

**FINANCIAL ETHICS AND INVESTOR CONFIDENCE  
AMONG MEMBERS OF THE NAIROBI SECURITIES EXCHANGE, KENYA**

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## DECLARATION

This research thesis is my original work and has not been presented for a degree in any other university or any other award.

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## **OPERATIONAL DEFINITION OF TERMS**

**Capital markets** - Is a subset of financial markets and is a market for long term sources of finance.

**Ethical Principles and Codes** - A set of regulatory guidelines that professionals / employees / individuals are expected to adhere to as they conduct day to day business and clarifies the difference between right and wrong while applying that understanding to their decisions.

**Ethical Effectiveness** - The degree to which ethical objectives are achieved and the extent to which targeted problems are resolved.

**Ethical Corporate Culture** - Refers to the shared values, beliefs, attitudes and standards that typify members of an institution / profession and are rooted in the goals, strategies and structure of that institution / profession, as well as the associations people attach to those behaviours.

**Financial Ethics** - Principles based on doing the right thing as well as having appropriate and acceptable moral values of behaviour in the financial markets.

**Financial Markets** - Markets in which individuals trade financial instruments and other fungible things of value at low contract costs and at prices that reflect forces of supply and demand.

**Investor Confidence** - Investor appetite for more securities in their portfolios while investing in the financial markets over a given period of time.

**Members of the NSE** - Investment firms (Investment banks and stock brokerage firms) as well as asset management companies who deal in securities (equity, debt, and derivative instruments) on behalf of investors (individual and institutional). They are firms that are authorised to purchase and sell securities on behalf of their clients.

**Money markets** - Is a subset of financial markets and is a market for short term sources of finance.

**Securities** - Financial instruments such as shares, bonds, derivatives and commodities including precious metals and agricultural goods that represent an ownership position in an asset.

**Unethical behaviour** - Is an action that falls outside of what is considered morally right, proper or good for a person, a profession or an industry.

## **ABBREVIATIONS AND ACRONYMS**

<b>ATS</b>	-	Automated Trading System
<b>CBK</b>	-	Central Bank of Kenya
<b>CDSC</b>	-	Central Depository and Settlement Corporation
<b>CEO</b>	-	Chief Executive Officer
<b>CFA</b>	-	Chartered Financial Analysts
<b>CFO</b>	-	Chief Finance Officer
<b>CMA</b>	-	Capital Markets Authority
<b>GDP</b>	-	Gross Domestic Product
<b>ICIFA</b>	-	Institute of Certified Investment and Financial Analysts
<b>ICPAK</b>	-	Institute of Certified Public Accountants of Kenya
<b>ICPSK</b>	-	Institute of Certified Public Secretaries of Kenya
<b>IMA</b>	-	Institute of Management Accountants
<b>IPO</b>	-	Initial Public Offer
<b>MRA</b>	-	Marketing Research Association
<b>NSE</b>	-	Nairobi Securities Exchange
<b>SPSS</b>	-	Statistical Package for Social Science

## ABSTRACT

Ethics has been a momentous consideration in many professions including business, politics, medicine, law, and almost every other area of our society. In order for investors to delve into financial markets, there is a need for intermediaries to act in a fair manner and bound by legal regulations co-ordinated with financial ethics. Investor confidence, which is speculative in nature has changed in imperative ways through time and these changes have significant consequences for financial markets. Ensuring investor confidence enriches investors' participation in the market activities and emboldens saving as well as channeling of savings into productive real investment, therefore nurturing capital accumulation and efficiency in investment enhancing real sector growth. The drive of this study was to examine financial ethics and investor confidence among members of the Nairobi Securities Exchange, Kenya. The theoretical grounding of this thesis was based on the agency, virtue, consequentialist, deontological and the efficient market hypothesis (EMH) theories. Research data was obtained using questionnaires that were availed to active investors (individual and institutional) who invest within the Nairobi Securities Exchange and the sample population for the study was 385 respondents. The study utilized purposive sampling in selecting respondents from the NSE. The study adopted both descriptive statistics and inferential statistics as the main unit of analysis using multiple regression equations probit model. The data collected was analyzed using the Statistical Package for Social Science (SPSS) version 20. Descriptive statistics were presented using mean, standard deviation, frequencies and percentages while inferential statistics utilized a multiple regression analysis with a moderating variable at 5% significance. The study findings established a positive and significant relationship between ethical principles and codes ( $R = 0.145$ ,  $Sig = 0.026$ ) and the level of investor confidence. The findings also presented a significant relationship between the level of investor confidence and ethical effectiveness ( $R = 0.373$ ,  $Sig = 0.025$ ). In relation to ethical corporate culture, the findings again showed a positive significant relationship ( $R = 0.435$ ,  $Sig = 0.013$ ) on the level of investor confidence in financial markets. The legal enforcement of the capital market regulations was found to have a significant moderating effect ( $R = 0.337$ ,  $Sig = 0.024$ ) on investor confidence among members of the Nairobi Securities Exchange, Kenya. The study concluded that additional initiatives should be done to foster investor confidence within the financial markets in Kenya such as enhancing financial ethics. The study correspondingly concluded that ethical effectiveness had the highest magnitude of influence on investor confidence at the NSE. It was therefore recommended that CMA should ensure all the employees of the member firms should have the required training and skills for them to contribute to increased investor confidence. Besides, CMA should ensure efficacy relating to laws and policies that exist to guide the conduct of members of the NSE.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

It has been established that investors who are more self - confident transact more than investors who are less self - confident (Barber & Odean 2001; Statman, Thorley, & Vorkink 2006; Glaser & Weber 2007; Grinblatt & Keloharju 2009). A look at the history of investor confidence in financial markets and the related literature following; the Ponzi schemes of the 1920's , the Dirks and Boesky insider - trading cases of the 1980's, the Asian financial crisis of the 1990's and the 2007–2009 financial crisis points to two conclusions: First, history replicates itself and second, when investment professionals depart from questions (relating to legal violations, right / truthful actions and whether one was on the other side), issues are determined through a copse of laws and regulations that promote interpretations, exceptions and obscure judgments (Jennings, 2013).

The upholding ethics by investment firms is key to fostering confidence and creates a good environment within the financial markets. Investors are guaranteed that these firms will work with due diligence to maximize their capital investments guided by high levels of integrity and moral judgment. Ethics in the financial markets nurtures confidence of individuals within the market and are key to creating an efficient market. Sound ethics is essential to the entire industry (CFA Institute, 2010).

The periodic waves of unethical practices in financial markets have been trailed by extensive scrutiny and reforms (Weirich & Rouse, 2003; Jennings, 2005). The bull market in the USA in the 90's had many analysts have strong incentives to fortify their banks' investment duties. These inducements tainted the objectivity of their

research and recommendations. As a result of the successive public objection, the settlement amongst federal and state regulation bodies and the leading Wall Street companies imposed organisational transformations and required review of analysts' recommendations (Fisch, 2007). During these scandals, professionals within financial markets did not administer their ethical and moral image well from the perspective of the public and investor confidence dwindled. Gallup Polls done in the following years on the apparent unethical practices and public confidence of different professions indicated that "investment bankers" were quickly losing their status and that "stockbrokers" had unceasingly been assessed as among the most unethical professions (Oberlechner, 2007).

In Asia, retail (individual) investors in Japan complained about intermediaries churning their accounts and performing other acts that resulted in losses. However, Japan's "conflict - avoidance ethos" discourages victims from reporting such activities (Hardy, 1992). In 1993, Thailand's Securities and Exchange Commission brought charges of stock price manipulation against many individuals. Although the accused were later acquitted, the destructive enforcement action and compliance to ethical procedures was ascribed with ending years of unethical trading practices on the Stock Exchange of Thailand (Owens, 1993). During the late 90's financial turmoil in the Asian market, the region was blamed for having inadequate policies on governance of firms, favouritism, financial scandals, and lack of adequate openness in regard to financial information. To restore trust in the Asian market, all the participants needed to join hands to ensure the system did not only endure market failures but could also function efficiently and with ethical diligence promoting investor confidence (CFA Institute, 2010).

In Kenya, similar trust concerns by members of the NSE have been evident. Francis Thuo and Partners stockbrokerage firm in 2007, Nyaga Stockbrokers as well as Discount Securities in 2008 and more recently, Tsavo Securities Limited in 2012, were either put under statutory management, denied a licence, reprimanded or penalized for reasons of unethical acts such as unauthorized trading in clients' shares, corporate governance challenges, churning, analyst's practices involving volume trading and failure to provide information to Capital Markets Authority during its conduct of investigations (CMA, 2013). In the CMA annual report of 2015, the regulator penalized seven investment banks for manipulating share prices at the NSE, leading to enormous losses for investors. (CMA, 2015).

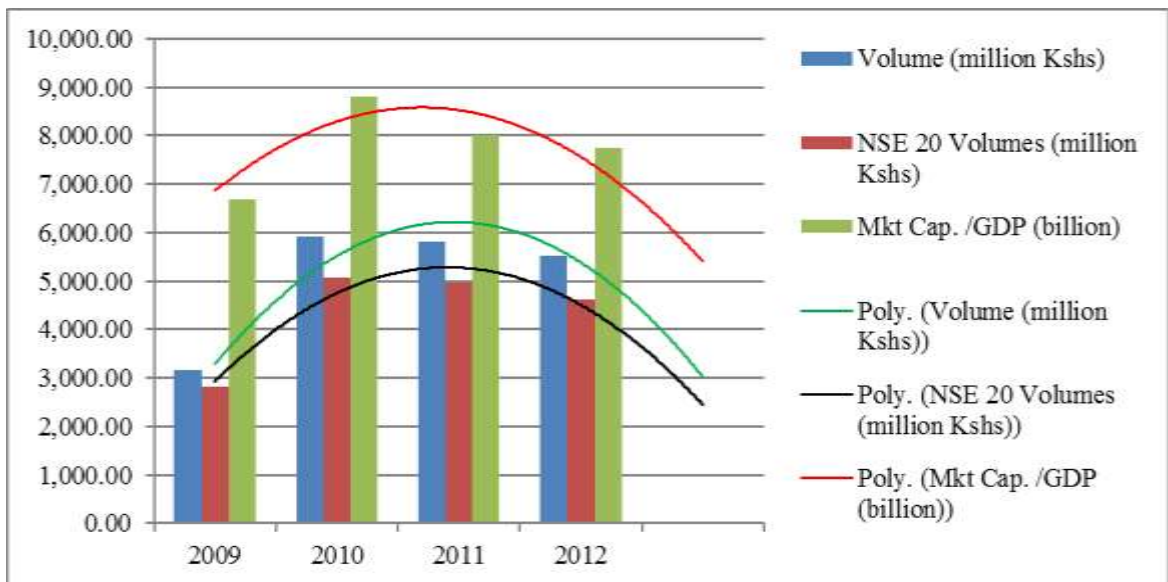
Having tarnished the confidence of the investing public and also engrossed the anger of the regulators, the financial markets need to be forced to query and reassess their ethical rudiments (Oberlechner, 2007). The truth is that a great number of factors intrinsic within the financial markets make the profession susceptible to ethical breakdown lowering the confidence of investors. To start with, enticements to profit from unethical behaviour are often greater in the profession than in any other field (Bernstein, 2006). In addition, the professional impediments to penetrating the financial markets are largely limited. Consequently, the obstacles may be traversed by a variety of individuals from a variety of professional backgrounds. One conclusion could be that attaining a common area for a generalized ethical understanding is problematic (Caccese, 1997). Determining whether an action is good or bad from an ethical perspective is dissimilar from evaluating it from a legal perspective. Although laws intend to codify ethical thoughts into specific rules and clear regulations, ethics and the law are poles apart (Crane & Matten, 2004).

### **1.1.1 Investor Confidence**

The NSE is a momentous avenue for alluring foreign direct investments and to bring forth local residents to invest in securities. Kenyan companies engage in voluntary disclosures in order to increase the worth of their stocks resulting to investor confidence (Barako, 2007). Safeguarding confidence boosts investors' participation in financial market activities. To enhance the customers' trust, financial markets need to be fair with customers having access to information, a market in which the interest of the public and investors as opposed to instantaneous profits is the primary aim of those concerned. In addition to effecting transactions at reasonable prices, it should be a fundamental principle of business practice that any customer should be advised of their legal association (Hanrahan, 1947).

The performance of the equity market is reliant on on a number of influences including the perception of investors and the general health of the economy. Some measures of the performance of listed companies on the NSE include; the total NSE volumes, NSE 20 - share volumes and the ratio of market capitalization to GDP (Kithinji & Ngugi, 2010). Explanations for the association between investor confidence and recurrent trading focus on hypothetical models about how investors process and comprehend information signals about a listed firms financial statements. Self - assured investors would trust their own pointers and / or overweight these pointers when investing in the financial markets (Odean, 1998). The ensuing variance of belief is assumed to lead to more trading by providing more motives to trade. Generally, self - assured investors are considered to be more keen to act on their individual beliefs by investing more in the financial markets (Graham, Harvey, & Huang 2009; Deaves, Lüders, & Luo 2009).

The association between total NSE volumes, NSE 20 - share volumes and the ratio of market capitalization to GDP for the period between 2009 and 2012 is shown in figure 1.1. It is evident that the indicators tend to move together closely and the gradual decreasing nature of the indicators exemplify relatively low participation by investors in the securities market which seem to be more pronounced in 2012. Observations as estimated by the trend lines using polynomials indicate a slight increase followed by a decreasing trend over the 4 year period.



**Figure 1.1 Investor Participation in Securities Market**

(Source: NSE and CBK, 2015)

Statistics from the CMA annual reports specify that bond turnover as from financial year 2012 / 2013 and 2013 / 2014 reduced from 617.84 billion to Kshs 411.15 billion representing a 33% decline as a consequence of declining interest rates and rising bond prices which eroded bond yields. Other possible reasons could be accredited to the cases of some members of the NSE engaging in fraudulent bond transactions contrary to the requirements of Section 31 (5) of the Capital Markets Act and their

subsequent penalization reducing investor appetite and trading activity in the bond market.

### 1.1.2 Financial Ethics

Reports have suggested that the regulator has been receiving complaints on listed companies and market participant unethical activities from investors (CMA, 2010 and 2015). Complaints are an important source of evidence on potential problem spots and violations. This was the chief cause of onsite investigations within the Capital Markets. More prominently, complaints may lead to spontaneous regulatory assessments (Gakeri, 2012).

**Table 1.1: Causes of Onsite Capital Market Investigations**

<b>YEAR</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Investor Complaints	7	33	65	57	199	495	415
Violation of Regulations	2	1	2	1	1	2	0
Fraudulent Activities	2	5	3	0	1	0	36
Mismanagement of Companies	4	1	3	1	1	2	0
Operating without a license	12	2	0	0	1	2	0
<b>TOTAL</b>	<b>27</b>	<b>42</b>	<b>75</b>	<b>59</b>	<b>204</b>	<b>501</b>	<b>551</b>
<b>Number resolved</b>	<b>unreported</b>	<b>37</b>	<b>55</b>	<b>47</b>	<b>184</b>	<b>216</b>	<b>308</b>

(Source: Gakeri, 2012)

The number of complaints lodged were large between 2006 and 2008 though the number reduced towards the year 2009. Possible explanations for the increase according to Gakeri was as a result of the substantial subscriptions that met the Safaricom and KenGen IPO's between 2006 and 2008 which led to the ultimate increase in number of investors locally and growth in responsiveness on the existence of the stock market. In a twist, the failure of three stock brokerage firms between

2007 and 2009 following unethical practices by members of the NSE caused ripples and reduced investor confidence within the financial markets. Third, could have been a sign of increase in investor rights or responsiveness by the CMA. Due to the deficiency of information, it was unfeasible to get a clear picture of the number of fraud cases in 2009. This was against a drop on improvements in other areas (Wafula, 2010). Noteworthy, the CMA disclosed neither the nature nor character of the fraud or whether it was connected to market intermediaries or listed companies. Though the evidence from the table shows that the regulator has been dealing with grievances, to the contrary, majority of these have been rolled over year on year (Gakeri, 2012).

According to the CMA annual report of 2015, the number of cases relating to fraud steadily grew from 22 to 36 between 2014 and 2015 indicating an increase of electronic fraud which encompasses the unsanctioned access and attempt or robbery of high net worth clients' accounts through theft of identity and the altering of client's details in the broker and CDSC database to facilitate a swindle by the members of the NSE (CMA,2015). These complaints and increase in fraud cases indicate that ethical issues in the financial markets in Kenya contain queries that could be addressed by standards such as the CFA Institute Code of Ethics and Standards of Professional Conduct which are applicable to professional holders of the CFA charter as well as ensuring that members of the investment profession engage in recurrent trainings on integrity, professionalism and ethics in financial markets. Investment professionals in Kenya are not sturdily bound to any ethical principles and standards as they go about their onuses.

Ethical behaviour among members of the NSE lie in making well-informed research reports that are built on diligence and thoroughness, plagiarizing, producing research to back up specified conclusions, giving unfair preferential treatment to certain

clients, leaking inside information, telling lies about a company's (expected) performance, front running (using new material information to trade for one's own accounts before trading for clients' accounts), and hiding from their employer or customer and conflict of interest (Veit & Murphy, 1996). Jennings (2013) argues that investment professionals should be steered by three main issues in order to create trust; the codes, laws and the regulations that would ensure investor confidence is enhanced in financial markets.

### **1.1.3 Legal Enforcement**

The Capital Markets Authority (CMA) is the regulatory body charged with licencing and regulating the capital markets in Kenya. The body is assigned the role of encouraging, regulating and facilitating the expansion of an orderly, fair and efficient securities market as well as reduce systemic risk in the Kenyan capital markets. As part of the decree to enforce contracts at the NSE, the CMA came up with the Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011 (CMA, 2011). The regulations stipulate the standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their activities. The regulations also call for market intermediaries to avail the CMA with all information about the clients and the state of affairs surrounding their investments within financial markets.

### **1.2 Statement of the Problem**

Preserving investor confidence through ethics is key to the public having trust on financial markets and the finance and investment profession (CFA Institute, 2010). A look at studies done on investor confidence within financial markets from developed economies by Grinblatt and Keloharju (2009), Hoffmann and Post (2013) and Langer, and Weber (2013) all conclude that investors tend to be highly vulnerable to unethical

practices by firms in the financial markets. They further posit that a code of ethics as well as frequent ethical training exemplifies rules of compliance that aim at avoiding the adverse implications relating to trust within a given investment company and the investment profession as a whole.

The cases of unethical behaviour by Francis Thuo and partners, Nyaga Stocks brokerage firm, Discount securities and Tsavo Securities as well as the increase in fraud cases by members of the NSE are a clear indication that activities of the investment professionals lack financial ethics. Studies conducted in Kenya by Bitok, Kiplagat, Tenai, and Rono (2010); and Abdullahi (2012) established that investor confidence was low following the unethical practices by several members of the NSE ranging from fraudulent bond transactions, unauthorized sale of clients shares, insider trading and non - payments of claims to transfer of investor's shares. This has resulted to lower investor appetite and interest for various investment products. This study therefore looked at the effect of financial ethics on investor confidence among members of the Nairobi Securities Exchange, Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

To determine the effect of financial ethics on investor confidence among members of the Nairobi Securities Exchange, Kenya.

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives:

- i. To assess the effect of ethical principles and codes on investor confidence among members of the Nairobi Securities Exchange, Kenya.

- ii. To establish the effect of ethical effectiveness on investor confidence among members of the Nairobi Securities Exchange, Kenya.
- iii. To examine the extent with which ethical corporate culture influences investor confidence among members of the Nairobi Securities Exchange, Kenya.
- iv. To determine the moderating effect of legal enforcement on the relationship between financial ethics and investor confidence among members of the Nairobi Securities Exchange, Kenya.

