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**INFLUENCE OF ETHICAL INVESTOR RELATIONS ON THE
FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA**

**Manduku Daniel Ogwoka, Dr. Juliana Namada and Dr. Damary
Sikalieh**



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^{1*} Manduku Daniel Ogwoka

Post graduate student: United States International University – Africa

*Corresponding Author's Email: danielmanduku@yahoo.com

² Dr. Juliana Namada

United States International University – Africa

³ Dr. Damary Sikalieh

United States International University – Africa

Abstract

Purpose: The objective of the study was to investigate the influence of ethical investor relations on the financial performance of listed firms in Kenya.

Methodology: The study adopted a causal research design to establish the relationship between ethical leadership and financial performance of companies listed in the Nairobi Securities Exchange using correlation and regression analysis. Primary data was collected through a semi-structured questionnaire. Secondary data was collected from both the listed firms in the Nairobi Securities Exchange (NSE), and information from the sector regulator, the Capital Markets Authority (CMA). The target population of this study was 64 companies listed in the Nairobi Securities Exchange (NSE) with consistency being evaluated between the years 2011 to 2015. Data analysis was done using the Statistical Package for Social Scientists (SPSS).

Results: The study found out that there exists a strong relationship between ethical investor relations and financial performance. The study established that information disclosure, the practice of corporate ethics and vetting of board members being based on ability to achieve the firms' vision is essential for the listed firms.

Unique contribution to theory, practice and policy: The study recommends truthful disclosure of information, especially regarding financial statements of the firms.

Keywords: *Ethical inventors' relations, Ethical leadership, financial performance, Listed Firms*

1.0 INTRODUCTION

Ethical investor relations refer to how companies manage themselves and their relationships with shareholders. Ethical investors ensure that corporations are being honest and transparent, and that management isn't looking out for its interests to the detriment of others (Lorraine, 2004; Bedicks, & Arruda, 2005). Generally, and specifically in firms listed on the NSE, investors are highly attracted to invest in firms' which practice corporate ethics since this is the only way they can be assured of returns from their investments and thus leading to positive financial performance of the firms they have invested in (Lorraine, 2004; Bedicks, & Arruda, 2005). When an organization cultivates good investor relations, it will retain the investors, and this will have a positive effect on the organization's financial performance.

Performance refers to the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed (Persons, 2011; Wambua, 2013; Obiwuru et

al., 2011). Performance can be measured using the balanced scorecard. Kaplan & Norton (1992) assert that the Balance Score Card (BSC) can generally be used for performance measurement. For its usage, BSC is composed of four dimensions namely; customer perspective, internal business process perspective, learning perspective and financial perspective, and innovation (Kaplan & Norton, 1992). The first three dimensions enable them to re-tool and provide leading measures of performance while the last dimension provides a lagging measure of performance. The current study focused on the financial perspective, since financial performance measures define the long-run objectives of the business unit (Kaplan & Norton, 1992).

The social learning theory opines that circumstances that can possibly bring about extraordinary mischief are liable to be socially remarkable (Brown & Treviño, 2006). The magnitude of outcomes is especially imperative for ethical leadership because ethical leaders consider the results that their potential activities will have on others and the performance of their organizations. Even the followers uphold the management if they well understand that their leaders treat them with the trust and fairness they deserve (Pillai, Schriesheim, & Williams, 1999). At the point when the potential for mischief exists, observers will pay attention on the leaders with an aim to perceive how such situations are handled. For this reason, whenever leaders face circumstances that can possibly bring about extraordinary mischief and then they handle the circumstances in a morally proper way, then they are deemed to be seen as ethical (Brown & Treviño, 2006). The contrary is true, since when any leader settles on choices that convey critical mischief to others, the leader is said to be non-ethical.

Globally, securities exchanges have been performing fairly well by combining ethics, rules, know-how and technology to enable efficient, transparent and smooth trading and settlement of assets (Levine and Zervos, 1998; Rajan and Zingales, 1998). Their performance have been on the upward rise, notwithstanding the hard economic times, caused by relatively high global inflation rates. These securities exchanges have thereby improved efficiency throughout the transaction value chain, boosted the quality of complex financial information and also supported the work of all participants in the capital markets. Acting wholesomely, stock exchanges and settlement institutions are key players in the global financial industry and have to fulfill a distinct role within the financial services sector (Levine and Zervos, 1998; Rajan and Zingales, 1998).

Regionally, for example, Nigeria's Securities Exchange has witnessed an increase in the rate of corporate failures. There were reported cases of corporate failures in Nigeria, which were due to unethical practices of the corporate leaders (Asea, 2003). Most Africa's stock exchanges have remained small, underdeveloped and illiquid operating in isolation from other markets and also having low trading volumes. Additionally, most of these stock exchanges in developing countries like Ghana have and still continue to enjoy some governmental protection. This has prevented competition by national regulations and face barriers to capital mobility because of high costs of travel and communications (Asea, 2003).

