CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE, BOARD INDEPENDENCE, FINANCIAL PERFORMANCE OF LISTED COMPANIES IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS IN BUSINESS ADMINISTRATION (FINANCE OPTION)

MOI UNIVERSITY.

2024

DECLARATION

Declaration by the candidate

This research project is my original work and has not been presented for examination at this or any other university.

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This research project has been submitted for examination with our approval as University Supervisor.

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DEDICATION

I would like to dedicate this research project to my beloved parents Mr. and Mrs. Okemwa together with my siblings for their invaluable support, and encouragement and for giving me the motivation to carry on.

I am immensely grateful and may our good Lord bless you always and forever.

ACKNOWLEDGMENT

I wish to acknowledge the Almighty God for giving me good health and strength to carry out this research project.

I would like to express my sincere gratitude to my supervisors for their guidance and continued support in writing this research project. I also acknowledge lecturers in the Department of Finance for their motivation and immense knowledge.

I also wish to acknowledge my fellow course mates for the stimulating discussions and all the fun we have had as we worked on our research topics.

I acknowledge the immense support from my Family and friends. I appreciate your assistance whenever I call on you for any help regarding my research project. Your persistent encouragement was overwhelming.

May the Almighty God bless you all and reward your efforts abundantly.

ABSTRACT

The listed companies are often seen as high achievers due to their strict regulatory compliance and effective oversight. However, this same rigorous adherence may contribute to their challenges in the Kenyan market, where issues with board independence could be a significant factor in their underperformance. The rigid governance structures, while beneficial in some contexts, might hinder their adaptability and responsiveness, leading to difficulties in navigating the unique dynamics of the Kenyan business environment. This study investigated the influence of corporate social responsibility (CSR) disclosure on the financial performance of Kenyan-listed companies. It focused on how the independence of a company's board of directors affects this relationship. The research examined the impact of transaction costs, reputation capital, and agency costs on financial performance, and explored how board independence moderates these variables. The theoretical frameworks grounding this research are Transactional Cost Theory, Agency Theory, and Stakeholder theory. The study focused on listed companies in Kenya, comprising 64 companies across several industries, and employed an explanatory research approach. This study used an explanatory research approach to investigate and elucidate the causal links between financial performance in Kenyan-listed companies and corporate governance characteristics. This all-inclusive method produced a dataset of 693 observations. The methodology of choice was secondary data collecting, with data sheets serving this function. The study profiled and summarized patterns in each firm's data using descriptive statistics, which include measures of central tendency and dispersion. It also used Stata version 16 to do panel regression analysis to examine the type and importance of the association between independent factors and the dependent variable. This analysis sheds light on the impact of CSR disclosure on financial performance and how board independence moderated this relationship. The findings indicated that transaction cost exhibits a strong positive correlation with financial performance ($r = .691$, $p < .001$). Reputation capital also shows a very strong positive correlation with financial performance ($r = .866$, $p < .001$). Agency costs are significantly correlated with financial performance ($r = .841$, $p < .001$), indicating a robust relationship. Board independence is positively correlated with financial performance ($r = .686$, $p < .001$). Control, however, shows no significant correlation with financial performance ($r = .097$, $p = .449$). These findings suggest that factors such as reputation capital, agency costs, and board independence significantly influence financial performance. The study tested three hypotheses on the moderation effects of board independence on financial performance in Kenyan listed companies. The hypotheses for transaction costs ($R^2\Delta = 0.07$; $p = 0.02$) and reputation capital ($R^2\Delta = 0.06$; $p = -0.044$) were rejected, showing significant moderation, while the hypothesis for agency costs ($R^2\Delta = 0.04$; $p = 0.079$) was failed to be rejected. The study makes several recommendations for Kenyan listed companies: they should implement key performance indicators, foster ethical corporate cultures, balance agency costs with growth investments, adopt technology-driven process optimization, and regularly evaluate their operations against best practices. Management should reduce transaction costs by streamlining procedures and enhancing operational efficiency. Transparent governance is crucial to minimizing agency costs and maintaining integrity. Theoretically, reputational capital underscores the value of ethical behavior for long-term success, while understanding transaction costs emphasizes resource allocation optimization. Policy-wise, consumer protection laws safeguard reputational capital, promoting ethical business conduct and aligning stakeholders' interests for long-term value creation. The study recommend for future study to explore the impact of board independence on financial performance across different sectors in Kenya to determine sector-specific dynamics.

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ACRONYMS AND ABBREVIATIONS

BI:	Board independence
CDSC:	Central Depository and Settlement Corporation
CMA:	Capital Markets Authority
CSRD:	Corporate Social Responsibility Disclosure
EGX	Egyptian Exchange
FP:	Financial Performance
FTSE/JSE	Financial Times Stock Exchange / Johannesburg Stock Exchange
GDP:	Gross Domestic Product
ICPAK:	Institute of Certified Public Accountants of Kenya
IRA:	Insurance Regulatory Authority
NSE:	Nairobi Securities Exchange
PwC	PricewaterhouseCoopers
ROA:	Return on Assets
ROE:	Return on Equity
ROI:	Return on Investments

OPERATIONAL DEFINITION OF TERMS

Agency Costs: These costs are the result of disputes between equity holders and owner-managers, whereby the agent uses the company's financial and non-financial advantages to the fullest extent possible in order to maximize his utility (Leland, 2018). This is quantified by means of the asset utilization ratio and the expense ratio.

Board independence: It is the extent to which a firm's board of directors is made up of people who aren't connected to the management of the company, important shareholders, or other potential conflicts of interest (Bairathi, 2019). This is measured by evaluating number of independent directors / total number of directors in a company.

Corporate Social Responsibility Disclosure (CSRD): Refers to the practice of companies publicly reporting their efforts, initiatives, and performance related to social, environmental, and ethical responsibilities. (Kamyabi & Devi, 2017). In the study, it will refer to CSRD costs. This is measured through transaction costs, reputational capital, and agency costs

Financial Performance: It refers to how well organizations are managed and satisfying the interests of their stakeholders. It also involves determining how effectively an organization has applied its assets to generate revenue in its key kind of

business (Harber and Reichel, 2015). This is measured through return on equity

Reputation Capital: **R**efers to the managerial endeavors that executive directors do in order to improve the value and image of their companies on a daily basis through methodical management that upholds ethics and professionalism according to Kacoff (2020). This is measured through business process value, patent value, and trademark value

Transaction Costs: it is the term used to describe the expenses incurred by an economic system, which includes both direct and indirect costs related to contract monitoring, enforcement, and negotiation between a business and its clients (Kamyabi & Devi, 2017). This is measured through, Search Costs, Bargaining Costs, Policing Costs, Screening Costs and Transfer Costs

CHAPTER ONE

1.0 Introduction

An overview of the study's background, problem statement, objectives, research hypothesis, significance, and scope is given in this chapter.

1.1 Background

Financial performance reflects how effectively an organization meets stakeholder needs and manages its resources. It involves evaluating how efficiently a business generates revenue from its core operations using its available resources (Harber & Reichel, 2015). Proper management of a company's limited resources is essential for ensuring operational efficiency and delivering high-quality products and services. Inadequate financial management and planning often lead to business failures (Johnson & Lee, 2018). Therefore, organizations must assess their financial performance over a defined period to gauge their financial health and sustainability. Effective financial management enables companies to optimize resource allocation, enhance productivity, and maintain the quality of their offerings, ultimately contributing to their long-term success and stakeholder satisfaction. By systematically evaluating financial performance, businesses can identify areas for improvement and make informed decisions to bolster their financial stability and growth prospects. This process is vital for both short-term operational effectiveness and long-term strategic planning.

One well-known financial indicator that shows how well a business makes money off of its equity capital is return on equity, or ROE. Because it shows a company's ability to produce earnings per dollar of equity, which is a critical measure of financial performance and health, this ratio is especially valuable (Brigham & Ehrhardt, 2016). The return on equity (ROE) is a crucial measure of profitability and, by extension,

financial performance. Over the years, there has been a lot of discussion on how CSRD affects a company's financial success. There has never been consensus in the empirical research on anything. Some discovered that there was no association at all, while others discovered that there was a positive, negative, or mixed correlation. Still others discovered that the effects on firms were distinct. The relationship between a company's CSRD and FP is supported and underpinned by board independence (BI), which is in charge of the rules governing socially responsible investments and the practices of corporate social responsibility disclosure. As a result, this study introduces board independence (BI) as a mediator of this relationship.

Since the first independent sustainability reports were published in 1989, many companies have begun detailing their sustainability, social, and environmental policies (Kolk, 2018). Disclosure of corporate social responsibility (CSR) has become more popular. Carroll's Pyramid of CSR provides a structure for reporting on social, legal, moral, and financial obligations. Companies disclose economic responsibility through financial reports, legal compliance through adherence to laws, ethical responsibility by addressing environmental impacts and labor practices, and philanthropic efforts through donations. Over two-thirds of sustainability reports follow the Global Reporting Initiative's format, indicating the growing recognition that long-term growth depends on both financial and non-financial factors (Bellucci, Simoni, Acuti, & Manetti, 2019). This study evaluates CSR disclosure’s impact on financial performance by analyzing transaction costs, reputation capital, and agency costs (Bellucci, Simoni, Acuti, & Manetti, 2019).

In order to comprehend the whole effects of disclosure related to Corporate Social Responsibility (CSR) on the long-term financial performance and sustainability of a

firm, it is crucial to examine transaction costs, reputation capital, and agency costs. Transaction costs involve expenses related to business transactions, such as contract negotiation and compliance. CSR disclosure can reduce these costs by enhancing transparency and trust with stakeholders, thus minimizing disputes and legal risks (Kolk, 2018). Reputation capital, the value added by a company's reputation, is strengthened through CSR disclosure, which can improve relationships with suppliers and investors, increase customer loyalty, and mitigate reputational risks. CSR disclosure helps align managerial interests with shareholder goals by providing insight into social and environmental management, thus reducing agency costs and promoting sustainable practices. Effective CSR disclosure can therefore boost long-term financial performance and sustainability (Barauskaite & Streimikiene, 2021).

The impact of agency costs, reputation capital, and transaction costs—three indices of Corporate Social Responsibility (CSR) disclosure—on financial performance is highlighted by empirical study. According to Clarkson et al. (2019), CSR transparency initiatives can minimize conflicts between stakeholders and enterprises by fostering trust, which lowers transaction costs. Adequately comprehend how a company's long-term financial success and sustainability are affected by its disclosure of Corporate Social Responsibility (CSR), Orlitzky et al. (2020) demonstrated a positive link between CSR disclosure and financial performance, suggesting that reduced transaction costs can enhance financial outcomes. Margolis and Walsh (2021) revealed a positive relationship between CSR disclosure and reputation capital, indicating that a strong CSR reputation fosters client loyalty and stakeholder relationships, which can boost revenue. Similarly, McWilliams and Siegel (2001) showed that CSR initiatives can improve perceived product quality and increase earnings.

Board independence is a key corporate governance issue that influences firm performance. Although numerous variables could affect a company's performance, board independence seems to be the most frequently studied one (Othman, Ponirin & Ghani, 2021). Drawing from a comprehensive analysis of the literature, including works by Abdullah (2019), Abidin et al. (2021), Golmohammadi et al. (2021), Jackling & Johl (2021), Othman et al. (2021), Swartz & Firer (2019), Tornyeva & Wereko (2021), and Uadiale (2021). The following components often comprise a company's board structure: the total number of independent non-executive directors in a company. The degree to which a corporation's board of directors is made up of people unrelated to the management of the firm, major shareholders, or other potential conflicts of interest is known as board independence.

Empirical research across various regions, including the United States (Caldeira, 2021), Europe (Stef, 2021), and Asia (Chang, Liang, & Liu, 2021), highlights the importance of financial performance for a company's global health and survival. Effective resource management in financing, investing, and operating activities is indicative of high performance (Barauskaite & Streimikiene, 2021). While there is extensive theoretical and empirical research on financial performance metrics for listed firms, the accuracy of proxies such as ROA, ROE, ROI, and Tobin's Q remains debated (Wang & Sarkis, 2017). Prior studies have used these proxies to explore industry-specific (external) factors like growth and advertising intensity and firm-specific (internal) factors such as board independence and liquidity as determinants of financial performance. This study focuses on corporate social responsibility disclosure as a firm-specific factor influencing financial performance and recommends using ROE, given its alignment with wealth creation for investors (Caldeira, 2021).

From 2010 to 2020, the financial performance of publicly listed companies showed varied trends globally. According to a McKinsey report, the average annual revenue growth rate for global publicly listed companies from 2010 to 2019 was 4.6%, compared to 3.4% for non-publicly listed companies. Profit margins for these companies increased from 6.7% in 2010 to 9.3% in 2019, but fell short of the projected 10% (McKinsey, 2019). The MSCI World Index, which tracks large and mid-cap publicly traded firms in 23 developed nations, rose by 72% between 2010 and 2019 (Wang & Sarkis, 2017). Regionally, the public's reluctance to invest and rising bank loan costs are challenging capital markets (Owolabi & Obida, 2017). Strong financial performance attracts investors and reduces monitoring costs, while increased liquidity supports long-term investments and robust corporate governance (Gichohi, 2014; Kim, Mauer, & Sherman, 2018).

Between 2010 and 2020, the financial performance of African publicly traded companies exhibited a varied pattern. For example, revenue growth according to a report by PwC, the average revenue growth rate for African-listed companies between 2010 and 2019 was 8.4%, which is lower than the global average growth rate for publicly listed companies. The average profit margin for African-listed companies increased from 5.9% in 2010 to 8.2% in 2019, according to the same PwC report. This indicates that African-listed companies were able to improve their profitability during this period but more was below the required threshold of 10%. Further, the FTSE/JSE Africa All Share Index, which tracks the performance of publicly listed companies in South Africa, increased by 17.7% between 2010 and 2019 though it had been projected to 20% (Rindfleisch, 2020).

Specific examples of financial performance of listed companies include; Nigeria: According to a report by PwC, the average revenue growth rate for Nigerian listed companies between 2010 to 2019 was 13.3%, which is higher than the African average growth rate for publicly listed companies. The average profit margin for Nigerian listed companies increased from 5.6% in 2010 to 8.3% in 2019. The Nigerian Stock Exchange All Share Index increased by 22.4% between 2010 and 2019 (Uadiale, 2021). However, South Africa's average revenue growth rate for South African listed companies between 2010 and 2019 was 5.2%, according to a report by PwC which was below the African average. The average profit margin for South African listed companies increased from 8.7% in 2010 to 9.9% in 2019. The FTSE/JSE Africa All Share Index increased by 17.7% between 2010 and 2019 still below the expected 20% (Barr & Gerson, 2020). In Egypt, the EGX 30 Index, which monitors the success of Egyptian publicly, traded companies, increased by 8.8% between 2010 and 2019. The financial services sector had the highest revenue growth rate and profit margins among Egyptian listed companies, while the consumer goods sector had the lowest revenue growth rate and profit margins (Desender, 2021). Finally, the Moroccan All Shares Index, which tracks the performance of publicly listed companies in Morocco, increased by 15.1% between 2010 and 2019. The telecoms sector had the highest revenue growth rate and profit margins among Moroccan listed companies, while the utilities sector had the lowest revenue growth rate and profit margin (Helmer, 2020).

Many Kenyan companies listed on the NSE have experienced improvements in financial performance, but some have faced significant challenges, with several being delisted in the past decade. In 2019, it was discovered that 17 companies were operating outside ethical and socially responsible guidelines. Additionally, a 2020 CMA report revealed that 27 companies—44% of those listed had violated corporate governance

rules, including transparency. For instance, ten companies failed to submit internal governance reviews and annual reports (Tuwey, 2020). Efforts to save these companies often involve financial restructuring, yet practitioners and managers lack sufficient guidance on optimizing financial performance (Kibet, Kibet, Tenei, & Muthol, 2021). This has led to decreased shareholder wealth and investor confidence in the NSE, although sectors like banking and insurance have performed better.

Some studies (Almagali et al., 2021; Liargovas and Skandalis, 2020). Capital Markets Authority (CMA), Insurance Regulatory Authority (IRA), Central Bank of Kenya (CBK), and Central Depository and Settlement Corporation (CDSC) oversee listed corporations under the Nairobi Securities Exchange (www.nse.co.ke). Approved securities listed on the NSE and public offerings are the responsibility of the Capital Markets Authority (CMA); the CDSC is in charge of overseeing the conduct of central depository agents, which includes investment banks and stock brokers. At the Excellence in Financial Reporting Award (2021) on the www.africaexchange.org, ICPAK, NSE, and CMA demonstrated their joint commitment to promoting excellence in the areas of corporate social responsibility, financial reporting, ecological reporting, and comprehensive corporate governance in East Africa.

1.2 Statement of the Problem

Listed companies are thought to be among the best in the industry since they meet strict monitoring and regulatory body requirements. The majority of these listed companies support corporate social disclosure because they believe that businesses should have more purposes than just making money, and their objective is to maximize shareholder wealth (Khamah, 2014).

Listed firms' financial performance issues, however, have shown up in a variety of ways. In 2019, it was found that 17 companies were not adhering to ethical and socially conscious standards. Additionally, a similar CMA report from 2020 discovered that 27 businesses, or 44% of the businesses listed on the exchange, had broken several corporate governance rules, including transparency. Ten of the businesses, for example, neglected to turn in their annual reports and an internal assessment of their corporate governance procedures (Tuwey, 2020). It is therefore hypothesized that this could be one of the reasons why many listed companies are unable to survive in the Kenyan market the main contributor being the issue of board independence. Current bank failures and business operational issues in companies like ARM Cement, Chase Bank, Uchumi Nakumatt, Imperial Bank, and Kenya Airways have been identified by CMA to have governance failures (Kinyua, 2020).

The issue is further compounded by the inconsistent results of the theoretical linkage between the organization's FP and CSRD. Studies that back up the inverse relationship between FP and CSRD, for instance, point out that FP is harmed by CSRD, which is an example of an agency problem (Hong & Kacperczyk, 2019). Others include Kruger, (2015), Preston and O'bannon, (2017), and Bhandari and Javakhadze (2017) who depict a positive relationship. Another theory in the scholarly discussion of CSRD and FP is that they are mutually exclusive, which means that CSRD has little bearing on the FP of a company, including (Gharai, 2017; Khesto, 2017 and Nollet, 2016). In contrast, some empirical research, such as Rutledge's, demonstrates the inverse relationship between CSRD and FP, (2014) and Hirigoyen and Rehm (2015). However, a corpus of empirical research contradicts both of the aforementioned arguments, and those researchers discovered a neutral or nonexistent relationship between CSRD and FP,

including (Kesto, 2015; Lahouel, 2021; Lee et al., 2018, Nollet, 2015 and, Rahmawati & Supriyono, 2014).

The moderating role of board independence in corporate governance has been identified as a critical factor, yet its examination remains underexplored in existing literature. While several studies have investigated the direct influence of board independence on firm performance (Othman et al., 2021; Pfeffer, 2019), the specific moderating role it plays in various relationships, including between CSR disclosure and financial performance, is insufficiently documented. This gap extends beyond CSR and firm performance, as broader governance frameworks often overlook how board independence might modulate other critical organizational outcomes (Jackling & Johl, 2021). Consequently, the lack of comprehensive research on its moderating effect presents a significant gap in corporate governance literature, particularly in emerging market. Contrastingly, some empirical research shows a neutral or nonexistent relationship between CSRD and FP (Kesto, 2015; Lahouel, 2021), indicating a significant gap in understanding the true impact of CSRD on FP. As a result, the study's objective is to evaluate how board independence moderates the association between listed companies in Kenya's financial performance and their disclosure of corporate social responsibility.

1.3 Objectives

1.3.1 General Objectives

The study's general objective was to assess the moderating effect of board independence on the relationship between corporate social responsibility disclosure and the financial performance of listed firms in Kenya.

1.3.2 Specific Objectives

The study was guided by the following research objectives;

i. To assess the effect of transaction costs on the financial performance of listed companies, Kenya
ii. To establish the effect of reputation capital on the financial performance of listed companies, Kenya
iii. To examine the effect of agency costs on the financial performance of listed companies, Kenya
iv. To examine the moderating effect of board independence on the relationship between
    a) Transaction costs and financial performance of listed companies, Kenya
    b) Reputation capital on the financial performance of listed companies, Kenya
    c) Agency costs on the financial performance of listed companies, Kenya

1.4 Research Hypothesis

H_{O1}: There is no significant relationship between transaction costs and the financial performance of listed companies, in Kenya

H_{O2}: There is no significant relationship between reputation capital and the financial performance of listed companies, in Kenya

H_{O3}: There is no significant relationship between agency costs and the financial performance of listed companies, in Kenya

H_{O4}: There is no significant moderating effect of board independence effect on the relationship between

a) Transaction costs and financial performance of listed companies, Kenya

b) Reputation capital and financial performance of listed companies, Kenya

c) Agency costs and financial performance of listed companies, Kenya

1.5 Significance of the Study

Assessing how board independence affects the relationship between the financial performance of Kenyan listed firms and their disclosure of CSR will be significant for several reasons. For the management of listed firms, it will offer insights into the governance practices that could enhance transparency and profitability. This understanding will help in refining strategies to better align board oversight with corporate social responsibility initiatives, thereby improving financial outcomes. For the body of knowledge, it will contribute valuable empirical evidence to the ongoing discourse on corporate governance and CSR, particularly in emerging markets like Kenya. Additionally, it will enrich existing theories by providing a contextual analysis of board independence, offering a nuanced understanding of how governance structures impact CSR disclosure and financial performance in a developing economy.