#### **1.4 Research Questions**

This study aimed to answer the following research questions:

- i. What is the effect of ethical principles and codes on investor confidence among members of the Nairobi Securities Exchange, Kenya?
- ii. How does ethical effectiveness affect investor confidence among members of the Nairobi Securities Exchange, Kenya?
- iii. What is the effect of ethical corporate culture on investor confidence among members of the Nairobi Securities Exchange, Kenya?
- iv. How does the effect of legal enforcement moderate the relationship between financial ethics and investor confidence among members of the Nairobi Securities Exchange, Kenya?

#### **1.5 Significance of the study**

The study will be contributory to the Government on the financial malpractices within the financial markets in Kenya. This will, therefore, be evocative to the Government about the efficacy of financial ethics in enhancing investor confidence among member firms in the financial markets in Kenya. This study will aid the Capital Markets Authority (CMA) when conducting seminars on the effect of financial ethics in re -

establishing investor confidence in the financial markets thereby educating the public on the benefits and importance of restoring ethics within the markets. Specifically, the CMA would be able to extend the knowledge of the effect of financial ethics in promoting investor confidence among members of the NSE in financial markets within the region. It is anticipated further that the recommendations of this study will make an important contribution and generate knowledge to researchers and scholars on the understanding of the factors that influence the financial ethics for members of the NSE in Kenya. This will be useful in ensuring that past transgressions by these members would be eliminated and assist in developing an ethical framework for professionals within the investment industry as well as an ethical training curriculum for members of the NSE in the Kenyan financial markets. The findings of this study will lay a foundation for future academicians undertaking research in the similar field.

### **1.6 Scope of the Study**

The study covered a sample of investors including institutions and individuals who have investment funds with members of the NSE as at 31<sup>st</sup> December 2015. The independent variables were the financial ethics components of ethical principles and codes, ethical effectiveness and ethical corporate culture while the dependent variable was the promotion of investor confidence component of investor portfolio holding. The study was carried out within Nairobi as a majority of individual and institutional investors dwell in Nairobi. A majority of members of the NSE are resident in Nairobi and, as a result, major financial, investment, and operative activities in financial markets are done by them.

### **1.7 Limitations of the Study**

Lack of current and local literature on financial ethics and its effect on investor confidence constrained the literature review and concentrated more on the developed

economies while making use of studies done in line with ethics in different corporate settings within those economies. Some of the respondents were reluctant to provide the required information due to sensitivity of the information being sought.

### **1.8 Organization of the study**

The thesis is organized into five chapters. Chapter one forms the foundation on which the study was conducted and gave a detailed background, statement of the research problem, objectives, as well as the significance of the study. Chapter two requires information relating to the theoretical reviews used in carrying out the study and empirical reviews. Chapter three details the methodology used in terms of research and sampling design, the models to be used, data collection and analysis techniques. Chapter four involves the presentation of the data collected as well as analysis and interpretation. Chapter five details the conclusions and recommendations relating to financial ethics within the financial markets in Kenya as well as proposal of areas for further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the theoretical literature and examines the various theories that contribute and form the basis for ethics in the investment profession as well as the investor confidence that exists between individual stakeholders operating in financial markets. This chapter will further review the empirical literature relating to corporate organisations that have a similar setting to that of stock brokers and investment banks but within different industries.

#### **2.2 Theoretical Review**

The attention was on five ethical theories, representing diverse moral philosophies that investment professionals could consider applying to reason their verdicts and actions within organizations since individuals use a wide range of ethical criteria in order to evaluate their decisions and behaviours (Reidenbach & Robin, 1988; Schumann, 2001; Shultz & BrenderIlan, 2004; Granitz & Loewy, 2007).

##### **2.2.1 Agency Theory**

This theory was proposed by Ross (1973) who discoursed that an agency relationship arises when one or two parties allows one party to act on their behalf. This theory has undergone numerous alterations and could be applied to relatively different setups. The study was guided by the Ferma and Jensen (1983) construct of agency theory. It identifies the agency relationship between an agent and a principal (Ferma & Jensen, 1983); agents do not own the capital the principal invests, as such they may commit moral hazards such as eluding duties to enjoy leisure and hiding inefficiencies to avoid any monetary losses or to enhance their wealth at the cost of the shareholder. A

problem of information asymmetry accrues whereby the principal and the agent have access to different levels of information, in truth this means that the principal will be at a shortcoming because the agent has more information that he can obtain on the functioning of the market.

In the context of investor confidence, agency theory sights investment professionals, more precisely, the stock brokers / investment banks and board members as being an essential monitoring device to ensure that any problem that may arise by the agency conflict has to be curtailed to keep a superior working relationship between the investor and their agents (Gul & Leung, 2004). In theory, the stock brokers are carefully chosen by the management or shareholders at their will. If these brokers wish to stay as agents of the investors, they take choices which exploit the wealth of their shareholders. However, if they make any verdicts that in the view of the shareholders are not meant to enhance their wealth, it will lead to the breach of trust that exists between the two parties (Shah, 2014).

Klein (2009) while studying the principal - agent problems in the financial crisis of 2007 - 2009, suggested that the interests of the investment professionals (agents) in the financial institutions were not aligned with the shareholder interests (principal). The shareholders were concerned in the most lucrative strategies to make the company most profitable in the long run, which would maximize their stock value and dividends. But in contrast, investment professionals made the most of their margins in the form of bonuses and commissions by trying to make short term profits, at the cost of high and long term risk. After receiving the bonuses and commissions, the investment professionals were not liable for their risky deeds. The short term strategies which were used before the 2007 financial crisis resulted in a sharp decline in stock value during the crisis.

In this research, this theory was used to guide the construct of ethical principles and codes. In line with the arguments of the advocates of this theory, the study built on agency theory to demystify how the personality of investment professionals guided them in aligning the information asymmetry between them and investors. Further the theory offered guidance on the constructs that helped to shape up investor confidence between the investor and investment professional in their principal - agent relationship.

### **2.2.2 Virtue Theory**

The virtue theories are built around the works of the greek philosophers; Plato and Aristotle. Though most of their work did not survive the test of time, their input in virtue theories has been a central point in modern day ethical studies (Pence, 1993). This research will lay its foundation on virtue theories in line with the works of Pence (1993) in his Blackwell publications. Virtue ethics (or theories of virtue); Pence (1993); looks at the character, the ambition, and objective of the decision maker. The concept of ethics in virtue ethics takes a universal approach and not a precise approach, because it goes beyond the assessment of isolated issues or circumstances. It assesses ethics from an agent - based viewpoint and not an action - based stance; it addresses characteristics of the decision maker's character rather than particular procedures (as in the rules and regulations for actions in deontological theories described below) or outcomes of actions (as in the case of consequentialist theories described below as well) (Dobson, 1997).

Virtue ethics reference Aristotle, who defined in nicomachean ethics, the individual pursuit of contentment through moral excellence. As the name suggests, virtue ethics contemplates personality to be very significant, but virtue ethics also strongly accentuates the need for a society that nurtures the virtues. In virtue ethics, ethical

judgment is viewed as something that goes beyond the observance to regulations. Instead of regulations, ethical role models occupy a significant part in developing ethical ruling (Dobson, 1997).

Warren Buffett, who was alleged by numerous individuals as the personification of truthfulness when he was at the Salomon Brothers during the U.S. Treasury auction scandal; he took charge of the firm in 1991. Buffett immediately stressed the significance of leading from the top, and he stated that he would not accept activities “that fall within the rules and regulations” (Hylton, 1991). Thus, in the theory of virtue, the query, what should I do? is rooted in the query, what sort of individual should I be? (Maclagan, 1998). Until recently, virtue ethics was not considered very significant in academic efforts to comprehend ethics in the financial markets because of the tension between its focus on investment firms and the primary problem - oriented thinking of the employees in those firms. Going beyond ethical decision making has gained in prominence, however, as skepticism about management techniques and theories have also grown (Maclagan, 1998).

This study applied the agent - based approach of virtue ethics in seeking to understand what drives investment professionals in their decision - making. This theory would consequently be essential in anchoring the construct of ethical corporate culture and would play a key role in directing how investment professionals would base their decisions if no standard corporate culture was in place in the financial markets.

### **2.2.3 Consequentialist Theory**

Consequentialist theory is a class of good normative theory that was coined by Anscombe (1958); that bases moral evaluation of rules, acts and institutions solely on the goodness of their consequences. Consequentialist theory concentrates on the

consequences of the decision. This theory, also referred to as teleological theory, arises from the Greek expression *telos*, meaning end or goal. Obviously, the consequence of one's action is important in ethical decision making. Hence, finance experts or professionals are expected to be acquainted with this line of track to decision making. When they invest funds on behalf of investors, they assess the utility of the decisions' outcomes and select the best outcome that provides the highest utility (For instance, the strategy that produces the highest risk adjusted rate of return) (Robertson & Fadil, 1999).

Only decision results are of significance in this theory: The best ethical decision leads to greatest benefits (to the society or to all key stakeholders); an unethical decision impacts undesirably and results in grievous harm (Trevino & Nelson, 2007). The ethical utilitarianism reflected in this theory aims at having the best utility of a decision's result to society; an ethical decision at the same time maximizes the good results and minimizes the bad ones to those affected by the decision. Therefore, this theory of ethical behaviour are ends based (Jones, Felps, & Bigley, 2007).

Although the theory is valuable the ethical arena of a certain choice, efforts to link choices entirely on this approach faces serious boundaries. Certainly, decision makers don't have the entire information essential to forecast all implications for everyone affected by a decision, and getting this information may be impossible. For example, Jeffrey Skilling, the Chairman and CEO of Enron Corporation, permitted CFO Andrew Fastow an exemption from the conflict - of - interest requirements in the firms code of ethics by allowing Fastow to form a "special purpose vehicle" that would reduce the company's exposure to fees at investment banks. When Skilling acknowledged to this process, he may not have expected the negative consequences of this conflict of interest but could have concentrated on the possible positive advantage

of the reduced fees to Enron as well as the the company's stockholders (Eichenwald, 2005).

In line with the above discussion, this theory was essential in laying the foundation for the research arguments on ethical effectiveness within the financial markets. More so, the theory provided direction on what primarily drove investment professionals to ensure they followed the legal procedures laid out by the regulatory bodies instead of bearing in mind ethical standards of the investment profession as a whole.

#### **2.2.4 Deontological Theory**

The deontological theory culminates from the works of the German philosopher Kant in the 18<sup>th</sup> century (Louden, 1986). This theory of ethics refers to the adherence of the verdict makers to standards such as fairness, integrity and trust (Trevino and Nelson, 2007). Hence, deontological ethics resolves the query of how investment experts should approach ethical dilemmas by ensuring that they resolve specific situations by using one or more universal standards to make the decision (Dobson, 1997). This theory therefore is rule based (Kidder, 1995).

According to Kant (1997), Kidder notes that decisions made in a given set - up should be in harmony to the way in which they would wish all to act in that set - up. As an example of the standard is the Rule of: reciprocity; "Do unto others as you would want them to do unto you". Therefore, investment specialists must query themselves as to whether they would want the standard to which they are acting to become an suitable standard, valid for everybody within the profession.

Challenges when considering a deontological way to decision making may arise when two appropriate principles are in conflict, like in many ethical crossroads. For instance, the employees of an investments firm may find themselves wedged in a

perplexing situation between commitment to their firm's interests and trustworthiness as with respect to their investment clientele (Oberlechner, 2007). A deontological style at times may not be able to resolve the query of which side takes preference over the other. In addition, in countless cases, deontological ways to ethical decision making severely conflict with consequentiality arguments, as in the case of the 1940s German administrator who always told the truth and informed the Gestapo about the Jewish family hiding place in the upper floor (Trevino and Nelson, 2007). This theory contributed in laying the foundations for ethical effectiveness. Using this theory, the study was able to reveal how personnel in the financial markets are able to create a standard relationship in the market with regard to treating all clients uniformly.

### **2.2.5 Efficient Market Hypothesis**

The efficient market hypothesis (EMH) championed by Fama (1965) forms the cornerstone of modern finance. When the market is efficient, all available information is fully and instantaneously reflected in a securities price, and no investor or trader is capable of making abnormal profit. When the information set is limited to past prices and returns, the market is said to be weak - form efficient and the assets return is purely unpredictable from the past information. The strong form efficiency suggests that security prices reflects all the apposite information to the worth of that security, whether or not the information is available to existing and potential investors (Fama, 1970).

Where the members in the securities market behave rationally and have the same information, share prices will at all times replicate all available information about firms' fundamental value (Fama, 1970). Since it was first advanced in the 1960s, this has been one of the most important hypotheses in financial economics. However, over the years, both the theoretical foundation for this hypothesis and the previously strong

empirical support for it have been challenged. This theory was significant in demonstrating how financial ethics could help improve the information accessibility by stakeholders which would be needed to enhance investor confidence and provide better returns to investors.

### **2.3 Empirical Literature Review**

The activities within any profession need to be steered in an ethical manner not just due to the significance those actions play to the profession, but due to the fundamental role they play in society. Acting unethically as professionals would result in great harm to the economic balance of a state or region (Aragon, 2011).

#### **2.3.1 Ethical Principles and Codes**

According to Cowton and Thompson (2000), empirical studies that are available on the effect of ethical principles and codes are restricted. Similarly, Somers (2001) argues that there is scarcity of empirical research into the effectiveness of ethical principles and codes. The empirical basis of available studies which examine the effectiveness of ethical principles and codes differs greatly as well as the level of complexity in the methodology.

Murphy (2009) studied how financial planning was tailored into the definitions of industry or profession. A set of attributes of professionalism were derived from the literature public / societal responsibility, a body of theory, professional authority and ethical responsibility - a sample of 78 financial planners were asked to provide attitude statements relating to professionalism as well as demographic information of their business. A questionnaire was used as the instrument for collecting the data and it was concluded that evidence from the attitude statements provided by the

respondents to the attributes of professionalism, failed to achieve a satisfactory level of professionalism for any of those attributes.

Kihiu (2010) conducted a study on the factors influencing investor confidence after an automated system was implemented at the NSE. The researcher used questionnaires to analyze the effects of the process of digitalization of the trading system. The researcher employed a systematic sampling method on a sample size of 50 MBA students. The findings of the study revealed that there were doubts in the minds of investors in relation to the digitalization of the Kenyan securities exchange. Key to this disgruntlement was what investors considered as lack of transparency and accountability in the new systems since there were no individuals that could be identified to ensure compliance with regulations in relation to transparency and accountability in the trading systems. Further, it was expected that lack of a clear framework on information flows within the markets would exist after the digital system was implemented.

The CFA Institute and the Elderman Berland jointly sought to establish dimensions that shape investor perceptions of trust in investment managers, as well as the actions that helped to build trust. The research was employed to individual & institutional Investors in the US, UK, Hong Kong, Canada, & Australia targeting 2,104 investors. The study used a 20 minute online survey as the primary source of information. It was concluded that being transparent was the first way that investment managers could take to build trust by articulating success and failures, clearly bringing out unavoidable conflicts of interest, and identifying potential issues to the forefront early and often. Second, it was important for investment professionals to maintain performance while championing engagement, integrity, and purpose (Elderman Berland, 2013).

Stevens (2013) explored whether a code of ethics could alter the managers behaviour. The research was intended to learn how employees came to their understanding of what it meant to be ethical in an organization. A questionnaire was used to collect data from two hotels located at different Midwestern cities in the US belonging to an upscale hotel chain noted for quality properties. The general managers approved the study and human resource directors administered the survey to 215 employees. The study findings stated that codes appeared to have utility for communicating ethical responsibility in organizations. While codes were widely used in organizations, very little information was available about their effectiveness or success as communication vehicles.

### **2.3.2 Ethical Effectiveness**

Ford and Richardson (2013) quote Ferrell and Skinner, 1988, who used questionnaires, panel sessions and interviews among 1,500 marketing researchers where the frame used was the membership list of the Marketing Research Association (MRA) of the USA. The study used a multiple regression analysis. The findings indicated that existence of an ethical code explained 28.1% of the variance in the ethical behaviour of subcontractors. Additionally, formalization explained 8.9% of the variance, and the enforcement of the ethical code 1.9%. All variables combine to explain 47.2% of the variance in ethical behaviour in the data subcontractor model.

In Australia, a study to survey the process, outcome and output measures of professional standards from a sample of 3000 teachers was carried out to gain valuable information on the influence of professional programmes on their sense of efficacy, their knowledge, level of practice and collaboration with peers. The study found out that professional programmes help to create stronger relationships between members of a profession. This, the researchers concluded, was a good measure of the

process, outcome and output of such professional programmes (Meiers, & Ingvarson, 2005).

### **2.3.3 Ethical Corporate Culture**

According to Trevino, Butterfield and McCabe, (1998) and the Ethics Resource Centre, (2003) ethical behaviour is expected to be higher in institutions where leaders and norms promote and support ethical conduct and where ethical conduct is rewarded and unethical conduct punished, than in organisations without such characteristics. This view was supported by Smith, (2002) who proposed that inferior ethical decision making and unethical acts could be a function of a deficiency in organisational commitment or structure to establish proper climate for sound ethical activities. The theory further suggests that encouraging an ethical climate by rewarding ethical behaviour and by giving signals to employees / advisers that the institution expects certain types of behaviour in certain circumstances, can be a good force on individual behaviour and decision - making (Smith, 2009).

Somers, (2001) sought to investigate whether unethical behaviour was less prevalent in organizations that adopted corporate codes of ethics than in those that did not formally adopted such codes, the sample was drawn from the membership of the Institute of Management Accountants (IMA), and was comprised of 613 management accountants working in a wide array of industries in the United States. Potential participants were contacted by mail and were asked to complete a questionnaire focusing on ethical practices at work. It was concluded that respondents in organizations with formal codes of ethics were less aware of wrongdoing than were respondents in organizations without formal codes of ethics.

Kweyu (2010) studied the impact of corporate culture on the performance of Kenya Airways making use of interviews and content analysis among staff of the organisation. The researcher argued that organizations should not only establish a corporate culture, but all employees should be aware of and be able to live by that culture. He criticized the local firms for lacking commitment to their corporate culture, as such, their ability to perform was based on their compliance with a culture that was forced down to firms through the regulatory laws and agencies in charge.

Eccles, Ioannis and Serafeim (2012) studied the impact of corporate culture on sustainability on corporate behaviour and performance. The study employed a quasi - experiment systematic sampling procedure that involved the use of a weighted indices to select the matched sample of 180 companies, 90 of which they classified as high sustainability firms and 90 as low sustainability firms, in order to examine issues of governance, culture, and performance. The study found out that the voluntary adoption of the corporate policies enhanced the responsibility of managers and thus, had more organized procedures for stakeholder engagement. The study further, pointed out that firms with high sustainability of their corporate culture tended to outperform other firms in both stock and accounting aspects.

#### **2.4 Summary of Literature Review and Research Gaps**

Ethics in the financial markets encompasses principles and standards that guide individuals and organisations as to what is right or wrong. Because individuals and groups in an establishment may not have embraced the same set of values, disagreements may become noticeable. Questionable decisions and actions may result in disputes that must be resolved through negotiation or even litigation. Ethical principles and codes, ethical effectiveness and ethical corporate culture instilled into meaningful policies that spell out what is and is not acceptable, gives stakeholders an

opportunity to reduce the possibility of behaviour that could create legal problems. Ethical decisions consist of complex and detailed discussions in which accuracy may not be clear - cut.

The researchers under the empirical study have contributed to our knowledge in this area through the testing of ethical concepts / models in relatively different setups. The researchers in the empirical review have in addition provided helpful reviews on ethics research. This chapter reviewed the empirical studies related to organizational ethics as well as ethical decision making that formed the basis of this research. Such an analysis was important for ethics researchers in evaluating the progress of knowledge development.

