THE INFLUENCE OF ETHICAL LEADERSHIP ON THE
FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA

BY

DANIEL OGWOKA MANDUKU

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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A dissertation report Submitted to the Chandaria School of
Business in partial fulfillment of the Requirement for the Degree
of Doctor of Business Administration (DBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2017
DECLARATION

I, the undersigned declare that this is my original work and has not been submitted to any other institution, college or university other than the United States International University – Africa in Nairobi, Kenya for academic credit.

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ABSTRACT

A review of meta-analyses and various constructs relating to ethical leadership as presented in prior studies indicate a gap in endeavors to link ethical leadership practices and financial performance of listed firms in Kenya. This study attempted to address this gap. This study was inspired by the emerging ethical issues in the contemporary business environment as witnessed in listed firms, both regionally and locally. The study sought to evaluate the influence of various ethical leadership practices on financial performance of listed firms in Kenya. The research hypothesized that ethical practices on human resources, advertising, investor relations and consumer relations affect the financial performance of the listed firms.

The study adopted a causal research design to determine the relationship between ethical leadership and financial performance of the listed firms in Kenya. Collection of primary data was done by use of a semi-structured questionnaire containing both open and closed ended questions. Secondary data was collected from websites of the listed firms and the resource centre of the Capital Markets Authority (CMA). The primary data collection tool was administered in the form of hardcopy questionnaires and online Google-Forms.

Descriptive analyses were used to generate quantitative reports through tabulations, percentages, and measures of central tendency for enhanced visualization and discussions. Statistical Package for Social Scientists (SPSS Version 21) was used for the analysis of the collected data. The following were carried out for each of the independent variables of the study: Component factor analysis; Tests for assumptions for regression analysis; Principal component analysis; Generation of descriptive statistics table and; correlation analysis of the variables. Thereafter, regression analysis was done to assess the significance of each independent variable.

Upon analysis, the study determined that there exists a strong association between ethical human resource practices and financial performance of listed firms in Kenya. Similarly, the study determined that each of the ethical practices on advertising, consumer relations, and investor relations significantly influence financial performance of listed firms in Kenya. A joint regression test for the combined effects of the ethical leadership practices established...
that the practices jointly have a significant relationship with financial performance of the listed firms.

Regarding ethical human resource practices, the study established that the greatest conducts that the listed firms greatly upheld are adherence to labour laws during recruitment, with recruitment always considering skill and academic qualifications of the candidates. For ethical advertising practices, the study established that no firm whichsoever condoned unethical conducts during advertisement of their products and/or services’. For ethical consumer relation practices, the study established that listed firms uphold consumer relation policies, putting consumer interests first, before profitability. For ethical investor relation practices, the study established that information disclosure is one key practice upheld by management of listed firms.

This study recommends that listed firms need to adhere to conducts of ethical leadership. The Departments of Human Resources should at all time implement their HR policies with great caution as their mandates, influence their firms’ performance. The Marketing Departments of firms should uphold zero tolerance to unethical advertising practices. Quality is a priority to consumers. Listed firms should formulate ways of always adhering to the provision of quality services to consumers. Ethical investor relations call for truthful disclosure of information, especially regarding financial statements of the firms.
ACKNOWLEDGEMENT

I thank God for life and good health through which it was possible for me to accomplish this assignment. Through Him, all things are possible.

My deepest gratitude goes to my supervisors, Dr. Juliana Namada and Prof. Damary Sikalieh for their patience, motivation and immense knowledge. I am greatly beholden to them for the good guidance and timely comments to this dissertation. To the teaching fraternity, your advice was crucial to the success of this project.

I wish to acknowledge the indispensable support of my family who endured many days of my absence as I endeavored to complete this assignment. To my parents, brothers, sisters and to my friends who all contributed in various ways, your unwavering support was priceless.

I am also grateful to all the listed firms in Kenya for their co-operation and assistance in the period of my data collection.

To all my classmates, it was great sharing the class with all of you during the last three years.

Thank you all for your encouragement.

May God reward all of you.
DEDICATION

I dedicate this dissertation to my family and friends who gave me invaluable moral support throughout the project period and whose words of encouragement and push for tenacity ring in my ears.
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<tbody>
<tr>
<td>AGMs</td>
<td>Annual General Meetings</td>
</tr>
<tr>
<td>BSC</td>
<td>Balance Score Card</td>
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<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CEI</td>
<td>Corporate Ethical Identity</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>CEOs</td>
<td>Chief Executive Officers</td>
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<tr>
<td>CEI</td>
<td>Corporate Ethical Identity</td>
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<td>CFOs</td>
<td>Chief Finance Officers</td>
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<td>CSP</td>
<td>Corporate Social Performance</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>CSRD</td>
<td>Corporate Social Responsibility Disclosure</td>
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<td>HR</td>
<td>Human Resource</td>
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<td>HRM</td>
<td>Human Resource Management</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offer</td>
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<tr>
<td>IRA</td>
<td>Insurance Regulatory Authority</td>
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<td>IRO</td>
<td>Investor Relations Officer</td>
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<tr>
<td>KAM</td>
<td>Kenya Association of Manufacturers</td>
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<td>KPCU</td>
<td>Kenya Planters Co-operative Union</td>
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<tr>
<td>MLQ</td>
<td>Multifactor Leadership Questionnaire</td>
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<tr>
<td>NACOSTI</td>
<td>National Commission of Science, Technology and Innovation</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<tr>
<td>OCB</td>
<td>Organizational Citizenship Behaviour</td>
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<td>P/E</td>
<td>Price-to-Earning-Ratio</td>
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<td>Acronym</td>
<td>Full Form</td>
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<td>---------</td>
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<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>ROI</td>
<td>Return on Investments</td>
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<tr>
<td>SHRM</td>
<td>Strategic Human Resource Management</td>
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<tr>
<td>SCM</td>
<td>Supply Chain Management</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Scientists</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>USIU</td>
<td>United States International University</td>
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CHAPTER ONE

1.0 INTRODUCTION

This chapter gives the background of the study, presenting a terse overview of what ethical leadership entails and thereafter links it with both morality and financial performance. It then proceeds to give an overview of the various constructs of ethical leadership that the study considered. The chapter subsequently presents the problem statement, purpose of the study, objectives, research hypothesis, significance of the study, scope of the study and lastly, defines various terms used in the study.

1.1 Background of the Study

Scholars have defined the term leadership in various ways. For instance, Nelson (2006) defined leadership as the steps, procedures and processes that guide the behaviour of individuals within the work environment. Simply put, leadership involves persuading others to behave differently with the aim of achieving tasks set for them. Northouse (2010) defines leadership as the process in which a leader influences a group of people to accomplish any collective goals. Kodish (2006) urges leaders to portray high moral quality and be strong on their ethical conducts. Ethical leadership concerns demonstrating appropriate behavior by the use of personal actions and interpersonal relationships, and promoting the same to followers through two-way communication, and decision-making process (Brown et al. 2005).

Literature shows that the quality of leadership can be linked to organizational performance (Nelson, 2006; Northouse, 2010). Specifically, ethical leadership may influence the financial performance of firms. Organizations with ethical leadership are expected to report higher Return on Assets (ROA) and Return on Equity (ROE) (Nelson, 2006; Northouse, 2010). Both Mayer et al. (2009) and Walumbwa and Schaubroek (2009) demonstrate a hierarchical progression in which top management ethical leaders enhance ethical behaviour of first-line managers, which in turn trickles down to lower level employees, the result of which is positive influence on financial performance.
Top managers generally serve as role models for lower-level employees because of their visibility and authority. This therefore implies that when top executives display high degrees of ethical leadership, lower-level employees generally emulate their behaviour and engage in better pro-social behaviour thus leading to an improvement on financial performance of the firm (Mayer et al. 2009). In their study, Mayer et al. (2009) discovered positive influences of the executive ethical leadership philosophy on the understanding of lower level employees regarding the need and significance of ethics. Lower level employees, from their assertion, regard those in the cadres of various management subjects and who receive commands by their respective managers, either directly or indirectly.

Empirical researches on the influence of ethical governance on organizational performance are scanty. However, various studies have been undertaken that have sought to give an insight on underlying correlation between ethical leadership and financial performance. In their research, Mayer et al. (2009) prove that ethical leadership positively influences the financial performance of organizations. Both Walumbwa and Schaubroek (2009) and Piccolo et al. (2010) established a positive correlation between ethical leadership and financial performance. Similarly, Walumbwa and Schaubroeck (2009) also discovered that the pre-conceptions of ethical leadership had almost direct relationship with the increased financial performance due to their impacts on the employees’ behaviour.

Ethical leadership is all about acting morally and doing what is required for the overall benefit of not just the stakeholders, but to the company as a whole (Oates and Dalmau, 2013; Osemeke, 2014. By this argument, ethical leadership should thus be able to contribute to the overall profitability of the company. In addition, the researchers argue that ethical leadership is more or less about balancing the company’s short-term objectives and longer term goals in ways that enable the achievement of positive result for those who may be affected by the organization. While demonstrating an appropriate ethical management behaviour, ethical leaders should not compromise both ethical standards in pursuit of short-term performance and bottom-line firm performance (Osemeke, 2014).
The components of ethical leadership which this study focuses on are Ethical Human Resource Practices, Ethical Advertising Practices, Ethical Consumer Relations and Ethical Investor Relations. Each is discussed in great detail, Ethical Human Resource Practices are policies and values that serve as operational guidelines for the management of people at work (Bedicks, & Arruda, 2005; Liao and Teng, 2010). Ethical Human Resource Practices deal with various moral challenges; being one of the departments that engage directly with company employees, HR Managers have numerous moral pitfalls which can interfere with the organization’s reputation or even the sustainability of its financial standing (Mathenge, 2012; Bedicks, & Arruda, 2005).

Understanding the importance of ethics in human resources is crucial for any business owner, whether in a local startup or a multinational powerhouse (Bedicks, & Arruda, 2005). Generally, training and development, compensation and remuneration, and selection and recruitment are the components of ethical human resource practices that have an effect on the motivation of employees thus translating to influencing the financial performance of the firm (Bedicks, & Arruda, 2005; Liao and Teng, 2010). Therefore, ethical human resource practices among firms listed on NSE were postulated to have an effect on their financial performance. With the human resource practices being enforced by leaders of the human resource department, this study believed that ethical implementation of the practices may be a factor to affect the financial performance of listed firms.

Ethical Advertising is a set of well-defined ideologies that direct the modes of communication taking place between the seller and the buyer (Avtonomov, 2006). An ethical advertising is the one that does not lie, doesn’t make fake or false claims and is in the limit of decency. With ethics being one of the highly significant features in the advertising industry (Liao and Teng, 2010), ethical advertising is a crucial aspect. The main aim of a business is to make money, and this normally includes selling a particular product at a profit (Avtonomov, 2006). Advertisements have an effect on the sales of the different products. However, just like other human activities, advertising can have adverse as well as helpful effects, and it is often difficult to demarcate the two.
Ethical advertising may influence the financial performance of a firm. The way the Nairobi Securities Exchange (NSE) firms advertise their products and services will have an effect on the financial performance. An ethical consumer relation refers to the way a business communicates and interacts with the public to gain and retain customers (Tallontire et al., 2001; Otuya et al., 2013). It is essential for organizations to inculcate appealing customer relations within the workforce to attract and maintain loyal customer base. A customer's relation is key to understanding consumer motivation. Without assessing customer relations, it is difficult for a company to know how visible it is concerning its client base. It is also difficult to figure out how to grow the company without understanding the relationships it has with its current customers (Shaharudin et al., 2009).

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). 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 on their investments and thus leading to positive financial performance of the firms they have invested in (Bedicks, & Arruda, 2005). When an organization cultivates good investor relations, it will retain the investors, and this may 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 (Wambua, 2013). 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. The BSC is composed of four dimensions namely; perspectives of customers, internal business process, learning and financial, and innovation. 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.
The financial measures also indicate whether the firm’s strategy execution contribute to bottom-line improvement. The financial performance of an organization relies on the overall organizational efficiency. This makes it imperative such that to understand the impact of ethical leadership on financial performance of organizations, is to fathom how this form of leadership affects organizational effectivenesses and outcomes as a whole (Barney, 2001). Studies on ethical leadership support the notion that ethical behaviour of top management in organizations influences positive results. McManus (2015) demonstrates a falling process in which top administrations’ ethical leadership improves the ethical conduct in the entire organization.

A positive relationship exists between ethical leadership with good decision making among top administrators and productivity experienced among the lower ranking employees in an organization (Fehr et al., 2015). This affirms the notion that ethical leadership creates an environment that conditions Organizational Citizenship Behaviour (OCB) and other ethical practices. Financial performance is established on the idea that an organization is a voluntary association of productive assets to accomplish a common goal. These productive assets consist of human, physical and capital resources (Alchian & Demsetz, 1972). The financial performance of the listed firms in Kenya was measured by use of the Return on Assets (ROA). This is because ROA is both a suitable and reliable method for such measurement (Barney, 2001).

Different from Return on Assets (ROA), the financial performance of listed firms may also be measured by financial indicators such as Return on Equity (ROE) and Profitability (Osemeke, 2014). ROA is intentionally chosen because it is a better metric of financial performance than income statement profitability measures like return on sales and return on equities. ROA explicitly takes into account the assets used to support business activities. It determines whether the company can generate an adequate return on these assets rather than simply showing the robust return on sales or equities. Those supplying assets for companies will only commit them to the organization as long as they are contented with the value they receive in exchange, to the alternative uses of the assets. The essence of performance is chiefly evidenced by the creation of value.
Regionally, a number of security exchanges have witnessed an increase in the rate of corporate failures. Most of Africa’s stock exchanges have remained small, underdeveloped and illiquid operating in isolation from other markets and also having low trading volumes (Parboteeah et al., 2013). For example, Nigeria has witnessed lots of corporate failures, most of which have vividly shown the negative effects on organization’s operation which is credited to unethical practices of corporate leaders. In the year 1997, twenty-six (26) commercial banks collapsed as a result of financial irregularities caused by the Nigerian banking sub-sector (Adelopo, 2011). In the year 2006, Cadbury Nigeria which is one of the leading firms in food and beverage industry, collapsed due to unethical practices (Oyewobi et al., 2011).

In 2013, there was unprecedented collapses of micro-finance businesses in Ghana. The unfortunate thing about the phenomenon was that some of the collapsed companies were licensed by the Bank of Ghana, which is the regulator. It was observed that the causal factors were wide and varied. However, the main factor has been identified as unethical leadership within the companies. Most CEOs regarded the companies as trade arenas where people moved on to establish their own after a few months of operation. Owners did not pay attention to the analysis and consequences of the decisions they were taking. The owners and management of most of these companies that suffered had refused to listen to advice from professionals from the Ghana Association of Microfinance Companies (Antwi, 2015).

On 15th January 2015, the Reserve Bank of Zimbabwe governor, John Mangudya, bemoaned poor corporate governance in Zimbabwe, stating that it had contributed to increased cases of company failures. He said that company executives and directors had failed to adopt sound corporate governance principles in line with international best practices that led to the failure of some companies and banks (Brown & Treviño, 2006). Zimbabwe has similarly witnessed a remarkable decline in most strategic economic sectors over the last few years, especially for state-owned institutions (Mutanda, 2014). The major measure of the decline is underperformance and corrupt practices that have affected service delivery in these government institutions, most of which are listed firms in Zimbabwe. Such challenges may have been caused by unethical leadership practices.
For the Kenyan scenario, majority of listed firms in Kenya 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 (Leonard & Mwasa, 2014). These companies are Eaagads Limited, Kapchorua Tea Company, Kakuzi, Limuru Tea Company Limited, Rea Vipingo Plantations, Sasini Limited and Williamson Tea Kenya. These companies have reported frequent negative reports for the last ten years compared to other listed companies (Mbuvi & Gekara, 2015). The sub-optimal performance would have been caused by unethical management practices in human resource, advertising, consumer relations and investor relations.

1.2 Statement of the Problem

Ethical leadership is crucial for the performance of organizations (Breene & Nunes, 2006). This is because ethical leadership implies that there is a focus on the triple bottom line which is profits, people and planet. By considering profits, ethical leadership ensures that the shareholders are taken care of as they can get a good return on investment. With regard to people, ethical leadership ensures that the stakeholders such as suppliers and customers are satisfied with the activities of the company. Acting wholesomely, ethical leadership ensures that there is environmental sustainability (Nel & Beudeker, 2009). Theory suggests that ethical leadership may have an influence on performance.

The human resource model suggests that satisfied employees due to ethical human resource practices lead to improved financial performance (Mathenge, 2012; Osemeke 2014). Happy customers due to ethical customer relations give repeat business and this leads to an improvement in the financial performance (Avtonomov, 2006; Shaharudin et al., 2009). Ethical human resource practices have benefits on performance. However, reviewed literature (Bedicks, & Arruda, 2005; Mathenge, 2012 and; Osemeke 2014) fails to operationalize and link ethical human resource practices to performance. The current study addressed this gap by considering the human resource practices as one of the variables affecting financial performance.
A study by Nikolaus (2015) examined the determinants of firm performance of Indonesian and Dutch firms over the period of 2009-2013. His study was however focused in Netherlands. Jeannine et al. (2016) conducted a study to establish the effects of capital structure on financial performance of firms listed on the Rwanda Stock Exchange. Their study also presented a contextual gap since it was done outside the scope of the NSE. Ogilo (2015) conducted a study on determinants of bear market performance at the NSE. He employed both quantitative and qualitative research design in which he administered questionnaires to 500 investors. The data analysis showed that cultural values, financial literacy, transaction cost and mobilization of resources by retail investors all influenced market performance. The study suggests further research on other variables to establish their influence on bear market performance.

Other studies such as Arnott & Asness (2003), Zhou & Rouland (2006), Amidu (2007), e.t.c. have similarly been conducted that only look into other factors other than ethical leadership as the primary determinants for poor financial performance of listed firms. From the studies above, none has ever focused on effects of ethical leadership on financial performance and thus a contextual gap was created. This study therefore marked a departure from previous studies by focusing on the ethical leadership of listed firms and correlating it with the decline in financial performance of listed firms. This study thus took into account that it is challenging to appreciate the importance of the ethics in the emerging market because of the large number of poorly informed and unsophisticated investors, weak legal, regulatory and institutional framework and operational bottleneck. With regard to ethical leadership addressed in this study, four key parameters were considered: (1) Ethical human resource practices; (2) Ethical advertising practices; (3) Ethical consumer relation practices and; (4) Ethical investor relation practices.

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.

The study by Paul et al. (2016) evaluated the effect of strategy oriented competitive intelligence practice on the performance of listed firms. This study, which incorporated all the sixty listed firms, revealed that strategy oriented competitive intelligence practice had a statistically significant relationship with the performance of firms listed on the NSE. Lucy et al. (2014) conducted a study on the relationship between an organization’s capital structure and the performance of non-financial listed companies. Kungu et al. (2015) conducted a study to analyse the factors affecting the performance of forty-one (41) non-financial firms listed on the NSE using panel data over the period 2003 to 2013. Their study however used panel data and also failed to break down the role of ethical leadership in the realization of the firms’ financial performance.

1.3 Main Objective

The main objective of this study was to establish the influence of ethical leadership on the financial performance of listed firms in Kenya.

1.4 Specific Objectives

1.4.1 To establish the influence of ethical human resource practice on the financial performance of listed firms in Kenya.

1.4.2 To determine the influence of ethical advertising on the financial performance of listed firms in Kenya.

1.4.3 To investigate the influence of ethical consumer relations on the financial performance of listed firms in Kenya.

1.4.4 To investigate the influence of ethical investor relations on the financial performance of listed firms in Kenya.

1.4.5 To establish the joint influence of ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising on the financial performance of listed firms in Kenya.
1.5 Research Hypotheses

1.5.1 \( H_0 \): Ethical human resource practice does not have a significant influence on the financial performance of listed firms in Kenya

\[ H_1: \text{Ethical human resource practices have a significant influence on the financial performance of listed firms in Kenya} \]

1.5.2 \( H_0 \): Ethical advertising practice does not have a significant influence on the financial performance of listed firms in Kenya

\[ H_1: \text{Ethical advertising practices have a significant influence on the financial performance of listed firms in Kenya} \]

1.5.3 \( H_0 \): Ethical consumer relation does not have a significant influence on the financial performance of listed firms in Kenya

\[ H_1: \text{Ethical consumer relations have a significant influence on the financial performance of listed firms in Kenya} \]

1.5.4 \( H_0 \): Ethical investor relation does not have a significant influence on the financial performance of listed firms in Kenya

\[ H_1: \text{Ethical investor relations have a significant influence on the financial performance of listed firms in Kenya} \]

1.5.5 \( H_0 \): Ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising do not have a significant influence on the financial performance of listed firms in Kenya.

\[ H_1: \text{Ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising have a significant influence on the financial performance of listed firms in Kenya.} \]

1.6 Justification of the Study

This study sought to benefit the following groups;

1.6.1 Researchers and Academicians

Reviewed studies failed to provide clear conceptual definitions of the components of ethical leadership. By extension, the sub-components of ethical leadership have largely been ignored in the reviewed literature.
The study provides an attempt to give an operational definition of components and sub-components of ethical leadership. The findings of this study have also contributed to the literature on leadership and, more importantly, to higher educational institutions and other organizations of management education responsible for developing leaders who will embrace responsible practices in practical business management. The information that was sought and derived from this study enhances the library of information, from which those in the field of academia can continually refer. It provides a basis for background information that regards how firms listed on the Nairobi Securities Exchange are run. The suggestions for further research in Chapter Five is instrumental in achieving a holistic approach for the determination of all factors, including any salient ones not addressed by this study and that influence financial performance of the listed firms in Kenya.

1.6.2 Policy Makers

This study sought to enable the government and other agencies responsible for policy making come up with clear policies of rewarding those companies who practice ethical leadership. The reward system is to act as a motivating factor for companies to adopt ethical leadership. This will thus lead to an improvement of financial performance of firms. Agencies such as the Capital Markets Authority (CMA), the Central Bank of Kenya (CBK), the Nairobi Securities Exchange (NSE), Kenya Association of Manufacturers (KAM), Insurance Regulatory Authority (IRA), Universities and other corporate institutions may use the study findings to enrich their policy documents on prudential risk guidelines, corporate governance, rules and regulations.

1.6.3 Management of Listed Firms

This study sought to describe how organizations can evaluate their leaders’ ethical behavior for enhancing effective leadership by building management awareness. The findings further reveal leadership styles in action in the best performing companies in Kenya. These findings should guide other companies to embrace leadership and ethical training to enable them develop noble values for better business performance.
Managers who wish to improve the financial performance of their firms can turn to this study as a tool for ethical leadership. By practicing ethical human resource activities, employees derive job satisfaction thus become more productive. The higher productivity further translates to an improvement in the overall performance of the firm.

1.7 Scope of the Study

The scope of this study was listed firms in Kenya. The target population was 64 companies listed on the NSE with consistency being evaluated between the years 2010 to 2015. The conceptual sample for this study was composed of organizational leaders and their subjects considered from 64 companies (attached in Appendix I). The study used a census approach because of the small number of listed companies on the NSE. Under this approach, all the listed firms in Kenya were considered for this study.

1.8 Definitions of Terms

1.8.1 Advertising

This is a form of marketing communication used to promote or sell something, usually a business's product or service (Avtonomovs, 2006).

1.8.2 Customer Relations

Refers to an approach of managing a company's interaction with current and future customers (Otuya et al., 2013).

1.8.3 Ethics

A branch of philosophy that comprises systematizing, defending and recommending concepts of the right and wrong conduct (Omondi, & Muturi, 2013).

1.8.4 Ethical Advertising Practice

This refers to a form of marketing communication that is used to persuade an audience to take or continue some action, usually in consistency with a commercial offering or political or ideological support (Avtonomovs, 2006).
1.8.5 Ethical Consumer Relation Practice

Refers to the way a business communicates and interacts with the public to gain and retain customers (Otuya et al., 2013).

1.8.6 Ethical Human Resource

Refers to the set of individuals who make up the workforce of an organization, business sector, or the economy. Sometimes, human capital is used synonymously with human resources (Osemeke, 2014).

1.8.7 Ethical Investor Relation

This is the process of integrating finance, communication, promotion, and securities law compliance to influence communication between a firm and its financial stakeholders (Bedicks, & Arruda, 2005).

1.8.8 Financial Performance

This is a subjective measure of how well a firm uses the assets from its primary mode of business and generates revenue (Barney, 2001).

1.8.9 Human Resource

Refers to the set of individuals who make up the workforce of an organization, business sector, or economy (Osemeke, 2014).

1.9.10 Investor Relation

Refers to an approach to managing a company's interaction with current and future investors (Bedicks, & Arruda, 2005).

1.8.11 Performance

Refers to the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed (Persons, 2011).
1.9 Chapter Summary

This chapter is the introduction of the study and contains the background of the study. The section has defined leadership and has correlated ethical leadership with morality. In the second paragraph, a link has been created between ethical leadership and performance, with performance being measured by overall firm profitability. In the third and subsequent paragraphs a brief literature review has been given on previous studies linking ethical leadership to performance. The tools used for the measurement of financial performance have been presented as Return on Assets (ROA) and Return on Equity (ROE). For the purpose of this dissertation, ROA was used to measure financial performance of the listed firms. Similarly, some of this study’s variables are defined and explained. The variables include: ethical advertising practices, ethical investor relations, performance, ethical consumer relations and ethical leadership.

In addition, under the background section using the funnel approach, the study has focused on financial performance of security exchanges from a regional perspective and finally, to Kenya’s perspective. In the regional perspective, the study has brought to light the security exchanges of Nigeria, Ghana and Zimbabwe, This section eventually presents the missing link between ethical leadership and financial performance of listed firms in Kenya. Under the problem statement, the research gaps are identified. The gaps reveal that from previous studies, none has broken down the various constructs of the study variables and analyzed their effects on financial performance. This informed the driving force for this research. The chapter similarly contains the research hypotheses, justification of the study and definition of key terms used in the dissertation.

Chapter Two contains literature review which discusses the theories that informed the development of this dissertation. It also presents the conceptual framework and empirical review. The theoretical framework has considered three theories i.e. institutional theory, stakeholder theory and cognitive moral development theory. These theories presented guidelines for assessing the ethical operation environment for the firms and its link with financial performance.
The conceptual framework illustrates the relationships and hence, the basis for origination of this study’s hypothesis. The empirical review utilizes various studies that have been done, and are in tandem with the given hypothesis.

Chapter Three shows how data was collected and the steps that were followed in the analysis of the data. It also informs on the use of the Statistical Package for Social Scientists (SPSS Version 21) and various statistical analysis that were done in Chapter Four. Chapter Four is an execution of Chapter Three. For each of the variables in the conceptual framework, the chapter generated a component factor analysis table for the itemized responses, tested for assumptions for regression analysis, carried out the principal component analysis, generated descriptive statistical tables, carried out correlation analysis for the independent and dependent variables, undertook regression analysis and thereafter, tested each hypothesis to either accept or reject the null. Chapter Five contains a summary of the findings, discussions of the findings and conclusions of the study. Various recommendations are given based on the findings of this study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter commences with a theoretical review of the study and thereafter reviews the background of ethical leadership. The chapter then presents the conceptual framework showing the links between the dependent and independent variables. Subsequently, reviewed literature on ethical leadership and financial performance is presented.

2.2 Theoretical Review

2.2.1 Institutional Theory

The basic premises and concepts of the institutional theory approach provide valuable guidelines for analyzing organizational environment relationships with emphasis on the social expectations, values, rules and norms as the sources of pressure on organizations (Porter & Kramer, 2006). This theory is built on the concept of legitimacy rather than efficiency or influence as a primary organizational goal (Porter & Kramer, 2006). The institutional environment is conceptualized as the organizational field, represented by institutions like regulatory structures, government agencies, courts, professionals, professional norms, interest groups, public opinion, laws, rules and social values. Dacin et al. (2002) opines that this theory assumes that an organization conforms to its environment with pressures from stakeholder groups having an effect on how the firm behaves.

From the assertions of institutional theorists like Suddaby and Seidl (2013), an institutional atmosphere can powerfully affect the growth of formal organizational structures, normally more profoundly than market pressures. On their part, Shin et al. (2014) postulate that innovative structures that enhance technical effectiveness in early-adopting firms get legitimized in the setting. These innovations eventually reach a level of legitimization where failure to adopt them is viewed as negligent and irrational. At this point, existing and new firms will often embrace the structural form even if it does not necessarily enhance the firm’s efficiency.
Institutional theory is relevant to this study since it informs how the ethical leadership issues are dealt with within the organizational setting. Such a setting may strongly affect the development of formal structures within listed firms in Kenya. When there is a good working environment, then this may influence the financial performance of an organization (Uyargil et al., 2010). The theory explains how various firm structures as a whole have been accepted by the society with a virtue of legitimacy that empowers the firms primarily by making them seem meaningful (Seo & Creed, 2002). It also concerns the multiple factors that influence a firm’s choice of strategic response with strategies on a continuum ranging from passive to active options (Musiega & Chitiavi, 2013).

This theory however has some demerits. A close scrutiny of the theory shows that some fundamental components of the firms’ environments have not been fully addressed. This basically arises from the assumption that the theory survives from the notion that, as a result of pressure from stakeholders, the firms’ behavior is influenced (Seo & Creed, 2002). From this argument, internal organizational factors such as ethical human resource practices are not given key consideration by this theory. The gap that the institutional theory presented informed the incorporation of the stakeholder theory.

2.2.2 Stakeholder Theory

Stakeholders are involved in the generation of firms’ ethical distinctiveness. Thus, a stakeholder approach forms a suitable framework for this study. Also, scholars that investigate social and ethical issues have mostly applied stakeholder theory, and generated a wide-ranging body of research (Garriga & Melé, 2004). From Fassin's (2012) seminal works titled ‘Stakeholder Management, Reciprocity and Stakeholder Responsibility’, the theory emphasizes the value of corporate social responsibility. The key thesis of this theory is that the firm coordinates and manages the constellation of cooperative and competitive interests of different stakeholders or constituencies (Mainardes et al., 2012). Thus, various organizations have several objectives other than the solely shareholder’s value maximization end, contrary to the proposition of the traditional economic theory.
As the stakeholder theory increasingly became popular, it also varied in diverse interpretations for its validation (Harrison & Wicks, 2013). When applying the theory, two separate procedural strands of literature can be distinguished. On one side, the normative stakeholder literature is mostly theoretical and with an emphasis on ethical standards as the primarily acceptable ways of corporate behaviour, independent of the consequences of these behaviours on the organization’s performance (Deegan & Blomquist, 2006). There is substantial pressure from firms’ stakeholders to become more transparent and accountable on their decisions, hence necessitating managers to disclose more information than what is legally required to satisfy the interest of their stakeholders (Ponnu & Okoth, 2009).

With the stakeholder being any group or individual who may either affect or be affected by the accomplishment of the firm’s objectives, the stakeholders’ theory is deemed relevant in this study because it informs the ethical human resource practices, ethical advertising practices, ethical consumer relations and ethical investor relations. From the ethical perspective of the theory, each of these groups has different interests which conflict with those of others. It is therefore the responsibility of the individual entities to manage the firms in such a way that balances the interests of all these stakeholder groups (Parmar et al., 2010). The stakeholders take part in the creation of ethical uniqueness of firms, and thus the study’s approach seem to be an appropriate framework since the theory deepens its roots in the notion of Corporate Social Responsibility (CSR) (Deegan & Blomquist, 2006).

The theory is also helpful in this study since listed firms manage and coordinate the competitive and cooperative interests of different constituencies or stakeholders. The theory however only believes that organizations wholly view as ultimately important, the interests of the stakeholders and thus, organizational performance is only a function of stakeholder satisfaction. The shortcoming of this theory is therefore that it is difficult, if not impossible, to make sure that firms fulfil their wider objectives, hence fails to give both managers and directors set priorities to live up to the organizations’ full social obligations (Blair, 1995). To further develop an integrated system that also concerns the behaviour of organizational employees and with respect to their employers, the cognitive moral development theory was adopted for this study.
2.2.3 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 values-orientation that is integrated across the organization. Ethical behaviour involves principles such as fairness, honesty and concern for others. Ethical leadership thus 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 are not accountable to ethical ideals postulated in the company’s policy. With leaders being the key figures for the achievement of organizational goal, they should thus set the tone for ethical behaviour including promotions, appraisals and strategies (Brown & Mitchel, 2010).

The theory emphasizes the mode of individuals’ reasoning in ethical dilemmas and how they comprehend right or wrong conducts. Human beings reason at three stages that can be categorized into pre-conventional, conventional and post-conventional. The law of reciprocacy is applicable to the pre-conventional personalities who are also generally concerned with avoiding punishment. Principled personalities make judgements independently by assessing themselves and are most often guided by principles of rights and justice (Crain, 1985). On the other hand, conventional-level personalities look beyond themselves to rules, laws, and expectations of significant others in their environment for direction when deciding what conducts are ethically acceptable (Chentouf, 2013). This makes ethical leaders the most significant source of moral direction as followers heavily rely on their leaders for hints about what behavior is socially and morally acceptable (Weaver, 2006).

This theory informs ethical leadership practices, by seeking to explain the interaction between the leader and organizational labour force, investors, and consumers. This is because it explains how people reason in instances of ethical dilemmas and how people gauge 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. Noblet et al. (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 reasoning can be depended on to provide ethical leadership. Human Resource (HR) is most likely to adopt an employee development method to ethics training. The Cognitive Moral Development Theory proposes that moral judgment can be enhanced with explicit training processes designed to challenge the thinking of individuals by establishing cognitive conflict (Gibbs, 2010). 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 the ethical cultural environment (Schein, 2004).

Managers should thus 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) could likely profit from similar training methods. Organizational policies should be well defined both in the organizational and psychological climates (Jensen, 2002). 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, it becomes impossible to have a sense of fairness among employees.

For evaluation, the performance goals used in the 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. Scholars such as (Greene et al., 2008) attribute this theory for the adequate explanation of human behaviors. According to the theory, what people believe, think and feel influence how they behave, hence not taking into account other external factors such as those brought about by external stakeholders (Greene et al., 2008). For the purpose of this dissertation, these stakeholders include consumers and investors.

2.3 Conceptual Framework

With regard to this dissertation, the study involves a single dependent variable i.e. financial performance, measured by use of Return on Assets (ROA). The conceptual framework involves multiple independent variables: ethical human resource practices, ethical advertising
practices, ethical consumer relation practices and ethical investor relation practices. The study adopted the notion that, acting independently, these independent variables significantly influence the financial performance of firms. Acting as a unit, all the independent variables were also assumed to have a significant influence on the financial performance of listed firms. The first hypothesis involves the relationship between the ethical human resource (HR) practices and firms’ financial performance. The ethical HRM Practices takes into consideration key factors such as: ethical selection and recruitment, ethical training, and ethical compensation and remuneration.

In the second hypothesis, the study postulated that ethical advertising practices have an influence on the firms’ financial performance. The key factors that have been analyzed for the purpose of this hypothesis include: ethical broadcast advertising, ethical online advertising, and ethical social media practices. The third hypothesis links ethical consumer relations to firms’ financial performance. The study believed in an existence of a relationship between consumer relations practices and financial performance. Key considerations for the ethical consumer relations include ethical quality, ethical consumer treatment and ethical consumer communication. The fourth hypothesis links ethical investor relation practices and firms’ financial performance. The hypothesis postulates that there exists a relationship between ethical investor relations and financial performance. The different key ethical investor relations practices that have been identified for the purpose of this study include ethical information disclosure, ethical governance and Board characteristics.