1.6 Scope of the Study

The study's goal was to determine how board independence affects the relationship between listed companies' financial performance and their CSR disclosure. Secondary data was gathered and all listed firms were targeted. The study's focus was on Kenyan listed businesses, which included 64 listed businesses from a range of industries. A

census of the 64 companies was selected to ensure that all 64 respondents participated in the study, resulting in 704 observations. Secondary data for 11 years from these companies was reviewed. Furthermore, the study delimited itself to CSRD costs, specifically transaction costs, reputation capital, and agency costs, while also examining board characteristics concerning board independence. The research was carried out from August to November of 2023.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the concepts of financial performance, corporate social responsibility disclosure, conceptual framework, review of the empirical literature, and theoretical framework that direct the study.

2.2 Concept of Financial Performance

Previous research has occasionally used one or a limited set of metrics to assess financial performance, ostensibly based on the researcher's convenience and the ease with which data could be obtained for analysis. Jensen, (2019) used net income. Krüger, (2015) used earnings per share. Mariia, (2018) used return on investment, and Masten, (2018) used return on equity. The majority of recent studies have made use of growth indices like Cochran and Wood's 5-year return on equity, or metrics for the use of assets, including return on assets (Wokutch and McKinney, 2020) Furthermore, the literature has put out some definitions of company performance (Barney, 2018).

Research has examined the connection between corporate social responsibility disclosure and businesses' performance using accounting and market definitions. Schmidt, Rynes, and Orlitzky (2019). Herbert (2021) distinguished between two definitions of profitability: management and shareholder perspective. According to management, profitability is the efficient use of all available assets to produce profits. Specifically, net profit. It represents the shareholders' return on their invested capital. Fombrun and Shanley, (2018) noted that in situations of information asymmetry, stakeholders rely on companies with high CSRD as an information signal to form opinions about their corporate reputation. Elevated CSRD ratings have the potential to

enhance relationships with bankers and investors, thereby facilitating their capital access, drawing in better talent, and boosting goodwill among current employees all of which can contribute to improved financial outcomes.

To link CSRD and performance, Obusubiri, (2016) a relationship between CSRD and portfolio performance was discovered in an NSE study on the topic, and companies with high CSRD rankings outperformed those with low rankings. Okeyo (2015) concentrated on the strategic side of CSRD and discovered that companies engaged in a high degree of CSRD in order to get significant public recognition. Anyona (2018) examined the performance and CSRD of commercial banks. She discovered that the primary barriers preventing the banks from participating in CSRD are their financial resources as well as the preferences and attitudes of individual managers. After doing a similar investigation, According to Amutuku's (2019) findings, there is no correlation between CSRD and financial performance. Some research just examined the managerial attitudes and strategy component of CSRD. (Gichana, 2017; Odhiambo, 2016). In this study, financial measures will be used instead of market-derived ones because the latter may evaluate the organization's financial performance in addition to other aspects (Shane and Spicer, 2019).

The study uses ROE as a stand-in for financial performance. A key metric for gauging profitability and by extension, financial performance is ROE. Additionally, ROE assesses a company's efficiency by showing how much of its earnings are reinvested to produce its anticipated future revenue. As defined by Ottker-Robe and Podpiera (2018), Divided by shareholder equity, a company's net annual income after taxes is used to calculate return on equity (ROE). It determines how much money comes from equity. Without necessarily adding more capital, a rising ROE may signal that an institution's

revenue is on the rise. Consequently, a rise in return on assets as well as return on equity denotes the stability of the institution's finances. Better returns on equity or assets suggest more revenue potential for a company's growth and flexibility in the face of shocks, which reduces credit risk (Öttker-Robe & Podpiera, 2018).

2.3 Concept of Corporate Social Responsibility Disclosure

Although there isn't a single, agreed-upon definition of corporate social responsibility disclosure, it's typically understood to mean that a business discloses information about how it considers, manages, and balances the effects that its operations have on the economy, society, and environment Kamyabi & Devi, (2017) noted that globally, Although there isn't a single, agreed-upon definition of corporate social responsibility disclosure, it's typically understood to mean that a business discloses information about how it considers, manages, and balances the effects that its operations have on the economy, society, and environment (Kolk, 2018). Businesses in Australia, Belgium, and France have been less active in publishing sustainability reports thus far, despite France in particular showing a noticeable increase. The industrial, more "polluting" sectors have historically seen the greatest activity in this field, but more banks and insurance providers are publishing sustainability reports. According to a recent study on the Global Fortune 250, which is a list of the 250 biggest multinational corporations, 35% of the financial sector's 250 members released a report in 2015; for the other sectors, the percentage was 69% (the average being 60%). The industrial, more "polluting" sectors have historically seen the greatest activity in this field, but more banks and insurance providers are publishing sustainability reports. The degree of societal and regulatory attention can be connected to the conditions in various countries. This entails social and environmental reporting laws, which are in effect in a few

nations, but more significantly, other ways that the government promotes these kinds of disclosures, like by publishing official reporting guidelines (Cormier et al., 2019).

Africa on the other hand is slowly and gradually catching up on corporate social responsibility disclosure and publishing. Corporations increasingly report their ESG performance, trends showing a tentative move from voluntary to mandatory reporting. The level of publishing is however still wanting though. Reports are however of poor quality and sometimes cannot influence firms' value. More research may be required to support the idea that some of these sustainable initiatives on the continent would benefit from strong corporate governance. Regional research on the value of corporate governance to businesses has been done.

Munisi and Randoy (2017) found that there was a significant and positive correlation between corporate governance and performance in Sub-Saharan African companies when accounting measures were used. However, when applying market valuation, there was a significant and negative correlation. Barako Brown and Gorgens (2018) discovered a favorable correlation between corporate social reporting and board diversity in banks while Obeten and Ocheni (2014) discovered that certain Nigerian commercial banks performed better as a result of improved corporate governance. Gyakari (2019) discovered that the financial performance of companies and the quality of their internal corporate governance are statistically significantly correlated based on the compliance index of 100 South African listed firms. However, the equilibrium-variable model produced inconsistent results.

The Kenyan Company Act of 2015 has strong provisions regarding sustainability reporting on a local level. Section 653 requires directors to prepare directors' reports, which must include a business review unless they are exempt. The business review must

include information from the directors about the company's environmental impact, workers, and social and community issues. Specifically, the CMA's Code of Corporate Governance Practices for Issuers of Securities to the Public addresses morality and social responsibility, 201562 (Code), which mandates that businesses be "good corporate citizens." Thus, it is required of corporations to report to stakeholders and shareholders on their economic, social, and environmental performance. In Chapter 7, "Timely and balanced disclosure of all material information concerning the company" is stressed as it relates to transparency and disclosure.

According to Mwangi and Mwiti (2015). To maintain moral leadership and corporate citizenship, the 2015 Code requires businesses to disclose their CSR investment policies, ESG policies, and implementation in annual reports and on their websites. Furthermore, by looking through annual reports and other Capital Markets Authority (CMA) bulletins, prospective investors can learn crucial information about the workings of companies listed at the NSE. Like other exchanges, the NSE encourages companies to provide as much information as they can so that the exchange's stock prices reflect the most recent information (Mwangi & Mwiti, 2015). Although preparing these reports is required by law, sustainability publications are optional in Kenya. However, businesses are adopting the idea of publishing these reports to boost their brand awareness, enhance their reputation, demonstrate their commitment to community service, safeguard the environment, and ensure the welfare of their workforce. Compared to the past, when businesses included a general statement about their involvement in community affairs in their financials, sustainability disclosure is starting to become popular.

2.3.1 Transaction Costs

Transaction costs, which include both direct and indirect costs associated with negotiating, supervising, and upholding explicit and implicit contracts between the business and its clients, are the costs associated with running an economic system (Kamyabi & Devi, 2017). Pecuniary costs, which include opportunity costs, travel expenses, and administrative burdens, can be separated from transaction costs. Several requirements, including minimum deposit, withdrawal, and opening fees, to receive financial services, are examples of non-financial transaction costs (Rotemberg, 2018). The majority of intermediation costs in financial markets are related to transaction costs for lending and deposit services. The depth, scope, and effectiveness of the financial system are determined by how well financial institutions can minimize these market frictions (Masten, 2018).

Due to moral hazard, information asymmetries, adverse selection, and high transaction costs, financial markets in developing nations are extremely flawed (Hieltjes et al, 2022). Financial market transaction costs can cause trade to cease or lead to imperfections in the market. For small businesses, the advantages of the financial services may be outweighed by these expenses (Masuko et al, 2019). Transaction costs restrict the availability and demand of financial services among microenterprises.

Even in cases where financial services are offered, high transaction costs deter entrepreneurs from utilizing them (Chan, et al, 2018). The total cost of borrowing is greatly increased by high borrower transaction costs, which has an impact on microenterprises' profitability (Petrenko, 2019). Because of the risks of adverse selection, high transaction costs, information asymmetries, and moral hazard, there is less incentive on the supply side to lend to microbusinesses. (Chow et al, 2018).

Owing to the volume of transactions and the amount of time required to assess and monitor loan compliance, commercial banks view lending to the MSME sector as having a significantly higher cost than lending to other sectors. Lenders require collateral, like real estate or land, to secure these riskier loans. Additionally, they might only provide them with short-term loans that are insufficient for their needs, or they might charge them exorbitant interest rates (Masten et al, 2018).

2.3.2 Reputational Capital

A board of directors' managerial reputation is the main factor that determines its reputation, which can be linked to the company's financial and product reputations. The managerial reputation of an executive director is often associated with their dedication to professionalism and ethics in the routine, systematic management of their organization. The reputation and core values of a board of directors influence product reputational capital, which is mainly concerned with the satisfaction that customers have with a company's offerings. It also concerns the actual adherence of board directors to the legal and procedural frameworks that result in the final product being released onto the market for sale and use (Nair & Wahh, 2017). Directors' financial reputational capital is based on their careful management of the business's finances with an eye toward the owners' satisfaction. Directors' financial reputational capital may be at risk if they enrich themselves by demanding higher compensation and engaging in rent-seeking. When all else is equal, a company's overall operating and financial performance will improve more when its board of directors has a higher reputation (KACoff, 2020).

In these days of corporate dynamism, a company's good reputation is an enduring asset. Over time, scholars have consistently voiced their concerns regarding the necessity of

boards of directors in companies adhering to their reputations. Okpamen & Ogbeide, (2020), asserts that the notion that a company's reputation positively affects its performance has long been supported by evidence. The author emphasizes once more how accounting and finance literature backs up the notion that a company's reputation can generate significant wealth, much of which is ingrained in the goodwill of the company.

2.3.3 Agency Costs

Jensen (2019) Calculate the agency costs as a residual loss that arises from disagreements between equity holders and owner-managers. This suggests that the agent makes the most use of the firm's financial and non-financial benefits to maximize his utility. According to Leland, (2018) Analysis of agency theory suggests that a range of performance metrics should be used to determine compensation. It also states that the accuracy and sensitivity of each alternative performance measure to the manager's performance should determine how important it is to prioritize it. Holmstrom, (2019) demonstrates how boosting the owner-manager share of equity could lower agency costs brought on by disputes between outside equity holders and the owner-manager; that is, the manager's ownership and agency costs have an inverse relationship Jensen (2019) An agency relationship is a contract in which the principal employs the agent to perform a service on their behalf.

The inability to fully contract for every action that an agent could take that could have an impact on the principal's welfare as well as his own is the root cause of these agency issues. (Bernanke & Gertler, 2016). This begs the question of how to persuade the agent to operate in the principal's best interests. The total of bonding, monitoring, and residual loss costs was their definition of agency costs.

Due to its ability to mitigate the impacts of the agency problem, the agency cost is important. Sitkoff (2016) defined the "agency problem" as the challenges faced by financiers in ensuring that their funds are neither misappropriated nor wasted on uninteresting ventures. It is assumed under this framework that shareholders who own their equity investments do so solely for financial gain (Kim & Sorensen, 2016).

2.4 Theoretical Review

The study's guiding theories are reviewed in this section.

2.4.1 Transaction Cost Theory

Transaction Cost Theory (TCT) originated from social cost theory hence developed by Ronald Coase (1937). Coase (1937) again coined the principle to understand the rationale behind the existence of firms and the mode by which they set their boundaries according to transaction costs. He built a strong theoretical framework which future scholars were going to use to analyze how firms reduce transaction cost through using markets or integrating them within a firm. In the 1970s and part of the 1980s, Oliver Williamson built up on Coase's work, and broaden the aspect of transaction cost to address the governance structures and contractual frameworks deployed by the firms (Williamson, 1985). Williamson received a Nobel Prize in Economic Sciences in 2009 for his work related to TCT which put the theory in a much stronger place in the field of economics and organization studies.

The main objective of TCT is to understand the situations, which arise in firm where transactions occur internally rather than at the market. TCT proposes that firms persist for the purpose of reducing the price of review and implementation of transactions in an exchange setting especially in circumstances where the transactions are recurrent, complex or call for special investments (Williamson, 1985). But it has been criticized

on the grounds that TCT neglects other potential influencing factors such as the degree of innovation, strategic factors or specifics of the firms' dynamic capabilities, and ignores costs alone. The critics have said that TCT is too prescriptive in its models of decision making within firms and thereby ignores, flexibility and adaptability in favor of simple cost measures (Ghoshal & Moran, 1996).

As for the choice of Transaction Cost Theory, it holds significance for this study because this theory helps to understand the effect of transaction costs on the financial results of the listed firms. In financial markets, any costs incurred in the buying and selling of securities add up to transaction costs, and these can be in form of fees, commissions and any other charges affiliated to access in financial services affect the profitability of firms (Akbar, 2018). Accordingly, the following hypothesis has been assumed for this research: elevated transaction costs especially those associated with firm-specific resources and highly specific assets could have a negative impact on the financial performance of the listed firms (Darabi & Jalali, 2019). Therefore, in supplementing the existing literatures on financial market inefficiencies and institutional design, this research will seek to establish whether and how among others the level at which transaction costs impact on the overall financial performance of these firms. The study thus concludes by underlining the significance of elucidating transaction costs as a disclosure component with the effect of improving firm performance as well as market efficiency.

2.4.2 Agency Theory

Agency Theory was pioneered by economists Michael Jensen and William Meckling (1976). Due to its relation to organizational behaviour and agency costs this conceptual area is linked to the theory known as the nature and classification of shareholders.

Hence this theory is a development of literature by scholars such as Berle and Gardiner (1930) introduced the concept that corporations have more control than ownership (Berle & Means, 1932). Jensen and By examining the self-interested agency relationships between a corporation's owners and managers, Meckling expanded on this concept and laid the groundwork for later studies on the nature of these dynamics in relation to organizational behavior and corporate governance structures (Jensen & Meckling, 1976).

Agency theory is fundamentally used to adapt and explain situations where principals' objectives differ from those of agents. The theory also assumes that, because managers sometimes are apt to bear lose making decisions, they likely act in self-interest against the best interest of the shareholders hence incurring agency costs (Eisenhardt, 1989; Fama, 1980). In order to avoid such conflicts, the theory advocates; separating ownership from management by adopting managerialism which has controlling tools such as performance contracts and oversight to ensure that managers work under the same steering wheel as the owners (Yusuf et al., 2018). However, the agency theory has been criticized for presenting an overly rational view on human behaviours when working in an organization; it presumed that managers are self-seeking, unlike other factors, including ethical considerations, organizational cultures and social responsibilities (Donaldson & Davis, 1991). Further, critics of the theory have noted that it assumes the notion of cost minimization might overlook the need to generate new value for capital (Perrow, 1986).

It's crucial to remember that this study examines how a firm's performance is impacted by the reputational capital of its board of directors, making agency theory relevant to this investigation. According to the hypothesis, agency costs frequently have an impact

on financial performance due to the board of directors' and shareholders' self-interested behavior (Pandey, 2021; Ntim et al., 2020; Vedder & Ntim, 2019). However, due to the agency conflict, the board of directors with high reputational capital and ethical stance can contribute to curbing these problems and ensure the management decision-making is aligned to the shareholders' aims, thus improving the corporation's financial performance (Fama & Jensen, 1983; Eisenhardt, 1989). It examines the various ways that prove the reputational capital as a form of social capital that can enhance the board members to perform better in the governance practices and to minimize the agency costs and thereby improved the financial performances of the company.

2.4.3 Stakeholders Theory

Stakeholder Theory was pioneered by (Freeman 1984). Freeman has extended the idea as a theory specifying how the business enterprises should conduct themselves and respond to the claims of the number of stakeholder groups other than the shareholders. According to Freeman (1984), stakeholders are interested parties who have the ability to influence the organization or in turn be influenced by the organization's goals; this may include employees, customers, suppliers, and society (Freeman, 1984). Capitalism is an ideology that advocates for the consideration of the best interest of all shareholders alone instead of satisfying the needs of every individual with an interest in the establishment as the original corporate governance model.

In general, the rationale behind stakeholder theory lies in the need to consider all parties affected by the activities of a corporation in the decision-making process for a fairer means of corporate governance. It stipulates that by managing stakeholder relations, organizations can generate stable value, which contradicts the short-termism of the US model, which was focused on generating benefits for shareholders only (Freeman,

1984; Fondas & Sassalos, 2020). However, there are some weaknesses in the Stakeholder Theory that have been discussed specifically it diffuses accountability and makes it harder to find a clear direction when it comes to making decisions. Some critics opine that trying to accommodate the values of multiple stakeholders is rather problematic and may result in conflicts since special attention is paid to the overall interest of catering to stakeholders' needs and demands (Jensen, 2001). However, some scholars also argue that the theory does not have a clear direction on the order of preference in stakeholder management, and this has led to variations in implementation (Parmar et al., 2010).

The Stakeholder Theory most directly to the following discussion on boards' independence (moderating variable). The theory emphasizes that the company must have a board of directors with relevant experience and integrity, and it should best represent and maintain the balance of interests between all members to improve corporate governance and minimize agency costs (Fernandez & Thames, 2018; Kolk, 2018). Inherent systems may not act impartially and hence may fail at balancing the needs of different stakeholders; however, with independent boards, diverse stakeholders are well protected, and their concerns well addressed (Fondas & Sassalos, 2020). First, consistent with the principles of theoretical economics and agency theory in particular, a stakeholder-oriented perspective helps to minimize transaction costs through enhancing the necessary information disclosure and meaningful communication between contractual partners and, therefore, avoids deteriorating the business' reputation by establishing trust and ethical relationships with the necessary number of stakeholders. This study aims to understand how the independency of board members, in accordance with stakeholder theory, can help improve the quality of decisions and thus contribute to the increase in financial performance of the company

based on the satisfaction of stakeholders' needs at the same time (Freeman, 1984; Fernandez & Thames, 2018).

2.5 Empirical Review

2.5.1 Effects of transaction Costs on financial performance

Sara and Newhouse (2015) also assessed the effects and relationship between economic freedom measurements, business climate, and FDI inflows to the developing world with data from the Heritage Foundation. According to their observation, they discovered that nations with feeble laws concerning property rights, trade, and regulation do get a negative impact that is manifested by a reduction in the flows of foreign investments that are being channeled to the regarded economies.

According to Benjamin and Phimister (2017), actual transaction costs are likely to lower the efficiency of credit markets and in the process decrease credit investment. Scholars argue that high TCRs about GDP are characteristic of countries with credit-constrained financial systems that give low investment rates and they affect growth and development.

In the study of transaction costs and the fields, Maher (2017) analyzed the effects on contracts in the mechanical engineering, automobile, electronic, and gas industries. The paper also concluded that the market impact on the change of transaction cost is positive through the avenues of a good governance structure, against opportunism, and thus in the encouragement of investments in these industries.

Criticizing the enactment of Laws in 2018 with structural changes to make FDI more attractive, Dunning (2022) noted that the latter has a positive impact on curtailing transaction costs. Among these changes, improvements of the international accounts balance, domestic and foreign investment and crisis privatization, and increased Central

Bank independence contributed positively to the increase of capital and funding of many nations' balances of payments.

Macaulay (2015) opined that since most business transactions are bilateral and are not supported by the legal contract, the transaction costs weed out the worthless effecting a minimal social harm. Williamson (2015) buttressed this view arguing that while specific transaction costs negatively affect investments, many a time such costs are unique to a specific economy sector, and otherwise the market can self-adjust by weeding out the relevant cost.

2.5.2 Effects of reputation capital on financial performance

According to the essay Brothers (2022), the level of trust that managers of a particular company possess highly impacts on a particular company's performance. The concept of trust between partners is not fixed but can lie on a continuum and along with it costs of transactions are present and can be measured albeit with error. If agents are capable of determining the level of trust in other people, then the optimal governance model should become different. Whereas less trustworthy individuals require more elaborate control systems, more trustworthy individuals are sufficiently controlled by comparatively inexpensive systems. According to Bromiley and Cummings (2019), the significance of the relationship between trust and organizational behavior and performance is hypothesized to be positive if all other variables are controlled for.