In the Kenyan scenario, majority of firms listed on the Nairobi Securities Exchange (NSE) have been experiencing declining performance, and forecasts have indicated a similar trend in future. In one of the cases, seven listed agricultural firms have an average price to earnings (P/E) ratio of 4.74. This is below a third of the average stock market P/E of 16.70 (Omboi, 2011; Maina and Sakwa, 2010; Hutchings Beimer, 2010; Mwangi, Makau and Kosimbei, 2014). The companies that have of late witnessed declined financial performance in Kenya include: Eaagads Limited,

Kapchorua Tea Company Limited, Kakuzi, Limuru Tea Company Limited, Rea Vipingo Plantations Limited, Sasini Limited and Williamson Tea Kenya Limited. These companies have reported frequent negative reports for the last ten years compared to other listed companies (Omboi, 2011; Mathenge, 2012).

Besides the above-mentioned firms, analysts have also cited firms such as Mumias Sugar Company, Uchumi Supermarket and Sameer Africa as also experiencing poor performance (Munda, 2015; Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012). Besides, some firms such as CMC Holdings Limited have also failed to practice ethical leadership. The suboptimal performance would have been caused by unethical management practices in human resource, advertising, consumer relations and investor relations. However, others have done well, e.g. Safaricom Company and Equity Bank (Munda, 2015; Osemeke 2014; Bedicks, & Arruda, 2005 and Mathenge, 2012). For those that have seen better performance, their ROA have been either steadily been rising or have relatively stayed in a constant value within the last five years, measured over the duration 2010-2015. The data on performance was obtained from the 2016 NSE handbook as well as information contained in the Capital Markets Authority (CMA).

The Capital Markets Authority of Kenya was established to oversee the orderly development of Kenya's capital markets. It is the government's regulator mandated to license and regulate the capital markets in Kenya. It also approves public offers and listings of securities traded at the Nairobi Securities Exchange (NSE). The NSE has a double responsibility for growth and regulation of the financial market operations to ensure efficient and reliable trading (Almajali et al., 2012; Liargovas, and Skandalis, 2008). Based on the data from both the CMA and NSE, this study sought to unravel whether ethical leadership has a role in the performance of firms listed on the NSE. From the perspective of governance, this research believed that ethical human resource management, ethical advertising, ethical consumer relation and ethical investor relation are responsible for the financial performance of firms listed in the Nairobi Securities Exchange. This study thus aimed to ascertain the relationship between ethical investor relations and financial performance of firms listed in the Nairobi Securities Exchange.

1.1 Problem Statement

Ethical investor relations refer to how companies manage themselves and their relationships with shareholders. Investors often feature in the various firms' prospects for the future into pricing decisions (Gabbioneta, Ravasi, & Mazzola, 2007) and they should then be treated as important stakeholders. Improved relationship with investors improves the firms operating environment (Peloza & Papania, 2008). Ethical investor relation ensures that corporations are being honest and transparent, and that management is not looking out for its own interests to the detriment of others. Investors are highly attracted to invest in companies which practice corporate ethics since this is the only way they can be assured of returns from their investments (Bedicks & Arruda, 2005).

Bedicks and Arruda, (2005), Siti (2000), Lorraine et al. (2004), Berrone, *et al.*, (2007) and Bayoud *et al.*, (2011) looked at the influence of investor relations with respect to financial performance but failed to break it down into the sub components of ethical investor relations. Contextually, Mweta (2014) conducted a study on the effect of sin activities on the financial performance of companies

listed at the NSE. The study by Iraya and Musyoki (2013) evaluated the performance of socially screened portfolio at the NSE. Maina and Sakwa (2010) selected firms in five sectors and sought to understand the financial distress of listed companies. They analyzed the financial statements and noted that the financial health of listed companies needed to be improved and that there is a missing link between surveillance and the ethical leadership of these firms, which if not rectified, the public could lose interest in investing at the bourse. This study thus took into account that it is challenging to appreciate the importance of the ethical investor relations in the emerging market because of the large number of poorly informed and unsophisticated investors, weak legal, regulatory and institutional framework and operational bottleneck.

1.2 Research Objective

The objective of the study was to establish influence of ethical investor relations on the financial performance of listed firms in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework: Cognitive Moral Development Theory

Cognitive Moral Development Theory argues that if organizations do not include concerns about ethical behaviour into performance appraisals, then organizations will be unable to articulate a values-orientation that is integrated across the organization. Ethical behaviour involves principles such as fairness, integrity, honesty and concern for others. Ethical leadership thus benefits others and refrains from any concerns that may cause harm to others (Toor & Ofori, 2009). When unethical situations arise, there might be suspicion among employees that some individuals aren't accountable to ethical ideals postulated in the company's policy. With leaders being key figure for the achievement of organizational goal, they should thus set the tone for ethical behaviour including promotions, appraisals and strategies (Brown & Mitchel, 2010).

