Estuary or confluence? A critical analysis of Anglo-American governance's implementation within an emerging economy context

Abstract

This paper draws upon a critical framework of theorising, comprising of postcolonialism and neopatrimonialism perspectives, to analyse the state of corporate governance (CG) and transparency within an emerging African economy. Data consists of a combination of twenty-nine semi-structured interviews with key CG stakeholders, together with field observations and archival evidence. We uncover how foreign-originated accounting and CG systems interact with dynamisms of Kenya's institutional and postcolonial reality, including powerful neopatrimonialism order. These includes ineffective corporate boards, rampant corruption, inadequately-skilled accounting professionals, weak regulatory and enforcement systems and lack of shareholder engagement. We find that implementation of Anglo-American governance and accounting innovations, such as International Financial Reporting Standards (IFRS), has done little to improve CG practices within Kenya's corporate sector. In particular, 'institutional collision' is manifested in our findings, where we evidence conflicts between demands of formal structures and vigorous informal institutions, such as corruption and cronyism in board appointments. We argue that it is delusive to assume that Kenya's capital markets, or those of other similar African countries, can achieve advanced countries status by merely adopting western accounting and CG structures. We conclude by recommending ways of improving CG practices in Kenya, including: re-design of corporate sector regulatory framework to remedy conflicts in regulation, encouraging shareholder activism and adoption of inclusive approach to corporate reporting.

Keywords: corporate governance, financial transparency, neopatrimonialism, postcolonial theory, Africa, less developed countries and emerging economies

1.0 Introduction

This study performs an investigation of internal and external factors which influence corporate governance and transparency issues in an emerging African economy, using the case of Kenya. Transparent firms are those which provide adequate information and disclosures concerning their business activities and operations. This also helps in minimising information asymmetry, between firm managers and the owners, which is an issue of considerable concern within public firms. This, thus, makes disclosure a fundamental basis for effective firm corporate governance (henceforth 'CG') practices. Furthermore, empirical evidence suggests that firms which provide high quality disclosure are valued highly by the capital markets, as opposed to those which provide little or no disclosures (Mangena and Tauringana, 2007; Ntim *et al.*, 2012). Disclosures concerning firm activities and operations are also of significance to various stakeholders, such as local communities and the government which may wish to assess how firms use their shared resources or contribute to public good respectively, through provision of jobs and paying taxes (Ntim and Soobaroyen, 2013; Ntim, 2016). Firm-level transparency and disclosure practices can also help to make early detections of impending corporate sector issues, thereby preventing costly economic crises. In view of the above understanding, this paper argues that the topic of firm transparency and disclosure practices is of significant interest for academics, practitioners as well as policy makers.

Nevertheless, extant evidence shows that firms struggle to maintain greater transparency and disclosure practices notwithstanding the numerous benefits associated with such conduct (Okeahalam, 2004; Wanyama *et al.*, 2009; Siddiqui, 2010; Samaha *et al.*, 2012). Some of the explanations suggested as contributing factors for poor transparency and disclosure practices include: covering up possible misappropriation of assets by managers (Bakre and Lauwo, 2016), weak enforcement of CG regulations (Adegbite, 2015), as well as ambiguous reporting practices by some firms (Hopper *et al.*, 2017). These factors are especially observed to be more prevalent within less developed countries and emerging economies (hereafter 'LDCEEs') (Adegbite, 2015; Bakre and Lauwo, 2016). In this paper, we set out to investigate factors which constrain CG and transparency within LDCEEs using the case of Kenya. In doing so, we pose the following question: *Why do LDCEEs firms fail to observe robust CG and transparency standards despite the immense benefits associated with such practices?* This paper argues that greater firm transparency and disclosure practices can assist LDCEEs firms to attract cheap (foreign) capital at a lower cost of capital, enhance firm market valuation and corporate sector efficiency, and consequently boost economic growth. The findings from this research are relevant to investors and potential investors in LDCEEs firms wishing to understand causes of information asymmetry within those firms. Multinational enterprises and parent companies of firms operating within LDCEEs may also find the findings useful when dealing with subsidiaries or business partners. Lastly, this study's findings have potential to assist policy makers in discerning ways to boost firm transparency and disclosure practices by either introducing new or modifying existing regulations.

Besides, there is limited understanding concerning CG reforms and practices within LDCEEs. To begin with, existing research on CG within LDCEEs is still scanty and particularly so in the African context (Nyamori *et al.*, 2017). Secondly, emerging evidence suggests that there is potentially no universal model of CG globally (Siddiqui, 2010; Hopper *et al.*, 2017). In this regard, adoption of foreign-originated CG models or other accounting innovations within LDCEEs is not sufficient to improve CG practices. This is especially so if there is poor-fit between assumptions of the (foreign-originated) CG models and individual LDCEEs country institutional environment (Wanyama *et al.*, 2009; Adegbite, 2015; Nakpodia and Adegbite, 2018). As Wanyama *et al.* (2009, p.159) argues, *"emergence of detailed governance codes in developing countries does not necessarily mean that de facto practices will improve*." In the same vein, Kenyan firms, also the context for this study, have persistently exhibited lower transparency and disclosure practices (*e.g. see* Barako *et al.*, 2006; Outa *et al.*, 2017). This is notwithstanding the implementation of an international code of CG practices in Kenya.