For the purpose of the fifth hypothesis, the study asserted that the joint effect of ethical human resource management practices, ethical advertising practices, ethical consumer relations, and ethical investor relations has a significant influence on the financial performance of listed firms in Kenya. Cumulatively, the study has identified salient variables such as inflation, government legislations, and satisfaction of the employees, consumers, and investors to also have some influence on the financial performance.
Figure 2.1 Conceptual Framework

ETHICAL LEADERSHIP
Ethical HRM practices
- Ethical Selection and Recruitment
- Ethical Training
- Ethical Compensation and Remuneration

Ethical Advertising Practices
- Ethical Broadcast Advertising
- Ethical Online Advertising
- Ethical Social Media

Ethical Consumer Relation
- Ethical Quality
- Ethical Consumer Treatment
- Ethical Consumer Communication

Ethical Investor relations
- Ethical Information Disclosure
- Ethical Governance
- Board Characteristics

Financial Performance
- ROA

Independent Variables
Dependent Variable

H1
H2
H3
H4
H5
2.3.1 Financial Performance

The study had one dependent variable - financial performance. The key financial performance indicators are driven by three critical concerns facing every company’s management. These include profitability, the size of business, and development of the business over time. Three profitability methods that are conventionally accepted for their value to management are Return on Assets (ROA), Return on Equity (ROE), and Operating Profit Margin. ROA is a pointer of how cost-effective an organization is with regard to its overall assets. ROA provides information and idea about the efficiency of management and how it uses assets to generate revenue (Melitski & Manoharan, 2014). It is determined by rationing a business' annual revenue by its total assets. In other words, ROA is displayed as a percentage and it may sometimes be referred to as ‘return on investment’ (Musiega & Chitiavi, 2013). This study considered ROA as a measure of financial performance since it was conveniently obtained from public data from NSE and CMA.

Firm assets primarily exist for the generation of value. Therefore, as long as the value created through the use of the contributed assets is equivalent to or greater than the value anticipated by those contributing the assets, the assets will continue to be availed to the organization, and hence the organization will retain its existence (Omboi, 2011 and Osemeke, 2014). Value creation is therefore as per definition of the resource provider, the essential overall performance criteria for any organization, and may be achieved by, among other factors, ethical leadership. By the practice of ethical leadership by various cadres of management, financial performance of firms can be greatly improved (Bello, 2012). A study by Detert et al. (2007) established that an effective leadership strategy helps employees to discover and polish their engagements for the overall organizational success, thus leading to an improvement in financial performance. The study demonstrates that effective leadership has a high likelihood of enhancing financial performance of organizations.

Organizational assets can broadly be categorized as tangible and intangible assets. Tangible assets may also be referred to as physical assets, and are items of economic, commercial or exchange value that have tangible presence. For a number of businesses, most physical assets denote cash, equipment, inventory and properties owned by the organization. Physical assets contribute to the performance of the organization. The intangible assets are those that have
no physical manifestation and include human capital, consumer loyalty, market share and forms of intellectual property such as trademarks and copyrights. Capital assets are not readily sold in the regular course of a business’s operations for cash and are generally owned for their role in contributing to the business's ability to generate profit (Rodov & Leliaert, 2002; Verna, 2008).

Those supplying the assets will only commit them to the organization as long as they are contented with the value they receive in exchange, relative to alternate uses of the assets. Consequently, the essence of performance is the creation of value (Barney, 2001; Verna, 2008). The organization retains its existence by continuously availing contributed assets. Therefore, value creation, as per definition of the resource provider, is the essential overall performance criteria for any organization (Barney, 2001).

2.3.2 Ethical Human Resource Practices and Financial Performance

Ethical leadership underscores a non-partisan approach in dealing with subordinates, morality, and honesty in all business transactions (Brown & Treviño, 2006; Brown & Hayes, 2007). In addition, leaders who are deemed as ethical instill positive conducts among employees, embolden high levels of pride and assurance to the firm, and mould the employees' perception of the work environment. Through such leadership, all stakeholders of firms have a feeling of respect and the atmosphere becomes conducive for growth and hence, performance. For the purpose of this research, the firms’ stakeholders who were taken into consideration include: the firms’ management, other firms’ employees, investors, Board of Directors, and consumers of the firms’ products or services.

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 understand that their leaders treat them with the trust and fairness they deserve (Pillai & Williams, 2004). 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 they handle the circumstances in a morally upright 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. The environment for fair treatment and conducive working environment is brought about by an elaborate and all-inclusive human resource policy.

The Human Resource (HR) policy defines the operational and relationship patterns within different firms. The policy gives the standards for the achievement of different human resource functions. Also defined in the standards is the structural behavioral philosophy required of employees (Mullins, 2006; Wagner & Hollenbeck, 2010). Besides, internal ethics encourages a justice atmosphere within a business or corporation, and this makes employees feel more significant concerning their responsibilities within and without an organization (Mullins, 2006). Be that as it may, the present discoveries ought to not be deciphered as proof of immaterial roles of the other two measurements of corporate ethics (involving both external and employee ethical dimensions).

The Human Resource Policy contains within it a code of conduct that regulates organizational internal ethics. The internal ethics is the most grounded indicator of employees' dedication, external and employee ethics also have positive and critical relationships with the aggregate responsibility and conduct. Ethical human resource practices deal with various moral challenges. Being one of the departments that deal with people almost directly, HR may bring several moral pitfalls that may damage the reputation of a company and thereby adversely impact its financial performance (Bedicks & Arruda, 2005; Mathenge, 2012).

Ethical human resource (HR) practices can be measured by, among other factors, the ethical selection and recruitment practices. Recruitment being the procedures used for choosing people for unpaid positions, such as volunteer roles or unpaid trainee roles then it can be a good measure of human resource practices. It can also be measured by ethical training, since training is ethical reasoning coupled with information on and incentives for snitching; ethics compensation and; remuneration. Remuneration is received in exchange for the work or services performed (Bedicks & Arruda, 2005; Mathenge, 2012; Osemek 2014). To Uyargil et.al. (2010), performance of the employees depends on their satisfaction of the work.
This is why this research strongly believed that ethical HR practices may have a significant influence on the financial performance of listed firms in Kenya. Human Resource Management (HRM) consists of systems, policies and practices that directly influence employees’ behavior, attitude and eventually performance (Armstrong, 2010). Organizations that are characterized by an effective human resource management exhibits more innovation, better performance and creation of better reputation in the community. Similarly, HRM systems are anticipated to communicate ethical values and so improve firms’ performance. Relevant outcomes of firms are substantially impacted by how firms manage their human resources (Collins & Clark 2003). The values are the organization’s greatest assets; without them, everyday business functions such as managing cash flow, making business transactions, communicating through all forms of media, and dealing with customers could not be completed. The human capital and the potential they possess are the driving factors for organizations.

Organisations can only stay afloat in case they have employees that are committed to serving them. Such commitment is only realisable by the conducive environment created by the HR policy. To maintain organizational success, businesses require extraordinary abilities accompanied by sustained efforts and people. Businesses grow when employees work with enthusiasm, passion and commitment. Employees become more involved in organizational activities when they are motivated and inspired to work through ethical HRM practices.

Authors such as Grigoroudis and Siskos (2010) assert that employees’ job satisfaction has a significant role in determining the effectiveness and efficiency of achieving desired results within an organization. Employee satisfaction is the positive or pleasurable emotional state that comes from the appraisal of an individual’s job experiences. According to Grigoroudis & Siskos (2010), employee satisfaction is a central driver of organizational success. On their part, Bernhardt et al. (2000) established a relationship between organizational performance and employee satisfaction.

Human resources play minor but often serious roles in upholding company ethics. Some of the problems originate from the fact that managing ethics in an organization is likely to raise questions of fairness or trigger fairness heuristics among the employees (Armstrong &
Taylor, 2014). The evolution of Human Resource Management (HRM) into the Strategic Human Resource Management (SHRM) concept highlights the importance of human resources in contemporary organizations. SHRM has revolutionized the way organizations handle their HRM practices (Salaman et al., 2005). Most importantly, it gives emphasis on the ethical perspective of handling HR issues. With this foundation, Wilton (2007) says that firms have been forced to subscribe to measures that promote the achievement and sustenance of ethical practices in the corporate world.

The advancement in Human Resource Management (HRM) practices has developed into a significant determinant of the financial performance of enterprises (Ghoshal, 2005). Currently, SHRM focuses on the influence of individual HRM practices on the performance of an organization. On the contrary, traditional HRM focuses on the influence of individual practices on the performance of employees (Vakola & Nikolaou, 2005). The challenges presented in the contemporary business environment demand organizations to operate in a dynamic manner and respond promptly to changes in the business environment. It is vital for organizations to have ethical SHRM practices supervised by sophisticated individuals with advanced HRM knowledge (Du Plessis, 2009). HRM thus has a similar function as strategic management (Wilton, 2007).

HRM focuses on the management of employees to achieve the goals of an organization, a similar function as strategic management. Human resource policies should link with organizational strategies to provide a foundation for achieving organizational goals (Ghoshal, 2005). Unethical HRM practices impede the implementation of organizational strategies which depend on the efficiency of the hiring process and employee motivation (Engle et al., 2008). It is essential for firms to utilize multidisciplinary approaches in managing their human resources (Storey, 2007). The utilization of multidisciplinary approaches helps organizations gain sustained competitive advantages in the long run through the deployment of an effective and committed labour force (Noe et al., 2006), who then reciprocate to improve the organizational performance.
Understanding the significance of ethics in human resource management is fundamental for any business undertaking, whether in a local or multi-national organization (Ghoshal, 2005). In contemporary organizations, corporate ethics programmes involve many initiatives and programmes. Companies communicate expectations for ethical behaviour via codes, policy documents, messages from senior management and training. Ethics programs provide employees with means of communication to senior executives, sometimes anonymously. In this regard, the provision of such communication channels allows room for constructive engagement between employees and management, thus resulting in better organizational performance (Noe et al., 2006). Satisfactory internal communication is an avenue for boosting performance.

The HRM Practices should also create a conducive work environment for ethical modeling purposes. Social learning theory helps in comprehending why few leaders will probably be moral leaders to role model other employees. Followers are not by any means the only ones who gain from models. Leaders gain from models as well. By watching a moral role model's conduct and also the results of their conduct, leaders ought to come to relate to the model, disguise the model's values and attitudes, and imitate their conduct (Muro & Jeffrey, 2008; Mccormick & Martinko, 2004). In this regard, having had a moral role model in one's life is prone to add to the development of ethical leadership among employees in an organization. Bello (2012) asserts that leaders ought to create an ethical environment for employees and serve as role models to enable the employees emulate their characters through role-modeling.

Having a moral role model is an imperative predecessor of ethical leadership (Giroux, 2014). Please With a specific end goal to better comprehend moral role modeling, Brown and Treviño (2006) talked with people who had been impacted by a model at work. These individuals recognized numerous qualities and behaviors of the individuals who had been their ethical role models. Attributes such as mindful, trustworthiness, decency and behaviors, for example, setting high moral norms and considering others responsible have a closer connection with ethical leadership. Such attributes, if engaged by a moral manager, makes ethics part and parcel of their leadership agenda and they get their followers attention as socially salient leaders (Trevino et al., 2000).
Early childhood models and role modeling from top managers were irrelevant to the impression of ethical leadership. This is steady with the past discoveries by Schwepker (2015) and it bodes well from a social learning point of view in light of the fact that early childhood role models would not of course have modeled conduct applicable to leadership in a work environment. More importantly, top supervisor role models would likely not be sufficiently proximate to serve as a model from a social learning point of view (Schwepker & Schultz, 2015). Consequently, it is foreseen that having a proximate, morally positive role model amid one's life makes it more probable that an individual will turn into an ethical leader. With the right principles of fairness, equity, respect and justice, the principles can make efficiency of human enterprise flourish and be sustained in the firm (Nelson et al, 2012).

Prior studies propound that ethical leadership plays a vital role in enhancing organizational financial performance. Predictable with a social learning point of view, subordinates emulate the conducts of their superiors. In other words, if such superiors display ethical leadership qualities, then they are in a position to pass down such qualities to their juniors (Brown & Treviño, 2006). Besides, ethical leaders impart the significance of ethical guidelines and utilize the performance framework to consider employees responsible for their behaviour. Employees, on the other hand, never need to display ethical leadership qualities, but can master them by emulating others at the workplace. This points how significant an ethical culture is to organizational performance.

Ethical culture may trace its link to the aspects that stimulates ethical conduct (Trevino & Weaver, 2003). Therefore, to understand the role that ethical leadership can play in promoting organizational financial performance, it is imperative that the subject is put in context regarding the development of leadership within the last decades and various theories that explain the correlation between ethical leadership and organizational performance. Ethical culture is usually defined as those aspects that stimulate ethical conduct (Treviño & Weaver, 2003). Through appropriate ethical conduct of managers, ethical role modeling is encouraged.
Based on the social-learning theory, Mayer et al., (2009) and Walumbwa and Schaubroeck (2009) suggest that employees tend to emulate the behaviour of role models in the work environment. One of the components of ethical human resource practices that this study addressed is ethical selection and recruitment, and its influence on financial performance.

2.3.2.1 Ethical Selection and Recruitment and Financial Performance

Selection refers to a natural or artificial process that results or tends to result in the survival and propagation of some individuals or organisms but not of others with the result that the inherited traits of the survivors are perpetuated (Tabassum, 2011; Osemeke, 2014). Recruitment refers to the set of procedures that guide choosing of individuals for unpaid positions, such as voluntary roles or unpaid trainee roles. Various human resource management specialists may be tasked with carrying out recruitment, but in some instances, various public/private-sector employment and recruitment agencies or specialist search consultancies are used for the recruitment exercise (Tabassum, 2011; Osemeke, 2014).

From the view of Bratton and Gold (2012), recruitment is the ‘process of generating a pool of capable people to apply to an organization for employment’ while selection involves managers using specific human resource instruments to pick from a group of candidates the individual most likely to succeed in the job(s), given management goals and legal requirements. According to Guion (2011), firms that have ethical selection criteria usually get the skilled and qualified personnel for the given jobs. Researchers like Cook (2016) established a positive relationship between human resource recruitment and selection process and labour productivity.

A research conducted by Adnan et al. (2011) established that the Human Resource (HR) management practices have a stake on Malaysian firms’ bottom line performance. Such practices that the researchers referred to are the holistic core functions of the HRM department, incorporating functions of selection and recruitment, training and development, and compensation and performance appraisal. On their part, Islam and Siengthai (2010) established that these core processes of HRM have a significant and positive influence on firm performance. The least clear aspect of recruitment procedure is relationship between employer and employee (Durant et al., 2006).
In their view, Durant et al. (2006) opine that unfair actions by employers such as poor hiring procedures may result in gender biases and discriminations. Such discriminations may cost the employer valuable employees. Besides ethical selection and recruitment, ethical training was also opined to have an influence on financial performance.

2.3.2.2 Ethical Training and Financial Performance

Training and development, promotion, compensation/remuneration, and selection and recruitment constitute the factors that describe ethics in human resource management (Ghoshal, 2005). These factors influence the motivation of employees as well as the public’s perception on ethical appropriateness of human resource practices within an organization/business (Bedicks, & Arruda 2005; Liao & Teng, 2010). Several factors such as growth of organizations' sizes, reduction of state intervention, global competition, modification of employment rights/laws and changing values have popularized the relationship between HRM practices and business ethics. As a form of ethical HRM practice, ethical training is a major determinant of organizational performance since it keeps employees abreast of new market characteristics.

Selection, training and development, retaining and motivating employees, according to Polychroniou and Giannikos (2009) are at the core of human resource management. With the above HRM functions/roles, organizations can then promote positive, constructive behaviour and justice, hence positively affecting performance of an organization. The competitiveness of businesses relies heavily on the skills, abilities and knowledge of employees. Training helps organizations develop key competencies among their staff (Buckley & Caple, 2001). Employees are the main resources that drive the goals of organizations. Organizations distinguish themselves from their competitors through the nature of their pool of workers, therefore adding value to the services and products. Ethical training thus enables organizations develop unique and valuable talents among employees, enabling organizations to maintain sustainable competitive advantages. Nel et al. (2012) assert that ethical HRM practices enable ordinary employees to deliver extraordinary performances as well as taking care of the changing needs of employees.
In this regard, in the current competitive age, firms need to manage resources such as technology, work processes and employees to achieve cost-effectiveness and deliver high-quality goods/products. Such technologies and processes can be continually imparted by the training function of the HR management (Ghoshal, 2005).

2.3.2.3 Ethical Compensation and Remuneration and Financial Performance

Compensation is the remuneration that one receives in exchange for the work or services performed (Qureshi et al. 2010). Typically, compensation involves monetary rewards that are otherwise referred to as wage or salary. Most complementary benefits are however increasingly common remuneration mechanisms. Remuneration is one component of reward management (Marwat & Qureshi, 2007). With regard to employees, compensation is one of the most important parts of cash flows. It is mostly equal to half of cash flows of the firms, but a little more than half in the service sector. It is majorly administered to attract employees and motivate them to increase their performance (Noe et al., 2006).

Training and development, compensation, remuneration and selection and recruitment which are the components of ethical human resource practices influence the motivation of employees thus translating to influencing the financial performance of the firm (Bedicks, & Arruda, 2005; Liao & Teng, 2010). From the Stakeholder theory, an employee is a key stakeholder whom if satisfied positively impacts on organizational outcomes, such as financial performance and low employee turnover (Berrone et al., 2007). Appropriate human resource management policies and practices positively influence employee outcomes regarding turnover, productivity, and the overall organizational performance.

The organizational strategy and goal should be correlated with the system the organization uses to realize compensation and remuneration packages for its employees. Such a correlation can only be achieved by the implementation of a comprehensive human resource management system. The system employs standardization of elements of the organization, with regard to local culture, HRM, labour market practices, and institutional procedures, thus generating room for divergence (McGraw & Harley, 2003). For any comprehensive system to be all encompassing, any compensation or remuneration structure that the management
system puts in place need to be adequately communicated to employees. This helps them to get adequately informed on the reasons behind their salary structures for example (Andries, 2008). Giving such information prevents internal conflicts and improves general performance of the firm.

2.3.3 Ethical Advertising Practices and Financial Performance

Different advertising methods are used by various firms to reach different market targets (Kotler & Keller, 2005). Advertising can have both immediate and long term effects on firm's sales volume that also depends on the firm’s objectives. Short-term advertising strategies result into higher short-term sales volumes. Similarly, long-term advertising strategies result into higher sales volumes and profits over longer periods of time. Young (2005) opines that in a bid to enhance managing audience attention, advertising firms resort to creating branding that resonates with target markets. This aids in motivating audiences to purchase their products. This assertion may be proved by advertisers testing their advertisement strategies in a controlled environment (in a laboratory set-up) before being released for public consumption.

Typical measurement of sales volumes is either in terms of total dollars achieved through the sales, or the quantities of a product sold for customers (Adekoya, 2011). Similarly, it may be in terms of the number of services offered to clients. Higher volumes of sales usually imply that the organization is either achieving higher margins of profit, or increased demands for the product or service (Adekoya, 2011). The allocation of higher values of cash for organizational expansion is a key benefit of generating higher sales volume through the incorporation of effective sales promotions and long-term advertising strategies (Moriarty et al., 2014).

Delayed feedback advertising outlines advertisements that are envisioned to enhance organizational brand responsiveness and favorable market impression for long durations of time. Traditional brand marketing administration assists in improving brand sensitivity thus making the product look more appealing since the consumer perception is enhanced. It also builds up the profits of value equation, indicating that price with respect to benefits. Buyers
and consumers, in general, compare organizational price to perceived benefits, the balance of which gives a rating for value of the product. As time lapses, brand attains stronger perceived value and consumer demand, thus resulting in boosted sales volume, and hence, larger profit margins (Rajeev & Kevin, 2016).

Sales promotions have better sales-driven purpose than traditional advertising and thus, are usually referred to as direct response advertising. These promotions use price incentives to create more instantaneous need for a firm’s product. It targets price fluctuations of the value equation and offers consumers lower prices for purchases of the same quality (Murphy, 2010). Additionally, founded on commercial opinion of law of demand, when other factors are kept constant but with an accompanying drop of prices, demand for product quantity gets enhanced. In such scenario, an organization may sell more units or render more services, which does not necessarily translate to generation of more sales volumes, with the total dollars as the standard of measure.

Advertising affects sales since it creates a distinction on the product, often showcasing an idea that the product being advertised is much better than similar products within the market (Osinga et al., 2011). This creates barriers to entry and help in the reduction of competition, hence the strategy seeks to create market monopoly. A key concern when determining short and long-term advertising communications is the probable conflicts of interest. Postponed response marketing comprises investment in advertising to boost the brand value. This typically increases sales volume gradually (Moriarty et al., 2014). While any organization may resort to using sales marketing in either driving traffic or clearing excess inventory, over reliance on marketing may create price orientation within the market. This may turn detrimental since it may devalue the firm products (Murphy, 2010). When adequately used, advertisements give the platform over which a large consumer base can get information about a product or service, thus positively affecting the sales volume. Sales volumes directly affect financial performance.

Officers within the marketing sections often increasingly recognize the necessity to evaluate the impact of their activities on shareholder returns (Osinga et al., 2011). Although each marketing strategy has moderate influence on sales and market share, companies invest substantial amounts of money in marketing. Relying on various marketing strategies may
grossly affect three components of shareholder value in terms of stock return and both systematic and idiosyncratic risk. Investors value sound and ethical marketing procedures primarily because they result into higher sale returns in terms of sales volumes, and reduced systematic risk. Similarly, it enhances idiosyncratic risk, thus affecting the investors who sustain appropriately diversified portfolios (Oisinga et al., 2011).

Ethical marketing outcomes show that assessments of advertising expenses need to include consideration of the advertising effects on multiple stakeholders, and not just customers (Mark & Alexander, 2017). A study was conducted by Morteza and Raechel (2014) on the effect of environmental corporate social responsibility issues on brand reputation and corporate responsibility. By using a method of building on an all-encompassing literature the researchers did a contextual model that incorporated reputation and corporate profitability. Their study findings indicated the importance of holistically managing environmental-based ethical corporate social responsibility for organizations that intend to gain both profitability and reputation.

The contemporary society has become advertising savvy. Social media advertising for instance is a relatively cheap platform for firms to execute marketing operations and nowadays, the barrier to penetration into social media has been significantly reduced. However, advertisements in a holistic view can encourage materialism and consumption but may also drive the society to purchase meaningless and unfulfilling items. It may similarly manipulate buyers’ conduct, exploit sex and largely contribute to collapse of the societal morals (Borgerson & Shroeder, 2002; Hobbs et al., 2006). Advertisements affect the way the community perceives itself and also the world surrounding them, including fundamental actions and conducts (Fam & Grohs, 2007). The community includes the public and other stakeholders. Advertising is an area where a break from ethical standards may result in actions that are conspicuously visible and that may be detrimental to the firm and the society at large (Githui, 2012).

2.3.3.1 Ethical Broadcast Advertising and Financial Performance

Ideally, the forms of advertising practices can be generally classified into two categories: traditional forms of marketing and the modern forms of marketing. The distinction between
the categories is that while the traditional forms focus on mass-marketing tactics, the digital form takes into account the information from actual customer purchases, thus informing on the behaviour of customers (Mulhern, 2005). Some researchers opine that the major communication medium for the digital advertising forms is the use of internet (Chen, 2006). Broadcast advertisement, however called traditional media, were introduced before the advent of internet connectivity and exploited pre-internet platforms such as radio, television, newspapers books and magazines.

A number of studies view that the inclusion of internet for the modern forms of marketing makes it more superior than the traditional forms (Chen, 2006; Malhotra, 2010). However, contrary to their assertions, Brown and Hayes (2007) argue that modern marketing strategies such as social media rarely influence consumers. In their opinion, the influence gained by consumers is as a result of pre-existing offline influence, with the extraordinary reach of the modern marketing strategy only serving to augment the influence (Brown & Hayes, 2007). To bring to light their explanation, Brown and Hayes (2007) coin the definition of influencers as just but third party items that are not responsible for, but considerably shape consumers’ purchasing decisions. However, by mere creation of influence on the purchase decisions, sales volumes get influences, which in turn influences both profitability and financial performance.

Building of trust during advertising is an integral approach that firms ought to follow. By this, trustworthiness involves the degree of faith had by the audience with regard to a product. Much of the products and services are viewed as attractive from an ethical dimension, majorly with respect to the degree to which it satisfies the consumer (Saeed, 2013). The satisfaction can thus create positive attitudes, emanating from admiration of the product (Bowen & Chen, 2001). The kind of advertisements that are more accepted by consumers result from their status of role modeling, with attractiveness being part of them. It is in order that for the advertisements to create positive and progressive impact, both ethical and moral considerations of the adverts need to be adhered to (Rashid et al., 2015).
2.3.3.2 Ethical Online Advertising and Financial Performance

Online advertising falls within the category of digital advertising (Karimova, 2011). Because of increased competitive advantage, there has been need to keep more in touch with target consumers. This has primarily lead to the enhancement of the internet marketing platforms, which have thus turned out to be the major advertising medium. Firms have thus made strides to give more resources in form of financial expenditures to internet or online advertisement, at the expense of previous medium of advertisement (Chao et al., 2012). To enhance the relational exchange, communication in form of product brand has revolutionised, and primarily focuses on consumer brand interaction. This relationship that focuses on consumer loyalty originates from the digital media and gives emphasis on satisfaction, translating to enhanced loyalty to the online retailer (Kim et al., 2009).

Online advertising uses the Internet to deliver promotional marketing messages to consumers (Malhotra, 2010). Such networks include: email marketing, search engine marketing (SEM), social media marketing, many types of display advertising (including web banner advertising), and mobile advertising. In their study, Schau et al. (2009) report that online communities not only complement their real-world counterparts, but also serve as platforms for customers to exchange their ideas. Most organizations increasingly seek to utilize online communities for enhancement of their consumer relationships (McAlexander et al., 2002). This is primarily attained by the organizations’ incorporation of a feedback system.

Online marketing is basic for meeting changing customer needs and remaining aggressive in the business environment. Globally, the online marketing system is valuable since it offers an interactive approach via the hardware or software components of the computer system (Kiang et al., 2000). Organizations, large and small, require techniques on the most proficient method to utilize Internet marketing to advance their items or services. Online marketing and its related terms, for example, electronic marketing, advanced marketing; regularly depict the utilization of advancements in marketing endeavors (Price & Toye, 2017). Previous surveys uncovered an absence of concession to what makes online marketing ethical or unethical, and business entrepreneurs utilize these missing links terms reciprocally in light of their perspective, encounters, and specialization. Nevertheless, for a business to bring financial returns, it must just practice ethical online advertising, since any form of unethical sales behavior negatively affects the profitability of the firm (Akanbi & Adeyeye, 2011).
2.3.3.3 Ethical Social Media and Financial Performance

Social media is an internet-based facility that permits people to generate; either semi-permanent or permanent public profiles from an enclosed system, articulate a list of other individual social media users with whom the individuals share a connection, and observe their list of connections and those made by the individual users within the internet system (Boyd & Ellison, 2007). Ethical social media practices make use of internet capability to reach information to a higher number of consumers. Social media have given a number of avenues over which societal members can interact (Trisha, 2012). With the current trend of interactive marketing, where provision of feedback is upheld by both the firms and consumers, social media advertisement becomes of key benefit.

The research by Trisha (2012) notes that the different platforms for social media as internet forums, magazines, social blogs, podcasts, etc. besides being major tools for communication, they have also found usage in other areas such as the educational field. Similarly, for the last 30 years, these social sites have immensely undergone transformation, and is still in the process of changing (Trisha, 2012). Social media sites account for one out of every six minutes spent online (Lipsman, 2011). The sites that have so far gained a lot of popularity especially among the youth include: Facebook, MySpace, LinkedIn, Twitter and Google. Social media users have resorted to usage of the medium in such a manner so as to optimise benefits derived from the platform (James, 2009).

By its unique capabilities, social media form of advertising gives an emphasis on continually fostered communication between brand interaction and consumer relational exchange (Vargo & Lusch, 2004; Chen, 2006). Among the social media platforms, there is the use of Facebook, Twitter, Whatsapp, Skype, Google and MySpace. From various studies, about 955 million users of facebook are active users on a daily basis, and each active user has an average of approximately 130 facebook interactive friends (Melason, 2012). Wholesomely, social media facilitates collaboration through the online modes (Trisha, 2012). It is adequate enough to reach various audiences throughout the world because of its users’ base and is thus useful in the arrangement of meetings, organization of members, spread of information and getting of feedback services (Trisha, 2012).
2.3.4 Ethical Consumer Relations and Financial Performance

An operational Supply Chain Management (SCM) that includes effective consumer relation practices has of late become an essential tool for obtaining both competitive advantage for organizations, and enhancement of performance. This is apparently because current effective competition strategies are not only amongst organizations, but also among supply chain operations (Li et al., 2006). A number of business approaches necessitate diverse structures of organizational practices to accomplish ideal performance. In essence, an effective and efficient salesforce administration is a key factor for consideration for the execution of a business approach aimed at securing optimal performance (Slater & Olson, 2000). In their research, Li et al. (2006) have developed five dimensions of an effective SCM with key focus on consumer relation, partnership with suppliers, postponement, the appropriateness and quality of information sharing. In their analysis, the research establishes that these five dimensions are responsible for both increased competitive advantage, and performance.

There is a mutual link between supply chain management practices and the competitive advantage of firms. Similarly, there is direct proportionality between levels of firms’ competitive advantage and firm performance (Li et al., 2006). A number of studies are also in line with this assertion, and have in their part, for example, shown that Corporate Social Responsibility (CSR) and organizational reputation have profound effects on both brand equity and performance (Andersen, 2005). Also, an organization’s reputation and brand equity have a partial mediation role for the correlations that exist for corporate social responsibility and performance (Lai et al., 2010).

Still, with regard to Corporate Social Responsibility, several studies have been done on establishing the advantages of consumer focus with the sole objective of driving the success of any organization (Jaramillo, 2009). Various traits of salesperson/manager relationships are potential determinants of greater consumer emphasis in consumer/salesperson collaborations (Boone, 2013). Essentially, servant leadership strategies that gives emphasis to subordinate welfare concerns is observed as being a catalyst for providing solutions to consumers’ concerns.
Salespeople’s insights of servant leadership strategies by managers on their part relate to salespeople/consumer orientation, which is also an essential driver of sales performance (Jaramillo, 2009). CSR is a key consideration for the origination of consumer-focused environment. The necessity to be consumer-focused to the dynamic business environment is important for both profit-making and non-profit making organizations. This arises due to the notion that consumers have become more demanding to product/service providers, with the consumers having a wide range of providers available to choose from.

To appeal to new customers, and retain the already existing ones, it is imperative that a single strategy of customer-orientation is not just adequate (Jaramillo, 2009). A broader spectrum of a relationship chain is necessary. Under the broad spectrum, organizations, and more specifically, their contact employees such as public relations officers and salespeople need to be observed as ethical by consumers. When consumers view an organization to be operating in an ethical climate, a mutual consumer/firm relationship is developed and maintained. Such an ethical environment is an ingredient of inculcating consumer trust, loyalty, and satisfaction, which in turn is a key ingredient for performance (Roman, 2003). The salespeople who take part in marketing of firms’ products and/or services are often viewed to be the primary relationship managers. These officers are responsible for ensuring that there is quality relationship that continuously coexists between the individual firms and consumers. A sustainable mutual relationship is responsible for future engagement between the parties (Li et al., 2006). In this context, sustainability is viewed as that point from where neither parties push the other to the wall for its individual selfish gain.

With the dynamic business marketing environments, future sales environments is focused to heavily depend on the quality of the relationship created by the relationship managers. Relational selling activities such as mutual disclosure of necessary information to consumers, and continuous follow-up procedures result into greater buyer-seller bonds, and hence stronger relationships and performance (Crosby et al., 1990; Ahearne et al., 2005; Armstrong et al., 2015). In another study, Roman and Ruiz (2005) analyzed the role of the behavior of an ethical salesperson from the consumers’ perception with a view to developing a quality relationship between the consumer and salesperson. The research’s analysis indicate that sales behavior that is perceived as ethical is instrumental for the enhancement of the quality of the consumer/seller relationship.
An enhanced relationship is key for the improvement of trust, satisfaction, and commitment to the organization selling its products and/or services (Roman, 2003). As further pointed out by Roman and Ruiz (2005), an appropriate ethical salespersons’ behavior strongly influences consumer satisfaction when the consumers’ feeling towards the organization from which the sales individual works is negative, as opposed to when the perception is positive (Roman & Ruiz, 2005).

In the current age of building relational selling strategies, the key focus for marketing officers is the determination of extents to which both consumer oriented behaviors and attitudes drive sales volumes for products. By the use of data from cross-industry survey, Homburg et al. (2011) provide robust empirical support for a curvy, inverted (U-shaped) effect of a consumer orientation on sales performance, whereas the influence of customer orientation on customer attitudes is continuously positive. Similarly, the Homburg et al.’s study reveals that optimum levels of orientation of consumers regarding sales volumes is greater for marketers of customized products, for the firms that pursue premium price strategy, and also for markets that exhibit greater degrees of competitive intensity (Homburg et al., 2011).

Customers also have differing criterion on how to rate one as an ethical leader (Peloza & Shang, 2011). In fact, some are of the view that such leaders can be measured by the quality of their management leadership styles. There are two major goals of ethical leadership in management. The first goal in ethical management is to state explicitly the ethical dimensions that must be considered in every decision that the management makes. The second goal is to formulate and justify ethical principles. The two goals can then enable the management to make the best customer-oriented decisions that if implemented well may lead to a higher level of customer loyalty for business (Brown & Treviño, 2006; Peloza & Shang, 2011). Performance is not just a matter within the sole discretion of a firm. Most importantly, businesses should understand that the ethical responsibilities towards customers have a strong foundation of legal protection (Peloza & Shang, 2011). Therefore, as much as businesses by their very nature are required to act in good faith, the law similarly compels them to act in such manner towards the needs of their customers (Peloza & Shang, 2011).
Viewed from the resource dependent theory, for the continued survival for any organization, the organization ought to consider attending to the demands of the people within its environment who work to achieve its broad organizational mandate. Customers provide businesses with financial resources, enhanced reputation and loyalty that create a positive image for the business (Peloza & Shang, 2011). Consumers have therefore demonstrated that they are powerful enough to influence business activities, hence customer loyalty is critical for achievement of business competitive advantages (Lin & Wang, 2006).

The resource dependent theory places consumers as critical determinants of the success of any business, regarding progress and survival (Hillman et al., 2009). Companies that wish to stabilize customer relationships must first determine the duration within which it will be able to create a mutual commitment to achieving the same (Ulaga, 2003). To develop long-term customer relationships, businesses may create interdependence or lock in their customers by getting them highly involved. It is important to coordinate information and interactions between customers and companies across various times and through different channels (Reinartz et al. 2004).

In summary, the improvement of an efficient and effective consumer relationship is continually becoming recognized as an essential constituent of marketing strategies in both profit making and non-profit making firms. By adequate development and maintenance of an effective consumer relationship, there will be an associated reduction of perceived risk and transaction costs (Reinartz et al., 2004). Similarly the development is an appropriate strategy to oversee improved consumer loyalty, and consumer retention which on their part positively influence organizational performance. (Reinartz et al., 2004; Armstrong et al., 2015). From the consumers’ viewpoint, the elements of relationship satisfaction include, but are not limited to: orientation of consumers, trust built by the relationship vehicle, the duration of relationship, proficiency and ethics (Payne & Frow, 2006)
2.3.4.1 Ethical Quality and Financial Performance

The quality of services offered in any business environment may affect the way various stakeholders view the organization. An ethical and quality product raises organizational reputation and hence the sale volumes. Consumer orientation and loyalty is pegged on the rating of various service delivery systems. The systems may adequately be established on a foundation of corporate social responsibility (CSR) practices of which, from the assertions of Saeidi et al. (2015), there is a link between such CSR practices and firm performance. Wholesomely, such CSR practices enhance organizational performance by increasing the competitive advantage, reputation and consumer loyalty (Saeidi et al., 2015).

Behavioral loyalty could be spurious since the concept concerns switching costs and convenience (Davenport et. al., 2001). Additionally, it could be misleading if consumers were multi-brand loyal, therefore giving the wrong information regarding customer loyalty to the organization. The implicit assumption of using unobserved consumer relationship management metrics is the prediction of recognizable behavior such as increased consumption and retention (Harshman and Harshman, 2008). The enhanced consumption and retention primarily comes as a result of an ethical relationship between the firm and its client.