Kohlberg's theory focuses on how people reason through ethical dilemmas and how they decide what is right (Kohlberg, 1969). Human beings reason at three stages that can be categorized into pre-conventional, conventional and post-conventional (principled level) Kohlberg (1969). Pre-conventional individuals (the lowest level) are concerned with avoiding punishment and the law of reciprocity works in this level. Principled individuals (the top-most level) make decisions autonomously by looking at themselves and are led by the principles of rights and justice (Crain, 1985). Conventional-level individuals look outside themselves to rules, laws and expectations of significant others in their environment for direction when deciding on the ethically right thing to do. This makes ethical leaders the most important source of moral guidance as followers look to leaders for clues about what behaviour is appropriate and inappropriate. This theory informs the ethical human resource practices, ethical advertising practices, ethical consumer relations and ethical investor relations in this study. This is because it explains how people reason through ethical dilemmas and how they decide what is right.

Employees' level of moral reasoning is a significant predictor of their altruistic behaviour (Ryan, 2001). Accordingly, Tang et al. (2008) established that both intrinsic motives and extrinsic motives contribute significantly towards altruistic behaviour. Also, McWilliams, Teo, & Rodwell (2006) revealed that job control and social support were essential predictors of altruistic behaviour. For listed firms in Kenya, the debate is whether the country has moral leaders whose reasonings can be depended on to provide ethical leadership. Human Resource (HR) is most likely to adopt an employee development method to ethics training. Cognitive Moral Development Theory (Kohlberg, 1969) proposes that moral judgment can be enhanced with explicit training processes designed to challenge the thinking of individuals by establishing cognitive conflict. From the theory, what people believe, think and feel affect how they behave (Bandura, 1986). With the function of culture creation and management falling under HR policies, the affected leaders need to create and manage ethical cultural environment (Schein, 2004). Thus managers should create enabling environments that seek to encourage and mentor employees. Employees who are most likely to find themselves needing to make autonomous decisions in ethically abstruse situations (e.g. during overseas assignments) likely could profit from similar training methods. Organizational policies should be well defined both in the organizational and psychological climates (James & Jones, 1974; Jensen, 2003). To promote a values-oriented and integrated ethics program, organizations should incorporate concerns for ethics and fairness in the appraisal processes. Without ethical considerations in HRM, becomes impossible to have a sense of fairness among employees. Obviously, the performance goals used in the evaluation process must be unswerving with, and supportive of, overall ethical goals and principles. For example, performance goals should focus on means as well as ends. Most scholars such as Lampe and Finn (1992), Ponemon (1990), and Trevino (1986) attribute this theory for adequate explanation of human behaviours.

The theory in its end is considered as gender biased (Gilligan, 1982) and does not exhaustively take into account what influences human behaviour. According to the theory, what people believe, think and feel influence how they behave (Bandura, 1986), hence not taking into account other external factors such as those brought about by external stakeholders. For the purpose of this dissertation, these stakeholders include consumers and investors.

2.2 Empirical Review

Investor relations is a strategic management responsibility that optimizes the disciplines of finance, marketing and communication. The aim of all of these functions is to manage the content and flow of a company to maximize valuation in financial and other constituencies. Marcus & Wallace (1997) argue that the nature and role of investor relations have evolved through some phases. Initially, investor relations had a simple role of communicating a company's actions. This role then developed to the next phase of increasing focus on the financial results and the financial function in a company (Turban & Greening, 1997). The role further developed to a more advanced level where investor relation focuses on active marketing aimed at encouraging investors to hold or buy the stock of the company. This also ensures that the firm is fairly valued (Turban & Greening, 1997).

A study by Sahut and Gharbi (2010) on institutional investors' typology and firm performance: Sample of French firms, over the period 2006-2008, established that institutional investors play a

vital role on corporate governance and firm management in totality. Their findings showed a positive impact of institutional activism on firm performance. Their research findings were in tandem with previous researches such as Demsetz (1983), Himmelberg, Hubbard & Palia (1999) and Demsetz & Villalonga (2001) that also established positive correlation between a firm's ownership structure and its performance. Investors are generally more attracted to environments that practice corporate ethics. This notwithstanding, academic research in the field of investor relations are still relatively scanty (Marson & Straker, 2001).

Disclosure of more information is an effective ingredient to effective market valuation of firm's securities (Fishman & Hagerty, 1989). In the assertion of Gelb (2000), 'the more the information disclosure, the better it is for the company.' Scholars such as Sinnet (2002), Michaelson & Gilfeather (2003) and Conger (2004) also elucidate that there comes an increased trading volume and liquidity of securities (among other benefits) of an investor relations programme. Information regarding both the trading volumes and liquidities should be ethically disclosed. Disclosures is essentially important to investors because it highlights the operations, processes and structure of the firm. A number of empirical studies have been conducted that links information disclosure to firm performance.

Companies should have proactive and diversified two-way interactions and communication with investors (Tuominen, 1997). The researcher elucidates that extensive disclosures can improve the financial standings of a company since investor relations can have positive impact on a company's market value and cost of capital relative to its industry sector and the overall economic climate. Some portfolio managers of ethical funds value the behaviour of a specific company higher than the industry it is operating in (Tuominen, 1997).