Accordingly, this paper utilises an interpretivist qualitative approach. This is intended to assist the present study to carry out in-depth investigation concerning factors that constrain Kenyan firms from reaching greater transparency and disclosure levels, considering the existence of an international code of CG in the country. The paper utilises twenty-nine semi structured interviews with Kenyan CG stakeholders, field observations and secondary data in the form of archival documents. The findings reached in this study provide several interesting insights. Firstly, we find that CG is practiced within a problematic institutional context, manifested by: (i) weak regulatory oversight, (ii) rampant corruption, (iii) poor training of accounting and CG practitioners, and (iv) missing shareholder sophistication. Secondly, following these findings, the paper recommends re-design of corporate sector regulatory framework to ensure smooth regulation, enhanced shareholder activism and a dual-language reporting approach to ensure all stakeholders can hold managers to account.

The rest of the paper is organised as follows: the next section presents our theoretical framework and provides a critique of extant literature. Section three explains the data and methodological choices applied in this research. Section four presents the results and findings, and section five provides a critical discussion of findings. Lastly, section six concludes the paper and outlines avenues for future research.

2.0 Literature review

2.1 Theoretical framework

This paper draws upon a critical framework of theorising, consisting of postcolonialism and neopatrimonialism perspectives. We integrate insights from the two perspectives to gain a comprehensive understanding concerning implementation of an Anglo-American originated CG code within the constraints of Kenya's institutional environment. In doing so, the present paper illuminates on the tensions that arise when 'foreign' accounting systems are applied in a setting founded on hypothetically distinct socio-cultural conditions (*e.g. see* Lassou and Hopper, 2016; Hopper *et al*., 2017). Another benefit of the critical theory approach is that it permits us – the researchers – greater latitude to not only uncover the reality of CG in Kenya, but also a 'voice' to instigate action towards amelioration of the state of CG practices in the country (Laughlin, 1987; Rahaman, 2010; Hopper *et al.*, 2017). The latter remains a virtually unachievable privilege within conventional CG theories, such as agency, resource dependence, or institutional perspectives, to name a few (Laughlin, 1987; Soobaroyen *et al.*, 2017). Lastly, a critical theory approach permits this paper to contribute to the scant critical accounting analysis in Africa (Hopper *et al.*, 2017; Nyamori *et al.*, 2017). The ensuing discussion in this subsection explains the assumptions of the two theoretical perspectives utilised in the present study, that is, postcolonialism and neopatrimonialism perspectives.

The postcolonial perspective is a multifaced theory whose flexibility has enabled us to apply it in several disciplinary areas, including, to name a few, labour and organisational studies, feminism, nationalism and indigenous debates, and race issues (Banerjee and Linstead, 2004; Banerjee and Prasad, 2008; Nkomo, 2011). From an organisational studies standpoint, postcolonial theory opines the propagation of western-originating management practices and other economic models, i.e. IFRSs and neoliberalism, into LDCEEs as imperialistic domination of the latter by Western powers (Cooper and Hopper, 2006; Lassou and Hopper, 2016). As Banerjee and Linstead (2004, p.227) put it, postcolonial theory examines the *"continuation of western colonialism [in the absence of] the traditional mechanism of expanding frontiers and territorial control but with elements of political, economic and cultural control"*. Consistent with this view, Nkomo (2011, p.368) notes that *"everything African [is] represented as negative while everything positive [is considered Western], an attitude that she blames on Africa's colonisation."* The most notable perpetrators of this present day western imperialism (neocolonialism) within LDCEEs include; supranational organisations, such as, the World Bank (WB), International Monetary Fund (IMF), the World Trade Organisation (WTO) and the United Nations (UN), as well as other western development aid agencies [1](Lassou and Hopper, 2016; Hopper *et al.*, 2017; Nyamori *et al.*, 2017). Nevertheless, these organisations have been faulted for their patronising attitude towards recipient countries of their efforts, mainly LDCEEs (Banerjee and Linstead, 2004; Chang, 2007). Chang (2007), as an instance, reproached the work of western-based supranational bodies within LDCEEs, viewing their presence in the latter as a scheme to propagate western hegemony. His fears are particularly evident where he singles out neoliberalism as being an:

> "*agenda […] pushed by an alliance of rich country governments led by the US and mediated by the 'Unholy Trinity' of international economic organizations that they largely control—the IMF, WB and the WTO*" (Chang, 2007, p.xx).

Interestingly, Chang (2007, p.xx) proceeds to argue that:

> *"rich governments use their aid budgets […] as carrots to induce the developing countries to adopt neo-liberal policies […] the IMF and WB play their part by attaching to their loans the condition that the recipient countries adopt neo-liberal policies [whilst] the WTO contributes by making trading rules that favour free trade in areas where the rich countries are stronger…*"

It is on the above basis that postcolonial theorists are inclined to have sceptical doubts about western organisations and governments interaction with LDCEEs. Instead, they suggest that solutions to the problems and challenges of LDCEEs should be sought within their own precincts (Whiteman and Cooper, 2000; Nkomo, 2011; Lassou and Hopper, 2016). Accordingly, this line of thinking overlaps with another theoretical perspective – neopatrimonialism – which advocates for an 'inward-looking' approach in solving LDCEEs problems. Neopatrimonialism is a concept loaned to accounting from political science literature, and which posits that most non-western civilisations, such as African societies (Cammack, 2007; Hopper, 2017), follow a form of traditional authority where '*obedience is owed not to enacted rules but to the person who occupies a position of authority by tradition or who has been chosen for it by the traditional master*' (Weber, 1968, p.227). Weber (1968)

[1] Examples of western development aid agencies include: United States Agency for International Development (USAID); Department for International Development (DFID); The Australian Department of Foreign Affairs and Trade (formerly, AUSAID), etc.

