main interest is company value maximization. The manager's loyalty and dedication is anchored in his ability to place corporate goals before his.

The corporate control and agency theory gives basis that intertwine corporate control and company value. This then provides room for testable hypothesis on different variables of corporate control mechanisms that can be predicted to effect company value.[21]

Control Variables

Control variables considered are firm size, firm age and asset tangibility. The performance of a company may be affected by other variables other than just corporate control, the effect of some of the key variables were controlled by making them part of the model. Financiers tend to develop a close relationship with larger firms thereby giving them advantage for negotiating for cheaper credit cost and more favorable terms. Beside larger firms can take advantage of economy of scale in their stock purchases and other operational cost. [22]. It can therefore be hypothesized that the size of a firm is positively related to the firm performance. The size of the firm can either be measured as logarithm of total asset or value of annual sales. In this study, the value of annual sales was applied. Another determinant of corporate value growth is asset tangibility as measured by the ratio of fixed assets to total assets. It has been argued that having a large proportion of assets as tangible rather than in intangible makes it easier for a firm to access credit given the availability of security in form of the tangible assets [14]. In case of a manufacturing company, the higher the asset tangibility the better that ability to produce and sale more products. In such case, a positive relationship between asset tangibility and performance is expected. However, in case of Service Company or retail store, this relationship is expected to be negative. As can be seen, the sign of the relationship varies depending on which firms are dominant in the data being studied. Firms also tend to become inert and inflexible as they grow older making them less productive. Eyenubo [16] referred to this as a liability of obsolescence due to failure to fit well in changing world and liability of senescence as they are ossified by rules, regulation, routines and archaic structure. Other studies have posited that as firm's age, they become more efficient due to accumulated knowledge, capacity and competence [14].

