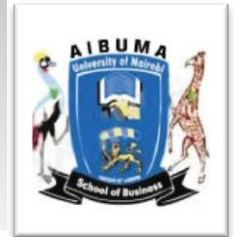




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THE MODERATING EFFECT OF THE EXTERNAL ENVIRONMENT IN THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND VALUE OF NON-FINANCIAL FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE MARKET

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Abstract

The objective of this study was to examine if the external environment moderated the relationship between corporate governance and the value of non-financial companies listed at the Nairobi Securities Exchange Market. The external environment was measured by GDP growth, interest rates, and inflation rates. The study tested the hypothesis that, there is no significant moderating effect of external environment on the relationship between corporate governance and value of non-financial listed companies at the Nairobi securities exchange in Kenya. Panel data was collected from audited financial statements for non-financial listed companies that had been consistently listed on the Nairobi Securities Exchange for ten years, from 2010 to 2019. A descriptive design and a positivist approach were employed to investigate the effects. Following the completion of diagnostic testing, inferential statistics, particularly correlation and regression analysis, were employed to evaluate hypotheses. Using correlation and multiple regression analysis, the moderating effect in the relationship between corporate governance and non-financial company value affecting the selected 29 companies was analyzed further. The external environment had a considerable moderating effect on the relationship between corporate governance and the value of non-financial listed companies, according to this study. This research adds to the expanding corpus of financial empirical research on the external environment's moderating effect on the relationship between corporate governance and listed non-financial company value, which has yielded varied results. Non-financial listed companies should strive for effective corporate governance in their operations and maximize their value by predicting external events, according to the conclusions of this study.

Keywords: *Corporate governance, Agency theory, External Environment, Tobins Q*

Introduction

In public listed companies, corporate governance entails a careful balancing act of the interests of corporate investors and stakeholders. Corporate governance in this context helps listed companies reduce principal-agent conflict, boost investor trust, enhance firm goodwill, increase shareholder value, and expand investment prospects. According to corporate governance norms, companies must be well administered and controlled if they are to maximize shareholder value. This could be one of the main reasons why the relationship between corporate governance and the value of publicly traded companies has gotten so much attention all over the world (Camfferman, & Wielhouwer, 2019). Companies are formed to create shareholder value, which necessitates determining what the market requires, developing procedures and systems to meet those requirements, and seeking and acquiring funds to fund their activities in order to achieve those criteria successfully. This qualifies corporate governance as a system of rules and principles developed by management to control the company's operations and resources with the goal of maximizing shareholder returns and value. Furthermore, corporate governance is understood as crucial throughout a company's funding cycle and has a direct impact on its ability to attract outside capital (Rejeb & Missaoui, 2019; Claessens & Yurtoglu, 2012). Poor corporate governance has been extensively studied around the world, with a focus on corporate fraud, accounting scandals, insider trading, exorbitant compensation, and apparent corporate failures. In Kenya, inadequate governance has been blamed for 70% of firm failures, notably weak

procedures, a lack of internal control systems, conflicts of interest, and insufficient regulatory and supervisory frameworks (CMA, 2019).

Corporate boards are in charge of critical decisions in a company such as harmonizing company operations through the implementation of corporate resolutions as a major focus. This entails, among other things, changing the bylaws, regulating the issue of shares, and declaring dividends. However, the elements of corporate governance takes many forms and its measurement has not been consistently agreed upon, resulting into disparities in research outcomes (Chen, 2012). Board size, female representation on boards (gender), CEO duality, board independence, and board composition are just a few examples of these elements. This partly explains why studies on corporate governance is still a contentious topic in corporate management (Bachiller et al., 2016; Ertugrul & Hegde, 2009; Larcker et al., 2007). (Bachiller et al., 2016; Ertugrul & Hegde, 2009; Larcker et al., 2007; Ertugrul & Hegde, 2009; Larcker et al., 2007).

Furthermore, the findings of these studies are unlikely to be entirely replicated in poor countries due to differences in social, economic, and cultural backgrounds, resulting in a wide variety of outcomes (Chen, 2012). This is why in both developed and developing countries, the external environment's moderating effect on the relationship between corporate governance and company value has been researched, with varied results. Company value which has been defined as a change in security price is used to assign a quality of corporate governance, with price

resulting from the difference between realized and predicted profits (Ararat; Black; & Yurtoglu, 2017; Rouf, 2012). The selection of recognized value measurements is a recurring topic that has dominated previous corporate governance and value studies. As a result, the concept of value remains a contentious finance subject due to its multi-dimensional interpretations.