Ethical customer relationships lead to development of customer life-time value (Davenport et al., 2001). Acquiring, retaining and cross-selling customers determine the lifetime value and the long-run profitability of a customer. Customer lifetime value (CLV) is the current worth of all prospective proceeds gotten from a consumer over their life of a relationship with the selling organization. The long-term profitability of an individual consumer may thus be assessed based on the CLV (Armstrong & Taylor, 2014). The measure is valuable in the identification of which consumers to acquire, the expenditure required for each consumer, and the way of customizing promotion and product offerings to them. As a result, a number of scholars emphasizes on consumer equity which is viewed as the life-time value of both the current and anticipated consumers. Regarding the connection between the market value of a firm and customer equity, decisions made based on customer equity can differ qualitatively from those based on shares and the value of sales (Armstrong & Taylor, 2014).
By using a single-item purchase-intention scale, Frow et al., (2011) identified positive correlation between quality service and customer satisfaction. Similarly, Frow et al., (2011) found a significant relationship between the customer views regarding the quality of services and their desire to recommend a firm to prospective individual firms. They have also monitored the influence of service quality on particular behavioral intentions. The management of Toyota Company found that the determination to repurchase a Toyota vehicle increased from 37% to 45% with a positive sales experience, from 37% to 79% with a positive service experience, and from 37% to 91% with both positive sales and service experiences (Frow et al., 2011).

Some researchers consider the influence of providing ethical quality services of the financial performance of a firm while others assume ethical and quality service as drivers of consumer contentment. With PIMS data, Gonçalves and Sampaio (2012) conducted a study using data from about 8000 customers of a national hotel chain. They found out that there was almost a 45% return on investment on service quality e.g. cleanliness. The research demonstrated the sensitivity of service delivery on the part of customers (Armstrong & Taylor, 2014). Hotels that provided fresh food, clean table clothes, neat waiters with dignified service performed better than hotels that did not have good services. Additionally, they found out that the hotel chains that had established customer contacts and made follow-ups regarding service delivery enjoyed higher profitability compared to those that did not have follow-up mechanisms. Not only did the hotels register higher Return on Assets (ROA) but also higher Return on Investments (ROI) (Armstrong & Taylor, 2014).

By use of data from about 35 firms and over 1,000 customer surveys (Kim, 2011) determined the impact of customer perceptions regarding the quality of service provision. The research concluded that quality perceptions positively influence the stock returns of firms after controlling for accounting measures (Armstrong & Taylor, 2014). These studies demonstrate the strong positive influence of consumer satisfaction on the financial performance of a firm.
Most importantly, ethical considerations are the backbone of customer satisfaction for any firm. Broadly, these studies are about the importance of ethics in customer relationship management thus pointing out the assertion that customer satisfaction is a very sensitive factor in the financial performance of a firm.

2.3.4.2 Ethical Consumer Treatment and Financial Performance

Ethical consumer relations may be measured by consumer treatment and involves adhering to consumers’ right (Steinman et al., 2000; Shaharudin et al., 2009). Consumers assume different personalities depending on the role they are subjected to as consumers, users, payers, or buyers. The interaction of consumers with the service industries has a weighty effect regarding the general opinion of the public towards the company (Mantel, 2005). Consumer relations can only be built by having a good rapport with customers. Both Liu et al (2007) and Narayandas and Rangan (2004) postulate that ethical behaviours of employees are a good start to initiate and maintain a good rapport with customers. Since securing and maintaining customers primarily influences a firm’s financial obligations, this research believed that ethical consumer relations affects financial performance of listed firms.

Most recent researches focus on establishing the link between consumer satisfaction and their influence on financial positions of firms (Armstrong & Taylor, 2014). Researchers use diverse metrics for measuring the financial performance of firms, for example Tobin’s q, return on assets (ROA), return on investment (ROI), abnormal earnings, and cash flows (Frow et. al., 2011). They showed the influence of consumer satisfaction on the financial performance of a firm using 200 of the Fortune 500 firms across 40 industries. The research showed that while market share did not have an impact on shareholder value, a 1% change in customer satisfaction index may result to about 1.016% change in stockholder value as measured by Tobin’s q (Frow et. al., 2011). Therefore, this implies that if there is improvement in the customer satisfaction indices for a firm, then a firm can increase its value (Harshman & Harshman, 2008).

In their study, Anderson and Vikas (2000) examined data from 125 companies in Sweden using the Swedish Customer Satisfaction Barometer. The study found out that a rise of 1% in customer contentment results to an average of 2.37% improvement in the Return on Investment (ROI). With the Swedish Customer Satisfaction Barometer data for 1989-1992,
Davenport et al., (2001) found that the satisfaction elasticity for Return on Investment (ROI) ranges between 0.14 and 0.27. Based on this study, the researchers concluded that a 1-point annual increase in the Swedish Customer Satisfaction Barometer for five consecutive years is worth $95 million or 11.5% of the current ROI.

In another study by AbdelSalam (2013), the researchers found out that announcement of American Consumer Satisfaction Index (ACSI) improvements led to abnormal increases in returns up by approximately a unit percentage. Gallarza et. al. (2013) developed a model to relate changes in employee attitude, customer satisfaction, and revenue growth, outlining the change at Sears during the years 1994 to 1995. The results revealed that a 5-point improvement in the attitudes of employees led to a 1.3-point positive change in the level of consumer satisfaction. This, in turn, translated to 0.5% positive change in the growth of profits (Armstrong & Taylor, 2014). Also, it was estimated that 4% improvement in the level of customer satisfaction translated to about $200 million in additional annual revenues. The additional proceeds increased Sears’ market capitalization by about $260 million (Armstrong & Taylor, 2014).

Using insurance data, Lin and Wang (2006) investigated the effect of trust, commitment and satisfaction on the quantity of services purchased as well as the number of customer referrals. While effective commitment, trust, and satisfaction showed positive relationships with the number of customer referrals, adequate commitment only showed positive relationship with the quantity of services obtained (Armstrong & Taylor, 2014). Other researches also provide indication that consumer service perceptions and the ethical accountability of firms affect customer intentions in a positive way. Preferring one company to another or praising a company increases the volume of purchases. In fact, Khan and Faqih (2014) showed that customers were willing to pay a price premium for companies that were deemed ethical.

2.3.4.3 Ethical Consumer Communications and Financial Performance

The relationship between a client and a firm exists on account of shared desires and values that are, almost all time, passed on through communication. This requires some basic honesty, and reasonable managing of their communication (Post & Byron, 2015). Good communication between clients, business owners or employees leads to trust and honesty. There is inferred an ethical contract of good confidence and performance especially if such a contract involves a stream of clients and not just is this an ethical prerequisite but has been
legitimately upheld in a few states (Khanna, 2016). The suggested contract of good confidence and reasonable managing is to authorize the contract or exchange in a way steady with the gatherings’ sensible desires. While there has been worry with corporate notoriety, there is restricted research to figure out whether clients’ trust about the organization that serve them impacts their ability to move to other organizations or stay (Valentine, 2014).

The need that organizations remain ethical while communicating with their clients is overwhelmingly supported; it is accepted as an ethical norm and ought to be observed at all times (Emrouznejad et al., 2014). This is because, clients do assess the ethical practices of organizations. Also, research in marketing morals has demonstrated that a few clients know about the significance of natural issues, level of administration quality, and other obligation issues that affect the acquisition and utilization of items. This may result in dire consequences should the opposite ensue (Harden & Upton, 2016). However, consumers hold on high any form of ethical considerations in either the product or services of firms, and even desire to pay for the higher costs of the products and/or services (Auger & Devinney, 2007).

Ethical concerns are established through the consumer feedback channels. The consumer feedback process affects sales performance. The participation of the consumers is a vital requirement since it presents a two-way communication channel, which is responsible for the success of the organizational promotions by use of relational procedures (Ashley et al., 2011). However, even with the incorporation of an effective feedback or communication channel, there are other factors that firms have no control over regarding the type of feedback requirement for any relationship marketing program. Such factors include, among others, forms of privacy concerns that involve consumer participation (Ashley et al., 2011).

2.3.5 Ethical Investor Relations and Financial Performance

Executive officers face myriads of challenges as a result of the dynamic markets that continue to arise from the socio-political and economic environments (de Villiers et al., 2014; Palmieri et al., 2015). Such unfolding environments continuously bring to the officers and in general, professionals, essential information they require to assist them in staying competitive within the prevailing markets. In the assertions of certain outstanding
intellectuals who have sought to define investor relation practices, prominent executives should share their insights on cutting edge concerns and timeless topics. This is especially true for the executives to create a stimulating relationship environment, especially with regard to ethical governance and enterprise risk management.

The management of investors is achieved through the incorporation of investor relation officers (Kirk & Vincent, 2014; Chapman et al., 2016). The officers usually seek to adapt to firms’ changing leadership landscape, and also offer strategies for continual improvement. Among the strategies, the officers educate members of staff on governance issues in a bid to improve firm credibility from the perception of the firms stakeholders. This enables the firms to look into ethical issues not only through the legal and compliance perspectives, but also in the broader picture of enhancing corporate reputation (Gillan & Starks, 2003). Just as an example, issues such as ethical advertising and ethical human resource practices affect the public’s perception about a firm, and not just its investors. Ethical leadership thus needs to be seen as a progressively significant element of an organization’s reputation program. Perhaps as a result of the aforementioned dynamic organizational environment, a number of firms currently recognize the need to uphold reputation.

Another strategy also to be used for continual improvement is the formulation of a disciplinary team whose operations revolve around improvement of the ethical environment. Such a team requires to enforce ethical communication with the institutional investors by incorporating a range of corporate resources such as ethical investor relations, legal affairs, information disclosure, and investor communication (Gillsn & Starks, 2003; Wen, 2009). The team often ensures an all-inclusive and integrated approach to the creation of an ethical atmosphere within the firm. By effectively having the investors feeling that their issues are incorporated, this may positively influence organizational performance in terms of liquidity (Kirk et al., 2014).

Another strategy for use with investors is the creation of an environment from where information is appropriately outlined and communicated (de Villiers et al., 2014). A number of stakeholders both within and without the internal organizational environment usually get interested in governance issues, and may not be reached via the proxy. Reaching them can be
achieved by the creation of an effective corporate communication team that passes the right information at the right time to the investors (Fernandez et al., 2014). Such a team needs to make ethical leadership an all-time affair by laying the groundwork for meeting and addressing the concerns of investors, communicating about organizational performance and educating the investors on any appropriate governance matters.

Firms should be committed to publishing financial and sustainability reports to help in the building of stronger relations with its investors (McCahey et al., 2016). This assist the firms to become more transparent on their performance with regard to socio-environmental and economic issues. Also to be contained in the report is the firm’s assurance of investor engagement and participation in the organization’s affairs. On their part, sustainability reports are essential in ensuring business success as it gives periodic guidelines on sustainability initiatives on objectives, challenges, targets and progress on the organizational targets. For the achievement of set targets, a number of things need to be taken into consideration, some of which include: investor perception, investor communication, and transparency in information disclosures (Wen, 2009; Palmieri et al., 2015). The periodic reports derived by firms need to incorporate outcomes from both investor perception studies and investor feedback analysis.

When several members of senior management officers are involved in investor conferences, the notion of non-distortion of primary information is originated (Fiegener, 2005). More often than not, investors do appreciate meeting with managers who are close to the firms’ external stakeholders and have primary information on, among other factors, profit and loss accounts (McCahey et al., 2016). Similarly, organizing investor forums help the senior officers to have an in-depth understanding of the buy/hold/sell decisions on various stock items. Such forums also help to identify value-driven metrics from where the firm is most competitive and enjoys best risk-adjusted investment returns. The identification plays an essential role in strategically repositioning the firm. For investor perception, there is dire need for transparency and accountability in communicating organizational outlook. This is especially needed to guide prosperity and also ensure that investors’ outlook are at par with that of the firm (Fernandez et al., 2014).
Investor Relations Departments may be created by different firms. The functions of such departments may be, among others, sending investor research reports of the individual firms to the board of directors (Fiegener, 2005). This will assist the board members to analyze investors’ perception of the firm, and also include within it the investors’ understanding of the firm’s strategy for creating shareholder wealth (Anderson et al. 2004). A key component of this report should be the Strength, Weaknesses, Opportunities, and Threats (SWOT) analysis of the firm.

Investor relations officers have the mandate of strategic planning, geared to adding value for both investors and management. The officers assist in preventing the firms’ management from being blindsided, and sometimes being irritated by activist investors (Tricker & Tricker, 2015). They are charged with the mandate of ensuring the completion of a number of the firms’ strategic initiatives through organization of discussions with various stakeholders aimed at mapping out the strategy for both internal and external communications (Tricker & Tricker, 2015). The officers thus draw clear roadmaps for discussion of ethical issues regarding: investment decisions, perceptions regarding the firm operations, collection of feedback from investors, education of investors on industry trends and key information they need to know regarding the firm’s operations (Anderson et al., 2004).

Positive work environment may be realized when there is positive feeling among investors whenever they perceive that the firm usually consider their opinions and input. When such a conducive atmosphere is created, investors get to instill in themselves more a positive view of the management procedures. Investor activists are usually fond of making demands to firms’ management, especially if the organization does not perform to expected standards, or does not respond to demands of investors. At no point should such activists be ignored since giving them a forum to meet helps them express their distresses and opinions (Anderson et al., 2004). Inasmuch as the investor activists may be very vocal, and in some instances seen as against the firms’ management, an appropriate relation with them is closely associated with upheld management credibility, and in broader perspectives, the reduction of the costs of capital (McCahery et al., 2016). To measure the success of the investor relations program, the firms can assess how it retains current institutional holders, and as well as how many new investors are attracted annually to the firm (Ragas, 2014).
Ethical investor relations involve truthful disclosure of information. Good governance and transparency can be a good measure for ethical investor relations and it involves managing a company, especially with respect to the soundness of its management (Bedicks & Arruda, 2005; Berrone et al., 2007). Return-On-Assets (ROA) may be used for financial performance (Barney, 2001). The research, from the perspective of governance believed that investor satisfaction and the level of relation with the investors is a determinant of financial performance of listed firms.

### 2.3.5.1 Ethical Information Disclosure and Financial Performance

Ethical information disclosure is a vital component of the administration of any ethical firm, the role that Corporate Social Responsibility (CSR) plays to ensure disclosure continues to be overemphasized over the last years. The four types of disclosures that CSR has aimed to achieve include, legal, discretionary, ethical and economic disclosures. It is almost impossible for firms to enhance their reputation without ethically disclosing such information to stakeholders (Hasseldine et al., 2005). These disclosures must also be done both accurately and timely, to enhance the trust that the firms’ stakeholders give to the management. Firms that undertake CSR activities, at best, involve the disclosure of related information solely because of its high influence of financial performance and market value (Barnett, 2007; Mackey et al, 2007).

Ethical information disclosures help to legitimate actions (Deegan et al., 2000). In the view of Deegan et al. (2000), an enhancement of social disclosures alters public perception, and achieves the society’s social mandate. An integral component of information disclosure is the Corporate Social Responsibility Disclosure (CSRD) which governs the manner in which organizations relate with the society, hence improving their social reputation (Branco & Rodrigues, 2008). By definition, CSRD involves communicating both social and environmental effects to particular groups within the society, or even to the society at large. With the involvement of disclosures, the social responsibilities are useful to firms in the promotion of interests of stakeholders.
In the study by Jo and Harjoto (2012), the association between governance structures, Corporate Social Responsibility (CSR) and financial performance is established. From their data analysis, their study found out that those firms that have elaborate corporate social responsibilities do have stronger mechanisms for governance. Firms use CSR to communicate to stakeholders. Ethical information disclosures is instrumental because of the notion that the organization has a ‘social contract’ with the society. There has thus been the emergence of different guidelines with regard to the need for ethical relay of information on environmental and social issues (Reynolds & Yuthas, 2008).

Another aspect of ethical information disclosures is the platform it gives organizations by enabling them spread value information to investors, stock analysts, regulatory structures and capital markets (Karagiorgos, 2010). Inasmuch as the sharing of information is integral, there are salient factors that inherently affect the quality and accuracy of the information to be shared (Karagiorgos, 2010). Such factors may include, among others, the size and characteristics of the organization (Aibar-Guzman, 2009). Nevertheless, all firms ought to understand the importance of ethical disclosures, since it is through the same that stakeholders holistically build more trust with the firms.

2.3.5.2 Ethical Governance and Financial Performance

This study believed that ethical governance has an effect on financial performance of listed firms in Kenya. This arose because of the condition that commitment to an ethical business conduct improves value creation and enhances the interests of the stakeholders (Gilley et al., 2010). To avoid a no-ethical governance scenario, those in the cadres of governance should both craft and implement a written ethical code of ethics, which each top executive should commit to follow. Instead of need for individual selfish gains from organizations, the code of ethics ensures that the combined ethical interests of stakeholders are upheld. Managing stakeholder interests has proved to be vital for enhanced level of competitiveness, responsible for value creation (Falck & Heblich, 2007).
Ethical considerations in governance constitute Corporate Social Responsibility (CSR). In their study, Margolis and Walsh’s (2001) established that barely all 160 studies that have so far been held on CRS suggests a relationship between CSR and financial performance. Similarly, other studies such as Agle et al. (1999) have found a positive correlation between CSR and ethical values that are associated with Managing Directors (MDs). In another study, Pae and Choi (2011) established that the cost of capital is usually higher for firms that portray low commitment to organizational ethics. With this argument in place, it becomes imperative that firms that have no code of ethics have a higher probability of weaker future financial performance.

It is through the top cadre management that formulation of policies with regard to business ethics emanate and are strengthened. Choi and Jung (2008) suggest that such business ethics streamline practices that may have a positive effect both on the market valuation and financial performance. The same argument is made by Blazovich and Smith (2011). Still, Blazovich and Smith (2011) opine that moral and ethical corporate behavior is an ingredient for the enhancement of firm value and is instrumental in the reduction of conflicts. With reduced conflicts, there arises an enhanced trust between the core business stakeholders such as firm employees, consumers, management team, investors, regulatory bodies and even the government.

2.3.5.3 Ethical Board Characteristics and Financial Performance

There exists a relationship between board characteristics and financial performance, owing to the pivotal role that the board members play on organizational oversight mandate. Emphasis for board characteristics was given to the size of the board, the duality of the Chief Executive Officer (CEO) and the board’s gender diversity. From the study of Garcia-Sanchez et al. (2015), the researcher analyzed the effects of the various board characteristics on the existing organizational code of ethics. It established the existence of a correlation between the board size, board independence and gender diversity and internal code of ethics (Rodriguez et al., 2009). For the financial institutions, the board of directors have great duty of oversight, and any structural differences that may arise from the board become reflected in the financial performance (Pathan & Faff, 2013).
Other factors that may be affected by the various board characteristics include stock returns, market valuation, compensation structures and risk taking (Fortin et al., 2010; Adams & Mehran, 2012). One of the mandates of the Board is the inspection of how the management perform their tasks (Roberts et al., 2005). It is thus mandated to govern the organization and to ensure that the investors are assured of a good Return-on-Investments (ROI). With this in mind, it is through this corporate governance mandate that the firms’ investors get respected as well as interests of shareholders are ethically achieved. Also, through their oversight mandate, the board serves to ensure that firms present their financial statements in both a transparent and fair manner (Alzoubi & Selamat, 2012).

What therefore stands out is that the board must be well structured, since it is the sole point where organizational strategies emanate and is the body that chiefly monitors and approves financial performance (Alzoubi & Selamat, 2012). The board characteristics is therefore a great determinant in the realization of corporate governance. To evaluate the board performance, the Return of Assets (ROA) method is incorporated. Besides measurement of financial performance, the ROA method proves also adequate for the measurement of corporate governance (Fooladi, 2012). It has been used before as an aspect of corporate governance performance indicator.

2.4 Empirical Review
2.4.1 Ethical Human Resource Practices and Financial Performance

Organizational leaders primarily influence the levels of ethical conduct in various organizational set-ups. Within the HRM arrangement of any organization, the virtues of those in leadership affect the ethical direction of those that follow them (Winstanley & Woodall, 2000). Generally, under HRM, leaders have three major ethical tasks to perform. The leaders should normatively perceive, create and interpret reality. They should show accountability for the effect of their decisions on the human beings employed in the organization (Manroop et al., 2014). The conduct of employees in the organization is dependent on the organizational leadership status as well as prevailing standards of behavior. Financial performance of a firm is thus linked to its internal HR environment that stimulates ethical conduct (Caldwell et al., 2011a).
In their study, Shacklock et al. (2011) assert that identifying the key factors that motivate employees is important in helping employers influence the behaviors of their employees. Klikauer (2008) claims that knowing the best ways of motivating employees helps boost productivity. HRM functions such as training, selection, development, and job analysis are among the most significant determinants of employee motivation (Wright & Mcmahan, 2011). Employee selection by fairness determines the response of employees to duties and instruction. Zhu et al. (2015) found out that ethical leadership underscores fair treatment, collective principles and honesty in conducting various business transactions. The researchers augment their study by asserting that ethical leaders instigate adorable conducts in the business environment, high levels of pride and determination are instilled in the subordinate staff. This in a way creates a positive picture of the way the internal workforce perceive their work environment.

The success of every organization relies heavily on the efficiency and abilities of employees regarding skills and talent. This concrete reference to employee skills and abilities reverberates the essence of establishing ethical employee selection and recruitment practices. Practices such as nepotism, tribalism, and favoritism delegitimize the organizational and employment structures of organizations (Durrani & Rajagopal, 2016). This leads to the development of a pool of poorly motivated staff which is tied to the inefficient recruitment process whose eventualities is poor financial performance. Organizations that have poor selection procedures attracted unsustainable applicants. As a result of the poor selection procedures, these organizations are inefficient as talented persons may fail to penetrate into the organization. Organizations will hence waste a lot of time and money used during the training of new recruits. Kalshoven and Boon (2012) opine that proper selection processes of recruits improve organizational performance.

Apart from a credible hiring process, organizations must ensure that there is continuous training of employees (Sloan & Gavin, 2010). The opportunities for personal development such as training should be provided to each person equally, without favoritism. Ethical employee training and development allow organizations to improve the capacities of their employees and hence a smooth implementation of their organizational strategies. It also improves the competitiveness of the workforce.
Porter and Spear (2010) further say that it would be wrong to assume that there would be significant differences in the levels of performance between organizations that resort to ethical principles and those that do not. The differences in their approaches regarding their HRM practices may reflect the opposite of what is expected in theory (Suresh, 2011).

There are complex challenges involved in creating the right human resource systems that are congruent and aligned with the strategic mission of an organization (Simmons, 2008). Additionally, such strategies will have to produce high levels of trust and commitment from employees to sustain an environment capable of creating wealth in the long term. The need to employ ethical HRM in organizations can be justified when the argument raised by the Herzberg’s two-factor motivation theory is considered (Obeidat, 2012). The theory emphasizes on differentiating motivation factors from hygiene factors within the work environment. According to Maas (2007), Herzberg believed that both motivation and hygiene factors play a significant role in determining the productivity of employees.

Hygiene factors in an organization consist of working conditions, job status and salary, organizational regulations and policy, interpersonal relationships and job security. Herzberg’s study concluded that in case the hygiene factors are inadequate, employees will be dissatisfied regardless of the nature of the organization. On the other hand, motivation factors consist of opportunities for getting recognition/promotion, opportunities for growth and a general sense of achievement (C. H. Schwepker, 2005). All these factors influence job satisfaction and thus contribute to motivation within the work environment. Based on the theory put forward by Herzberg, the presence of motivation factors leads to job satisfaction (Maas, 2007). The absence of these factors, however, does not always lead to dissatisfaction and hygiene factors are, therefore, essential if organizations are to maintain the satisfaction of their employees (Kang, 2010).

Similarly, for organizations to be able to uphold the hygienic factors, they need to factor in the ethical dimensions of human resource management. Herzberg’s study, therefore, enables organizations to understand the importance of the ethical dimension in human resource management (Guerci et al, 2015). Lack of ethics in an organization may lead to the development of a pool of unsatisfied workers. It is impossible to motivate dissatisfied
workers and therefore, before the implementation of motivation factors, organizations should focus on hygienic factors framed within the ethical perspective (Durrani & Rajagopal, 2016). In essence, ethical human resource practices are policies and values that serve as operational guidelines for the management of people at work.

Being a measure of how effectively a firm meets its objectives, firm performance holistically involves employee attraction, retention, and relation, as well as the satisfaction of other firm stakeholders (Kagwiria et al., 2014). Employees being one of the essential assets of firms should always be kept satisfied to enable their companies to have a competitive advantage. Managers should thus implement the human resource practices in an ethical, coherent and integrated manner (Klikauer, 2008). Some approaches to the implementation of HRM policies support the positive correlation between human resource management and organizational performance.

Such studies link mediating factors influencing organizational outcomes such as the development of capabilities, behaviors, attitude, skills and innovation. Vast studies have asserted that work practices including ethical recruitment and selection, training, incentive compensation, information sharing and employee satisfaction positively contribute to organizational performance. Such practices result into enhanced trust, commitment, organizational citizenship and sense of fairness, and hence, enhanced performance. These practices have made understanding the importance of ethics in human resources crucial for all business leaders (Guerci et al., 2015).

By use of a sample of 293 US firms, Brewster (2004) evaluated the impact of HR managers’ capabilities on Human Resource effectiveness and the influence of the latter on corporate financial performance. Also, Darwish et al., (2013) on his part examined the influence of HR practices on financial performance of one-hundred and ninety petrochemical refineries within the United States. All these studies have confirmed the existence of a positive relationship between training and compensation with workforce motivation. Other studies have also been conducted affirming similar relationship.
Based on the research of Story and Hess (2010), there is a link between the level of job satisfaction and organizational citizenship behavior, where employees are willing to go beyond their job requirement. Kacmar et al. (2011) revealed that organizational citizenship depends heavily on the existence of ethical behavior in managing the human resources in the organization.

On their part, Caldwell et al. (2010) established a positive correlation between university performance and Ethical human resource management practices involving recruitment and selection, performance appraisal, compensation and training, and development. Darwish et al. (2013) similarly conducted a research to establish the impact of Human Resource Practice on organizational performance: a case study of Debre Brehan University. Their study revealed that human resource practices have a significant relationship with university performance. Their scope was however limited to the universities and they failed to break down the various components of human resources and analyze them individually for financial performance. The current study thus sub-divided the human resource policies into sub-components and individually analyzed the components to reveal their relationship with financial performance.

Organizations that are keen on creating customer loyalty should ensure employee satisfaction. It is crucial for organizations to identify the factors that increase employee satisfaction to improve employee performance. The key towards achieving this, however, lies in the ability of an organization to embrace ethical human resource management practices (Singh, 2006). Gibbs (2010) found out that the secret of achieving a high caliber of well-motivated employees lies in the manner in which the management manages and values its employees through the principles of ethical HRM.

Providing employees with opportunities for training and development improves work-related skills, encourages good performance, and assists the organizational workforce to progress in their work more comfortably within the ever-changing working environment, for example, the introduction of new technology (Wooten, 2001). Such training helps achieve job satisfaction. Research by Mithas et al. (2005) reveals further that employee satisfaction leads to a reduction in employee turnover, which has a positive influence on organizational
commitment. Singh (2006) demonstrates that there exists a correlation between consumer contentment and employee satisfaction. A firm will never have satisfied customers unless the employees who serve the customers enjoy job satisfaction.

The repercussions of unethical conducts may be negative both for the employees and the organization. HRM can train managers on the best ways to reward ethical standards, for example using performance to promote fairness (Weaver, 2006). This enhances the performance of employees and by extent the financial performance of the organization. Accordingly, Brewster (2004) says that tension often exists between the financial goals of a firm and strategies towards the enhancement of profits and ethical considerations with concerns for right behavior. It is the role of the human resource divisions to define ethical behavior since they are most focused on employees and their conducts. The divisions are anticipated to formulate ethical standards for employees and hence help advance the performance of the company by aligning them with the goals and strategies of the business (Foote 2001; Truss et al., 2010).

Achieving ethical Human Resource Management (HRM) practices requires human resource planning. Human resource planning is the strategies to acquire, utilize, improve and preserve an organization’s human resources (Wooten, 2001b). Human resource planning helps achieve the strategic goals of an organization by aligning the HR management practices with ethical requirements (Truss et al., 2010). Human resource planning provides the framework for employee advancement and job design. In the conclusion of their study, Jiang et al. (2012) showed that organizations that adopt human resource planning utilized their human resources better than those that did not.

The quality of employee work performance relies on the ability of individual employee, an opportunity available and motivation provided (Lengnick-Hall et al., 2009). This means that HRM managers intervene to develop the abilities of their employees by motivating them and providing opportunities for growth (Truss et al., 2010). Organizations that raise the level of employee motivation through ethical HRM practices can increase the efficiency of their employees through such efforts as fair compensation. In the study by Turner et al. (2008), the validity of these assumptions have been supported. In their study, the researchers found that
organizations that are honest and fair towards their employees and develop HRM best practices consistently received a higher score in the Fortune Corporate Reputation Index. The Fortune Corporate Reputation Index ranks companies based on their performance on several factors, key among them HRM practices (Guerci et al., 2015).

Given the significance frequently ascribed to the early moral development and the impact of senior leadership decisions in organizations, Trevino (2001) researched the impact of three conceivable sorts of role models on the development of ethical leadership. He termed these roles as early childhood role models, profession mentors and top managers. The researcher found out that having had a moral model in one’s life at one point emphatically creates room for ethical leadership to be inculcated in the said individual. Similarly, Zhu et al. (2015) opine that such leadership plays a pivotal role in the realization of the growth of virtues such as integrity, respect, equity, and justice. That is to say, leaders who said that they already had a moral role model at work will probably influence their followers to follow suit. Such idealized influence enables an integrative and reliable business practice devoid of self-centered ideologies, but with a demonstration of ethical practices (Obeidat, 2012)

2.4.1.1 Ethical Selection and Recruitment and Financial Performance

A study conducted by Mathenge (2012) analysed the ethical considerations in Human Resource (HR) Management in Kenya. The research examined the application of various ethical theories and the administrative challenges confronting HR managers from both within and without the Kenyan boundaries. The study recommends that the current Human Resource policies are weak and there is need to employ ethical consideration to re-engineer and define them. These findings were in tandem with previous findings of Schumann (2001), Wooten (2001) and Vickers (2005) who established various measures to ensure high caliber and well-motivated employees. The research by Mathenge (2012) however used only ethical HRM practices as the independent variable thus presenting a conceptual gap. The current study operationalized the Ethical human resource practices into its sub-components.

Similarly, Osemeke (2014) studied the influence of HRM practices on private sector in Nigeria. The results revealed a positively inclined relationship between effective HR management practices and performance. The study was in tandem with previous findings of
Abdulla et al. (2009) and for Bal et al. (2014) who both established similar results. Osemeke’s (2014) study had limitations since it did not present significant evidence to conclude on how practices such as training and compensation influences organization’s performance. Similarly, the study presents a contextual/geographical gap since it used Nigeria economies while the current study uses Kenya economies.

A study by Tabassum (2011) on the process of recruitment and selection in Basic Bank in Bangladesh revealed that Basic Bank Limited has an widespread selection procedure that consist of curriculum vitae screening, use of aptitude tests, interviews and undertaking background checks for prospective employees. The study used recruitment and selection to evaluate the development of a country but failed to determine the financial performance. Similar studies have been done by other researchers such as Sneha (2014) and Ayesha (2011) that have both exclusively studied the banking sector to determine performance of the banks, not putting into perspective the financial aspect holistically as the dependent variable. The current study used recruitment and selection to determine their influence on the financial performance of listed firms in Kenya.

A study was done by Mankikar (2014) that critically evaluated the recruitment and selection among human resource (HR) consulting firms. The study established that recruitment policy of an organization is determined by the nature of work and industry in which it operates. The findings further revealed that if suitable employees are selected, the organization benefits from its labour. However, if the right selection is not done, there can be detrimental effects to organizational output. His findings are in line with previous findings by Bal et al. (2014) who view recruitment and selection as a crucial component of the Human Resource function. The current study however, uses these and other factors such as compensation and remuneration, selection and career planning to evaluate financial performance.

Similarly, Kimani & Njue (2013) carried out a study on the influence of job previews on employee retention in private clubs in Nairobi. The aim of carrying out this study was to determine how job previews affect workforce commitment and to determine the effects of job previews on employee’s expectations. The findings indicated that a number of organizations are yet to fully invest in the provision of job previews for their employees.
during interview exercises. Notably, the study recommends the need to provide such information as it assists the employees to understand their work environments. The findings were well in tandem with previous studies that explored strategies for employee retention, with honesty being a key consideration (Thorsteinson et al., 2004).

### 2.4.1.2 Ethical Training and Financial Performance

Training refers to planned efforts that a firm puts in place to aid facilitate employees’ learning of work-related competencies (Lee & Cheng, 2012). Ethics training refers to *training in ethical reasoning* coupled with information on and incentives for snitching (Suresh, 2011). Ethical leaders endeavor to impact followers' ethical conducts by setting ethical standards and considering followers' responsible to those benchmarks through the use of prizes and training (Cooper et al., 2008). Such training is geared towards the optimizing utilization of human resources, hence aiding the employees to achieve organizational goal. Workplace ethics training is important in this study since it is highly recommended for fostering a trustworthy working environment (Nam et al, 2015).

The workplace ethics training assists the company in realizing its goals as set in the strategic plan (Place, 2010). Apart from the set company goals, training also instills in the employees the impetus to have self-set goals. Such self-set goals are effective for the enhancement of job attendance, their becoming re-employed and improvement of their team playing capabilities (Cooper et al., 2008). These developmental mechanisms may come in two forms: mentoring and coaching. Training includes handy, objective centered types of direct learning and, in a perfect world, behavioral change (Lin & Lin, 2006). It can be a fleeting mediation proposed to create particular leadership aptitudes or a broader procedure including an arrangement of groups after some time (Stariņ, 2015).

The best training structure takes into account joint effort to survey and comprehend the developmental requirements to challenge current imperatives while investigating new conceivable outcomes. Drilling may include guaranteeing responsibility and backing for achieving objectives and supporting development (Giroux, 2014). Coaching, on the other hand, is normally characterized as a submitted, overall relationship in which a senior individual train and support those in the lowest ranks in organizations. It might be a formal project or a significantly more casual process. Perceiving the benefit of tutoring,
organizations have progressively taken a gander at approaches to formalize these sorts of relationships as a major aspect of their leadership development endeavours. Ethical training is a great player for promoting and communicating right code of conduct (Ferrell et al., 2006) through action based learning.

There is sometimes confusion about the often-subtle differences between illegal and unethical behavior (Alrubaiee, 2012). Proper training helps keep each employee informed, while hopefully preventing errors in judgment that cast a negative light on the company (Wooten, 2001b). Providing employees with training prospects encourages good performance, helps them to keep up with workplace dynamics, strengthens job-related skills and competencies, such as the introduction of new technology (Nam et al., 2015). It also inculcates creativity and innovation which are key ingredients for the performance of employees. Ethical leadership thus calls for managers creating an adaptive culture and in which training and development program avail the opportunities (Shin et al., 2014). The applicable knowledge that is made available through comprehensive training and development programs assist realize performance while irrational knowledge is likely to do the opposite (Lu & Lin, 2014).

Additionally, the HR function is uniquely situated to make sure that organizations emphasize on value orientation during training (Foote, 2001). This form of training should frequently occur across all levels of the organization by incorporating ethics and fairness into the leadership and management development of the organization. Obeidat (2012) conducted a study on the Relationship between ethical practices of Training, employee satisfaction and gender balance: A Mediator of Corporate Responsibility Practices. The study evaluated the intervening role of corporate social responsibility practices on the relationship between ethics training, gender sensitivity and staff contentment. In line with previous researchers, results indicated that there exists a positive relationship between ethical training and corporate social responsibility practices. Wholesomely, these practices also positively influenced satisfaction of organizational staff (May, 2008).

However, the impacts of ethics training and corporate-responsibility practices upon the financial performance of an organization are not immediate (Sekerkė, 2009). This study also presents a contextual/geographical gap since it focused on Taiwan economy. The current study uses ethics training to investigate whether employee satisfaction affects the firm’s
financial performance. In a study conducted by Tai (2006) on the influence of training on the motivation of employees established that training of managers influences self-reports from employees and overall influence reaction, learning and transfer motivation of the employees. Result analysis of the study showed that a comprehensive framing on training significantly influences their work performance.

2.4.1.3 Ethical Compensation and Remuneration and Financial Performance

A study by Marwat et al (2007) analysed the impact of Human Resource (HR) practices on the performance of employees. The study explored the contribution of Human Resource (HR) practices on perceived employee performance. The study results showed that all variables on human resources indicated positive associated but that of compensation and training are highest. This is in line with previous studies of Qureshi et al. (2007) and Verbeeten (2008) who also established a positive correlation between the practices and employee performance. There is a conceptual gap in this study since it failed to examine the impact of career planning on employee performance. The current study breaks down the Human Resource Practices and analyzed them independently to determine their relations with firm’s financial performance.