referred to this form of power relations as ‘patrimonialism’. However, Eisenstadt (1973) later extended the conceptualisation of patrimonialism, beyond Weber’s reference to traditional societal settings (Erdmann and Engel, 2007), and propounded its application to understanding the reality of modern organisational structures. For instance, Cammack (2007) criticises foreign development agencies for failing to pay due regards to the underlying institutional environment of African countries when they provide aid or implement reforms. The author contends that donors come with externally constructed notions that because African countries show “*signs of a modern, democratic state – i.e., they hold elections and have democratic-style institutions, such as a presidency, a parliament, political parties, a police force and a judiciary, which many assume will function as in the West,*” then the objectives of the former will be achieved (Cammack, 2007). The author terms this as ‘delusion’ since the presence of such formal institutions does not guarantee that they will be effective in carrying out their mandates. Indeed, Lassou and Hopper (2016) exemplify the neopatrimonialism concept in their work within a Francophone African country, where they find that accounting reforms introduced through concerted efforts of the WB and French government did not improve government accounting practices. They argue that prior indigenous accounting system had been relatively successful compared to the ‘imported’ French system, despite the former emerging from a weak institutional environment (Lassou and Hopper, 2016). It is possible that the ‘ecological embeddedness’ (Whiteman and Cooper, 2000) of local innovations offers an innate immunity to institutional disturbances, a privilege that western solutions may not enjoy. In the same vein, Hopper (2017, p.226) argues that neopatrimonialism emanating from disregard of formal structures in favour of a powerful social order, “*aids corruption and renders official and formal systems of accountability redundant, except arguably to present a veneer of accountability to gain legitimacy from external parties.*” Hopper (2017) proceeds to suggest that externally imposed reforms implemented within LDCEEs, and Africa in particular, should be applied gradually and adapted to the institutional realities of individual countries.

Accordingly, the two theoretical perspectives discussed above will be deployed in the present paper to reflect on the state of CG and transparency issues in Kenya. Kenya adopted an Anglo-American CG model over one-and-a-half decades ago, and thus this offers ample time to critically appraise the appropriateness of the code for the country’s development goals. We believe that the assumptions of these theories offer useful insights in critically investigating internal and external factors which influence corporate governance and transparency issues in Kenya.

The next section provides a critique of related empirical literature.

2.2 Empirical literature

Many countries have embraced international codes of CG practices with a view to avert accounting scandals, that have previously been linked to costly corporate failures across the globe (Wanyama *et al.*, 2009; Nyamori *et al.*, 2017). Some of the prominent accounting disasters that have rocked global headlines in recent past include: Parmalat in Italy, Arthur Andersen and WorldCom in the USA, Barings Bank and Equitable Life Assurance Society, and latterly Carillion in the UK (Rezaee, 2005; Carnegie and Napier, 2010; Sikka, 2015). Investigations have attributed these occurrences to weak accounting procedures, including poor disclosure and/or financial misreporting (Rezaee, 2005). Furthermore, global players such as International Accounting Standards Board (IASB) and other international regulatory bodies have also responded by supporting member countries in strengthening their accounting frameworks and corporate regulatory landscape (Cieslewicz, 2014; Hopper, Lassou and Soobaroyen, 2017). For instance, Kenya, the context of this study, has adopted an Anglo-American governance model as well as embraced International Financial Reporting Standards (hereafter 'IFRSs') (Kimani, 2016). This is with a view to enhance accounting and CG standards in the country, also considered the bellwether of the East and Central African region.

Notwithstanding, Kenya has continued to experience various accounting and CG challenges whose origins commentators have associated with weak CG and transparency issues (*e.g. see* Mugwe, 2012; Ngigi, 2014; Juma, 2017). In the ensuing discussion, we attempt to gain understanding concerning determinants of transparency and disclosure practices in similar contexts – LDCEEs – to understand why such challenges may be occurring despite adoption of international best practices within the corporate sector.

To begin with, Patel *et al.*, (2002) examined firm-level transparency and disclosure in 19 emerging markets and they found that information needs of minority shareholders are threatened by highly concentrated ownership structure in these economies. In other words, large block holders may expropriate the rights of minority shareholders (Kumar and Zattoni, 2014; Ullah *et al.*, 2018). These findings coincide with Millar *et al.*, (2005) who cautioned that minority investors within emerging markets are inherently at an information disadvantage owing to weak legal infrastructure and heavily concentrated/familial ownership of firms. Barako *et al.* (2006) also conducted a study of firm disclosure practices in Kenya and revealed that firms with institutional and foreign investors were more transparent than firms without institutional shareholders. Barako *et al.*'s (2006) finding coincide with Shleifer and Vishny (1997) seminal work which argues that large investors serve as a complementary CG mechanism, considering the normally weak legal environment of LDCEEs. The foregoing discussion shows that evidence concerning effect of concentrated ownership on firm transparency and disclosure practices is mixed. Whilst there is no doubt that firm ownership within LDCEEs is typically concentrated (*e.g. see* Claessens and Yurtoglu, 2013; Aguilera and Crespi-Cladera, 2015), it is possible therefore that the mixed findings are attributable to peculiarities of individual country settings.