In Kenya, there are few studies that have been conducted on issues of investor confidence pertaining ethical principles and codes, ethical effectiveness and ethical corporate culture from the perspective of investors (both individual and institutional). This study examined investor confidence considering the constructs of ethical principles and codes, ethical effectiveness and ethical corporate culture of investment professionals from the perspective of the investors.

**Table 2.1: Summary of Empirical Review**

Author	Methodology	Key Findings	Research Gap	Addressing the Gap
<b>Ethical Principles and Codes</b>				
Murphy (2009)	A Structured questionnaire was mailed to 78 financial planning practitioners listed under the ‘Financial Planning’ and ‘Retirement Planning’ sectors. The financial planners were asked to provide attitude statements relating to professionalism and demographic information of their business.	Evidence from the attitude statements provided by the respondents to the attributes of professionalism failed to achieve a satisfactory level of professionalism for any attribute.	This study was conducted in the setup of a developed economy and did not assess the effect of financial ethics from the perspective of investors.	The study took into consideration the effects of financial ethics on investor confidence within Kenya.
Kihiu (2010)	Used primary data through questionnaires and systematic sampling on 50 MBA students to establishing the factors that influence investor confidence in ATS at the NSE.	Doubts had been growing in the minds of investors in relation to the digitalization of the Kenyan stock exchange and lack of a proper framework for transparency and accountability in the new systems.	This study was conducted in different time periods with the effect of adoption of IT within the financial markets in Kenya and excluded ethics of investment professionals. The study also did not to incorporate key constructs of financial ethics.	The study incorporated all the key constructs of financial ethics as well as incorporated the moderating influence of legal enforcement.

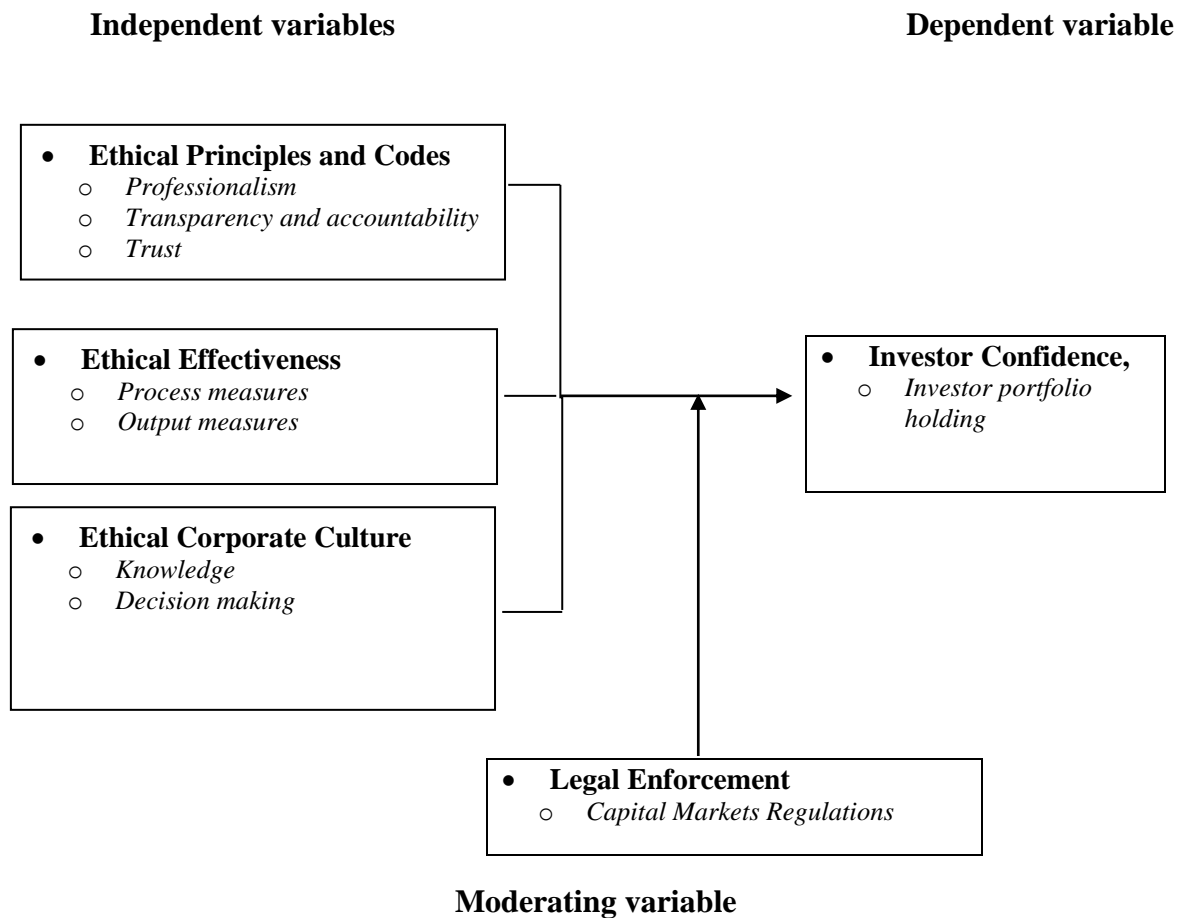
CFA Institute and the Eldeman Berland (2013)	The study used a 20 minute online survey as their primary source of information targeting a sample of 2,104 investors.	Being transparent was the first way that investment managers could take to build trust by articulating success and failures, clearly bringing out unavoidable conflicts of interest, and identifying potential issues to the forefront early and often. Second, it was important for investment professionals to maintain performance while championing engagement, integrity, and purpose	This study was conducted in a developed economy by a professional body and did not consider the regulatory aspect in their study. The study further did not take into consideration the moderating effect that regulatory framework has on investor perceptions of trust.	The study was conducted in Kenya and hence the findings can be adopted for enhancing investor confidence in the financial markets within Kenya. This study considered the moderating effect that regulatory framework has on investor perceptions of trust.
Stevens (2013)	A questionnaire was used to collect data from two hotels located at different Midwestern cities in the US belonging to an upscale hotel chain noted for quality properties. The general managers in each position approved the study and human resource directors administered the survey to 215 employees	The study findings stated that codes appeared to have utility for communicating ethical responsibility in organizations.	This study was conducted in a developed economy. The study did not use the constructs of professionalism, transparency & accountability and trust as the independent variables. Further, Stevens did not consider the legal and regulatory impact of enforcement of codes of ethical principles. The study did not also consider the effects of employee understanding of ethics to their clients	This study was conducted in Kenya and included the influence of legal and regulatory enforcement on the investor confidence. The study also considered the respondents understanding of ethics.
<b>Ethical Effectiveness</b>				
Ferrell and Skinner (1988)	Used questionnaires, panel sessions and interviews among 1,500 marketing researchers where the frame used was the	It was concluded that the existence of an ethical code explains 28.1% of the variance in the ethical behaviour of subcontractors.	This study was conducted in a developed economy by a professional body (MRA) and did not consider the legal and regulatory aspect in their study.	This study was conducted in Kenya and included the influence of legal and regulatory enforcement on the investor confidence

	membership list of the Marketing Research Association (MRA) of the USA.		The study did not likewise take into consideration the investor confidence aspects.	
Meiers & Ingvarson (2005)	Survey the process and outcome measures of professional standards from a sample of 3000 teachers was carried out to gain valuable information on the influence of professional programmes on their sense of efficacy, their knowledge and level of practice as well as the collaboration with peers.	The study found out that the efficacy of professional programmes help to create stronger relationships between members of a profession and the investment society as a whole	The study by Meiers and Ingvarson is not entirely linked to this study and none has been done on the ethical effectiveness among stock brokers and investment banks in Kenya targeting investors in the financial markets of the economy.	The study addressed ethical effectiveness among member firms of the NSE using process and outcome measures. The study was conducted in Kenya
<b>Ethical Corporate Culture</b>				
Somers (2001)	Potential participants were contacted by mail and were asked to complete a questionnaire focused on ethical practices at work and was comprised of 613 management accountants working in a wide array of industries in the United States	Respondents in organizations with formal codes of ethics were less aware of wrongdoing than were respondents in organizations without formal codes of ethics.	This study was not conducted in Kenya unlike the study conducted by Somers. Further, Somers did not consider the legal and regulatory impact of communicating codes of ethical principles.	This study was conducted in Kenya and included the influence of legal and regulatory enforcement on the investor confidence.
Kweyu (2010)	Used content analysis technique and interviews to collect data. Interview guides were used targeting the 7 directors	Employees can identify corporate culture but are not able to relate to it within the organization context due to lack of commitment and measures to	This study did not make use of questionnaires for the study and was not conducted in Kenya. Further, constructs of knowledge and decision making were not	The study considered all the member firms of the NSE and utilized a semi-structured questionnaire. Further, this study reviewed the effectiveness of

	and 14 heads of sections as respondents	improve corporate culture by firms.	used for his research.	corporate culture in enhancing investor confidence and not financial performance.
Eccles, Ioannis and Serafeim, (2012)	Quasi experiment and systematic sampling of 180 companies, 90 of which were classified as high sustainability firms and 90 as low sustainability firms, in order to examine issues of governance, culture, and performance in those firms.	Firms with a highly sustainable corporate culture had better engagements with the stakeholders and better performance in stocks and accounting measures.	The study used a complex sampling technique In regard to corporate culture, the researcher intends to evaluate two aspects; that is knowledge and decision making. The study did not consider the views of individual investors.	The study considered the views of individual investors as well as participant firms. This study employed a simple random sampling technique.

**Source: Various Literature Reviewed (2017)**

## 2.5 Conceptual Framework



**Figure 2.1: Conceptual Framework**

**Source: (Researcher, 2017)**

Ethics is important because finance and investment professionals adhere to ethical principles and practices that benefit all investment experts and escalates investor confidence in the financial markets. Clients therefore are assured that the finance and investment professionals they hire operate with the clients' best interests in mind, and these experts benefit from the more efficient and transparent financial market that integrity promotes. (CFA Institute, 2013).

The conceptual framework above demonstrates that financial ethics components are instrumental in ensuring that investor confidence in the financial markets is preserved. Lack of financial ethics within the industry will mean that investment professionals will not be bound to any requirements and hence will lead to ethical violations and misconduct when carrying out their duties to their clients. However there are other factors that seem to influence the effectiveness of these financial ethics constructs; The legal enforcement (Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, (2011) which works in aggregate contribution to creation of integrity and trust for members of the NSE in the financial markets in Kenya. In measuring the dependent variable the study considered the investor portfolio holding which was an adequate measure of their assumed risk. Investors would either increase or decrease their investment holdings in financial markets based on their perception about the market.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter represents a breakdown on the methodology and the tools that were used to carry out the study. It describes the design, sample size, target population, data collection and data analysis which were used to conduct and solve the research problem. Validity and reliability tests were conducted to measure the inferences as well as the consistency of the instrument used

#### **3.2 Research Philosophy**

According to Gay, Mills, and Airasian (2011), there are two main schools of thought or in the approach to research: positivist (known as scientific) and interpretive (also called anti - positivist). Positivists observe and describe an objective point of view without influencing the phenomenon studied. The most appropriate research philosophy for this study was pragmatism. According to this view, the direction of the research was guided by the formulated research objectives that sought to answer various questions in the study (Biesta, 2010). Pragmatism is generally regarded as the philosophical partner for the mixed methods approach (Denscombe, 2008). The strength of this approach was that it combined positivist and interpretivists perspectives to come up with a research outcome. Also, with the combined approach it would improve the accuracy of the research data and gave a more complete picture from both quantitative and qualitative data.

#### **3.3 Research Design**

According to Denscombe (2008), a research design is the plan and structure that helps in solving a research problem. The author further indicates that a descriptive study

allows for a mixed methodology to be adopted and helps to answer questions about a phenomena within the current time period. Hence this study was better suited in using a descriptive causal design. Descriptive causal design, was selected since it would give the main influence between the variables and it facilitated the collection of data from the different respondent's namely individual and institutional investors. This provided meaningful information to the researcher on the individual characteristics of the variables under study.

### **3.4 Empirical model**

The study used multiple regression equations to estimate the interaction between the independent variables and the dependent variables as well as the moderating effect of the legal enforcement. The method of estimation was a binary choice model (probit) where the dependent variable could only take two values, for example confident or not confident. The probit model, which uses a probitlink function, was estimated using the standard supreme probability procedure, such an estimation being called a probit regression. The regression equations used were as follows;

#### **3.4.1 General Model**

$$\text{Pr} (Y^* = 1 | X) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \text{ FE} + \varepsilon$$

If  $Y^* \geq 0$ ,  $y = 1$  (investor confidence)

If  $Y^* < 0$ ,  $y = 0$  (no investor confidence)

Where;

Pr = Probability

$Y^*$  = Dependent variable

$\alpha$  = the model intercept

$\beta_1 - \beta_4$  = Regression co - efficients

$X_1$  = Ethical principles and codes

$X_2$  = Ethical effectiveness

$X_3$  = Ethical corporate culture

$X_4$  = Legal enforcement

FE = Financial ethics components (ethical principles and codes, ethical effectiveness, ethical corporate culture)

$\varepsilon$  = Error Term

The above model sought to estimate the level of interaction between the independent variables (financial ethics) and the moderating variable (Legal enforcement) plus the dependent variable (investor confidence).

### 3.4.2 Reduced Model

$$\Pr(Y^* = 1 | X) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

If  $Y^* \geq 0$ ,  $y = 1$  (investor confidence)

If  $Y^* < 0$ ,  $y = 0$  (no investor confidence)

Where:

Pr = Probability

$Y^*$  = Dependent variable

$\alpha$  = the model intercept

$\beta_1 - \beta_3$  = Regression coefficients

$X_1$  = Ethical principles and codes

$X_2$  = Ethical effectiveness

$X_3$  = Ethical corporate culture

$\varepsilon$  = Error Term

The above model sought to estimate moderating magnitude of the effect between financial ethics and the investor confidence.

### **3.5 Target population**

According to Simons (2009), a population is a well - defined set of people, services, elements, and events, a group of things or households that are being investigated. Denscombe (2008) defines a target population as the items, subjects or people that the research seeks to investigate. The target population were the active investors in the financial markets in Kenya. The population for investors in Kenya were finite totalling to 2,055,214, as at 31<sup>st</sup> December 2015.

### **3.6 Exclusion and Inclusion Criteria**

Exclusion criteria refers to the process of selectively not taking into account a portion of the population into your sample if they don't meet some desired characteristics. Inclusion criteria on the other hand refers to the portion of population that is considered for the study. The study only included respondents who were investors at the Nairobi Securities Exchange. All other stakeholders involved in the Securities Exchange, but not active investors, were excluded for the research.

### **3.7 Sampling Design**

According to Simons (2009) a sampling technique is the criteria that is used in selecting representatives from a population. Purposive sampling enables the reseracher to only select respondents who share similar characteristics that are key to solving the research problem. The researcher used purposive sampling technique for the study where the optimum sample size was chosen as a result of randomly selecting investors (individual and institutional) that were active in the market as at 31<sup>st</sup> December 2015 to ensure the validity of the data to be collected. The sample investors

were derived from the total number of investors who have a CDS account with the CDSC and they were adequate to fulfil the requirements of efficiency, representativeness and reliability (Kothari, 2011).

Fischers formula was applied in determination of the sample size in this study. The formula is as follows;

$$n = \frac{Z^2 p q}{d^2}$$

Where: n = the desired sample size.

Z = the standard normal deviate at 1.96

p = proportion of the population with the desired characteristics estimated at 0.5 in a normal distribution

q = 1 - P, (1 - 0.5)

d = degree of accuracy desired set at 0.05

$$\text{Therefore, } n = \frac{(1.96)^2 \times (0.5) \times (0.5)}{(0.05)^2}$$

$$n = 385$$

The adjusted sample size for the finite population of 2,055,214 respondents were;

$$n^1 = \frac{1}{1/n + 1/N}$$

Where;

n<sup>1</sup> = adjusted sample size

n = estimated sample size for infinite population

N = Finite population size

$$n^1 = \frac{1}{1/385 + 1/2,055,214} = 385 \text{ respondents}$$

### **3.8 Measurement of Variables**

In this study, the measurement of variables was done individually with one independent variable, one dependent variable and one moderating variable. The independent variable (financial ethics) had three major constructs that include; ethical principles and codes, ethical effectiveness and ethical corporate culture, while the dependent variable (investor confidence) was measured by the level of investor portfolio holding. The study considered legal enforcement as a moderating variable which was measured by assessing the moderating influence of the Capital Markets Regulations (2011) on the association between financial ethics and investor confidence. Table 3.1 provides a summary of how the variables were measured.

**Table 3.1: Summary of Measurement of Variables**

<b>Type</b>	<b>Variable</b>	<b>Measurement</b>	<b>Operationalization</b>
<b>Dependent variable</b>	Investor confidence	Was measured by whether investors would; <ul style="list-style-type: none"> <li>• Increase investments in financial markets or</li> <li>• Decrease investment in financial markets</li> </ul>	This was measured by examining if investors would increase / decrease their investments based on certain aspects (questions / attitude statements) of financial ethics.
<b>Independent variable</b>			
Ethical principles and codes	Professionalism	This was measured by examining the extent to which investors believe investment professionals act professionally while relating to their clients and whether existing laws and regulations embody professionalism in order to improve investor confidence	5 point Likert Scale
	Transparency and Accountability	This construct was measured by examining the degree of regression of the current practices on the required based on investor's perceptions. The attributes to be used in measurement include adherence to transparency and accountability requirements in a firm , its policies, procedures and rules	5 point Likert Scale
	Market Integrity	This was measured by the extent to which investors perceive investment professionals levels of market integrity.	5 point Likert Scale
Ethical effectiveness	Process measures	Process measures might include; the investors perceptions on effective implementation of an existing code of ethics for investment professionals or CPD programme on ethics,	5 point Likert Scale

		compliance training and setting levels of ethical conduct.	
	Output measures	This was measured by a change in values reflected in a culture of doing right to the investors and society in general. Measuring changes in behaviour demonstrated a positive outcome for investors.	5 point Likert Scale
Ethical corporate culture	Knowledge	The measures are in two forms; the perception of investors on member firm's knowledge of the company's code of ethics and their knowledge of job - specific laws, policies and regulations and whether Employees receive Ethics trainings annually as well as training on the policies and regulations they need to understand to perform their jobs for investors.	5 point Likert Scale
	Decision making	This was measured considering whether Investors believed investment professionals could handle situations that could violate company policies, rules and whether they believed their investment professionals apply ethics and values to decisions that benefit their investors.	5 point Likert Scale
<b>Moderating Variable: Legal Enforcement</b>	Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011	This was be measured by assessing the moderating influence of the Capital Markets Regulations of 2011 on the relationship between financial ethics and investor confidence	5 point Likert Scale

Source: (Researcher, 2017)

### **3.9 Data Collection Instrument**

Mugenda and Mugenda (2003) define data collection as the systematic process of collecting information to be utilized in solving the research problem. The authors support the use of a questionnaire in collection of data as it simplifies the process and allows the respondents to air their views and opinions. The study utilized primary sources for data collection and this was collected using a structured questionnaire. The questionnaires had open and close - ended questions considering that a pilot test was conducted to field test the reliability and the validity of the instrument used.

### **3.10 Data Collection Procedures**

The research adopted a drop and pick method of data collection. In this method, questionnaires were handed out to the sample respondents and collected at a later date. In collecting the data the researcher sought the help of Stock Brokerage Firms and Investment Banks in accessing specific investors. The researcher dropped the questionnaires with the Stock Brokerage Firms and Investment Banks who availed them to the individual and institutional investors as they walked into these firms. Later, the researcher sought the filled responses from the firms within the most appropriate time.