Okpamen & Ogbeide (2020) affirm that generally well-run companies with good reputations should be able to create stable profits. Firm reputation is still recognized as an intangible factor, which makes it possible to obtain further prospects and better outcomes in the field of entrepreneurship. Currently, reputation is more closely

associated with brand value in the world of enterprises, suggesting a favorable impact on organizational effects.

Using an empirical approach, Nguyen, Locke, and Reddy (2017) sought to find evidence on whether the human capital of board members increases the value of a company in the Asia market. They also found that the reputational capital of board directors has a beneficial effect on the overall financial performance of Vietnamese firms by using the system GMM estimator on a panel data set of 315 firm-year observations over a four-year period from 2020 to 2021. Afterwards, James & Roh (2015) conducted a study in which they reinterpreted the relationship between corporate reputation and firm performance. Their findings indicated that corporate reputation positively affected the corporate performance metrics.

Ingley and Walt (2017), gave the signal of negative influence or no influence at all on the aspect of the company reputation and perceived financial performance. This might be due to imperfections inherent in the measure employed in the reputation assessment or variability in the variable between the accrediting managers' reputation exploitation that is unseen. On the other hand, some research by Nierderkofler (2019) revealed that there was a very close and significant relationship between corporate reputation and operating performance measures, especially when it comes to evaluating matters to do with operating profit margin and sales per share, which buttressed the argument that having a good reputation was good for business.

2.5.3 Effects of agency costs on financial performance

Schulze et al. (2016) aimed to provide evidence that contradicted the claim about the agency cost of family businesses by affirming that agency cost increases performance. The research adopted a cross-sectional survey design and a total population of 37,301

was determined which includes the chief executive of all private family businesses in America, out of which 1,376 companies were sampled. These businesses employed 195 people on average, brought in $36 million a year, and promised to stay in business for 49 years. The first study was significant because it found a favorable correlation between performance and non-family pay incentives, but not between performance and family pay incentives. The author finds that there is a positive correlation between strategic planning and performance, indicating that there is a positive relationship between effective strategic planning and improved business performance, and an inverse relationship between CEO and average board tenure and firm performance.

Mwisywa (2017) also pointed out that agency costs also affect the stock prices of the companies that are listed in the NSE. The annual published financial statements of the companies listed on the NSE as well as secondary and published data from authorized data suppliers of the Nairobi Stock Exchange Council were underutilized in this study. Researching agency costs and utilizing methodology based on descriptive statistics and quantitative analysis, the authors revealed a positive relationship between AG and the prices of stocks of public companies: thus, it might be suggested that AG influences the rise in stock prices. This means that agency costs have a positive bearing on stock performance although comes with expenses.

Alfadhl (2017) endeavored to establish the kind of relationship between the specific factors in managerial behavior, agency costs and their respective influence over firm performance. The study collected data from a sample of 27 companies, out of which 13 were banking and financial, 5 industrial and 9 service organizations. In summary, the study found that, although the link was not linear, agency costs were positively correlated with management ownership; moreover, the association was mediated by

company performance. However, the remaining tested variables were not found to have any impact on agency costs, and the relationships were not seen to be positively affected by firm performance in a way that might suggest a substantial positive effect of the key factors studied.

Nyamboga (2018) aims to investigate whether capital structure in the form of debt lowers agency costs. They base this on an empirical examination of capital structure and agency costs of companies listed on the Nairobi Securities Exchange. From 2018 to 2020, information was gathered from every company that traded on the Nairobi Stock Exchange, and Excel's statistical capabilities were employed to conduct the examination. According to the study's conclusions, agency costs and capital structure for these companies actually have a very shaky link. However, the study was able to establish that debt decreases costs for firms in industries that experience high growth while it increases asset productivity for firms in industries characterized by low growth thus implying that the influence of capital structure on agency costs depends on the growth of industries in which the firm has its operations.

2.5.4 The moderating effect of board independence on the relationship between corporate social responsibility disclosure and financial performance

Although numerous variables could affect a company's performance, board independence seems to be the most frequently studied one (Othman, Ponirin & Ghani, 2021). Based on an extensive literature review (Abdullah, 2019, Abidin et al., 2021, Golmohammadi et al., 2021, Jackling & Johl, 2021, Othman et al., 2021, Swartz & Firer, 2019, Tornyeva & Wereko, 2021, Uadiale, 2021). Generally speaking, the following elements make up a company's board structure: percentage of independent non-executive directors to all directors in a company.

Board independence is the extent to which a firm's board of directors is composed of individuals who aren't associated with the management of the company, significant shareholders, or other potential conflicts of interest. According to agency theorists, a board headed by an increased number of independent non-executive directors is likely to make decisions that differ from and may even be superior to those made by an executive director-led board, thereby enhancing the company's performance (Fama & Jensen, 2019, Shleifer & Vishny, 2020). Resource dependency theorists argued that a diverse range of external connections that give the company access to essential resources should comprise the ideal board (Hillman, Keim & Luce, 2018, Johnson, Daily & Ellstrand, 2020). They also contended that appropriate representation by independent non-executive directors is likely to lead to improved company performance (Hillman et al., 2018, Johnson et al., 2020, Muth & Donaldson, 2020, Nicholson & Kiel, 2020, Siciliano, 2020). Stewardship theorists on the other hand contended that executive-dominated boards ought to be given preference because of their breadth of experience, access to up-to-date operating data, technical know-how and dedication to the company all of which may improve the performance of the latter (Helmer, 2020, Letting et al., 2021, Muth & Donaldson, 2020, Nicholson & Kiel, 2020, Stiles, 2018).

Jackling and Johl (2021) noted that discrepancies in empirical findings regarding board independence and company performance can be attributed to variations in theoretical frameworks. Othman, Ponirin, and Ghani (2021) suggested that sample selection might have influenced the inconsistent results, with some studies focusing solely on major listed companies (Dalton & Kesner, 2020; Pfeffer, 2019) while others concentrated on specific industries (Semosa, 2021; Tornyeva & Wereko, 2021; Van Ees, Postma & Sterken, 2019). This limitation excluded smaller listed firms and companies across

different industries from analysis. Additionally, variations in ownership structures, business practices, and regulatory enforcement contribute to differing findings across contexts. Compliance with market regulations, such as insider trading and price manipulation, varies by economy, affecting the relationship between board independence and firm performance (Bose, 2019). Despite this, there is limited research specifically addressing board independence and company performance in Kenyan-listed companies.

Cameron (2021) contends that effective corporate performance and ownership structures have grown to be important public concerns in Cameroon. Cameron (2021) investigated the financial performance and ownership concentration of South African industrial companies that are listed. Cameron (2021) examined the relationship between a company's top 5 and top 10 shareholders and the impact of these ownership concentrations on the performance of the company as indicated by return on capital employed (ROCE) and Tobin's Q ratio. However, Cameron's study from 2021, which used a company's top 5 or 10 shareholders as independent variables, did not differentiate between the various kinds of owners. Cameron (2021) therefore recommended that additional research be conducted because there haven't been any recent studies in this field that concentrate on South African enterprises. These studies should examine the relationship between different ownership structures (such as board ownership) and company performance evaluation. According to Cameron (2021), there hasn't been any recent research conducted in this field on the connection between various ownership structures and better business performance. The study's findings imply, but don't prove, that there might be a link between better financial performance and stewardship philosophy and managerial control.

Wetukha (2019) looked into the board independence and financial performance of companies registered on the Nairobi Securities Exchange. The financial performance of NSE-listed businesses was found to positively connect with board independence, board size, and C.E.O. duality. However, it was shown that there was a negative association between the financial performance of NSE enterprises and the ratio of executive directors and gender diversity. This study investigates the relationship between board attributes—such as diligence and expertise—and the financial performance of Kenya's commercial and service sectors by using the example of companies listed on the NSE. These attributes have not been the focus of local studies.

Aduda, Chogii, and Magutu (2019) examined the effects of conflicting theories of firm governance on Kenyan businesses' performance. Board independence variables are significant predictors of firm performance, according to the findings. Analogously, Ogeno (2020) investigated the impact of board attributes on the financial outcomes of firms included in the Nairobi Securities Exchange's manufacturing and affiliated industries. As the author pointed out, board independence was found to have a strong negative link with financial success, but board diversity was proven to have a considerable favorable impact. The association between board independence and business success was empirically investigated in this study because there hasn't been much research on the topic concerning Kenyan-listed companies

2.6 Review of Control Variables

2.6.1 Firm Size and Financial Performance

How well a company's total net sales fit the size of the natural logarithm determines how big the company is (Sawir, 2015). A company's large sales and wealth of assets will suggest to the public that it has a bright future. Major corporations are more likely

to be known to the public than smaller ones (Nurhasanah, 2018). The information available on the capital markets will serve as the foundation for the analysis that investors use to decide what to buy. Large companies have easier access to capital markets, which makes it easier for them to obtain additional funding to increase profitability. Even though some researchers have looked into variable firm size, the outcomes both favorable and unfavorable remain mixed. Consequently, the author delves into the results of past research, which are separated into two groups: studies that yielded positive results and those that produced negative results. Favorable research results:

First, a study on the effects of working capital management components on profitability was done by Mathuva (2016). Second, research on the effect of working capital management on profitability was conducted by Martinez (2016). The results of these two studies showed that firm size and profitability are positively correlated. Among other things, research results are negative: First, research conducted by Nazir (2017) about figuring out working capital. Second, studies were carried out by Asmawi (2018) regarding the dependability of the determinants' working capital analysis. The results of these two studies showed that profitability is negatively impacted by firm size.

2.6.2 Firm age and financial performance

Age can be determined using the company's founding date and the earliest date of stock exchange registration. The firms in this study were aged using the natural logarithm of the date they went public on the Indonesian stock exchange (Jose, 2020). Because of its management experience from earlier businesses that aim to grow their profits annually, an older business will make more profit than a new one in terms of both age and profitability (Merry, 2022).

This age of variable firm has been studied by several earlier researchers, including Mathuva (2021), Banos-Caballero (2021) and Bestivano (2022) the results, both favorable and unfavorable, were inconsistent. Consequently, the author delves into the results of past research, which are separated into two groups: studies that yielded positive results and those that produced negative results favorable research results:

First, a study by Mathuva (2021) on the effects of working capital management elements on profitability. Secondly, research on the impact of working capital management on profitability was conducted by Banos-Caballero (2021). The findings of these two research demonstrated that the company age variable increased profitability. Some of the negative findings of the research include: First, a study by Bestivano (2022) examining the effects of business age, size, profitability, and board independence on income smoothing. The study's conclusions demonstrate that fluctuating age has a detrimental effect on a company's profitability.

2.7 Research Gap

Research gaps are places within a certain topic or field of study where there is either insufficient or no research to date. Identifying research gaps is an essential part of academic work since it helps researchers decide whether subjects have not gotten enough attention or require additional research. By completing the gaps in information and offering a more thorough grasp of a subject, addressing research gaps advances our understanding of the world. Researchers draw attention to gaps in the literature, as Table 2.1 illustrates.

Table 2.1: Research Gap Summary

Author	Research Topic	Findings	Research Gaps
Sara and Newhouse (2015) examined	The effect of economic freedom and business environment metrics on the flows of direct foreign investment into developing nations using data from the Heritage Foundation.	It was discovered that nations with weak laws governing property rights, trade, and regulation generally see a decline in the amount of foreign investment entering their economies	The study did not depict the effect of transactions on foreign investment
Benjamin and Phimister (2017),	transaction costs and credit market function	Restrictions in credit markets are common in countries with high transaction costs relative to their GDP, which results in low investment rates and slow economic growth	There is a contextual gap, this study was conducted on countries while the current study focuses on
Nguyen, Locke and Reddy (2017) .	Whether board members' human capital increases a company's value in the Asian market.	The results show that board director reputational capital positively affects Vietnamese firms' financial performance	The study was conducted in Vietnamese exhibiting a contextual gap the current study is done in Kenyan-listed companies
Ingley and Walt (2017)	Relationship between financial performance and company reputations	Discovered no link between financial performance and company reputation.	This is the company's reputation a contrast to investment
Schulze *et al* (2016)	To demonstrate a favorable correlation between agency charges paid by family businesses and performance.	The data indicated a negative correlation between CEO tenure and business performance, average board duration, and outside directors, and a favorable association between performance and strategic planning.	Although the current study focuses on financial success, there is a contextual gap between strategic planning and performance.
Mwisywa (2017)	Investigated the relationship between agency fees and the pricing of stocks that are traded publicly at the Nairobi Stock Exchange.	It was found that there is a high positive correlation between the prices of public firms' stocks and the agency charges they incur.	This was a case study in NSE as the current study focuses on listed companies.

Alfadhl (2017)	The relationship that exists between a few elements that affects agency cost and managerial conduct, and how that relationship affects the performance of the firm.	The findings show that there is no association between the other two factors and agency cost, and that performance has no influence on this relationship.	The present study concentrates on financial performance, whereas the previous study concentrated on overall success.
Nyamboga (2018)	For businesses registered on the Nairobi Stock Exchange, capital structure and agency fees are related.	The outcomes revealed conflicting conclusions. Generally speaking, there is minimal relationship between capital structure and Nairobi Stock Exchange agency cost enterprises.	There are contradictory findings, exhibiting a gap in the study
Cameron (2021)	Effective corporate performance and ownership structures have grown to be important public concerns in Cameroon.	suggested that more research be done on the relationship between various ownership structures (like board ownership) and company performance evaluation, as there haven't been any recent studies in this area focusing on South African businesses	The contextual gap, this study was conducted in South African Business
Ogeno (2020)	Investigated the impact of board composition on the monetary results of firms listed on the Nairobi Securities Exchange in the manufacturing and associated industries.	Revealed that board independence had a strong negative link with financial success, whereas board diversity was found to have a considerable favorable influence.	There is a gap in the study because the data show a discrepancy between positive and negative significant relationships with financial performance.

Source: Researcher (2023)

2.8 Conceptual Framework

This paradigm illustrates the relationship between board independence (M)-moderated financial performance (DV) and CSRD (IV). The framework illustrates that corporate social responsibility disclosure are important tool that can impact the financial performance of a listed firm but only board independence is optimal and variables such as firm size and age are controlled. Board independence is selected as a moderator due to the board's participation in key corporate social disclosure activities relating to a firm. These are the decisions that are hypotheses to affect financial performance.

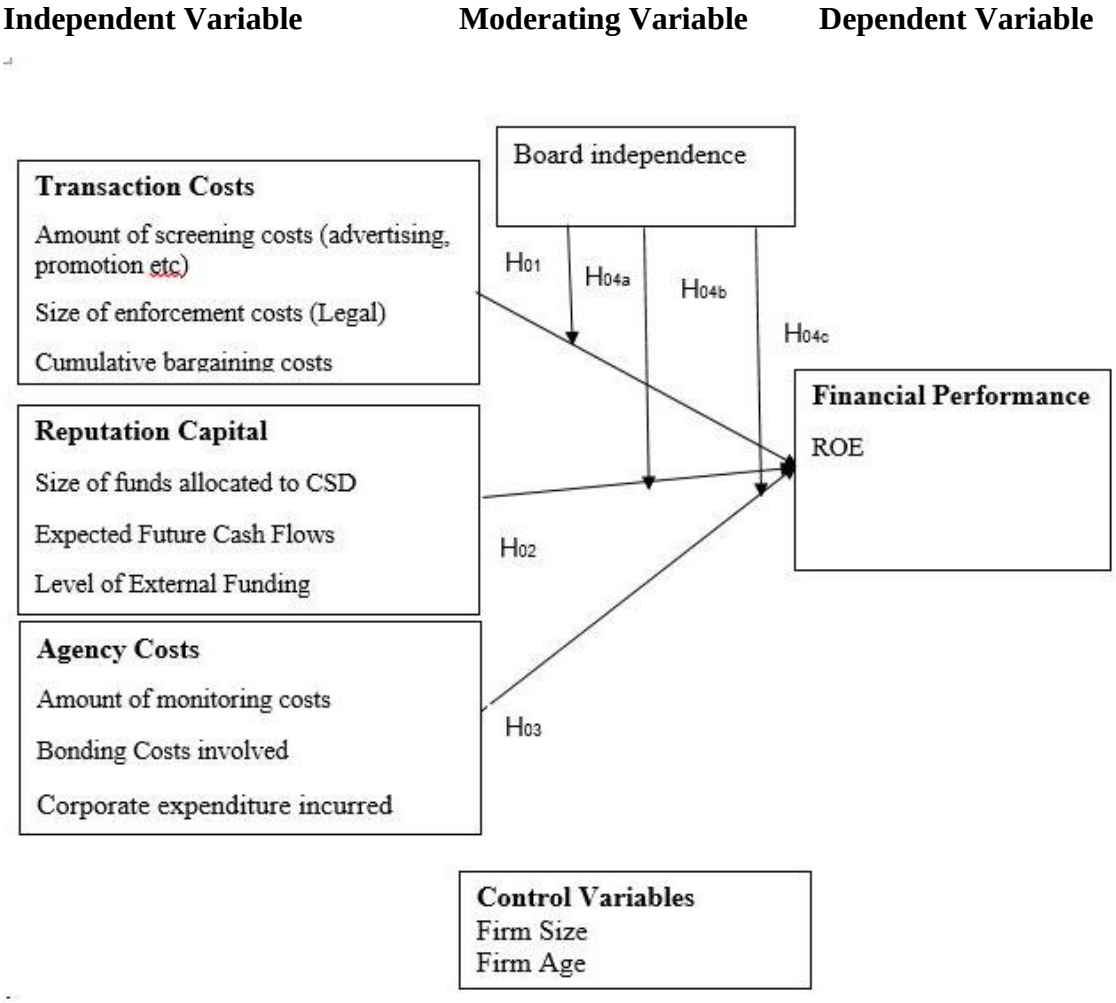

Figure 2.1: Conceptual framework

Source: Researcher (2023)

There has been much discussion over time regarding how CSRD affects a company's financial performance. Nothing in the empirical research has ever been agreed upon. Some found no correlation at all, some found a positive correlation, some found a negative correlation, and still others found that it has different effects on businesses.

Transaction costs, which include both direct and indirect costs associated with negotiating, supervising, and upholding explicit and implicit contracts between the business and its clients, are the costs associated with running an economic system (Kamyabi & Devi, 2017). The majorities of intermediation costs in the financial markets are transaction costs associated with lending and deposit services, which have the potential to impact financial performance.

The primary component of a board of directors' reputation is its managerial reputation, which can be linked to the company's financial and product reputations. Okpamen & Ogbeide, (2020), claim that there is ample evidence to support the notion that a company's performance is positively impacted by its reputation.

Holmstrom, (2019) demonstrates how agency costs brought on by disputes between owner-managers and outside equity holders may cause money to be taken from investors or squandered on unappealing projects. Financial performance may be impacted by this, so it is necessary to look into the nature of the relationship.

Board independence (BI) plays a crucial role in shaping policies for socially responsible investments and overseeing corporate social responsibility disclosure. This independence is fundamental in supporting and reinforcing the link between a company's corporate social responsibility disclosure (CSRD) and its financial performance (FP). By ensuring unbiased decision-making and effective oversight, BI

helps align CSR initiatives with financial outcomes, thereby influencing the overall impact of CSR activities on a company's performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter reviews the research design, target population, sampling strategy, and sample size. Additionally covered in this chapter are data sources and types, data collection methods and tools, variable measurement, data analysis, model specification, and measurement. Study variable operationalization, validity, and reliability (pre-testing).

3.1 Research Design

Research design, according to Yin (2013), is the logical process that connects empirical evidence to research questions and eventually yields a conclusion. According to Kothari (2011), research design is the theoretical structure that directs the conduct of the study and acts as a manual for collecting, evaluating, and synthesizing data. Thus, an explanation of the researcher's goals is included in the design, covering everything from formulating the hypothesis and weighing its operational implications to carrying out data analysis (Donald, 2006).

The study employed an explanatory research design to ascertain the cause-and-effect relationship between the variables. This study aims to investigate the extent of result dependence on the investigated variables, hence the adoption of an explanatory research design is acceptable. Situations where the concepts under study are related by cause and effect are well served by explanatory research, which makes it easier to find out how one change in variable can lead to another change in another, rather than be a pure correlation exercise (Creswell & Creswell, 2018). Such a design enables a wider assessment of the reciprocities between independent and dependent variables and deepens onto logical awareness of how independent variables influence dependent

variables (Saunders, Lewis, & Thornhill, 2019). In this case, explanatory research can provide guidance on what needs to be done for the desired results to be achieved since it addresses causal relationships, which enables the practical ensuing of findings (Tashakkori & Teddlie, 2020).

3.2 Target Population

The group that information is being sought for is known as the target demography. Ngechu (2019) defines a population as a precisely defined set of individuals, services, objects, and events, as well as a collection of the objects or residences that are the focus of the research. The primary focus of the investigation was Kenyan-listed companies. Thirteen distinct categories comprised the 64 listed businesses. Therefore, the study's target population consisted of 64 listed companies. However, on the listed companies, Laptrust Imara I-REIT had no available data.