The agency theory of Berle and Means (1932) was a key theory used to conceptualize how company value interacts with corporate governance in this study. It states that firm agents' interests may differ from those of the principals. Therefore, professional managers, according to the agency theory, have the requisite skills for firms with a large number of dispersed shareholders. If there is a requirement to prevent conflicts (the agency problem) between principal and agent interests, these skills are critical. The theory also asserts that the interests of shareholders and directors should be in harmony (Bendickson, Muldoon, Liguori, & Davis, 2016; Jensen & Meckling, 1976; Ross, 1973). In this study, the agency theory was employed to evaluate how current corporate governance and strategic objectives affected business value in a specific external environment context. Other theories used include; Freeman (1984) stakeholder theory, which conceptualizes how a company interacts with people other than its shareholders.

A successful investment process, according to stakeholder theory, involves solid relationships between organizations and their stakeholders (Kock et al., 2012). According to the stakeholder theory, good governance should satisfy external

stakeholders, resulting in the company's long-term viability and increased corporate value by lowering contract costs and increasing surplus output (Lai & Cheng, 2003). Finally, the theory of Fama (1965) the efficient market hypothesis theory was also used, which describes how corporations interact with major fundamental financial issues in the external environment, such as asset price movements in the securities market, to produce firm value. According to this theory, if markets are efficient, investors will have little opportunity of acquiring an unfair advantage as a result of new information (Nikbahkt, 2006; Aoki, 2001).

External environmental influences occur outside of companies and are frequently beyond the control of management (Broadstock, Shu & Xu., 2011). Companies must develop methods for managing external elements such as GDP growth rates, interest rates, and inflation rates in order to optimize corporate value (World Bank, 2015; Broadstock et al., 2011; Dioha, Mohammed, Okpanachi., 2018). This research was conducted during a period of political, social, and economic instability in the country's external environment. During this time, borrowing rates skyrocketed, the currency weakened, and import taxes surged. This provided an opportunity to compare the many empirical studies that have investigated the impact of the external environment on the value of publicly traded companies, but in different settings.

In three Asian countries: India, China, and Japan, Megaravalli and Sampagnaro (2018) found that inflation had a negative and modest influence on securities markets, but the exchange rate had a big

and significant long-run impact. This research found no statistically significant relationship between macroeconomic conditions and security market performance in the short term. In Istanbul, the Stock Exchange (ISE) index had a significant positive relationship with changes in GDP rates, foreign currency rates, and current account balances (Acikalin, Aktaş, & Unal, 2008). As a result, investors were able to evaluate the value of securities markets, market sectors, and asset classes, allowing them to make better investment selections. Investors could also evaluate the performance of their individual securities portfolios, as well as how well their asset managers managed their assets and predicted market movements.

According to Wuhan, Suyuan, and Khurshid (2015), interest rates had a negligible impact on investment between 2003 and 2012, whereas other factors such as market size, GDP growth, and preferential policies had a significant impact. According to Goyal and Kakabadse (2019), external environment considerations necessitate board diversity as a vital tool for developing business value. They contend that boards are critical in the development of corporate governance standards. According to their findings, a broad and successful board of directors' policy development with functional variety to deal with dynamic economic, social, and political environmental factors may be visible if company value is to be retained. Maune (2017) investigated the impact of effective corporate governance on economic growth in Zimbabwe, a developing country, between 1968 and 2015. The weak rate of gross domestic growth was found to be

related to corruption in this study. Furthermore, political stability and the absence of violent activities in the country were two other external environment elements that showed a strong positive relationship with rising listed company value, according to this study.

According to Muhammad and Syed (2013), earnings per share, corporate governance quality, and annual GDP growth rate all had a significant impact on the value of securities, but there were no statistically significant associations with inflation, money supply, or stock price. According to the conclusions of this study, implementing macroeconomic policies into a company's financial management systems may allow it to increase in value. In Kenya, inflation was found to have a positive impact on the relationship between corporate governance and overall stock market performance among companies listed on the Nairobi Securities Exchange (Kimani & Mutuku, 2013). Machuki and Aosa (2011) found no significant effect on the value of 53 Kenyan listed companies when they looked at the relationship between external environment components and financial performance. There are still inconsistencies in the relationships between corporate governance and listed company value, according to the studies displayed above.