### **3.11 Validity and Reliability**

#### **3.11.1 Validity**

According to Kothari (2011), validity is a measure of the inferences that are made in a particular research. The validity of an instrument is defined as the ability to an instrument to measure what it is intended to measure. In this study, the validity of the instruments was established by a group of professionals through an assessment of

particular items in the tools that ensured that they were measuring to the expectations. After finding the vague and ambiguous questions, alterations were made and final tools were prepared. Similarly, Content Validity Index for scales (S - CVI) was calculated from responses of Three (3) professionals with results yielding 0.9107, 0.8929 and 0.8393 respectively and the average S - CVI was 0.8809, indicating that the questionnaire was relevant.

### 3.11.2 Reliability

Reliability of an instrument is the constancy of the instrument in picking the required information. Reliability (Internal consistency and stability) of the instruments was tested with Cronbach's Alpha ( $\alpha$ ) coefficients (Cronbach, 1946). The researcher tested the level of inter - item consistency reliability to ensure that there was consistency of respondents' answers to all items measured.

**Table 3.2: Reliability Tests**

<b>Variable</b>	<b>Coefficient Alpha (<math>\alpha</math>)</b>
Ethical principles and codes	0.7986
Ethical effectiveness	0.6924
Ethical corporate culture	0.7327
Legal enforcement	0.6574
Investor confidence	0.7765

**Source: (Research data, 2017)**

The above table clearly indicates that all the coefficients were above 0.60 implying that the scales used to measure the variables were consistent and therefore reliable.

### 3.12 Data Analysis and Presentation

Data collected was sorted, edited, classified, coded into SPSS 20. The study employed both descriptive and inferential analysis of the collected data. Descriptive statistics was effected using frequencies and percentages. Inferential statistics was carried out using a multiple regression analysis to measure the level of relationship between the study variables. The Pearson correlation was used to estimate the level of association between the study variables. The significance of the relationships was tested at the 5% level of significance.

The regression equation took the form;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 FE + \varepsilon$$

Where;

Y = Investor Confidence

$\alpha$  = the model intercept

$\beta_1 - \beta_4$  = Regression coefficients

$X_1$  = Ethical principles and codes

$X_2$  = Ethical effectiveness,

$X_3$  = Ethical corporate culture

$X_4$  = Legal enforcement

FE = Financial ethics components (ethical principles and codes, ethical effectiveness, ethical corporate culture)

$\varepsilon$  = Error Term

### **3.13 Diagnostic Tests**

The study utilized several diagnostic tests as shown below;

#### **3.13.1 Multicollinearity**

Karl Pearson's coefficient of correlation ( $r_{xy}$ ) is the most widely used method of measuring the degree of linear relationship (association) between two variables (Kothari, 2011). Correlation analysis was used to explore the relationship between the financial ethics and investor confidence.

The correlation coefficient ranges from - 1 to + 1. A value of  $r$  near 0 indicates a low correlation between the attributes while a value near + 1 or - 1 indicates a high level of positive and negative correlation respectively. The  $t$  - test was used to indicate whether the attributes were correlated in the population. A  $t$  - value far from 0 (either positive or negative) is evidence for the alternative hypothesis that there is a correlation between the attributes (Gujarati, 2007). A  $P$  - value of the  $t$  - statistic greater or equal to 0.05 would lead to failure to reject the null hypothesis.

#### **3.13.2 Normality Test**

Normality tests are used to establish if a data set is well - modeled by a normal distribution and to calculate how probable it is for a random variable governing the data set to be normally distributed (D'Agostino 1986). Normality test was conducted to deduce whether the shape of the sample distribution mirrored the shape of the normal

curve. If the sample was normally distributed, the population from which it came from was as well normally shaped and one could assume normality.

### **3.13.3 Heteroskedasticity**

Heteroscedasticity refers to regression disturbances whose variances are not constant across observations (Greene, 2012). The study conducted a Test Glejser test so as to identify heteroscedasticity in the disturbances of the fixed effects regression model. The null hypothesis is that the error term is homoscedastic. In this study, the Breusch–Pagan test was used to test for Heteroscedasticity in the multiple regression model.

### **3.14 Ethical Considerations**

The members of the NSE were informed of the nature of research prior to giving questionnaires to investors for their execution. Investors were also informed that they were free to withdraw from the study at any stage if they felt that they no longer wanted to participate in the research. The data collected was confidential during and after the research and used only for the intended research purpose.

The researcher ensured that all relevant authorities were notified of the intention to undertake the research. The researcher further sought an authorization letter from Kenyatta University as well as the National Commission for Science Technology and Innovation (NACOSTI) to ensure the respondents were certain of the legitimacy of the research. During the process of data collection, the researcher also ensured that the respondents were not coerced to offer any information or led to make any inferences that were not of their own thoughts.

## **CHAPTER FOUR**

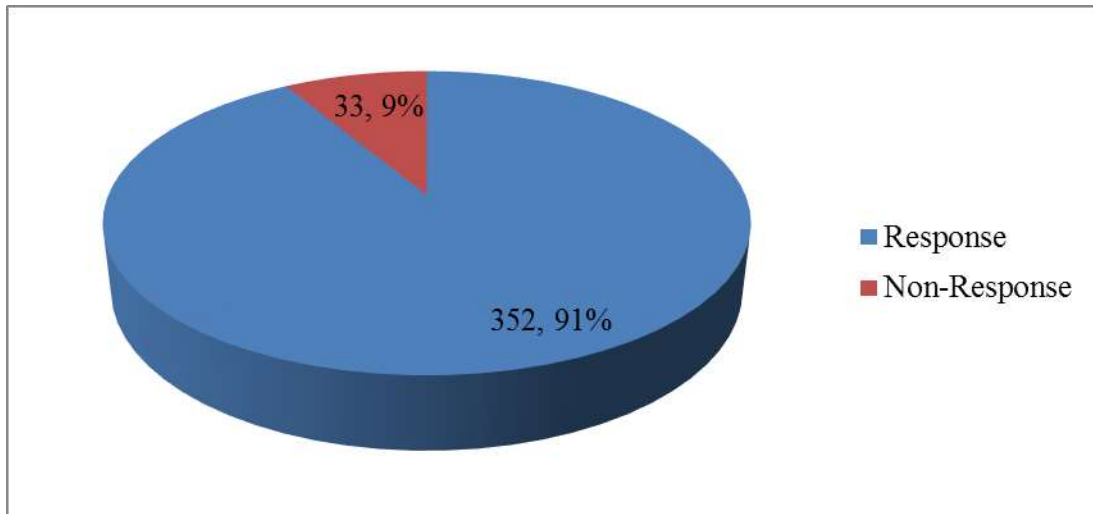
### **DATA ANALYSIS, PRESENTATION AND INTERPRETATION**

#### **4.1 Introduction**

This chapter presents an analysis of data that was collected, interpreted and discussion of the findings. Presentations of the results are on tables, graphs and charts where suitable. The choice of presentation is contingent on the best suitable method that will have a principal impression to the reader and providing a clear indication of the data being presented. Both descriptive and inferential analysis techniques have been employed in the analysis. The results are presented according to the research objectives and the chapter is organized according to the themes derived from the research questions. The response rate and the demographic characteristics of the study respondents have also been provided as a background to the analysis.

#### **4.2 Response Rate**

This section presents the results on the response rate. It is an illustration of how the researcher managed to collect data from the respondents who were sampled as a representative of the target population.



**Figure 4.1: Response Rate**

**Source: (Research data, 2017)**

Figure 4.1 presents the response rate of the study. This shows the level of achievement attained by the researcher in the data collection activity. According to the figure, the study realised a response rate of 91% whereas 9% of the targeted respondents did not give a valid response to the study. This was a good achievement made according to Mugenda and Mugenda, (2013) whose recommendation for a response rate to be greater than 70%.

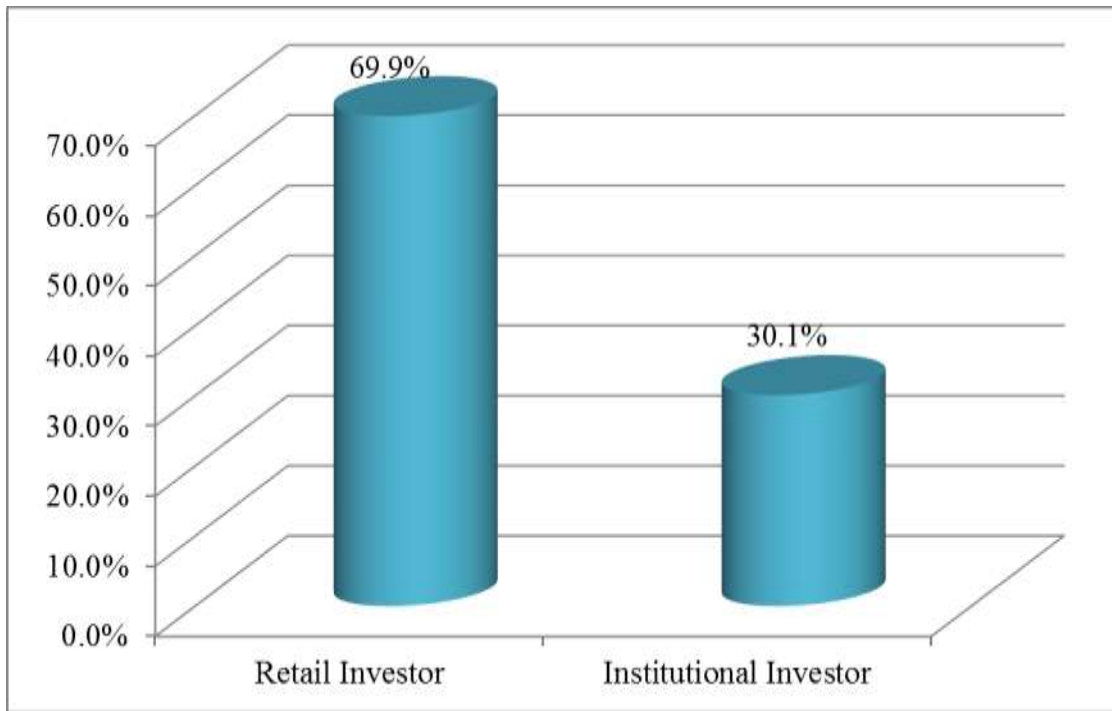
### 4.3 Respondents' Demographics

**Table 4.1: Demographic Characteristics**

		<b>Frequency</b>	<b>Percent (%)</b>
Kenyan citizen or resident	Citizen	336	95.5
	Resident	16	4.5
age bracket	Below 21 years	9	2.6
	21 - 29 years	61	17.3
	30 - 40 years	141	40.1
	Above 40 years	141	40.1
Gender	Female	145	41.2
	Male	207	58.8
highest level of education	Diploma	149	42.3
	Degree	149	42.3
	Postgraduate	54	15.3
Marital status	Married	205	58.2
	Single	146	41.5
	Widow	1	0.3
level of employment	Employed	203	57.7
	Self - employed	149	42.3

**Source: (Research data, 2017)**

According to the findings as presented in Table 4.1, majority of the study respondents (95.5%) were Kenyan citizens whereas a relatively small number (4.5%) were residents who were involved in investment activities in the Kenyan market. The table indicates that, a majority of the respondents were male representing 58.8% vis a vis 41.2% who were female respondents. With regard to the respondents' level of education, 42.3% were diploma holders who were likewise at the same frequency with the degree holders. Among the respondents in addition, 57.7% were employed and 42.3% were self - employed.

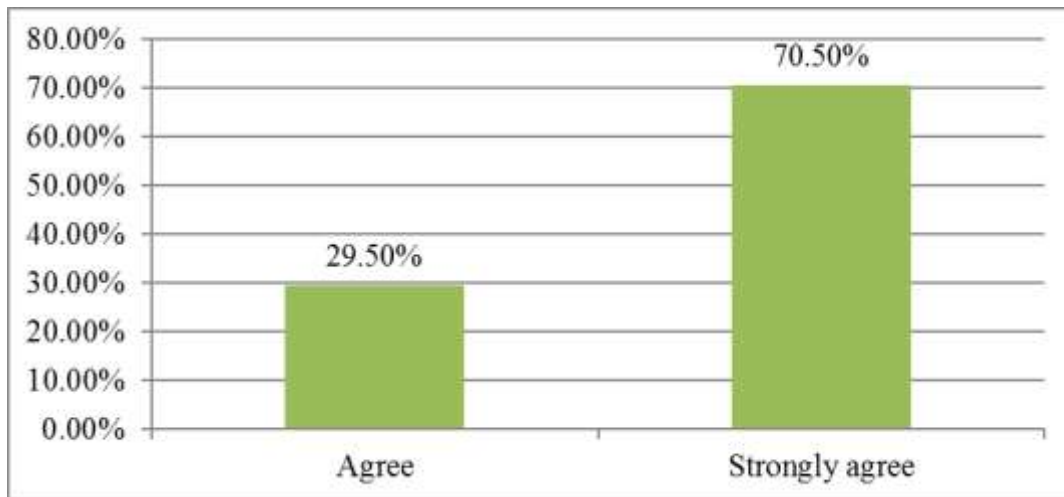


**Figure 4.2: Type of Investor**

**Source: (Research data, 2017)**

Findings in Figure 4.3 above indicate that majority of the respondents in the study (69.9%) were retail / individual investors. On the other hand, 30.1% of the study respondents were institutional investors who have invested with either a brokerage firm or investment bank. This displays that, majorly, the investors who participated in the study were individual investors.

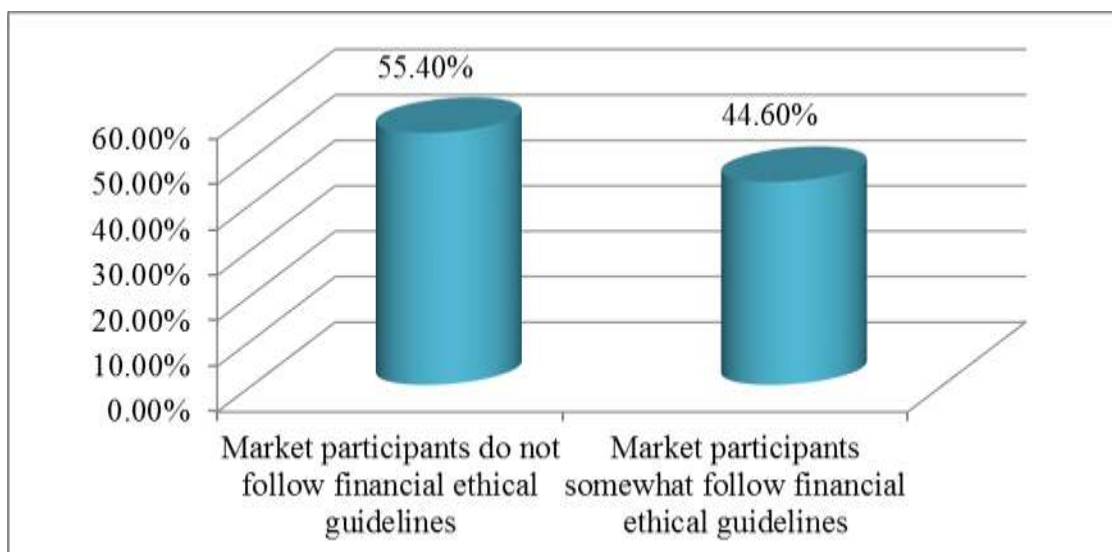
#### 4.4 Financial Ethics



**Figure 4.3: Financial ethics level of importance**

**Source: (Research data, 2017)**

According to the findings in Figure 4.3, majority of the respondents (70.5%) strongly agreed and 29.5% agreed that financial ethics was as important for members of the NSE as it was to follow the law.



**Figure 4.4: Perception on financial ethical guidelines**

**Source: (Research data, 2017)**

The findings as indicated on figure 4.4 point out that majority of the respondents reported that members of the NSE did not follow financial ethical guidelines. This was reported by 55.4% of the respondents whereas 44.6% reported that the members of the NSE somewhat followed financial ethical guidelines.

**Table 4.2: Sources of Financial Ethics**

	<b>Slightly important</b>		<b>Moderately important</b>		<b>Very important</b>	
	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>	<b>f</b>	<b>%</b>
Moral or religious beliefs	14	4.0	90	25.6	248	70.5
Concern about sanctions from a regulatory authority (CMA, RBA or CBK)	26	7.4	65	18.5	261	74.1
Concern about sanctions from self - regulatory agencies such as ICIFA, ICPAK or ICPSK	13	3.7	240	68.2	99	28.1
Having a published ethical principles and codes	46	13.1	193	54.8	113	32.1

**Source: (Research data, 2017)**

As illustrated in table 4.2, majority of the respondents (70.5%) reported that moral or religious beliefs were very significant in deterring the unethical behaviour of the members of the NSE. This was also the case for the concern about sanctions from a regulatory authority (CMA, RBA or CBK) which was reported to be very important by 74.1% of the respondents. The characteristic relating to the concern about sanctions from self - regulatory agencies such as ICIFA, ICPAK or ICPSK had majority of the respondents who reported that it was of moderate importance (68.2%) and 28.1% as very important. This was similar to having a published ethical principles and codes which was said to be moderately important by 54.8% of the respondents and very important by 32.1%.

From table 4.2 it is evident that most respondents favoured the source of financial ethics from regulatory authorities (CMA, RBA or CBK) with the highest percentage (74.1%) of the four (4) sources.

**Table 4.3: Financial Ethics Training and Education**

	Small amount		Moderate amount		Substantial amount	
	f	%	f	%	f	%
College	11	3.1	34	9.7	307	87.2
Home environment	76	21.6	171	48.6	105	29.8
Professional organizations ICIFA, ICPAK or ICPSK	1	0.3	73	20.7	278	79.0
Religious education	64	18.2	170	48.3	118	33.5
Senior management (by example)	0.0	0.0	246	69.9	106	30.1
CMA (training programs)	46	13.1	53	15.1	253	71.9

**Source: (Research data, 2017)**

With regard to the contribution of the members training and education on ethics in financial markets (table 4.3) , the respondents reported that a considerable amount of training should be acquired from the colleges. This was reported by 87.2% of the respondents. The home environment was said to be contributing a moderate amount by 48.6% of the respondents whereas 29.8% felt that the home environment had a substantial amount of members training.

The table again shows that, according to 79% of the respondents, substantial amount of training among the members of the NSE should be offered by professional membership organizations including ICIFA, ICPAK or ICPSK. The religious education was reported to be a moderate source of training and educative environment to the members of the NSE on ethics. This was according to the responses given where most of the

respondents (48.3%) ranked the training as of moderate, 33.5% as of substantial amount whereas 18.2% ranked this as a source of small amount of training.

The findings indicate that, leading by example, senior management should contribute to a moderate amount of training and education on ethics to the members of the NSE as reported by 69.9% of the respondents. CMA (training programs) was considered should contribute significantly on training and education relating to ethics in the financial markets as reflected by 71.9% of the respondents.

The interpretations from table 4.3 conclude that from the six (6) sources of financial ethics training and education, the most preferred source was from college with 87.2% of respondents supporting this statement.

#### **4.5 Ethical Principles and Codes**

This section presents the study results on the influence of ethical principles and codes on investor confidence. The findings are based on the likert scale data collected in the study. In consequence, means and standard deviation statistics were used to analyse the data and presented in tables. The frequencies and percentage statistics were also used and the comprehensive results were presented in the tables under appendices III to IX.