Accordingly, evidence suggests that weak legal environments within LDCEEs is a significant contributor for weak transparency and disclosure practices (Okeahalam, 2004). In a study that examined CG disclosure in 57 emerging markets, Othman and Zeghal (2008) found civil law countries to have weaker legal environments compared with common law countries. This finding conforms with prior literature which suggests that common law system promotes better CG climate and provides stronger protection to investors than civil law system (La Porta *et al.*, 1998, 2000). Nonetheless, Othman and Zeghal (2008) concluded that common law countries with small capital markets exhibited low CG disclosure levels, and did not have an advantage over civil law countries with large capital markets. In a separate study consisting of 100 listed firms in Egypt, it was established that disclosure levels are generally low, a finding that is attributed to, among other factors, weak regulatory environment caused by "*deteriorating law* *and order situation and […] non-compliance to legal requirements [which] often go unpunished*" (Samaha *et al.*, 2012, p.175). This is one of the reasons why Adegbite (2012) previously questioned the suitability of voluntary disclosures and principles-based CG regime within LDCEEs contexts, in place of rigid rules-based CG regime. In this vein, a study of disclosure practices of 169 South African listed firms following introduction of new disclosure regulations, revealed improvement in firm value (Ntim *et al.*, 2012). Moreover, literature suggests that adoption of IFRSs within LDCEEs may fail to achieve desired accounting standards in an environment of weak legal climate (Daske *et al.*, 2008; Cieslewicz, 2014; Hopper *et al.*, 2017). This demonstrates the significance of government contribution in enforcing CG regulations within LDCEEs. Notwithstanding, Mangena and Tauringana (2007) in a study conducted in Zimbabwe, a country with weak legal environment, found that foreign ownership is positively related to firm-level disclosure. This therefore suggests that presence of foreign shareholders could be a complement to legal inadequacies within LDCEEs.

The environment of business within LDCEEs is also pervaded by endemic corruption, which constrains firm transparency and disclosure practices (Klapper and Love, 2004; Adegbite, Amaeshi and Nakajima, 2013; Alon and Hageman, 2017). In the context of Africa, recent empirical work shows that country-level factors, such as quality of institutions, quality of governance, government effectiveness, accountability, corruption control mechanisms play a key role in enhancing accountability and transparency of listed companies (Hopper, 2017; Adams *et al.*, 2018). Klapper and Love (2004) in a study that investigated firm-level CG within 14 emerging markets, found corruption to be one of the factors contributing to asymmetric information and weak CG climate. Closer to Kenya, in Nigeria, corruption is attributed to weak CG environment as enforcement bodies are compromised to overlook blatant violation of corporate sector regulations (Adegbite, 2012; Adegbite and Nakajima, 2012; Adegbite *et al.*, 2013; Bakre and Lauwo, 2016). Moreover, Alon and Hageman (2017, p.155-156) conducted a study of 5000 firms based in 20 emerging economies and reported that many firms pay "*unofficial costs in the form of bribery or extortion.*" They found that firms with concentrated ownership were more likely to make 'unofficial payments', while firms which made such payments were also highly non-transparent (Alon and Hageman, 2017). In the present study, we argue that firms which engage in corrupt activities are less likely to be transparent (Estrin and Prevezer, 2010; Cieslewicz, 2014; Barkemeyer *et al.*, 2015) for fear that it could lead to criticism from stakeholders, or even conviction in future.

Moreover, empirical evidence concerning shareholder engagement in Africa casts doubt on their contribution towards CG development (Uche and Atkins, 2015; Kimani, 2016; Nakpodia *et al.*, 2016). An analysis of annual reports of 36 out of the 48 firms listed in Kenya in 2007 revealed that some companies prepare their reports in two languages, that is, English and Swahili (Tauringana *et al.*, 2008). Although the latter language is not a regulatory requirement, the authors conclude by recommending dual language reporting to increase comprehensibility of annual report information to a wide range of stakeholders. They also suggest that most local investors, particularly minority shareholders, have "*low levels of education attainment [and thus] are more likely to comprehend annual report messages in Swahili than English*" (Tauringana *et al.*, 2008, p.16). The current paper argues that incomprehensibility of corporate information is a potential impediment to firm transparency and disclosure efforts. We also argue that ill-informed shareholders may not be able to hold managers accountable or to discern any disclosure gaps. Additionally, recent evidence from Nigeria further suggests that shareholders play little role in supporting CG process. Adegbite *et al.* (2012) carried out an in-depth study of Nigeria's CG system using 26 interviews and 2 focus groups and established that effective shareholder engagement was missing owing to political meddling. They report that shareholders associations in Nigeria have been "*hijacked by individuals whose aims are to reap personal benefits, which is the principal tenet of the broader political culture of the country*" (Adegbite *et al.*, 2012, p.397). In a separate in-depth study comprising 26 interviews, Uche *et al.* (2016) found that institutional shareholders associations in Nigeria are usually made up of two types of investors categories: active and inactive shareholders. They also report that shareholders associations do not demand enhanced accountability from firm managers (Uche *et al.*, 2016). While shareholders associations are argued in literature to be important engines for investor activism, this paper contends that their presence is not a guarantee for enhanced CG practices. This can also have implications for firm transparency and disclosure practices if shareholders do not demand increased disclosures from the managers.

Another factor that is observed in literature to affect firm transparency and disclosure is the function of board of directors. Okpara (2011) conducted a mixed method study with 292 Nigerian CG stakeholders, where they revealed that transparency is still a challenge despite many firms having independent boards. As an instance, the author notes that "*shareholders who wish to speak at AGMs are only allowed to speak if they are known to side with the board of directors*" (Okpara, 2011, p.195). This evidence is surprising given that board independence is widely argued to have a positive impact on firm transparency (Zahra and Pearce II, 1989; Ullah *et al.*, 2018). Notwithstanding, Soobaroyen and Mahadeo (2012) carried out an in-depth study of boards in Mauritius, where they found that presence of independent non-executive directors, enhanced board accountability. Soobaroyen and Mahadeo's (2012) study contradicts the findings by Okpara (2011), and demonstrates that individual country's context matters in CG research. Consistent with the foregoing argument, Hearn *et al.* (2017) studied 119 firms listed in 17 African countries, and reported that boards in countries with weak regulatory environment tend to have more social elites, and vice versa. Such social elites include: state bureaucrats, corporate executives, military chiefs, and other influential clan and societal members. These authors also noted that boards dominated by social elites provided 'ineffective monitoring', compared with boards which have smaller number social elites (Hearn *et al.*, 2017). We thus argue that the mere presence of a board of directors in a firm, is potentially insufficient to provide effective monitoring of managerial actions and reduce information asymmetry. Rather, it is important to consider other institutional factors which could impede the effective performance of their responsibilities.