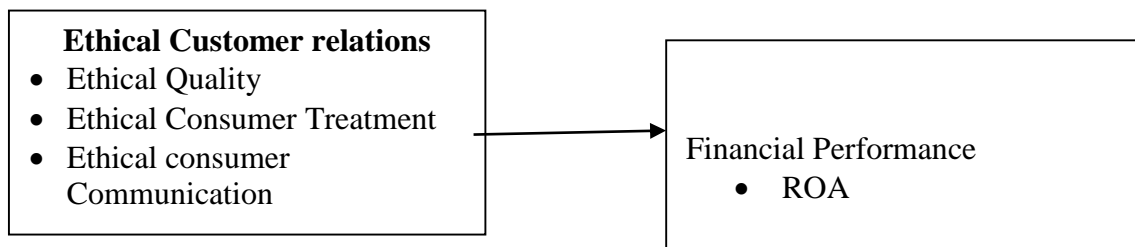


Figure 1: Conceptual Frame work

3.0 RESEARCH METHODOLOGY

The study used the causal research design. A causal design plays an instrumental role regarding identifying reasons behind a wide range of processes, as well as, assessing the impacts of changes in existing norms, processes (Olusola et al., 2013). The target population of this study was 64

companies listed in the Nairobi Securities Exchange (NSE) with consistency being evaluated between the years 2011 to 2015. The justification for the choice of NSE listed firms was that public firms have a duty of care to the public and hence ethical leadership is a major concern for these firms (Mweta, 2014). In addition, these firms have come to the spot light regarding poor ethical practices such as CMC holdings (Mweta, 2014). Senior managers were chosen to be the unit of analysis because these are the key personnel who have key information about the companies. The unit of analysis of this study was the top financial managers of the firms listed in the NSE.

The study used a census approach due to the small number of the listed companies in the NSE. The total number of firms that were used in the research was 64 firms in which each questionnaire was filled by either the Chief Finance Officer (CFO) or the Chief Executive Officer (CEO) from each of the 64 firms. Secondary data from the listed firms was collected on ROA. This secondary data was collected from the firms listed at the Nairobi Securities Exchange. Primary data was collected through semi-structured questionnaires. The questionnaire contained both the Likert scale and closed questions. The questionnaire was in form of a Likert scale. Simple regression analysis was conducted to establish the relationship between the ethical investor relations and financial performance.

The regression model was as follows:

$$Y = \alpha + \beta X + \varepsilon$$

Where:

Y = Financial Performance (ROA)

α = Constant

β , = Regression coefficients of the independent variables

X = Ethical Investor relations

ε = Error term.

4.0 RESULTS AND DISCUSSIONS

The variables under study were: the firm practiced corporate ethics; the firm truthfully disclosed information to stakeholders; the firm's ownership structure affected its relationship with stakeholders; the firm practiced policies that build investor relations and; the firm encouraged best practice in investor communications on all media platforms. Others were board meetings focused on investor relations, vetting of board members was based on the ability to achieve the firm's vision and board emphasized on accountability in relaying financial information to investors.

4.1 Component Factor Loadings

The study sought to carry out factor analysis to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables. Factor analysis was used in the study to remove redundancy or duplication from a set of correlated variables. The factor loadings for ethical investor relation practices were obtained in the study. 3 components were loaded. In the first component, "The board emphasizes accountability in relaying financial

information to investors” had the highest factor loading of 0.796, “The firm's ownership structure affects its relationship with stakeholders” had the highest factor loading of 0.775 in the second component while “The board meetings focus on investor relations” had the highest factor loading of 0.407 in the third component. The results are as shown in Table 1 below.

Table 1: Component Factor Loadings for Ethical Investor Relation Practices

	Component		
	1	2	3
The firm practices corporate ethics	.742	-.149	-.378
The firm truthfully discloses information to stakeholders	.622	.213	-.602
The firm's ownership structure affects its relationship with stakeholders	-.155	.775	.052
The firm practices policies that build investor relations	.753	.379	-.243
The firm encourages best practice in investor communications on all media platforms	.327	.707	.405
The board meetings focus on investor relations	.563	.091	.407
Vetting of board members is based on the ability to achieve the firm's vision	.750	-.370	.371
The board emphasizes accountability in relaying financial information to investors	.796	-.241	.259

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

4.2 Assumptions for Regression

4.2.1 Linearity Test for Ethical Investor Relations

The study conducted linearity test to determine whether the relationship between ethical investor relation practices and financial performance was linear or not. Findings are as shown in Table 2. If the significant deviation from linearity is greater than 0.05, then the relationship between the independent variable is linearly dependent. If the significant deviation from linearity is less than 0.05, then the relationship between the independent variable and the dependent variable is not linear. According to the results shown in Table 2 the significant deviation from linearity is 0.389 which is greater than 0.05 implying that there is a linear relationship between ethical investor relation practices and financial performance.