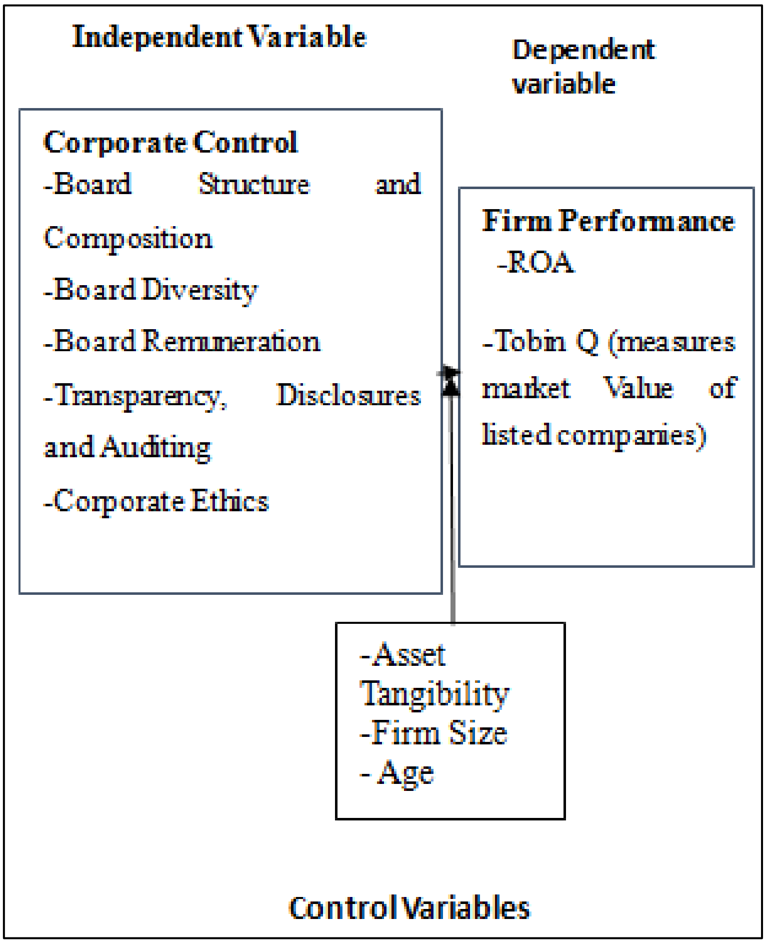
Corporate Control and Company Value

Studies have been done on corporate control and company value and have generated incomplete and mixed results. Wanyama and Olweny [11] reviewed effect of regulations on company value of listed insurance companies in Kenya. A multiple regression model analyzed the data. The research established that a strong link exists between the corporate governance norms under research and monetary value. The research was specific to only insurance companies and not all companies listed at the NSE. Dominic and Memba [13] focused on corporate governance of public limited companies and arrive at the same results as above. Both descriptive and inferential statistics were applied. Daily and Dalton [39] studied the relationship underlying governance structure and firm performance. They saw no notable link underlying CEO duality and company value. Their research may not be extended a cross all companies because it only used non-financial companies as a sample.

Black, et al. [17] set out to determine the influence of governance on company's value growth. The study applied cross section survey and multiple regression analysis. The findings were that firms doing well in the market had adopted existing corporate governance structure and legislated it in bid to minimize linkages. This study research did not consider economic variables which predicts both control and value growth. Kiruri [18] analyzed the effect of board meeting with corporate control on company value. The study applied both cross sectional and descriptive survey as well as the regression analysis. It discovered that the number of board meetings positively affect company value. The research did not consider all the variables of corporate control but only considered corporate control mechanisms.

The Conceptual Framework

The conceptual model is a model indicating the linkage between the variables identified for the research. H_1 indicates the link between independent variables (corporate control) and response variables. Corporate control sub-variables such as board structure and composition, board diversity, board remuneration, transparency, disclosures and auditing and corporate ethics are expected to have a significant effect on company performance based on return on resources and Tobin Q. This ties in with results of Black, et al.[17] who found a positive linkage between corporate control and company value and used the same measurement variables for company value. We have also controlled for the effects of asset tangibility, firm size and firm age.



Source: Author (2018)

Figure 1. The Conceptual Model

Research Philosophy

Wheeler et al.[25] defined philosophy of research as a method of collecting, collating, analyzing and application of data about the object of the study. This research is premised on a positivist research philosophy since it has its foundation on existing theory and formulates quantitative hypotheses to be tried. Positivist approach also relies on taking large samples, therefore the entire population of the research was considered.

Positivists' are inclined to apply quantitative instruments and processes that emphasizes counting and measuring while naturalists' uses qualitative approaches based on observation, interrogation, and description of research.[26]

Research Design

Research design is a scheme used to guide a research study to enable the study to address the research problem. It is a design of inquiry into a phenomenon which has been thought of as to enable the research to get answers to research inquiries.[27] Rajput and Bharti [15] defined a research design as a procedural blueprint embraced by a researcher to respond to questions objectively, validly, economically and accurately.

The study has applied a descriptive cross-sectional design. This enabled the researcher to discover any association between corporate control, and value of companies listed at the NSE. The design was used to consider the data and the analysis required. Similar design were previously adopted by Aduda and Musyoka.[28]. We used secondary data from NSE handbook and audited financial statements published for the listed firms. Data obtained included asset value, annual profit, share prices, debt – long term and short term, board details, firm age, annual sales figures, corporate governance and control details among others. Both qualitative and quantitative research design we applied to obtain the required information.

Population and Sampling.

The population of the study comprised of all the 64 companies listed at the NSE as at 31st December 2017. The quoted companies are preferred as they have a defined structure, a legal mandate to operate, are likely to exhibit elaborate linkages between research variables and provide a basis for determining the market value and performance in an objective manner.

The companies were obtained from NSE listings. The research adopted a census method due to the small number of qualifying companies at the NSE. Gay [29] is of the opinion; in case of a small population in study, less than 100, then the broader population can be integrated as part of the research with a census taken. In the present research, census survey was applied as the target population was small, thus no sampling was undertaken. This use of census fulfilled the requirement of efficiency, representativeness and reliability.[13]

Data Collection

This research employed secondary data acquired from past financial statements after examining them, an index was formed both for corporate control. Data collected for firm age was based on date of listing while company size was based on sales annual figures and asset tangibility based on the proportion of tangible asset to total asset value. For company value, the fiscal statement was analyzed to find ROA and Tobin Q. Debt-equity ratio data was employed in calculating leverage. Secondary Data were obtained from companies' websites, financial statements and other records filed with NSE. Where necessary data could not be obtained from the financials reports, the same were requested directly from the company's management. The period of research covered 2012 to 2017.