Lastly, ill-trained accounting and auditing professionals also contribute to failure in firm transparency and disclosure quality (Greenwood *et al.*, 2002). Siddiqui (2010) investigated CG practices in Bangladesh and established that there is an insufficient number of qualified accountants. The author noted, rather worryingly, that "*vast majority of accountants working in the corporate sector do not possess any accounting qualifications*" (Siddiqui, 2010, p.258).

This also suggests that there might be lack of well qualified auditors to lend credence to the accuracy of financial statements prepared by firms in such an environment. In Kenya, a World Bank report has also raised concerns regarding the competency of auditors and accountants working in the country, as follows:

> *"…accountancy education lacks sufficient exposure of practical application of standards […] new accountancy professionals lack exposure of the practical application of accounting standards, adequate level of communication skills, and aptitude in forming judgment in applying accounting policies for measurement and disclosure of financial information"* (World Bank, 2010, p.11)

The report continues:

> "*Many Kenya universities, especially the public universities, which have the highest accounting students' enrolment, are faced with financial and manpower capacity problems. Hence, they may not be up to date with the demands of the accountancy profession […] Most accounting textbooks lack adequate focus on current international accounting and auditing practice, in particular the practical application of accounting and auditing standards.*" (World Bank, 2010, p.12).

The excerpts above reveal serious issues concerning the training and professionals involved in preparing and auditing of firm financial and accounting information. We argue that ill-trained accounting professionals are potentially incapable of detecting financial frauds and other hindrances to corporate transparency. In this regard, inadequate accounting education is argued to contribute to unethical practices which adversely affect corporate sector transparency (Low *et al.*, 2008; Holm and Zaman, 2012; Alleyne and Tracey, 2014; Hopper *et al.*, 2017). Finally, auditor independence within LDCEEs is also constrained by desires to please clients to keep business, given the burgeoning nature of their corporate sectors (Rezaee, 2005; Habib and Islam, 2007; Uddin and Choudhury, 2008; Alleyne and Tracey, 2014; Osemeke and Osemeke, 2017). In the following section, we discuss the data collection procedures and research methodology.

3.0 Methodology

3.1 Research design and data collection

The data collection process was carried out using three methods: in-depth semi-structured interviews, field observations and archival evidence. We started reviewing information on websites of various listed Kenyan firms and regulatory bodies. Then, additional documentary data from annual reports, records of AGM proceedings, regulatory and policy reports, and media reports was collated and reviewed. Such archival evidence is argued to provide several advantages to qualitative researchers (Filatotchev and Wright, 2017). According to Adegbite *et al.* (2013), reviewing archival evidence assists researchers to identify useful questions for following up with participants, as well as design an effective interview questionnaire. Another major advantage of archival evidence in qualitative studies is the opportunity to corroborate respondents accounts, thus enhancing the validity of research findings (*e.g. see* Osemeke and Adegbite, 2016). Accordingly, twenty-nine semi-structured interviews were conducted in

Kenya by the first co-researcher in two phases. These interviews were conducted with senior executives of Kenyan listed firms, representatives of regulatory bodies including Capital Markets Authority (CMA), Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Certified Public Secretaries of Kenya (ICPSK), and Nairobi Securities Exchange (NSE), as well as a journalist, CG trainer, and an academic from a Kenyan public sector university. Eight of the interviews were conducted between May and June 2013, while the other twenty-one were conducted between April and June 2015. Twenty-five of the interviews were tape-recorded and later transcribed, while notes were taken in the other four interviews after the participants expressed dissatisfaction being tape-recorded. Lastly, detailed notes were made from field observations carried during the field research. These comprised both reflective notes concerning researcher's personal experiences during the fieldwork, as well as handwritten notes taken during six AGMs observed in the second phase of the research fieldwork. It was made clear whilst negotiating for access to the AGMs, that there would be no tape-recording of AGM proceedings due to ethical issues. This is because it was practically impossible to seek individual consent from each of the participants' present – both shareholders and firms' representatives. Since our research design was not covert, the observing researcher thus decided to make handwritten notes.

3.2 Approach to data analysis

We used a series of iterative processes in analysing the data. First, we carried out a documentary analysis of archival data. This assisted in identifying potential interview participants, as well as designing an interview questionnaire (Saunders *et al.*, 2009, p.146; Yin, 2011, p.29). The documentary analysis further permitted authors to pinpoint the unit of analysis to be examined in this study, and gain richer understanding concerning the researched context – Kenya. Subsequently, thematic data analysis technique was employed in the final data analysis phase.

4.0 Results and findings

This section presents a discussion of our key findings. The six subheadings below represent the higher-order themes which emerged from the coding process. We also include relevant data excerpts to illustrate how these themes emerged, including how participants' accounts were corroborated with archival evidence.