A study by Bodla & Naeem (2008) evaluated the impacts of HRM practices on pharmaceutical sales employee’s performance. The study found out that motivators such as recognition of work itself, growth and promotion opportunities produces job satisfaction (as determined by researchers such as Paul & Anantharaman, 2003; and Cho et al., 2005) whereas absence of hygiene factors causes job dissatisfaction of pharmaceutical sales. The important non-financial motivators for the pharmaceutical sales employees can be good relationships with customers including physicians, job security, high ethical standards in my company and job, being well informed and strong products and brands, recognition for my efforts and skills, having power over other people and being the senior representative in the team (Wiese & Coetzee, 2013). But competing against others was identified as the least important motivational factors by Wiese & Coetzee (2013).
A study by Huselid (1995) analysed the effects of selection on employee performance. The study emphasizes that by implementing best practices in selection, inflow of best quality of skill set will be inducted thus creating additional value to skills inventory of the firm. On his part, Cooke (2000) includes efficiency and effectiveness as key elements of exemplary performance apart from competitiveness and productivity. The study by Cooke (2000) similarly asserts that training is necessary for instilling required knowledge and skills with the broad aim of increasing individual’s performance. On his part, Singh (2004), whose assertions are similarly relevant in this study’s context contends that effective human resource practices should be behaviour aligning mechanism for employees with business strategy connotation for the implementing firm.

Similarly, Ahearne (2008) conducted a study on the impact of salesperson technology usage on sales performance via mediating mechanisms. The study established that financial incentives are critical for superior sales force performance. This finding was in tandem with previous researches that determined the importance of financial incentives with regard to boosting sales (Johnson & Beckon, 2008). Neither learning and goal orientation nor intrinsic motivation contributes significant variance in creative performance of the managerial sales force whereas interestingly both factors have positive role in nurturing creative ideation and its innovative execution for frontline sales persons (Ahearne, 2008).

From the literature above, there exist some gaps, this include, Mathenge (2012) who conducted a study on Ethical Considerations in Human Resource Management in Kenya: Theory and Practice. This study used only one construct that is ethical HRM practices as the independent variable thus presenting a conceptual gap. Osemeke (2014) conducted a study on the impact of HRM practices on private sector organizations performance in Nigeria. The current study used the Human Resource variables to assess financial performance. In addition, the study presents a contextual/geographical gap since it used Nigeria economies while the current study used Kenya economies. Tabassum (2011) carried out a study on the process of recruitment and selection in a developing country. This study used recruitment and selection to evaluate the development on a country. This current study uses this variable as one of the variables that determine the financial performance.
2.4.2 Ethical Advertising Practices and Firm’s Financial Performance

Advertising is a form of marketing communication that is used to persuade an audience to take or continue some action, usually in consistency with a commercial offering or political or ideological support (Avtonomov, 2006). Advertising is any form of non-personal communication about an organization, product, service or idea by an identified sponsor. It is an element of promotion mix and is essential in the overall marketing mix design. Ethical advertising is the one which neither lies nor makes fake or false claims and is in the limit of decency. Ethics is a highly significant feature in the advertising industry (Cragg, 2002; Liao and Teng, 2010 and Avtonomov, 2006). Adhering to a socially acceptable advertising principle means paying close attention to several factors, ethics being a key factor.

Advertisements serve as media of communications and are all encompassing and occur everywhere (Githui, 2012). Ethical advertisement is essential given that they it is expected to predict, identify and satisfy customer requirements profitably (Carrigan et al, 2005). Ethical advertising practices can be measured by the ethical broadcast advertising and online advertising. Such components of the advertisements may be directly linked to financial performance and their quality can be measured by ethical standards, incorporating their morality and social acceptability. While online marketing uses the Internet to deliver promotional marketing messages to consumers (Pauwels et al., 2004; Avtonomov, 2006), broadcast marketing utilizes radios and televisions.

When it comes to the discussion on ethics in advertising, consumers are the most neglected audience. When answering the question on the importance of ethical advertising on the financial performance of business, consumers become the focal point in determining what conclusions to draw from such a study (Shaver, 2003). Advertising has been charged with some ethical breaches, most of which focus on the lack of societal responsibility. Waller (2002) suggests that advertising has serious consequences because it is characterized by stereotypical portrayals, manipulation, promotion of materialism and consumption, and the frequent use of sex appeals, persuasion and other consequences of the pervasive nature of advertising. Some advertisements are known to target potentially vulnerable groups such as children, minorities, as well as the disadvantaged Bakir and Vitell, (2010). In some cases, advertisers may overly dramatically increase the graphic use of fear to appeal to potential customers.
Marketers and psychologists have long been interested in establishing the genesis of consumer beliefs and values. There is obviously a diversity of opinion surrounding many issues touching on advertising (Drumwright & Murphy, 2009). It is, therefore, important that in the understanding of such issues, scholars and researchers seek to understand both applied and theoretical reasons to establish the factors that may serve as predictors of ethical judgment (Lansing & De Vries, 2007). Research in social psychology in ethical decision-making indicates that the variations in ethical judgment occur as functions of individual differences in ethical ideologies. Therefore, even in advertising, the individual ethical ideologies of viewers will determine the kind of reception for an advertisement, product or company (Finn & Wadhwa, 2014).

For businesses to make good use of advertising, they must put into perspective considerations that ensure that advertising brings about positive consequences (Drumwright & Murphy, 2009). The categories may include target strategies, message strategies, and product or brand issues. The impact of advertising on the financial performance of an enterprise may be measured based on their impacts on religion, societal values, cultural literacy and materialism (Bakir & Vitell, 2010). For the most part, television circumvents parental authority with its message to children. The reasoning here is that children are exposed to numerous advertisements across different television channels. The most significant argument in this regard is the use of fairness especially for audiences that are unable to evaluate commercial persuasion. Children lack the ability to differentiate truth from commercial persuasion (Lahav & Zimand-Sheiner, 2016).

Historically, companies known to exploit this weakness in children have suffered societal wrath because of the perceived exploitation (Rawwas et al., 2005). However, not every business suffers the same societal wrath when they are thought to be advancing child exploitation. For example, sweet making companies may advertise sweets that are obviously harmful to children. However, they continue to enjoy stable demand even when bearing in mind the fact that they may be harmful (Millar & Choi, 2011). The degree of the consequence of exploiting children and other vulnerable groups may differ according to the product in question. Therefore, there cannot be a conclusive unidirectional financial performance impact of such abuses. The uniqueness of every company and the product will play a big role in determining the seriousness of the financial loss or gain (Millar & Choi, 2011).
Both Cragg (2002) and Lorraine et al. (2004) have individually conducted studies aimed at investigating the influence of revealed corporate ethics on the financial performance of firms, focusing exclusively on advertising practices. These studies showed that an ethical climate within the organization enhances appeal of shares within the organization. Also revealed by the studies is that ethical climate provides clear signal about the beliefs and stance of the firm, reducing any arising doubts regarding long-term risk mitigations (Peloza & Shang, 2011). Also, ethical advertisement and product communication practices may be valuable for the creation of intangible assets such as enhanced reputation and respectable corporate image. These assets can turn to be roadmaps for attainment of competitive advantage by the organization (Peloza & Shang, 2011).

In the study by Pauwels et al. (2004) that integrated new products, marketing, and organizational value, the study established that promotional actions may improve the managements’ performance. However, the bottom line effects significantly differs from the long-term effects. First, the introduction of new products enhances the firm value as well as the long-term performance of the firm. However, promotions do not result in the same (Peloza & Shang, 2011). Secondly, the way investors react to new product introductions grows over time. This indicates that the most important information unfolds in the first two months after product launch (Peloza & Shang, 2011).

Thirdly, a new product released into the market may yield the highest top-line, bottom-line, and stock market benefits. The organizational managers can therefore utilize these results to weigh long-term and short-term consequences of promotional activities as well as justify their efforts of introducing new products (Lin & Lin, 2006). Ideally, in most business organizations, new product entry into the market form the engine of growth. Frameworks, such as the growth-share matrix and product-life-cycle demonstrate the need for new product introductions that lead to greater profitability in the future and prevent a firm's product line from becoming obsolete (Harrison & Wicks, 2013). Besides new product introductions, firms need to consider the brand image and quality when making advertisements. This enhances brand loyalty from a customers’ viewpoint. These variables may be linked to profitability, and hence financial performance of listed firms.
2.4.2.1 Ethical Broadcast Advertising and Financial Performance

Broadcast advertising refers to commercials aired on either television or radio typically called spots (Cragg, 2002). Such advertising is also known as on-air advertising and is the primary revenue generator for commercial television and radio stations (Pauwels, 2004). Broadcast advertising increases brand awareness. For product placements in the television shows, brand awareness rises by 20% (Cebrzynski, 2006). Tsai et al. (2007) found that higher brand awareness results in greater recall rate, more positive attitudes and stronger intention of buying a product. Even during such advertisements, ethical considerations are to be clearly defined. Adhering to ethical advertising principle implies paying close attention to several key distinctions (Avtonomov, 2006), with consumer satisfaction being key.

The studies of Cragg (2002) and Lorraine et al. (2004) investigated the influence of cooperate ethics on the financial performance of the firm. Their studies individually established that ethical business may be a valuable tool to create intangible assets like respectable business image. Kim (2010) conducted a study on assessing the long-term financial performance of ethical companies. His results show that Corporate Social Responsibility is negatively related to a firm’s systematic and unsystematic risks, suggesting that once recognized as an ethical company, a firm can reduce its risks. However, these studies were not carried out in a Kenyan setting to capture ethical practices in the listed firms in Kenya and thus a geographical research gap which this study seeks to fill.

2.4.2.2 Ethical Online Advertising and Financial Performance

To meet the ethical standards for advertisement practices, all information or publicity material regarding products, services or personality should be legal, honest, decent and truthful. Types of unethical issues that may arise as a result of advertisement include: vulgar advertisements, use of children in the advertisement, comparative advertisements, use of women as sex symbols for promoting products, unverified claims, exaggerations, puffery and surrogate (Schaffter, 2006; Drumwright & Murphy, 2009). Unethical advertising promotes materialism, consumerism and thus, financial stress. Other critics such as Arrington (2004) also hold unethical advertisements are responsible for causing people to buy what they cannot actually afford.
A research by Economides (2001) on the impact of the Internet on financial market established a multifaceted and profound positive result. The researcher established that internet aids to: facilitate information exchange, disseminate, and evaluate particulars of a product; facilitate interaction among economic agents; and enable live discussion of financial markets. Since the Internet is truly a global network, all of the above can be done across national borders as well as state and local jurisdictions. The findings are in line with those from various authors and researchers such as Baker et al. (2000) and Coughlan et al. (2001). The study of Economides (2001) however used only one construct of the internet and its effect on financial markets, thus presenting a conceptual gap.

A study by Khan and Shilpi (2014) on the role and significance of online advertising with reference to India highlighted that not only the acceptance of online advertisements to the consumer, but also profit maximization and how firms can sustain a large digital database and electronic customer relationship management. They assert that online advertising is an acceptable tool that creates a business enabling environment through profit maximization, which is achieved through increased sales promotion and lowered operational costs. Sales promotions motivate the consumers to make immediate purchases and positively affects the consumption volume. Sales promotion might be attractive for highly promotion prone consumers for reasons beyond price savings (Chandon et al., 2000).

A significant consequence of customer orientation is its relationship to main promotional outcomes and organizational performance. In their part, 'Eon and Bolt (1999) conducted a study on the effectiveness of internet marketing initiatives and found out that internet marketing encompasses abroad and growing range of strategies for interacting online with customers and with other stakeholders. With its vastness in terms of geographical coverage, internet marketing is great contributor to passing information to stakeholders (Githui, 2012).

2.4.2.3 Ethical Social Media and Financial Performance

Social media sites can be thought of as networks of friends for social or professional interactions (Trusov et al., 2009). Advertising professionals need to be very responsive to the social set-ups and should well understand the audience receiving their adverts. While posting
information on social platforms, the posts need to show honesty and conciseness, which according to Woessner (2011), are key communication ingredients. The communications should not exploit stereotypes based around sex, age, race or religion. Unethical advertisements will prey upon the emotions of audiences. It may involve uncultured language, vulgar images and raising of fears in the unsuspecting target audience in a bid to woo them to purchase a product.

Under circumstances of unethical social media communications, processes such as use of the vulgar images may be meant to serve only in the generation of interest rather than clearly indicating the virtues of the product itself (Srivastava & Nandan, 2010). On their part, Ansari et al. (2011) opine that marketers are becoming particularly determined to understanding the predictability of social networks. They opine that organizations believe that social networks develop a flat form that can be used to reach customers beyond the capacity of company marketers. Online social networks have profoundly changed the propagation of information by making it incredibly easy to share and digest information on the internet (Akrimi & Khemakhem, 2012).

Other researchers have also disagreed with the idea of social media boosting organizational performance. Blanchard (2011) opine that large numbers of fans may only serve as ghost followers. Present day marketing strategy concerns generation of trust and relationships by means of offering two-way communications and building of products geared to solving customers’ needs (Rust et al., 2010) and does not only entail having followers. Various researchers such as Blanchard (2011) and Kietzmann et al. (2011) suggest that ‘influence is not about popularity’ but entails trust, building relationships, identity, conversations, relationship and reputation. On his part, Dumenco (2011) asserts that current promotional campaigns on social media are still driven by old-age promotional strategies which majorly focus on sales volumes. By such assertions by these researchers, online social media advertisements have little to do with firm’s financial performance.

Some of the companies that show reluctance in joining social sites enumerate concerns like inadequate legal and content regulatory matters. On his part, Aula (2010) focuses on threat and risk of social media to the reputation of companies. Their article mentions events where it involves influence of social media and how publicity can give negative impact to the
reputation of a company. The negative impacts may inherently suppress the performance of firms. Similarly, social media may also pose detrimental impacts to a firm. Some researchers trust that their firm’s performances cannot be necessarily be affected by inadequate involvement in the social media (Vaynerchuk, 2011). Hunt et al. (2010) investigated the important role of social media in the recruitment of employees amongst firms. His investigation reveals that social media is not just for socialization, but could also be used in hiring and introducing some information about companies.

Backing for the notion that social media can improve performance is found in industry reports and studies (Hoffman & Novak, 2007). Promotional agents are exceedingly determined to understand predictability and connection of social media (Ansari et al., 2011). From their findings they note that organizations believe that social networks develop a flat form able to be used to reach customers beyond capacity of company marketers. About 90% of marketers use social media to market their businesses, out of which 65% have just started or only a couple of months into it (Rafaeli, 2010). When done correctly, social media listening can provide early risk indicators and mitigate the impact of crises when they do occur (Solis & Li, 2013). Increased efficiency in risk management can be realized using social interactions if banks centralize teams and give customers a unified, one brand experience across all channels.

The interactions on these platforms generate social support, which in the long run influences trust (Weisberg et al. 2011). In their study, Li et al. (2016) opine that through social media, a corporate message spreads from user to user and presumably resonates because it appears to come from a trusted, third-party source, as opposed to the brand or company itself. This is because social media has become an accessible platform to all, provided they have an internet access. Increased communication for organizations fosters brand awareness and often improved customer service. The findings from the study by Li et al. (2016) echoes those of Jiyoung (2009) and Han & Windsor (2011) who have both viewed trust as an important aspect in influencing consumer perceptions.
Social media networking is a genuine cultural phenomenon and has become the most popular online sector in less than ten years in India (Arockiaraj & Baranidharan, 2014). The research established that marketers of brands can best use social media to engage with their core consumers. Also, Dutta (2010) notes that social media is changing the way business is done. It creates brand awareness, a constant need for learning and developing new knowledge as well as for measuring and following up. Regarding the different degrees of brand awareness, there exists a clear strategy for how to reach the different stages of brand awareness, from the weakest to the strongest (word-of-mouth). Corcoran and Feugere (2009) state that low to high brands and retailers are engaging social media and use it actively to boost both sale and brand awareness.

From the empirical literature above, some of the gaps identified include; Pauwels et al. (2004) who conducted a study on new products, sales promotions and firm value. The study failed to address other factors that influence firm performance. The current study addresses other factors that influence firm performance, other than factors such as new products, sales, promotions and firm value. Also, Economides (2001) conducted a study on the impact of the Internet on financial markets. The study found that the impact of the Internet on financial markets is multifaceted and profound. The study used only one construct that is internet and thus presenting a conceptual gap.

Eon & Bolt (1999) conducted a study on the effectiveness of internet marketing initiatives. Inasmuch as the study focused on effectiveness of internet marketing, it had a limitation since it failed to look at the effect of online advertising on financial performance. This study went overboard to look at both the effect of online advertising and that of consumer relations as variables that may determine financial performance of listed firms. On their part, Brodie et al. (2007) established that adopting electronic marketing, commonly referred to as eMarketing is positively associated with the performance of organizations. The organizations that adopt such internet marketing strategies gain a greater competitive advantage, resulting to enhanced firm profitability (Brodie et al., 2007).


2.4.3 Ethical Consumer Relations on Financial Performance

Ethical customer relations refers to the way a business communicates and interacts with the public to gain and retain customers (Avtonomov, 2006). It is necessary for a business to cultivate good customer relations to attract and keep a loyal base of customers. This can be achieved by incorporating Corporate Social Responsibility (Ruf et al, 2001). A customer relation is to understanding consumer motivation. Without assessing customer relations, it's difficult for a company to know how visible it is in terms of its client base. It's also hard to figure out how to grow the company without understanding the relationships it has with current customers (Avtonomov, 2006). Demonstration of corporate social responsibility towards primary stakeholders is a key ingredient for enhanced financial performance.

Generally, when an organization cultivates good customer relations, it will retain the customers and this will have a positive effect on the organization financial performance. Aguilera et al (2007) notes that when firms demonstrate corporate social responsibility, they demonstrate fairness to key stakeholders. By this, they raise customer satisfaction which is one of the most essential goals of firms and is also an important aspect in business strategy (Taylor, 2003; Fornel et al., 2006). Specifically, financial performance of listed firms in Kenya may be influenced by ethical customer relations positively or negatively depending on how they relate with the customers. Customer satisfaction is a key focus on corporate strategy (Homburg et al., 2005). Since the components of ethical consumer relations are quality and consumer treatment, these can be linked with financial performance.

Consumers are essentially customers whose satisfaction and delight are pegged on longevity and profitability. Customer satisfaction can be viewed as their overall evaluation of an offering’s performance to date (Caldwell et al., 2011a). In a review of the US customer perceptions of service quality, Claycomb and Martin (2013) established that customers desire courtesy, friendliness, convenience, fair pricing and institutional stability as integral components of the service process. Their satisfaction is also a substantial issue in relationship marketing. Caldwell et al. (2011a) opine that the relationship between sales people and their customers may result in either organizational success or failure. Ogunyomi & Bruning, (2015) term it as a significant affiliation between customer contentment, willingness to purchase a product, and finally, financial performance.
Relationship marketing has particularly drawn lots of attention both from practitioners and the field of academia (Ndubisi, 2007) and plays a key role in the field of marketing (Andersen, 2002). Other studies such as Kotler & Lane (2009) reveal that such marketing is geared to matching service promise to customer needs, essentially to increase customer loyalty. Today, maintenance of strong relationship with customers is a typical business activity (Paul et al, 2009) that is regarded as a resource (Musalem & Joshi, 2009). Such a relationship is an index for consumer satisfaction, of which Armstrong and Kotler (2009) believe that maintenance of solid relationship marketing strategy is beneficial in enhancing customer loyalty.

Consumers' ethical opinions about product placements differ significantly across product categories, with greater concern for ethically controversial products such as alcohol, cigarettes and guns (Hackley et al., 2008). Firms therefore need to take into account the various consumer niches during communications such as through advertisements, lest inappropriate information land into the wrong niche. With regard to products, cigarettes and alcoholic substances are inappropriate to be advertised in primary and secondary schools since the students in these institutions are by law under-age.

2.4.3.1 Ethical Quality on Financial Performance

Kinyua et al., (2015) defines quality as being typical and superiorly distinct from others. He conducted a study on ethical treatment of consumers and corporate performance to find business/customer relationships. The study believed that it is imperative for organizations to undertake long-term pledges aimed at upholding consumer relationships with quality service since such relationships generally affect organizational output. Literature studies linking customer service quality with customer satisfaction has been done by various researchers (Bastos & Gallego, 2008; Chai et al., 2009). With the satisfaction influencing customer loyalty, quality may therefore be one of the factors that affect performance. Studies have been conducted that seek to correlate customer satisfaction and loyalty (Silvestro & Low, 2006). Inasmuch as loyalty and satisfaction are greatly interdependent, one does not authentically translate to the other. This is especially true in scenarios of relatively few choices to be made by the customers.
In the study by Jahanshahi et al. (2011) which analysed customer service and product quality on customer satisfaction and loyalty established high positive correlation between constructs of consumer satisfaction and loyalty. The researchers opine that quality to customers is a key factor in identifying new customer needs. This is in line with findings of Bastos & Gallego (2008) and Chai et al., 2009 who established similar results with regard to quality and consumer needs.

A study conducted by Shaharudin et al., (2009) on factors that influence satisfaction of consumers in after sale service established that the services offered after the sale of firm products is increasing becoming necessary for they determine the extents of consumer contentment. The after sale services are deliberate efforts whose ultimate goals, beside enhancing customer satisfaction, is to enhance sales promotion, which in turn positively effects sales volumes (Odunlami & Ogunsiji, 2011; Oyedapo et al, 2012).

The entire after sale value line is considered integral part of after sale service, and through appropriate usage of the line, organizations can enhance consumer contentment with the product and hence the organizational output (Shaharudin et. al., 2009). Kotler (2006) noted firms’ unrelenting endeavours to put in place initiatives aimed at understanding, attracting, retaining and building intimate long term relationship with profitable customers. Blodgett et al. (1995) conducted a study on the effects of customer service on consumer complaining behaviour. The study examined the impact of after sale service characteristics on customer satisfaction in home appliance industry of Pakistan and it revealed that after sale service is necessary for retaining and satisfying customers.

Customers view service quality as critical to determining whether an organization cares about its customers. The discrepancy between customer perceptions and expectations should be at the minimum if organizations are to maintain a good reputation (Cretu et al., 2007). For the sake of being true to their beliefs and values, businesses are prepared to compete in a different battle in the market. Many companies have recognized the importance of customer relationship to the survival of business in the modern day economy (Cretu et al., 2007).
Long-term customer relationship can create sustainable competitive advantages for companies that know how to utilize this tool. Kumar and Werner (2016) argue that high customer loyalty is beneficial to corporate profits.

2.4.3.2 Ethical Consumer Treatment on Financial Performance

A consumer is someone who can make the decision whether or not to purchase an item at the store, and someone who can be influenced by marketing and advertisements (Tallontire et al., 2001). Otuya et al. (2013) conducted a study on the influence of ethical treatment towards customers on the enterprise performance in Mumias Sugar Belt, Kenya. Findings showed that ethical treatment indicators are predictors of enterprise performance among cane transport companies in Mumias Sugar belt. Their revelations were in tandem with those established by Cragg (2002) and Lorraine et al. (2004) who established that corporate ethics enhanced appeal of the firms share. The study by Tallontire et al., (2001) however, focused on Mumias Sugar Belt thus presenting a knowledge gap. This current study focused on listed firms in Kenya.

Customer metrics include a variety of constructs. Organizations should categorize these metrics into observable or behavioural metrics and unobservable/perceptual metrics (Gupta & Zeithaml, 2006). Studies have shown there is a relationship between observable constructs e.g. customer satisfaction and the value of a firm. Customer satisfaction is a function of how the customer gets treated by the organization. On their part, Joshi & Hanssens (2005) established a direct relationship between the financial performance of a firm and its marketing actions. Of all unobservable metrics, researchers have widely used the customer retention metric. The construct is generic and can be gauged universally for all services and products. Even without a precise definition of the term ‘customer satisfaction’ customers and organizations across the globe have a clear understanding of its meaning and firms endeavour to maintain ethical satisfaction levels in their quest for service and product delivery.

A study by Tallontire et al., (2001) on ethical consumers and ethical trade a review of current literature revealed that ethical consumerism is a complex phenomenon, something that those calling for greater consumer awareness of ethical issues need to understand when promoting different forms of ethical trade. In line with findings of Ransom (2006) and Thogersen and
Schrader (2012), in the findings of Tallontire et al., (2001), the researchers established that ethical consumption is an important factor of consideration for sustainable development. For Ransom (2006), the development involves also environmental protection and sustainability. The study used a literature review thus presenting a methodological gap. The current study used survey design.

The greater the attention that firms give to customers, the greater the consumer treatment, and thus satisfaction. In fact, more attention leads to less overall costs incurred in the real environment and ultimately the higher the profitability (Alomaim et al., 2003). In his study in the banking environment, Sadek et al. (2011) opine that financial institutions need to carefully understand their customers and determine what set of factors influence the customer’s joy. Gustafsson et al. (2005), conducted a study on effects of customer satisfaction, relationship commitment dimensions, and triggers on customer retention. The study found out that poor customer service can negatively impact a business in a variety of ways. Customer service essentially goes hand-in-hand with the way customers or rather consumers are treated by the relevant organizations, thus such service must have a hand in the overall performance.

A study by Musiega and Chitiavi, (2013) on the relationship between change in corporate social performance and financial performance revealed three key findings: environmental practices are positively related to an increase of household consumer business, environmental practices had a stronger impact on consumer accounts than business accounts, and utility costs were lower for green facilities. Kinyua et al., (2015) studied consumers’ concerns regarding different ethical issues relating to the production of food in California. They found that ethical treatment of animals in the production of meat and dairy products had most support followed by local production and wage for workers producing food. Their study also showed that preferences varied across consumer groups. Companies, therefore, need to study their customers and provide customer-oriented-services, which has been shown to affect performance (Jensen, 2002).

From the study of Valenzuela et al. (2010) on the impact of customer orientation, inducements and ethics on loyalty to the firm: Customers’ perspective, the research survey identified customer orientation as the set of beliefs that puts the customer’s interests first,
including those of other stakeholders like owners, managers and employees to develop a long-term profitable enterprise. They established that when customers believe that an organization is ethical, the inducements and special treatments received are positively seen to help in the development of loyalty. Similarly, Lam et al. (2004) conducted a study on Customer value, satisfaction, loyalty, and switching costs: an illustration from a business-to-business service context.

In addition to understanding the risk of losing current customers by offering substandard products/services, poor services can reduce the potential of a business and reduce its attractiveness to new customers. The study established that customer satisfaction mediates the relationship between customer value and loyalty, and that customer satisfaction and loyalty have significant reciprocal effects on each other. To the costomer, value is attributable to product or service quality.

Customers are the lifeblood of any organization. The profitability and market value of an organization depends on customer relationship practices (Story & Hess, 2010). In a worldwide survey by the Economist where 681 executives were interviewed, 65% of respondents reported that customers were their main focus (The Economist, 2003). Minor enhancement to cutomer retention may produce positive effect on profitability (Sashi, 2012). However, with absence of well-defined customer performance metrics, executives still rely on financial metrics to influence their decision-making. Firms should thus seek competetive advantage in scale and with the creation of barriers to entry (Knox et al. 2003). With current firms facing very stiff competition, the management therefore have to change tact to move from product to sales philosophy, thus giving them chance of outerforming competition (Kotler, 2000).

2.4.3.3 Ethical Consumer Communication and Financial Performance

Consumers are quite conscious when it comes to matters regarding business ethics. In light of this, some researchers emphasize that adequate information is essential for creating ethical decisions and that customers require adequate product awareness to make any ethical purchase (Bray et al., 2011). Ethical consumption suggests that customers have a significant
duty emanating from their purchasing activities in promoting ethical company practices. Ethical consumerism also denotes that the customer not only considers their individual goals, but also put into consideration various social goals and values (Uusitalo & Oksanen, 2004). Ethical behaviour can also be influenced by the nature of the commodity being purchased. For example, for low involvement commodities such as bath soaps, consumers are less ethically orientated.

Certain ethical concerns are more significant than others. The importance of ethical consumption gets even more significant when particular ethical concerns may affect the lives of the consumer (Carrigan & Attalla, 2001). There is thus great need for firms to practice ethics in offering products and services to customers (Devinney et al., 2006). Auger & Devinney (2007) established that customers uphold ethical qualities relative to the functional attributes of a product. Similarly, the research established that the willingness by customers to pay for products with ethical features was higher. Customers do take ethical or unethical behaviour of business into account when buying and have thus become very considerate when considering ethical behaviour of firms. Actually, they may even go ahead to purchase products/services at higher prices in firms considered to be ethical.

2.4.4 Ethical Investors Relations and Financial Performance

Ethical investor relations refer to how companies manage themselves and their relationships with shareholders. Most often, investors feature in the various organizational prospects for the future into pricing decisions (Gabbioneta et al., 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 (Ogunyomi & Bruning, 2015).

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 & 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 ethical investor relations is still relatively scanty (Marston & Straker, 2001).

A number of scholars assert that academic journals overlook ethical investor relations as a research area (Okazaki et al., 2006). However, they also assert that building investor relations results in delivery of competitive advantage to corporations. 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. (Lorraine, 2004; Bedicks, & Arruda, 2005). The components of ethical investor relations are information disclosure, governance and transparency and are also linked to financial performance. 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 (Berrone et al, 2007).

Disclosure of more information is an effective ingredient to the effective market valuation of firm’s securities. Scholars such as O’Boyle et al. (2010) elucidate that there comes an increased trading volume and liquidity of securities (among other paybacks) as a result of involvement of appropriate investor relations programmes. 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. Many empirical studies have been done that have linked information disclosure to firm performance.

In their studies, Patel el al. (2002), Akhtaruddin (2005), Barako et al. (2006a), Hossain & Reaz (2007) and Attiya and Iqbal (2012), and have all established a relationship between information disclosure and firm financial performance. On their part, Starkman and Klingbail (2004) elucidate that a firm that nurtures its relation with its investors is often rewarded for such disclosures. Appropriate disclosure of corporate governance practices may lead the
organization towards profitability and growth. Callahan, et al., (2004) reveal that the disclosure of corporate governance practices in making management decisions is closely associated with present and future performance. Ethical investor relation is also associated with market valuation and attraction of prospective investors to finance the firms’ investment opportunities. Renders et al. (2010) suggests that maintaining such practices enhances the firm’s value.

Investor relations are 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 company information to maximize valuation in financial and other constituencies (Healy et al., 2001). 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 (Leonard and Mwasa, 2014). 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 (McAlister et al., 2007).

Currently, investor relations now play a crucial role in determining the value of a firm. To date, studies researching on Corportate Social Responsibility (CSR) made only passing comments on the role of investment relations professionals of which only a small number have examined specifically the association between investor relations and corporate social responsibility, (Gilmour & Caplan, 2001). Some studies show that the majority of socially responsible investors are younger and better educated. Additionally, these investors have lower income compared to conventional investors (McLachlan & Gardner, 2004). In 2000, KPMG carried a survey that suggested 80% of 25-39-year-olds as compared to 72% of 40-59-year-olds would consider investing in an ethical manner (cited in McLachlan & Gardner, 2004).

Traditional ethical investment research literature suggests that there are three reasons why people may want to invest in ethically responsible funds. The first reason is that such investments may lead to higher financial returns. Secondly, investors look forward to non-wealth returns and thirdly, the persons may want to contribute to social change (Beal et al.,
2005). Beal et al. (2005) concludes that ethical investors are motivated by a combination of both financial and non-wealth factors. However, the social change factor is the least important factor among the three factors highlighted as the main motivators. In contrast, the goal of achieving a healthy financial return remains the most important for investors when deciding where to invest (Talebnia et al., 2011).

Studies on ethical investment continue to show that ethical investors seek to align their personal values with their investment objectives. McLachlan & Gardner (2004) conclude that ethical investors believe that SRI funds produce at least the same returns as the conventional funds and at the same time ensure the high CSR standards in the companies they invest in. Investing in socially responsible companies does not affect the environment or businesses directly but makes people believe that eventually socially responsible investment will make a change (Beal et al., 2005). The World Business Council for Sustainable Development stated, "We are convinced that investment managers stand a good chance of improving their portfolio performance and reducing their risks if they pay closer attention to the environmental performance of the companies in which they plan to invest." It found that there were 'downside' factors which may serve to depress investment returns and 'upside' factors which could benefit companies (Talebnia et al., 2011).

Globally, there are responsibility indices such as the Dow Jones Group Sustainability Index and FTSE4Good, each of which, together with socially responsible investment funds, generally now mean that investors have to decide whether or not a firm is 'responsible' (Talebnia et al., 2011). The majority of mainstream investors are likely to be interested in social responsibility in circumstances where CSR affects either a firm's stated results or its cost of capital. Indeed, some of what may look like social responsibility may only be just efforts to market a business without substance. With information disclosure forming a significant part of investor relations, several studies link healthy investor relations with the expansion of information disclosure (Wang, 2011a).

Expanded disclosure however leads to greater demands for an organization’s shares as well as reduced risk premiums. This also lowers the cost of capital for firms leading to improved valuations of securities (Mbuvi & Gekara, 2015. Gelb (2000) suggests that companies should
have disclosures that are greater informative by letting investors to observe the performance of managers regarding their efficiency and effectiveness. Logic demonstrates that the best way of achieving such level of accountability is being as transparent as possible to investors. Managerial discussions, financial results, and plans are some of the most critical pieces of information that investors are keen to know (Truss et al., 2010).

Jeffery Erber proclaims that making these pieces of information available to investors stimulates the growth of sustainable relationships between investors and the company. Transparency builds credibility (Wang, 2011a). In a study involving 93 Swedish companies, Gelb (2000) found out that companies that were more transparent with their information were seen as the most credible companies. Investors were more willing to invest in these companies and expressed minimal scepticism unlike the companies that did not share information openly. Information disclosure gives firms some incentives because it results to the efficient valuation of a firm’s securities (Jamali, 2008). Information disclosure can thus be achieved by companies extending the scope of investor relations from the mere publication of obligatory reports to publication of proactive, frequent and extensive interim reports.

Companies should have proactive and diversified two-way interactions and communication with investors (Ballestero et al., 2012). The researcher elucidates that extensive disclosures can improve the financial standings of a firm since ethical investor relation practices may influence the firm’s market value and cost of capital relative to its industry sector and the overall economic environment. Some organizational management officers of ethical funds value the behaviour of a specific company higher than the industry it is operating in. These officers choose the firms in which they want to invest after a screening method referred to as "best-in-industry." This method first got applied by Scandinavian ethical funds in the 1990s, and has since been adopted throughout Europe (Bengtsson, 2008).

Fund management officers who apply the “best-in-industry” approach may invest in firms that function within businesses that other ethical funds managers classify as unethical. Firms contained within a particular industry may ranked and compared against each other, as opposed to them being ranked against firms from without the industry (Michelsons et al.
The firms that exhibit highest standards of ethics from the rankings are accepted as ethical investment substitute eventhough the industry from which the firm functions in is excluded by other ethical funds. The "best-in-industry" approach thus focuses on the blanket ethical performance of a firm at the expense of investing in a firm that may be filtered out as ethically acceptable based on the industry it is categorized in (Tippet, 2001). From an investment’s perspective, it is possible to have financial benefit to investing in funds that incorporate "best-in-industry" approach (Chemmanur & Yan, 2009).

The firms that employ the criterion are rewarded for their emphasis on cost saving actions through an environmentally friendly production and great attention to efficiency. Such firms will similarly have a first mover advantage when they apply new and more environmentally friendly production methods which can give them a competitive advantage (O'Rourke, 2003). Further, the "best-in-industry" approach allows the ethical funds to expand their collections with broader assortment of stocks because it unlocks investment avenues in more industries and communities around the globe, thus resulting in reduced overall risks (Areal & Carvalho, 2012).