Table 2: Linearity Test for Ethical Investor Relation Practices

		Sum of Squares	df	Mean Square	F	Sig.	
Financial Performance *	Between Groups	(Combined)	49.464	6	8.244	.891	.509
		Linearity	.000	1	.000	.000	.999

Ethical Investor Relation Practices		Deviation from Linearity	49.464	5	9.893	1.069	.389
	Within Groups		453.516	49	9.255		
	Total		502.980	55			

4.2.2 Homoscedasticity Test for Ethical Investor Relations

The study also conducted homoscedascity test between ethical investor relation practices and financial performance of the firms. Ethical investor relation practices was the independent variable while Financial Performance was the dependent variable of the study. A scatter plot was derived to show homoscedascity in the study as shown in Figure 2

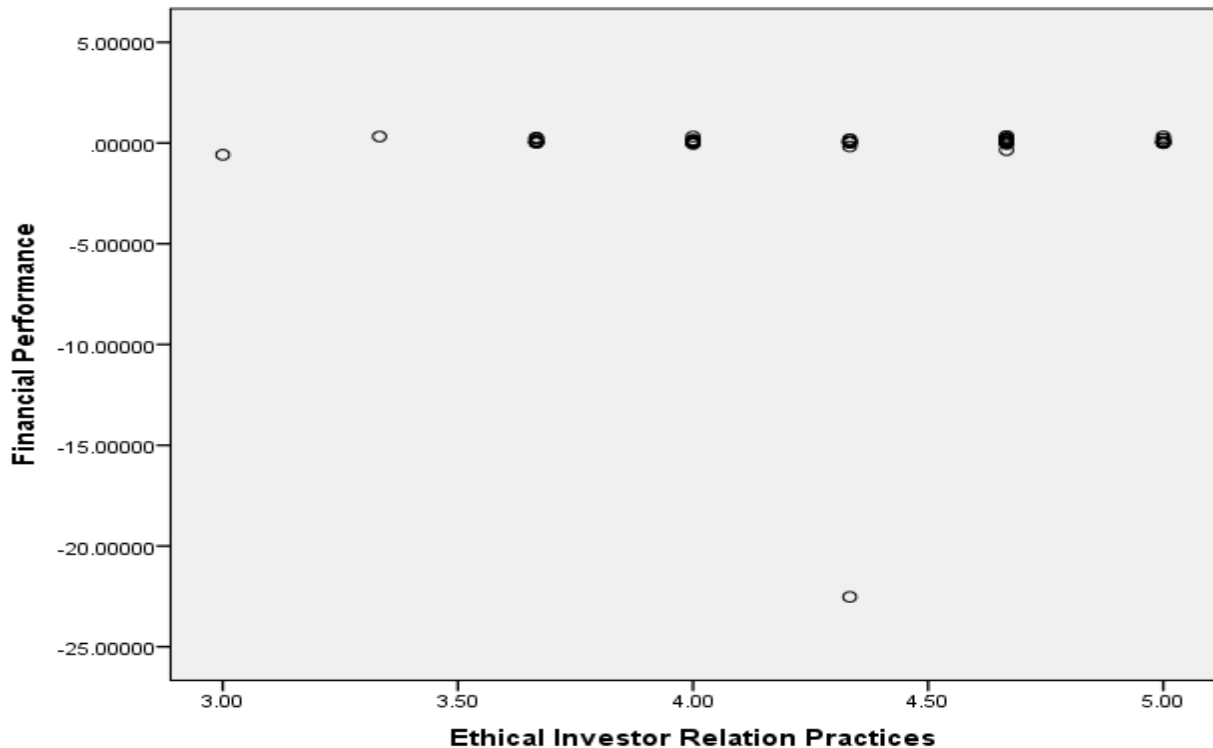


Figure 2: Homoscedascity Test between Ethical Investor Relation Practices and Financial Performance

The assumption of homoscedasticity describes a situation in which the error term (that is, random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables. The violation of homoscedasticity is present when the size of the error term differs across values of an independent variable. As shown in 2, the error term is the same across the values of Ethical Investor Relation Practices (independent variable) and therefore homoscedascity has not been violated in the study.

4.2.3 Normality Test for Ethical Investor Relations

The study conducted the Shapiro-Wilk test to test for normality in the study. Normality test was done at 95% confidence interval for mean. If the p-value is less than 0.05, then the null hypothesis is rejected and there is evidence that the data tested are not from a normally distributed population; in other words, the data are not normal. If the p-value is greater than 0.05, then the null hypothesis that the data came from a normally distributed population cannot be rejected. The results in table 3 indicate that the p value was 0.001 which implies that data tested is not from a normally distributed population.

Table 3: Tests of Normality for Ethical Investor Relation Practices

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Ethical Investor Relation Practices	.186	56	.000	.919	56	.001

a. Lilliefors Significance Correction

4.2.4 Multicollinearity Test for Ethical Investor Relations

Multicollinearity test was also done in the study to determine whether the ethical investor relation practices and financial performance were highly correlated, meaning that one can be linearly predicted from the other with a substantial degree of accuracy. Findings are as shown in Table 4. If the VIF value lies between 1 – 10, then there is no multicollinearity. If the VIF value is less than 1 or more than 10, then there is multicollinearity. As shown in Table 4, the VIF value was 4.839 which indicate that there were no multicollinearity issues in the study.