A standardized structured CCI index constructed and the queries were formulated by facts extracted from the best code of practice of corporate control as per the regulatory bodies in the NSE exchange and others like OECD, CACG. The CCI were formulated as a standard proxy and based on forty three binary objective study queries obtained from secondary data. CCI has a value of 0 to 100, the assumption is that it is expected that companies inefficiently managed may perform sub-standard.[30]

Diagnostic Tests

To determine whether the regression model is unbiased, several tests were carried out. The variables were inspected for normality through skewness and Kurtosis. Skewness statistics with an interval of -3 and 3 is considered normal while in case of kurtosis, the interval should be in the range of -10 to 10.[32] Gujarat [33], defines correlation analysis as a method that can be applied to find out the degree of relation between variables. Multicollinearity test was conducted with the NumXL pro add-in in Microsoft Excel with the Variance Inflation Variable (VIF). According to Kline [31] multi-collinearity arises when variables have a higher than normal correlations and such can present a challenge when arriving at the regression parameters. A multiple regression analysis was applied using Return on Assets and Tobin's Q, as response variables. Independent variables of corporate control i.e. board structure and composition, board diversity, board remuneration, transparency, disclosures and auditing ratios were applied as independent variables. The control variables were firm size, firm age and asset tangibility.

Data Analysis

The strength and direction of variables was tested using multiple regression. Program for social sciences version 20 was used to analyze and measure inferential as well as descriptive constructs. The hypotheses of the study were tested using simple and multiple regressions. Analysis of simple, multiple and stepwise regression and Pearson's Product Movement Correlation analysis was applied to determine size and strength of the association between the variables. Descriptive statistics such as frequencies and percentages were calculated for the main variables. The indexes were constructed for each company. The sub-indices were then regressed individually against the independent variable against each questions on the index. Mean score was computed for binary type of questions. Data was presented in form of tables. Pearson's correlation analysis was applied in measuring the degree of linear association between these variables.

A multivariate regression model was applied to establish the relationship between corporate control and company's Value. The model to test hypothesis one is as follows:

$$Y_{it} = \alpha + \beta_1 CC_{it} + \beta_2 SZ_{it} + \beta_3 AG_{it} + \beta_4 TG_{it} + \varepsilon_{it} \qquad (1)$$

Where **Y** represents corporate value parameters (ROA &Tobin Q), $\boldsymbol{\alpha}$ is the intercept or constant, $\boldsymbol{\beta_1}$ $\boldsymbol{\beta_2}$, $\boldsymbol{\beta_3}$ and $\boldsymbol{\beta_4}$ are regression coefficients, **CC** is the composite of corporate control (Measured by Corporate Control Index (CCI)), **SZ** is firm size**, AG** is age of the firm**, TG** is asset tangibility and $\boldsymbol{\varepsilon}$ is a random error term, **i** is a number of companies used in the sample and **t** is the duration of the research.

Descriptive Statistics

The study objective was to examine the impact corporate control on corporate value growth for NSE listed companies. Variables of interest are structure and composition of board, board diversity, duties and responsibilities, salaries and allowances, disclosure and integrity and corporate ethical conduct.

Table 1. Corporate control and control variables: - Average scores of Board Structure and Composition, Board Diversity, Board Remuneration, Transparency, Disclosures and Auditing and Corporate Ethics. Control variables include: - Firm Size, Firm Age and Asset Tangibility.