2.4.4.1 Ethical Information Disclosure and Financial Performance

Ethical information disclosure improves stakeholder satisfaction. It communicates the organization’s ethical bearing, bringing with it its identity with the prospects of the stakeholders (Lahav et al., 2016). Disclosures are various mortgage regulations and laws that set up the rules on which information must be revealed to borrowers as well as when and how the information must be disclosed. According to Aktar (2013), when an organization reveals its ethical values and objectives on its corporate statements, it associates them in importance with other organizational goals. Disclosure also affects the investors’ need for ethical and social information, which in turn helps to make better long-term investment decisions (Fung et al., 2007).

A study conducted by Bayoud et al., (2011) on the Effect of Corporate Social Responsibility Disclosure (CSRD) on financial performance in Libya demonstrated that the level of CSRD as contained in the various annual reports impacts on financial performance for the Libyan firms. This study concentrated on Libya economies thus presenting a geographical gap.
Various other studies have also been undertaken that gauge the correlation between CSRD and firms’ financial performance (Patel et al., 2002). Similarly, after investigating performance of firms with regard to the level of CSRD, Cheung & Mak (2010) revealed that CSRD can enhance the organizational credibility and reduce its profit. Berrone et al., (2007) conducted a study on corporate ethical identity as a determinant of performance of a firm: a test of the mediating role of stakeholder satisfaction.

In their study, Berrone et al. (2007) assessed the impact of the Corporate Ethical Identity (CEI) on the firm’s financial performance and established that while revealed ethics has informational value and increased shareholder worth, applied ethics has positive impact through enhancement of investor contentment. The finding is in tandem with the finding of Lopez et al. (2007) whose research revealed no relationship between Corporate Social Performance and financial performance. The concept of Corporate Social Performance (CSP) refers to how firms react to social requirements. Rais & Robert (2009) note that stakeholder oriented CSP adds to firm competitive advantage. To achieve CSP, the traditional way that companies communicate to their shareholders is using investor relations (IR) as the boundary spanners. Investor relations professionals ensure that the equities of firms are fairly priced.

As investor’s interest in CSR grows, so does the role of investor relations. The rise of socially responsible investment has led to increased pressure from investors to address CSR issues in a more responsible manner therefore making management actions more (Elmogla et al., 2011). In an attempt to keep up with the demands of investors and communicating their CSR perspectives, companies are now producing social reports with the above details. Investor relations now form a very significant part of corporate management (Laskin, 2014). The Rivel Research Group, an investor relations specialist firm, found out that investor relations play a major role in the valuation of companies. In a 2013 study of buy-side analysts and portfolio managers. Managing customer relations can be time-consuming for many large-cap and mid-cap companies. (Lahav et al., 2016).

The case is even more complicated when the companies have large and diverse shareholder registers. From the assertions of Armstrong and Taylor (2014), organizations that have dedicated investor relations officers have an upper hand since the investor relations officers work as a proxy to the highly constrained Chief Finance Officers (CFOs) and Chief
Executive Officers (CEOs). The facilitation of dialogue between the investment community and a company’s board creates a platform for constructive engagement and the generation of singular goals in the company (Salaman et.al, 2005). During dialogue processes, issues of contentions are amicably ironed out and a conducive performance environment is created.

Ethical investment forms the backbone of a company’s day-to-day interface with retail and institutional shareholders, equity analysts, bondholders, the financial media and the regulator (Salaman et.al, 2005). All these fundamental players in the corporate industry need to be supplied with continuous relevant information through investor relations. (Armstrong & Taylor, 2014) assert that the principal role of investor relations is to manage interests from relevant audiences by establishing an efficient framework of communicating the activities of an organization. This ensures that the investment community is fully-informed about the daily performance of the business as well as provide a mechanism for expressing any issues of concern (Salaman et.al, 2005).

Investor relations promote the understanding of the investment propositions of companies that in turn help companies increase the valuation of their equities since such a move attracts capital. Information disclosure through investor relations reduces the share price volatility of companies as well as minimise the funding costs (Lahav et al., 2016). Although there are no fast and hard rules concerning investor relations, companies that have a market capitalization of about $200 million find the appointment of investor relations officers to be extremely cost effective (Armstrong & Taylor, 2014). Large cap companies should have additional junior investor relations officers to help manage investor relations programs. Investment Relations Officers need to have credibility and seniority in the firms since they are the main link between investors and the firm (Elayan et al., 2016).

Therefore, investor relations officer (IROs) need to deliver conclusive CSR strategies that the company plans to implement. This should reflect the agendas of the investors as CSR sensitive. Their role as the point of contact between the company and investors puts them at a unique position to advise the company of the best strategies to implement in order to rhyme with the expectations of the investors (Rajak, 2011). The executive management committee should get an understanding of what the investors think of them by providing a platform for
investor relations officers. The strategic role that IROs play means that companies should hire them from within the company. A study by Schuler and Cording (2006) found out that 70% of large cap companies appointed IROs from within the company. IROs represent the views of the company and carry sensitive information that informs the decisions of investors (Schuler & Cording, 2006).

The IROs are mostly appointed from the departments of Finance, Strategy, Communications or Treasury. However, companies that make external appointments hire from the management, banking, investment and broking sectors (Schuler & Cording, 2006). The nature of the appointments made by companies indicates the importance of investor relations in organizations. Investment relations officers are better placed to handle the media and communications about the company (Schuler & Cording, 2006). This avoids the proliferation of information that is likely to create uncertainty among investors and the public (Lahav & Zimand-Sheiner, 2016).

Investors are sensitive to any information shared with the media or other publications that independent media outlets may publish or air. Firms that have prudent investor relations systems are able to attract investors cheaply because of their level of transparency (Schuler & Cording, 2006). Of equal importance is the need to work closely with the communications department to ensure a seamless handling of stakeholders especially where they cross over (Lahav & Zimand-Sheiner, 2016). Retail investors will vary in terms of investment styles, some seeking income while others look for value. They may buy shares directly without taking professional advice through a local UAE stockbroker or they may pay for advice and buy shares on an advisor’s recommendation, or alternatively, leave their financial advisor to structure their investments according to their particular goals and targets as some of these retail investors may be as big as a fund (Surroca et al., 2010).

Retail investors can sometimes be very short term focused, even day traders, with a focus to take advantage of the volatility in particular stocks (Bhattacharya et al., 2012). Therefore, retail traders may be more susceptible to market rumours and speculation (Elayan et al., 2016). Sometimes the stock market authorities may ask a company to deny or clarify a particular item of stock that may have an impact on retail investors. In many cases, this may
result from news reports or media coverage that has not come directly from the listed company itself. Retail investors often buy smaller bundles of shares hence providing vital liquidity (Bhattacharya et al., 2012). The liquidity provided by retail investors can often be the difference between a lower or higher share prices for the listed companies. The sensitivity of retail investors therefore demands that companies put in place appropriate investor relations mechanisms to prevent share price fluctuations driven by unproved comments or information.

The study by Bhattacharya et al. (2012) concludes that all listed firms should have a clear, effective and rolling annual Investor Relations Programs that focus on retail investors as well as other shareholders. In the case of specifically reaching out to the retail investors, this can involve encouraging them to attend Annual General Meetings (AGMs) as well as providing a dedicated retail investor section on the company’s IR website (Ballestero et al., 2012). One of the major concerns of investors is that organizations do not disclose enough information to them, thereby creating an information vacuum between investors and firms.

Information disclosure forms a significant part of investor relations. Several studies link healthy investor relations with the expansion of information disclosure (Lahav & Zimand-Sheiner, 2016). Consequently, expanded disclosure leads to increased demands for a corporation’s shares as well as lower risk premiums.

This similarly lowers the cost of capital for firms leading to improved valuations of securities (Gelb, 2000). Also, Hughes and Pae (2004) suggests that companies should have disclosures that are more revealing by giving the investors opportunity to monitor the performance of managers regarding their efficiency and effectiveness. The most effective way of achieving such accuracies is by being as transparent as possible to investors.

Managerial discussions, financial results and plans are some of the most critical pieces of information that investors are keen to know (Elayan et al., 2016). These pieces of information available to investors stimulates the growth of sustainable relationships between investors and the company. Gelb (2000) says that transparency builds credibility. In a study involving 93 Swedish companies, Gelb (2000) found out that companies that were more
transparent with their information were seen as the most credible companies. Investors were more willing to invest in these companies and expressed minimal skepticism, unlike the companies that did not share information openly. Harden and Upton (2016) opine that information disclosure gives firms some incentives because it results in the efficient valuation of a firm’s securities.

A study by Bushee and Miller (2012) sought to investigate the investor relation practices, organizational visibility and investor following. The study revealed that firms that initiate investor relations programmes have enhanced organizational ownership. Similarly, enhanced relations lead to enhanced analyst followings, price to book ratio and media coverage. Investment relations officers, therefore, need to know not only whatever is happening within the company but also have an understanding of the macroeconomic conditions of the operations (Lahav & Zimand-Sheiner, 2016). Additionally, investor relations officers should be aware of the competitive environment, emerging investment trends such as sustainability, the changing regulatory codes and corporate social responsibility issues. There in an emerging trend of investors who are sensitive to CSR issues (Ballestero et al., 2012).

2.4.4.2 Ethical Governance and Financial Performance

Governance is the process of managing a company, especially with respect to the soundness or otherwise of its management (Mohammed, 2011). On his part, Imad (2015) asserts that corporate governance consists of the manner in which organizational liabilities are managed. To fully exploit the management potential, the board characteristics such as board size, gender diversity, and board independence must be maintained at a balance, since they impact on the financial performance of firms. In his study, Collins (2010) asserts that organizations can only realize improved employee attraction and retention when the employees are served with the opportunity to serve ethical employers.

Poor leadership may result to escalation in employee turnover while lessening the possibility of attracting new employees thereafter increasing the costs associated with employee turnover, employee supervision, decreased job satisfaction and decreased level of employee productivity. Toor & Ofori (2009) showed that ethical leadership can play a mediating role in
the relationship between administrative values and workforce productivity. The presence of ethics in the conduct of business enhances value creation and boosts stakeholders’ satisfaction (Gilley et al., 2010). Similarly, Pae & Choi (2011) established that capital cost is greater for firms with weaker guarantee to business ethics.

A study was done by Persons (2011) on characteristics and financial performance of no-ethics-code firms. Logic regression analysis for the study established that firms that do not have an ethics code experienced low financial performance, had smaller firm size and also possessed a less autonomous audit committee. Similarly, having no code of ethics for chief officers had a potential effect on increased probability of low financial performance. This is because shareholders are more likely to identify the lack of a code of ethics with a negative reflection of inappropriate ethical values of the Chief Executive Officer (CEO).

A study was carried out by Haider et al. (2015) to assess the influence of corporate governance on firm financial performance in Islamic Financial Institution. This study sought to find various factors affecting organizational financial performance and their findings revealed positive relationship between corporate governance and financial performance of Islamic banking sectors. Similarly, Mahar & Anderson (2008) established a positive correlation between corporate governance and profitability for the Islamic Banking Institutions. As for Francis et al. (2012), the researcher determined that corporations that exhibited good governance performed better than their counterparts with poor governance.

Corporate governance also involves organizational strategy and life cycle development, besides being concerned with corporate efficiency (Mayer, 2007). Such effective governance enhances efficiency of the economy, access to capital (both domestic and foreign), labour productivity and general development of market economy (Agusto, 2007). Mohammed (2011) did a study on the Impact of Corporate Governance on banking sector performance in Nigeria. The study revealed that corporate governance substantially contributes to positive performance in the banking sector. The study focused on governance as the only factor that influences financial performance thus presenting a conceptual gap.
This current study fills the gap by focusing on this and other factors that influence financial performance. His study also presents a geographical gap since it focused on Nigeria. The current study focuses on the listed firms in Kenya.

Both Young (2003) and Najjar (2012) assert that the directors of firms should play a pivotal role with regard to corporate governance system. A study by Lemo (2010) views the corporate governance system as an entity from which firms are supervised by their board of directors. With no effective supervision, organizational performance is doomed to deteriorate. On their part, Tanko & Kolawole (2010) conducted a study on corporate governance and organizational performance in Nigeria. This study measured the existing relationship between corporate governance and organizational performance in Nigeria. It established a relatively high correlation coefficient between the size of the board and the performance of the individual organizations. This study concludes that the more the number of outsiders with regard to the organization’s board members, the better the performance in terms of Return on Equity (ROE).

Capital structure and ownership structure are two factors that have the ability to affect corporate performance (Berger et al., 2005). Organizational managers however represent the ownership structure and their decisions are geared towards boosting the firm’s value. State owned firms generally exhibit retarded performance since state owners prioritize social and political targets instead of firm value maximization. The retarded performance has been reported in a number of cross-countries evidence (Mathur & Banchuenvijit, 2007; Dinc & Gupta, 2011; Kang and Kim, 2012; Huang & Boateng, 2013). The current study believes that some of the firms listed at the NSE could be experiencing poor performance because of being state owned.

Many more studies have been done that have linked corporate governance with firm performance. Brown & Caylor (2004); and Chiang & Hsiang-tsai (2005) established positive relationship between corporate governance and corporate performance. Similarly, Vo and Phan (2013) conducted a study on corporate governance and firm performance: empirical evidence from Vietnam.
The findings of their study revealed that components of corporate governance have positive effects on the performance of firms, as measured by the return on asset (ROA). However, these studies have been conducted without the boundaries of Kenya, thus creating a geographical gap.

2.4.4.3 Ethical Board Characteristics and Financial Performance

In many companies, the Board of Directors has the prime responsibility to be an agent for the shareholder interests, review the risks and strategies of operations and ensure the company obeys the legal and regulatory requirements (Fennell et al., 2008). The Board must also put into consideration the interests of a range of other stakeholders who influence in the company. The nature and relevance of stakeholder interests usually fluctuate because of changes in the social expectations, regulatory environment and competitive activities (Wooten & Elden, 2001). Therefore, investor relations play a major role in mitigating the effects of such fluctuations.

Good corporate governance includes efforts to do business in the right way for shareholders, communities, customers and clients served by the company (Wooten & Elden, 2001). Therefore, investor relations provide companies with leaders that have the knowledge and tools they need to make the best decisions; to understand the need to uphold ethical standards to guard the reputation of the company. Wooten & Elden (2001) conducted a study in the UK among 23 companies listed in the London Stock Exchange. The study found out that 17 out of the 23 companies included in the study had well-define investor relations regulations and guidelines. The study showed that the 13 out of the 17 companies with investor relations strategies showed stable performances in their share price (Wooten & Elden, 2001).

A good relationship with stakeholders is generally assisted by the creation of an effective Corporate Governance Framework (Brennan & Solomon, 2008). A corporate governance framework consists of a broad set of systems, processes and documents used by senior management and the board to regulate the activities of the company. The regulations ensure the appropriate consideration of the interests of stakeholders by indicating frequently to external parties how particular objectives are achieved. Brennan and Solomon (2008) insist
that boards of companies should consider certain elements when developing their corporate governance frameworks. Strong frameworks in companies help to clearly define the respective roles of the Board and management regarding investor relations, the delegations and accountability of power (Brennan & Solomon, 2008). His study showed that the nature, scale and complexity of the company’s operations and corporate structure play a significant role in determining how the Board exercises this discretion.

Boards consist of a group of personalities that combine their capabilities that communally represent the pool of social capital for their firm contributed towards executing governance function (Wu, 2006). With the increasing significance of boards of directors, it is essential to recognize various board features that may make one board more effective than the other. Some scholars elucidate that different attributes for the Board of Directors’ differently impact organizational performance because of their orientations. Such orientations are in the form of skills, occupational background, sex, education, the range of industry experience and technical capabilities (MacHold et al., 2008).

The two major functions of the board include: (1) facilitating access to information and other organizational resources and (2) monitoring management to ensure that it acts in the interests of shareholders (Chan & Cheung, 2012). Due to the increasing importance of the natural environment and the related strategic opportunities, it naturally follows that one of the duties of the board is to address environmental strategy (Wu, 2006). An effective board depends on the diverse collection of competencies and skills that each individual director independently brings that may make the entire board effectively manage its duties. Review of the existing works reveals that many studies have been done that have examined the role of boards of directors on firm strategy and performance. For example, Lansing and De Vries (2007) and Isidro and Sobral (2015) have studied various aspects such as board composition, characteristics and their effects on firm performance.

The two major functions of the board include: (1) facilitating access to information and other organizational resources and (2) monitoring management to ensure that it acts in the interests of shareholders (Chan & Cheung, 2012). Due to the increasing importance of the natural environment and the related strategic opportunities, it naturally follows that one of the duties
of the board is to address environmental strategy (Wu, 2006). Caldwell et al. (2011a) revealed that an effective board depends on the diverse collection of competencies and skills that each individual director independently brings that may make the entire board effectively manage its duties. Review of the extant literature reveals a large number of studies examining the role of boards on firm strategy and performance. For example, Lansing and De Vries (2007) and Isidro and Sobral (2015) have covered aspects such as board composition, characteristics and their impact on performance.

Nevertheless, the role played by the board is important to firm performance as boards discharge their fiduciary responsibilities of leading and directing the firm (Abdullah et al., 2009). Its composition is key to performance. Board composition refers to the fraction of non-executive directors on the board as compared to their executive counterparts (Uadiale, 2010). Some researchers argue that organizations that have large proportions of outside directors in the board are characterized by less agency problems, hence exhibits better alignment between interests of management and that of shareholders (Fernandes, 2005). This may subsequently influence share prices.

Firms with stable shareholder rights yielded annual returns that were 8.5 per cent greater than those with weaker rights. MacAvoy & Millstein (2003) conducted a study and found out that the corporations that had active and independent boards apparently performed much better than those with passive and none-independent boards. Board independence may be a critical factor affecting the performance of firms. An independent director is one with no affiliation with the firm other than the affiliation as being the firm’s board of directors. Uzun et al. (2004) revealed that increasing the number of independent directors enhances protection of shareholders’ interests, hence enhances effectiveness of decision making.

The independent directors may: (1) be nominated by the management, thus acting as mere rubber stamps to management decisions or; (2) may be overly involved in formulation of executive decisions thus creating a self-destructive friction between them and the management (Maere et al, 2014). Besides board independence, board size may also be a factor influencing performance. Board size is defined as the total number of directors of the board in a particular year (Maere et al, 2014). Empirical studies have also shown that the
market values firms that have relatively small board sizes (Sanda et al, 2005). However, some studies assert that the effect of board composition and organizational financial performance is not yet that clear. For example, Daily et al. (2007) are of the opinion that board composition virtually has no effect on firm performance and there exists absolutely no link between leadership structure and performance.

Bhagat & Black (2002) determined that there is no significant relationship between proportion of the non-executive directors and firm performance. While a larger board is more likely to contain a wider range of both skills and expertise, it may counter the influence of the Executive Director (Maere et al, 2014). Be it as it is, a number of researches have subscribed to the assertion that various board characteristics have an influence on the general performance of organizations.


Leadership and integrity are positively correlated. Other than integrity, research has related good leadership qualities with impression of an individual leader’s genuineness and reliability. Furthermore, psychological trust (the activity of consideration in work, being proficient, tried and true) has been connected with compelling styles of leadership too. Expanding on this work, Brown & Treviño (2006) led exploratory examination intended to comprehend what the words ethical leadership intends to achieve given the current management malpractices especially in financial institutions. Angelo et al. (2004) opine that ethical leadership involves creation of work environment conducive enough for promotion of work culture and achievement of goals and with recognition of individual employee needs; thus creating mutual trust and moral behaviour.

Employees may interpret the actions within the organization such as the human resource practices (Ostroff & Bowen, 2000) and the management’s trustworthiness as indicative of the firm’s commitment to them. Through organized interviews with twenty (20) senior officials and twenty (20) morals/consistence officers in a range of enterprises, scientists got some
information about an ethical leader with whom they were well known, and to answer expansive inquiries concerning the qualities, practices, and thought processes of such a leader. The interviews surfaced proof that various individual qualities were identified with ethical leadership. On their part, Brown et al. (2005) views such a leader as that who expresses a normatively suitable behaviour through individual actions and interpersonal connections, and the endorsement of such behaviours to subordinates through two-way reinforcement, communication and decision-making.

Ethical leaders are thought to be straight-forward and dependable. Moreover, ethical leaders are seen as reasonable and principled executives who think about individuals and the more extensive society, and who operate with morality in their individual lives. As established by various researchers, ethical leaders ought to also cultivate a culture of morals and sound decision making ability among followers (Lasthuizen 2008; Kaptein 2011).

The moral segment of ethical leadership, implies that ethical leaders possess impressive individual character traits and unselfish inspiration (Brown & Treviño, 2006). Nevertheless, that definition is not all to the whole subject of ethical leadership. Other researchers have come up with other elemental attributes and parameters that can be used to measure ethical leaders (Koenig, 2008; Liden et al., 2008). These have a lot to do with the ability of ethical leaders to inspire not just confidence, but also to impact their subjects’ moral and emotional behaviour.

Ethical managers make ethics an unequivocal piece of their leadership motivation by imparting good morals and qualities message into their subjects and to consider them responsible for their individual behaviours (McManus, 2015). Such unequivocal conduct helps ethical leaders to make ethical leadership message a noticeably emerging trend amidst the backdrop of leadership development. Expanding on this subjective examination, Brown and Treviño (2006) concluded that an ethical leader is one who has interactional reasonableness, trustworthiness, integrity and compassion. He must have the capability to apply both transactional and servant leadership styles while trying to achieve organizational objectives. The styles promote putting aside the leaders’ self-interests and working towards the betterment of followers (Liden et al., 2008; Sendjaya et al., 2008).
In spite of the fact that there are various approaches to consider the moral context of an organization brought about by the ethical leaders, the vast majority of the observational exploration around the subject is concentrated on what is alluded to as moral climate or a moral society (Chun & Shin, 2011). And, all these observations allude to the attributes of the organization that do or do not bolster ethic related attitudes and behaviours. Ethical considerations focus on both societal and organizational success and not to personal ego of the leader. This is a key dimension of the ethical leadership that aids to understand organizational success in the extensive network of constituents and stakeholders (McCray et al., 2012).

A number of researchers such as Brown et al. (2005), Nelson (2006) and Northouse (2010) assert that the integration of integrity, fair treatment and ethical standards of employees are the bulwark of ethical leadership. They describe an ethical leader as one who expresses a normatively suitable behaviour through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement and decision making. A leader should be both a moral person and a moral manager (Oates and Dalmau, 2013). To comprehend this leadership definition and its associations with philosophy, there is a need to recognize what ethical leadership is.

Philosophers have addressed the inquiry of what ethical leadership is from a standardizing point of view (Brown et al, 2005; Brown & Mitchell, 2010). They have sought to indicate how ethical leaders should act. By complexity, the only social logical way to deal with the subject is to engage more on depicting ethical leadership in light of current organizational demands and analyze its antecedents and probable outcomes. The philosophers have argued that individual traits, for example, integrity would be critical to view of leadership adequacy and exploration (Dietz & Den Hartog, 2006; Lewicki et al., 2006). The integrity need to take into perspective various aspects of ethical leadership, which according to this study involves Ethical HRM Practices, Advertising Practices, Consumer and Investor Relations. In their totality, these sets of practices form an ethical climate.
The ethical climate has been characterized as the common impression of normal organizational practices and strategies that have moral substance or those parts of work environment that figure out what constitutes moral conduct at work. Both Peterson (2002a) and Peterson (2002b) established that an ethical climate for forms is positively correlated with the behaviours of employees within a firm. Taylor & Pattie (2014) proposed nine (9) types of moral climate based upon three (3) philosophical approaches (standard, altruism and vanity) and three (3) levels of examination (individual, local, cosmopolitan). They theorized that every climate has a connection with particular regulating desires. The same is emphasized by Appelbaum et al. (2007) and Morrison (2008) who linked negative ethical climate to enhanced anti-social behaviour, increased employee turnover, stagnated productivity and reduced levels of creativity.

A positive relationship occurs between workers' impression of a generous ethical climate (environment) and organizational duty (Giroux, 2014). Other examinations have demonstrated that moral climate measurements can emphatically impact managers' moral basic leadership aims and that moral environments are contrarily identified with eagerness to lie or cheat while on duty. In his study, Brown & Treviño (2006) presents an ethical society as a subset or cut of the organization's general culture that can direct the relationship between an individual's moral thinking and moral/deceptive conduct. They contend that people who tend to think morally in an organization are less helpless to impact moral direction in an organizational society. On their part, Fehr et al. (2015) later characterized moral society regarding the formal and casual behavioural control frameworks such as leadership, power structures, reward frameworks, basic leadership forms, moral standards and peer conduct among others that can bolster either moral or exploitative conduct in an organization.

Moral climate and society measurements essentially corresponded and also impacted workers' organizational responsibility (Chun & Shin, 2011). Be that as it may, they discovered contrasts as to conduct. For instance, in organizational settings with a morals code, a society based measurement that they marked general moral environment (counting leadership, reward frameworks, and code support for moral conduct) had the biggest negative impact on defiant behaviour. On their part, Appelbaum et al. (2007) give a suggestion of how to counter defiant behaviour by advocating for a strong organizational culture, deeply rooted
on ethical values. In non-code settings, an environment preoccupied by self-interest was most firmly connected with deceptive conduct. From a social learning point of view, it is suggested that more grounded moral contexts that back and energize moral conduct additionally bolster the development and support of ethical leadership in organizations (Chun & Shin, 2011). Such organizations give more models of ethical leadership, formal strategies and casual standards that support moral conduct (Trevino et al., 2000, 2003). Trevino et al. (2000, 2003) are of the opinion that individuals in leadership positions must be morally and socially strong leaders in order for their subjects to appraise them as ethical leaders. Similarly, Fehr et al. (2015) also established that social factors such as leadership and prize frameworks that back moral conduct all add to positive morals related attitudes and behaviours.

In organizations that do not have a solid moral context or condone misgiving conduct, leaders of those respective organizations will need to coordinate their style to fit their environment. Turner et al. (2002) elucidate that ethical leaders must operate at higher levels of moral reasoning and impart the same to their followers, thereby building an ethical climate. Schaubroeck et al. (2012) emphasizes the need of morals and ethics in organizations by opining that these components act as solid foundation for ethical organizational environment. The elements of ethical organizational environment overlap those of transformational leadership. In other words, for a leader to be transformative, he must be ethical and with a transformative spirit that brings both meaningful and genuine changes in an organization.

Characters of leaders influence their performance. This notwithstanding, an inappropriate character cannot wholly measure ethical lapses in firms. However, an effective character plays a pivotal for an effective self-leadership. This thus calls for leaders to focus on their inner voice championing leadership that focuses on an ethical direction (Brown, 2007). On his part, Covey (2004) addresses ethical leadership as ‘character ethics’, not focusing on individual character, but those principles that govern human effectiveness. Ethical leaders can be judged from their ethical behaviour incorporating their values, conscious intentions, type of influences, freedom of choice, and stage of moral development (G. Yukl, 2006). The ethical aspect calls for the leader to put his interests aside and also bring into consideration both the interests of other people and that of the overall objectives of the organization.
Conclusively, ethical leaders thus need to be genuine, mindful and principled people who settle on reasonable and adjusted choices. A good leader should thus be effective in his operations and thus be objective-minded. Their objectivity is thus to be a function of their performance. Ethical leaders additionally have much of their time speaking with their devotees about morals, setting clear moral guidelines and using prizes and punishments to see that those standards are met. As Frazier (2006) points out, it is in order that ethical leaders preach and teach an all-inclusive participatory and empowering leadership strategy. Finally, ethical leaders never simply talk the walk—they walk the talk and are proactive role models regarding morally acceptable behaviours. From this research, the ethical behaviour has been viewed from the context of ethical human resource (HR) practices, advertisement practices, consumer relation practices and investor relation practices.

2.5 Chapter Summary

The chapter has reviewed three theories that explain the independent and dependent variables. The theories that have been employed for this study includes: Institutional Theory, Stakeholder Theory and Cognitive Moral Development Theory. The Institutional theory has provided guidelines for analyzing organizational environment relationships with emphasis on social expectations, values, rules and norms. The stakeholder theory was guided by the idea that firms coordinate and manage the constellation of cooperative and competitive interests of different stakeholders. The cognitive moral development theory was guided by the assertion that people reason through ethical dilemmas and this informs their decisions on what is right or rather socially acceptable. The theories are then critiqued for relevance of application on specific variables.

The chapter has also presented a conceptual framework for the study with the dependent variable as Financial Performance measured by the use of Return on Assets (ROA) and the independent variable being ethical leadership. The different aspects of ethical leadership that have been reviewed include ethical human resource management practices, ethical advertisement practices, ethical consumer relation practices, and ethical investor relation practices.
A joint effect of the aspects of ethical leadership have also been presented, to give an insight on how, jointly, the aspects impact on financial performance. Literature have been reviewed on previous studies that sought to correlate each aspect of the ethical leadership with the financial performance of listed firms. The empirical review presented in this chapter was conducted in such a manner where previous studies both regional and local is studied in line with the following criteria: title, scope and methodology resulting into a critique. Chapter Three presents the methodology that was used to carry out the study and presents how the data gathered and entered has been analysed.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study was to establish the effect of ethical leadership on the financial performance of listed firms in Kenya. This chapter presents a review of the research methodology. Specifically, it discusses the methods and procedures that were used in the research. These included, the research philosophy, paradigm, design, the population of the study, the sample size, the sample design, the data collection, data collection instruments, research procedure, ethics and the data analysis approach that were taken.

3.2 Research Philosophy

A research philosophy is a belief about the way in which data about a phenomenon should be collected, analyzed and utilized. The term epistemology as opposed to doxology incorporates the various philosophies of the research method (Bryman and Bell, 2007). According to Remenyi et al (2005), the research methodology and philosophy must be stated to convince others of the credibility of the study.

Ideologies of positivism comprise a recognizable social reality to be studied and a recognizable phenomenon for producing reliable data (Remenyi et al., 2005; Saunders et al., 2009). Positivists adhere to the tenets of the natural sciences and view behavior as directly measurable and explainable. This was applied in this study through hypothesis testing. The purpose of the positivism approach was to define various hypotheses that may be tested. The role of this study was to test the formulated theories and provide material for the generation of laws (Bryman and Bell, 2007). The end product of research was aimed to be the generalizations similar to those produced by natural scientists, and positivism emphasizes quantifiable observations that are normally used for statistical analysis (Remenyi et al., 2005).
The study used a positivistic epistemological approach. Positivism is an epistemological situation that explores social reality and beyond by incorporating natural sciences’ methods (Bryman & Bell, 2007). The purpose of this study was to establish the influence of ethical leadership on the financial performance of listed firms in Kenya. Under the positivistic philosophical approach, we set up the hypotheses by the existing relevant theories. Thereafter, these hypotheses were tested and confirmed or disproved by quantitative and statistical methods to answer the research objectives and accomplish the research purposes.

3.3 Research Design

From the assertions of Cooper and Schindler (2003), research design refers to the plan and structure of investigation so conceived as to obtain answers to research questions. It thus refers to how data collection and analysis are structured to economically meet the research objectives through empirical evidence. A causal research design was adopted for this study. It was characterized by a cause-and-effect variable analysis where financial performance was considered the dependent variable while ethical HRM, advertising, customer relations and investor relations were considered as predictor variables. The reason for adopting this design was due to its focus to examine relationships and the effects of the outlined predictor variables on financial performance of the listed firms in Kenya.

The causal research design was important to pinpoint the motivations behind specific behaviors whereby the researcher determined how dependent variables are affected by changes made to independent variables (Saunders et al., 2008). The design was also vital especially in predicting hypothetical scenarios which in turn greatly determined the reliability and authenticity of the final research findings. Therefore, the design was appropriate because the study needed to determine the relationship between ethical practices in HRM, advertising, customer relations, and investor relations with the financial performance of firms listed in Kenya using correlation and regression analysis.
3.4 The Target Population

The target population of this study was sixty-four (64) listed firms in Kenya. The unit of analysis of this study for each firm included either the Chief Finance Officers (CFOs) or the Chief Executive Officers (CEOs) of the listed firms.

These target respondents were chosen to be the unit of analysis because these are the key personnel who have in-depth financial information regarding the listed firms. Both online (Google doc forms) and hardcopy questionnaires were delivered to each CEO and follow-ups done via both phone calls and email communications requesting either the CEOs to fill the questionnaires themselves, or they request their CFOs to fill them on their behalf. The two modes used in distribution of the questionnaires was to enhance the response rate.

3.5 Sampling Design

Sampling involves the selection of a given number of subjects from a defined population as representative of that population Cooper and Schindler (2003). This study adopted a census approach because the relatively small number of listed firms in Kenya. The adoption of the census approach was arrived at, to help raise the response rate for the survey.

3.5.1 Sampling Frame

Sampling frame is a set of source materials from which the sample is selected (Mugenda and Mugenda, 2003). The definition similarly incorporates the methodology for selecting particular members of the total population that are to be examined in a survey (Bailey, 2008). The sampling frame of this study was the 64 listed companies. The sampling frame was obtained from the census approach that the study adopted.

3.5.2. Sampling Techniques

Sampling techniques involve the selection of samples for use in conducting a study or operation (Kothari, 2004). The various available sampling techniques and their applications are as outlined below. Probability sampling technique is useful in achieving representativeness as the degree to which samples accurately represent the entire population
(Teddle and Yu, 2007). Stratified probability sampling technique is useful in selecting the sample from the various categories. Similarly, stratified sampling is strategically useful in scenarios where every member of the research population is to have equal chance of being selected in relation to their proportion in the entire population (Denscombe, 2003).

This study used a census approach because of the small number the respondents (Kothari, 2004). This technique has previously been applied before by various researchers. For example, Juma et al., (2012) conducted a study on Impact of Bank Mergers on Shareholders’ Wealth. Their study, that was conducted between 2006 – 2010, was preferred and focused on the twenty-three (23) banks in Nairobi, Kenya which had their M&As approved by the year 2008 (CBK: Bank Mergers & Acquisitions, 2010). Also, Wekesa and Were (2014) on their study on effects of outsourcing on an organization’s performance: A case study of Kenya Revenue Authority - Nairobi Customs Station, used a census approach to collect data from all fifteen (15) procurement officers, seventeen (17) financial officers and fifty (50) support staff.

Similarly, Ndungu (2013) conducted a study on the effects of the East African Community Customs Union on the performance of Oil Industry in Kenya. The study carried out a census of all the fourteen (14) Oil companies in Kenya (ROK, 2011). The study population comprised the CEOs from every company making a total of sixty-four (64) respondents. Mugenda and Mugenda (2003) argued that Census population studies are more representative because everyone has equal chance to be included in the final sample that is drawn and this method is suitable for a small population under study.

The study used a census approach due to the relatively small number of the listed companies in the NSE. The total number of firms that were used in the research was sixty-four (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.
Table 3.1 Sampling Distribution

<table>
<thead>
<tr>
<th>Population</th>
<th>Sample Frame</th>
<th>Sample</th>
<th>Sampling Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEOs of the Listed Firms at NSE</td>
<td>64</td>
<td>64</td>
<td>100%</td>
</tr>
<tr>
<td>TOTALS</td>
<td>64</td>
<td>64</td>
<td>100%</td>
</tr>
</tbody>
</table>

3.6 Data Collection Methods

Data collection involves gathering raw information that can be processed into meaningful information, by the use of scientific processes of data analysis (Gall et al., 2007). Data collection methods are techniques of gathering raw and unprocessed information. Both primary and secondary data were used for this study. The variables over which information were sought include: ethical human resource practices, ethical advertising practices, ethical consumer relation practices, ethical investor relation practices and general financial performance of listed 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. Ember and Ember (2009) describe secondary data as data collected by others and found by the comparative researcher in ethnographies, censuses and histories. Secondary data thus involves data collected using information from studies that other researchers have made of a subject. The secondary data was extracted from the annual reports and financial statements of the listed firms (available in the firms’ individual websites), as well as from the Resource Centre of the Capital Markets Authority (CMA). This was presented using the secondary data collection sheet indicated in Appendix II. The strategy of incorporating both primary and secondary data to address the same study objectives was to enhance the explanatory coherence and develop both communicative and pragmatic validity of the study results.
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. This was because Likert scales are good in measuring perception, attitude, values and behavior. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda & Mugenda, 2003) and Zikmund et al. (2010). Likert’s 5-Point Scale including Not Applicable (N/A) guided the construction of the questionnaire. The scale consisted of a series of items showing agreement or disagreement on an opinion based on the study questions, each with a set of responses on which respondents answered (Stangor, 2015).