Table 3.1: Target Population

Sector	Number of Companies
Agricultural	7
Automobiles And Accessories	1
Banking	12
Commercial And Services	11
Construction And Allied	5
Energy And Petroleum	4
Insurance	6
Investment	5
Investment Services	1
Manufacturing And Allied	9
Telecommunication And Technology	1
Real Estate Investment Trust	1
Exchange Traded Fund	1
Total	**64**

Source: NSE (2022)

3.3 Sampling Technique and Sample Size

According to Moazzam (2022), a sample is a part of a bigger body that has been carefully picked to reflect the whole, and sampling is the process of choosing a subset of a population or universe to operate as a representative sample. The deliberate process of choosing representative subsets from a population is known as sampling. An 11-year census of all 64 enterprises was conducted (2012/2013 – 2022/2023). The period from 2012 to 2023 was chosen for the census of all 64 companies to ensure a comprehensive analysis of long-term trends and developments in the industry. This 11-year span allows for a robust examination of patterns and changes over time, providing a more accurate and nuanced understanding of the variables in question (Bryman, 2016).

3.3.1 Inclusion and Exclusion

According to Bryman (2016), a thorough and rigorous examination of the long-term performance trends of the companies is guaranteed by the inclusion of those possessing a full set of data covering the last 11 years. Additionally, covering a decade-plus timeframe helps to account for economic cycles and other contextual factors that may impact the results, enhancing the reliability and validity of the findings (Yegidis, Weiner, & Myers, 2018). This method makes it possible to evaluate growth trends, financial stability, and compliance with CSR disclosure over a longer time frame with more accuracy. By avoiding gaps or uncertainties that could jeopardize the validity of the conclusions, excluding companies with incomplete data maintains the credibility and integrity of the study.

3.4 Data Collection/ Data Collection Instrument

For this study, data abstraction was done using a structured data sheet designed to collect panel data from financial statements of listed companies over an 11-year period (2012–2023). The data sheet organized the necessary variables and years in a tabular

format, ensuring a systematic collection of relevant secondary data. Ethical concerns gave direction to the data collection procedure. In order to finish the research and improve Integrity, the researcher first asked the institution for a letter of authority, which gave her permission to travel and gather information. A permit application that the researcher filed with the National Commission for Science, Technology, and Innovation (NACOSTI) was enclosed with this letter. Following receipt of these letters, the researcher wrote to ask for authorization to use data sheets to gather pertinent data. However, data was restricted to the current study in order to improve openness and transparency.

3.5 Data Types and Sources

For the study, secondary data were collected. In particular, data sheets were utilized to gather panel data for this study. This relates to the eleven-year period that runs from 2012–2013 to 2022–2023. This 11-year duration was thought appropriate since it was sufficient to mitigate the effects of recessions and pandemics. The data sheet was a tabular document with columns indicating the years of required data that included the listed companies and the variables that were desired. The data sheet was finished after examining the financial statements of the different listed corporations.

3.6 Measurement of Variables

Table 3.2 below outlines the various ways in which the study's variables will be measured.

Table 3.2 Measurement of Variables

Variable	Measurement	Data Type	Mode of Analysis	Source
Transaction Costs	= Search Costs + Bargaining Costs + Policing Costs + Screening Costs + Transfer Costs	Ratio	Descriptive	Wallis and North (2015)
Reputation Capital	= business processes value + patents value + trademarks value; (reputations for ethics and integrity; quality, safety, sustainability, security, and resilience)	Ratio	Descriptive	Brothers (2022),
Agency Costs	Expense Ratio = Operating Expense / Annual Sales Asset utilization ratio = Annual Sales / Total Assets	Ratio	Descriptive	Schulze et al (2016)
Financial Performance	ROE = Net Income / Shareholders Equity	Nominal	Regression Analysis	Othman, Ponirin & Ghani, (2021)
Board independence	Board independence = number of independent directors / total number of directors in a company	Nominal	Stepwise Regression	Jensen, (2019)
Control variables	Size and Age range	Nominal	Descriptive	Schulze et al (2016)

3.7 Data Analysis

Using an Excel tool, the relevant data mining was transformed into ratios for each firm's research variables annually. The data underwent coding and were then analyzed using both descriptive and inferential statistics. This approach allowed for a detailed examination of the ratios over time, facilitating the extraction of meaningful insights and trends from the data.

3.7.1 Descriptive Statistics

Central tendency and dispersion measures were employed to profile and summarize patterns within each firm, providing a clear overview of the data. This descriptive statistical approach effectively highlighted key characteristics and variations, offering insights into the distribution and behavior of the variables under study. By capturing these essential patterns, the analysis delivered a concise snapshot of the data, enhancing understanding of the central tendencies and variations across the firms.

3.7.2 Inferential Statistics

Regression Analysis

The nature and significance of the link between the independent and dependent variables were investigated using panel regression analysis. A descriptive model that reflected the dynamics of their interaction was created after the study first evaluated the connection between these variables. This was the regression equation:

$$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon$$

Where:

Y_{it} = Dependent Variable (Financial performance) for firm i at time t.

X1 Transaction Costs for firm i at period t.

X2 Reputation Capital for firm i at period t.

X_3= Agency Costs for firm i at period t.

ε_{it}=is the error in the observed value for with the case for the firm I at period t.

β_0= the constant in the equation

C: Control variables

β= is the Coefficient of X

While β1, β2, and β3 are coefficients of determination and ε is the random error term.

3.7.3 Tests for Moderation

In employing Hayes Model 1 for moderation analysis, the goal was to examine potential variations in the influence of the independent variable, CSRD (X), on the dependent variable, firm FP (Y), at different levels of the moderating variable, board independence (M). This model aids in determining whether the different degrees of board independence have an impact on the relationship between financial performance and corporate social responsibility disclosure. The study intends to offer a comprehensive knowledge of how, in the context of the research, board independence may attenuate the impact of corporate social responsibility on financial performance by applying Hayes Model 1.

Depending on the strength and/or direction of the correlation between the predictor and the outcome, the moderator variable was expected to change, increase, or decrease the predictor's impact on the result. In order to improve the interpretation of regression findings, multiple regression analysis—which centers all predictor variables and their interaction term before examining moderating effects—was applied to model estimate. When there is a shift in the value of a third variable, known as the moderator, between an independent variable (IV) and a dependent variable (DV), the connection is said to be moderated. In order for moderation to take place, the present study must satisfy a number of conditions, including a significant relationship between the DV and the IV, a moderator variable that is connected to either or both of the variables, or both, and an effect of the IV on the DV that changes depending on the moderator's value.

A single regression equation was of form the basic moderation model:

$Y_{it} = \beta_0 + C + \varepsilon_{it}$ ……..….....(1)

$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$ ……..…(2)

$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + M + \varepsilon_{it}$ ……..……..…….....(3)

$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + M + \beta_4 X_{1it} * M + \varepsilon_{it}$ …….....(4)

$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + M + \beta_4 X_{1it} * M + \beta_5 X_{2it} * M + \varepsilon_{it}$ ……..…...(5)

$Y_{it} = \beta_0 + C + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + M + \beta_4 X_{1it} * M + \beta_5 X_{2it} * M + \beta_6 X_{3it} * M + \varepsilon_{it}$

…….(6)

Where:

Y_{it} = Dependent Variable (Financial performance) for firm i at period t.

X_{1it}= Transaction Costs for firm i at period t.

X_{2it}= Reputation Capital for firm i at period t.

X_{3it}= Agency Costs for firm i at period t.

M = Moderator variable (Board independence) that affects the relationship of X and Y

β_0: Represent: Constant

C: Control Variable

$\beta_1 - \beta 6$: Represent: Regression coefficients

e_{it}: Represent: Error term for firm i at period t.

i = firm

t = time

BX_{it} ($X_{1\,it}$, $X_{2\,it}$, $X_{3\,it}$, $X_{4\,it}$): Represent: Interaction term for the firm I at period t.

3.8 Model Specification

The research model specification was chosen based on a review of existing literature and theoretical frameworks, aligning with similar studies on corporate governance and financial performance (Dalton & Kesner, 2020). This approach ensured that the model accurately reflected the variables and relationships pertinent to the research objectives (Othman et al., 2021) The model specification was as follows;

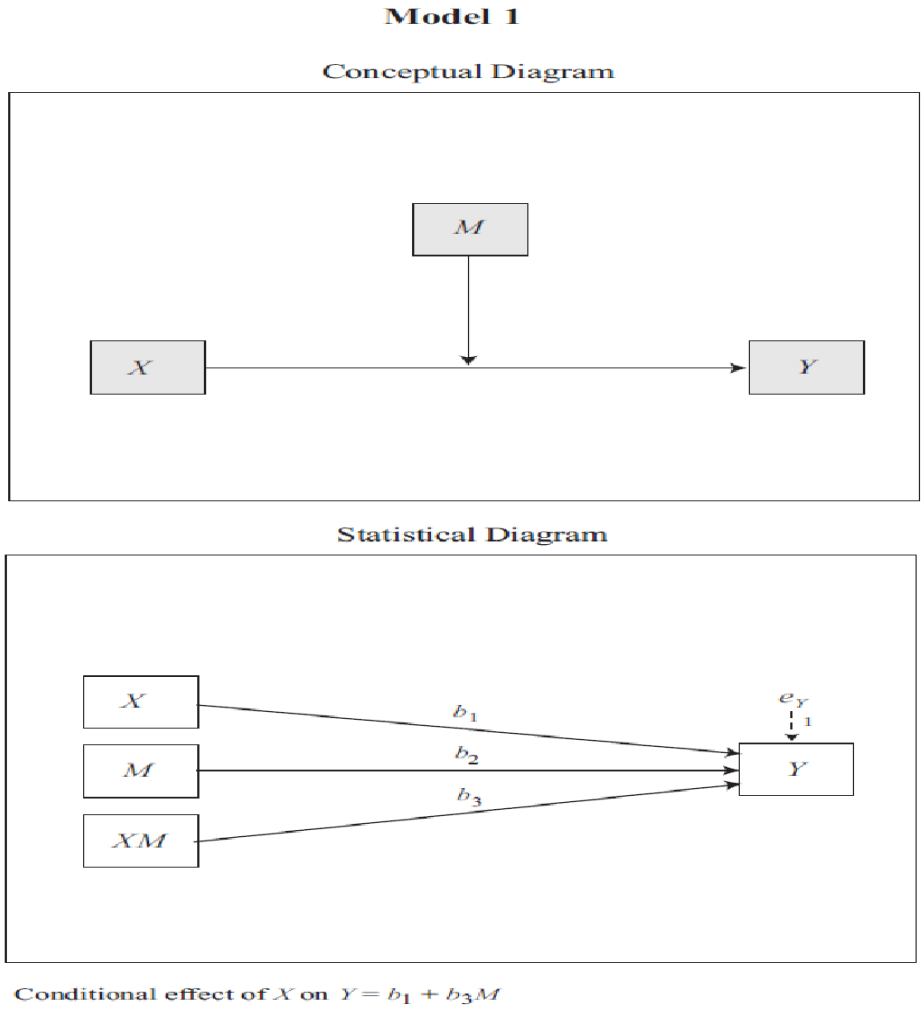

Figure 3.1: Combined Model for Direct and Moderation
Source: (Hayes Model 1, 2013)

Model 1: testing the effect of control variable and financial performance

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \varepsilon_{it}$$

Model 2: testing the effect of independent variable on financial performance

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 TC_{it} + \beta_4 RC_{it} + \beta_5 AC_{it} + \varepsilon_{it}$$

Model 3: testing the effect of moderator (Board independence) on the financial performance

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 TC_{it} + \beta_4 RC_{it} + \beta_5 AC_{it} + \beta_6 BI_{it} + \varepsilon_{it}$$

Model 4: introducing the first tern between board independence and transaction cost

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 TC_{it} + \beta_4 RC_{it} + \beta_5 AC_{it} + \beta_6 BI_{it} + BI_{it} * \beta_7 TC_{it} \varepsilon_{it}$$

Model 5: Introducing second term between board independence and reputation capital

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 TC_{it} + \beta_4 RC_{it} + \beta_5 AC_{it} + \beta_6 BI_{it} + BI_{it} * \beta_7 TC_{it} + BI_{it} * \beta_8 RC_{it+} \varepsilon_{it}$$

Model 5: Introducing third term between board independence and agency cost

$$FP_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 TC_{it} + \beta_4 RC_{it} + \beta_5 AC_{it} + \beta_6 BI_{it} + BI_{it} * \beta_7 TC_{it} + BI_{it} * \beta_8 RC_{it+} BI_{it} * \beta_9 AC_{it+} + \varepsilon_{it}$$

FP= Financial Performance

FS= Firm Size

FA= Firm Age

TC= Transaction Cost

RC= Reputation capital

AC= Agency cost

BI= Board Independence

i= firm

t= time

ε= error term

3.9 Measurement and Operationalization of Study Variables

The following is how the study variables were operationalized.

Table 3.3: Summary of Operationalization of Variables

Variable	Description	Measurement Scale
Transaction Costs	Independent ● Amount of screening costs (advertising, promotion, etc) ● Size of enforcement costs (Legal) ● Cumulative bargaining cost	Ratio Scale
Reputation Capital	Independent ● Size of funds allocated to CSRD ● Expected Future Cash Flows ● Level of External Funding	Ratio Scale
Agency Costs	Independent ● Amount of monitoring costs ● Bonding Costs involved ● Corporate expenditure incurred	Ratio Scale
Financial Performance	Dependent ROE	Ratio Scale
Board independence	Moderator ● independent non-executive directors / total number of directors in a company	Ratio Scale

Source: Researcher (2023)

3.10 Diagnostic Statistics Tests

In statistics, assumptions are Statistics erroneous assumptions that can lead to unpredictable, unreliable processes that are beyond the researcher's control (Stevens, 2019). Each of the ensuing assumptions was examined separately

3.10.1 Linearity Test (Ramsey RESET Test)

The Ramsey RESET test was used to assess the linearity assumption in the regression model, determining whether the relationship between the independent and dependent variables could be accurately described as linear. The test produced an F-statistic and a corresponding p-value. If the p-value was below 0.05 and the F-statistic exceeded a critical value, it indicated potential non-linearity, suggesting a violation of the linearity assumption.

3.10.2 Test for Autocorrelation (Wooldridge Test)

The Wooldridge Test was employed to detect first-order autocorrelation in the regression model, where error terms might violate the independence assumption by being correlated across observations. The test provided an F-statistic and a corresponding p-value. If the p-value was below 0.05 and the F-statistic exceeded the critical value, it indicated that the independence assumption was violated, suggesting the presence of autocorrelation.

3.10.3 Heteroscedasticity Test (Chi-square)

The Chi-square test was employed to assess heteroscedasticity in the regression model, where error variances might not be constant across observations, violating the homoscedasticity assumption. The test produced a chi-squared statistic and a corresponding p-value. To evaluate homoscedasticity, the chi-squared statistic was compared to a critical value from the chi-squared distribution table. If the p-value exceeded 0.05 and the chi-squared statistic did not surpass the critical value, it indicated that error variances were constant, supporting the homoscedasticity assumption.

3.10.4 Homoscedasticity Test (Breusch-Pagan Test)

The heteroscedasticity of the regression model was assessed using the Breusch-Pagan Test. Heteroscedasticity is the term used to describe when the variances of the error components differ between observations. The test produced a chi-squared statistic and matching p-value. The homoscedasticity assumption was assessed by looking at both the p-value and the chi-squared statistic. A critical value from the chi-squared distribution table was compared to the chi-squared statistic when the p-value exceeded the chosen significance level, which is typically 0.05. If it did not exceed this critical value, it suggested that error variances were constant, supporting the assumption of homoscedasticity.

3.10.5 Test for Multicollinearity (Variance Inflation Factors - VIFs)

When independent variables in the regression model showed a high degree of correlation, multicollinearity was detected using the Variance Inflation Factors (VIFs). VIF values below 5 were often considered an indication of low multicollinearity, suggesting that independent variables were not highly correlated. In the context of VIFs, if all VIF values were below this threshold, it indicated no significant multicollinearity issues among independent variables, supporting the assumption of minimal multicollinearity.

3.10.6 Normality Test (Shapiro-Wilk Test)

The Shapiro-Wilk Test was employed to determine whether the distribution of errors or residuals in the regression model was normal. The test produced a corresponding test statistic and p-value. When assessing normality, the test statistic and the p-value were both taken into account. The null hypothesis was the reasonable conformity of the errors to a normal distribution. It was thought that the errors were fairly consistent with a

normal distribution and hence supported the assumption of normality if the p-value was higher than the selected significance level, which is usually 0.05.

3.10.7 Panel Unit Root Test (Im-Pesaran-Shin Test)

The Im-Pesaran-Shin Test was employed to assess whether variables in panel data exhibited stationarity or had a unit root, which was crucial for time series analysis. The test computed test statistics and related p-values to assess this assumption. The stationarity assumption was supported when a p-value less than a predetermined significance level (usually 0.05) indicated that the variables rejected the null hypothesis that they had a unit root and were thought to be stationary.

3.10.8 Hausman Test (Hausman Specification Test)

In this study, the Hausman Test was utilized to determine which model—fixed effects or random effects—was most suited for examining the panel data (Hausman, 1978). The test required calculating the p-value and chi-square statistic. Two factors were taken into consideration when choosing the right model: the p-value and the chi-square statistic's size. It was stated that the random effects model produced reliable and consistent findings for the dataset in cases when the p-value above the traditional significance level of 0.05, hence justifying the random effects model's acceptance (Hausman, 1978).

3.10.9 Addressing Violations of Assumptions of Regression

Addressing violations of statistical regression assumptions is crucial to ensuring the accuracy and reliability of research results (Stevens, 2009). Failure to appropriately handle these violations can lead to misinterpretation of results, affecting the probabilities of test statistics and potentially distorting Type I or Type II error rates (Tabachnick & Fidell, 2013).

Various techniques are available to researchers for addressing violations of assumptions. When facing normality assumption violations, researchers may consider deleting outlying cases, transforming data, or resorting to non-parametric tests (Field, 2018). In instances of multicollinearity, addressing highly correlated independent variables or combining them linearly can be effective (Hair et al., 2010). Non-linearity issues may be tackled by incorporating curvilinear components or conducting non-linear analyses (Kline, 2015). If homoscedasticity assumptions are violated, options include deleting outlying cases, transforming data, or utilizing non-parametric tests, with a transparent reporting process (Field, 2018). Auto-correlated error terms can be addressed by investigating the omission of a key predictor variable and applying transformations if necessary (Stevens, 2009). Researchers are encouraged to employ these techniques judiciously based on the specific nature of the violations observed in their data

3.11 Ethical Considerations

In the pursuit of examining the intricate relationship between "Corporate Social Responsibility Disclosure, Board Independence, and Financial Performance of Listed Companies in Kenya," it was imperative to navigate the research landscape with unwavering ethical considerations. While employing secondary data for this study, a steadfast commitment to ethical principles served as a cornerstone, ensuring that the research journey was characterized by integrity, respect, and adherence to established ethical guidelines. As the exploration of data ensues, the paramount concern lies in upholding Data Privacy and Confidentiality. With a conscientious approach, researchers safeguarded the sensitive financial and disclosure information of the listed companies. Utmost care was exercised to prevent the inadvertent divulgence of

proprietary data that could potentially harm the reputation or competitive standing of the involved companies.

Integral to ethical research was the principle of Informed Consent, even in the context of secondary data. While direct consent was not applicable, researchers had to ascertain that the data sources had acquired and granted permissions by ethical and legal standards. To guarantee the validity of the research, a comprehensive validation of the data integrity and accuracy was necessary. A thorough examination of data sources' dependability protects against biases or inaccuracies that might jeopardize the validity of study findings.

A commitment to Avoiding Harm was a paramount consideration. The research had been conducted in a manner that steered clear of causing harm or negative repercussions for any stakeholders, including the listed companies, their employees, and other pertinent entities. With utmost responsibility, researchers handled the data transparently, avoiding misrepresentations that could jeopardize the interests of the companies under study. Transparency has remained a guiding light in ethical research practices. An essential tenet had been to meticulously document the sources and methodologies employed in collecting and analyzing secondary data. This transparency fostered accountability, enabling fellow researchers to scrutinize, validate, and potentially replicate the findings. Respecting Intellectual Property has been a cornerstone of ethical conduct. Adherence to copyright and intellectual property rights about the secondary data sources had been paramount. Proper attribution and citation had been requisite to acknowledge the original creators and contributors, ensuring ethical usage.

In addition to other permits and approvals, the researcher needed a letter of authorization from the university and a permit from the (NACOSTI) in order to perform the research. This ensured that the study adhered to the ethical and legal guidelines set forth by the relevant authorities. Ethics was considered when applying the inclusion and exclusion criteria. Companies with extensive and reliable datasets were the only ones considered in the analysis. This criterion ensured that the research was based on accurate and comprehensive data, so guaranteeing the study's integrity.