Table 4: Multicollinearity Test for Ethical Investor Relation Practices

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Ethical Investor Relation Practices	3.372	4.839

a. Dependent Variable: Financial Performance

4.3 Principal Component Analysis

Principal component analysis was done for ethical investor relation practices. KMO Test was used to measure of how suited the data was for Factor Analysis. The statistic is a measure of the proportion of variance among variables that might be common variance. The lower the proportion, the more suited the data is to Factor Analysis. KMO returns values between 0 and 1. KMO values between 0.8 and 1 indicate the sampling is adequate. KMO values less than 0.6 indicate the sampling is not adequate and that remedial action should be taken. KMO values close to zero means that there are large partial correlations compared to the sum of correlations. The study found that KMO had a value of 0.683 and Bartlett's test, $\chi^2 (8, N = 57) = 138.881, p = .000$. This implies that sampling was adequate for ethical investor relation practices in the study.

Table 5: KMO and Bartlett's Test for Ethical Investor Relation Practices

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.683
Bartlett's Test of Sphericity	Approx. Chi-Square	138.881
	df	8
	Sig.	.000

The findings shown in Table 6 indicate that “Vetting of board members is based on the ability to achieve the firm's vision” had the highest communality of 0.837 under ethical investor relation practices whereas “The board meetings focus on investor relations” had the lowest community value of 0.491.

Table 6: Communalities for Ethical Investor Relation Practices

	Initial	Extraction
The firm practices corporate ethics	1.000	.715
The firm truthfully discloses information to stakeholders	1.000	.794
The firm's ownership structure affects its relationship with stakeholders	1.000	.627
The firm practices policies that build investor relations	1.000	.770
The firm encourages best practice in investor communications on all media platforms	1.000	.772
The Board meetings focus on investor relations	1.000	.491
Vetting of Board members is based on the ability to achieve the firm's vision	1.000	.837
The Board emphasizes accountability in relaying financial information to investors	1.000	.759

Extraction Method: Principal Component Analysis.

The study findings presented in Table 7 give the Eigen values for the factors under ethical investor relation practices. According to the findings, the first factor accounts for 39.340% of the variance, the second factor accounts for 18.942% of the variance while the third factor accounts for 13.769% of the variance. All the remaining factors were found to be not significant hence were dropped.

Table 7: Total Variance Explained for Ethical Investor Relation Practices

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.147	39.340	39.340	3.147	39.340	39.340

2	1.515	18.942	58.282	1.515	18.942	58.282
3	1.102	13.769	72.051	1.102	13.769	72.051
4	.842	10.531	82.582			
5	.521	6.510	89.091			
6	.423	5.284	94.375			
7	.271	3.388	97.763			
8	.179	2.237	100.000			

Based on the Eigen values, a scree plot was obtained as shown in Figure 3. The scree plot indicates that 3 factors had Eigen values greater than 1.