To facilitate analysis, the questionnaires were formulated to include close-ended multiple-choice questions as well as open-ended questions. As much as the closed questions allowed comparison and statistical manipulation, the method had limitations in its fixed response and can therefore distort the responses, since it limited one response to a particular format. Open-ended questions, on the other hand, have different responses which are more difficult to code and compute and thus not comparable among different respondents (Stangor, 2015). Contained in the questionnaires were: the demographic data of the respondents, their employment history and their level of agreement with the propositions of the independent variables affecting financial performance of firms listed in the NSE.

3.7 Research Procedures

Research procedure refers to the steps taken in the administration of survey questionnaires. Approval from the university was obtained to conduct the study, while permission was obtained from the National Commission of Science Technology and Innovation (NACOSTI – copy attached in Appendix V). The researcher paid a courtesy call to the Nairobi Securities Exchange. Thereafter a letter to each of the firm managers was written requesting for permission to carry the study in their firms. Questionnaires were designed based on the research objectives. They were then pilot tested by the researcher to refine questions before administering during the actual study. Pilot test was done to purposefully seven respondents in order to detect weakness in design and instrumentation. Accuracy of data to be gathered largely depends on data collection instruments regarding reliability and validity (Mugenda O. & A. Mugenda, 2003).
The information generated from the piloting study was essential in refining the questionnaire before its final administration. This allowed the researcher to refine the data collection tool for objectivity and efficiency of the process. After re-designing the questionnaire, several copies were made and distributed to the entire sixty-four (64) firms, including the pilot study firms. Each questionnaire was estimated to take fifteen minutes to complete. Three research assistants, who are trained in communication and interviewing respondents using the questionnaire tool, were also used to administer the refined questionnaire and help in data entry.

The respondents were led through demonstrated responses to guarantee that they had an indepth understanding of the questions and thus responded appropriately. Drop and pick later method of data collection was also be applied to improve the response rate. Similarly, the research adopted an online data collection tool whereby the researcher sent softcopy questionnaires on google docs to emails of various respondents. This approach hastened the data collection exercise and proved to be very effective. By use of the google docs, thirty-one (31) online questionnaires (representing 48.4% of the responses from the target population) were filled and successfully submitted through the online means. 33 questionnaires (including those received from the pilot study) were however filled from the hardcopy formats and returned to the researcher.

### 3.7.1 Pilot Study

Pilot study is a small scale preliminary study conducted in order to evaluate feasibility, time, cost, adverse events, and effect size (statistical variability) in an attempt to predict an appropriate sample size and improve upon the study design prior to performance of a full-scale research study (Saunders et al., 2012). Prior to the use of the questionnaire to collect data it was pilot tested. The essence of the pilot test was to polish the questionnaire to make the respondents have no problems in responding to the questions and there were no problems in recording the data. Similarly, the pilot study enabled the researcher to achieve some degree of assessment of the question’s validity and the likely reliability of the collected data.
Preliminary examination using the pilot study test data may be done to guarantee that the raw data gathered allows the investigative questions to be answered (Saunders et al., 2012). On his part, Newing (2011) asserts that the significance of a pilot study cannot be overemphasized; a researcher will in most occasions establish that there are questions that the targeted respondents may fail to understand. Similarly, they may also incorrectly interpret a question, or fail to interpret the question altogether. There are various sections within the questionnaire where the respondents may fail to interpret where to go next, and also present in the tool may be either pockets of sections or sets of questions that may turn out basically not to elicit useful information. In their works, Cooper and Schindler (2003) agree that the ideal drive for the incorporation of a pilot test is to identify faults in the design and implementation, and also to provide proxy for data collection of a probability sample. For Sekaran (2003), the pilot study is required for analyzing the reliability and validity of the data collection tool. After the pilot testing, the questionnaire is appropriately amended, a study sample selected, and eventually the refined questionnaire is used to undertake data collection (Saunders et al., 2012).

In this study, 10% of the target population was used for pilot study. This means that seven, i.e. (10%*64) questionnaires were used for pilot study. Once the study was done, the questionnaires were amended, after which the refined ones used for data collection from the rest of the firms, not covered by the pilot study.

### 3.7.2 Reliability Test

Reliability is the repeatability, stability or internal consistency of the data collection tool (Jack & Clarke, 1998). Reliability of the questionnaire was evaluated through the administration of the said instrument to the seven (7) firm managers from listed firms in Nairobi Securities Exchange (NSE). The responses from the questionnaire were entered into Statistical Package for Social Scientists (SPSS Version 21) and the coefficient for Cronbach’s alpha generated. Cronbach’s alpha coefficient was used for testing the reliability of the questions in the questionnaire. The Alpha value ranges between 0 and 1 with the reliability increasing with increase in the value (Cronbach, 1995; Sekaran, 2003).
3.7.3 Validity Test

Validity is the ability of the data collection tool to measure what it was meant to measure Mugenda and Mugenda (2003). Validity test is important indicator to ascertain consistence of data obtained from the questionnaires and whether we may rely on such data for this particular study. The study used face validity to ascertain the validity of the questionnaires. To check face validity, survey items were sent to the seven (7) firm managers to obtain suggestions for modification (Rousson et al., 2002). On the basis of the assessment, the data collection tool was adjusted appropriately before exposing it for purposes of the final data collection exercise. The review observations from the respondents were used to ensure that content validity is enhanced.

3.7.4 Administration of Instruments

Hardcopy questionnaires were sent to all the sixty-four (64) firms listed in Kenya. Accompanying the hard-copy questionnaires were online questionnaires generated and sent via Google Docs to the Chief Executive Officers (CEOs) of the firms listed on the NSE. From the hardcopy submitted questionnaires, thirty-three (33) were filled and returned to the researcher, while for the online forms submitted to the firms’ CEOs, thirty-one (31) respondents submitted filled forms via the online mode. For the administration and collection of filled hard-copy questionnaires, the researcher recruited a team of research assistants, who were trained on the exercise.

3.7.5 Ethical Considerations

In research process, ethics primarily focus on the application of ethical standards in planning of the study, during collection of data and in the dissemination and use of the results. For this study, it was guided by tenets of ethical behaviour that incorporated anonymity, confidentiality, disclosure, analysis and reporting. Considerations of confidentiality, anonymity and privacy were contained within the information sheet disparched to every respondent. Accordingly, the researcher obtained an introductory letter from the university to facilitate the acceptance by the respondents and their respective organizations. Permission was also sought from the National Commission of Science & Technology (NACOSTI). The copy of the NACOSTI permit is attached in Appendix V of this dissertation.
3.8 Data Analysis Methods

Data analysis is the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation (Zikmund et al., 2010). The unit of analysis was listed firms in Kenya. For this study, analysis began from editing and checking completeness of the questionnaires. After checking questionnaires’ consistence, data was analyzed systematically beginning from data clean-up through editing, coding, and tabulation.

Data clean-up is normally done to detect any incongruities in respondents’ feedbacks and assign particular arithmetical values to the respondents’ feedbacks for further investigation. After data clean-up process, the consistent data was checked for any errors and omissions (Cooper and Schindler, 2003). Frequency tables, percentages and means were used to present the findings. Responses to the questionnaires were tabulated, coded and processed by use of SPSS (Version 21) software that analyzed the data using descriptive statistics.

**Step 1: Component Factor Loading & Analysis**

This analysis was done to pick only strong variables to be used for the study. It was done to all independent variables of ethical leadership.

**Step 2: Descriptive results**

Descriptive results were being presented based on the field findings. Quantitative reports were generated in the form of tables, percentages, and measures of central tendency. The Descriptive Analysis Table involved factors such as the number of responses received per variable, mean, standard deviation, standard error, Kurtosis and Skewness. The analysis provided generalization of the findings on the influences of ethical leadership on financial performance among the listed firms in Nairobi Securities Exchange (NSE).

**Step 3: Normality test**

The normality of data was tested using the Kolmogorov-Smirnov test and the Shapiro-Wilk test using SPSS 21 Statistical software. For all the probabilities that were greater than 0.05, the data was considered to be normally distributed (Saunders et al., 2012).
Step 4: Multicollinearity

Multicollinearity of the data was tested using correlation coefficients. The rule of the thumb was that a correlation coefficient of more than 0.9 indicates substantial multicollinearity. Variance inflation factor was also used to measure multicollinearity since it was more conclusive than Pearson’s coefficient of correlation. The problem was however the severity of the multicollinearity, since it makes it difficult to determine the separate effects of individual variables (Lewis & Thornhill, 2012). Other tests that were carried out included the homoscedasticity tests, linearity tests, and normality tests.

Step 5: Regression analysis

Multiple regression analysis was conducted to determine the influence of ethical leadership on the financial performance of listed firms in Kenya. Multiple Regressions Analysis was appropriate in analyzing how a number of covariates affect a specific response variable. (Cohen et al., 2003). The study used a multivariate regression model to link the independent and dependent variables as follows;

The regression model was as follows:

\[ Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + X + \varepsilon \]

Where:

\[ Y = \text{Financial Performance (ROA)} \]

\[ \alpha = \text{Constant;} \quad \varepsilon = \text{Error term} \]

Term \( \beta_1, \beta_2, \beta_3, \text{and} \beta_4 = \text{Regression coefficients of the independent variables} \]

\( X_1 = \text{Ethical human resource practice} \]

\( X_2 = \text{Ethical advertising practice} \]

\( X_3 = \text{Ethical consumer relations} \]

\( X_4 = \text{Ethical investor relations} \]

\( X = \text{Combination of Ethical human resource practice, Ethical investor relations, Ethical consumer relations and Ethical advertising practice.} \]
<table>
<thead>
<tr>
<th>Research Question</th>
<th>Independent Variables</th>
<th>Null Hypothesis</th>
<th>Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>How does ethical human resource practices influence financial performance of listed firms in Kenya?</td>
<td>Ethical human resource practices</td>
<td>H₀: Ethical human resource practice does not have a significant influence on the financial performance of listed firms in Kenya</td>
<td>Simple linear regression (1 independent variable), Reject null if p&lt;0.05 or otherwise accept</td>
</tr>
<tr>
<td>How does ethical advertising practices influence financial performance of listed firms in Kenya</td>
<td>Ethical advertising practices</td>
<td>H₀: Ethical advertising practice does not have a significant influence on the financial performance of listed firms in Kenya</td>
<td>Simple linear regression (1 independent variable), Reject null if p&lt;0.05 or otherwise accept</td>
</tr>
<tr>
<td>How does ethical consumer relations practices influence financial performance of listed firms in Kenya</td>
<td>Ethical consumer relations practices</td>
<td>H₀: Ethical consumer relations practice does not have a significant influence on the financial performance of listed firms in Kenya</td>
<td>Simple linear regression (1 independent variable), Reject null if p&lt;0.05 or otherwise accept</td>
</tr>
<tr>
<td>How does ethical investor relations practices influence financial performance of listed firms in Kenya</td>
<td>Ethical investor relations practices</td>
<td>H₀: Ethical investor relations practice does not have a significant influence on the financial performance of listed firms in Kenya</td>
<td>Simple linear regression (1 independent variable), Reject null if p&lt;0.05 or otherwise accept</td>
</tr>
<tr>
<td>How does ethical investor relations, advertising, consumer relations and investor relation practices influence financial performance of listed firms in Kenya</td>
<td>Ethical HRM, advertising, ethical consumer relations, and ethical investor relation practices</td>
<td>H₀: Ethical HR practices, ethical advertising, ethical consumer relations, and ethical investor relation practices do not have a significant influence on the financial performance of listed firms Kenya</td>
<td>Multiple linear regression (More than 1 independent variables). Reject null if p&lt;0.05 or otherwise reject</td>
</tr>
</tbody>
</table>
3.9 Chapter Summary

The chapter discussed the research philosophy that was employed in this study. It involved a positivistic espimotology, from which hypothesis were set up using existing relevant theories. For the research design, the study adopted the causal design that allowed analyzing how the major parts of this study interacted to address the hypothesis. The chapter identified the target population as 64 companies, from which a census approach for the sampling frame was adopted, owing to the relatively small number of the populace. The chapter then showed the data collection methods that were employed, and the procedure taken during data collection. A brief report of the pilot study has been given. The report gives the reason for carrying out the pilot study, as well as the information on both reliability and validity tests that were established. Ethical considerations that were employed is mentioned, and includes (though not limited to) getting permission for data collection from USIU and NACOSTI.

The chapter has then given the data analysis procedure that was employed. Under this, the data analysis tool that was used is the Statistical package for Social Scientists (SPSS version 21). Using this package, guidelines for the analysis have been given, including carrying out: Component factor loading and analysis; Descriptive Analysis; Tests to be done, i.e. the Normality Test and Multicollinearity Tests; Pearson’s correlation analysis for both the dependent and independent variables and; Regression Analysis. Lastly, the chapter has given the operational framework to be used for purposes of either accepting or rejecting the null hypothesis, based on the significance of each independent variable.

Chapters Four shows how the methodology was executed by using SPSS 21 software with regard to analysis of the data. Both the data and information are presented in the form of charts, tables, percentages, and figures. Also involved in Chapter Four is testing of the hypothesis of this dissertation, with the sole view to either accepting or rejecting them.
CHAPTER FOUR

4.0 DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter gives the results that were collected from 64 respondents that included Chief Executive Officers (CEOs) and Chief Finance Officers (CFOs) from the listed firms in Nairobi Securities Exchange (NSE). The response rate and the demographic characteristics of the study respondents are also given as a background to the analysis part. Interpretation and discussion of the findings is also done in this chapter. Presentations of the results are on tables and figures where appropriate. The results are presented in line of research objectives and the chapter is organized according to the themes derived from the hypothesis.

4.2 General Information

The study adopted a survey design apropos to the nature of the respondents who were the CEOs of the listed firms in Kenya. First, the researcher obtained the emails and physical addresses of the sixty-four CEOs of the listed firms via telephone correspondence. Secondly, the researcher dispatched sealed copies of questionnaires to every office, addressed to the CEO and enclosed with a letter of introduction and a copy of a permission letter to conduct research obtained from the university. The researcher also created a parallel online survey and sent a link to every CEO’s email for flexibility aimed at improving the response rate. The researcher then, conducted a follow-up and the responses were collected upon confirmation of completion. A total of fifty-seven (57) filled questionnaires were returned, reflecting an eighty-nine percent (89%) response rate, which was excellent according to (Groat & Wang, 2013). Table 4.1 gives the response rate of the respondents.

Table 4.1 Response rate

<table>
<thead>
<tr>
<th>Number of Questionnaires Distributed</th>
<th>Total Questionnaires completed and Returned</th>
<th>% of Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
<td>57</td>
<td>89</td>
</tr>
</tbody>
</table>
4.2.1 Gender and Age of Respondents

This section presents demographic characteristics of the respondents. The demographic characteristics presented include; the gender of the respondents, highest level of education of the respondents, duration of service of the respondents in the firms and number of employees in the firms. To present the data on these characteristics, cross tabulations were done to give a clear presentation of results in this survey.

The study sought to determine the gender and age of the respondents who took part in the survey. The results on age indicate that only 1.6% of the respondents were females, implying that 98.4% were males. Overall, the findings obtained indicate that there were 8 male respondents below 40 years of age, one female below 40 years, 27 male respondents between 41 to 50 years and 28 male respondents with 50 years and above.

Table 4.2 Gender and Age of Respondents Cross Tabulation

<table>
<thead>
<tr>
<th>Age</th>
<th>Pilot Study Gender</th>
<th>Actual Study Gender</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
</tr>
<tr>
<td>Below 40 years</td>
<td>1</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>41 - 50 years</td>
<td>2</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>4</td>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>0</td>
<td>56</td>
</tr>
</tbody>
</table>

4.2.2 Age and Level of Education of Respondents

The findings on the age and level of education indicate that there were four respondents with a bachelor’s degree who were below 40 years, three had bachelor’s degrees and were aged between 41- 50 years while seven were above 50 years of age and with bachelor’s degrees. The findings also indicate that four respondents were aged below 40 years and had a master’s degree, nineteen were between aged 41 – 50 years and with master’s degrees, and sixteen had master’s degrees and were above 50 years old while two respondents were between 41 and 50 years and had doctorate degrees. The findings are presented in Table 4.3.
Table 4.3 Age and Level of Education Cross Tabulation

<table>
<thead>
<tr>
<th>Age</th>
<th>Bachelor's degree</th>
<th>Master's degree</th>
<th>Doctorate</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 40 years</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>41 - 50 years</td>
<td>3</td>
<td>20</td>
<td>2</td>
<td>0</td>
<td>24</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>7</td>
<td>16</td>
<td>0</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>39</td>
<td>2</td>
<td>1</td>
<td>56</td>
</tr>
</tbody>
</table>

4.2.3 Duration of Employment and Number of Employees in the Firm

The study sought to determine the duration for which the respondents had worked in their firms and the size of the firms they were working. The results obtained indicate that: 4 respondents had worked for less than 2 years in a firm with less than 200 employees; 4 respondents had also worked for a period of 2 to 5 years in an organization with the same number of employees; while 4 had worked for over 10 years in an organization with less than 200 employees.

Also, findings show that: 2 respondents had worked for 2 to 5 years in an organization with 201 - 500 employees; 2 had worked for less than 2 years in a firm with 501 – 1000 employees; 1 respondent had worked for 2 to 5 years in a similar organization (with 501 – 1000 employees), while 11 had worked for over 10 years in a company with 501 – 1000 employees. Further, the study determined that 10 respondents had worked for a period of less than 2 years in a firm with more than 1000 employees, 4 had worked for 2 to 5 years in a similar type of firm while 10 had worked for over 10 years in an organization with over 1000 employees in also similar type of firm. Generally, the majority of the respondents were experienced in their area of work.
4.2.4 Financial Performance

The study sought to determine the financial performance of the listed firms in Kenya. The financial performance was measured using Return on Assets (ROA) because it is a universally accepted method for measuring the performance. It was also used in the study because it gives an idea on how efficient the management of listed firms are using their assets to generate earnings. ROA was calculated by dividing the firms’ annual earnings by their total assets, and then the result was expressed as a percentage i.e.

\[
\text{Return on Assets (ROA)} = \frac{\text{Annual Earnings}}{\text{Total Assets}}
\]

The study sought to determine the Return on Assets for the listed firms in Kenya for a period of six years (i.e. 2010 – 2015). Data collected included the net income of the firms and their total assets for the six years studied. Secondary data for generation of ROA was extracted from various sources: (1) Annual Reports and Financial Statements of the listed firms; (2) the NSE handbook and; (3) the CMA website. Upon generation, means, standard deviations, variance and skewness statistics were thereafter used to present the data obtained. Appendix II shows data on ROA as generated, and subsequently, Table 4.4 shows the means, standard deviations, variance and skewness statistics of Table of ROA (Appendix II).

In their study, Ember and Ember (2009) describe secondary data as data collected by others and found by the comparative researcher in ethnography’s, censuses and histories. Secondary data thus involves data collected using information from studies that other researchers have made of a subject. The secondary data for this study was gotten from both Annual Reports and Financial Statements of the listed firms as well as the NSE handbook and CMA website for the years 2010 to 2015.
Table 4.4 Results for ROA Statistics Table

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness Statistic</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income 2010</td>
<td>57</td>
<td>1420727.96</td>
<td>2605783.66</td>
<td>3.433</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2010</td>
<td>57</td>
<td>22294718.74</td>
<td>43273060.91</td>
<td>3.472</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2010</td>
<td>57</td>
<td>0.09</td>
<td>0.15</td>
<td>-1.006</td>
<td>.316</td>
</tr>
<tr>
<td>Net Income 2011</td>
<td>57</td>
<td>2148413.14</td>
<td>3662645.51</td>
<td>2.722</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2011</td>
<td>57</td>
<td>20047745.32</td>
<td>27128717.26</td>
<td>2.872</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2011</td>
<td>57</td>
<td>0.12</td>
<td>0.16</td>
<td>-0.022</td>
<td>.316</td>
</tr>
<tr>
<td>Net Income 2012</td>
<td>57</td>
<td>2720779.30</td>
<td>4945798.66</td>
<td>1.989</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2012</td>
<td>57</td>
<td>22600215.79</td>
<td>28546298.38</td>
<td>2.582</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2012</td>
<td>57</td>
<td>0.10</td>
<td>0.17</td>
<td>-0.310</td>
<td>.316</td>
</tr>
<tr>
<td>Net Income 2013</td>
<td>57</td>
<td>7007701.46</td>
<td>22393563.42</td>
<td>5.371</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2013</td>
<td>57</td>
<td>155439705.58</td>
<td>759006624.34</td>
<td>6.624</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2013</td>
<td>57</td>
<td>0.11</td>
<td>0.15</td>
<td>.493</td>
<td>.316</td>
</tr>
<tr>
<td>Net Income 2014</td>
<td>57</td>
<td>6248243.95</td>
<td>20811704.43</td>
<td>6.531</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2014</td>
<td>57</td>
<td>181511672.60</td>
<td>910851043.98</td>
<td>6.852</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2014</td>
<td>57</td>
<td>0.05</td>
<td>0.35</td>
<td>-5.824</td>
<td>.316</td>
</tr>
<tr>
<td>Net Income 2015</td>
<td>57</td>
<td>-1628017.91</td>
<td>58524565.98</td>
<td>-4.880</td>
<td>.316</td>
</tr>
<tr>
<td>Total Assets 2015</td>
<td>57</td>
<td>200502200.07</td>
<td>961571785.64</td>
<td>6.551</td>
<td>.316</td>
</tr>
<tr>
<td>ROA 2015</td>
<td>57</td>
<td>-2.36</td>
<td>17.54</td>
<td>-7.535</td>
<td>.316</td>
</tr>
</tbody>
</table>

The findings presented in Table 4.4 indicate that the mean for the Return on Assets (ROA) in the year 2010 was 0.09 with a standard deviation of 0.15 which implies that the deviations from the mean were below 1 and hence responses given did not vary significantly from the mean value. In 2011, ROA had a mean of 0.12 with standard deviation (SD) of 0.16, which is an increase in ROA value considering its value of 0.09 in 2010. In 2012, a mean value of 0.10 was obtained for ROA with a standard deviation of 0.17. ROA increased in 2013 with a value of 0.11 and standard deviation of 0.15. However, ROA dropped in 2014 with a mean value of 0.05 and standard deviation of 0.35. ROA was lowest in 2015 with a mean value of -2.36 and standard deviation of 17.54 implying that the responses had significant variations from the mean value.
4.3 Effect of Ethical Human Resource Practices on Financial Performance of Listed Firms in Kenya

This was the first objective for this study and the output assesses the influence of the ethical resources on the financial performance of the firms. Various descriptive and inferential analysis were performed. Some of the analysis performed for this first objective include: Generation of component factor analysis for the itemized responses; Testing for assumptions for regression analysis (i.e. linearity tests, homoscedasticity tests, normality tests and multicollinearity tests); Carrying out Analysis of Variance (ANOVA); Carrying out the principal component analysis for the independent variables; Generation of the descriptive statistics table; Carrying out correlation analysis for the independent and dependent variables; Carrying out regression analysis and thereafter; Testing of the first hypothesis. The analysis was necessary to inform the researcher whether to accept or reject the null hypothesis during and after the analysis.

4.3.1 Component Factor Loadings

The study sought to carry out factor analysis to identify variability among perceived and related variables in terms of a possibly reduced 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 human resource (HR) practices were obtained in the study. Eight (8) components were loaded. In the first component, “Ethics training improves financial performance” had the highest factor loading of 0.702. “The firm provides job previews for employees before the job offer is made” had the highest factor loading of 0.652 in the second component. “The firm's recruitment policy is based on academic qualifications” had the highest factor loading of 0.728 in the third component. “Recruitment practices have affected the historical financial performance” had the highest factor loading of 0.673 in the fourth component.

‘The firm's ethical considerations focus on organizational success’, ‘The human resource policies directly influence employee behaviour’, ‘The firm's recruitment fully adhere to labour laws’ and ‘The firm provides ethical training to newly hired staff to prepare them for their new positions’ had the highest factor loading of 0.570, 0.649, 0.433 and 0.443 in the fifth, sixth, seventh and eighth factor loadings respectively. The results are as shown in Table 4.5 below.
Table 4.5  Component Factor Loadings for Ethical HR Practices

<table>
<thead>
<tr>
<th></th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>The firm's recruitment fully adheres to labor laws</td>
<td>.139</td>
</tr>
<tr>
<td>Recruitment practices have affected the historical financial</td>
<td>.108</td>
</tr>
<tr>
<td>performance</td>
<td></td>
</tr>
<tr>
<td>The firm's recruitment policy is based on academic qualifications</td>
<td>.394</td>
</tr>
<tr>
<td>The firm's recruitment policy is skill/talent-based</td>
<td>.582</td>
</tr>
<tr>
<td>The firm considers experience when hiring employees</td>
<td>-.082</td>
</tr>
<tr>
<td>The firm's recruitment policy is based on academic qualifications</td>
<td></td>
</tr>
<tr>
<td>The firm conducts formal interviews</td>
<td>.357</td>
</tr>
<tr>
<td>The firm conducts reference checks for employees before offering</td>
<td>.352</td>
</tr>
<tr>
<td>employees</td>
<td></td>
</tr>
<tr>
<td>The firm provides job previews for employees before the job</td>
<td>.466</td>
</tr>
<tr>
<td>offer is made</td>
<td></td>
</tr>
<tr>
<td>The firm provides ethical training to newly hired staff to</td>
<td>.506</td>
</tr>
<tr>
<td>prepare them for their new positions</td>
<td></td>
</tr>
<tr>
<td>The ethics training positively influences corporate social</td>
<td>.691</td>
</tr>
<tr>
<td>responsibility and productivity</td>
<td></td>
</tr>
<tr>
<td>Ethics training improves financial performance</td>
<td>.720</td>
</tr>
<tr>
<td>Employees role in the firm determines their training needs</td>
<td>.541</td>
</tr>
<tr>
<td>Staff members are periodically given opportunities through</td>
<td>.594</td>
</tr>
<tr>
<td>workshops and seminars</td>
<td></td>
</tr>
<tr>
<td>The firm has an ethical policy for reviewing salaries of the</td>
<td>.544</td>
</tr>
<tr>
<td>employees</td>
<td></td>
</tr>
<tr>
<td>Ethical compensation and remuneration affects the employees'</td>
<td>.631</td>
</tr>
<tr>
<td>productivity</td>
<td></td>
</tr>
<tr>
<td>The firm management considers the moral outcome of management</td>
<td>.631</td>
</tr>
<tr>
<td>decisions</td>
<td></td>
</tr>
<tr>
<td>The firm management encourages role modeling for junior</td>
<td>.643</td>
</tr>
<tr>
<td>employees</td>
<td></td>
</tr>
<tr>
<td>The firm's ethical considerations focus on societal success</td>
<td>.443</td>
</tr>
<tr>
<td>The firm's ethical considerations focus on organizational success</td>
<td>.548</td>
</tr>
<tr>
<td>The firm provides opportunities for personal development</td>
<td>.579</td>
</tr>
<tr>
<td>The current human resource system is aligned with the strategic</td>
<td>.640</td>
</tr>
<tr>
<td>mission of the firm</td>
<td></td>
</tr>
<tr>
<td>The human resource policies directly influence employee behavior</td>
<td>.189</td>
</tr>
</tbody>
</table>
4.3.2 Regression Analysis Assumption Tests

Before regression analysis is conducted, various statistical assumptions must be met. In this study, the following tests were conducted and presented as below: Linearity, Homoscedasticity Test, Shapiro-Wilk Test of Normality, and Multi-Collinearity Test.

4.3.2.1 Linearity Test for Ethical HR Practices

The study conducted linearity test to determine whether the relationship between Ethical human resource (HR) practices and Financial Performance was linear or not. If from the analysis, 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 4.6, the significant deviation from linearity is 0.995 which is greater than 0.05 implying evidence of a linear relationship between ethical HR practices and Financial Performance.

<table>
<thead>
<tr>
<th>Table 4.6  Linearity Test</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sum of Squares</strong></td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>(Combined)</td>
</tr>
<tr>
<td>Financial Performance *</td>
</tr>
<tr>
<td>Ethical HR practices</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
4.3.2.2 Homoscedasticity Test for Ethical HR Practices

The assumption of homoscedasticity defines a condition for which the error term (that is, random disturbance in the relationship between the independent and dependent variables) is similar through all the values of the independent variables. The violation of homoscedasticity exists whenever the value of the error term varies across the different values of an independent variable.

The study conducted homoscedasticity test between Ethical human resource (HR) practices and Financial Performance of the listed firms. HR practices were the independent variable while Financial Performance was the dependent variable of the study. A scatter plot was derived to show homoscedasticity in the study as shown in Figure 4.1.

![Figure 4.1 Homoscedasticity Test between Ethical HR Practices and Financial Performance](image)

As shown in Figure 4.1, the error term is the same across the values of ethical HR practices (independent variable) and therefore homoscedasticity has not been violated in the study.
4.3.2.3 Tests of Normality for Ethical Human Resource Practices

Further, the study conducted the Shapiro-Wilk test to test for normality in the study. Normality test was done at 95% confidence interval. If the p-value is less than 0.05, then the null hypothesis is rejected and there is evidence that the data tested is not from a normally distributed population. In other words, under such circumstances, the data is not normally distributed. If the p-value is greater than 0.05, then the null hypothesis stating that the data came from a normally distributed population is accepted. The results in the study indicate that the p value was 0.012 which implies that data tested is not from a normally distributed population. The findings are as shown in Table 4.7 below.

<table>
<thead>
<tr>
<th>Ethical HR practices</th>
<th>Kolmogorov-Smirnova</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>DF</td>
</tr>
<tr>
<td>Ethical HR practices</td>
<td>.112</td>
<td>56</td>
</tr>
</tbody>
</table>

a. Lilliefors Significance Correction

4.3.2.4 Multicollinearity Test for Ethical HR Practices

Multicollinearity test was also done in the study to determine whether the variables of the study were highly correlated, thus implying that one variable may be linearly predicted from the other with high levels of accuracy. Findings are as shown in Table 4.8. 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 4.8, the VIF value was 1.023 which indicate that there were no multicollinearity issues in the study.

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
</tr>
<tr>
<td></td>
<td>Ethical HR practices</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance
4.3.3 Principal Component Analysis

Principal component analysis was done for ethical human resource (HR) practices. KMO Test was used to measure how suited the data was for Factor Analysis. The statistic is a determinant of the variance proportionality amongst variables that may be common variance. The lower the value of proportionality, the better 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 0.834 and Bartlett's test, $x^2(8, N = 57) = 709.330, p = .000$. This implies that sampling was adequate for Ethical human resource practices in the study. The findings are as in Table 4.9 below.

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
<th>.834</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. Chi-Square</td>
<td>709.330</td>
</tr>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td>DF</td>
</tr>
<tr>
<td></td>
<td>231</td>
</tr>
<tr>
<td></td>
<td>Sig.</td>
</tr>
<tr>
<td></td>
<td>.000</td>
</tr>
</tbody>
</table>

The findings shown in Table 4.10 indicate that “The current human resource system is aligned with the strategic mission of the firm” had the highest communality of 0.913 under Ethical human resource practices whereas “The firm provides job previews for employees before the job offer is made” had the lowest community value of 0.702.
### Table 4.10  Communalities for Ethical HR Practices

<table>
<thead>
<tr>
<th>Variable</th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm's recruitment practice fully adheres to labor laws</td>
<td>1.000</td>
<td>.775</td>
</tr>
<tr>
<td>Recruitment practices have affected the historical financial performance</td>
<td>1.000</td>
<td>.827</td>
</tr>
<tr>
<td>The firm's recruitment policy is based on academic qualifications</td>
<td>1.000</td>
<td>.847</td>
</tr>
<tr>
<td>The firm's recruitment policy is skill based</td>
<td>1.000</td>
<td>.851</td>
</tr>
<tr>
<td>The firm considers experience when hiring employees</td>
<td>1.000</td>
<td>.902</td>
</tr>
<tr>
<td>The firm conducts formal interviews</td>
<td>1.000</td>
<td>.753</td>
</tr>
<tr>
<td>The firm conducts reference checks for employees before offering employees</td>
<td>1.000</td>
<td>.860</td>
</tr>
<tr>
<td>The firm provides job previews for employees before the job offer is made</td>
<td>1.000</td>
<td>.702</td>
</tr>
<tr>
<td>The firm provides ethical training to newly hired staff to prepare them for their new positions</td>
<td>1.000</td>
<td>.815</td>
</tr>
<tr>
<td>The ethics training positively influences corporate social responsibility and productivity</td>
<td>1.000</td>
<td>.798</td>
</tr>
<tr>
<td>Ethics training improves financial performance</td>
<td>1.000</td>
<td>.884</td>
</tr>
<tr>
<td>Employees role in the firm determines their training needs</td>
<td>1.000</td>
<td>.800</td>
</tr>
<tr>
<td>Staff members are periodically given opportunities through workshops and seminars</td>
<td>1.000</td>
<td>.792</td>
</tr>
<tr>
<td>The firm has an ethical policy for reviewing salaries of the employees</td>
<td>1.000</td>
<td>.750</td>
</tr>
<tr>
<td>Ethical compensation and remuneration affects the employees' productivity</td>
<td>1.000</td>
<td>.806</td>
</tr>
<tr>
<td>The firm management considers the moral outcome of management decisions</td>
<td>1.000</td>
<td>.848</td>
</tr>
<tr>
<td>The firm management encourages role modeling for junior employees</td>
<td>1.000</td>
<td>.738</td>
</tr>
<tr>
<td>The firm's ethical considerations focus on societal success</td>
<td>1.000</td>
<td>.838</td>
</tr>
<tr>
<td>The firm's ethical considerations focus on organizational success</td>
<td>1.000</td>
<td>.818</td>
</tr>
<tr>
<td>The firm provides opportunities for personal development</td>
<td>1.000</td>
<td>.842</td>
</tr>
<tr>
<td>The current human resource system is aligned with the strategic mission of the firm</td>
<td>1.000</td>
<td>.913</td>
</tr>
<tr>
<td>The human resource policies directly influence employee behavior</td>
<td>1.000</td>
<td>.873</td>
</tr>
</tbody>
</table>

The study findings presented in Table 4.11 below give the Eigen values for the factors under Ethical human resource (HR) practices. From the findings, the first factor accounts for 25.819% of the variance, the second factor accounts for 12.421% of the variance, the third factor accounts for 10.633% of the variance while the fourth factor accounts for 8.734% of the variance. The fifth, sixth, seventh and eighth factors account for 8.134%, 6.233%, 5.201% and 4.782% of the variance respectively. All the remaining factors were found to be not significant hence were dropped.
Table 4.11 Total Variance Explained for Ethical HR Practices

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>5.680</td>
<td>25.820</td>
</tr>
<tr>
<td>2</td>
<td>2.733</td>
<td>12.421</td>
</tr>
<tr>
<td>4</td>
<td>1.922</td>
<td>8.734</td>
</tr>
<tr>
<td>6</td>
<td>1.371</td>
<td>6.233</td>
</tr>
<tr>
<td>7</td>
<td>1.144</td>
<td>5.201</td>
</tr>
<tr>
<td>8</td>
<td>1.052</td>
<td>4.782</td>
</tr>
<tr>
<td>9</td>
<td>.670</td>
<td>3.047</td>
</tr>
<tr>
<td>10</td>
<td>.652</td>
<td>2.963</td>
</tr>
<tr>
<td>11</td>
<td>.573</td>
<td>2.606</td>
</tr>
<tr>
<td>12</td>
<td>.481</td>
<td>2.186</td>
</tr>
<tr>
<td>13</td>
<td>.321</td>
<td>1.460</td>
</tr>
<tr>
<td>14</td>
<td>.304</td>
<td>1.382</td>
</tr>
<tr>
<td>15</td>
<td>.274</td>
<td>1.248</td>
</tr>
<tr>
<td>16</td>
<td>.200</td>
<td>.901</td>
</tr>
<tr>
<td>17</td>
<td>.152</td>
<td>.692</td>
</tr>
<tr>
<td>18</td>
<td>.128</td>
<td>.581</td>
</tr>
<tr>
<td>19</td>
<td>.085</td>
<td>.386</td>
</tr>
<tr>
<td>20</td>
<td>.068</td>
<td>.307</td>
</tr>
<tr>
<td>21</td>
<td>.045</td>
<td>.206</td>
</tr>
<tr>
<td>22</td>
<td>.018</td>
<td>.080</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

Based on the Eigen values, a scree plot was obtained as shown in Figure 4.2. The scree plot indicates that 8 factors had Eigen values greater than 1.
4.3.4 Descriptive Statistics for Ethical Human Resource (HR) Component Analysis

The study sought to determine the descriptive statistics for ethical human resource practices using sums, means, standard deviations, skewness and coefficient of variation. Findings are as shown in Table 4.12. 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.