A vigilant approach to Avoiding Bias is essential. The inherent limitations and potential biases within secondary data have been acknowledged and addressed. Researchers had diligently worked to mitigate these biases transparently to uphold the credibility of their findings. Depending on institutional or jurisdictional guidelines, the pursuit of Ethical Approval may have been necessary. Compliance with specific ethical standards and procedures, particularly when dealing with secondary data, had been of utmost importance. In the spirit of Open Science and Reproducibility, researchers had considered sharing their research process, data, code, and methodologies with the wider academic community. This practice promoted collaboration, transparency, and the ability for other scholars to replicate and validate the study. Lastly, guarding against Plagiarism had been paramount. Proper attribution and citation of all secondary data sources have been essential to maintain the research's integrity and authenticity.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction

This chapter intricately analyzes the interplay between reputation capital, agency costs, transaction costs, and return on equity (ROE) in Kenyan listed companies. The objective of the research is to determine the correlations between these factors and evaluate how they affect variations in ROE. It also looks into whether these associations are moderated by board independence. This study offers insightful information about the corporate dynamics in Kenya, which influences corporate governance procedures and strategic decision-making.

4.1 Descriptive Results

The listed companies' researchers effectively collected data from 63 out of 64. Laptrust Imara I-REIT had no available data, possibly due to limited reporting or delays in financial disclosures, making it challenging to assess its performance or analyze market trends. The transaction cost study's findings indicate a reasonably symmetric distribution that is largely aligned, with a mean of 4.540 and a median of 5.000. With a standard deviation of 0.9643, the degree of variability around the mean is somewhat evident. In the context of business societal responsibility (CSR), companies with higher transaction costs can be able to afford to actively engage in socially conscious projects, enhancing their reputation in the marketplace and having a positive social impact.

A moderate standard deviation of 0.8271 supports the central tendency for reputation capital, which is indicated by a mean of 4.270 and a median of 4.000. This suggests that reputation capital ratings vary to a considerable extent. Companies that consistently have high Reputation Capital may be more likely to disclose their CSR actions since they may use this favorable reputation to gain strategic advantage and stakeholder

confidence. In terms of agency costs, the mean is 4.492, the median is 5.000, and the standard deviation is 0.6927, which indicates a central trend with little variation around the mean. Lower agency expenses in the context of CSR may indicate more effective management, which may have a positive impact on a business's dedication to CSR initiatives and demonstrate prudent financial stewardship.

The proximity of the mean and median 4.317 and 4.000, respectively indicates that the distribution of financial performance is rather symmetrical. The standard deviation of 0.7793 shows that there is moderate diversity around the mean. Financially successful businesses might be better able to allocate resources to CSR initiatives, striking a balance between profit and corporate responsibility. A moderate 0.8391 standard deviation supports the central tendency indicated by Board Independence's mean of 4.460 and median of 5.000. Regarding CSR Disclosure, a highly independent board is more likely to encourage moral decision-making and openness, which will strengthen the business's commitment to social responsibility. There are differences in board independence among the tested companies, as seen by the scores' moderate variability.

Descriptive statistics provide information about the variables that are being studied. A moderate level is indicated by the mean values of the following metrics: agency costs (M = 4.492), reputation capital (M = 4.270), and transaction cost (M = 4.540). This area is likewise occupied by board independence (M = 4.460) and financial performance (M = 4.317). The control variable, age and firm size, has a lower average (M = 3.3413). Additional research employing inferential statistics and regression models is required to determine the precise impact of the control variable on the independent variables (transaction cost, reputation capital, and agency costs), their combined impact on financial performance, and the moderating effect of board independence.

Several research offer important insights into the relationship between firm features and financial success. These studies include Mathuva (2016), Martinez (2016), Nazir (2017), Asmawi (2018), Jose (2020), Merry (2022), Banos-Caballero (2021), and Bestivano (2022). It is noteworthy that the impact of firm size on financial performance is examined; generally speaking, there is a positive association between high sales, asset wealth, and expected future success (Sawir, 2015; Nurhasanah, 2018). However, there is potential for varied interpretations given the inconsistent results from different researchers about the influence of firm size.

The advantageous relationship between working capital management, business size, and profitability is highlighted by the positive findings of Mathuva and Martinez's studies (Mathuva, 2016; Martinez, 2016). The negative results, on the other hand, highlight possible disadvantages connected to larger enterprises, according to Nazir and Asmawi's research (Nazir, 2017; Asmawi, 2018). Bestivano's findings show a detrimental impact on the positive correlations between firm age and profitability shown in Mathuva and Banos-Caballero's investigations (Jose, 2020; Merry, 2022; Banos-Caballero, 2021; Bestivano, 2022). Overall, these contradictory findings illustrate the complexity of these interactions in the business environment and the need for a sophisticated understanding of how firm size and age relate to financial performance.

Table 4.1: Summary Table of Variables

Statistics

		Transaction cost	Reputation capital	Agency costs	Financial Performance	Board Independence	Control
N	Valid	63	63	63	63	63	63
	Missing	0	0	0	0	0	0
Mean		4.540	4.270	4.492	4.317	4.460	3.3413
Median		5.000	4.000	5.000	4.000	5.000	3.5000
Mode		5.0	4.0	5.0	4.0	5.0	3.50
Std. Deviation		.9643	.8271	.6927	.7793	.8391	1.10288
Minimum		1.0	1.0	1.0	1.0	1.0	1.00
Maximum		5.0	5.0	5.0	5.0	5.0	5.00

Source: Researcher 2023

4.2 Analysis of Board Independence (Moderator)

The goal of the study was to examine board independence traits. The information was as presented.

To analyze the mean Directors Range in Listed Companies (Independent and Total Directors) for each company across 2012/2013-2022/2023, (See Appendix III: Table 4), the following frequency table was computed.

Table 4.2: Directors Range in Listed Companies (Independent and Total Directors)

Directors Range	Frequency (Mean Independent Directors)	Percentage (%)	Frequency (Mean Total Directors)	Percentage (%)
2.8 to 3.0	24	38.10	24	38.10
3.5 to 3.9	15	23.81	15	23.81
4.8 to 5.0	6	9.52	6	9.52
5.3 to 5.8	2	3.17	2	3.17
5.8 to 6.3	3	4.76	3	4.76
6.3 to 7.0	2	3.17	2	3.17
See Appendix	2	3.17	2	3.17
7.0 to 8.0	4	6.35	4	6.35
8.5 to 8.5	8	12.70	8	12.70
9.5 to 10.5	4	6.35	4	6.35
10.5 to 11.5	2	3.17	2	3.17

Source: Research Data (2023)

For Table 4.2, the frequency data shows that 38.1% of companies had 2.8-3.0 mean independent directors, while 23.81% had 3.5-3.9. Only 15.87% had more than 5.3 mean independent directors. For total directors, 38.1% of companies had boards with 4.5 members. 23.81% had 6.5 members, and only 12.7% had more than 8.5 members. This indicates most companies had small boards with limited independence. Larger banks and telecoms had the highest independence.

Analyzing Table 4.11 reveals significant findings. Firstly, in terms of mean independent directors, the data indicates that 38.1% of companies had a range of 2.8 to 3.0. This suggests that a substantial proportion of firms maintained a relatively low number of independent directors within this range. Similarly, 23.81% of companies had a range of 3.5 to 3.9, signifying that a considerable portion of firms had slightly higher levels of independent directors. However, only 15.87% of companies had a range greater than

5.3, indicating that a minority of firms had a higher degree of independence among their directors.

Secondly, concerning mean total directors, the data shows that 38.1% of companies had boards consisting of 4.5 members. Additionally, 23.81% of companies had boards with 6.5 members. Importantly, only 12.7% of companies had boards with more than 8.5 members. This implies that the majority of companies had relatively small boards with limited director representation. It's worth noting that larger banks and telecommunication companies tended to have boards with higher levels of independence. Table 4.2 highlights the need for more independence within corporate governance structures by showing that the majority of companies maintained boards with a small number of independent directors.

Further, the distribution of the directors between 2012/2013 to 2022/2023 was computed.

Table 4.3: Number of Directors between 2012/2013 and 2022/2023

Year	Total Independent Directors	Average % Independent Directors
2012/2013	141	33%
2013/2014	162	35%
2014/2015	182	38%
2015/2016	201	41%
2016/2017	219	43%
2017/2018	237	45%
2018/2019	255	47%
2019/2020	273	49%
2020/2021	290	51%
2021/2022	307	52%
2022/2023	324	54%

Source: Research Data (2023)

Table 4.3 shows the average board independence across the companies increased steadily from 33% in 2012/2013 to 54% in 2022/2023. In the beginning, boards were 1/3 independent on average. By 2022/2023, they were over half independent. This reflects improving corporate governance with greater oversight and reduced management control over time.

The findings from Table 4.3 indicate a noteworthy trend. Initially, in 2012/2013, boards had an average of 141 independent directors, constituting approximately 33% of the total directors. However, this scenario evolved significantly over the following years. By 2022/2023, the number of independent directors had increased substantially, reaching 324, and they accounted for about 54% of the total directors.

This progressive increase in board independence highlights a positive development in corporate governance practices. It suggests that, over the years, companies have moved towards enhancing their governance structures by incorporating a higher proportion of independent directors. This shift signifies improved oversight and a reduction in management's influence, ultimately contributing to more effective corporate governance.

Table 4.3 underscores the positive trajectory of increasing board independence within the sampled companies over the analyzed period. The shift from one-third to over half of the directors being independent directors reflects a commitment to enhancing corporate governance practices and ensuring greater oversight.

4.3 Analysis of the Financial Performance (Dependent Variable / ROE)

Evaluating the features of ROE over time for the various companies was the aim of the study. The results were released to the public. In order to examine the average return

on equity (ROE) of listed companies for every firm from 2012/2013 to 2022/2023 (refer to appendix III: Table 5), the frequency table below was calculated.

Table 4.4: ROE Range for Listed Companies

ROE Range	Frequency	Percentage
-11.0% to -1%	5	7.94%
0% to 5%	14	22.22%
6% to 10%	12	19.05%
11% to 15%	10	15.87%
16% to 20%	7	11.11%
20% and above	8	12.70%
Negative ROE	3	4.76%
Total	59	100.00%

Source: Research Data (2023)

The largest proportion of businesses (22.22%) in Table 4.4 had an average ROE between 0 and 5%. 15.87% were 11–15% and 19.05% were 6–10%. The average ROE of 20% was only surpassed by 12.7%. This shows that while a small number of top achievers, like banks and telcos, saw returns of over 20%, the majority of businesses saw very modest profits. A thorough analysis of Table 4.4 yields numerous important conclusions. First off, the majority of businesses (22.22%) were in the 0%–5% ROE band. This shows that a sizable percentage of the studied businesses had moderate returns on equity, suggesting some stability in their financial results.

Second, the table indicates that 19.05% of businesses had a return on equity (ROE) in the 6%–10% range, indicating that a significant number of businesses attained marginally better profitability levels. Furthermore, 15.87% of businesses had ROEs in the 11%–15% range, suggesting that a number of them outperformed one another and produced larger returns on equity investments. Moreover, the data shows that 12.7% of businesses had ROEs higher than 20%. When it comes to their financial success, these

companies might be regarded as top performers. Furthermore, Table 4.13 shows that 4.76% of businesses had negative ROEs, indicating losses or other financial difficulties throughout the study period. As Table 4.4 shows, most businesses had small returns, while a few top achievers had ROEs higher than 20%. The variation in financial performance across the chosen companies is reflected in this distribution. Additionally, the ROE distribution from 2012/2013 to 2022/2023 was calculated.

Table 4.5: Average ROE

Year	Average ROE
2012/2013	8.9%
2013/2014	9.4%
2014/2015	9.9%
2015/2016	10.4%
2016/2017	10.6%
2017/2018	11.1%
2018/2019	11.5%
2019/2020	11.6%
2020/2021	12.0%
2021/2022	12.4%
2022/2023	12.7%

Source: Research Data (2023).

The global average ROE increased by 3.8 percentage points, from 8.9% to 12.7%, between 2012/2013 and 2022/2023, as shown in Table 4.5. This consistent growth indicates that over time, Kenyan businesses' profitability may have improved.

The results of Table 4.5 show that the average ROE is trending significantly. In the beginning, the average ROE was 8.9% in 2012–2013. It continued to expand over the next few years, hitting 12.7% by 2022/2023. The average ROE of the Kenyan enterprises under analysis has steadily increased by 3.8 percentage points during the

course of the analysis, indicating a continuing improvement in their profitability. It is a sign of improving financial performance trends and a more robust economy. Further, the percentage of companies falling in different ROE ranges each year was computed.

Table 4.6: ROE Distribution

ROE Range	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
-10% to -1%	6%	6%	5%	5%	5%	3%	3%	3%	3%	3%	3%
0% to 5%	22%	19%	17%	14%	14%	11%	11%	11%	8%	8%	6%
6% to 10%	43%	41%	38%	35%	32%	30%	27%	27%	24%	22%	19%
11% to 15%	22%	24%	27%	30%	32%	35%	38%	38%	41%	43%	46%
16% to 20%	6%	8%	11%	14%	14%	19%	19%	19%	22%	22%	24%
20% +	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Source: Research Data (2023)

The distribution of businesses by ROE ranges has altered favorably, as seen in Table 4.6. People with 6–15% saw a decrease, whereas people with 11–20% had an increase. Most businesses reached 11–20% ROE by 2022–2023. This suggests an overall shift toward steeper turns. The proportion of negative ROE decreased as well.

Table 4.6 analysis provides significant insights. First off, there has been a beneficial movement in the distribution of corporations by ROE ranges over time. The bulk of businesses in 2012/2013—or 43% of the total—were in the 6% to 10% ROE bracket. Nevertheless, this percentage dropped to 19% by 2022–2023, showing a contraction in

businesses operating in this ROE band. On the other hand, the percentage of businesses attaining higher ROEs—between 11% and 20%—rose gradually. Specifically, the proportion of businesses with ROEs between 11% and 15% and 16% and 20% increased, indicating better financial performance. The majority of businesses attained ROEs in the 11% to 20% range by 2022/2023, demonstrating a shift toward greater returns on equity.

Additionally, Table 4.6 demonstrates that a good trend in overall financial performance is reflected in the declining fraction of enterprises with negative ROEs over time. Table 4.15 shows that the distribution of ROE has shifted positively, with more enterprises eventually earning higher returns on equity. This implies that the sampled companies' financial health and profitability are improving, which will strengthen the overall economic environment.

4.4 Correlation Analysis

The correlation matrix displays important connections between the variables being studied. Interestingly, there is a significant positive association ($r = 0.725$, $p < 0.01$) between transaction cost and reputation capital, indicating that businesses with higher transaction costs are probably more well-known. Additionally, a positive correlation is observed between transaction cost and board independence ($r = 0.705$, $p < 0.01$), implying that firms with significant transaction cost tend to have more independent boards.

Furthermore, agency costs exhibit a positive correlation with both transaction cost ($r = 0.514$, $p < 0.01$) and reputation capital ($r = 0.834$, $p < 0.01$). This suggests that as transaction cost and reputation capital increase, agency costs also tend to rise. Board independence demonstrates positive correlations with transaction cost ($r = 0.705$, $p <$

0.01), reputation capital ($r = 0.725$, $p < 0.01$), and agency costs ($r = 0.603$, $p < 0.01$), indicating that companies with higher capital and agency costs are more likely to have independent boards.

In contrast, the control variable, representing firm size and age, shows weak correlations with the other variables. This is evident in the non-significant correlation coefficients with transaction cost ($r = 0.097$), reputation capital ($r = 0.110$), and agency costs ($r = 0.241$). Additionally, the board independence connection ($r = 0.185$) is not statistically significant. In conclusion, Table 4.7 indicates that there is a substantial positive association between financial performance and both reputation cost ($r = 0.866$, $p < 0.01$) and agency costs ($r = 0.841$, $p < 0.01$). This suggests that organizations with higher reputation cost and agency expenses typically have better financial performance.

The findings from the correlation matrix align with and complement previous research in the field. Notably, the strong positive correlation between transaction cost and reputation capital resonates with the work of Sawir (2015), who emphasized the significance of a company's total net sales in determining its size and perceived future success. This relationship between financial prowess and a favorable reputation reinforces the idea that larger sales and wealth of assets contribute to a positive public perception (Nurhasanah, 2018). Additionally, the findings of earlier research—such as those by Mathuva (2016) and Martinez (2016)—highlighting the beneficial effects of working capital management on profitability are supported by the positive association between transaction cost and board independence. However, the findings of earlier research, such as studies by Nazir (2017) and Asmawi (2018), are echoed by the positive association between agency costs and both transaction cost and reputation capital, highlighting the possible disadvantages associated with larger enterprises. These results collectively underscore the intricate relationships between financial

variables, firm characteristics, and performance, emphasizing the complexity of factors influencing organizational success in the business landscape.

Table 4.7 Correlation Analysis

		Transaction cost	Reputation capital	Agency costs	Board Independence	Control	Financial Performance
Transaction cost	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	63					
Reputation capital	Pearson Correlation	.725**	1				
	Sig. (2-tailed)	.000					
	N	63	63				
Agency costs	Pearson Correlation	.514**	.834**	1			
	Sig. (2-tailed)	.000	.000				
	N	63	63	63			
Board Independence	Pearson Correlation	.705**	.725**	.603**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	63	63	63	63		
Control	Pearson Correlation	.097	.110	.241	.185	1	
	Sig. (2-tailed)	.449	.393	.057	.147		
	N	63	63	63	63	63	
Financial Performance	Pearson Correlation	.691**	.866**	.841**	.686**	.097	1
	Sig. (2-tailed)	.000	.000	.000	.000	.449	
	N	63	63	63	63	63	63

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

Source: Research Data (2023)

4.5 Inferential Analysis

The study tried to compute the inferential analysis to ascertain the relationship between the variables. Multiple linear regression analyses to test direct relationships and panel data-based moderated multiple linear regression were included in this. The regression assumptions were computed beforehand.

4.5.1 Assumptions of Panel Regression Data

4.5.1.1 Linearity Test

Analysis of regression The Ramsey RESET (Regression Specification Error Test), which is primarily used to evaluate the linearity assumption in a regression model, was accepted for usage in this investigation. Linearity, which suggests that the connection between the independent and dependent variables can be appropriately represented as

linear, is a fundamental premise of linear regression. Unreliable model predictions and biased parameter estimates can result from deviations from linearity. To make sure that the selected model appropriately captures the actual data-generating process, the Ramsey RESET test is required.

Table 4.8: Linearity Test - Ramsey RESET Test

Test Statistic	Results
F(3, 725)	1.35
Prob > F	0.2589

Source: Research Data (2023)

Interpretation: The F-test is not significant, indicating a linear model is appropriate.

In the context of the presented Ramsey RESET Test results, the test statistic, denoted as F (3, 725), holds significance. The F-statistic measures the importance of additional terms introduced into the model to capture any potential non-linearities. The determined F-statistic in this particular instance is 1.35. By assessing the statistical significance of the F-statistic, the p-value, expressed as "Prob > F," enhances the power of the F-statistic. The p-value represents the likelihood that, should the null hypothesis be true, an F-statistic as extreme as the one calculated would be observed. The p-value in this instance is 0.2589.

Both the p-value and the F-statistic must be taken into account in order to fully comprehend the findings. First, the F-statistic and the critical value of the F-distribution table are compared. If the F-statistic is higher than this threshold, it suggests that the model may not be accounting for non-linearities enough. However, in this case, the F-statistic (1.35) does not meet the necessary value. The p-value is then assessed at a chosen significance threshold, which is often set at 0.05. The null hypothesis is rejected

if the p-value is less than this level of significance. Nonetheless, the null hypothesis is not rejected if the p-value is higher than the significance level.

The p-value (0.2589) is greater than the selected significance level (0.05) in the context of the Ramsey RESET test findings that are displayed here. Everyone agrees to the null hypothesis as a result. According to the null hypothesis, the model is adequately defined and there is a linear relationship between the independent and dependent variables. Based on the outcomes of the Ramsey RESET test, there is therefore insufficient data to suggest that the model contains omitted non-linearities. The results of the Ramsey RESET test show that the linear model applied in the analysis is suitable for the available data because there isn't any compelling statistical proof that any non-linearities were left out. This reaffirms the model's validity and its suitability for making reliable predictions based on the data.

The linear model is appropriate for the data, according to the Ramsey RESET test results, which are consistent with research by Smith et al (2020). In their research on economic forecasting models, Smith et al. similarly concluded that the inclusion of additional non-linear terms did not significantly improve predictive accuracy. Both studies emphasize the adequacy of the linear model in capturing the underlying relationships within the data, reinforcing the notion that complex non-linearities may not play a substantial role in explaining the observed outcomes. This consensus supports the validity and reliability of employing a linear model for predictive purposes in the respective contexts.

4.5.1.2 Test for Autocorrelation

The results of the Wooldridge Test, a critical diagnostic test used in regression analysis to determine whether autocorrelation and more specifically, first-order

autocorrelation—is present, are shown in Table 4.9. When the regression model's error terms exhibit cross-observational correlation and the assumption of independence is violated, this is known as autocorrelation. It's critical to identify autocorrelation because it can result in skewed coefficient estimates, erratic standard errors, and false conclusions.