Rather than looking at moderating effects in the relationships, several of these studies concentrated on direct relationships between corporate governance and listed business valuation. Some studies looked at both financial and non-financial companies, while others only looked at one. Others focused on macroeconomic

issues, while others looked at the relationships between corporate governance alongside political, social, and legal issues at the same time. The diverse contexts in which these studies were conducted are most likely to be responsible for the mixed outcomes. As a result, more research into the relationship between corporate governance and non-financial listed companies' value motivated this study to answer the study question: what is the external environment's moderating effect on the relationship between corporate governance and non-financial listed companies' value on Kenya's Nairobi Securities Exchange? To address the above research question, the study

addressed the objective through the following null hypothesis:

H₁: There is no significant moderating effect of external environment on the relationship between corporate governance and value of non-financial listed companies at the Nairobi securities exchaneg in Kenya.

The hypothetical relationships were as presented in Figure 1

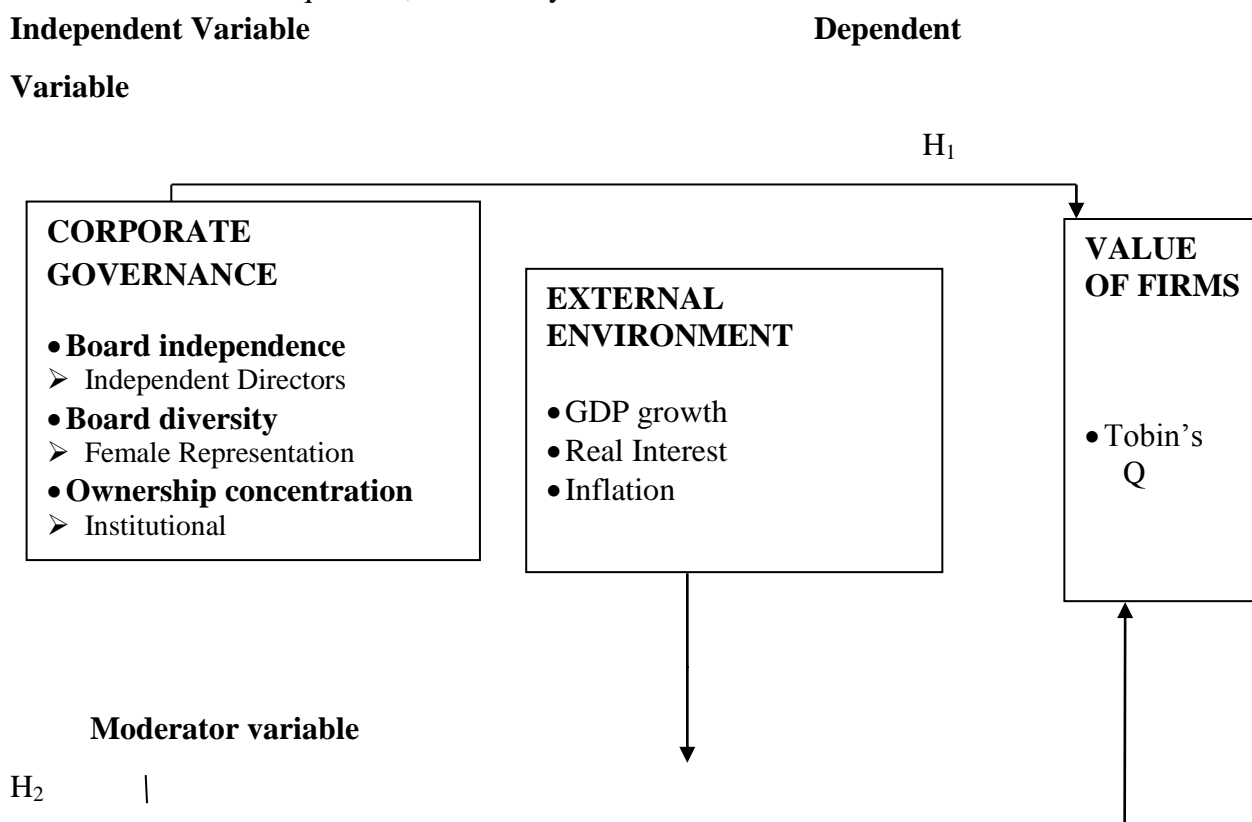


Figure 1. Conceptual Model

Methodology

The study adopted a descriptive longitudinal design through the use of panel data. The panel data technique was