##### **4.5.1 Professionalism**

Table 4.4 encapsulates the results with regard to the members of the NSE on financial ethical principles and codes with the construct of professionalism. The results are based on means and their standard deviations obtained from the responses collected on a 5 point likert scale indicating the extent of agreement among the respondents to the given aspects of professionalism. The means indicate the range of the responses where a mean value in

the interval 1.0 – 1.9 is strongly agree, 2.0 – 2.9 agree, 3.0 – 3.9 not sure, 4.0 – 4.9 disagree and a mean value above 4.9 is strongly disagree. The results on professionalism are as given below;

**Table 4.4: Professionalism**

	<b>Mean</b>	<b>Std. Dev</b>
Members of the NSE act professionally when dealing with investors within the financial markets in Kenya.	4.87	0.8652
Members of the NSE's ethical behaviour is considered an investment in professionalism within the financial markets in Kenya.	2.14	0.9026
Everything members of the NSE firms do, they consider investors interest which improves professionalism within the financial markets in Kenya.	4.02	0.7751
There are laid down ethical principles and codes for members of the NSE who improve professionalism within the financial markets in Kenya.	3.93	1.0026
There are high standards of professionalism set for members of the NSE which improves investor confidence within the financial markets in Kenya.	4.76	0.9109
Members of the NSE's social behaviour is considered an investment in professionalism within the financial markets in Kenya.	3.74	1.1011
Members of the NSE have a code of ethical principles in place that guide their operations within the financial markets in Kenya.	3.11	1.0028

**Source: (Research data, 2017)**

According to the study findings as shown in Table 4.4, investors felt that the members of the NSE did not act professionally where a mean of 4.87 with a standard deviation of 0.8652 was obtained demonstrating that the respondents disagreed that the members of the NSE acted professionally when dealing with investors within the financial markets in Kenya. In relation to ethical behaviour, the respondents agreed indicating that the members of the NSE's ethical behaviour was considered an investment in

professionalism within the financial markets in Kenya with the results which indicated a mean of 2.14 with a standard deviation of 0.9026.

The table indicates that the respondents disagreed that everything members of the NSE did, they considered investors interest which improved professionalism within the financial markets in Kenya (mean = 4.02; std. dev. = 0.7751). The respondents however neither agreed nor disagreed that there were laid down ethical principles and codes for members of the NSE who improved professionalism within the financial markets in Kenya. This was shown by a mean of 3.93 with a standard deviation of 1.0026 indicating that the respondents had varied views on the ethical principles and codes within the financial markets in Kenya.

According to the findings, the respondents disagreed to the opinion that there were high standards of professionalism set for members of the NSE which improved investor confidence within the financial markets in Kenya (mean = 4.76; std. dev. = 0.9109). The respondents neither agreed nor disagreed that the members of the NSE's social behaviour was considered an investment in professionalism within the financial markets in Kenya (mean = 3.74; std. dev. = 1.1011). Correspondingly, the respondents neither agreed nor disagreed that the members of the NSE had a code of ethical principles in place that guide their operations within the financial markets in Kenya (mean = 3.11; std. dev. = 1.0028).

#### **4.5.2 Transparency and Accountability**

Results on transparency and accountability of the members of the NSE are as presented in Table 4.5. The table shows the extent of agreement of the respondents on the given aspects of transparency and accountability;

**Table 4.5: Transparency and Accountability**

	<b>Mean</b>	<b>Std. Dev</b>
In the financial markets, information asymmetry and lack of accountability exists between members of the NSE.	1.82	0.8932
Members of the NSE should have an obligation on the usage of investor resources and answerability for usage of these funds should rest on them.	1.91	0.9198
Members of the NSE are answerable for failing to meet the stated investment objectives for investors.	3.27	0.7762
In the financial markets, there are procedures, policies, and operational transparencies and accountabilities as distinct realms of possible transparency and accountability for members of the NSE respectively.	4.91	0.8201
In the financial markets, there are no principles, rules and norms that make members of the NSE transparent and accountable.	2.64	0.7841
Members of the NSE don't have a strong transparency and accountability regime that ensures that members of the NSE use investor resources effectively and efficiently.	2.02	0.9322

**Source: (Research data, 2017)**

The findings in Table 4.5 illustrate that the respondents strongly agreed that in the financial markets, information asymmetry and lack of accountability existed between members of the NSE and investors (mean = 1.82; std. dev. = 0.8932). Similarly, the respondents strongly agreed that the members should have an obligation on the usage of investor resources and answerability for usage of these funds rested on them (mean = 1.91; std. dev. = 0.9198). Nevertheless, the respondents neither agreed nor disagreed that the members of the NSE were answerable for failing to meet the stated investment objectives for investors (mean = 3.27; std. dev. = 0.7762).

Findings as well show that the respondents disagreed indicating that in the financial markets, there were no procedures, policies, and operational transparencies and

accountabilities as distinct realms of possible transparency and accountability for members of the NSE respectively. This was shown by a mean of 4.91 with a standard deviation of 0.8201. In the financial markets, there were no principles, rules and norms that made members of the NSE transparent and accountable. This was illustrated in the findings where the statement had a mean of 2.64 with a standard deviation of 0.7841 specifying that the respondents agreed. Also, the findings from the respondents agreed that the members of the NSE didn't have a strong transparency and accountability regime that ensured that members used investor resources effectively and efficiently (mean = 2.02; std. dev. = 0.9322). Largely the findings of the study on transparency and accountability indicated that there were minimal variations in the findings as all the standard deviations values were less than one implying that most of the respondents scored close to the mean.

### 4.5.3 Trust

**Table 4.6: Trust**

	<b>Mean</b>	<b>Std. Dev</b>
Every member firm / staff in the financial markets holds his / her office in public trust and is personally responsible for his / her actions when dealing with investors.	4.06	0.7832
Members of the NSE in Kenya do not have a strong trust regime that ensures that they work with investor's best interest and hold themselves with utmost veracity and diligence.	1.92	0.6631
Members of the NSE at all times observe high standards of integrity and trust in managing investments on behalf of clients and at all times, act in the best interests of the clients	4.41	0.9028
The CMA promotes integrity and trust within the financial markets that ensures members of the NSE have fair and equitable rules that strike an appropriate balance between their demands and that of their clients.	2.25	0.5630

**Source: (Research data, 2017)**

According to the findings as indicated in Table 4.6, the respondents disagreed that every market participant / staff in the financial markets held his / her office in public trust and was personally responsible for his / her actions when dealing with investors (mean = 4.06; std. dev. = 0.7832). According to the findings as well, the respondents agreed that the members of the NSE did not have a strong trust regime that ensured that they worked with investor's best interest and held themselves with utmost veracity and diligence. This was shown by a mean of 1.92 with a standard deviation of 0.6631. Further, the respondents disagreed indicating that the members of the NSE did not at all times observe high standards of integrity and trust in managing investments on behalf of clients and at all times, act in the best interests of the clients (mean = 4.41; std. dev. = 0.9028). The respondents agreed that the CMA promoted integrity and trust within the financial markets that ensured members of the NSE had fair and equitable rules that struck an appropriate balance between their demands and that of their clients (mean = 2.25; std. dev. = 0.5630). The findings on the Table 4.6 above also presented that there were no large variations in the responses recorded in the research since the values were less than one (1) implying that most of the respondents scored close to the mean.

## 4.6 Ethical Effectiveness

### 4.6.1 Process Measures

**Table 4.7: Process Measures**

	<b>Mean</b>	<b>Std. Dev</b>
Members of the NSE do not engage in regular ethical and compliance training within the industry in Kenya.	2.87	0.6822
Members of the NSE do not have a company code of conduct and have signed the code of conduct.	2.24	0.7632
CMA has provided contacts for a working fraud unit or an ethics help - line for reporting fraud by members of the NSE.	1.98	0.9327
The financial markets have a common stand that binds all the players in the industry.	2.46	0.8304
Members of the NSE apply ethical issues that have been learned to their every day jobs.	4.21	0.7328
Members of the NSE do not set good examples of ethical conduct to their peer's and embrace it to their clients.	2.48	0.4891

**Source: (Research data, 2017)**

The findings on process measures indicate that the members of the NSE did not engage in regular ethical and compliance training within the industry in Kenya. This was indicated by a mean of 2.87 with a standard deviation of 0.6822. The respondents as well agreed that the members of the NSE did not have a company code of conduct and had signed the code of conduct. This had a mean of 2.24 with a standard deviation of 0.7632.

According to the findings, the respondents agreed indicating that the CMA had provided contacts for a working fraud unit or an ethics help - line for reporting fraud by members of the NSE (mean = 1.98; std. dev. = 0.9327). The respondents as well agreed that the financial markets had a common stand that bound all the players in the industry as shown by a mean of 2.46 with a standard deviation of 0.8304. The respondents however disagreed with the statement that the members of the NSE did not always apply ethical

issues that had been learned to their every day jobs (mean = 4.21; std. dev. = 0.7328). Further, the respondents agreed that the members of the NSE did not set good examples of ethical conduct to their peer's and embraced it to their clients as shown by a mean of 2.48 with a standard deviation of 0.4891. The study findings also indicated that the responses given were not diverse as shown by the standard deviations below one (1) indicating majority of the respondents scored close to the mean.

#### 4.6.2 Output Measures

**Table 4.8: Output Measures**

	<b>Mean</b>	<b>Std. Dev.</b>
The general standards of service by members of the NSE to their clients will improve with increased ethical training and establishment of disciplinary procedure	1.87	1.0252
Members of the NSE unethical behaviour will decline with increased establishment of a market participant code of ethical principles and standards.	2.76	0.8739
Members of the NSE are committed to communicate to their clients the risks and benefits associated with each investment before they make an investment decision	2.92	0.8832
There are laid down rules and regulations for members of the NSE which promotes integrity and trust within the securities industry	4.66	0.9702

**Source: (Research data, 2017)**

With regard to the output measures, the respondents strongly agreed indicating that the general standards of service by members of the NSE to their clients would improve with increased ethical training and establishment of disciplinary procedure (mean = 1.87; std. dev. = 1.0252). The above indicates that there were variations among the respondents since the std.value is above 1.

The respondents as well agreed that the members of the NSE unethical behaviour would decline with increased establishment of a market participant code of ethical principles and standards (mean = 2.76; std. dev. = 0.8739). From the table also, the respondents agreed that the members of the NSE were committed to communicate to their clients the risks and benefits associated with each investment before they made an investment decision. This was indicated by a mean of 2.92 with a standard deviation of 0.8832. Findings from the table as well shows that the respondents disagreed indicating that there were no laid down rules and regulations for members of the NSE which promotes integrity and trust within the securities industry as shown by a mean of 4.66 with a standard deviation of 0.9702 indicating a small variance in the responses given.

#### 4.7 Ethical Corporate Culture

**Table 4.9: Ethical Corporate Culture**

	Mean	Std. Dev.
Stock brokerage firms and investment banks have a firmly grounded corporate culture that is aligned to investor's needs.	3.62	0.8921
It's important to me that members of the NSE and financial firms follow the rules and the law that they put in place.	2.16	0.7085
Do you believe that market participant firms embrace adherence to ethical decision making that are linked to their organizational culture	4.12	0.5927
Financial firm's current reputation is not good in relation to ethical conduct compared with the reputation five years ago.	2.09	0.7360
Leadership within the organization is important for an effective corporate culture.	2.03	0.8803

**Source: (Research data, 2017)**

Findings in Table 4.9 shows the respondents' level of agreement to the given aspects of ethical corporate culture. According to the findings, the respondents neither agreed nor disagreed that the stock brokerage firms and investment banks had a firmly grounded

corporate culture that was aligned to investor's needs. This was shown by a mean of 3.62 and a standard deviation of 0.8921. The respondents agreed signifying that it was important for members of the NSE and financial firms to follow the rules and the law that they put in place as revealed by a mean of 2.16 with a standard deviation of 0.7085.

From the table also, the respondents disagreed indicating that the members of the NSE did not believe that market participant firms embraced adherence to ethical decision making that were linked to their organizational culture (mean = 4.12; std. dev.= 0.5927). The findings also show that financial firm's current reputation was not good in relation to ethical conduct compared with the reputation five years ago (mean = 2.09; std. dev. = 0.7360). Findings as well illustrate that leadership within the participant firms was important for an effective corporate culture. This was as indicated by a mean of 2.03 and a standard deviation of 0.8803. The above findings in table 4.9 also show that the majority of the respondents gave responses close to the mean which specifies low variations since the standard deviations values were less than 1.

#### **4.8 Legal Enforcement**

Findings as presented in table 4.10, presents the results on the legal frameworks attached to ethics in within the financial services industry in Kenya.

**Table 4.10: Legal Enforcement**

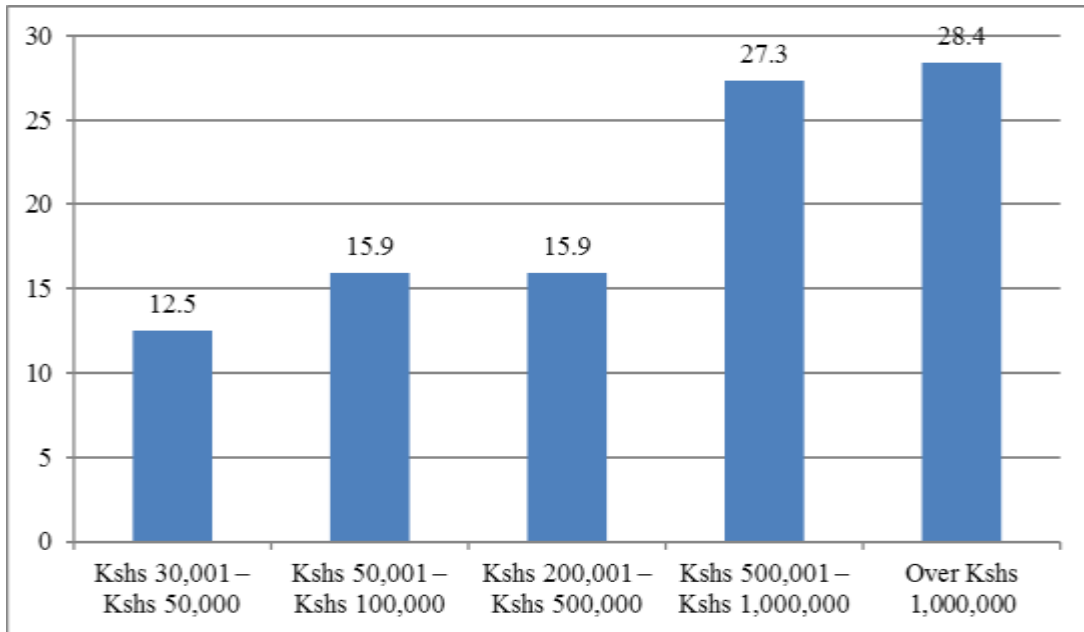
	<b>Mean</b>	<b>Std. Dev</b>
CMA plays an important role in enforcing the conduct of business and market intermediaries regulations of 2011	2.29	0.9043
The CMA enforces compliance to existing regulations which helps protect investors from unethical acts within the financial markets	4.78	0.8870
The CMA conduct of business and market intermediaries regulations of 2011 have improved investor confidence in Kenya	4.85	0.6458
The CMA regularly conducts frequent audits relating to information systems and security controls on stock brokerage firms and investment banks which provides assurance on stability of these firms	1.96	0.7828

**Source:(Research data, 2017)**

According to the findings as shown in the table, the respondents agreed that the CMA played an important role in enforcing the conduct of business and market intermediaries regulations of 2011. This was illustrated by a mean of 2.29 with a standard deviation of 0.9043. Similarly, the table illustrates that, the respondents disagreed indicating that the CMA did not fully play the enforcement role relating to compliance to existing regulations which helped protect investors from unethical acts within the financial markets (mean = 4.78; std. dev. = 0.8870). The respondents as well disagreed indicating that the CMA conduct of business and market intermediaries regulations of 2011 have not affected investor confidence in Kenya (mean = 4.85; std. dev. = 0.6458).

From the table in addition, the respondents agreed indicating that the CMA regularly conducted frequent audits relating to information systems and security controls on stock brokerage firms and investment banks which provided assurance on stability of these firms. This was according to the results where it had a mean of 1.96 showing a strong extent of agreement with a standard deviation of 0.7828 showing no much variance of the responses from the actual mean.

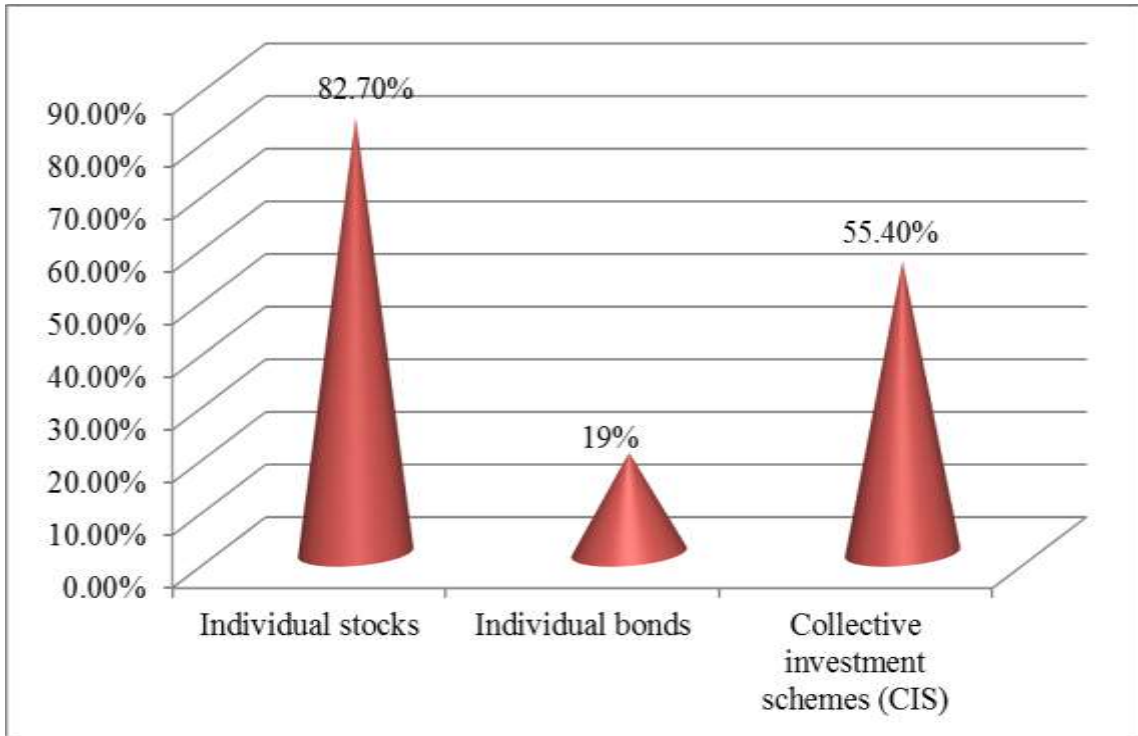
#### 4.9 Investor Confidence



**Figure 4.5: Approximate total value of investments**

**Source: (Research data, 2017)**

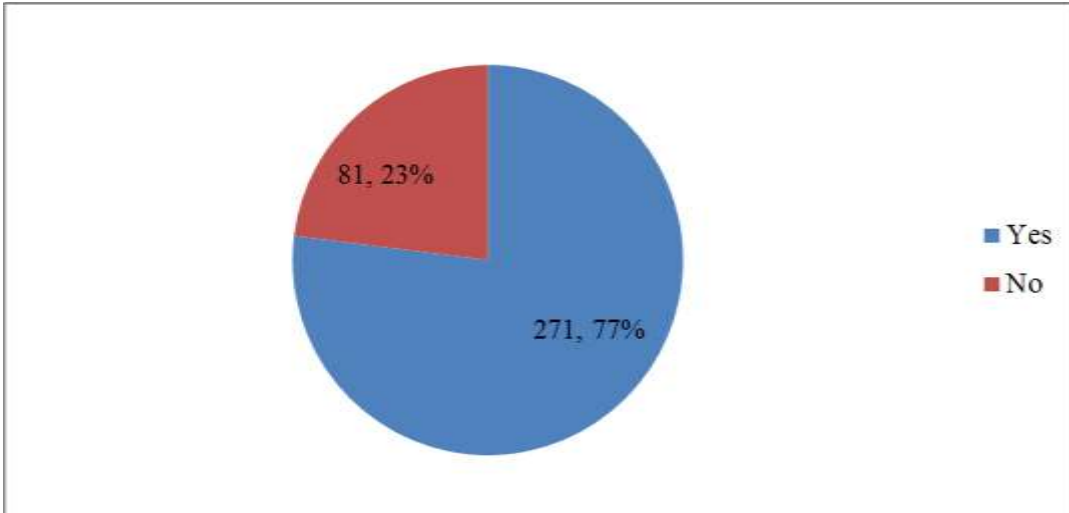
As shown in figure, 12.5% of the respondents had an approximated total investment of Kshs. 30,001 to 50,000. Those with a total investment of between 50,001 to 100,000 were 15.9% of the respondents a category that had the same number of respondents with the respondents, who had invested on average Kshs. 20,001 to 500,000, 27.4% had an average total investment of between Kshs. 500,001 and Kshs. 1,000,000. Those with total investments above one million shillings represented 28.4% of the respondents.