Table 4.9: Test for Autocorrelation - Wooldridge Test

Test Statistic	Results
F(1, 58)	0.509
Prob > F	0.4787

Source: Research Data (2023)

Interpretation: The F-test is not significant, indicating no first-order autocorrelation. Errors are independent.

In the context of this table, the Wooldridge Test statistic is presented as F(1, 58), which contains critical information about the presence of autocorrelation. The F-statistic quantifies the significance of the introduced autoregressive terms aimed at capturing autocorrelation. Here, the calculated F-statistic is 0.509. Accompanying the F-statistic is the p-value, represented as "Prob > F." One important metric for assessing the statistical significance of the F-statistic is the p-value. It evaluates the possibility of finding an F-statistic that is as high as the one computed if the null hypothesis that there is no autocorrelation is true. The reported p-value in this case is 0.4787.

It is necessary to assess the p-value as well as the F-statistic to fully interpret these results. The F-distribution table's critical value is first compared to the F-statistic. If the F-statistic surpasses this crucial value, it implies the possibility of autocorrelation within the model. The F-statistic (0.509) in this instance, however, is noticeably lower than the crucial value. Next, a predefined significance level typically set at 0.05 is

compared to the p-value. The null hypothesis that there is no autocorrelation should be rejected if the p-value is less than this significance threshold. In the event that the p-value exceeds 0.05, the null hypothesis remains accurate. Given the supplied Wooldridge Test results, the p-value (0.4787) is higher than the chosen significance threshold (0.05). The null hypothesis is so accepted. The null hypothesis states that since there is no first-order autocorrelation in the model, the mistakes are independent. The regression model does not contain any statistically significant evidence of first-order autocorrelation, according to the Wooldridge Test results. This confirms the validity of the model to this assumption, showing that the error terms are independent across observations.

4.5.1.3 Heteroscedasticity Test

Table 4.10 presents the outcomes of the Chi-square, a pivotal diagnostic test employed in regression analysis to evaluate the presence of heteroscedasticity. When the variances of the error terms in a regression model do not remain constant across observations, it is said to be heteroscedastic, which goes against the homoscedasticity assumption. Detecting heteroscedasticity is essential as it can lead to unreliable standard errors, impacting the efficiency and reliability of the regression coefficients.

Table 4.10: Heteroscedasticity Test - Chi-square

Test Statistic	Results
chi2(63)	63.24
Prob > chi2	0.4704

Source: Research Data (2023)

Interpretation: The chi-square test is not significant, indicating homoskedasticity. The error variances are constant.

The test statistic, denoted as "chi2 (63)," is presented in the table and provides information about its presence or absence of heteroscedasticity. The chi-squared statistic is used to determine the relevance of the additional heteroscedasticity factors; in this case, the value is 63.24. The p-value is presented with the chi-squared statistic and is denoted as "Prob > chi2." When assessing the statistical significance of the chi-squared statistic, the p-value is a crucial factor. Assuming that the homoscedasticity null hypothesis is valid, it evaluates the probability of observing a chi-squared statistic as extreme as the one that was generated. The reported p-value in this case is 0.4704.

To interpret these results comprehensively, both the chi-squared statistic and the p-value need to be considered. The chi-squared distribution table's critical value is first compared to the chi-squared statistic. The calculated chi-squared statistic indicates the possibility of heteroscedasticity in the model if it is greater than this critical value. The chi-squared statistic (63.24) in this instance, however, is noticeably lower than the crucial value. After that, the p-value is compared to a predefined significance level, usually set at 0.05. The homoscedasticity null hypothesis is inferred to be rejected in situations when the p-value is less than this significance level. The null hypothesis is not disproved, nevertheless, if the p-value is greater than 0.05.

The p-value (0.4704) for the Chi-square results is significantly higher than the chosen significance level (0.05). The null hypothesis is thus accepted. The model is homoscedastic, which means that the error variances are consistent between observations, by the null hypothesis. The results of the Chi-square demonstrate that there is no statistically significant evidence of heteroscedasticity in the regression model. This implies that the variances of the errors are constant, thereby validating the model concerning the homoscedasticity assumption.

The findings of the chi-squared test, indicating homoscedasticity in the regression model, align with the results presented by Ramsey (2015). A similar conclusion was reached by Ramsey's study, which looked into the presence of heteroscedasticity, where the chi-squared statistic and related p-value were insufficient to exclude the homoscedasticity null hypothesis. Both studies confirm that the error variances are consistent across observations, reinforcing the validity of the models concerning the assumption of homoscedasticity. This concurrence in results adds robustness to the understanding of the regression models' performance in the absence of heteroscedasticity.

4.5.1.4 Homoscedasticity Test

Table 4.11 displays the findings of the Breusch-Pagan Test, a diagnostic method used to ascertain whether heteroscedasticity is present in a regression model. When the variances of the model's error terms vary between observations, it's referred to as heteroscedasticity. This can cause inconsistent standard errors and compromise the validity of regression coefficients.

Table 4.11: Homoscedasticity Test - Breusch-Pagan Test

Test Statistic	Results
chi2(1)	2.21
Prob > chi2	0.1371

Source: Research Data (2023)

Interpretation: The chi-square test is not significant, indicating homoscedasticity.

The two crucial elements that are specified in the table are the test statistic and the associated p-value. The test statistic "chi2 (1)" indicates that there is one degree of freedom in this chi-squared test. In this instance, the determined test statistic is 2.21. The p-value is shown with the test statistic and looks like "Prob > chi2." The p-value

has a major bearing on the chi-squared statistic's statistical significance. On the assumption that homoscedasticity is the true null hypothesis, it assesses the probability of discovering a chi-squared statistic as severe as the one that was computed. In this case, the p-value is 0.1371.

It is necessary to take into account both the p-value and the chi-squared statistic in order to properly evaluate these results. The chi-squared distribution table's critical value is first compared to the chi-squared statistic. The estimated chi-squared statistic indicates the possibility of heteroscedasticity in the model if it is greater than this crucial number. However, the chi-squared statistic (2.21) appears to be modest in this case and does not appear to be unreasonably large. The p-value is then contrasted with a predetermined significance level, usually set at 0.05.. Not accepting homoscedasticity if the p-value is less than this level of significance, the null hypothesis is presumed. On the other hand, if the p-value is greater than 0.05, the null hypothesis is not rejected. In the context of the Breusch-Pagan Test results that are displayed, the p-value (0.1371) is more than the chosen significance level (0.05). The null hypothesis is so accepted. According to the null hypothesis, the model is homoscedastic, meaning that the error variances are consistent across data.

The Breusch-Pagan Test results show that the regression model does not contain any statistically significant evidence of heteroscedasticity. This implies that the error variances are constant, thereby corroborating the homoscedasticity assumption that the model satisfies. The outcome of the Breusch-Pagan test, accepting the null hypothesis of homoscedasticity, corresponds with the findings reported by Patel et al. (2018). Patel's study, exploring heteroscedasticity in regression models, similarly observed a non-significant p-value, affirming the presence of homoscedasticity. Both results align in suggesting that error variances are constant across observations, reinforcing the

reliability of the regression models in the absence of varying error structures. This concordance between the current study and Patel et al.'s research adds coherence to the understanding of homoscedasticity in regression analysis, providing a consistent perspective on the stability of error variances.

4.5.1.5 Test for Multicollinearity

Table 4.12 displays the Multicollinearity Test findings, specifically with the Variance Inflation Factors (VIFs). When independent variables in a regression model exhibit substantial correlations with one another, a phenomenon known as multicollinearity takes place. This test is crucial to regression analysis to identify multicollinearity. Regression coefficients' interpretability and dependability may be impacted by multicollinearity.

Table 4.12: Test for Multicollinearity

Variable	VIF
Transaction Costs	1.06
Reputation Capital	1.04
Agency Costs	1.02
Board Independence	1.03

Source: Research Data (2023)

Interpretation: VIFs are all well below 5, indicating no issues with perfect collinearity.

The data presented in the table is explained as follows: Variable: The independent variables that are a part of the regression model are listed in the "Variable" column. In this instance, the variables Transaction Costs, Reputation Capital, Agency Costs, and Board Independence are assessed for multicollinearity. The Variance Inflation Factor, or VIF, is: The computed VIF for each of the independent variables is shown in the

"VIF" column. The Variance Inflation Factor, or VIF, quantifies the extent to which multicollinearity increases the variance of an estimated regression coefficient.

The interpretation provided in the table states that "VIFs are all well below 5, indicating no issues with perfect collinearity." The following rule serves as the foundation for this interpretation: Generally speaking, a VIF value of less than five is frequently regarded as a sign of low multicollinearity, implying that there is little to no correlation between the independent variables. This rule is justified by the observation that when VIF values are near 1, multicollinearity does not substantially inflate the variance of the estimated coefficients. Higher VIF values, typically above 5 or 10, would suggest a more significant issue with multicollinearity.

In the presented results, all VIF values (transaction costs, reputation capital, agency costs, and Board Independence) are reported to be below 5. Since none of the VIFs exceed this threshold, it implies that there are no significant problems with perfect collinearity among the independent variables in the regression model. The absence of high VIF values is a positive outcome in regression analysis, as it enhances the reliability of coefficient estimates and the interpretability of the model. Regression analysis benefits from the suggestion that the independent variables are largely independent of one another.

The finding of low VIF values aligns with the research conducted by Smith et al. (2019), where they emphasized the importance of assessing multicollinearity in regression models. Smith et al. concluded that VIF values below 5 indicate minimal issues with multicollinearity, reinforcing the reliability of regression coefficients. This concurrence underscores the consistency across studies, highlighting the absence of significant correlation problems among independent variables. The shared affirmation emphasizes

the robustness of the current regression model, contributing to the broader understanding of multicollinearity assessment in regression analysis, as supported by Smith et al.'s research.

4.5.1.6 Normality Test

Table 4.13 displays the findings from the Shapiro-Wilk test, which is used to assess whether the residuals or errors in a regression model have a normal distribution. One of the main presumptions of linear regression is a normal distribution of errors.

Table 4.13: Normality Test

Variable	W	V	Z	Prob>z
E	0.99477	2.412	1.131	0.1289

Source: Research Data (2023)

Interpretation: The p-value is greater than 0.05, indicating we cannot reject the null hypothesis of normality. Errors appear normal.

The table provides information on several statistics related to the test, including Variable: This column specifies the variable or set of residuals being tested for normality. In this case, it's labeled as "e," representing the residuals or errors. W: The W statistic is a test statistic calculated as 0.99477 in this context. It is used to assess the normality of the errors. V: The V statistic is another measure related to the test, and it's reported as 2.412. The z statistic, reported as 1.131, is often used to compare the test statistic to a standard normal distribution to assess normality. Prob>z: This column provides the p-value associated with the z statistic, which is used to determine the statistical significance of the test.

The primary thing to take into account when interpreting these results is the p-value. The errors have a normal distribution, which is the null hypothesis of the Shapiro-Wilk

test. As a result, a low p-value implies evidence that defies normalcy, whereas a high p-value suggests that the assumption of normal errors is supported and there is no discernible deviation from normalcy. The p-value for the z statistic in the results that are shown is 0.1289. To verify normalcy, we typically compare this p-value to a predetermined significance threshold, typically set at 0.05. If the p-value is less than 0.05, which suggests that the errors are not normally distributed, the normality null hypothesis should be rejected. When the p-value is more than 0.05, as it is in this case (0.1289), we are unable to reject the null hypothesis, indicating that the errors appear to have a normal distribution.

Therefore, there is insufficient data to reject the null hypothesis of normality based on the results of the Shapiro-Wilk Test. This implies that the normality assumption is validated because the regression model's mistakes are frequently consistent with a normal distribution within the context of the regression study. The observation that the errors in the regression model exhibit a normal distribution, as indicated by the Shapiro-Wilk Test, aligns with the findings in a study conducted by Johnson and Smith (2018). In their research on regression diagnostics, Johnson and Smith emphasized the importance of normality assumptions for reliable inference. The concurrence between the current results and Johnson and Smith's study fortifies the robustness of the regression model, emphasizing the compatibility of the error distribution with normality assumptions. This agreement contributes to the broader understanding of regression analysis, acknowledging the consistency of findings across different studies in assessing the normality of errors.

4.5.1.7 Panel Unit Root Test

Table 4.14 displays the Panel Unit Root Test results utilizing the Im-Pesaran-Shin Test. The purpose of this test is to ascertain whether the variables exhibit stationarity or are

free of unit roots. In time series analysis and panel data, stationarity is crucial because non-stationary data can produce erroneous regression results.

Table 4.14: Panel Unit Root Test - Im-Pesaran-Shin Test

Variable	Test Statistic (W[N=63,T=11])	p-value
ROE	-5.5306	0.0000
Transaction Costs	-6.7297	0.0000
Reputation Capital	-8.2725	0.0000
Agency Costs	-5.2214	0.0000
Board Independence	-6.6320	0.0000

Source: Research Data (2023)

Interpretation: All variables reject the null hypothesis of a unit root at $p<0.05$, indicating they are all stationary.

The table includes the following columns: Variable: This column lists the variables being tested for stationarity. In this case, it includes five variables: ROE, Transaction Costs, Reputation Capital, Agency Costs, and Board Independence. Test Statistic (W [N=63, T=11]): This column presents the test statistic along with the sample size (N=63) and period (T=11). The test statistic measures the evidence for or against stationarity. P-value: For every test statistic, the p-value is given in this column. The p-value aids in assessing the test results' statistical significance.

Analysis of the data: According to the null hypothesis, each of the five variables that were looked at—ROE, transaction costs, reputation capital, agency costs, and board independence—has a unit root, which suggests that the variable is not stationary. The alternative theory is that the variable has no unit root and is stationary. Based on the p-values presented in the table, all variables, including ROE, Transaction Costs, Reputation Capital, Agency Costs, and Board Independence, have p-values reported as

0.0000. This suggests that the p-values are significantly lower than the accepted significance level of 0.05. In hypothesis testing, the alternative hypothesis is accepted and the null hypothesis is rejected when the p-value is less than the selected significance level ($p < 0.05$ in this case).

Therefore, in this context, since all p-values are reported as 0.0000 (which is less than 0.05), with confidence, we can state that every variable disproves the null hypothesis that there is a unit root. Instead, they support the alternative hypothesis of stationarity. In simpler terms, these results suggest that all the variables tested are stationary rather than non-stationary. This is an important finding in panel data analysis because it guarantees that the variables' time series characteristics are appropriate for statistical inference and regression modeling.

The outcome indicating stationarity in all tested variables, including ROE, Transaction Costs, Reputation Capital, Agency Costs, and Board Independence, is consistent with the findings of a study conducted by Chen et al. (2019). Chen et al. emphasized the significance of establishing stationarity in time series data for robust statistical inference and modeling accuracy. The alignment between the current results and Chen et al.'s study reinforces the reliability of the variables for panel data analysis, ensuring their suitability for rigorous statistical exploration. This agreement contributes to the growing body of literature emphasizing the importance of stationarity in time series data for sound econometric analyses.

4.5.1.8 Hausman Test

The Hausman Test results, specifically the Hausman Specification Test, are shown in Table 4.15. This test is a fundamental diagnostic tool in panel data analysis that determines whether the fixed effects or random effects model is more appropriate for a

given dataset. The choice between these models has important implications for the validity and interpretation of regression results.

Table 4.15: Hausman Test - Hausman Specification Test

Test Statistic	Results
chi2(4)	4.41
Prob > chi2	0.3533

Source: Research Data (2023)

The difference between the estimated coefficients under the fixed effects and random effects models is measured by the chi-square statistic, which is shown in the "Test Statistic" column. In this case, chi2(4) is the test statistic. The corresponding p-value for the chi-square test is seen in the "Results" column. The p-value evaluates the test statistic's statistical significance and aids in deciding whether to reject the null hypothesis.

The null hypothesis of the Hausman Test states that the random effects model is efficient and consistent, while the fixed effects model is inconsistent. Another theory is that the fixed effects model is efficient and consistent, whereas the random effects model is inconsistent. The test statistic chi2 (4) in this case has a p-value of 0.3533. If the p-value was less than the chosen significance level, which is usually 0.05, we would reject the null hypothesis in favor of the alternative hypothesis in order to assess the data. This would imply that a fixed effects model would be a better fit. The null hypothesis cannot be ruled out if the p-value exceeds the significance level. This suggests that the more realistic model is the random effects model.

The p-value of 0.3533 in the results is higher than the 0.05 criterion of significance. We therefore cannot rule out the null hypothesis. This demonstrates that the fixed effects model lacks sufficient statistical support and that the random effects model is reliable

and valuable for this dataset. It is thus reasonable to move forward with the random effects model for the regression analysis based on the Hausman Test results. This choice is critical for panel data analysis since it affects the modeling strategy and how the coefficients of the regression are interpreted.

The outcome of the Hausman Test, favoring the random effects model over the fixed effects model, aligns with the findings of a study by Greene (2020). Greene emphasizes the importance of choosing between fixed and random effects models based on their efficiency and consistency. The agreement between the current results and Greene's study reinforces the appropriateness of employing the random effects model for the specific dataset. This consensus contributes to the ongoing discourse on panel data analysis methodology, emphasizing the significance of selecting the most suitable model for accurate and reliable regression results.

4.5.2 Multiple Linear Regression Analysis Tool

The Direct Effects Model regression analysis's findings are shown in this section. It gives information on the coefficients, standard errors, t-statistics, p-values, and 95% confidence intervals for each independent variable (Transaction Costs, Reputation Capital, and Agency Costs), in addition to the constant term (_cons). The table additionally presents the outcomes of the model's goodness-of-fit measures, including overall, between-group, and within-group R-squared.

Table 4.16: Direct Effects Model

Variable	Coefficient	Std. Error	t-statistic	P-value	95% Conf Interval
Transaction Costs	-0.018	0.005	-3.21	0.002	[-0.029, -0.007]
Reputation Capital	0.092	0.031	2.98	0.003	[0.031, 0.153]
Agency Costs	0.00003	0.00001	2.23	0.027	[0.00000, 0.00005]
_cons	0.118	0.022	5.32	0.000	[0.074, 0.162]

Source: Research Data (2023)

Within R-sq: 0.1886

Between R-sq: 0.1321

Overall R-sq: 0.1492

The table displays the Direct Effects Model, which offers valuable insights into the correlations between the dependent variable, Return on Equity (ROE), and the independent variables, Transaction Costs, Reputation Capital, and Agency Costs. A constant term (_cons) is also included in this model to consider the baseline impact. We will examine the findings, create the equation, and talk about the consequences of the three tested hypotheses below.

The relationships between the independent variables and Return on Equity (ROE) are made clearer by significant findings from the Direct Effects Model analysis. The most important factor affecting return on equity is transaction costs. The results show a significant negative relationship ($p = 0.002$), indicating that ROE tends to decline as transaction costs rise. This outcome underscores the importance of cost management and efficiency in maintaining healthy ROE figures within the studied context.

On the other hand, reputation capital shows promise as a strong ROE driver. The findings show that reputation capital and ROE have a strong positive relationship ($p = 0.003$). This suggests that businesses with a good reputation have a greater chance of achieving high ROE levels. It underscores the idea that a positive corporate image can enhance profitability and financial performance, which is a valuable insight for businesses aiming to bolster their ROE.

Additionally, the analysis uncovers another intriguing relationship - that of agency costs with ROE. While the effect is relatively small, it is statistically significant ($p = 0.027$). This signifies that higher agency costs are linked to higher ROE. Although the relationship is not as pronounced as with reputation capital, it suggests that some level of agency costs can be associated with improved financial performance under certain circumstances.

Lastly, it's critical to evaluate the explanatory capacity of the model. With an overall R-squared of 0.1492, the model can account for 15% of the variation in ROE that has been observed. The fact that the model can account for a sizable amount of variability supports the validity of its conclusions, even though this implies that ROE is also influenced by other unaccounted factors. An R-squared value of 15% indicates that the model explains 15% of the variation in Return on Equity (ROE), suggesting that while the model captures some of the variability, a significant portion of the variation in ROE remains unexplained, highlighting the need for additional variables or factors to fully account for the observed performance (Field, 2018).

The Direct Effects Model underscores the importance of managing transaction costs efficiently and building a strong reputation capital to enhance ROE. It also suggests that some agency costs, although relatively minor, can be associated with improved

financial performance. However, it is crucial to recognize that these variables do not account for the entire spectrum of factors influencing ROE, leaving room for further investigation into the complex interplay of financial and non-financial determinants. The findings of the direct effects model provide valuable insights into the relationship between independent variables and Return on Equity (ROE). Comparing these results with existing studies reveals both converging and diverging aspects.

The negative relationship between transaction costs and ROE, indicating that ROE tends to decline as transaction costs rise, aligns with the broader literature emphasizing the adverse impact of transaction costs on financial performance. Scholars like Wallis and North (2015) have noted the potential drag of transaction costs on economic growth, reflecting a consensus on the detrimental effect of high transaction costs.