deemed suitable as the study's data entailed both time series and cross sectional components (Mang'anyi, 2011). This was applied across 29 companies for a ten years period resulting to 290 data

points with loss of some companies due to loss of some years of observations due to unavailability or poor quality of data on some years. This study employed quantitative secondary data which was collected for a ten-year period and obtained from existing financial statements of the entities quoted at NSE websites. Using hierarchical regressions, the effect of the external environment on the relationship between corporate governance and firm value was explored in this study. A multi regression on moderation effects was tested including the predictor

$$Y_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 GDP_{it} + \beta_3 IntR_{it} + \beta_4 InfR_{it} + \beta_5 CG (GDP)_{it} + \beta_6 CG (IntR)_{it} + \beta_7 CG (InfR)_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Where β_1 represented the coefficient linking the corporate governance to the result Y_{it} , when $EE_{it} = 0$, β_2 represented the coefficient linking EE variable to the outcome when $CG_{it} = 0$, β_0 represented the constant in the equation, and ϵ_{it} is the error term. The interaction terms, β_5 β_6 β_7 , provided an estimate of the moderation effect, such that if they were statistically different from zero, the effect was significantly moderated $CG_{it} * EE_{it}$ (Baron & Kenny, 1986). Marius et al. (2014) have provided evidence that aspects that clarify external environment components have an effect on corporate performance. Since all

$$Y_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 GDP_{it} + \beta_3 INF_{it} + \beta_4 INR_{it} + \beta_5 GDP_{it} * CG + \beta_6 INR_{it} * CG + \beta_7 INF_{it} * CG + \epsilon_{it} \dots \dots \dots (2)$$

Data Analysis and Discussion of Findings

Descriptive statistical

Descriptive statistical tools were used to describe the basic data features by presenting basic summaries of the population/sample and the indicators used.

variables with variables CG (EE) purposely to enhance explanation of regression coefficients. The product CG (EE) was used to investigate the outcome magnitude of the moderating strength as determined by β_3 . This was after controlling for corporate governance and all the external environment elements. To investigate if there was a significant interaction effect on Y_{it} prediction, the study examined the relationships between corporate governance and external environment variables using the model below.

three external environment components occurred at the same time, their combination in a regression model offered a more accurate evaluation of a firm's value. By combining the predictor factors with the CG variable, a multi regression on moderating effects (EE) was therefore utilized to further clarify the regression results. After controlling for corporate governance and the external environment, the product CG (EE) was utilized to assess effect size to define the intensity of the moderating impact as measured by β_{5-7} . The moderating variable was tested under one hypothesis as indicated below.

Descriptive analysis was used to form the foundation of quantitative data analysis and the measurement of data exist in terms of the minimum, maximum, mean, standard error of estimates. Measures of symmetry namely skewness and kurtosis are also reported.

Table 2 Descriptive Statistics

Variable	Mean	Standard Deviation	Median	Maximum	Minimum	Kurtosis	Skewness
GDP growth Rate	5.78	1.038667	5.8	8.4	1.5	5.5895	1.048211
Interest Rate	8.574	2.265709	8.51	12.76	3.6	3.65850	-0.35767
Inflation rate	7.184	2.767395	6.45	15.1	4.3	4.2064	1.399312

From the data received from 29 companies for ten years forming 290 data points (Table 2), the findings indicate that listed firms in Kenya had GDP growth rate constituting 5.78%. The maximum and minimum GDP growth rates were 8.4 percent and 1.5 percent, respectively. GDP grew at a 5.78 percent annual rate on average. During the study period, inflation rates ranged from 15.1 percent to 4.3 percent, with an average of 7.184 percent. According to the trend in interest rates, the highest rate was 12.76 percent, while the lowest was 3.6 percent. According to the data, the external environment descriptive analysis indicated that it was exceedingly turbulent during the study period.