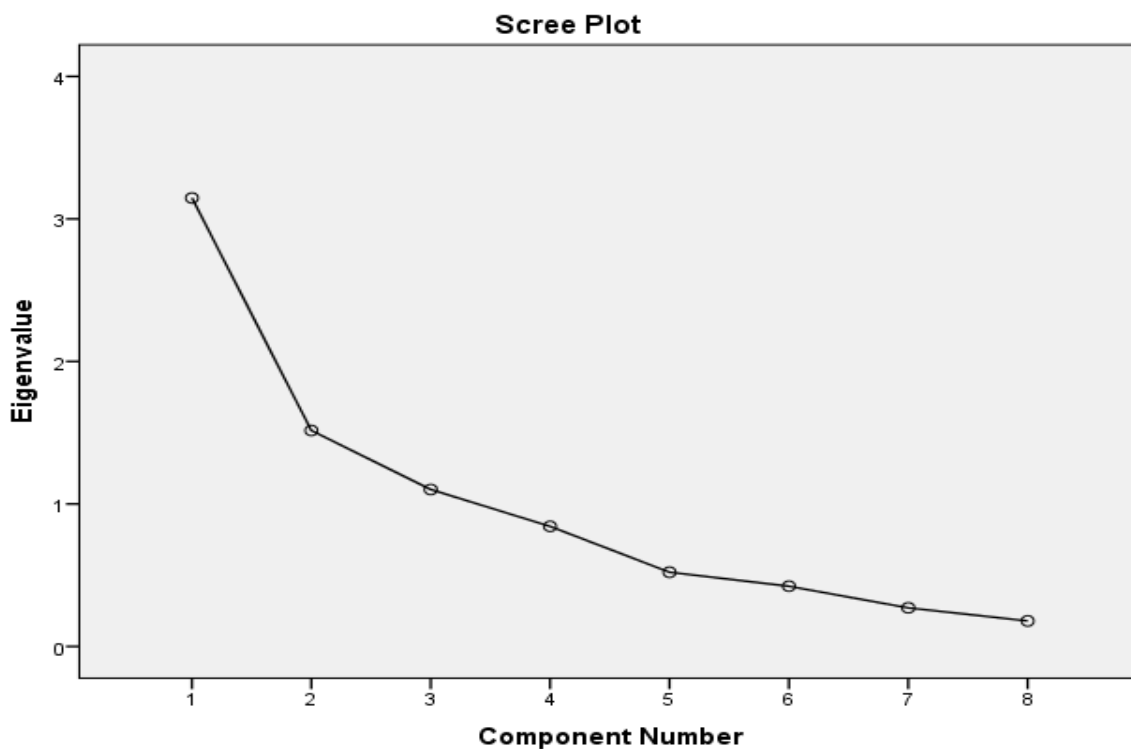


Figure 3: Scree Plot for Ethical Investor Relation Practices

4.4 Descriptive Statistics for Ethical Investor Relation Practices

The study sought to determine the descriptive statistics for ethical investor relation practices using means, standard deviations, skewness and coefficient of variation. Findings are as shown in Table 8. A Likert scale data was collected rating the views in a scale of 1 to 5 where 1 represents not at all whereas 5 represent always. The results from the collected responses were analyzed based on means and their standard deviations to show the variability of the individual responses from the overall mean of the responses. The mean results are therefore given on a scale interval where a mean value of up to 1 is an indication of no influence at all; 1.1 – 2.0 is rarely; 2.1 – 3.0 is sometimes, 3.1 – 4.0 is a fairly often and a mean value of 4.1 and above is an indication of always.

Table 8: Descriptive results for Ethical Investor Relation Practices

	N	Mean	Std. Deviation	Variance	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
The firm practices corporate ethics	56	4.77	.467	.218	-1.846	.319
The firm truthfully discloses information to stakeholders	56	4.66	.581	.337	-1.533	.319
The firm's ownership structure affects its relationship with stakeholders	56	3.50	1.335	1.782	-.809	.319

From the findings, the firms always practiced corporate ethics ($M = 4.77$, $SD = 0.467$). The standard deviation which is less than 1 show that the responses given did not vary significantly from the mean value and therefore changing the population units studied would not alter significantly the current results. Also, the firms always truthfully disclosed information to stakeholders ($M = 4.66$, $SD = 0.581$) and the firm's ownership structure fairly often affected its relationship with stakeholders ($M = 3.50$, $SD = 1.335$). The standard deviation was slightly above 1 indicating that the responses varied significantly from the mean value.

4.5 Correlation Analysis Results

The study sought to establish correlation between the dependent variable and each of The Ethical Investor Relation Practices components. The dependent variable for the study was Financial Performance. The correlation test was conducted at the 5% level of significance with a 2-tailed test. Thus, the significance critical value is 0.025 above which the association is deemed to be insignificant and vice versa. The strength of the correlation is measured based on the Pearson correlation scale. The correlation coefficient ranges from -1.0 to +1.0 and the closer the coefficient is to +1 or -1, the more closely the two variables are related.

The findings illustrated in Table 9 show that, the components under ethical investor relation practices had a positive and significant relationship with financial performance. The correlation coefficient for '*the firm practices corporate ethics*' is 0.752 with a significance value of 0.001 which is less than 0.025 at the 5% level. '*The firm truthfully discloses information to stakeholders*' has a correlation coefficient of 0.770 with a significance value of 0.010, which is less than 0.025 at the 5% level. '*The firm's ownership structure affects its relationship with stakeholders*' has a correlation coefficient of 0.849 with significance value of 0.021.

Table 9: Correlation between Ethical Investor Relation Practices components and Financial Performance

		Financial Performance
Financial Performance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	57
The firm practices corporate ethics	Pearson Correlation	.752
	Sig. (2-tailed)	.001
	N	56
The firm truthfully discloses information to stakeholders	Pearson Correlation	.770
	Sig. (2-tailed)	.010
	N	56
The firm's ownership structure affects its relationship with stakeholders	Pearson Correlation	.849
	Sig. (2-tailed)	.021
	N	56

The study further conducted the correlation between Ethical Investor Relation Practices and Financial Performance of the firms. The test was 2 tailed at 95% confidence level. The findings obtained show a strong and significant association between Ethical Investor Relation Practices and financial performance, $r(57) = .990, p < .000$. Table 4.52 gives the results of the study.

Table 10: Correlation between Ethical Investor Relation Practices and Financial Performance

		Financial Performance
Financial Performance	Pearson Correlation	1
	Sig. (2-tailed)	
	N	57
Ethical Investor Relation Practices	Pearson Correlation	.990
	Sig. (2-tailed)	.000
	N	56

4.6 Hypothesis Testing

Hypothesis was tested in the study using the chi square test. The following hypothesis was tested;

H₀: Ethical investor relation practice does not have a significant influence on the financial performance of listed firms in NSE.

The study conducted regression analysis to determine the effect of ethical investor relation practices on the financial performance of the firms listed in the Nairobi Securities Exchange (NSE). The regression was carried out at 0.05 level of significance. Results in Table 11 indicate the regression model summary showing the extent to which ethical investor relation practices influence financial performance. Based on the coefficients, the predictor variable (ethical investor relation practices) explains 74.0% of the variation in financial performance of listed firms by NSE. This is as represented by the R² coefficient of 0.740. This therefore reveals that other factors not studied in this research contribute to 16% of the variability in the financial performance of firms listed by NSE.