	N	Mean	Maximum	Minimum	Standard Deviation	Skewness	Kurtosis	Jarque-Bera	Probability
Board Structure and Composition	58	0.8062	0.8799	0.4751	0.46033	0.5374	3.1516	10.358	0.03979
Board Diversity	58	0.56775	0.66413	0.41663	0.43151	0.58175	3.12125	9.0935	0.01973
Board Remuneration	58	0.8109	0.9283	0.4315	0.32691	0.6541	2.06692	7.7027	0.01483
Transparency, Disclosures and Auditing	58	0.7749	0.8151	0.3635	0.33033	0.4825	1.9743	6.7146	0.02682
Corporate Ethics	58	0.866	0.8945	0.41388	0.27709	0.5195	2.089	5.8735	0.01231
Firm Size	58	0.7309	0.8931	0.4204	0.3749	0.5527	2.784	6.860	0.02503
Firm Age	58	0.6821	0.9036	0.4652	0.3863	0.4791	2.482	8.532	0.01786
Asset Tangibility	58	0.6074	0.8433	0.3826	0.4193	0.5715	3.262	7.138	0.02837
Average Score	**58**	**0.7308**	**0.8527**	**0.4211**	**0.3758**	**0.5473**	**2.6164**	**7.7840**	**0.0231**

From the table, the average board mean of variables is 0.7308 and board size between 6 and 9 is practiced by an average of 0.8062 of the 58 listed companies at the Nairobi Securities Exchange - which is a reasonable number. Analysis of the board diversity constructs gives an overall mean score of 0.56775 which is comparatively very low given the high observed scores of the other corporate governance variables. The results disclosed in the above table 1 indicate that the overall mean score for corporate disclosure, transparency and auditing is 0.7749. The results on board remuneration constructs give an overall mean average of 0.8109. Mean score of firm age is 0.6821 with a std. dev. of 0.3863. The mean for asset tangibility is 0.6074 with a standard deviation of 0.4193. Skewness of constructs indicates constructs average skewness is 0.5473 which positive and close to zero showing that the constructs are asymmetrical. Kurtosis; the relative peakedness of the distribution of the constructs is 2.6164 which is less than k factor of 3 which indicates a platy-kurtic distribution (Flatter than normal distribution with shorter tails). All the constructs are platy-kurtic distribution and are normally distributed. The reading from the above study indicates that average of all corporate ethics sub constructs has average of 0.866. Firm size subcontract for companies listed at the Nairobi Securities exchange has average of 0.7309 and Std. Dev. of 0.3749, for listed firms. The code of ethical conduct, average is 0.866 with Std. Dev. of 0.27709. The study score confirms a compliance rate of over 70% with all sub constructs for corporate control. Corporate governance AGM notice is given in time with a clear agenda to be discussed and that directors regularly attend the AGM and ensure compliance with all the ethical codes of practice and proper records and minutes be maintained to ensure compliance adherence. The companies listed at the NSE have achieved a higher rate of practical compliance after the introduction of the code of ethics. According to Shleifer and Vishny [9] investors with greater stake in the firm gather information on the company management, public and private classified, to keep management on track. According to Hermalin and Weisbach [21] corporation with more independent directors achieve greater value growth. However, Vincent [33] opines that; gender diversity is the key to growth of corporate value more than the presence of independent directors. Board meetings attendants is also quite high among the listed firms which stands at above 80%, showing the importance attached to the contribution of such meetings to the firm’s performance as earlier studies had shown.[34]

Corporate Control and Corporate Value

The chief goal of this study is to determine significance of corporate control on corporate value for companies listed at NSE. This objective was examined based on its sub-variables of board structure and composition, board diversity, directors’ salaries and allowances, transparency, auditing and code of conduct. The constructs were examined against the indicators of corporate value in an effort to establish their impact. The adequacy of the combined impact to support the hypothesis was tested using a number of regressions. The corporate value measurement variables of Tobin Q and ROA were applied to establish the relationship. Information obtained from financial reports of the NSE listed companies formed the basis of the analysis. The null hypotheses of the study are stated below:-

H1a: There is no significant relationship between corporate control and ROA for NSE listed companies.

Hypothesis 1a sought to examine the relationship between corporate value and return on assets and was tested using the equation below

$Y = \beta_0 + \beta_1 X$

Where; X= corporate control and Y= ROA.