Diagnostic Tests for statistical assumptions

To find any breaches of regression assumptions in the panel regression

analysis results, as well as to check that the conclusions were valid and accurate, this study relied on secondary data and diagnostic tests. To ensure consistency of the estimator and avoid a misleading regression, unit root tests were performed on each variable to check for the stationarity of the residuals (Jung, 2005). To confirm that no spurious regression occurred, panel stationarity tests were performed (Brooks, 2008). The statistical assumptions were tested, including regression and statistics used. Independence, homogeneity, normalcy, linearity, and multiple co linearity were all tested. Table 1 shows the thresholds and values calculated for each of the four variables in the study:

Table 1: Summary of Diagnostic Tests

Variable	Unit root test P-Value	VIF Value < 10	Normality (Shapiro-Wilk Test) Prob>z	Transformation values Lowest P (chi ²)
Corporate Governance	0.0000	1.03	0.01231	0.041
GDP growth rate	0.0000	1.71	0.00000	0.000
Interest rate	0.0000	1.86	0.00000	0.003
Inflation Rate	0.0000	1.31	0.00000	0.002

Source: Author 2022

Since the variables were stationary, this eliminated the possibility of spurious regression and implied that the models used to describe the data were indeed reliable. The variance inflation test was done to determine if the composite explanatory variables were multi-collinear. The variance inflation factor was computed to estimate how much a variable's variance can be inflated as a result of interactions with other predictor variables. The variance inflation factors were also used to rapidly determine how much a variable contributed to the regression's standard error. In reality, the value inflation factor test tolerance scores for this study were set at over 0.2 or below 10, and the results revealed that the variables were not multicollinear (Cooper & Schindler, 2008). The test found that there was no multicollinearity among the explanatory variables because the VIF was less than the threshold value of 10 in all cases (Tabachnick, Fidell, & Osterlind, 1996).

The Shapiro-Wilk test was used to determine the data variables' normality. The study's results were ($p < 0.05$), less than 0.05, indicating that the data was not normal. To guarantee that the data distribution was not Gaussian, variables were normalized. This was accomplished through the use of data transformation. Using Stata commands, the best transformation with the lowest chi-square numeric values was chosen. Because the data was in the form of a panel rather than a time series, the Wooldridge test was used to check for autocorrelation in the

residuals of the panel regression and confirm that no significant autocorrelations occurred. If the regression produces p-values greater than 0.05, the Wooldridge test hypothesis is always rejected (Jung, 2005). This study looked into the normality assumption for such reasons as, the ability to determine confidence intervals and hypothesis tests to make population generalizations.

Finally, it allows for a better grasp of the distribution of a sample, which leads to a better understanding of data generation (Ross, 2017). As shown in table 1, the Shapiro-Wilk normality test, which has the power to identify deviations from normality due to skewness, kurtosis, or both, detected all predictor variables with p less than 0.05, demonstrating non-normality. The skewness was not asymptotically regularly distributed (p -value of skewness < 0.05) based on the 290 observations and the likelihood of the skew test. Finally, the null hypothesis could not be rejected, implying statistical insignificance at the 5% level. One method of ensuring that the data distribution was not Gaussian was to normalize variables. To promote data normalcy, data transformation was performed to normalize all dependent, intervening, moderating, and independent variables. The following moderating model was used to test if the external environment moderated the relationship between corporate governance and non-financial companies' value at the Nairobi securities exchange in Kenya.

$$Y_{it} = \beta_0 + \beta_1 CG_{it} + \beta_2 GDP_{it} + \beta_3 IntR_{it} + \beta_4 InfR_{it} + \beta_5 CG (GDP)_{it} + \beta_6 CG (IntR)_{it} + \beta_7 CG (InfR)_{it} + \varepsilon_{it} \dots \dots \dots (3)$$

Where P_1 is the coefficient linking the corporate governance to the result Y_{it} , when $EE_{it} = 0$, P_2 is the coefficient linking EE variable to the outcome when $CG_{it} = 0$, P_0 is the constant in the equation, and ϵ_{it} is the error term.

Correlation Analysis

Correlation analysis was used to determine how closely the variables were related. The relationship between the independent, moderating, and dependent variables for non-financial listed companies was examined using Pearson's product-moment correlation from 2010 to 2019. The following were the output's results:

Table 2 Pairwise Correlation Output

		Corporate Governance	GDP growth Rate	Interest rate	Inflation Rate
TOBINS Q	Pearson Correlation	-0.011	0.560**	-0.616**	-0.959**
	Sig. (2-tailed)	0.854	0.000	0.000	0.000

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

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

Listwise N=290

Table 2 indicates the results of the correlation analysis between Corporate Governance, GDP growth rate, interest rate, inflation rate and Corporate Value. The results indicate a statistically significant and positive correlation existed between GDP growth and Value of non-financial listed firms ($r = 0.560$, $p < 0.05$). Corporate value worsened with an increase in interest rate as well as with inflation rate all had a negative significant relationship ($p < 0.05$). The results also imply that greater corporate governance would result in a one-unit decrease in value of non-financial listed firms.