4.1 Board of directors

The data examined in this paper shows that the functioning of boards within Kenya's corporate sector is constrained by numerous factors. This evidence further puts to question the ability of boards to play meaningful monitoring role within firms. To begin with, there was consensus that many vacancies on corporate boards are filled with directors who are appointed by controlling owners:

> *"…there is tendency for certain families to dominate the boards of some listed companies because of their significant shareholding. I think we could talk of an elite capture by a small group of Nairobians…a small group of people who control corporate Kenya…*" (Interviewee 13)

The statement above shows that having non-executive directors on board is not enough guarantee for board independence, and subsequently enhanced board monitoring role. This is because ownership structure in Kenya is highly concentrated and some influential families exert significant influence on companies listed on the Nairobi Securities Exchange. Independent non-executive directors are expected to bring independent monitoring and judgment to the board (Ullah *et al.*, 2018).

Besides, it emerged that board independence is also affected by poor nomination processes where directors are appointed based on affiliation with a tribe or friendship as aptly illustrated in the following excerpts:

> "*The biggest hindrance to professionalism within many boards is the problem of the old-boys network where serving directors invite their friends and business associates to take up board positions…that way friendship supersedes [the relevant] experience or expertise…*" (Interviewee 2)

> "*Board appointments in this country are influenced by what tribe you come from and who the people sitting on a particular board come from…this may be unnoticeable to the general public because we are all deeply immersed in this problem but as someone who has worked in corporate Kenya all my life and also understands its boardroom intricacies, suitable candidates are occasionally overlooked because they come from the 'wrong tribe' (emphasis added)…any Kenyan will tell you that tribalism is a big problem in this country…*" (Interviewee 6)

> "*Almost all boards have what you call nominations committee, because it is a requirement by the CMA…but some of them are just rubberstamps…about 3 or 4 years ago, I was serving in the board of one of the listed companies and our Chair then brought one of his business associates and the nominations committee happily endorsed that person…so, having a nominations committee is one thing, but its members being able to effectively execute their roles is another…*" (Interviewee 15)

Consistent with the above interviewee accounts, a leading financial newspaper in Kenya summarised the nomination processes of Kenyan firms as follows:

> *"…managers are allowed to suggest names of cronies or friends from the old-boys network for nomination to the board making it a 'yes outfit' that is incapable of making quality decisions*." (Business Daily, 2010).

Besides, our analysis revealed that directors abuse their positions by engaging in non-arm's length transactions with the companies which they serve. This is unequivocally captured in the following interviewee accounts:

> *"…the current issues facing [CNW], whereby management set up shell companies that overbilled their company for delivery of goods and services, is a good example of how some boards engage in questionable practices to defraud their companies…*" (Interviewee 27)

> *"…if you look at a company like [CNW], all those things which were discovered there had been ongoing for more than 20 years and the whole board could not have been without that knowledge…[the board] was hiding all those things from the auditors…a number of directors were also long time suppliers of [the same company] and the directors also had secret offshore accounts…the only reason why these issues came into the public attention was because of a disgruntled director…without this whistle-*

blower I don't think [CNW] board's misconducts would have been discovered…" (Interviewee 11)

The above statements show how some directors engage in unlawful activities, potentially, in full knowledge of the board. Boards where member directors engage in such malpractices may also be argued to be undisputedly complicit in covering up the misdeeds of their fellow members.

The extent of board malpractices in Kenya's corporate sector is exemplified in the following quote by a senior representative of a regulatory agency:

> *"…after our investigations, we have taken six former directors of [CNW] together with some senior managers who were found to have imported sugar to compete with their own company's brand…there are also reports that at times lorries would leave [the] Sugar factory destined for Nairobi and about 100 bags of sugar would disappear from a consignment…tons and tons of sugar was stolen by the [company's] leadership in full knowledge of the board totally bankrupting the company…"* (Interviewee 5)

These statements affirm Garratt (2003, p.131-2) argument that *'fish begin to rot from the head'*. In the following section, we also uncover incidences of bribery and corruption embedded in Kenya's corporate environment.

4.2 Bribery and corruption

There was consensus in interviewees' accounts that a widespread culture of bribery and corruption prevailing in Kenya, continues to adversely affect firm transparency and disclosure practices. The following excerpt aptly captures the general view amongst the interviewees:

> "*…You have the big four auditing firms here which are also found in other countries…however, the issue which brings the difference in the work which they do is the environment in which they operate in…I don't believe that what we have seen here has never happened elsewhere in the world…in fact, the Arthur Andersen case is not different from what we have witnessed here in Kenya. The only difference is that maybe we see more of these cases here in our country than they occur elsewhere like the developed countries…*" (Interviewee 13)

As another interviewee added, the elevated levels of corruption in the country adversely affect the quality of work performed by accounting practitioners:

> "*corrupt individuals do not spare anything in ensuring that they leave no trail including bribing the accountants of various firms to cover their actions*" (Interviewee 21).

The statements above corroborate with an Ernst & Young (EY) report which noted that corporate insiders within Kenyan firms, are compelled to engage in bribery and corruption to secure business. The EY report observed:

> "*90% of the managers perceived bribery/corrupt practices happen widely in business […] 23% agreed that at least one of these three things happened within their firm: (a) revenues being recorded before they should to meet short-term financial targets; (b) customers being required to buy unnecessary stock to meet short-term financial targets; (c) underreporting of costs incurred to meet short-term financial targets…41% companies often report financial performance better than it is*" (EY, 2015, page 5-12).

The evidence above shows the extent to which corruption and bribery has permeated the corporate sector in Kenya. In addition, the Institute of Certified Public Accountants of Kenya (ICPAK), the body that regulates the accounting profession, has also openly decried widespread corruption as a major hindrance to financial accountability and transparency within the corporate sector. The CEO of ICPAK was also quoted in a leading daily stating that:

> "*Fraudulent accounting is a national disaster in Kenya…we need the input of every stakeholder including the police, the National Intelligence Service and the Ethics and Anti-Corruption Commission to curb the vice.*" (Business Daily, 2015).