**Figure 4.6: Investments in the past one year**

**Source: (Research data, 2017)**

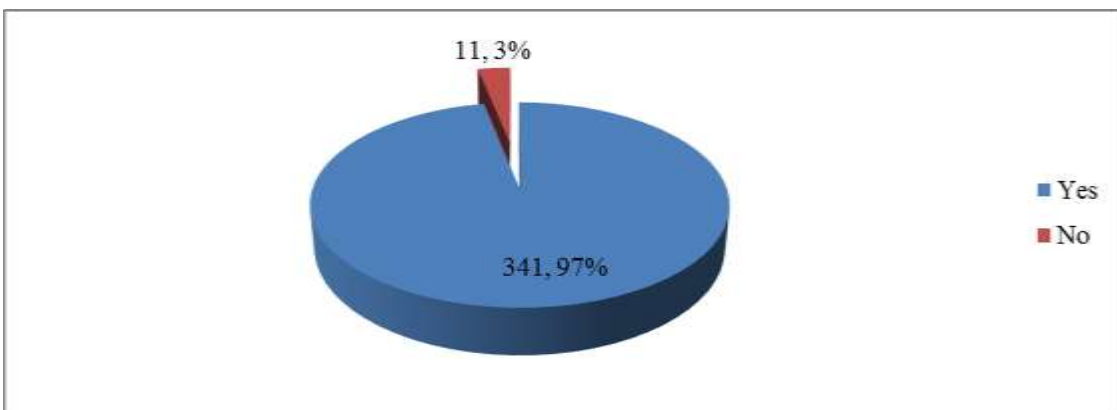
Figure 4.7 illustrates that, 82.7% of the respondents had purchased / sold individual stocks in the past twelve months. Individual bonds had been traded by only 19% of the respondents in the previous twelve months whereas 55.4% had traded with Collective Investment Schemes (CIS).



**Figure 4.7: Additional protections for investors through ethics**

**Source: (Research data, 2017)**

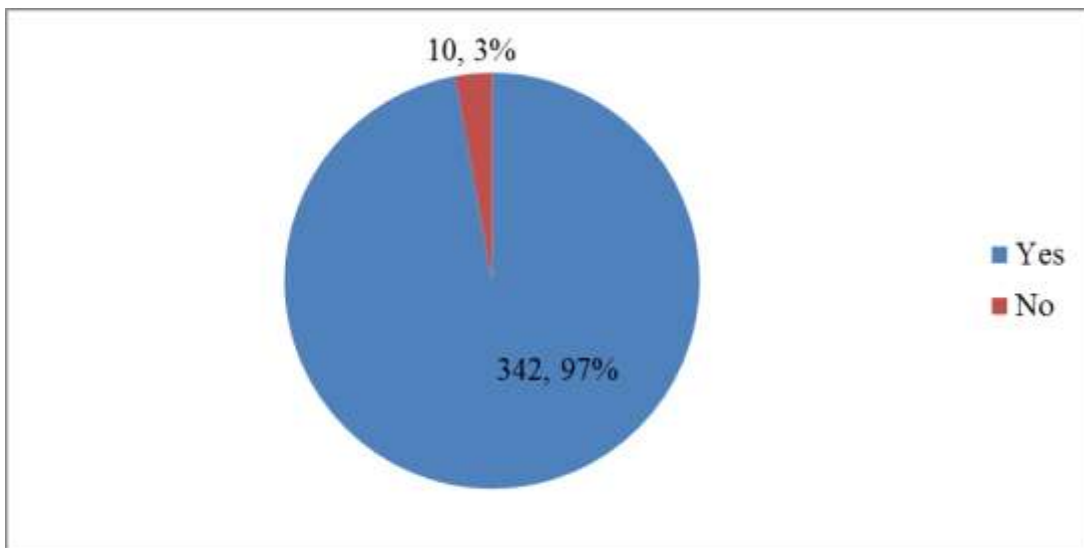
According to the findings, majority of the respondents reported that additional protection for investors through ethics would encourage investors to put more money into investment products over the next 12 months. This was reported by 77% of the respondents whereas 23% felt that additional protection would not affect their investments.



**Figure 4.8: Formation of professional membership organizations**

**Source: (Research data, 2017)**

As shown in figure 4.9, majority of the respondents (97%) felt that the introduction of additional ethical protections such as the formation of professional membership organizations for members of the NSE would further safeguard investors from misconduct by brokerage firms or investment banks. However, only 3% of the respondents disagreed with this.



**Figure 4.9: Additional protections for investors through ethics**

**Source: (Research data, 2017)**

Similarly, 97.2% of the respondents reported that additional protection for investors through ethics would encourage them to invest more in the markets but 2.8% disagreed indicating that such protection for investors would not affect their investment decision.

## 4.10 Diagnostic Tests

### 4.10.1 Multicollinearity Test

The table below gives the results on the eigenvalues and eigenvectors to form variance - decomposition proportions to assist in identifying the specific linear dependencies between the predictor variables. This assisted in the collinearity tests within the empirical model. The study utilized the Variance Inflation Factors to estimate interdependencies between the predictors.

**Table 4.11 Multicollinearity Diagnostics Tests - VIF**

Variables	Collinearity Statistics		
	Sig.	Tolerance	VIF
Ethical Principles and Codes	0.026	0.803	1.245
Ethical Effectiveness	0.044	0.824	1.214
Corporate Culture	0.007	0.973	1.028
Legal Enforcement - CMA	0.046	0.688	1.454

**Source: (Research data, 2017)**

The diagnostics test as shown in Table 4.11 above by VIF's and correlations indicate no major collinearity problems in the data alongside other diagnostic tests hence revealing no such severity. The collinearity results displays that the independent variables ethical principles and codes = 1.245, ethical effectiveness = 1.214, corporate culture = 1.028, and the moderating indicator legal enforcement = 1.454 all have VIF values less than 10 indicating no collinearity problems in the data sets. With this indication from the collinearity results, the low level of collinearity statistics cannot make the result statistically different in any way. Therefore there is no significant collinearity in the data set that can hinder regression analysis as provided in the methodology.

#### 4.10.2 Normality Test

In testing for normality the researcher intended to assess whether there was normality in the distribution. In cases of data sets that have less than 2000 elements; the Shapiro - Wilk test is adopted; otherwise the Kolmogorov - Smirnov test is applied.

**Table 4.12: Normality Test Results**

	Kolmogorov - Smirnov <sup>a</sup>			Shapiro - Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Principles_Codes	0.080	352	0.000	0.978	352	0.000
Effectiveness	0.308	352	0.000	0.642	352	0.000
Corporate_Culture	0.139	352	0.000	0.945	352	0.000
Legal_Enforcement	0.138	352	0.000	0.908	352	0.000

a. Lilliefors Significance Correction

**Source: (Research data, 2017)**

For the current research, the Shapiro - Wilk test was adopted. The test states that for normally distributed data, the p - value should be 0.05 or greater. From the findings as indicated in the table above, all the variables were tested at 95% confidence level and the results showed that there was significance among each of the test variables. The table also indicates that all the variables had p - values of 0.05 and above.

### 4.10.3 Heteroskedasticity

**Table 4.13: Heteroskedasticity Results**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.973	5	3.5704	2.228	0.014 <sup>b</sup>
Residual	69.120	37	1.8492		

**Source: (Research data, 2017)**

a. Dependent Variable: Investor Confidence

b. Predictors: (Constant), Ethical principles and codes, Ethical effectiveness, Ethical corporate culture, Legal enforcement

According to the findings in the table, Heteroscedasticity did not exist since the test regression results had a p value smaller than 0.05 testing at 5 % significance one tailed test. The p - value calculated was 0.014 ( $p < 0.05$ ).

### 4.11 Test of the Relationship between Financial Ethics and Investor Confidence

**Table 4.14: Regression Model Summary**

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	0.673 <sup>a</sup>	0.549	0.431	1.86408

a. Predictors: (Constant), Ethical Principles and Codes, Ethical Effectiveness and Ethical Corporate culture,

**Source: (Research data, 2017)**

Findings in table 4.14 above, present the results on the relationship test between the financial ethics and investor confidence. A regression test was carried out to show the extent of influence of the ethical principles and codes, ethical effectiveness and ethical corporate culture on investor confidence. From the results, ethical principles and codes,

ethical effectiveness and ethical corporate culture indicate that they had a high positive association with investor confidence as indicated by the R - coefficient of 0.673. The coefficient of determination (R - Squared) displayed the predictor variables used in the study could be relied on to explain 54.9% of the variation in the investor confidence. This was represented by a coefficient of 0.549. This therefore revealed that other factors not studied in this research contributed to 45.1% of the variability in the level of investor confidence among member firms at the NSE.

**Table 4.15: Analysis of Variance (ANOVA<sup>a</sup>)**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	194.663	3	65.888	18.400	0.000 <sup>b</sup>
	Residual	1216.155	348	3.523		
	Total	1423.818	351			

a. Dependent Variable: Investor confidence

b. Predictors: (Constant), Ethical Principles and Codes, Ethical Effectiveness Ethical Corporate culture.

**Source: (Research data, 2017)**

From table 4.15, the significance value in testing the reliability of the model for the relationship between the independent variables and investor confidence and was obtained as 0.000 which is less than 0.005 the critical value at the 5% level of significance. Therefore the model was statistically significant in predicting the relationship between ethical principles and codes, ethical effectiveness as well as ethical corporate culture and investor confidence. The F value calculated was 18.4 which indicated a significant model for the relationship as provided by the regression coefficients. This validates that the overall model was statistically significant and reliable in explaining the influence of the predictor variables to the investor confidence.

#### 4.12 Regression Coefficients

**Table 4.16 Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	4.951	0.791		6.263	0.000
Ethical Principles and Codes	0.024	0.011	0.013	2.262	0.014
Ethical Effectiveness	1.693	0.238	0.357	7.113	0.000
Corporate Culture	0.677	0.207	0.164	3.265	0.001

a. Dependent Variable: Investor confidence

**Source: (Research data, 2017)**

The estimates of the regression coefficients, t - statistics and the p - values for the relationship between the variables are presented in table 4.16. These coefficients answer the regression model relating the dependent and the independent variables. Following this, the regression model;  $Pr(Y^* = 1 | X) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$  therefore becomes;  $Y^* = 4.951 + 0.024 X_1 + 1.693 X_2 + 0.677 X_3$ . In testing the relationship, ethical principles and codes, ethical effectiveness and ethical corporate culture were found to be positively related to investor confidence. This correspondingly showed a significant relationship with investor confidence as the p - values for the coefficients were all less than 0.005 at the 5% level of significance.

From the table, ethical principles and codes had a coefficient of  $\beta_1 = 0.024$ ,  $t = 2.262$  and  $p = 0.014$ ). Ethical effectiveness also showed a significant influence on investor confidence with a coefficient of  $\beta_2 = 1.693$ ,  $t = 7.113$  and  $p = 0.000$  indicating a positive

relationship. Ethical corporate culture had a coefficient of  $\beta_3 = 0.677$ ,  $t = 3.265$ ,  $p = 0.001$  showing a positive and significant relationship with investor confidence.

#### 4.13 Reduced Model

In this study, the effect of the moderating variable (legal enforcement) was tested through a reduced model which showed the deviation in the coefficients of the probability of the independent variables from the coefficients obtained with the moderating variable as derived from the general model.

**Table 4.17: Reduced Probit Model**

	Parameter	Estimate	Std. Error	Z	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
	Principles_Codes	0.128	0.122	2.052	0.029	- 0.111	0.367
	Effectiveness	0.418	0.307	2.362	0.017	- 0.183	1.018
PROBIT <sup>a</sup>	Corporate_culture	0.363	0.276	2.319	0.018	- 0.177	0.903
	Intercept <sup>b</sup>						
	Yes	3.111	1.271	2.448	0.014	- 4.382	- 1.841
	No	2.706	1.261	2.146	0.032	- 3.968	- 1.445

a. PROBIT model:  $\text{PROBIT}(p) = \text{Intercept} + BX$

b. Corresponds to the grouping variable Investor\_confidence.

**Source: (Research data, 2017)**

The reduced probit model of;  $\Pr (Y^* = 1 \mid X) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$  yielded the findings as presented in Table 4.17 and displays the influence of the regressor variables without the influence of the moderating variable (legal enforcement). Testing all coefficients at 5% level of significance indicates that they were significant since all the p - values were less than 0.05 which was the critical value. The results indicate ethical

principles and codes had a positive significant statistic (  $R = 0.128$  ,  $p - \text{values} = 0.029$ ). This means that ethical principles and codes influenced investor confidence positively and don't support the findings of Murphy (2009). The results of the CFA Institute and the Eldeman Berland (2013) highlighted in the empirical literature, support this study's results. Ethical effectiveness similarly had a positive significant statistic ( $R = 0.418$  ,  $p - \text{values} = 0.017$ ) implying that ethical effectiveness influenced investor confidence positively and support the findings of Meiers & Ingvarson (2005). Ethical corporate culture, correspondingly had a positive significant statistic (  $R = 0.418$  ,  $p - \text{values} = 0.017$ ) inferring that ethical corporate culture influenced investor confidence positively and support the findings of Eccles, Ioannis and Serafeim, (2012) and conflict with the findings of Kweyu (2010).

**Table 4.18 Covariances and Correlations of Parameter Estimates in the Reduced Model**

		<b>Principles_Codes</b>	<b>Effectiveness</b>	<b>Corporate_culture</b>
PROBIT	Principles_Codes	0.015	0.079	0.091
	Effectiveness	0.003	0.094	0.102
	Corporate_culture	0.003	0.009	0.076

Covariances (below) and Correlations (above).

**Source: (Research data, 2017)**

Table 4.18 presents the covariances and correlations of the reduced probit model parameter estimates indicating that there were no possible iterations within the variables that could affect the results of the model. This was illustrated by the values which were all less than 1.

**Table 4.19 Reduced Model Chi - Square Tests**

	<b>Chi - Square</b>	<b>df<sup>a</sup></b>	<b>Sig.</b>
PROBIT Pearson Goodness - of - Fit Test	110.012	336	0.000

a. Statistics based on individual cases differ from statistics based on aggregated cases.

**Source: (Research data, 2017)**

The chi - square coefficient as presented in table 4.19 for the reduced probit model was 110.012 with 336 degrees of freedom. The regressor variables had a significant effect on investor confidence as indicated by the p - value of 0.000 which is less than 0.05 at the 5% level of significance.

#### **4.14 General Model**

This study employed the probit regression model to test the influence of the regressor variables on investor confidence as the dependent variable. The model embraced the influence of the regressor variables with the influence of the moderating variable (legal enforcement). The model presenting this effect was  $\Pr (Y^*= 1 \mid X) = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3+ \beta_4X_4+ \varepsilon$  and which was tested at the 5% significance.

**Table 4.20: General Probit Model**

	Parameter	Estimate	Std. Error	Z	Sig.	95% Confidence Interval		
						Lower Bound	Upper Bound	
PROBIT <sup>a</sup>	Principles_Codes	0.145	0.129	2.126	0.026	- 0.107	0.398	
	Effectiveness	0.373	0.308	2.213	0.025	- 0.230	0.976	
	Corporate_Culture	0.435	0.291	2.493	0.013	- 0.136	1.006	
	Legal_Enforcement	0.337	0.288	2.169	0.024	- 0.902	0.228	
	Intercept <sup>b</sup>	Yes	2.789	1.293	2.156	0.031	- 4.082	- 1.495
		No	2.358	1.288	1.830	0.067	- 3.646	- 1.070

a. PROBIT model:  $PROBIT(p) = Intercept + BX$

b. Corresponds to the grouping variable Investor\_confidence.

**Source: (Research data, 2017)**

From table 4.20, the grouping variable was investor confidence where the ethical principles and codes, ethical effectiveness, ethical corporate culture and the legal enforcement were the predicting variables. The coefficients were all significant at the 5% level of significance as the p - values were all less than 0.05. The intercept for investor confidence was 2.789 with a significance value of 0.031.

The results in relation to ethical principles and codes specify a variance of 0.017 as a consequence of the effect of moderating variable in the reduced probit model above (0.145 - 0.128). Ethical effectiveness yielded a unique deviation of - 0.045 from the results with the moderating variable (0.373 - 0.418). The findings show that ethical corporate culture had a variance of 0.072 as a result of the effect of moderating variable. The intercept for investor confidence was 2.706 with a significance value of 0.032.

**Table 4.21: Covariances and Correlations of Parameter Estimates in the General Model**

	Principles_Codes	Effectiveness	Corporate_culture	Legal_Enforcement
Principles_Codes	0.017	0.061	0.167	0.159
Effectiveness	0.002	0.095	0.037	0.092
Corporate_Culture	0.006	0.003	0.085	0.251
Legal_Enforcement	0.006	0.008	0.021	0.083

Covariances (below) and Correlations (above).

**Source: (Research data, 2017)**

Table 4.21 presents the covariances and correlations of the Probit model parameter estimates. According to the results, there were no possible iterations within the variables that could affect the results of the model. This was as illustrated by the values which were all less than 1.

**Table 4.22 General Model Chi - Square Tests**

	Chi - Square	df <sup>a</sup>	Sig.
PROBIT Pearson Goodness - of - Fit Test	109.483	335	0.000

a. Statistics based on individual cases differ from statistics based on aggregated cases.

**Source: (Research data, 2017)**

The table above presents the chi - square test of the goodness of fit. From the table, the chi - square coefficient is 109.483 with 335 degrees of freedom. This showed that the regressor variables had significant effect on the investor confidence as suggested by the p - value of 0.000 which was less than 0.05 at the 5% significance level.