Hypothesis Testing and Findings

The study's major objective was to establish if External Environment had a

$$Y_{it} = P_0 + P_1CG_{it} + P_2GDP_{it} + P_3IntR_{it} + P_4InfR_{it} + P_5 CG (GDP)_{it} + P_6 CG (IntR)_{it} + P_7 CG (InfR)_{it} + \epsilon_{it} \dots \dots \dots (4)$$

Moderating effect in the relationship between corporate governance and the value of non-financial companies listed at the NSE. The attributes of external environment were GDP growth rate, interest rate and inflation rate which formed the basis of the analysis. The study's null hypothesis was as follows:

Hypothesis: The relationship between corporate governance and the value of non-financial listed companies on the NSE was not moderated by the external environment.

The test of hypothesis was done through a modified multiple regression models described as follows:

Table 3. Regression Results of Corporate Governance GDP, Interest Rate, Inflation Rate and value of non-financial listed firms

Variables	β	SE	Std β	Sig	t	R	R ²	AdjR ²	F
Model1						0.983	0.9662	0.9657	2037.6
Constant	3.9045	0.09062		0.000	43.09				
CG	-0.006	0.01059	-0.006	0.557	-0.59				
GDP	0.2711	0.02755	0.140	0.000	9.84				
INT	-0.006	0.00062	-0.134	0.000	-9.06				
INF	-0.724	0.01074	-0.840	0.000	-67.4				
Variables	β	SE	Std β	Sig	t	R	R ²	AdjR ²	F
Model 2						0.986	0.9722	0.9715	1408.3
Constant	2.112	0.010		0000	3.75				
CG	-.001	0.536	-0.001	0.957	-0.05				
GDP	2.229	0.001	1.153	0000	4.16				
INT	-0.004	0.110	-0.100	0.001	-3.38				
INF	-1.167	0.007	-1.355	0.000	-10.7				
CG*GDP	0.036	0002	0.873	0.000	4.85				
CG*INT	0005	0041	0.106	0.026	2.24				
CG*INF	0.164	0.010	1.939	0.000	3.99				

a. Model1 Predictors: (Constant), CG, GDP, INT, INF

b. Model2 Predictors: (Constant), CG, GDP, INT, INF, CG*GDP CG*INT CG*INF

c. Dependent Variable: Firm Value

(Source: Author, 2022)

As indicated in Table 3, the outcomes of the hierarchical models were used to investigate the moderating effects of GDP growth, cost of borrowing (interest rate), and yearly inflation on the relationship between composite corporate governance and company value. Model 1 and model 2 were entered in the analysis. In model 1, the results found a statistically significant relationship between corporate governance, inflation rate, and the value of non-financial listed businesses

(F= 2037.6 AdjR² = 0.9715). The coefficient of correlation (R) for corporate governance was 0.986 with a moderating effect, indicating a 98.6 percent significant relationship between GDP growth, borrowing costs, annual inflation, and the value of NFLCs. The 0.9662 coefficient of determination R² for the rate of change in company value, as measured by Tobin's Q, demonstrated the moderating effect of external environment components such as GDP growth and interest rate on the

relationship between corporate governance and value of non-finance companies. This result indicated that there was a considerable impact; nevertheless, more research into the other 0.0338 external environment influences that may not have influenced company value is needed.

The derived regression coefficient parameter (β) was used to investigate the impact of corporate governance on non-financial company value, including GDP growth, interest rate, and annual inflation. Table 3 shows that interest rates, inflation rates, and corporate governance are all adversely related to company value. Inflation, interest rate, and composite corporate governance all have reported coefficients of -0.006, -0.006, and -0.724, implying that when these variables decrease by one unit, firm value increases by 0.006, 0.006, and 0.724, respectively. The correlation coefficient $R = 0.986$ in model 2 indicates that there is a stronger association between corporate governance, inflation, interest rates, and GDP growth rates, among other factors. The rate and $FV_{it} = 2,112 - 0.001CG_{it} + 2,229GDP_{it} - 0.004_3INF_{it} - 1.167INTR_{it} + 0.036GDP_{it} *CG + 0.05INF_{it} *CG + 0.64INFR_{it} *CG + \epsilon_{it}$.