Table 2. Regression Model of Corporate Control against ROA

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Durbin-Watson
1	.755a	.676	.678	.117935	1.491
a. Constant, Corporate Control					
b. dependent variable: ROA					

The table above present model's summary for the relationship between corporate controls and ROA. It is evident that effect of corporate control on ROA is significant with a regression (R) of 0.755. Therefore corporate control explained up to 67.8%, (R^2 = .678) of the total variation in return on asset is attributed to changes in corporate control. The remaining 35.2% is explained by the other variable.

Table 3. ANOVAa - Corporate Control and ROA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.329	1	4.329	417.674	$.000^b$
	Residual	2.978	289	.023		
	Total	7.307	290			
a. Dependent Variable: ROA						
b. Predictors: (Constant), Corporate Control						

Variance Analysis was used to examine how effective statistically the model is to establish the significant impact of corporate control on ROA. The reading gives an F – Value of 417.674 while the p value is less than 5%, indicating that corporate control has a significant influence on company value. This assertion therefore does not confirm the null hypothesis that corporate control has no significant effect on company value (as measured by ROA.)

Table 4. Coefficients of Corporate Control and ROA

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.197	.046		-15.962	.000
	Corporate Control	1.184	0.59	.695	20.436	.000
a. Dependent Variable: ROA						

The regression coefficient above shows that corporate control has positive impacts on the return on asset which is at 5% since probability level is less than 5% (p-value = 0.000). This confirms null hypothesis that there is no significant relationship between corporate control and ROA among listed companies at the NSE.

Based on our analysis above, there is a positive and significant impact of corporate control and corporate value. This is in agreement with Shleifer and Vishny [[9] who concluded that; corporate control has significant positive impact on company value growth. In line with argument by Jensen and Meckling [8], corporate control in form of managerial share-ownership helps to reduce agency conflicts and costs thus maximizing shareholders returns. However, Peters & Bagshaw [35] study concluded that company performance is independent of rules and regulations put in place by management as a control mechanism.

H1b: There is no significant relationship between CC and Tobin Q among the NSE listed companies.

Hypothesis sought to establish the relationship between the stated variables for listed companies at NSE. A regression of corporate control on corporate value was done using the equation below.

$Y = \beta 0 + \beta 1X$

Where X=corporate control and Y denote Tobin Q.

Table 5. Effect of Corporate Control Index on Tobin's Q

Summary of the Model.

Model	R	R Sq.	Adjusted R Sq.	Std. Error of the Estimate	Durbin – Watson
1	.601	.324	.312	.6734401	1.577
Constant, CCI Dependent Variable: TOBIN Q					
Coefficients					
(Constant) CCI	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant) CCI	-1.387 3.765	.283 .391	 .512	-5.641 11.651	.000 .000
Dependent Variable: TOBIN Q					
ANOVA					
Model	Sum of Square	Df	Average Square	F	Sig.
Regression' Residual Total	37.218 221.556 258.774	1 289 290	37.218 0.471	112.017	.000
Dependent Variable: TOBIN Q Predictors: (Constant), CCI					

The results show that a weak association exists concerning the variables with regression R of 0.601. This means that only 32.4% (R^2 = .324) can be explained by corporate control index (CCI) of the Tobin's Q while the balance 67.6% is accounted for by other variables. At p-value greater than 5, F value is 112.017 indicating that corporate control index has a significant effect on company value as measured by Tobin's Q. Null hypothesis is thus rejected.

In agreement to this, Gompers at al.[36] who opined that corporate governance has a positive influence on firm's value measured by Tobin's Q.

3. Discussion and Research Findings

The key aim of the study was to determine the effect of corporate control on the corporate value of listed companies at the NSE after controlling for firm size, firm age and assert tangibility. This was undertaken by analysing the financial statements and other relevant reports of the listed firms. The independent variable was examined under different sub constructs, namely, board structure and composition, board diversity, board remuneration, transparency, disclosures and auditing and corporate ethics. Correlation output indicated that relationship between corporate control and corporate value of quoted companies is statistically significant. Therefore Hypothesis H_1 was not confirmed by the study results. Since the results confirmed that corporate governance strongly influences the corporate performance, good corporate controls principles and practices are likely to result in high growth in value.