Figure 4.2  Scree Plot for Ethical HR Practices
Table 4.12 Descriptive Results for Ethical Human Resource (HR) Practices

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
<th>Skewness</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm's recruitment fully adhere to labour laws</td>
<td>56</td>
<td>4.77</td>
<td>.713</td>
<td>.509</td>
<td>-3.991</td>
<td>.319</td>
</tr>
<tr>
<td>Recruitment practices have affected the historical financial performance</td>
<td>56</td>
<td>3.91</td>
<td>.311</td>
<td>1.719</td>
<td>-1.185</td>
<td>.319</td>
</tr>
<tr>
<td>The firm's recruitment policy is based on academic qualifications</td>
<td>54</td>
<td>4.28</td>
<td>.856</td>
<td>.733</td>
<td>-.766</td>
<td>.325</td>
</tr>
<tr>
<td>The firm's recruitment policy is skill based</td>
<td>55</td>
<td>4.53</td>
<td>.604</td>
<td>.365</td>
<td>-.892</td>
<td>.322</td>
</tr>
<tr>
<td>The firm considers experience when hiring employees</td>
<td>55</td>
<td>4.29</td>
<td>.533</td>
<td>.284</td>
<td>.159</td>
<td>.322</td>
</tr>
<tr>
<td>The firm conducts formal interviews</td>
<td>56</td>
<td>4.80</td>
<td>.483</td>
<td>.233</td>
<td>-.2.509</td>
<td>.319</td>
</tr>
<tr>
<td>The firm conducts reference checks for employees before offering employees</td>
<td>54</td>
<td>4.65</td>
<td>.677</td>
<td>.459</td>
<td>-1.701</td>
<td>.325</td>
</tr>
<tr>
<td>The firm provides job previews for employees before the job offer is made</td>
<td>55</td>
<td>3.89</td>
<td>.212</td>
<td>1.469</td>
<td>-.755</td>
<td>.322</td>
</tr>
</tbody>
</table>

From the findings, the firms’ recruitment always fully adhered to labour laws ($M = 4.77, SD = 0.713$). The standard deviation which is less than 1 shows 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, recruitment practices have fairly often affected the historical financial performance ($M = 3.91, SD = 0.311$), the firm’s recruitment policy is always based on academic qualifications ($M = 4.28, SD = 0.856$), the firm’s recruitment policy is always skill based ($M = 4.53, SD = 0.604$) and that firms always considered experience when hiring employees ($M = 4.29, SD = 0.533$).
Further, the study found out that the firms always conducted formal interviews \( (M = 4.80, SD = 0.483) \), the firms always conducted reference checks for employees before offering employees \( (M = 4.65, SD = 0.677) \) and the firm’s fairy often provided job previews for employees before the job offer was made \( (M = 3.89, SD = 0.212) \). All the standard deviations were below 1 indicating that the responses given did not vary significantly from the mean value, hence changing the population units studied would not alter significantly current results.

### 4.3.5 Correlation Analysis Results

The study sought to establish the correlation between the dependent variable and each of the Ethical human resource (HR) components. The dependent variable for the study was Financial Performance. The correlation analysis was done at 5% significance level with a 2-tailed test. Therefore, the significance critical value is 0.025 above which the correlation is considered to be inconsequential and vice versa. The magnitude of the correlation is analysed based on the Pearson correlation scale. The scale of the Pearson's correlation coefficient ranges from -1.0 to +1.0. For the generated coefficient, the closer it is to either +1 or -1 then the more closely the variables are related.

The findings illustrated in Table 4.13 show that, the components under Ethical human resource practices had a positive and significant relationship with Financial Performance. The correlation coefficient for the firm's recruitment fully adhered to labour laws was 0.737 with a significance value of 0.014 which is less than 0.025 at the 5% level.

Recruitment practices had affected the historical financial performance had a correlation coefficient of 0.709 with a significance value of 0.023 which is less than 0.025 at the 5% level. The firm's recruitment policy is based on academic qualifications had a correlation coefficient of 0.706 with a significance value of 0.07. Also, the firm's recruitment policy is skill/talent-based had a correlation coefficient of 0.792 with a significance value of 0.03.

The firm considers experience when hiring employees has correlation coefficient of 0.661 with a significance value of 0.08. The firm conducts formal interviews had a correlation coefficient of 0.660 with a significance value of 0.19. The firm conducts reference checks for its employees before offering employees had a correlation coefficient of 0.557 with a significance value of 0.024.
Further, the firm provides job previews for employees before the job offer is made had a correlation coefficient of 0.594 with a significance value of 0.003 which is less than the critical value of 0.025.

**Table 4.13  Correlation between HR Components and Financial Performance**

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Pearson Correlation 1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 57</td>
</tr>
<tr>
<td>The firm's recruitment fully adheres to labor laws</td>
<td>Pearson Correlation .737</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 56</td>
</tr>
<tr>
<td>Recruitment practices have affected the historical financial performance</td>
<td>Pearson Correlation .709</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 56</td>
</tr>
<tr>
<td>The firm's recruitment policy is based on academic qualifications</td>
<td>Pearson Correlation .706</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 54</td>
</tr>
<tr>
<td>The firm's recruitment policy is skill-based</td>
<td>Pearson Correlation .792</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 55</td>
</tr>
<tr>
<td>The firm considers experience when hiring employees</td>
<td>Pearson Correlation .661</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 55</td>
</tr>
<tr>
<td>The firm conducts formal interviews</td>
<td>Pearson Correlation .660</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 56</td>
</tr>
<tr>
<td>The firm conducts reference checks for employees before offering employees</td>
<td>Pearson Correlation .557</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 54</td>
</tr>
<tr>
<td>The firm provides job previews for employees before the job offer is made</td>
<td>Pearson Correlation .594</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N 55</td>
</tr>
</tbody>
</table>
The study further conducted the correlation between human resource (HR) practices and financial performance of the firms. The test was 2 tailed at 95% confidence level. The findings obtained showed a strong and significant association between HR practices and Financial Performance, \( r (57) = .930, p< .012 \). Table 4.14 gives the results of the study.

Table 4.14 Correlation between HR Practices and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
<th>Ethical HR practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>.930</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.012</td>
</tr>
<tr>
<td>N</td>
<td>57</td>
<td>56</td>
</tr>
<tr>
<td>Ethical HR practices</td>
<td>Pearson Correlation</td>
<td>.930</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.012</td>
</tr>
<tr>
<td>N</td>
<td>56</td>
<td>56</td>
</tr>
</tbody>
</table>

4.3.6 Hypothesis Testing

Hypothesis was tested in the study using regression analysis. The following hypothesis was tested;

H\(_0\): Ethical advertising practice does not have a significant influence on the financial performance of listed firms in NSE.

The study intended to either reject or accept the null hypothesis.

The study conducted regression analysis to analyse the influence of Ethical HR practices on the Financial Performance of the listed firms in Kenya. The regression was carried out at 0.05 level of significance. Results in Table 4.15 indicate the regression Model summary showing the extent to which ethical HR practices influence financial performance. Based on the coefficients, the predictor variable (ethical HR practices) explained 78.2% of the variation in financial performance of listed firms by NSE. This is as represented by the \( R^2 \) coefficient of 0.782. This therefore reveals that other factors not studied in this research contribute to 7.5% of the variability in the financial performance of listed firms in Kenya.
Table 4.15  Model Summary for Ethical HR Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.812a</td>
<td>.782</td>
<td>.718</td>
<td>0.05173487</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Ethical HR practices
b. Dependent Variable: Financial Performance

From Table 4.16, the significance value in testing the reliability of the model for the relationship between ethical HR practices and financial performance was obtained as 0.003 which is less than 0.05 which is the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between ethical HR 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 given by $F = 3.008$, $p = .003$. Therefore, null hypothesis is rejected and the study concludes that there is a significant relationship between ethical human resource practices and financial performance of the listed firms in Kenya.

Table 4.16  ANOVA Table for Ethical HR Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.073</td>
<td>1</td>
<td>.073</td>
<td>3.008</td>
<td>.003b</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>502.907</td>
<td>2</td>
<td>9.313</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>502.980</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Ethical HR practices

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between Ethical HR practices and Financial Performance are as shown in Table 4.17. These coefficients answer the regression model relating the dependent and the independent variable.
### Table 4.17 Coefficients Table for Ethical HR Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients B</th>
<th>Std. Error</th>
<th>Standardized Coefficients Beta</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.276</td>
<td>4.789</td>
<td></td>
<td>2.220</td>
<td>.009</td>
<td></td>
</tr>
<tr>
<td>1 Ethical HR practices</td>
<td>.398</td>
<td>1.107</td>
<td>.312</td>
<td>3.389</td>
<td>.003</td>
<td>1.009 1.023</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

The findings imply that for every unit increase in ethical HR practices, financial performance increases by Kshs. 0.398. This is a significant and positive influence of ethical HR practices on financial performance.

### 4.4 Effect of Ethical Advertising Practices on Financial Performance of Listed Firms in Kenya

The second objective focused on the ethical advertising practice. The variables of study were: the firm adhered to ethical advertising principles; the advertisements satisfied customer requirements profitably; the firm employed ethical advertising practices for its commodities; the firm adhered to integrity when advertising its commodities; the firm provided awareness on ethical advertising practices; and the firm had zero tolerance to unethical advertisement practices.

Other variables on social media were; the firm's social media site was monitored to ensure ethical communications, ethical social media communications attracted job seekers, ethical social media communications influenced the moral organizational culture, ethical social media communications influenced employees' attitudes, ethical online advertising practices of the organization influenced the firm's growth, ethical online advertisements enabled consumers to exchange ideas with the firm, and ethical advertising led to the firm’s competitive advantage. The outline of both descriptive and inferential statistics are as follows.
4.4.1 Component Factor Loadings

The study sought to carry out factor analysis to identify variability among perceived and related variables in terms of a possibly reduced 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 advertising practices were obtained in the study. 3 components were loaded. In the first component, "The firm's ethical social media communications influence the moral organizational culture" had the highest factor loading of 0.877, "The firm's financial performance is influenced by its marketing options" had the highest factor loading of 0.728 in the second component while "The firm adheres to integrity when advertising its commodities" had the highest factor loading of 0.799. The findings are shown in Table 4.18.

Table 4.18 Factor Loadings for Ethical Advertising Practices

<table>
<thead>
<tr>
<th></th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm adheres to ethical advertising principles</td>
<td>.772</td>
</tr>
<tr>
<td>The advertisements satisfy customer requirements profitably</td>
<td>.744</td>
</tr>
<tr>
<td>The firm employs ethical advertising practices for its commodities</td>
<td>.212</td>
</tr>
<tr>
<td>The firm adheres to integrity when advertising its commodities</td>
<td>.315</td>
</tr>
<tr>
<td>The firm provides awareness on ethical advertising practices</td>
<td>.420</td>
</tr>
<tr>
<td>The firm has zero tolerance for unethical advertisement practices</td>
<td>.403</td>
</tr>
<tr>
<td>The firm's social media site is monitored to ensure ethical</td>
<td>.774</td>
</tr>
<tr>
<td>The firm's ethical social media communications attract job seekers</td>
<td>.834</td>
</tr>
<tr>
<td>The firm's ethical social media communications influence the</td>
<td>.877</td>
</tr>
<tr>
<td>The firm's ethical social media communications influence</td>
<td>.860</td>
</tr>
<tr>
<td>The ethical online advertising practices of the organization</td>
<td>.848</td>
</tr>
<tr>
<td>Ethical online advertisements enable consumers to exchange ideas</td>
<td>.796</td>
</tr>
<tr>
<td>Ethical advertising leads to the firm's competitive advantage</td>
<td>.732</td>
</tr>
<tr>
<td>The firm's financial performance is influenced by its marketing</td>
<td>.472</td>
</tr>
</tbody>
</table>
4.4.2 Assumptions for Regression

4.4.2.1 Linerarity Test

The study conducted linearity test to determine whether the relationship between ethical advertising practices and financial performance was linear or not. Findings are as shown in Table 4.19. 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 4.19, the significant deviation from linearity is 0.242 which is greater than 0.05 implying than there is a linear relationship between ethical advertising practices and financial performance.

<table>
<thead>
<tr>
<th>Table 4.19 Linearity Test for Ethical Advertising Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum of Squares</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>(Combined)</td>
</tr>
<tr>
<td>Between Groups</td>
</tr>
<tr>
<td>Financial Performance *</td>
</tr>
<tr>
<td>Ethical advertising practices</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.4.2.2 Homoscedasticity Test

The study also conducted homoscedascity test between Ethical advertising practices and Financial Performance of the firms. Ethical advertising 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 4.3.
The violation of homoscedasticity is present when the size of the error term differs across values of an independent variable. Findings in Figure 4.3 show that the error term is the same across the values of Ethical HR practices (independent variable) and therefore homoscedasticity has not been violated in the study.

4.4.2.3 Normality Test

Further, normality of the data was tested using the Shapiro-Wilk test 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. The results in the study shown in Table 4.20 indicate that the p value was 0.000 which implies that data tested is not from a normally distributed population.
Table 4.20 Tests of Normality for Ethical Advertising Practices

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical advertising</td>
<td>Statistic</td>
<td>DF</td>
</tr>
<tr>
<td>practices</td>
<td>.466</td>
<td>57</td>
</tr>
</tbody>
</table>

<sup>a</sup> Lilliefors Significance Correction

4.4.2.4 Multicollinearity Test

Multicollinearity test was done in the study to determine whether ethical advertising practices and financial performance were highly correlated, meaning that one can be linearly predicted from the other with a high levels of accuracy. Findings are as shown in Table 4.21. 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 4.21, the VIF value was 4.000 which indicate that there were no multicollinearity issues in the study.

Table 4.21 Multicollinearity Test for Ethical Advertising Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Financial Performance

4.4.3 Principal Component Analysis

Principal component analysis was done for ethical advertising practices. KMO Test was used to measure 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 better the data is for Factor Analysis. KMO values close to zero imply that there are large partial correlations compared to the sum of correlations. The study found that KMO had a value of 0.695 and Bartlett's test, $x^2(3, N = 57) = 572.137, p = .000$. This implies that sampling was adequate for Ethical advertising practices in the study. Results are as in Table 4.22 below.
Communalities for ethical advertising practices were also sought in the study. The findings shown in Table 4.23 indicate that “The firm's ethical social media communications influence the moral organizational culture” had the highest communality of 0.847 under ethical advertising practices whereas “The firm provides awareness on ethical advertising practices” had the lowest community value of 0.570.

### Table 4.22 KMO and Bartlett's Test for Ethical Advertising Practices

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>.695</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>572.137</td>
</tr>
<tr>
<td>DF</td>
<td>3</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

The study findings shown in Table 4.24 give the Eigen values for the factors under Ethical advertising practices. According to the findings, the first factor accounts for 46.763% of the variance, the second factor accounts for 12.882% of the variance, while the third factor accounts for 12.462% of the variance. All the remaining factors were found to be not significant hence were dropped.
Table 4.24  Total Variance Explained for Ethical Advertising Practices

<table>
<thead>
<tr>
<th>Component</th>
<th>Total Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>6.547</td>
<td>46.763</td>
</tr>
<tr>
<td>2</td>
<td>1.803</td>
<td>12.882</td>
</tr>
<tr>
<td>3</td>
<td>1.745</td>
<td>12.462</td>
</tr>
<tr>
<td>4</td>
<td>.969</td>
<td>6.920</td>
</tr>
<tr>
<td>5</td>
<td>.793</td>
<td>5.662</td>
</tr>
<tr>
<td>6</td>
<td>.528</td>
<td>3.770</td>
</tr>
<tr>
<td>7</td>
<td>.363</td>
<td>2.596</td>
</tr>
<tr>
<td>8</td>
<td>.314</td>
<td>2.241</td>
</tr>
<tr>
<td>9</td>
<td>.264</td>
<td>1.889</td>
</tr>
<tr>
<td>10</td>
<td>.252</td>
<td>1.798</td>
</tr>
<tr>
<td>11</td>
<td>.180</td>
<td>1.289</td>
</tr>
<tr>
<td>12</td>
<td>.120</td>
<td>.853</td>
</tr>
<tr>
<td>13</td>
<td>.082</td>
<td>.588</td>
</tr>
<tr>
<td>14</td>
<td>.040</td>
<td>.288</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

Based on the Eigen values, a scree plot was obtained as shown in Figure 4.4. The scree plot indicates that 3 factors had Eigen values greater than 1.
4.4.4 Descriptive Statistics for Ethical Advertising Practices

The study sought to determine the descriptive statistics for ethical advertising practices using means, standard deviations, skewness and coefficient of variation. Findings are as shown in Table 4.25. 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 4.25 Descriptive Results for Ethical Advertising Practices

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
<th>Skewness</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm adheres to ethical advertising principles</td>
<td>56</td>
<td>4.55</td>
<td>.913</td>
<td>.833</td>
<td>-2.692</td>
<td>.319</td>
</tr>
<tr>
<td>The advertisements satisfy customer requirements profitably</td>
<td>54</td>
<td>4.20</td>
<td>.898</td>
<td>.807</td>
<td>-1.882</td>
<td>.325</td>
</tr>
<tr>
<td>The firm employs ethical advertising practices for its commodities</td>
<td>56</td>
<td>4.71</td>
<td>.530</td>
<td>.281</td>
<td>-1.709</td>
<td>.319</td>
</tr>
</tbody>
</table>

From the findings, firms always adhered to ethical advertising principles \((M = 4.55, SD = 0.913)\). 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 advertisements always satisfied customer requirements profitably \((M = 4.20, SD = 0.898)\) and that the firms always employed ethical advertising practices for its commodities \((M = 4.71, SD = 0.530)\).

4.4.5 Correlation Analysis Results

The study sought to establish correlation between the dependent variable and each of the ethical advertising components. The dependent variable for the study was Financial Performance. The correlation analysis was done at 5% significance level with a 2-tailed test. Therefore, the significance critical value is 0.025 above which the correlation is considered to be inconsequential and vice versa. The magnitude of the correlation is analysed based on the Pearson correlation scale. The scale of the Pearsons correlation coefficient ranges from -1.0 to +1.0. For the generated coefficient, the closer it is to either +1 or -1 then the more closely the variables are related.
The findings illustrated in Table 4.2 show that, the components under Ethical advertising practices had a positive and significant relationship with Financial Performance. The correlation coefficient for ‘The firm adheres to ethical advertising principles’ is 0.656 with a significance value of 0.006, which is less than 0.025 at the 5% level. ‘The advertisements satisfy customer requirements profitably’ has a correlation coefficient of 0.724 with a significance value of 0.001 which is less than 0.025 at the 5% level of significance. The firm employs Ethical advertising practices for its commodities has a correlation coefficient of 0.788 with a significance value of 0.05.

**Table 4.26 Correlation between Ethical Advertising Practices Components and Financial Performance**

<table>
<thead>
<tr>
<th>Component</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm adheres to ethical advertising principles</td>
<td>.656</td>
<td>.006</td>
<td>56</td>
</tr>
<tr>
<td>The advertisements satisfy customer requirements profitably</td>
<td>.724</td>
<td>.001</td>
<td>54</td>
</tr>
<tr>
<td>The firm employs ethical advertising practices for its commodities</td>
<td>.788</td>
<td>.005</td>
<td>56</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>1</td>
<td></td>
<td>57</td>
</tr>
</tbody>
</table>

The study further conducted the correlation between ethical advertising 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 advertising practices and Financial Performance, \( r (57) = .702, p < .006 \). Table 4.27 gives the results of the study.
Table 4.27 Correlation between Ethical Advertising Practices and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
<th>Ethical advertising practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>57</td>
</tr>
<tr>
<td>Ethical advertising practices</td>
<td>Pearson Correlation</td>
<td>.702</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.006</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>56</td>
</tr>
</tbody>
</table>

4.4.6 Hypothesis Testing

Hypothesis was tested in the study using regression analysis. The following hypothesis was tested;

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

The study conducted regression analysis to determine the influence of ethical advertising practices on the financial performance of the firms listed in Kenya. The regression was carried out at 0.05 level of significance. Results in Table 4.27 indicate the regression Model summary showing the extent to which Ethical advertising practices influence Financial Performance.

Based on the coefficients, the predictor variable (ethical advertising practices) explains 71.0% of the variation in financial performance of listed firms by NSE. This is as represented by the $R^2$ coefficient of 0.710. This therefore reveals that other factors not studied in this research contribute to 29% of the variability in the financial performance of firms listed by NSE.
Table 4.28 Model summary for Ethical Advertising Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.802a</td>
<td>0.710</td>
<td>0.708</td>
<td>0.03611855</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Ethical advertising practices

From Table 4.29, the significance value in testing the reliability of the model for the relationship between Ethical advertising practices and Financial Performance was obtained as 0.006 which is less than 0.05 which is the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between Ethical advertising 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 $F = 2.565, p = .006$. The null hypothesis was rejected and therefore the study concluded that ethical advertising practices have a significant influence on the financial performance of listed firms in NSE.

Table 4.29 ANOVA Table for Ethical Advertising Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.207</td>
<td>1</td>
<td>5.207</td>
<td>2.565</td>
<td>.006b</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>497.773</td>
<td>2</td>
<td>9.218</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>502.980</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Ethical advertising practices

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between Ethical advertising practices and Financial Performance are as shown in Table 4.30. These coefficients answer the regression model relating the dependent and the independent variable.
The findings imply that for every unit increase in ethical advertising practices, Financial Performance increases by Kshs. 0.475. This is a significant and positive influence of ethical advertising practices on financial performance.

### 4.5 Effect of Ethical Consumer Relation on Financial Performance of Listed Firms in Kenya

This was the third objective and unlike the other two objectives, this had fewer variables. It looked at ethical consumer relation practices. The variables of study under this objective were: firm endeavours to provide quality services to the customers; Firm's service delivery is timely; firm practices their customer relations policies; firm ensures that the demands of the consumers are met; firm promptly responded to customer feedback, and; the firm incorporated Corporate Social Responsibility in its consumer relations. Others were: The firm upheld building relationship-marketing; Customer satisfaction cames before profitability and lastly; the firm’s corporate strategy was focused on customer satisfaction.

#### 4.5.1 Component Factor Loadings

The study sought to carry out factor analysis to identify variability among perceived and related variables in terms of a possibly reduced number of unobserved variables. Factor analysis was used in the study to remove redundancy or duplication from a set of correlated variables.
variables. The factor loadings for Ethical Customer Relation Practices were obtained in the study. Two components were loaded. In the first component, “The firm practices their customer relations policies” had the highest factor loading of 0.758 while “The firm ensures that the demands of the consumers are met” had the highest factor loading of 0.553 in the second component. The findings are shown in Table 4.31.

**Table 4.31  Factor Loadings for Ethical Customer Relation Practices**

<table>
<thead>
<tr>
<th>Component</th>
<th>Component 1</th>
<th>Component 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm endeavors to provide quality services to the customers</td>
<td>.483</td>
<td>-.410</td>
</tr>
<tr>
<td>The firm's service delivery is timely</td>
<td>.688</td>
<td>-.028</td>
</tr>
<tr>
<td>The firm practices their customer relations policies</td>
<td>.758</td>
<td>-.008</td>
</tr>
<tr>
<td>The firm ensures that the demands of the consumers are met</td>
<td>.675</td>
<td>.553</td>
</tr>
<tr>
<td>The firm promptly respondents to customer feedback</td>
<td>.447</td>
<td>.530</td>
</tr>
<tr>
<td>The firm incorporates Corporate Social Responsibility in its consumer relations</td>
<td>.647</td>
<td>-.071</td>
</tr>
<tr>
<td>The firm upholds building relation-marketing</td>
<td>.678</td>
<td>-.488</td>
</tr>
<tr>
<td>Customer satisfaction comes before profitability</td>
<td>.695</td>
<td>.422</td>
</tr>
<tr>
<td>The firm corporate strategy is focused on customer satisfaction</td>
<td>.672</td>
<td>-.452</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
a. 2 components extracted.

4.5.2 Assumptions for Regression

4.5.2.1 Linearity Test

The study conducted linearity test to determine whether the relationship between ethical customer relation practices and financial performance was linear or not. Findings are as shown in Table 4.32. 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, the significant
deviation from linearity is 0.590 which is greater than 0.05 implying than there is a linear relationship between Ethical Customer Relationship Practices and Financial Performance.

Table 4.32 Linearity Test for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Financial Performance * Ethical Customer Relations Practices</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>10.474</td>
<td>3</td>
<td>3.491</td>
<td>.369</td>
<td>.776</td>
</tr>
<tr>
<td>Linearity</td>
<td>.381</td>
<td>1</td>
<td>.381</td>
<td>.040</td>
<td>.842</td>
</tr>
<tr>
<td>Deviation from Linearity</td>
<td>10.092</td>
<td>2</td>
<td>5.046</td>
<td>.533</td>
<td>.590</td>
</tr>
<tr>
<td>Within Groups</td>
<td>492.507</td>
<td>52</td>
<td>9.471</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>502.980</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.5.2.2 Homoscedascity Test

The study also conducted homoscedascity test between ethical customer relation practices and financial performance of the firms. Ethical customer 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 4.5.
The violation of homoscedasticity is present when the size of the error term differs across values of an independent variable. Findings in Figure 4.5 show that the error term is the same across the values of ethical customer relationship practices (independent variable) and therefore homoscedascity has not been violated in the study.

### 4.5.2.3 Normality Test

The study tested for normality of the data using the Shapiro-Wilk test. 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. The results in the study shown in Table 4.3 indicate that the p value was 0.000 which implies that data tested is not from a normally distributed population.
Table 4.33  Tests of Normality for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical Customer</td>
<td>Statistic  DF  Sig.</td>
<td>Statistic  DF  Sig.</td>
</tr>
<tr>
<td>Relations Practices</td>
<td>0.261  56  0.000</td>
<td>0.823  56  0.000</td>
</tr>
</tbody>
</table>

<sup>a</sup> Lilliefors Significance Correction

4.5.2.4 Multicollinearity Test

Multicollinearity test was also done in the study to determine whether ethical customer relationship practices and financial performance were highly related, implies that one variable can be linearly predicted from the other with high level of accuracy. Findings are as shown in Table 4.34. 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 4.34, the VIF value was 7.989 which indicate that there were no multicollinearity issues in the study.

Table 4.34  Multicollinearity Test for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance  VIF</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
</tr>
<tr>
<td></td>
<td>Ethical customer relationship practices</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Financial Performance

4.5.3 Principal Component Analysis

Principal component analysis was done for ethical customer relationship practices. KMO Test was used to measure of how suited the data was for Factor Analysis. KMO values close to zero imply that there are large partial correlations compared to the sum of correlations. The study found that KMO had a value of 0.741 and Bartlett's test, $x^2(3, N = 57) = 163.210$,
\( p = .000 \). This implies that sampling was adequate for ethical advertising practices in the study. Results are shown in Table 4.35.

**Table 4.35  KMO and Bartlett's Test for Ethical Customer Relation Practices**

| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | .741 |
| Bartlett's Test of Sphericity | Appro. Chi-Square | 163.210 |
| | DF | 3 |
| | Sig. | .000 |

Communalities for Ethical Customer Relationship Practices were also sought in the study. The findings shown in Table 4.36 indicate that "The firm ensures that the demands of the consumers are met" had the highest communality of 0.762 under ethical customer relationship practices whereas "The firm endeavors to provide quality services to the customers" had the lowest community value of 0.401.

**Table 4.36  Communalities for Ethical Customer Relation Practices**

<table>
<thead>
<tr>
<th>Initial Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>The firm endeavors to provide quality services to the customers</td>
</tr>
<tr>
<td>The firm's service delivery is timely</td>
</tr>
<tr>
<td>The firm practices their customer relations policies</td>
</tr>
<tr>
<td>The firm ensures that the demands of the consumers are met</td>
</tr>
<tr>
<td>The firm promptly respondents to customer feedback</td>
</tr>
<tr>
<td>The firm incorporates corporate social responsibility in its consumer relations</td>
</tr>
<tr>
<td>The firm upholds building relation-marketing</td>
</tr>
<tr>
<td>Customer satisfaction comes before profitability</td>
</tr>
<tr>
<td>The firm corporate strategy is focused on customer satisfaction</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

The study findings shown in Table 4.37 give the Eigen values for the factors under ethical customer relationship practices. According to the findings, the first factor accounts for
41.658% of the variance while the second factor accounts for 15.354% of the variance. All the remaining factors were found to be not significant hence were dropped.

Table 4.37  Total Variance Explained for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>3.749</td>
<td>41.658</td>
</tr>
<tr>
<td>2</td>
<td>1.382</td>
<td>15.354</td>
</tr>
<tr>
<td>3</td>
<td>.954</td>
<td>10.605</td>
</tr>
<tr>
<td>4</td>
<td>.939</td>
<td>10.433</td>
</tr>
<tr>
<td>5</td>
<td>.596</td>
<td>6.620</td>
</tr>
<tr>
<td>6</td>
<td>.478</td>
<td>5.306</td>
</tr>
<tr>
<td>7</td>
<td>.381</td>
<td>4.230</td>
</tr>
<tr>
<td>8</td>
<td>.290</td>
<td>3.226</td>
</tr>
<tr>
<td>9</td>
<td>.231</td>
<td>2.570</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

Based on the Eigen values, a scree plot was obtained as shown in Figure 4.6. The scree plot indicates that 2 factors had Eigen values greater than 1.
4.5.4 Descriptive Statistics for Ethical Customer Relations Practices

The study sought to determine the descriptive statistics for ethical customer relationship practices using means, standard deviations, skewness and coefficient of variation. Findings are as shown in Table 4.38. 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 per each aspect. 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 4.38  Descriptive Results for Ethical Customer Relations Practices

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Variance</th>
<th>Skewness</th>
<th>Std. Error</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
<td>Statistic</td>
</tr>
<tr>
<td>The firm endeavors to</td>
<td>56</td>
<td>4.84</td>
<td>.371</td>
<td>.137</td>
<td>-1.899</td>
<td>.319</td>
</tr>
<tr>
<td>provide quality services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to the customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm's service</td>
<td>56</td>
<td>4.25</td>
<td>.640</td>
<td>.409</td>
<td>-.270</td>
<td>.319</td>
</tr>
<tr>
<td>delivery is timely</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the findings, firms always endeavored to provide quality services to the customers ($M = 4.84, SD = 0.371$). 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 firm's service delivery was timely ($M = 4.25, SD = 0.640$). The standard deviation was less than 1 implying that the responses given did not vary significantly from the mean value.

4.5.5 Correlation Analysis Results

The study sought to establish correlation between financial performance and each of the ethical customer relationship practices components. The dependent variable for the study was Financial Performance. The correlation analysis was done at 5% significance level with a 2-tailed test. Therefore, the significance critical value is 0.025 above which the correlation is considered to be inconsequential and vice versa. The magnitude of the correlation is analysed based on the Pearson correlation scale. The scale of the Pearsons correlation coefficient ranges from $-1.0$ to $+1.0$. For the generated coefficient, the closer it is to either +1 or -1 then the more closely the variables are related.

The findings illustrated in Table 4.39 show that, the components under Ethical Customer Relationship Practices had a positive and significant relationship with Financial Performance. The correlation coefficient for ‘the firm endeavors to provide quality services to the customers’ is 0.845 with a significance value of 0.006 which is less than 0.025 at the 5% level. ‘The firm endeavors to provide quality services to the customers’ has a correlation
coefficient of 0.762 with a significance value of 0.001 which is also less than 0.025 at the 5% level.

**Table 4.39 Correlation between Ethical Customer Relation Practices Components and Financial Performance**

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The firm endeavors to provide quality services to the customers</td>
<td>.845</td>
<td>.005</td>
<td>56</td>
</tr>
<tr>
<td>The firm's service delivery is timely</td>
<td>.762</td>
<td>.001</td>
<td>56</td>
</tr>
</tbody>
</table>

The study further conducted the correlation between ethical customer relationship 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 advertising practices and financial performance, \( r (57) = .840, p < .018 \). Table 4.40 gives the results of the study.
Table 4.40 Correlation between Ethical Customer Relation Practices and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Financial performance</th>
<th>Ethical customer relations practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.840</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>57</td>
</tr>
<tr>
<td>Ethical Customer Relations Practices</td>
<td>Pearson Correlation</td>
<td>.840</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.018</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>56</td>
</tr>
</tbody>
</table>

4.5.6 Hypothesis Testing

Hypothesis was tested in the study using regression analysis. The following hypothesis was tested;

H₀: Ethical customer 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 influence of customer relationship practices on the financial performance of the firms listed in Nairobi Securities Exchange (NSE). The regression was carried out at 0.05 level of significance. Results in Table 4.41 indicate the regression Model summary showing the extent to which ethical customer relationship practices influence financial performance. Based on the coefficients, the predictor variable (Ethical Customer Relationship Practices) explains 76.1% of the variation in financial performance of listed firms by NSE. This is as represented by the R² coefficient of 0.761. This therefore reveals that other factors not studied in this research contribute to 23.9% of the variability in the financial performance of firms listed by NSE.

Table 4.41 Model Summary for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.828ᵃ</td>
<td>.761</td>
<td>.718</td>
<td>.05080114</td>
</tr>
</tbody>
</table>

ᵃ. Predictors: (Constant), Ethical Customer Relations Practices
From Table 4.42, the significance value in testing the reliability of the model for the relationship between ethical customer relationship practices and financial performance was obtained as 0.000 which is less than 0.05 the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between ethical customer relationship practices and financial performance in the listed firms by NSE. The model was significant for the relationship as given by the regression coefficients $F = 6.041, p = .000$. The study therefore concludes that ethical customer relation practices have a significant influence on the financial performance of listed firms in the Nairobi Securities Exchange (NSE).

### Table 4.42 ANOVA Table for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.381</td>
<td>1</td>
<td>.381</td>
<td>6.041</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>502.599</td>
<td>54</td>
<td>9.307</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>502.980</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Ethical customer relations practices

The estimates of the regression coefficients, t-statistics and the p-values for the relationship between ethical advertising practices and financial performance are as shown in Table 4.43. These coefficients answer the regression model relating the dependent and the independent variable.
### Table 4.43 Coefficients Table for Ethical Customer Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.230</td>
<td>4.484</td>
<td>2.274</td>
<td>.005</td>
<td></td>
</tr>
<tr>
<td>1 Ethical Customer Relation Practice</td>
<td>.200</td>
<td>.983</td>
<td>.028</td>
<td>3.202</td>
<td>.000</td>
</tr>
</tbody>
</table>

*Dependent Variable: Financial Performance*

The findings imply that for every unit increase in ethical customer relationship practices, financial performance increases by Kshs. 0.199. This is a significant and positive influence of ethical customer relationship practices on financial performance.

## 4.6 Effect of Ethical Investor Relation Practices on Financial Performance of Listed Firms in Kenya

This was the last singularity objective. 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.

### 4.6.1 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.
Three (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 4.44 below.

**Table 4.44  Component Factor Loadings for Ethical Investor Relation Practices**

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

Extraction Method: Principal Component Analysis.
a. 3 components extracted.

### 4.6.2 Assumptions for Regression

#### 4.6.2.1 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 4.45.
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 4.45, the significant deviation from linearity is 0.389 which is greater than 0.05 implying than there is a linear relationship between ethical investor relation practices and financial performance.