Discussion and Findings

The external environment, according to this study, had a considerable impact on the relationship between corporate governance and the value of non-financial listed companies on the NSE. According to the study, the value of non-financial companies listed on the NSE improved when interest rates and GDP rose. Inflation, on the other hand, had a negative influence on the value of non-financial listed firms on the NSE and should always be kept low where possible to boost the value of non-financial listed companies on

interaction terms were $CG * GDP$ growth rate, $CG * IntR$, and $CG * InfR$, with a firm value of 98.6 percent. The R^2 increased by 0.6% to 0.9722, implying that the effect of moderating variables on corporate governance may account for 97.22% of the change in company value.

This was a substantial influence that necessitated more investigation since it hinted to the possibility of other elements that could affect business value. With a high F of 1408 and the new adjusted R^2 at 0.9715. The interaction variables, therefore, were all statistically significant ($p < 0.05$), rejecting hypothesis 1 and demonstrating that the GDP growth rate, interest rate, and inflation rate all had a positive impact on the relationship between corporate governance and the value of non-financial listed firms on the NSE. The null hypothesis was therefore rejected and the regression prediction model looked like below after adjusting for the interaction term:

the NSE. As a result of changes in GDP growth rate, interest rate, and inflation rate as external environment factors, these findings add to a better understanding of the external environment's moderating effect on the relationship between corporate governance and non-financial company value. The findings support Ahmad, Bakar, and Junoh's (2021); Odhiambo's (2021); Megaravalli and Sampagnaro's (2018); Fischer's (2013); Muhammad and Syed's (2013); Acikalin, Aktaş, and Unal's (2008); Wuhan, Suyuan, and Khurshid's (2015) findings, but

contradict Machuki and Aosa's findings (2011).

This study shows that, regardless of company size, corporate directors and policymakers should highlight the importance of external factors such as GDP growth, interest rate, and inflation rate if they want to maximize the value of non-financial listed companies. This suggested that when planning and making investment decisions, external influences should be considered. Finally, a well-balanced mix of these external environment factors is always required to navigate current market opportunities, as most investors require a healthy dose of economic growth in their portfolios, which can potentially provide an appealing long-term reward associated with all-encompassing economic growth. When external environment considerations are combined with Tobin's Q, a solid theoretical framework for enhancing securities market value indicators are established (Fell, 2001). The agency theory that underpinned this study adds value by validating the argument that management should act as a proxy for shareholders and realign strategic interests through a deep understanding of external environment factors if value of non-financial firms is to be enhanced.

Limitations of the Study

The longitudinal cross-sectional data methodology used in this study had limitations arising from the publicly available annual financial reports it used in data collection. These reports are referred to as general-purpose reports created by management, and any inaccuracies in them would affect the study's dependability. The study's conclusions were limited to three

proxies of the external environment, namely GDP growth rate, interest rate, and inflation rate, in order to ascertain the moderating effect in the relationship between corporate governance and value of non-financial listed companies. Fiscal policies, employment, industrial output, and national income growth, all of which could have influenced the findings, were not taken into account.

The findings of this study further contribute to the body of knowledge in finance by focusing on the external environment's moderating effect on the relationship between corporate governance and the value of non-financial listed businesses, an area in which additional research is needed. The findings of the study helped to reconcile previously contradicting findings on the external environment's ability to regulate the relationship between corporate governance and non-financial firm value. The current research was conducted from a positivist perspective, with the goal of empirically testing ideas in order to support or invalidate existing theories in the field. The findings of the study back up prior beliefs by identifying relationships between external environmental elements.

Future Research Directions

A comparable study could be conducted using both quantitative and qualitative value measures to widen the scope of the current research. In a broader sense, this research looked into the relationship between non-financial listed company value and corporate governance. More research into the relationship in specific firm categories, such as nonprofits and state-owned companies, is essential. As a result, a greater grasp of the necessity of

understanding external environment factors in the management of various types of businesses would be beneficial. Such a study would look at the variances and similarities in roles in different entities while taking into account the listed firms' social, economic, cultural, and legal challenges. Finally, future researchers will need to include other financial and non-financial company performance variables in addition to Tobin Q.

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