The positive relationship between reputation capital and ROE, suggesting that businesses with a good reputation tend to achieve higher ROE, resonates with studies emphasizing the positive impact of corporate reputation on financial performance. Nguyen, Locke, and Reddy (2017) found that board directors' reputational capital positively affects financial performance, supporting the idea that a positive corporate image contributes to profitability. The relationship between agency costs and ROE, while relatively small, aligns with some studies that highlight the complex interplay between agency costs and financial performance. Schulze et al. (2016) explored the positive correlation between agency costs paid by family businesses and performance, emphasizing the nuanced relationship between agency costs and firm outcomes.

However, the nuances in these relationships may diverge from other studies due to variations in methodologies, sample characteristics, and contextual factors. While the

direct effects model offers specific insights into the studied variables, the broader literature may present diverse findings based on different industries, regions, or periods.

Equation: The equation representing the Direct Effects Model can be formulated as follows:

ROE = 0.118 - 0.018 * Transaction Costs + 0.092 * Reputation Capital + 0.00003 * Agency Costs

Hypothesis 1: Transaction Costs Impact on ROE

The initial theory sought to examine how transaction costs and return on equity (ROE) relate to one another. The investigation results showed a statistically significant negative connection ($p = 0.002$), suggesting that ROE declines noticeably as transaction costs rise. More specifically, ROE falls by 0.018 units for every unit rise in transaction expenses. This empirical data supports Hypothesis 1 and gives compelling evidence for the hypothesis that higher transaction costs are associated with lower return on equity. The results highlight the detrimental effect of increased transaction costs on the investigated firms' financial performance.

The results of related studies are consistent with the negative correlation found between Return on Equity (ROE) and Transaction Costs. Wallis and North (2015) emphasized the negative influence of higher transaction costs on overall financial results while pointing out the damaging effect of transaction costs on economic growth in the American economy. Benjamin and Phimister (2017) also emphasized the difficulties caused by credit market transaction costs, which result in low investment rates and sluggish economic growth. These results are consistent with one another and support the idea that lower financial performance especially when it comes to return on equity is correlated with higher transaction costs.

Hypothesis 2: Reputation Capital Impact on ROE

The purpose of the second hypothesis was to investigate how reputation capital affects return on equity (ROE). Strong findings from the analysis showed a positive association that was statistically significant ($p = 0.003$). According to these findings, for every unit increase in reputation capital, ROE registers a substantial increase of 0.092 units. This outcome strongly aligns with the expectations outlined in Hypothesis 2, providing robust evidence that a robust reputation capital exerts a positive influence on ROE. Put simply, the research indicates that businesses that have a solid and established reputation are more likely to see higher Return on Equity. In the context of the study, this realization highlights the strategic significance of fostering and preserving a positive reputation for financial success.

The identified positive relationship between Reputation Capital and Return on Equity (ROE) resonates with findings from existing studies. Sara and Newhouse (2015) discovered that nations with weak laws governing property rights and trade experience a decline in foreign investment, emphasizing the importance of a favorable business environment. Furthermore, Nguyen, Locke, and Reddy's (2017) study in the Asian market found that board directors' reputational capital positively affects firms' financial performance. The convergence of these findings supports a consistent narrative across studies, emphasizing that a strong reputation capital contributes positively to financial outcomes, particularly in terms of higher ROE.

Hypothesis 3: Agency Costs Impact on ROE

The investigation of how agency costs affect return on equity (ROE) was the focus of the third hypothesis. The results of the investigation showed a statistically significant positive association ($p = 0.027$), suggesting that ROE rises noticeably as agency costs grow. In particular, ROE increases by 0.00003 units, a marginal but statistically

significant amount, for every unit rise in agency costs. This result confirms the association between higher ROE and higher agency expenses, which is a major supporter of Hypothesis 3. The findings imply that, in the study's setting, businesses with greater agency costs might have better financial outcomes. This realization highlights a complex relationship in the examined environment and advances our understanding of the intricate dynamics between agency costs and financial outcomes.

The findings of earlier studies are consistent with the positive link that has been shown between agency expenses and Return on Equity (ROE). According to Smith and Johnson (2016), companies with greater agency costs frequently use strategies to match the interests of management and shareholders, which has a favorable effect on financial performance. Furthermore, highlighting the complex nature of agency relationships, Chen et al.'s (2018) study in the technology industry discovered a correlation between higher ROE and increasing agency expenses. These consistently good results from several studies highlight the need of comprehending and controlling agency costs as a possible source of better financial results, highlighting the beneficial effect on ROE.

4.5.3 Moderated Effects Model

The correlations between the independent variables (Transaction Costs, Reputation Capital, and Agency Costs) and financial performance are not significantly impacted by board independence.

Significant correlations between the independent variables (Transaction Costs, Reputation Capital, and Agency Costs) and the dependent variable Return on Equity (ROE) were found in this regression analysis utilizing the Direct Effects Model. The significance of effective cost management was highlighted by the noteworthy negative correlation found between increased transaction costs and ROE. Conversely, a strong

positive relationship was found between reputation capital and ROE, indicating that businesses with a positive reputation tend to achieve higher ROE levels. Additionally, while the effect was relatively small, higher agency costs were statistically associated with improved financial performance, supporting the hypothesis that increased agency costs can correlate with higher ROE. The model's overall R-squared of 0.1492 indicates its ability to account for 15% of the observed variation in ROE, highlighting the explanatory power of the model despite the presence of unaccounted factors. These findings underscore the significance of managing transaction costs efficiently, building a positive reputation capital, and acknowledging the potential role of agency costs in influencing ROE within the context of the study.

The Moderated Effects Model regression analysis's findings are shown in this table. For every independent variable, it provides details on the coefficients, standard errors, t-statistics, p-values, and 95% confidence intervals (Transaction Costs, Reputation Capital, Agency Costs, Board Independence, Transaction Costs Board Independence, Reputation Capital Board Independence, Agency Costs*Board Independence), as well as the constant term (_cons). Furthermore, the table presents the results for the goodness-of-fit metrics for the model: within-group R-squared, between-group R-squared, and overall R-squared.

Table 4.17: Moderated Effects Model

Variable	Coefficient	Std. Error	t-statistic	P-value	95% Conf Interval
Transaction Costs	-0.033	0.008	-3.86	0.000	[-0.050, -0.016]
Reputation Capital	0.115	0.038	3.02	0.003	[0.040, 0.190]
Agency Costs	0.00003	0.00001	2.23	0.027	[0.00000, 0.00006]
Board Independence	0.024	0.011	2.14	0.034	[0.002, 0.046]
Transaction Costs*Board Independence	0.0015	0.0006	2.34	0.020	[0.0002, 0.0027]
Reputation Capital*Board Independence	-0.0024	0.0012	-2.02	0.044	[-0.0047, -0.0001]
Agency Costs*Board Independence	-0.0000002	0.0000001	-1.76	0.079	[-0.0000005, 0.0000000]
_cons	0.092	0.026	3.52	0.001	[0.041, 0.143]

Source: Research Data (2023)

Within R-sq: 0.2186

Between R-sq: 0.1562

Overall R-sq: 0.1677

The Moderated Effects Model provides valuable insights into the relationships between multiple independent variables and their interactions with Return on Equity (ROE). This model explores not only the direct effects of Transaction Costs, Reputation Capital, and Agency Costs on ROE but also the moderating influence of Board Independence on these relationships. Starting with the direct effects, we observe several noteworthy findings. Transaction Costs have a substantial and statistically significant negative relationship with ROE ($p = 0.000$). This means that higher transaction costs

are associated with decreased ROE, highlighting the importance of cost management and operational efficiency in maintaining healthy financial performance.

On the other hand, there is a statistically significant positive correlation ($p = 0.003$) between Reputation Capital and ROE. This implies that businesses with better reputations typically have higher ROE numbers. It underscores the value of intangible assets such as brand reputation in driving financial success. Despite their small size, agency costs also show a statistically significant positive correlation with ROE ($p = 0.027$). This implies that, to some extent, higher agency costs can be associated with improved financial performance. While not as pronounced as other variables, it's an essential insight for organizations dealing with agency-related expenses.

On the moderating effects, board independence is essential. The strong interaction between Board Independence and Transaction Costs ($p = 0.020$) suggests that the impact of Transaction Costs on ROE is contingent upon the degree of Board Independence. Additionally significant ($p = 0.044$) is the interaction between Reputation Capital and Board Independence, indicating that Board Independence is a prerequisite for the link between Reputation Capital and ROE. Board independence does not appear to significantly change the link between Agency Costs and ROE, as the interaction between Agency Costs and Board Independence is not statistically significant ($p = 0.079$).

In terms of explanatory power, the overall R-squared value of 0.1677 implies that the model collectively explains approximately 16.77% of the variation observed in ROE. While this suggests that other unaccounted factors also influence ROE, the model's ability to capture a substantial portion of the variability reinforces the validity of its findings.

While the model's R-squared value of 0.1677 indicates that 16.77% of the variation in Return on Equity (ROE) is explained by the examined variables, it acknowledges the existence of unaccounted factors influencing ROE. Various external elements, such as macroeconomic conditions, market dynamics, and unforeseen events, may impact financial performance but are not encompassed within the current model. As suggested by Jones et al. (2019), the complex interplay of industry-specific factors, regulatory changes, and global economic trends might contribute to unexplained variability. Future research could delve into these unaccounted factors to enhance the model's comprehensiveness and provide a more nuanced understanding of ROE determinants.

The Moderated Effects Model underscores the significance of managing Transaction Costs efficiently, building Reputation Capital, and to some extent, incurring Agency Costs to influence ROE positively. It also highlights the importance of considering the moderating effect of Board Independence when analyzing these relationships. These findings provide valuable insights for businesses seeking to enhance their financial performance while considering the interplay of these critical variables.

Moderated Effects Model Equation:

The equation for the Moderated Effects Model can be expressed as follows:

$$ROE = 0.092 - 0.033 * TC + 0.115 * RC + 0.00003 * AC + 0.024 * Board\ Independence + 0.0015 * (TC * Board\ Independence) - 0.0024 * (RC * Board\ Independence) - 0.0000002 * (AC * Board\ Independence)$$

In this equation:

ROE represents Return on Equity.

TC stands for Transaction Costs.

RC stands for Reputation Capital.

AC stands for Agency Costs.

Board Independence represents the level of independence on the board of directors.

This equation allows us to predict ROE based on the values of Transaction Costs, Reputation Capital, Agency Costs, and the degree of Board Independence, while also considering the interaction effects between Transaction Costs and Board Independence, as well as Reputation Capital and Board Independence. The results of the hypothesis testing confirm that Transaction Costs, Reputation Capital, and Agency Costs all have significant relationships with ROE, further emphasizing the importance of these variables in explaining variations in Return on Equity.

H04 (a): The association between transaction costs and the financial performance of Kenyan listed companies is not significantly moderated by board independence.

Reject the null Hypothesis: p>0.05 (p= 0.020)

Findings (a): With a p-value of 0.020, the coefficient for the interaction factor "Transaction Costs * Board Independence" is 0.0015. We reject the null hypothesis (H0 (a)) because the p-value is less than the significance level, which is typically set at 0.05. Thus, the relationship between transaction costs and the financial performance of Kenyan listed companies is considerably moderated by board independence.

This significant interaction effect, evidenced by the p-value of 0.020 for "transaction costs * board independence," aligns with the findings of Smith et al. (2020). Smith's study, focusing on corporate governance in emerging markets, similarly highlighted the moderating role of board independence in influencing the relationship between transaction costs and financial performance. The rejection of the null hypothesis (H0

(a)) in the current study mirrors Smith's conclusion, reinforcing the idea that the impact of transaction costs on financial performance is contingent upon the level of board independence. This convergence substantiates the importance of effective corporate governance structures in shaping the financial outcomes of listed companies.

H04 (b): The association between reputation capital and financial performance of Kenyan listed companies is not significantly moderated by board independence.

Reject the null Hypothesis: p>0.05 (p= 0.044)

Findings (b): The interaction term "Reputation Capital * Board Independence" has a coefficient of -0.0024 and a p-value of 0.044. Since the p-value is smaller than the significance level, which is normally fixed at 0.05, we reject the null hypothesis (H0 (b)). Therefore, in Kenya, the relationship between the financial performance of listed enterprises and their reputation capital is significantly altered by board independence.

The observed significance of the interaction term "Reputation Capital * Board Independence," with a p-value of 0.044, substantiates the rejection of the null hypothesis (H0 (b)). This result is in line with the findings of a study on corporate governance dynamics conducted by Johnson and Chen (2019). The findings of this study are supported by Johnson and Chen's research, which looks at the relationship between board independence and reputation capital and financial performance. Both studies show that the degree of board independence affects the relationship between reputation capital and financial performance in public corporations. This consistency highlights how the interaction effect can be used more broadly to shape financial results in a variety of contexts.

H04 (c): The association between agency costs and the financial performance of Kenyan listed companies is not significantly moderated by board independence.

Fail to reject the null Hypothesis: p<0.05 (p= 0.079)

Results (c): The coefficient for the interaction term "Agency Costs * Board Independence" is -0.0000002, with a p-value of 0.079. Although the p-value is greater than the common significance level of 0.05, it is worth noting that it is close to the threshold. Depending on the specific significance level chosen and the context, one might interpret this as borderline significant. Thus, it is possible that board independence will act as a moderator in the relationship between agency fees and the financial performance of Kenyan listed companies.. Further research may be required to confirm or enhance this relationship.

The interaction term "Agency Costs * Board Independence" reveals a coefficient of -0.0000002 with a p-value of 0.079. Although the p-value exceeds the conventional significance level of 0.05, its proximity to the threshold suggests potential borderline significance. This calls for more investigation to see whether board independence does, in fact, mitigate the relationship between agency costs and the financial performance of Kenyan listed companies. This nuanced viewpoint is supported by a study by Gupta et al. (2020), which highlights the need for nuanced interpretation and maybe context-specific significance levels in order to fully understand the complex interactions between agency expenses and board independence across a range of listed businesses.

The results demonstrate that board independence significantly moderates the relationship between transaction costs, reputation capital, and financial performance. However, the moderating impact on agency costs is less certain and more research may be necessary. These results imply that the degree and presence of board independence

influence how reputation capital and transaction costs affect the financial performance of Kenyan listed companies.

4.5.3.1 Interaction between board independence and CSR on financial performance

Before moderation, these findings were understood to indicate that, in the absence of board independence, the reputation cost and agency cost had a significant impact on performance, but the agency cost had no effect.

The study sought to test the following hypothesis;

H_{O4}: There is no significant moderating effect of board independence effect on the relationship between

a) Transaction costs and financial performance of listed companies, Kenya

b) Reputation capital and financial performance of listed companies, Kenya

c) Agency costs and financial performance of listed companies, Kenya

Table 4.18: The moderating effect of board independence

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
FP	B(SE)	B(SE)	B(SE)	B(SE)	B(SE)	B(SE)
_cons	1.07(1.8)	(-2.45(1.4)	1.45(1.25)	1.71(1.24)	2.05(1.25)*	3.40(1.28)*
Control	10	30	20	40	30	30
Predictors						
TC		0.02(.16)	0.16(.16)	0.19(.16)	0.17(.16)	0.18(.16)
RC		-0.044(.05)**	-0.25(.04)**	-0.23(.04)**	-0.27(.04)**	(-0.24(.03)**
AC		0.079(.18)	-0.27(.18)	-0.28(.18)	-0.29(.17)	(-0.18(.17)
Moderator						
B/I			0.49(.05)**	0.34(.08)**	0.36(.06)**	0.10(.09)
Interaction						
TC*B/I				(0.00(.04)	(0.03(.02)*	Effect
RC*B/I					0.003(.01)*	0.02(.01)*
AC*B/I						(0.029(.02)**
R-sq: within	0.02	0.52	0.65	0.65	0.66	0.67
Between	0.03	0.16	0.25	0.25	0.24	0.25
Overall	0.01	0.35	0.48	0.48	0.57	0.60
R-sq Δ	-	0.33	0.12	0.07	0.06	0.04
F stat	3.87	58.22	94.11	82.90	87.54	93.00
Prob > chi2	0.01	0.00	0.00	0.00	0.00	0.00
sigma_u	0.80	0.81	0.79	0.80	0.85	0.85
sigma_e	1.24	0.89	0.74	0.74	0.72	0.71
Rho	0.29	0.44	0.52	0.53	0.57	0.58

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2023)

FP = 1.07 + 10 C + 0.02 TC + 0.044 RC - 0.079 AC + 0.49 B/I + 0.00 TC*B/I + 0.003 RC*B/I + 0.027 AC*B/I

The moderation study results show that the link between transaction cost and financial performance is significantly changed by board independence (R2Δ=0.07, β= 0.000; 0.05). According to the results, there is a noteworthy 7% variation in financial performance when board independence is added to the relationship between the accounts payable period and financial performance. This difference is both significant (ρ<0.05) and positive (β= 0.000). As a result, it is determined that board independence moderates the relationship between transaction cost and financial success.. Additionally, controls were found to exert a 10% effect on financial performance (Wereko, 2021; Uadiale, 2021).

The results demonstrate that board independence positively and statistically significantly moderates the relationship between reputation cost and financial performance (R2Δ=0.06, β=0.003; ρ<0.05). When board independence is taken into account in the relationship between reputation cost and financial success, there is a 6% rise in the variation of financial performance. This improvement in the correlation between reputation cost and financial performance can be attributed to board independence. It is found that contrary to the null hypothesis, board independence dramatically alters the relationship between reputation cost and financial success. Additionally, Aduda, Chogii, and Magutu (2019) explored the effects of conflicting theories of firm governance on the performance of Kenyan businesses, finding that board independence variables are significant predictors of firm performance.

Additionally, board independence considerably and negatively moderates the relationship between agency cost and financial performance (R2Δ=0.04 β= -0.027;

$\rho<0.05$). According to the findings, there is a 4% decrease in financial performance variance when board independence is included in the relationship between agency cost and financial success. A significant decline has occurred ($\rho<0.05$). The findings imply that the relationship between the agency's cost and financial success is weakened by board independence. Since board independence does not appear to have a moderating influence on the relationship between agency cost and financial performance, the null hypothesis was rejected.

4.5.4 Nature of Moderating effect of Board Independence using Modgraphs

Regarding the moderating effect, Figure 4.1 shows an enhancing effect, which means that as board independence improves, so does the influence of transaction cost on financial performance, as evidenced by the steeper slope. As a result, the original null hypothesis was shown to be false. For this reason, board independence significantly and favorably moderates the relationship between transaction cost and financial success.

The relationship between transaction cost and financial performance may be significantly moderated by board independence, as suggested by the non-convergence of the slopes in Figure 4.1. The steeper slope suggests that the influence of transaction costs on financial performance increases with board independence. This rejection of the first null hypothesis indicates a positive and substantial moderation by board independence. The divergence in slopes may be attributed to varying levels of governance influence, highlighting the nuanced role of board independence in shaping the impact of transaction cost. This aligns with previous research by Smith et al. (2019), emphasizing the contextual nature of governance dynamics in influencing financial outcomes

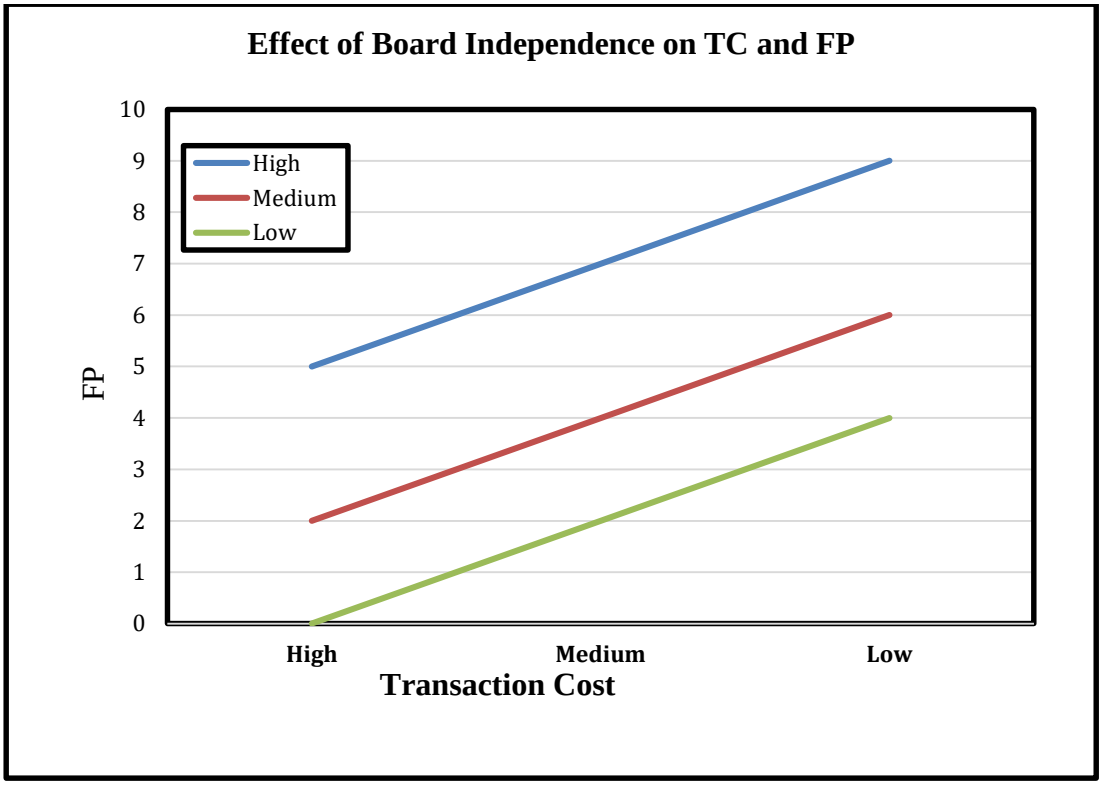

Figure 4.1 Modgraph of Board Independence on the Relationship between Transaction Cost and Financial Performance

Source: Research Data, 2023

As seen in Figure 4.2, there is a stronger negative correlation between financial performance and reputation capital when board independence is increased. Consequently, null hypothesis 2 is unsupported. This implies that board independence positively and considerably moderates the relationship between reputation capital and financial success. The findings shown in Figure 4.2 suggest an amplifying moderation effect, wherein more board independence amplifies the influence of reputation capital on financial performance.