Shleifer and Vishny [9] found that ownership concentration and corporate performance have a positive relationship. Ashbaugh et al. [37] findings concurred with our findings that relationship between the two is of significant value. However, there were findings which contradicted the study finding. A negative relationship between corporate control and corporate performance was found by Hermalin and Weisbach [38] when they evaluated the effect of corporate governance on firm's operational performance. No relationship was recorded by Brown and Caylor [30] when they measured the effect of board composition and direct incentives on corporate value. Further, Daily and Dalton [39] found no relationship between corporate control and corporate performance even after applying both accounting base measures and market based measures.

Past corporate failures and mismanagement suggests that managers are most of the time self-interested, risk averse and follow their own goals against shareholders' interests. Authorities have tried to use corporate control mechanism as a way to discipline managers and reduce agency costs. This has been done through monitoring, advising and control exercised by board of directors. According to Gompers et al. [36], corporate control are effective in improving corporate value growth. Researchers have in the past tried to provide explanation for the positive effect on corporate control on firm's performance. Some have argued that through board monitoring and control, management efficiency improves which translates into better corporate performance. According to Shleifer and Vishny [9], a firm having effective corporate governance and control can invest in profitable projects thereby increasing the efficiency of operation and higher cash flow.

The study result on significance of relationship between the independent variables and corporate value as measured by ROA and Tobin Q is also supported by agency theory. Agency theory is primarily concerned with aligning the interest of management and shareholders to optimize shareholders and hence corporation wealth. In line with agency theory, the position of the chairman and the CEO should be separated so that monitoring and control effectiveness as well as check systems are enhanced.[40] Doe et al.[14] also argued that agency theory on separation of the two position has found good support on the ground as evidence by its adoption throughout the world.

It was also noted that the corporate value of the firms under review improved during the period. According to Shleifer and Vishny [9] the key objective of corporate control is to provide assurance to the shareholders that the management will optimize corporate value. It was observed that increasing number of listed companies at the Nairobi Securities exchange have adopted the practice of separation of Chairman and CEO roles.

The study revealed the presence of a strong positive linkage between corporate value and number of non-executive directors in the board. This indicates that compliance with recommended principles of good corporate practice support improved corporate performance. This is in line with recommendation of OECD and CMA for listed companies to adopt and implement corporate governance codes of operation. According to Cadbury [41] board of directors must have non-executive members to control decisions making on strategic and governance issues of the company. Zingales [42] argued that a highly performing board general boast of a right mix of capacity and exposure. They should also have a team spirit to provide a base for encouraging varied and health engagement aimed at optimizing owners' wealth and corporate growth.

4. Recommendation

Since strong corporate control reduces agency costs thereby enhancing performance of the company, listed companies in NSE should adopt strong corporate control principles to enhance their firm values. Board composition and structure, board diversity, audit and transparency benefits the firm through close monitoring of the management thereby mitigating agency conflicts between management and shareholders as well as ensuring optimal investment by the agents for the benefit of the principle.

5. Conclusions

Results show the importance of corporate control for growth of company value and shareholders' equity. Corporate control importance is self-manifesting as evidence by the companies which adopted the best practices – how their corporate values have generally grown faster than the others. It provide and internal structure on managing companies through setting up the board of directors with definite responsibilities and roles separate from that of management. The control mechanism envisaged by corporate control principles is strong enough to combat fraud, mismanagement and even corruption if implemented well. It was also noted that board composition significantly influences corporate value and that this relationship is moderated by firm size, firm age and assert tangibility. Firms with substantial tangible assets tend to attract more equity and debt capital at a lower cost while larger firms shows better performance. Older firms seems to perform better having develop a clear and mature systems and procedures as well as accumulated capacity and competency. Firms with high asset tangibility are also able to access more and cheaper credit thereby increasing their capacity to generate corporate value. These findings shows that asset tangibility, firm size and age have positive impact of performance of a firm probably due to economy of scale, attractiveness of tangible assets to financiers and accumulated experience resulting from age of a firm.