This is however unsurprising given that corruption is extremely rampant in Kenya, where it is affects all sectors of the economy. Indeed, Kenya ranks as one of the most corrupt countries in Africa, and globally, according to Transparency International's Corruption Perception Index of 2017. In the following section, we discuss our results relating to the poor quality of accounting education and the role played by the Kenya's professional accounting body in implementing and promoting international accounting regulations.

4.3 Professionalism and inadequate skills of accountancy practitioners

The other finding that emerged from the data analysed was quality of training and competency of accounting practitioners in Kenya. Interviewees expressed concerns regarding the technical skills possessed by many accounting graduates, as noted below:

> "*we always take our new [accounting staff] for further training…some of the new recruits especially those who studied for CPA (Certified Public Accountant) on their own may not have the necessary transferable skills which are vital in an accounting job…*" (Interviewee 6)

Another interviewee added:

> "*our company has an inhouse training scheme which all new staff in the accounting department must complete…this is mainly meant to provide them with hands-on skills which they later use in doing their work…*" (Interviewee 13)

The above excerpts coincide with a World Bank report which observed that many accounting professionals in Kenya lack sufficient practical experience. This report particularly warned that:

> *"…new accountancy professionals lack exposure of the practical application of accounting standards, adequate level of communication skills, and aptitude in forming judgment in applying accounting policies for measurement and disclosure of financial information…university graduates do not have adequate levels of practical knowledge…"*
>
> *"Students generally do not receive high-quality training in accounting and auditing and either fail the CPA examination, or start their professional career with a weak academic foundation…"* (World Bank, 2001, p.4)

The lack of proper accounting training mentioned above was attributed to lack of resources including teachers and learning materials. The above statement corresponds with another World Bank report as follows that cautioned the following:

"…universities […] have little involvement with the international professional accounting organizations [and] none subscribe[s] to the updated IASB publications, and none have made attempts to implement IFAC[2] recommendations regarding accounting and auditing education…" (World Bank, 2010, p.12).

The above evidence illustrates serious deficiencies in the training and development of accountancy professionals in Kenya. This thus suggests that many practitioners are potentially weak and ill-equipped to perform their duties. In the following section we find how lack of professionalism of accounting practitioners could hinder auditor independence in the Kenya's context.

4.4 Lack of auditor independence

Several interviewees provided accounts that suggested that external auditors have close, and occasionally questionable, relationships with the firms which they audit. For instance, one interviewee narrated that:

"*You see, we don't have many big companies [in Kenya]…we are still a small country…the auditors may therefore avoid situations which could lead to fallouts with their clients. Sometimes they may have to dance to the tune of their clients in order to sustain business…*" (Interviewee 20)

Another interviewee added that:

"*…we don't have many consultants who can provide the advice we would receive from a multinational firm like Deloitte, PWC or KPMG…so when we go for competitive bidding we may find that our current auditor has the lowest quote…what else can we do?*" (Interviewee 3)

The above statement also coincides with an earlier observation by the World Bank that:

"*auditors face potential conflict of interest [since] many audit firms provide tax as well as auditing services to the same client, and in some case will help their clients prepare the accounts they audit*" (World Bank, 2007, p.3).

One participant further made an interesting observation regarding the growing number of corporate collapses in Kenya, as captured in the quote below:

"*…we have seen companies which were being audited by the big four audit firms collapsing overnight and after scrutinising their affairs the investigators revealed massive financial improprieties within those companies…for instance [company name withheld] went technically insolvent about five years ago but it had been audited for all this time and the auditors have been giving it a clean bill of health…what were those auditors doing?*" (Interviewee 2)

The evidence presented in this subsection also suggests that some firms may be in contravention of Kenya's CG code, which require firms to ensure "*formal and transparent arrangement for maintaining a professional interaction with the Company's auditors*" (Capital

[2] IFAC stands for 'International Federation of Accountants'.

Markets Authority, 2002, p.480). This means that external auditors in many firms are constrained from discharging their roles effectively due to their close relationship with their clients.

4.5 Inadequate regulatory regime

Our analysis also uncovered various weaknesses within Kenya's corporate regulatory framework. For instance, we find that the regulatory requirements of some bodies conflict with each other thereby creating confusion for firms in terms of compliance. There was general interviewee opinion that such regulatory conflicts act as hindrances to corporate transparency and disclosure, as illustrated below:

> "*…we see conflicts in regulatory requirements where one regulator asks for one thing and the other regulator threatens to penalise you if you do that…there is need to harmonise the regulatory framework because some agencies do more or less similar work…there should be just one body which can do all their work and hopefully help to remove the grey areas in regulation…*" (Interviewee 19)

The above interviewee remark is affirmed by a previous World Bank report on the state of accounting and auditing in Kenya, which noted the following:

> "*…the CBK and IRA issue prudential requirements that […] prevail over IFRS…Accounting differences do arise between the banking and insurance sectors, such as in loan-loss provisioning of banks and calculation of technical reserves in the insurance sector. Such differences could lead to inconsistencies in application of accounting regulations across banks and insurance companies, limiting transparency and comparability…*" (ROSC, 2010, page 13)

Moreover, our analysis revealed that laxity on part of regulatory bodies contributes to weakened corporate sector transparency, and poor CG practices in general. The evidence examined indicated that some regulators do little or nothing at all even when incidences of wrongdoing are evident. The excerpts below summarise the interviewees opinions regarding quality of enforcement in Kenya:

> "*…bodies like the registrar of companies and even ICPAK do little to encourage compliance with CG regulation…the companies registry is mess…the ICPAK has been done nothing when their own members […] are found to have engineered fraud within companies…*" (Interviewee 27)

Another interviewee added:

> "*…the capital markets regulatory* authority *is not very strict. They should be penalizing or coming up with various strategies and schemes of actually ensuring that we are complying with CG practices…but you only see them when there has already been a problem…*" (Interviewee 19)

The above interviewees accounts coincide with a previous report published in a leading business daily in Kenya, which noted the following:

"*…mounting cases of accounting fraud [continue to] test the effectiveness of market watchdogs…accountants and auditing firms of listed companies have lately been on the spot for alleged falsifying of company financials in collusion with management at the expense of shareholders…ICPAK has been accused of paying lip service without taking solid action against auditors as cases of fraud mount*" (Ngugi, 2015).