**Table 4.23: Marginal effects after Probit**

$$y = \text{Pr}(\text{Yes}) (\text{predict}) \\ = .2253210$$

Variable	dy/dx	Std. Err.	P> z
gpa	0.0429124	1.01421	0.034
PrC	0.0311021	0.12101	0.027
Eff	0.0271633	0.31041	0.018
Cult	0.0071633	0.23641	0.020

**Source: (Research data, 2017)**

Table 4.24 presents the marginal effects results for the relationship between financial ethics and investor confidence. From the table, it was clear that a 1% increase in ethical principles and codes, the probability that an investor level of confidence increases was 3.1% on a [0,1] scale. Similarly, with a 1% increase in ethical effectiveness, the probability that the level of investor confidence increases was 2.7%. Findings also display that, given a 1% increase in corporate culture, the probability of investor confidence increase was 0.7% on a [0,1] scale. This provided evidence of existence of a significant effect among ethical principles and codes, ethical effectiveness and corporate culture on investor confidence as revealed in the predicted changes in the marginal effects results.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter presents a summary of the study findings and the conclusions arrived at. The chapter also gives recommendations and the suggestions for further study. It is structured into summary of the findings, conclusions, policy recommendations and suggestions for further studies. These were guided by the study objectives.

#### **5.2 Summary of the Findings**

The study was undertaken with the aim of investigating the effect of financial ethics on investor confidence among members of the Nairobi Securities Exchange, Kenya. It was guided by four specific objectives seeking to; investigate the effect of ethical principles and codes on investor confidence among members of the Nairobi Securities Exchange, establish the effect of ethical effectiveness on investor confidence among members of the Nairobi Securities Exchange, examine the extent with which ethical corporate culture influences members of the Nairobi Securities Exchange and to determine the moderating effect of legal enforcement on the relationship between financial ethics and investor confidence among members of the Nairobi Securities Exchange, Kenya. The findings are presented as per each objective as follows:

##### **5.2.1 Ethical Principles and Codes and Investor Confidence**

The study findings established that members did not act professionally when dealing with investors within the financial markets. Findings also presented that the respondents felt that member's ethical behaviour was considered an investment in professionalism within the financial markets. Further, investors felt that everything members of the NSE did,

they did not consider their interests and therefore did not improve professionalism within the financial markets. It was evident from the findings also, that there were no laid down ethical principles and codes for members of the NSE who could improve professionalism within the financial markets in Kenya. Again, investors felt that there were no high standards of professionalism set for members of the NSE which did not improve investor confidence in the financial markets in Kenya. It was also apparent that members of the NSE's social behaviour was not considered an investment in professionalism within the financial markets. As well, the members of the NSE were reported not to possess a written down code of ethical principles that would guide their operations within the financial markets in Kenya.

The study findings illustrated that in the financial markets, information asymmetry and lack of accountability existed between members of the NSE and investors. Findings correspondingly showed that members of the NSE were expected to have an obligation on the usage of investor resources and answerability for usage of those funds should rest on them. Similarly, the findings illustrated that the members of the NSE were expected to be answerable for failing to meet the stated investment objectives for investors. The findings further indicated that procedural policies, and operational transparencies and accountabilities were deficient in the financial markets and were distinct realms of possible transparency and accountability for members of the NSE respectively. According to the findings too, it was felt that the financial markets lacked principles, rules and norms that made members of the NSE transparent and accountable and that they did not have a strong transparency and accountability regime that ensured that they used investor resources effectively and efficiently.

The findings established that every market participant / staff in the financial markets didn't hold his / her office in public trust and therefore was not personally responsible for his / her actions when dealing with investors. Further, members of the NSE in Kenya lacked a strong trust regime that ensured that they worked with investor's best interest and held themselves with utmost veracity and diligence. The findings in addition illustrated that the members of the NSE at all times did not observe high standards of integrity and trust in managing investments on behalf of clients and at all times, did not act in the best interests of the clients. The CMA was found to be playing a significant role in promoting integrity and trust within the financial markets that ensures members of the NSE had fair and equitable rules that struck an appropriate balance between their demands and that of their clients.

### **5.2.2 Ethical Effectiveness and Investor Confidence**

Findings with regard to the ethical effectiveness illustrate that the members of the NSE did not engage in regular ethical and compliance training within the industry in Kenya. The members of the NSE were what's more found not to have a company code of conduct as well as a signed the code of conduct. Moreover, the CMA had provided contacts for a working fraud unit or an ethics help - line for reporting fraud by members of the NSE. According to the findings, the financial markets lacked a common stand that bound all the players in the industry. Findings further exemplified that the members of the NSE did not apply ethical issues that had been learned to their every day jobs and as well, they didn't set good examples of ethical conduct to their peers and to their clients.

According to the study results, the general standards of service by members of the NSE to their clients would improve with increased ethical training and establishment of disciplinary procedure. Members of the NSE's unethical behaviour would decline with increased establishment of a member code of ethical principles. According to the findings too, investors felt that the members of the NSE were committed to communicating to their clients the risks and benefits associated with each investment before they made an investment decision. Findings as well illustrated that there were no laid down rules and regulations for members of the NSE which meant that it did not promote integrity and trust within the financial markets. The level of investor confidence was found to be significantly influenced by the level of ethical effectiveness. This showed that, the higher the levels of ethical effectiveness, the higher were the levels of investor confidence in the market.

### **5.2.3 Ethical Corporate Culture and Investor Confidence**

With respect to the ethical corporate culture, the study found out that stock brokerage firms and investment banks did not have a firmly grounded corporate culture that was aligned to investor's needs. The study also found out that it was important that members of the NSE and financial firms followed the rules and the law that are put in place. According to the findings as well, the market participant firms did not embrace adherence to ethical decision making that were linked to their organizational culture. Further, the financial firm's current reputation was not good in relation to ethical conduct compared with the reputation five years ago. It is also evident from the findings that leadership within the organizations was important for an effective corporate culture. Findings further revealed a significant effect of ethical corporate culture on the level of investor

confidence. The relationship showed a positive association indicating that the more supportive the ethical corporate culture was, the higher would be the levels of investor confidence in the market.

#### **5.2.4 Legal Enforcement Financial Ethics and Investor Confidence**

With regard to the investor confidence, the study established that, additional protection for investors through ethics would encourage investors to put more money into investment products over the next 12 months. It was also evident from the findings that the introduction of additional ethical protections such as the formation of professional membership organizations for members of the NSE would further safeguard investors from misconduct by brokerage firms or investment banks. Moreover, additional protection for investors through ethics would encourage them to invest more in the markets.

The study established a significant moderating effect of the Capital Markets Authority policies and guidelines on the relationship between financial ethics and the level of investor confidence. The findings revealed a positive effect of the regulatory role on investor confidence and thus, the CMA should ensure efficacy relating to laws and policies that exist to guide the conduct of members of the NSE. This would improve the level of investor confidence facilitating for more investment opportunities in the market.

### **5.3 Conclusions**

The findings established that there was a positive and significant effect between ethical principles and codes and the level of investor confidence among members of the Nairobi Securities Exchange, Kenya. With effective principles and codes in the market, increased

confidence levels would be seen by investors on their investments facilitating more investments both at individual and institutional levels in financial markets. The effectiveness of these principles and codes also determined the ability of the market to entice more investors as customers had confidence on their investments. However, the study findings showed that the members of the NSE did not always follow financial ethical guidelines that had been provided.

There was a significant effect between the level of investor confidence and ethical effectiveness. In the financial markets in Kenya investors felt that members of the NSE did not engage in regular ethical and compliance training which reduced their confidence in the market. The CMA also played a significant role in promoting investor confidence through the provision of contacts for a working fraud unit for reporting fraud by members of the NSE. This was found to have a significant effect to the investor confidence contributing to better performance of the financial markets.

In this study, ethical corporate culture displayed a significant effect on the level of investor confidence in financial markets. The study therefore concluded that with effective policies on ethical corporate culture, the stock market players would be in a position to make firmly grounded corporate culture that was aligned to investor's needs promoting the their confidence. It was also established that the members of the NSE did not embrace adherence to ethical decision making that were linked to their organizational culture. The ability of the leaders in the organizations to promote ethical corporate culture consequently determined the level of investor confidence.

The legal enforcement posed a significant moderating influence on the relationship between financial ethics and investor confidence among members of the NSE. With responsive policies that were good for investments, the level of investor confidence would be elevated allowing investors to invest more in the financial markets in Kenya. The legal enforcement policies in place that govern financial markets in Kenya have promoted the securities trading as the level of investor confidence was dependent on the ability of the capital markets regulator to protect their investments and providing conducive market for their trading activities.

#### **5.4 Policy Recommendations**

The study therefore, grounded on the findings and conclusions presented above makes the following recommendations. The recommendations have been provided based on the findings that address the evidences established in the study;

##### **5.4.1 Adherence to CMA Guidelines and Ethical Principles and Codes**

There is need for the CMA to ensure that members of the NSE have passable training of key skills as well as ensure that all members have in place a code of ethical principles which should be adopted by all staff. This would facilitate the better relationships between members of the NSE and investors within financial markets in Kenya. There is need for effective monitoring systems for the members of the NSE. CMA should thus put in place strict policies for monitoring members activities to ensure that they are in a position to achieve stated investor objectives for their clients based on their investment policy statements and thus influencing their confidence towards investing in financial markets. The CMA should implement an action plan that would strengthen the link between the member firms and investors through recruitment of qualified personnel at all

levels to ensure adherence to threshold competence levels linked to ethical principles and codes.

#### **5.4.2 Adopting Ethical Corporate Culture**

The members of the NSE need to adopt a culture of good behaviour in their operations. It is therefore recommended that the members should operate within the frameworks provided by the market regulator and ethics should be highly considered in all their activities in relation to investment management and participation in the market. The CMA should as well ensure effectiveness in its role of ensuring appropriate knowledge of laws and ensure policies are in place to guide the market operators while making investment decisions. With effective policies, the level of investor confidence would be positively pretentious and their level of investment would be invigorated.

#### **5.4.3 Promoting Ethical Effectiveness**

In line with the findings of the study there is need for market players and regulators to ensure ethical effectiveness is upheld through promoting standards that foster integrity in the financial market activities. More so, the Nairobi Securities Exchange with assistance from the CMA should ensure there are routine workshops and seminars geared towards enlightening members of the ethical guidelines and promoting observance of the laid down policies on market operations. Further there is need to foster the development of a better investment environment through championing for the adoption of ethical benchmark and performance evaluation for members of the NSE on their ethical effectiveness.

## **5.5 Contribution to Knowledge**

The primary aim of the researcher in this study is to highlight the the key constructs of financial ethics and their influence on investor confidence. Investor confidence was analysed from the perspective of the investor provided a exceptional perspective of assessment. Majority of studies on ethics in the financial markets have focused on percieved ethics from the perspective of the investment bank and stock brokerage firm employees. In this thesis, the researcher tried to change the focus to the perspective of the investor based on their level of confidence in the market. This unique approach provides an exclusive link in identifying financial ethics constructs and investor confidence that will aid in the development of new ethical models related to ethics in financial markets in tandem with contemporary issues.

## **5.6 Suggestion for Further Studies**

The study was successfully executed meeting its objectives. However, as the study was limited to the relationship between financial ethics and investor confidence, there is need for a further study to be undertaken as this affects the generalizability of the results with the assumption that other factors do not influence investor confidence. The reseracher therefore recommends for a further study to investigate the effect of other factors such as market orientation, investor socio - economic characteristics, market knowledge on investor confidence in Kenya. Additionally, the study findings underscored the importance of legal enforcement as a tool of strenghtening the investor confidence within the market. The research hence suggests that there is need for the legal enforcement guidelines to be evaluated in its efficacy in streamlining the financial markets sector in the country.

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## APPENDICES

### Appendix I: Letter of Introduction

Chief Executive Officer (CEO)  
Dyer & Blair Investment Bank Ltd  
Pension Towers, 10th floor,  
P.O. Box 45396 00100Nairobi

**January, 2016**

Dear Sir /Madam,

#### **RE: PERMISSION TO COLLECT DATA FOR ACADEMIC RESEARCH**

I am a Master's of science in finance student at Kenyatta University. As a requirement of my degree, I am supposed to carry out a research study intended to solve a problem within my area of specialization. I intend to conduct research on **Financial Ethics and investor confidence among members of the Nairobi Securities Exchange, Kenya**. The data collected will exclusively be used for academic purposes. I, therefore, request your help in filling the attached questionnaire with regard to acquiring data to solve the research problem.

Yours Faithfully



Emlyn Ngwiri  
**D58/CTY/PT/21821/2010**  
**0724937717**

## **Appendix II: Questionnaire**

Dear Respondent,

This is a questionnaire intended to assist the researcher to complete the academic research thesis on financial ethics on investor confidence among members of the Nairobi Securities Exchange, Kenya which is a partial fulfillment of the requirement for the award of a Master of Science in Finance of Kenyatta University. To protect the anonymity of respondents, please do not write your name on the questionnaire. Results will be aggregated and reported at group levels.

The researcher thanks you for your participation

### **PART A DEMOGRAPHIC INFORMATION**

**1. Are you a Kenyan citizen or resident?**

Yes ( ) No ( )

**2. What is your age bracket?**

Below 21 years ( ) 21 - 29 years ( ) 30 - 40 years ( ) above 40 years ( )

**3. Gender of the respondents?**

Female ( ) Male ( )

**4. What is your highest level of education?**

'O' level and below ( ) 'A' level and below ( ) Diploma ( ) Degree ( )

Postgraduate ( )

**5. Marital status.**

Married ( ) Single ( ) Divorced ( ) Widow ( ) Widower ( )

**6. What level of employment are you?**

a) Employed ( )

b) Self employed ( )

c) Unemployed ( )

Other (please specify) .....

**7. Were you an investor within a Stock brokerage firm or investment bank as at 31<sup>st</sup> December 2015?**

Yes ( ) No ( )

If yes / no, what motivated you to (or not) join the Stock Brokerage firm or Investment Bank?

.....

**8. Were you an individual or institutional investor as at 31<sup>st</sup> December 2015?**

Individual ( ) Institutional ( )

**PART B FINANCIAL ETHICS**

**9. In your opinion, how has financial ethics for members of the NSE (financial analysts, investment bankers, financial advisors, fund managers and dealers) changed over the past 10 years?**

- a) They have improved ( )
- b) They have deteriorated ( )
- c) They have remained unchanged ( )
- d) They don't exist ( )

**10. Do you believe that financial ethics are as important for members of the NSE it is to follow the law?**

- a) Strongly disagree ( )
- b) Strongly agree ( )
- c) Agree ( )
- d) Disagree ( )

**12. What is your perception on following financial ethical guidelines while performing their duties within the financial markets in Kenya?**

- a) Members of the NSE do not follow financial ethical guidelines ( )
- b) Members of the NSE somewhat follow financial ethical guidelines ( )
- c) Members of the NSE moderately follow financial ethical guidelines ( )
- d) Members of the NSE follow any financial ethical guidelines ( )

<b>13. In your opinion, how important is each of the following in deterring the unethical behaviour of members of the NSE?</b>				
	<b>Not important</b>	<b>Slightly important</b>	<b>Moderately important</b>	<b>Very important</b>
a) Moral or religious beliefs				
b) Concern about sanctions from a regulatory authority (CMA, RBA or CBK)				
c) Concern about sanctions from self - regulatory agencies such as ICIFA, ICPAK or ICPSK				
d) Having a published ethical Principles and Codes				

<b>14. In your opinion, how much of members of the NSE training and education about ethics in the securities should come from each of the following sources?</b>				
	<b>None</b>	<b>Small amount</b>	<b>Moderate amount</b>	<b>Substantial amount</b>
a) College				
b) Home environment				
c) Professional organizations ICIFA, ICPAK or ICPSK				
d) Religious education				
e) Senior management (by example)				
f) CMA (training programs)				

Please indicate the extent to which you agree with the following statements members of the NSE financial ethical principles in relation to the financial markets in Kenya by using a scale of 1 - 5, where **1=strongly agree 2=agree 3= not sure 4=disagree and 5=strongly disagree. Tick inside the box that best describes your opinion on the question asked.**

<b>A. Ethical Principles and codes</b>	<b>Strongly Agree (1)</b>	<b>Agree (2)</b>	<b>Not sure (3)</b>	<b>Disagree (4)</b>	<b>Strongly disagree (5)</b>
<b>Professionalism</b>					
a) Members of the NSE act professionally when dealing with investors within the financial markets in Kenya.					
b) Members of the NSE's ethical behaviour are considered an investment in professionalism within the financial markets in Kenya.					
c) Everything members of the NSE do, they consider investors interest which improves professionalism within the financial markets in Kenya.					
d) There are laid down ethical principles and codes for members of the NSE who improve professionalism within the financial markets in Kenya.					
e) There are high standards of professionalism set for members of the NSE which improves investor confidence within the financial markets in Kenya.					
f) Members of the NSE's social behaviour are considered an investment in professionalism within the financial markets in Kenya.					
g) Members of the NSE have a code of ethical principles in place that guide their operations within the financial markets in Kenya.					
<b>Transparency and Accountability</b>					
a) In the financial markets, information asymmetry and lack of accountability exists between members of the NSE and Investors					
b) Members of the NSE should have an obligation on the usage of investor resources and answerability for usage of these funds should rest on them.					
c) Members of the NSE are answerable for failing to meet the stated investment objectives for investors.					

	Strongly Agree (1)	Agree (2)	Not sure (3)	Disagree (4)	Strongly disagree (5)
d) In the financial markets, there are procedures, policies, and operational transparencies and accountabilities as distinct realms of possible transparency and accountability for members of the NSE respectively.					
e) In the financial markets, there are no principles, rules and norms that make members of the NSE transparent and accountable.					
f) Members of the NSE don't have a strong transparency and accountability regime that ensures that members of the NSE use investor resources effectively and efficiently.					
<b>Trust</b>					
a) Every member firm / staff in the financial markets holds his / her office in public trust and is personally responsible for his / her actions when dealing with investors.					
b) Members of the NSE in Kenya do not have a strong trust regime that ensures that they work with investor's best interest and hold themselves with utmost veracity and diligence.					
c) Members of the NSE at all times observe high standards of integrity and trust in managing investments on behalf of clients and at all times, act in the best interests of the clients					
d) The CMA promotes integrity and trust within the financial markets that ensures members of the NSE have fair and equitable rules that strike an appropriate balance between their demands and that of their clients.					
<b>B. Ethical effectiveness</b>					
<b>Process measures</b>					

	Strongly Agree (1)	Agree (2)	Not sure (3)	Disagree (4)	Strongly disagree (5)
a) Members of the NSE do not engage in regular ethical and compliance training within the industry in Kenya.					
b) Members of the NSE do not have a company code of conduct and have signed the code of conduct.					
c) CMA has provided contacts for a working fraud unit or an ethics help - line for reporting fraud by members of the NSE					
d) The financial markets have a common stand that binds all the players in the industry.					
e) Members of the NSE apply ethical issues that have been learned to their every day jobs.					
f) Members of the NSE do not set good examples of ethical conduct to their peer's and embrace it to their clients.					
<b>Output measures</b>					
a) The general standards of service by members of the NSE to their clients will improve with increased ethical training and establishment of disciplinary procedure					
b) Members of the NSE unethical behaviour will decline with increased establishment of a market participant code of ethical principles and standards.					
c) Members of the NSE are committed to communicate to their clients the risks and benefits associated with each investment before they make an investment decision					
d) There are laid down rules and regulations for members of the NSE which promotes integrity and trust within the securities industry					
<b>C. Ethical Corporate Culture</b>					

	Strongly Agree (1)	Agree (2)	Not sure (3)	Disagree (4)	Strongly disagree (5)
a) Stock brokerage firms and investment banks have a firmly grounded corporate culture that is aligned to investors needs.					
b) It's important to me that members of the NSE and financial firms follow the rules and the law that they put in place.					
c) Do you believe that members of the NSE embrace adherence to ethical decision making that are linked to their organisational culture					
d) Financial firm's current reputation is not good in relation to ethical conduct compared with the reputation five years ago.					
e) Leadership within the organisation is important for an effective corporate culture.					
<b>D. Legal Enforcement (Capital Markets (Conduct of Business) (Market Intermediaries) Regulations, 2011)</b>					
a) CMA plays an important role in enforcing the conduct of business and market intermediaries regulations of 2011					
b) The CMA enforces compliance to existing regulations which helps protect investors from unethical acts within the financial markets					
c) The CMA conduct of business and market intermediaries regulations of 2011 have improved investor confidence in Kenya					
d) The CMA regularly conducts frequent audits relating to information systems and security controls on stock brokerage firms and investment banks which provides assurance on stability of these firms					

**PART C INVESTOR CONFIDENCE**

**1. What is the approximate total value of all of your investments (including retirement accounts)?**

- Less than Kshs 10,000 ( )      Kshs 10,001 –Kshs 20,000 ( )  
 Kshs 20,001 –Kshs 30,000 ( )      Kshs 30,001 – Kshs 50,000 ( )  
 Kshs 50,001 –Kshs 100,000 ( )      Kshs100, 001 – Kshs 200,000 ( )  
 Kshs 200,001 – Kshs 500,000 ( )      Kshs 500,001 –Kshs 1,000,000 ( )  
 Over Kshs 1,000,000 ( )      Don't know / Not sure ( )

**2. In the past twelve months, approximately how many times have you bought or sold investments?**

- None ( )    1 to 3 times ( )    4 to 10 times ( )    More than 10 times ( )

**3. Which of the following have you purchased or sold in the past twelve months?**

**Select all that apply. [ACCEPT MULTIPLE]**

Item	Yes	No
Individual stocks		
Individual bonds		
Collective investment schemes (CIS)		
None of the above		

**4. Would additional protection for investors through ethics make you put more money into investment products over the next 12 months?**

- Yes ( )    No ( )

Kindly explain

.....  
 .....