Measurement of elements in the corporate control was done through corporate governance index. Based on result reading, board structure and composition had a mean of 80.62%, board diversity mean was 56.775%, Transparency, disclosure and auditing mean was 77.49%, board remuneration mean was 81.09% while that of corporate ethics was 86.6% which was the highest among the five meaning that most companies emphasizes this as they see it as forming the base for compliance with the other four.

High percentage of companies complied with the requirements of governance especially board size and its composition and transparency and disclosures of information. The study results and discussion shows existence of significant and positive linkage between corporate control and corporate value. The conclusion is supported by previous research findings.[43]

Contribution of the Study

The study provides a base for listed companies to adopt corporate control and governance principle wholly in order to maximize corporate value growth. This would also enable them to adopt the best structure that provide a framework for their expansion into other regions and countries with a clearly defined reporting lines and functions which are aligned to board and shareholders expectation. The results contributes to Capital market authority in Kenya and other accounting regulators in Kenya like Institute of Certified Accountant of Kenya (ICPAK). This is important in the determination of need to develop more corporate governance guidelines so as to improve the quality of information reported by corporations. Investors in developing countries like Kenya will also be able to apply the findings to interpret financial statement numbers reported when making investment decisions. It will also increase the understanding of how corporate control influences corporate value growth and the ability of the firms to develop capacity and competency in evaluating opportunities as they arise. The study has affirmed the assumption that good corporate control and governance holds management accountable to the board and board accountable to the shareholders.

The findings will increase the attention given to corporate control procedures in the development of credible financial statements. The finding that independent directors are more accountable to shareholders will not only improve investors' confidence but also encourage companies to re-examine their criteria of selecting the board of directors which would ensure that this independence is maintained. In a developing country like Kenya, ownership structure tend to be family based and are therefore more concentrated. Therefore, the finding of this study will go a long way in highlighting the need for regulators to provide increase protection for minority shareholders through improved corporate control and reporting rules. Previous research findings supported the findings of this study that high quality reported information increases with quality of corporate governance.

The study has also contributed to finance knowledge base by applying both accounting based and market based financial indicators to test the relationship between corporate control and corporate value growth. It has also provided new empirical evidence on the relationship for listed firms in the NSE. Further understanding on the nature of the relationship is of value to investors, corporate and financial decision markers as they convey the value and future potential or risk relating to the firm value growth.

Limitation of the Study

The study only considered two key variables affecting corporate value growth plus three control variables of asset tangibility, age and size of the firms but there are other variables that may still affect firm performance like regulatory factors, legal factors, operating environment among others. On corporate control, the study only considered five variables but they could be other relevant ones like gender, education level. The secondly, study limited itself to companies listed at the NSE within the last five years which may make it not be generally applicable to other countries. The population was again limited to listed companies which may make it not be applicable to non-listed and small companies including some family owned business which may not be listed but has substantial value like Nakumat, Haco Industries, and Kapa Refineries among others. These limitations, however, does not fundamentally affect the findings of the study.

Recommendation and Policy Implication

It provides, therefore, a sound base for policy implementers to have control practices in an effort to enhance performance of companies. It also provides them with a clear structure and well defined responsibilities of Chairman, CEO, board of governance and key management as it relates to optimizing the corporate value which when adopted will not only enhance governance but also provide a standardize framework as a point of reference by investors and regulators in monitoring compliance and performance thereby making it easy to pin point weaknesses before serious negative effect is realized. It involves optimal board membership, separation of roles and position in leadership, adequate disclosure and reporting. It also emphasized the need to improve compliance through change of corporate culture that is grounded on understanding of the importance and value derived by individual company through complying and not based on force alone.

Suggestion for Future Research

Future researchers need to incorporate other performance measures, both financial and non-financial other than just ROA and Tobin Q considered above. They should also expand the study to look at regional markets like COMESA or even do more detailed studies focusing on individual segments of each market under study to asses' variations if any in result obtained.

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