Table 11: Model Summary for Ethical Investor Relation Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.800 ^a	.740	.719	.05195763

a. Predictors: (Constant), Ethical Investor Relation Practices

From Table 12, the value of significance in testing the reliability of the model for the relationship between ethical investor relation practices and financial performance was obtained as 0.000, which is less than 0.05 (that is the critical value at 95% confidence level). Therefore the model is statistically significant in predicting the relationship between ethical investor relation practices and financial performance in the listed firms by Nairobi Securities Exchange (NSE). The model was significant for the relationship as given by the regression coefficients $F = 7.738$, $p = .000$. The study thus concludes that ethical investor relation practices have a significant influence on the financial performance of listed firms in the Nairobi Securities Exchange (NSE).

Table 4.12 ANOVA Table for Ethical Investor Relation Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.676	7.738	.000 ^b
	Residual	502.980	2	9.314		
	Total	502.980	3			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Ethical Investor Relation Practices

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between ethical investor relation practices and financial performance are as shown in Table 13. These coefficients answer the regression model relating the dependent and the independent variable.

Table 13: Coefficients Table for Ethical Investor Relation Practices

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.331	3.488		5.095	.005		
1 Ethical Investor Relation Practice	.391	.804	.421	12.002	.000	3.372	4.839

a. Dependent Variable: Financial Performance

The findings imply that for every unit increase in ethical investor relation practices, financial performance increases by Kshs. 0.391. This is a significant and positive influence of Ethical Investor Relation Practices on Financial Performance.

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Findings

The findings obtained in the study agree with the findings of Sahut and Gharbi (2010) who determined that institutional investors play a vital role on firm performance. Their findings showed a positive impact of institutional activism on firm performance. These findings are in line with the findings of other scholars such as Demsetz and Villalonga (2001) who established a positive correlation between a firm's ownership structure and its performance.

The findings clearly indicate that investors are generally more attracted to environments that practice corporate ethics. A number of scholars concur with this finding such as Brennan and Kelly, (2000). Bedicks, & Arruda (2005) while supporting the present findings determined that the attraction of investors to corporate ethics is the only way they can be assured of returns from their investments, thus leading to positive financial performance of the firms they have invested in. More information disclosures allow investors to monitor managers more closely and effectively, thus leading to enhanced demand for securities of firms, ultimately lowering the cost of capital, as observed by Gelb (2000).

In addition, Starkman and Klingbail (2004) explained that a firm that nurtures its relation with its shareholders is more often rewarded for such investments. This is in line with the present study. Ethical information disclosure improves stakeholder satisfaction. By this, it communicates the organization's ethical posture, bringing with it its identity with the expectation of stakeholders, as

recorded by Berrone, Surroka and Tribo (2005). Lorraine *et al.* (2004) supports these findings when their study argued that when a firm discloses its ethical values and objectives on its corporate statements, it equates them in importance to other organizational goals.

5.2 Conclusions

The study determined that ethical investor relation practices had a significant influence on financial performance of listed firms in the Nairobi Securities Exchange (NSE). In addition, ethical investor relation practices had a strong correlation with financial performance. Such practices significantly influence financial performance and has a significant value with financial performance. The study concludes that the firms always practiced corporate ethics, the firms always truthfully disclosed information to stakeholders, and that the firm's ownership structure fairly often affected its relationship with stakeholders. Creation of a good relationship is thus a key ingredient of investor satisfaction.

Satisfaction of investors is a center business challenge which has pulled in significant research consideration. Linking from the findings of this dissertation, a firm's profit chain places a positive relationship between the satisfaction of the investors, board characteristics, information disclosure, governance, and financial performance. Both the empirical investigation and results have demonstrated that, not just are the activities of firms' management basic for a high caliber conveyance of administration, additionally they impact trust and satisfaction of the investors. However, the underlying principle is the ethics that come will these benefits. Investors tend to align with organizations that upholds ethical values with regard to information disclosure, board characteristics and governance.

5.3 Recommendations

The study determined that financial performance was highest when firms practiced corporate ethics, when they truthfully disclosed information to their stakeholders, and whenever their ownership structure affected their relationship with their customers. The study therefore recommends that the firms need to always practice corporate ethics; the firms need to always truthfully disclose information to stakeholders and their ownership structure need to affect their relationship with their key stakeholders.

5.4 Suggestions for Further Studies

This study was only conducted in the listed firms by NSE in Kenya. This limited the study to one the listed firms. The study also only measured the viewpoints of top managers only; therefore, the views of other employees were not taken into account. The researcher recommends that other studies be conducted on the ethical leadership aspects and financial performance in listed firms using the views of the junior employees in the firms. Other researchers could carry out a similar research in other firms other than the listed firms studied in this research and the results be compared so as to establish whether there is consistency among the firms. Other researchers could also introduce moderating variables such as size of the firm, which the present study did not cover.

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