.....  
.....

**5. Do you think that the introduction of additional ethical protections such as the formation of professional membership organisations for members of the NSE further safeguard investors from misconduct by brokerage firms or investment banks?**

Yes ( ) No ( )

Kindly explain

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

**6. Would additional protection for investors through ethics encourage you to invest more in the markets?**

Yes ( ) No ( )

Kindly explain

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

**Thank you for your time**

### Appendix III: Results on Professionalism

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	F	%
a) Members of the NSE act professionally when dealing with investors within the financial markets in Kenya.	43	12.2	25	7.1	24	6.8	46	13.1	214	60.8
b) Members of the NSE's ethical behaviour is considered an investment in professionalism within the financial markets in Kenya.	118	33.5	58	16.5	97	27.6	70	19.9	9	2.6
c) Everything members of the NSE do, they consider investors interest which improves professionalism within the financial markets in Kenya.	67	19	61	17.3	22	6.3	93	26.4	109	31
d) There are laid down ethical principles and codes for members of the NSE who improve professionalism within the financial markets in Kenya.	57	16.2	46	13.1	70	19.9	89	25.3	90	25.6
e) There are high standards of professionalism set for members of the NSE which improves investor confidence within the financial markets in Kenya.	24	6.8	60	17	12	3.4	138	39.2	118	33.5
f) Members of the NSE's social behaviour is considered an investment in professionalism within the financial markets in Kenya.	78	22.2	20	5.7	65	18.5	89	25.3	100	28.4

**Source: (Research data, 2017)**

### Appendix IV: Transparency and Accountability Results

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	f	%
a) In the financial markets, information asymmetry and lack of accountability exists between members of the NSE and Investors.	147	41.8	102	29	2	0.6	100	28.4	1	0.3
b) Members of the NSE should have an obligation on the usage of investor resources and answerability for usage of these funds should rest on them.	249	70.7	103	29.3	0	0	0	0	0	0
c) Members of the NSE are answerable for failing to meet the stated investment objectives for investors.	0	0	53	15.1	103	29.3	93	26.4	103	29.3
d) In the financial markets, there are procedures, policies, and operational transparencies and accountabilities as distinct realms of possible transparency and accountability for members of the NSE respectively.	0	0	0	0	70	19.9	53	15.1	229	65.1
e) In the financial markets, there are no principles, rules and norms that make members of the NSE transparent and accountable.	99	28.1	206	58.5	47	13.4	0	0	0	0
f) Members of the NSE don't have a strong transparency and accountability regime that ensures that members of the NSE use investor resources effectively and efficiently.	154	43.8	89	25.3	103	29.3	6	1.7	0	0

**Source: (Research data, 2017)**

**Appendix V: Results on Trust**

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	f	%
a) Every market participant / staff in the financial markets holds his / her office in public trust and is personally responsible for his / her actions when dealing with investors.	63	17.9	86	24.4	49	13.9	42	11.9	112	31.8
b) Members of the NSE in Kenya do not have a strong trust regime that ensures that they work with investor's best interest and hold themselves with utmost veracity and diligence.	144	40.9	80	22.7	53	15.1	60	17.0	15	4.3
c) Members of the NSE at all times observe high standards of integrity and trust in managing investments on behalf of clients and at all times, act in the best interests of the clients	31	8.8	52	14.8	61	17.3	66	18.8	142	40.3
d) The CMA promotes integrity and trust within the financial markets that ensures members of the NSE have fair and equitable rules that strike an appropriate balance between their demands and that of their clients.	87	24.7	264	75	1	0.3	0	0	0	0

**Source: (Research data, 2017)**

**Appendix VI: results on Process Measures**

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	F	%	f	%	f	%	f	%	f	%
a) Members of the NSE do not engage in regular ethical and compliance training within the industry in Kenya.	139	39.5	54	15.3	61	17.3	77	21.9	21	6
b) Members of the NSE do not have a company code of conduct and have signed the code of conduct.	125	35.5	110	31.3	53	15.1	57	16.2	7	2
c) CMA has provided contacts for a working fraud unit or an ethics help - line for reporting fraud by members of the NSE	192	54.5	99	28.1	61	17.3	0	0	0	0
d) The financial markets have a common stand that binds all the players in the industry.	113	32.1	87	24.7	152	43.2	0	0	0	0
e) Members of the NSE apply ethical issues that have been learned to their every day jobs.	15	4.3	58	16.5	59	16.8	82	23.3	138	39.2
f) Members of the NSE do not set good examples of ethical conduct to their peer's and embrace it to their clients.	124	35.2	69	19.6	93	26.4	58	16.5	8	2.3

**Source: (Research data, 2017)**

**Appendix VII: Results on Output Measures**

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	f	%
a) The general standards of service by members of the NSE to their clients will improve with increased ethical training and establishment of disciplinary procedure	196	55.7	156	44.3	0	0	0	0	0	0
b) members of the NSE unethical behaviour will decline with increased establishment of a market participant code of ethical principles and standards.	156	44.3	100	28.4	0	0	45	12.8	51	14.5
c) members of the NSE are committed to communicate to their clients the risks and benefits associated with each investment before they make an investment decision	156	44.3	44	12.5	96	27.3	56	15.9	0	0
d) There are laid down rules and regulations for members of the NSE which promotes integrity and trust within the securities industry	0	0	0	0	0	0	252	71.6	100	28.4

**Source: (Research data, 2017)**

**Appendix VIII: Results on Corporate Culture**

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	f	%	f	%	f	%	f	%
a) Stock brokerage firms and investment banks have a firmly grounded corporate culture that is aligned to investor's needs.	60	17	52	14.8	35	9.9	76	21.6	129	36.6
b) It's important to me that members of the NSE and financial firms follow the rules and the law that they put in place.	196	55.7	56	15.9	100	28.4	0	0	0	0
c) Do you believe that members of the NSE embrace adherence to ethical decision making that are linked to their organizational culture	48	13.6	88	25	21	6	85	24.1	110	31.3
d) Financial firm's current reputation is not good in relation to ethical conduct compared with the reputation five years ago.	100	28.4	252	71.6	0	0	0	0	0	0
e) Leadership within the organization is important for an effective corporate culture.	251	71.3	30	8.5	35	9.9	31	8.8	5	1.4

**Source: (Research data, 2017)**

### Appendix IX: Results on Legal Enforcement

	Strongly agree		Agree		Not sure		Disagree		Strongly disagree	
	f	%	F	%	f	%	f	%	f	%
a) CMA plays an important role in enforcing the conduct of business and market intermediaries regulations of 2011	233	66.2	46	13.1	35	9.9	34	9.7	4	1.1
b) The CMA enforces compliance to existing regulations which helps protect investors from unethical acts within the financial markets	217	61.6	83	23.6	16	4.5	36	10.2	0	0
c) The CMA conduct of business and market intermediaries regulations of 2011 have improved investor confidence in Kenya	224	63.6	72	20.5	41	11.6	15	4.3	0	0
d) The CMA regularly conducts frequent audits relating to information systems and security controls on stock brokerage firms and investment banks which provides assurance on stability of these firms	278	79	67	19	2	0.6	5	1.4	0	0

**Source: (Research data, 2017)**

**Appendix X: List of Members of the NSE.**

<p>Dyer &amp; Blair Investment Bank Ltd Pension Towers, 10th floor, P.O. Box 45396 00100 Tel: 3240000/2227803/4/5 Fax: 2218633 Email: <a href="mailto:shares@dyerandblair.com">shares@dyerandblair.com</a> Web: <a href="http://www.dyerandblair.com">www.dyerandblair.com</a></p>	<p>Francis Drummond &amp; Company Limited Hughes Building, 2nd floor, P.O. Box 45465 00100 Tel: 318690/318689 Fax: 2223061 Email: <a href="mailto:info@drummond.co.ke">info@drummond.co.ke</a> Web: <a href="http://www.drummond.co.ke">www.drummond.co.ke</a></p>	<p>Ngenye Kariuki &amp; Co. Ltd. ( Under Statutory Management) Corner House, 8th floor, P. O. Box 12185 - 00400 Tel: 224333/2220052/2220141 Fax: 2217199/241825 Email: <a href="mailto:ngenyekari@wananchi.com">ngenyekari@wananchi.com</a> Web: <a href="http://www.ngenyestockbrokers.co.ke">www.ngenyestockbrokers.co.ke</a></p>
<p>Suntra Investment Bank Ltd Nation Centre, 7th Floor, P.O. Box 74016 - 00200 Tel: 2870000/247530/2223330/2211846/07 2 4 - 257024, 0733 - 222216 Fax: 2224327 Email: <a href="mailto:info@suntra.co.ke">info@suntra.co.ke</a> Web: <a href="http://www.suntra.co.ke">www.suntra.co.ke</a></p>	<p>Old Mutual Securities Ltd IPS Building, 6th Floor, P. O. Box 50338 - 00200 Tel: 2241379, 2241408 Fax: 2241392 Email: <a href="mailto:info.oms@oldmutualkenya.com">info.oms@oldmutualkenya.com</a> Web: <a href="http://www.oldmutual.co.ke">www.oldmutual.co.ke</a></p>	<p>SBG Securities Ltd CfC Stanbic Centre, 58 Westlands Road, P. O. Box 47198 – 00100 Tel: 3638900 Fax: 3752950 Email: <a href="mailto:sbgs@stanbic.com">sbgs@stanbic.com</a> Web: <a href="http://www.sbgsecurities.co.ke">www.sbgsecurities.co.ke</a></p>
<p>Kingdom Securities Ltd Co - operative Bank House, 5th Floor, P.O Box 48231 00100 Tel: 3276940/3276256/3276154 Fax: 3276156 Email: <a href="mailto:info@kingdomsecurities.co.ke">info@kingdomsecurities.co.ke</a></p>	<p>Afrika Investment Bank Ltd Finance House, 9th Floor, P.O. Box 11019 - 00100 Tel: 2212206 / 2210178/2212989//343639 Email: <a href="mailto:info@afrikainvestmentbank.com">info@afrikainvestmentbank.com</a> Web: <a href="http://www.afrikainvestmentbank.com">www.afrikainvestmentbank.com</a></p>	<p>ABC Capital Ltd IPS Building, 5th floor, P.O. Box 34137 - 00100 Tel: 2246036/2245971 Fax: 2245971 Email: <a href="mailto:headoffice@abccapital.co.ke">headoffice@abccapital.co.ke</a></p>
<p>Sterling Capital Ltd Barclays Plaza, 11th Floor, Loita Street, P.O. Box 45080 - 00100 Tel: 2213914/244077/ 0723153219/0734219146 Fax: 2218261 Email: <a href="mailto:info@sterlingib.com">info@sterlingib.com</a> Web: <a href="http://www.sterlingib.com">www.sterlingib.com</a></p>	<p>ApexAfrica Capital Ltd Rehani House, 4th Floor, P.O. Box 43676 - 00100 Tel: 242170/2220517 Fax: 2215554 Email: <a href="mailto:invest@apexafrica.com">invest@apexafrica.com</a> Web: <a href="http://www.apexafrica.com">www.apexafrica.com</a></p>	<p>Faida Investment Bank Ltd Crawford Business park, Ground Floor, P. O. Box 45236 - 00100 Tel: +254 - 20 - 7606026 - 35 Fax: 2243814 Email: <a href="mailto:info@fib.co.ke">info@fib.co.ke</a> Web: <a href="http://www.fib.co.ke">www.fib.co.ke</a></p>

<p>NIC Securities Limited Ground Floor, NIC House, Masaba Road, P.O.Box 44599 - 00100 Tel: 2888 444 / 0711 041 444 Fax: 2888 505 Email: <a href="mailto:info@nic - securities.com">info@nic - securities.com</a> Web: <a href="http://www.nic - securities.com">www.nic - securities.com</a></p>	<p>Standard Investment Bank Ltd ICEA Building, 16th floor, P. O. Box 13714 - 00800 Tel: 2228963/2228967/2228969 Fax: 240297 Email: <a href="mailto:info@sib.co.ke">info@sib.co.ke</a></p>	<p>Kestrel Capital (EA) Limited ICEA Building, 5th floor, P.O. Box 40005 - 00100 Tel: 251758/2251893,2251815,2250082 Fax: 2243264 Email: <a href="mailto:info@kestrelcapital.com">info@kestrelcapital.com</a> Web: <a href="http://www.kestrelcapital.com">www.kestrelcapital.com</a></p>
<p>African Alliance Kenya Investment Bank Ltd 1st Floor, Trans - national Plaza, P.O. Box 27639 - 00506 Tel: 2762610/ 2762628 / 2762000/ 2762557/ 0733333140 Fax: 2731162 Email: <a href="mailto:securities@africanalliance.co.ke">securities@africanalliance.co.ke</a> Web: <a href="http://www.africanalliance.com">www.africanalliance.com</a></p>	<p>Renaissance Capital (Kenya) Ltd Purshottam Place ,6th Floor, Westland , Chiromo Road, P.O BOX 40560 - 00100 Tel: 3682000/3754422 Fax: 3632339 Email: <a href="mailto:info@rencap.com">info@rencap.com</a> Web: <a href="http://www.rencap.com">www.rencap.com</a></p>	<p>Genghis Capital Ltd Prudential Building, 5th Floor, P.O Box 1670 - 00100 Tel: 8008561, 2337535/36, 2373984/968/969 Fax: 246334 Email: <a href="mailto:info@gencap.co.ke">info@gencap.co.ke</a></p>
<p>CBA Capital Limited CBA Centre Mara Ragati Road Junction, Upper Hill, P.O. Box 30437 - 00100 Tel: 0202884000/+254 20 2884000 / 365, 0711056365 Fax: 0202734616</p>	<p>Equity Investment Bank Limited Equity Centre, Hospital Road, Upper Hill, P.O Box 75104 – 00200 Tel: +254 - 20 - 2262477 Mobile: +254 - 732 - 112477/+254 - 711 - 026477 Fax: +254 20 2711439 Web: <a href="http://www.equitybankgroup.com">www.equitybankgroup.com</a></p>	<p>KCB Capital Kencom House 2nd Floor, P.O Box 48400 – 00100 Tel: +254 711 012 000 / 734 108 200, +254 20 3270000 / 2851000 / 2852000 Email: <a href="mailto:investmentbanking@kcb.co.ke">investmentbanking@kcb.co.ke</a> Web: <a href="http://kcb.co.ke">kcb.co.ke</a></p>

Source: (NSE, 2015)

## Appendix :XI Letter from CDSC



### Central Depository & Settlement Corporation Limited

Nation Centre, 10<sup>th</sup> Floor, Kinross Street, P.O. Box 3464 – 00100 Nairobi, Kenya  
Tel: 2912000 Fax: 2229405, Mobile: 0724 246130, 0733 222033  
E-mail: cdsckenya@cdsckenya.com, website: www.cdsckenya.com

*Safer, Faster, Easier...*

CDSC/HRCA/DATA/ FEB/ 2016

School of Business  
Kenyatta University  
P.O. Box 43844  
Nairobi

**C.D.S.C LIMITED**  
P.O. Box 3464-00100  
NAIROBI - KENYA

February 3 2016

#### **REF: INVESTOR DATA**

Emlyn Ngwiri contacted the Central Depository & Settlement Corporation with a request for data for his MSc. Research. The below data is verified and released from the CDSC.

Total number of Local Individual Investors: **1,921,026**

Total Number of Local Institutional Investors: **134,188**

Total number of East African Individual investors: **9,984**

Total number of East African institutional Investors: **618**

Total number of Foreign Individual Investors: **11,231**

Total Number of Foreign Institutional Investors: **3,777**

The above figures are as at 31<sup>st</sup> December 2015.

This information is given in strict confidence and without any responsibility or guarantee on the part of CDSC. Should you require further information, please do not hesitate to contact the undersigned.

Yours sincerely,

Irene Mutiso

**HEAD OF HR & CORPORATE AFFAIRS**

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**Directors:** - M. Britow (Chairman - British), A. Shah (British), C. Ogalo, B. Karina, N. Mwehesa, J. Kihumba, E. Karuki, G. Odundo, P. Mwangi.

## Appendix XII: NACOSTI Letter



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 3310571, 2219420  
Fax: +254-20-318245, 318249  
Email: [tg@nacosti.go.ke](mailto:tg@nacosti.go.ke)  
Website: [www.nacosti.go.ke](http://www.nacosti.go.ke)  
when replying please quote

9<sup>th</sup> Floor, Usali House  
Uhuru Highway  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref. No:

Date:

NACOSTI/P/16/57742/11100

9<sup>th</sup> May, 2016

Emlyn James Ngwiri  
Kenyatta University  
P.O. Box 43844-00100  
NAIROBI.

#### RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*Effect of financial ethics on investor confidence among member firms of the Nairobi Securities Exchange.*" I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **5<sup>th</sup> May, 2017.**

You are advised to report to the **County Commissioner and the County Director of Education, Nairobi County** 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.

  
BONIFACE WANYAMA  
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner  
Nairobi County.

COUNTY COMMISSIONER  
NAIROBI COUNTY  
P. O. Box 30124-00100, NBI  
TEL: 341886

The County Director of Education  
Nairobi County.



## Appendix XIII: Approval Letter



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 57530

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### Internal Memo

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FROM: Dean, Graduate School

DATE: 12<sup>th</sup> April, 2016

TO: Emilyn James Ngwiri  
C/o Accounting and Finance Dept.  
Kenyatta University

REF: D58/CTY/PT/21821/2010

**SUBJECT: APPROVAL OF RESEARCH PROPOSAL**

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This is to inform you that Graduate School Board at its meeting of 30<sup>th</sup> March, 2016 approved your Research Proposal for the M.Sc Degree Entitled, "Effect of Financial Ethics on Investor Confidence among Member Firms of the Nairobi Securities Exchange".

You may now proceed with your Data Collection, subject to clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you

EDWIN OBUNGU  
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance Department.

Supervisors:

1. Dr. Eddie Simiyu  
Department of Accounting and Finance  
Kenyatta University
2. Dr. Joseph Muthi  
Department of Applied Economics  
Kenyatta University

EO/rem