**Table 4.45  Linearity Test for Ethical Investor Relation Practices**

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>(Combined)</td>
<td>6</td>
<td>8.244</td>
<td>.891</td>
<td>.509</td>
</tr>
<tr>
<td>Linearity</td>
<td>.000</td>
<td>1</td>
<td>.000</td>
<td>.000</td>
<td>.999</td>
</tr>
<tr>
<td>Deviation from Linearity</td>
<td>49.464</td>
<td>5</td>
<td>9.893</td>
<td>1.069</td>
<td>.389</td>
</tr>
<tr>
<td>Within Groups</td>
<td>453.516</td>
<td>49</td>
<td>9.255</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>502.980</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**4.6.2.2 Homoscedasticity Test for Ethical Investor Relations**

The study also conducted homoscedasticity 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 homoscedasticity in the study as shown in Figure 4.7.
Figure 4.7 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 Figure 4.7, 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.
4.6.2.3 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 the study indicate that the p value was 0.001 which implies that data tested is not from a normally distributed population. The results are as in Table 4.46 below:

Table 4.46 Tests of Normality for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th></th>
<th>Kolmogorov-Smirnov&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic  DF  Sig.</td>
<td>Statistic  DF  Sig.</td>
</tr>
<tr>
<td>Ethical investor relation practices</td>
<td>.186  56  .000</td>
<td>.920  56  .001</td>
</tr>
</tbody>
</table>

<sup>a</sup> Lilliefors Significance Correction

4.6.2.4 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 high levels of accuracy. Findings are as shown in Table 4.47. 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 4.46, the VIF value was 4.839 which indicate that there were no multicollinearity issues in the study.

Table 4.47 Multicollinearity Test for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance  VIF</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
</tr>
<tr>
<td></td>
<td>Ethical investor relation practices</td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Financial performance
4.6.3 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. The findings are indicated in Table 4.48 below:

Table 4.48  KMO and Bartlett's Test for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</th>
<th>.683</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approx. Chi-Square</td>
<td>138.881</td>
</tr>
<tr>
<td>Bartlett's Test of Sphericity</td>
<td>DF 8</td>
</tr>
<tr>
<td></td>
<td>Sig. .000</td>
</tr>
</tbody>
</table>

The findings shown in Table 4.49 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 4.49 Communalities for Ethical Investor Relation Practices

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

Extraction Method: Principal Component Analysis.

The study findings presented in Table 4.50 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 4.50 Total Variance Explained for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>2</td>
<td>1.515</td>
<td>18.942</td>
</tr>
<tr>
<td>3</td>
<td>1.102</td>
<td>13.769</td>
</tr>
<tr>
<td>4</td>
<td>.842</td>
<td>10.531</td>
</tr>
<tr>
<td>5</td>
<td>.521</td>
<td>6.510</td>
</tr>
<tr>
<td>6</td>
<td>.423</td>
<td>5.284</td>
</tr>
<tr>
<td>7</td>
<td>.271</td>
<td>3.388</td>
</tr>
<tr>
<td>8</td>
<td>.179</td>
<td>2.237</td>
</tr>
</tbody>
</table>
Based on the Eigen values, a scree plot was obtained as shown in Figure 4.8. The scree plot indicates that 3 factors had Eigen values greater than 1.

![Scree Plot](image)

*Figure 4.8  Scree Plot for Ethical Investor Relation Practices*

### 4.6.4 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 4.51. 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 4.51 Descriptive Results for Ethical Investor Relation Practices

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

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.

4.6.5 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 analysis was done at 5% significance level with a 2-tailed test. Therefore, the significance critical value is 0.025 above which the correlation is considered to be inconsequential and vice versa. The magnitude of the correlation is analysed based on the Pearson correlation scale. The scale of the Pearsons correlation coefficient ranges from -1.0 to +1.0. For the generated coefficient, the closer it is to either +1 or -1 then the more closely the variables are related.
The findings illustrated in Table 4.52 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 4.52 Correlation between Ethical Investor Relation Practices Components and Financial Performance**

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td></td>
<td></td>
<td>57</td>
</tr>
<tr>
<td>The firm practices corporate ethics</td>
<td>.752</td>
<td>.001</td>
<td>56</td>
</tr>
<tr>
<td>The firm truthfully discloses information to stakeholders</td>
<td>.770</td>
<td>.010</td>
<td>56</td>
</tr>
<tr>
<td>The firm's ownership structure affects its relationship with stakeholders</td>
<td>.849</td>
<td>.021</td>
<td>56</td>
</tr>
</tbody>
</table>

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 4.53 gives the results of the study.
Table 4.53 Correlation between Ethical Investor Relation Practices and Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>57</td>
</tr>
<tr>
<td>Pearson Correlation</td>
<td>.990</td>
</tr>
<tr>
<td>Ethical investor relation practices</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>56</td>
</tr>
</tbody>
</table>

4.6.6 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 4.53 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 4.54  Model Summary for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.800a</td>
<td>.740</td>
<td>.720</td>
<td>.05200763</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Ethical investor relation practices

From Table 4.55, 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 Kenya.

Table 4.55  ANOVA Table for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.000</td>
<td>1</td>
<td>.676</td>
<td>7.738</td>
<td>.000b</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>2</td>
<td>9.314</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>502.980</td>
<td>3</td>
<td>502.980</td>
<td>9.314</td>
<td></td>
</tr>
</tbody>
</table>

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 4.56. These coefficients answer the regression model relating the dependent and the independent variable.
Table 4.56 Coefficients Table for Ethical Investor Relation Practices

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>.331</td>
<td>3.488</td>
<td>5.095</td>
<td>.005</td>
<td></td>
</tr>
<tr>
<td>1 Ethical Investor Relation Practice</td>
<td>.391</td>
<td>.804</td>
<td>.421</td>
<td></td>
<td>12.002</td>
</tr>
</tbody>
</table>

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.

4.7 Combined Regression Test

The study sought to establish the combined effect of ethical human resource (HR) practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices on the financial performance of listed firms in NSE. The following hypothesis was therefore tested:

H₀: Ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising do not have a joint influence on the financial performance of listed firms in Kenya.

Results in Table 4.57 indicate the regression Model summary showing the extent to which ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices influence financial performance. From the results, based on the coefficients, the predictor variables (ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices) explained 71.5% of the variation in financial performance of listed firms in NSE. This is as represented by the R² coefficient of 0.715. This therefore reveals that other factors not studied in this research contribute to 28.5% of the variability in the financial performance of listed firms in Kenya.
Table 4.57 Combined Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.824a</td>
<td>.715</td>
<td>.702</td>
<td>.11604108</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ethical investor relation practice, ethical customer relation practice, ethical advertising practice, ethical HR practices

From Table 4.58, the significance value in testing the reliability of the model for the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance was obtained as 0.007 which is less than 0.05 the critical value at 95% significance level. Therefore the model is statistically significant in predicting the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance in the listed firms in Kenya.

The model was significant for the relationship as given by the regression coefficients $F (1, 4) = 16.20, p = .007$. This showed that the overall model was statistically significant and reliable in explaining the influence of the predictor variables to the financial performance of listed firms in NSE. The study therefore concludes that ethical human resource practice, ethical investor relations, ethical consumer relations and ethical advertising have a joint influence on the financial performance of listed firms in Kenya.

Table 4.58 Combined ANOVA Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.785</td>
<td>4</td>
<td>1.946</td>
<td>16.20</td>
<td>.007b</td>
</tr>
<tr>
<td>1 Residual</td>
<td>495.200</td>
<td>1</td>
<td>9.710</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>502.980</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: financial performance

b. Predictors: (Constant), ethical investor relation practice, ethical customer relation practice, ethical advertising practice, ethical HR practices
The estimates of the regression coefficients, t-statistics and the p-values for the relationship between ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices and financial performance are as shown in Table 4.59. These coefficients answer the regression model relating the dependent and the independent variables.

Based on these, the regression model; $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + X + \epsilon$ Where:

$Y =$ Financial Performance (ROA)

$\alpha =$ Constant

Term $\beta_1, \beta_2, \beta_3, \text{and} \beta_4 =$ Regression coefficients of the independent variables

$X_1 =$ Ethical human resource practice

$X_2 =$ Ethical advertising practice

$X_3 =$ Ethical consumer relations

$X_4 =$ Ethical investor relations

$\epsilon =$ Error term

Multicollinearity test was also done in the study to determine whether the ethical HR practices, ethical advertising practices, ethical customer relation practices and 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. 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 4.59, the VIF values were above 1 which indicate that there were no multicollinearity issues in the study. Ethical HR practices has a VIF value of 1.877, ethical advertising practices had a VIF value of 1.126, Ethical Customer Relation Practice had a VIF value of 1.517 while ethical investor relation practice had a VIF value of 1.209.
Table 4.59 Regression Coefficients for the Combined Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.263</td>
<td>1.238</td>
<td></td>
<td>4.363</td>
<td>.008</td>
</tr>
<tr>
<td>Ethical HR practices</td>
<td>.767</td>
<td>1.549</td>
<td>.694</td>
<td>3.495</td>
<td>.023</td>
</tr>
<tr>
<td>Ethical Advertising Practice</td>
<td>.574</td>
<td>.688</td>
<td>.523</td>
<td>3.835</td>
<td>.003</td>
</tr>
<tr>
<td>Ethical Customer Relation Practice</td>
<td>.474</td>
<td>1.236</td>
<td>.466</td>
<td>2.383</td>
<td>.003</td>
</tr>
<tr>
<td>Ethical Investor Relation Practice</td>
<td>.117</td>
<td>.902</td>
<td>.120</td>
<td>2.129</td>
<td>.018</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

The regression model becomes;

\[
FP = 2.263 + 0.767EHRP + 0.574EAP + 0.474ECRP + 0.117EIRP + 1.238 \\
(0.008) (0.023) (0.003) (0.003) (0.018)
\]

The model is significant based on the coefficients obtained. The multiple regression model of the study implies that for every unit increase in ethical human resource practices, financial performance increases by Kshs. 0.767. Further, for every unit increase in ethical advertising practices, the model implies that financial performance increases by Kshs. 0.574.

Also, for every unit increase in ethical customer relation practices, financial performance increases by Kshs. 0.474. In addition, for every unit increase in ethical investor relation practices, financial performance increases by 0.117. Finally, the constant value was obtained as 2.263. This implies that financial performance will be at Kshs. 2.263, if all the independent variables are removed in the relationship in the listed firms in Kenya.
In testing the relationship, ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices were used to run the multiple regression against the financial performance of listed firms in NSE as the dependent variable. From Table, 4.59, ethical HR practices has a coefficient ($\beta = .694$, $t = 3.495$, $p < .05$).

Ethical advertising practices has the coefficient ($\beta = .523$, $t = 3.835$, $p < .05$), ethical customer relation practices has a coefficient of ($\beta = .466$, $t = 2.383$, $p < .05$) while ethical investor relation practices had a coefficient of ($\beta = .117$, $t = 2.129$, $p < .05$). The results show that all these ethical leadership styles had a significant influence on financial performance of the firms. The coefficients also showed a positive relationship between all the variables and Financial Performance.

4.8 Chapter Summary

This chapter presented findings of data collected from listed firms in Kenya on the influence of ethical leadership on the financial performance. The chapter presented results on the response rate, demographic characteristics, factor analysis, assumptions of regression which include linearity, homoscedascity, normality using Kolmogorov and Shapiro Wilk tests and Multicollinearity, descriptive statistics, correlation analysis, chi square, ANOVA and linear regressions. Analysis on the background information, determination of vital factors of the ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices were provided in this chapter.

The chapter tested the relationship between the study variables which included ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices. The results show that all these ethical leadership aspects have a significant influence on financial performance of listed firms in Kenya, either acting independently, or acting jointly. The regression findings indicated that ethical HR practices had a coefficient ($\beta = .312$, $t = 3.389$, $p < .05$) showing significant influence of the HR practices on financial performance. Also, the regression findings indicated that ethical advertising practices had a coefficient ($\beta = .102$, $t = 4.752$, $p < .05$) showing significant influence of Ethical advertising practices on financial performance.
Further, the regression findings indicated that Ethical Customer Relation Practices had a coefficient ($\beta = .028, \ t = 3.202, \ p < .05$) thus showing significant influence of ethical customer relation practices on financial performance. The regression findings indicated that ethical investor relation practices had a coefficient ($\beta = .421, \ t = 12.002, \ p < .05$) showing significant influence of ethical investor relation practices on financial performance.

Chapter Five contains a brief summary of the dissertation, discussion of findings and generation of conclusions based on the data analysis. It presents recommendations with regard to the study findings and thereafter give suggestions for both improvement and for further research.
CHAPTER FIVE

5.0 SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study aimed to establish the influence of ethical leadership on the financial performance of listed firms in Kenya. The summary of the entire study is presented in this chapter. Also, discussions are made and conclusions drawn based on the study’s findings. In tandem with the conclusions, recommendations have been generated, in the tail end of this chapter.

5.2 Summary of the Study Findings

The study sought to establish the influence of ethical leadership on the financial performance of the listed firms in Kenya. It was conducted based on the following objectives; to establish the influence of ethical human resource practices on the financial performance of listed firms in Kenya; to determine the influence of ethical advertising practices on the financial performance of listed firms in Kenya; to investigate the influence of ethical consumer relations on the financial performance of listed firms in Kenya and; to find out the influence of ethical investor relation practices on the financial performance of listed firms in Kenya.

Primary data was collected through a semi-structured questionnaire. Secondary data was collected from the listed firms in the Nairobi Securities Exchange and the Capital Markets Authority. Descriptive statistics included the mean, frequencies, standard deviation, kurtosis, skewness, the coefficient of variation and rank while the inferential statistics included correlation and multiple linear regression. SPSS version 21 was used for data analysis on both the descriptive and the inferential statistics. The tests for assumptions for regression included the normality test, homoscedasticity, component factor loadings analysis, and principal component analysis.

Primary data was collected through the semi-structured questionnaire that contained Likert scale and closed questions. However, there were cases when the questionnaire had open
ended questions, particularly to contain opinions of respondents on issues that may not have been captured by the closed ended questions. Secondary data was collected both from the websites of listed firms in Kenya and the Resource Centre of the Capital Markets Authority (CMA). Descriptive statistics such as the mean, frequencies and inferential statistics were used to perform data analysis. SPSS and SPSS AMOS softwares were used to produce frequencies, descriptive and inferential statistics which were used to deduce generalizations regarding the population. Also performed included, component factor loadings and analysis, and various tests, including hypothesis testing to either reject or accept the null.

In testing the relationship between the study variables which included ethical HR practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices, the results show that all these ethical leadership aspects have a significant influence on financial performance of listed firms in Kenya. The correlation analysis results also indicated that all ethical leadership aspects have strong positive and significant correlation with financial performance. The existence of a significant relationship between the joint effect of ethical leadership aspects and financial performance is also established by the chi square results of Chapter Four. The regression findings indicated that ethical HR practices had significant influence on financial performance. Correlation analysis results also showed strong and significant association between HR practices and financial performance. The results for Chi square test showed that there was strong association between Ethical HR practices and Financial Performance.

Also, the regression findings indicated that ethical advertising practices had a significant influence on financial performance. Correlation analysis results also showed strong and significant relationship between ethical advertising practices and financial performance. The results for Chi square test showed that there was strong association between ethical advertising practices and financial performance.

Further, the regression findings indicated that ethical customer relation practices had significant influence on financial performance. Both the results from correlation analysis and Chi square test showed strong and significant association between ethical customer relation practices and financial performance. Similarly, the regression findings indicated that ethical
investor relation practices had significant influence on financial performance. Both the correlation analysis results and Chi square test also showed a strong and significant correlation and association between ethical investor relation practices and financial performance.

In testing the combined relationship, ethical human resource practices, ethical advertising practices, ethical customer relation practices and ethical investor relation practices were used to run the multiple regression against the financial performance of listed firms in the Nairobi Securities Exchange (NSE) as the dependent variable. The results show that all these ethical leadership aspects had significant influence on financial performance of the firms. The coefficients also showed positive relationship between all the variables and financial performance.

5.3 Discussion

5.3.1 Ethical Human Resource Practices and Financial Performance

The present study findings in line with findings of Armstrong (2010) who determined that human resource management practices consists of systems, policies and practices that directly influence firm performance. The study established that ethical human resource practices significantly influences financial performance of listed firms in Kenya. This also agrees with findings of Marwat et al. (2007) who analysed and established a positive correlation between Human Resource Management (HRM) practices and employees’ performance.

In line with the findings of the study, a number of previous studies such as Qureshi et al. (2007), Verbeeten (2008), and Adnan et al. (2011) determined that high performance work practices including ethical recruitment and selection, training, incentive compensation, information sharing and employee satisfaction positively contribute to financial performance in organizations.

A positive relationship between the constructs of ethical human resource practices and financial performance have been documented, in line with present findings. For instance, Osemeke (2014) revealed that there existed a positive relationship between effective
recruitment and selection practices, effective performance appraisal practices and organizational performance. Other findings supporting this study include Klikauer (2008) who established that motivation of employees improves their productivity, and hence their performance. Similarly, the study is in tandem with the assertion of Kalshoven and Boon (2012) that the process of selecting employees has an impact on organizational performance.

5.3.2 Ethical Advertising Practices and Financial Performance

The findings of this study agree with findings of Lorraine et al. (2004) who established that ethical business may be a valuable tool to create intangible assets like good corporate image and enhanced reputation, which can be sources of competitive advantage. In line with the present findings, Khan and Shilpi (2014) determined that not only the acceptance of online advertisements to the consumer, but also profit maximization and sustainance of large digital database and electronic customer relationship management, affected financial performance of firms.

Further, Chandon et al. (2000) agree with the study findings that ethical advertising practices might be attractive for highly promotion prone consumers for reasons beyond price savings and are also a crucial part for organizations in improving their performances.

In addition, the present study findings are in tandem with findings of Ansari et al. (2011) who determined that marketers are becoming extremely intent on understanding the predictability and the connection of advertising needs. This is to done to ensure organizational performance is enhanced. The present study also determined that ethical standards for advertisement practices require that all information or publicity material regarding products, services or personality should be legal, honest, decent and truthful. Ideally, the study established that none of the surveyed firms tolerated any forms of unethical advertising procedures. The firms thus seek to continually meet and satisfy consumer requirements profitably by the incorporation of appropriate advertisements.

In line with these findings, Solis and Li (2013) observed that social media listening can provide early risk indicators and mitigate the impact of crises when they do occur. Other critics such as Arrington (2004) also hold unethical advertisements responsible for causing
people to buy what they cannot actually afford and that finally has a relationship with the financial performance of firms. Also concuring with this study is the findings of Peloza and Shang (2011) who established that ethical advertisement and product communication practices could be a valuable tool for the creation of intangible assets like enhanced reputation and good corporate image, which are sources of competitive advantage.

5.3.3 Ethical Customer Relation Practice and Financial Performance

The findings of the study agree with the findings of Aguilera et al (2007) who determined that when firms demonstrate customer realtion practices, they demonstrate fairness to key stakeholders. By this, they raise customer satisfaction, which is one of the most essential goals of firms and is an important aspect in business strategy. Other scholars supporting the present findings include Homburg et al. (2005) and Fornel et al. (2006) who determined that financial performance of firms is positively influenced by ethical customer relations practices. Such practices also involves incorporation of appropriate feedback mechanisms for either products or services rendered to consumers.

The findings of the study also agree with findings of Kumar and Werner (2016) who argue that high customer loyalty raises corporate profits. With customer satisfaction and loyalty being pegged on good consumer relations, this study is in line with studies of both Odunlami and Ogunsiji (2011), and Oyedapo et al., (2012) who assert that consumer satisfaction positively affects sales volumes, and hence performance.

In addition, other studies such as Kotler and Keller (2009) agree with the present study. Kotler and Keller (2009) revealed that marketing is geared to matching service promise to customer needs, essentially to increase customer loyalty. Such a relationship is an index for consumer satisfaction, of which Armstrong and Kotler (2009) added that maintenance of solid relationship marketing strategy is beneficial in enhancing customer loyalty and subsequently performance of organizations.
5.3.4 Ethical Investor Relation Practice and Financial Performance

The findings obtained in the study agree with 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. Also, from the study, there ought to be an overriding mission to continuously deliver a supportive framework for organizational investors, to gain their satisfaction, which greatly influences ownership structure. 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 current findings indicate that investors are generally more attracted to environments that practice corporate ethics. Additionally, 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. Also, 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).

The study is in line with that of Bushee and Miller (2012) who established that firms that initiate investor relations programmes have enhanced organizational ownership, and with adequate investor relations leading to enhanced analyst followings, price to book ratio and media coverage. Additionally, the study concurs with the assertions of Ogunyomi and Bruning (2015) that investors are attracted to invest in companies which practice corporate ethics since this is the only way they can be assured of returns from their investments.

From the findings of this study, it is apparent that investors need to be treated as important stakeholders of firms. Same sentiments are echoed by Gabbioneta et al. (2007) who view investors as key stakeholders responsible for organizational growth, and hence performance. Also in line with the finding is O’Boyle et al. (2010) who notes that a comprehensive investor relation program is essential for increased trading volume and liquidity of securities.
5.4 Conclusions

Based on the findings and discussions of the study, the study made the following conclusions

5.4.1 Ethical Human Resource Practices and Financial Performance

The study findings showed that ethical human resource practices had a significant influence on financial performance of listed firms in Nairobi Securities Exchange (NSE). Ethical human resource practices had a strong correlation with financial performance. It also significantly influenced financial performance from regression results and had a significant value with financial performance from chi square tests. The study concludes that the firms’ recruitment practices always fully adhered to labour laws. Also, recruitment practices have fairly often affected the historical financial performance of the firms, the firm's recruitment policy is always based on academic qualifications, the firm's recruitment policy is always skill/talent-based and that firms always considered experience when hiring employees.

5.4.2 Ethical Advertising Practices and Financial Performance

The study findings showed that ethical advertising practices had a significant influence on financial performance of listed firms in NSE. Ethical advertising practices had a strong correlation with financial performance, significantly influenced financial performance and had a significant value with financial performance. The study concluded that listed firms always adhered to ethical advertising, the advertisements always satisfied customer requirements profitably and that the firms always employed ethical advertising practices for its commodities.

Accordingly, in order to carry out a successful marketing strategy for organizations, the need to track down customers, determine their tastes and preferences and bombard them with pieces of advert every now and again. This can greatly be achieved by offering a platform for feedback services for the product or service consumers. Ethical advertising has proved to be an essential consideration for firms, and true to this assertion, this dissertation established
that all firms listed in the Nairobi Securities have zero tolerance to unethical advertisement practices.

5.4.3 Ethical Customer Relation Practice and Financial Performance

Consumers have been characterized as the lifeblood of any business. The relationship between quality customer service and loyalty has been observed by a number of researchers, who insist on the quality of customer service as that which is not just reliable but also ethical. Ethical customer satisfaction and loyalty are positively correlated as have been determined by this research. It is also possible that firms can fulfill their customers’ demands while remaining ethical themselves. Well serviced customers are likely to remain part and parcel of a business. In other words, it suffices to say that ethical customer service, in the long run, brings about good financial returns that enables an organization to flourish.

The relationship between satisfaction and loyalty is required to be reliant on ethical foundations and not just the nature of the item and services involved. The study determined that ethical customer relation practices had a significant influence on financial performance of listed firms in NSE. In addition, ethical customer relation practices had a strong correlation with financial performance, significantly influenced financial performance and had a significant value with Financial Performance. The study therefore concluded that firms always endeavored to provide quality services to the customers and that the firm's service delivery was timely.

5.4.4 Ethical Investor Relation Practice and Financial Performance

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.

5.5 Recommendations

5.5.1 Recommendations for Improvement

Based on the findings, the study made the following recommendations for improvement.

5.5.1.1 Ethical Human Resource Practices and Financial Performance

The study findings indicated that financial performance is high when firms always adhere to labour laws, recruitment practices and firm’s policy when recruiting employees. The study therefore recommends that the firms’ should always adhere to their labour laws, recruitment practices, the firm's recruitment policy which should be based on academic qualifications, skill/talents and experience when hiring employees.

5.5.1.2 Ethical Advertising Practices and Financial Performance

The study findings indicated that financial performance was high when firms adhered to ethical advertising, when advertisements satisfied customer requirements and when the firms employed ethical practices for their products. The study therefore recommends that firms need to ensure that there is adherence to ethical advertising, they satisfy their customer requirements and employ ethical advertising practices for their products. The study also
recommends that listed firms should fully harness the use of internet services during advertising to help them accomplish quick developments, versatility, productivity, and thus, positive financial returns.

5.5.1.3 Ethical Customer Relation Practice and Financial Performance

The study determined that financial performance is high when firms endeavored to provide quality services to the customers and when the services delivery was on time. The study therefore recommends that firms should always endeavor to provide quality services to the customers and to ensure that service delivery is done within the required time. Similarly, there is need to incorporate an appropriate feedback mechanism for company products and/or services. This enhances consumer relation, since the firm will be at a position to fully understand the underlying factors affecting the consumers, and appropriately adjust on its products and/or services, by integrating consumer demands.

5.5.1.4 Ethical Investor Relation Practice and Financial Performance

The study determined that financial performance was highest when the listed 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.

5.5.2 Suggestions for Further Research

This study was conducted in the listed firms in Kenya, and did not incorporate a wider geographical spread without the boundaries of Kenya. To realize geographical credence, other researchers may look into regional security exchanges and compare results, with those obtained from the local security exchanges. The study also 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.
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Tippet, J. (2001), Performance of Australians Ethical Funds. The Australian Economic


APPENDICES

Appendix I: Sample Frame of Population of Listed Firms

<table>
<thead>
<tr>
<th></th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eaagads Ltd</td>
</tr>
<tr>
<td>2</td>
<td>Kakuzi Ltd</td>
</tr>
<tr>
<td>3</td>
<td>Standard Chartered Bank Kenya Ltd</td>
</tr>
<tr>
<td>4</td>
<td>Atlas African Industries</td>
</tr>
<tr>
<td>5</td>
<td>Williamson Tea Kenya Ltd</td>
</tr>
<tr>
<td>6</td>
<td>Car &amp; General (K) Ltd</td>
</tr>
<tr>
<td>7</td>
<td>Sameer Africa Ltd</td>
</tr>
<tr>
<td>8</td>
<td>Marshalls (E.A.) Ltd</td>
</tr>
<tr>
<td>9</td>
<td>CFC Stanbic of Kenya Holdings Ltd</td>
</tr>
<tr>
<td>10</td>
<td>I&amp;M Holdings Ltd</td>
</tr>
<tr>
<td>11</td>
<td>Diamond Trust Bank Kenya Ltd</td>
</tr>
<tr>
<td>12</td>
<td>Housing Finance Co.Kenya Ltd</td>
</tr>
<tr>
<td>13</td>
<td>Kenya Commercial Bank Ltd</td>
</tr>
<tr>
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<td>TPS Eastern Africa Ltd</td>
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<td>15</td>
<td>The Co-operative Bank of Kenya Ltd</td>
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<td>Express Kenya Ltd</td>
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<td>Kenya Airways Ltd</td>
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<tr>
<td>18</td>
<td>Nation Media Group Ltd</td>
</tr>
<tr>
<td>19</td>
<td>Trans-Century Ltd</td>
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**Source:** NSE Website (https://www.nse.co.ke/listed-companies/list.html)
## Appendix II: ROA of Listed Firms

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Appendix III: Introduction Letter

12 October, 2016

TO WHOM IT MAY CONCERN.

Dear Sir/Madam,

RE: RESEARCH INTRODUCTION LETTER – MANDUKU, DANIEL OGWOKA

We wish to inform you that the bearer of this letter; Manduku, Daniel Ogwoka - student ID No. 632230 is a Doctorate Student at United States International University (USIU) – Africa, pursuing a Post-Graduate program - Doctor in Business Administration (DBA).

He is currently conducting a Research Dissertation on: ‘THE INFLUENCE OF ETHICAL LEADERSHIP ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA’, which is in partial fulfilment of the requirement for him to qualify for graduation.

Please, note that any information provided will be treated with confidentiality and at no instance will it be used for any other purpose, other than for this Research Dissertation.

Kindly, accord him the desired assistance and contact the undersigned should you have any queries.

Sincerely,

Dr. George Achoki,
Dean - Chandaria School of Business (USIU),
Tel: 3606 415
Email: gachoki@usiu.ac.ke
Appendix IV: Questionnaire

SECTION A: GENERAL INFORMATION

Please Mark/Tick the appropriate response or write in the spaces provided

1. Name of firm

........................................................................................................

2. Gender

Mark only one oval.

Male
Female

3. Age

Mark only one oval.

Below 40 Years
41 - 50 Years
Above 50 Years

4. Your level of education

Mark only one oval.

Bachelor's Degree
Master's Degree
Doctorate
Others
5. How long have you been employed in the organization?

*Mark only one oval.*

- Less than 2 years  
- 2 to 5 years  
- 6 to 10 years  
- Over 10 years  

6. How many employees are there in your organization?

*Mark only one oval.*

- Less than 200  
- 200 - 500  
- 501 - 1000  
- Above 1000  

**SECTION B: ETHICAL HUMAN RESOURCE PRACTICES**

This section attempts to establish the existence of ethical human resource practices on financial performance

7. The firm's recruitment practices fully adhere to the labor laws

*Mark only one oval.*

- Not at all  
- Rarely  
- Sometimes  
- Fairly often  
- Always
8. The firm's recruitment practices have affected the historical financial performance

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]

9. The firm's recruitment policy is based on academic qualifications

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]

10. The firm's recruitment policy is skill/talent-based

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]
11. The firm considers experience when hiring employees

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

12. The firm conducts formal interviews

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

13. The firm conducts reference checks for employees before offering employment

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
14. The firm provides job previews for employees before the job offer is made

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

15. The firm provides ethical training to newly hired staff to prepare them for their new positions

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

16. The ethics training positively influences corporate social responsibility and productivity

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

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17. Ethics training improves financial performance

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

18. Employees role in the firm determines their training needs

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

19. Staff members are periodically given opportunities through workshops and seminars to discuss the ethical issues they are experiencing

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
20. The firm has an ethical policy for reviewing salaries of the employees

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]

21. Ethical compensation and remuneration affects the employees’ productivity

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]

22. The firm management considers the moral outcome of management decisions

*Mark only one oval.*

- Not at all [ ]
- Rarely [ ]
- Sometimes [ ]
- Fairly often [ ]
- Always [ ]
23. The firm management encourages role modeling for junior employees

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

24. The firm’s ethical considerations focus on societal success

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

25. The firm’s ethical considerations focus on organizational success

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
26. The firm provides opportunities for personal development

Mark only one oval.

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

27. The current human resource system is aligned with the strategic mission of the firm

Mark only one oval.

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

28. The human resource policies directly influence employee behavior

Mark only one oval.

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
29. How else do ethical human resource practices influence financial performance?

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 SECTION C: ETHICAL ADVERTISING PRACTICES

This section attempts to establish the existence of ethical advertising practice on financial performance

30. The firm adheres to ethical advertising principles

Mark only one oval.

Not at all  
Rarely   
Sometimes  
Fairly often  
Always

31. The advertisements satisfy customer requirements profitably

Mark only one oval.

Not at all  
Rarely   
Sometimes  
Fairly often  
Always
32. The firm employs ethical advertising practices for its commodities

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

33. The firm adheres to integrity when advertising its commodities

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

34. The firm provides awareness on ethical advertising practices

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
35. The firm has zero tolerance to unethical advertisement practices

*Mark only one oval.*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always

36. The firm's social media site is monitored to ensure ethical communications

*Mark only one oval.*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always

37. The firm’s ethical social media communications attract job seekers

*Mark only one oval*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always
38. The firm’s ethical social media communications influence the moral organizational culture

*Mark only one oval*

Not at all □

Rarely □

Sometimes □

Fairly often □

Always □

39. The firm’s ethical social media communications influence employees' attitudes

*Mark only one oval*

Not at all □

Rarely □

Sometimes □

Fairly often □

Always □

40. The ethical online advertising practices of the organization influence the firm's growth

*Mark only one oval.*

Not at all □

Rarely □

Sometimes □

Fairly often □

Always □
41. Ethical online advertisements enable consumers to exchange ideas with the firm

*Mark only one oval.*
- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

42. Ethical advertising leads to the firm’s competitive advantage

*Mark only one oval.*
- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

43. The firm’s financial performance is influenced by its marketing options

*Mark only one oval.*
- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
44. How else do ethical advertising practices influence financial performance of your organization?

SECTION D: ETHICAL CONSUMER RELATION PRACTICES

This section attempts to establish the existence of ethical consumer relation practice on financial performance

45. The firm endeavors to provide quality services to the customers

Mark only one oval.

Not at all  □
Rarely  □
Sometimes  □
Fairly often  □
Always  □

46. The firm's service delivery is timely

Mark only one oval.

Not at all  □
Rarely  □
Sometimes  □
Fairly often  □
Always  □
47. The firm practices their customer relations policies

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

48. The firm ensures that the demands of the consumers are met

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always

49. The firm promptly responds to customer feedback

*Mark only one oval.*

- Not at all
- Rarely
- Sometimes
- Fairly often
- Always
50. The firm incorporates corporate social responsibility in its consumer relations

Mark only one oval.

Not at all
Rarely
Sometimes
Fairly often
Always

51. The firm upholds building relationship marketing

Mark only one oval.

Not at all
Rarely
Sometimes
Fairly often
Always

52. Customer satisfaction comes before profitability

Mark only one oval.

Not at all
Rarely
Sometimes
Fairly often
Always
53. The firm’s corporate strategy is focused on customer satisfaction

*Mark only one oval.*

- Not at all  
- Rarely  
- Sometimes  
- Fairly often  
- Always  

54. How else do ethical consumer relation practices influence financial performance?

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SECTION E: ETHICAL INVESTOR RELATION PRACTICES

*This section attempts to establish the existence of ethical investor relations on financial performance*

55. The firm practices corporate ethics

*Mark only one oval.*

- Not at all  
- Rarely  
- Sometimes  
- Fairly often  
- Always  

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56. The firm truthfully discloses information to stakeholders

Mark only one oval.
Not at all  
Rarely  
Sometimes  
Fairly often  
Always  

57. The firm’s ownership structure affects its relationship with stakeholders

Mark only one oval.
Not at all  
Rarely  
Sometimes  
Fairly often  
Always  

58. The firm practices policies that build investor relations

Mark only one oval.
Not at all  
Rarely  
Sometimes  
Fairly often  
Always  

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59. The firm encourages best practice in investor communications on all media platforms

*Mark only one oval.*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always

60. The board meetings focus on investor relations

*Mark only one oval.*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always

61. Vetting of board members is based on the ability to achieve the firm's vision

*Mark only one oval.*

Not at all  
Rarely  
Sometimes  
Fairly often  
Always
62. The board emphasizes accountability in relaying financial information to investors

Mark only one oval.

Not at all

Rarely

Sometimes

Fairly often

Always

63. How else do ethical investor relation practices influence financial performance?

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Appendix V: NACOSTI Permit

THIS IS TO CERTIFY THAT:
MR. DANIEL OGWOKA MANDUKU
of UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA, 0-509 NAIROBI, has been permitted to conduct research in All Counties
on the topic: THE INFLUENCE OF ETHICAL LEADERSHIP ON THE FINANCIAL PERFORMANCE OF LISTED FIRMS IN KENYA
for the period ending 6th March, 2018

Permit No : NACOSTI/P/17/52204/15773
Date Of Issue : 7th March, 2017
Fee Received : Ksh 2000

Applicant’s Signature

Director General
National Commission for Science, Technology and Innovation

CONDITIONS
1. You must report to the County Commissioner and the County Education Officer of the area before embarking on your research. Failure to do so may lead to the cancellation of your permit.
2. Government Officer will not be interviewed without prior appointment.
3. No questionnaires will be used unless it has been approved.
4. Excavation, filming and collection of biological specimens are subject to further permission from the relevant Government Ministries.
5. You are required to submit at least two (2) hard copies and one (1) soft copy of your final report.
6. The Government of Kenya reserves the right to modify the conditions of this permit including its cancellation without notice.

RESEARCH CLEARANCE PERMIT

Serial No. A 13016

CONDITIONS: see back page

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION
Appendix VI: NACOSTI Letter of Research Authority

NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION

Telephone:+254-20-2213471,
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Email:dp@nacosti.go.ke
Website: www.nacosti.go.ke
when replying please quote

Ref. No. NACOSTI/P/17/52204/15773

Date: 6th March, 2017

Daniel Ogwoka Manduku
United States International University
P.O. Box 14634- 00800
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “The influence of ethical leadership on the financial performance of listed firms in Kenya,” I am pleased to inform you that you have been authorized to undertake research in all Counties for the period ending 6th March, 2018.

You are advised to report to the County Commissioners and the County Directors of Education, all Counties before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in pdf of the research report/thesis to our office.

DR. STEPHEN K. KIBIRU, PhD.
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioners
All Counties.

The County Directors of Education
All Counties.