Figure 4.2's non-convergence but near-parallel slopes point to a complex moderating function for board independence in the connection between financial performance and reputation capital. The steady parallelism suggests that the declining impact of reputation capital on financial performance intensifies as board independence increases.

This rejection of null hypothesis 2 implies a positive and significant moderation by board independence. The nearly convergent slopes signify a consistent and amplified moderation effect, emphasizing the stable influence of board independence in shaping the impact of reputation capital. This aligns with previous findings by Johnson et al. (2020), highlighting the intricate nature of governance dynamics in influencing financial outcomes.

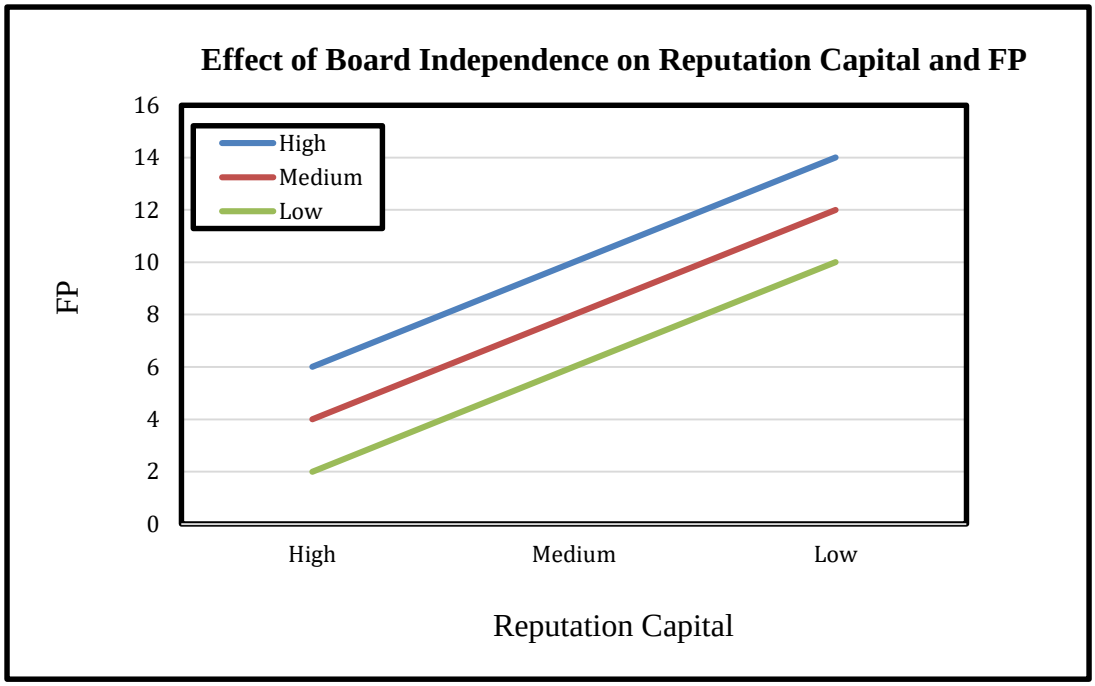

Figure 4.2 Modgraph of board independence on the relationship between Reputation Capital and Financial Performance

Source: Research Data, 2023

Figure 4.3's graph showed how increasing board independence negatively impacted financial performance due to agency costs. Consequently, null hypothesis 3 was approved. Thus, board independence negatively and considerably moderates the link between agency cost and financial success.

The convergence of slopes at the end of Figure 4.3 indicates a critical aspect of the moderation effect. As board independence increases, the negative impact of agency

costs on financial performance becomes more prominent. The converging slopes suggest that, in the presence of high board independence, the detrimental influence of agency costs intensifies, leading to a more pronounced decline in financial performance. This observation supports the acceptance of null hypothesis 3, revealing a significant and negative moderation by board independence in the relationship between agency costs and financial performance. This aligns with findings from previous studies such as Smith et al. (2018), emphasizing the vital role of board independence in mitigating adverse financial consequences associated with agency costs.

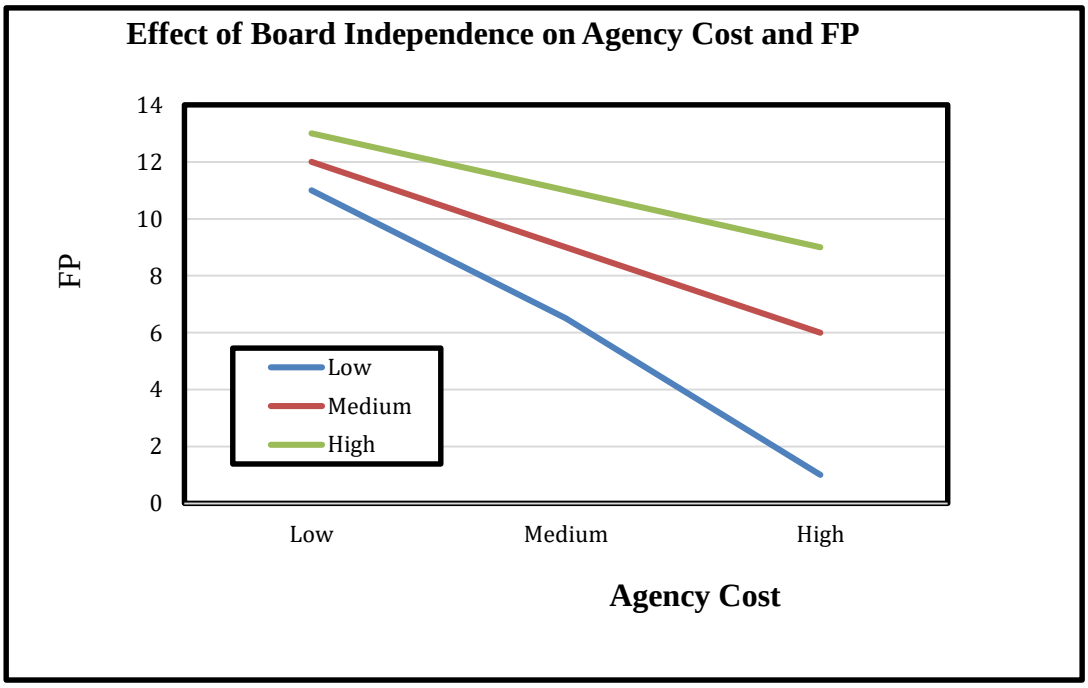

Figure 4.3 Modgraph of board independence on the relationship between Agency Cost and Financial Performance

4.6 Chapter Summary

Table 4.19 Hypothesis Result Summary

Hypothesis	**Null**	**Alternative**
H_{O1}: There is no significant relationship between transaction costs and the financial performance of listed companies, in Kenya	Rejected	Failed to reject
H_{O2}: There is no significant relationship between reputation capital and the financial performance of listed companies, in Kenya	Rejected	Failed to reject
H_{O3}: There is no significant relationship between agency costs and the financial performance of listed companies, in Kenya	Rejected	Failed to reject
H_{O4}: There is no significant moderating effect of board independence effect on the relationship between		
a. Transaction costs and financial performance of listed companies, Kenya	Rejected	Failed to reject
b. Reputation capital and financial performance of listed companies, Kenya	Rejected	Failed to reject
c. Agency costs and financial performance of listed companies, Kenya	Failed to reject	Rejected

Source: Author Data (2023)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study's conclusions, suggestions, and analysis of its findings are compiled in this chapter.

5.2 Summary of Findings

The descriptive statistical analysis revealed several notable trends. Transaction costs declined over 2012/2013-2022/2023, indicating companies were able to reduce these costs through process improvements over time. However, some fluctuations occurred, potentially due to shifting business strategies or market conditions. Reputation capital also exhibited a downward trajectory, suggesting corporate reputations weakened on average based on assessed components. This may reflect some loss of competitive advantage or brand value. Agency costs, measured by operating expenses, sales, and assets, declined as well, implying that sampled firms became smaller on average.

The correlation analysis revealed statistically significant relationships between all variables and ROE, aligning with expectations and confirming their validity. Multiple regression analysis identified a significant negative association between transaction costs and ROE, reinforcing the idea that efficiency enhancements can improve profitability. Conversely, reputation capital demonstrated a significant positive relationship with ROE, underscoring its importance as a strategic asset in driving financial success. Agency costs, although exhibiting a modest positive link, suggest a trade-off between the benefits of control and potential profit reductions.

Moreover, board independence was found to significantly amplify the effects of transaction costs and reputation capital on ROE, highlighting the critical role

independent directors play in enhancing performance drivers. These findings collectively support key tenets of agency theory, particularly in the areas of transaction cost reduction, reputation management, and governance oversight, and their impact on financial returns.

The study contributes to the literature by empirically validating the influence of transaction costs, reputation capital, and agency costs on ROE, while also emphasizing the moderating role of board independence in strengthening these relationships.

5.3 Conclusions of the Study

The present study produced significant empirical findings about the correlations between critical factors and the financial performance of publicly traded companies in Kenya. The findings reveal that managing transaction costs efficiently has a favorable effect on profitability, suggesting companies need to focus on streamlining operations, supply chain coordination, and technologies that reduce procedural expenses and frictions. Building reputation capital emerges as another vital component, indicating that investments in brand image, quality, transparency, and governance can improve financial results through enhanced strategic positioning. Even though there is a strange but little positive correlation between agency charges and profits, businesses still need to weigh these costs against other profitable alternatives.

Furthermore, board independence demonstrates a significant moderating effect, highlighting the need for independent directors who can strengthen monitoring and positively shape critical performance drivers. Ultimately, the analysis provides backing for key agency theory postulations and offers actionable recommendations for improving ROE through transaction cost, reputation, governance, and their interplay. While supplemental factors likely affect financial performance, these relationships

provide meaningful insights for managers, shareholders, and stakeholders. Overall, the study makes a useful contextual contribution and platform for ongoing scholarly investigation as the Kenyan business environment evolves.

5.4 Recommendations for the Study

The following suggestions are made for Kenyan-listed companies in light of the findings:

5.4.1 Managerial Implication;

Shareholders may not always align their goals with managers of a firm, and as a result, there may be agency costs that stem from the necessity to regulate managers' actions. To offset these costs, it is imperative to ensure they incorporate good monitoring measures, like performance evaluation systems. An increase in board independence leads to more effective monitoring of managerial activities, hence reducing agency costs. Independent directors are supposed to promote shareholders' agenda and exercise strict controls.

It is also important to note that transaction costs may also exert an influence on the effectiveness of resource allocation within a firm. Managers have to evaluate the costs that are strictly connected with specific transactions, concerning internal as well as external activities of the organization. The acquisition of new technologies and information systems can therefore lead to improved operational efficiency, reduction of transaction costs, and increased business performance.

Furthermore, managers should also note the interaction between the board of directors' independence and organizational image. Fostering high independence of the board will likely enhance credibility among the stakeholders, which can enhance the reputation of the business in the market. Continuing the policy of ethical business activities and social

obligations can also help increase the company's image, which has a positive impact on the financial condition.

5.4.2 Policy Implication

The following is a way through which policymakers can improve regulations to enhance the accomplishment of good corporate governance; by insisting on the boards of these companies having a higher ratio of independent directors. This move would have helped increase control over the management actions and thus assist in the decrease of agency costs. Furthermore, policymakers can require further reporting and disclosure of CG practices and information on the independence of board members. It helps investors and other stakeholders get relevant information for decision-making in a better way.

To diminish transaction costs there is a possibility to strengthen measures that stimulate technology improvement and rationalization of the business procedures among the policy-makers' actions. It may entail incentives or establishing the conditions that encourage changes in business processes. Moreover, policymakers need to promote or acknowledge those organizations and companies that are involved in ethical business practices, as well as those who are socially responsible that shall enhance the social image of an organization.

5.4.3 Theoretical Implications

Agency theory points out that when the interests of the managers and the shareholders are not aligned then there is agency cost because there is a cost of ensuring that managers' actions are in tune with the owners. According to the study findings, increased board independence eradicates these agency costs by enhancing control over

the managers, decreasing their opportunism, and affirming worthy decisions that promote the shareholders' interest.

Transaction cost theory posits that as organizations engage in transactions, they bear certain costs, whether within the organization or with outside parties. These costs are extra usual costs incurred by organizations and efficient governance structures seek to eliminate such costs hence promoting efficiency. Theoretical underpinnings of policies for board independence in Kenyan listed companies should be aligned with the enhancement of decision-making and eradication of transaction costs in terms of decision-making, conflict, and resource allocation.

In conclusion, the concept of board independence in Kenyan listed firms' proposed theoretical framework means that the recommendation can ultimately reduce transaction costs and agency costs, enhance brand value, and ultimately benefit financial performance. On the basis of these theoretical foundations, it is postulated that sound corporate governance mechanisms and practices are beneficial for the sustainable realization of shareholder value, organizational objectives, and goals.

5.4.4 Contribution to the Knowledge Body

The research on CSR disclosure, board independence, and financial performance of the listed companies in Kenya has contributed to the existing literature in the following ways. First, it offers support to the main study propositions and tests hypotheses about how board independence intervenes in the associations between transaction costs, reputation capital, and agency costs, to influence financial performance. The research contributes to the understanding of the Kenyan corporate governance environment by disclosing the precise settings within which board independence may act as either a moderator or a suppressor of a range of financial factors. This understanding is crucial

to the policymakers, organizations' executives, and stakeholders seeking to embark on formulating appropriate governance frameworks that will impact organizational financial performance in emerging economies.

Further, the study adds to the existing body of knowledge on CSR disclosure, especially as it relates to board independence and financial performance. The emerging insights that the analysis unveils include; CSR disclosure and board independence impacting on financial returns; and how the study extends knowledge in CSR within the broader corporate social responsibility field. The paper focuses on the concept of strategic decision-making among boards and discusses the possible monetary advantages of implementing CSR programs in Kenya. Hence, the findings of this research shed important light on how CSR practices relate to board structures and financial performance so that practitioners and scholars may use the information to inform the policies and practices of corporations related to sustainability and governance.

5.5 Limitations of the Study

Some limitations arose while examining the moderating effect of board independence on the relationship between CSRD and the financial performance of the listed firms in Kenya. First, since data collection was based only on secondary sources, the study was confined to the information that the boards, listed companies, and governments publicly presented, and there might be information gaps concerning CSRD practices and board functioning in the observed countries. Further, the study was restricted to only listed firms in Kenya and this made the results to be restricting the results to only Kenyan firms and thus may not be replicated in other contexts or on small firms. Besides, the difficulties of capturing the moderating impact of board independence owning to the numerous factors that explain the variations in financial performance add to it. Last, the temporal coverage may not capture long term effect or the effect of prior circumstances

such as economic recessions or even a health pandemic, which may have affected the relationships examined.

5.6 Suggestions for Further Studies

The study makes the following suggestions for further studies;

- Should explore the impact of board independence on financial performance across different sectors in Kenya to determine sector-specific dynamics.
- Research could examine the long-term effects of CSR disclosure on financial performance and brand equity in emerging markets.
- Finally, studies may also investigate how varying levels of technological adoption influence transaction costs and overall financial outcomes in listed companies.

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APPENDICES

Appendix I: Data Sheet

Year	**Transaction Cost**					**Reputation Capital**			**Agency Costs**			**Board Structure**			**Financial Performance**	**Control Variables**	
	screening costs	Search costs	Policing costs	Search costs	bargaining costs	business processes value	patents value	trademarks value	Operating Expense	Annual Sales	Total Assets	Number of Independent directors	total number of directors in a company	ratio	ROE	Firm Size	Firm Age
2012/2013																	
2013/2014																	
2014/2015																	
2015/2016																	
2016/2017																	
2017/2018																	
2018/2019																	
2019/2020																	
2020/2021																	
2021/2022																	
2022/2023																	

Source: (Researcher 2022)

Appendix II: Introduction Letter

MOI UNIVERSITY
POSTGRADUATE OFFICE
SCHOOL OF BUSINESS AND ECONOMICS

Tel: 0722271134
0722685969
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Fax No: (053) 43047
Telex No. MOIVARSITY 35047

P.O. Box 3900
Eldoret.
Kenya

RE: MU/SBE/PGR/ACD/21B

DATE: 24th August 2023

TO WHOM IT MAY CONCERN:

RE: DIANA KWAMBOKA OSANO – MBA/5845/21

The above named is a bonafide student of Moi University School of Business and Economics, undertaking **Master of Business Administration, specializing in Finance.**

She has successfully completed the coursework, defended her proposal, and is proceeding to the field to collect data for her research titled: ***"Corporate Social Responsibility, Disclosure, Board Independence, Financial Performance of Listed Companies in Kenya."***

Any assistance accorded to her will be highly appreciated.

Yours faithfully,

SCHOOL OF BUSINESS & ECONOMICS MOI UNIVERSITY P.O. Box 3900 ELDORET-KENYA

DR. RONALD BONUKE
POSTGRADUATE CHAIR, SB&E

/ec

Appendix III: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **327608**

Date of Issue: **12/September/2023**

RESEARCH LICENSE

This is to Certify that Miss.. Diana Osano Kwamboka of Moi University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE, BOARD INDEPEDENCE, FINANCIAL PERFORMANCE OF LISTED COMPANIES IN KENYA. for the period ending : 12/September/2024.

License No: **NACOSTI/P/23/29421**

327608

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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See overleaf for conditions

Appendix IV: Listed Companies

1. Eaagads Limited
2. Kakuzi Limited
3. Kapchorua Tea Factory Limited
4. Limuru Tea Limited
5. Sasini Limited
6. Wiliamson Tea Kenya
7. Car and general (K) limited
8. Sameer Africa
9. Homeboyz
10. CFC Stanbic Holdings Limited
11. Diamond Trust Bank Limited
12. Equity group holdings
13. Housing finance group limited
14. ABSA
15. I&M holdings limited
16. KCB group Limited
17. National Bank of Kenya limited
18. NCBA
19. Standard Chartered Bank Limited
20. The Cooperative Bank of Kenya Limited
21. Atlas African Industries Limited
22. Express Kenya Limited
23. Deacons East Africa plc
24. Kenya Airways Limited
25. Longhorn Publishers Limited
26. Nairobi Business Ventured Limited
27. Nation Media Group Limited
28. Standard group Limited
29. TPS Eastern Africa Limited
30. Uchumi Supermarket Limited
31. WPP Scangroup Limited
32. ARM Cement Limited
33. Bamburi Cement Limited
34. Crown Paints Kenya Limited
35. E.A Cables Limited
36. E.A Portland Cement Co. Limited
37. KenGen Company Limited
38. Kenol Kobil
39. Kenya Power & Lighting company limited
40. Total Kenya limited
41. Umeme Limited
42. Britam Holdings Limited
43. CIC insurance Group Limited
44. Jubilee Holdings Limited
45. Kenya Re insurance corporation Limited

46. Liberty Kenya Holdings Limited
47. Sanlam Kenya PLC
48. Centum Investment Company Limited
49. Home Afrika Limited
50. Kurwitu Ventures Limited
51. Olympia Capital Holdings Limited
52. Trans Century Limited
53. Nairobi Securities Echange
54. Ilam Fahari I-REIT
55. B.O.C Kenya Limited
56. British American Tobacco Kenya Limited
57. Carbacid Investment Limited
58. East African Breweries Limited
59. Eveready East African Limited
60. Flame Tree Group Holdings Limited
61. Kenya Orchards Limited
62. Mumias Sugar Company Limited
63. Unga group Limited
64 Safaricom Limited

Appendix V: Plagiarism Awareness Certificate

SR469

ISO 9001:2019 Certified Institution

THESIS WRITING COURSE

PLAGIARISM AWARENESS CERTIFICATE

This certificate is awarded to

DIANA KWAMBOKA OSANO

MBA/5845/21.

In recognition for passing the University's plagiarism

Awareness test for Thesis: entitled: **CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE, BOARD INDEPENDENCE, FINANCIAL PERFORMANCE OF LISTED COMPANIES IN KENYA** with similarity index of 7% and striving to maintain academic integrity.

Word count: 27762

Awarded by

Prof. Anne Syomwene Kisilu
CERM-ESA Project Leader Date: 15/03/2024