4.6 Missing shareholder sophistication

The code of CG practices in Kenya gives shareholders a responsibility of ensuring that directors and firm executives are accountable. As a result, shareholders are required to demand enhanced accountability from firms, including attending AGMs. Nonetheless, our analysis reveals that shareholders are unable to perform their CG duties effectively due to various reasons. To begin with, Kenya's lacks investor activism and no shareholders association exists to protect shareholders' interest. This therefore leaves minority shareholders at a disadvantage as some of them lack basic financial literacy. Besides, the lack of investor association to assert the interests of shareholders, most minority shareholders also fail to attend AGMs as noted below:

"*[minority] shareholders are less savvy, and majority of them do not actively participate in AGM discussions…*" (Interviewee 10)

Another interviewee added:

"*…Although I can't put a figure to the number of shareholders who seem to come to the AGM just to collect the freebies…that number is quite big I must say…when you add those who did not come, you realise that an awful number of the small shareholders do not at all participate in the AGM consultations at all…*" (Interviewee 6).

Consistent with the above interviewee statements, the first co-author made the following notation about the AGMs attended:

"*All the AGMs began with registration queues of the attending shareholders. Each shareholder would provide their membership number or a signed proxy form with the same, together with a proof of identification. Upon registration, every shareholder was then offered some gifts such as a company branded umbrella, a cap or T-shirt. In addition, each shareholder was handed food in a paper lunchbox. However, as most registrations desks were located near the entrances to the AGM venues, many minority shareholders left immediately after collecting their gift packs, without attending the AGMs*" (First co-researcher's observation).

"*…upon entering, many shareholders easily get bored with the AGM discussions and leave the AGM hall within 10 minutes…*" (Interviewee 7)

"*In one observed AGM, the board chair had to beg the shareholders to wait for the final agenda to be finished before leaving. "Let me finish with this final item before* *everyone walks out…" However, his plea did not stop the mass walk out*" (First co-researcher's observation)

This matter has also been previously raised by Kenya's financial press:

> "*Retail investors are shunning AGMs of listed firms, a trend that threatens to undermine their weak position in questioning management and board decisions to ensure they earn maximum value from shareholding […] their only chance of holding boards and management to account*" (Business Daily, 2010).

Besides attendance, the first co-researcher observed that five out the six AGMs observed were conducted in the English language. Accordingly, it is likely that many shareholders attending AGMs are unable to participate effectively in AGMs discussions due to language barrier. This is considering that many people in Kenya, and particularly so minority shareholders may be less proficient with the language.

> "*Out of the six AGMs observed, only one AGM's business was conducted in two languages – English and Swahili (the latter being Kenya's lingua franca). This therefore puts to question the success of the AGM's objective as a forum for speaking to and listening from shareholders; since not all Kenyans – and shareholders in this instance – are proficient in the English language*" (First co-researcher's observation).

A follow up response on this issue indicated that the ensuing language barrier provides a veil for boards and the executive as they are less likely to be extensively interrogated by shareholders during the AGM. The following interviewee quote summarises the responses provided concerning possible reasons for the preference of English in many AGMs:

> "*…it might be time consuming to have the AGM in English and Swahili and the board will want to get done with the AGM as soon as is practically possible…because most shareholders are not comfortable with English in which most AGMs are conducted they don't see the need to attend that AGM and that is why most of them go there to just pick the goodies…*" (Interviewee 4)

Lastly, the evidence presented above suggests that many shareholders may not be playing an effective role in Kenya's CG process, particularly in holding managers to account. This thus has adverse implications for the quality of transparency and disclosure practices within the corporate sector.

5.0 Discussion

As the findings of our study reveal, various challenges continue to manifest within the environment of CG in Kenya. This is notwithstanding the adoption of international corporate sector regulations, such as, an Anglo-American CG model, IFRSs and common-law based company statutes. In the ensuing discussion, and consistent with the objective of the present study, we perform a critical analysis of factors which constrain CG and firm transparency in Kenya. In doing so, we not only uncover the sources of constraints to Kenya's accounting and CG processes, but also consider their implications for the country's development goals.

To begin with, there was unanimous opinion amongst interviewees that board ineffectiveness has contributed to weakened levels of CG and firm transparency within Kenya's corporate sector (Interviewees 13, 2, 6, 27, 11, 5). The factors hampering effective functioning of boards were observed as emanating from Kenya's institutional environment, including, excessive family control of firms, tribalism, and rampant impunity that remiss boards enjoy. Consistent with our findings, familial ownership is found to be a prevalent feature within LDCEEs, subsequently *"[raising] system-wide corporate governance issues"* (Claessens and Yurtoglu, 2013, p.26). Kumar and Zattoni (2014) and Aguilera and Crespi-Cladera (2015) observe that excessive control of LDCEEs firms by few owners increases the risk of firm misappropriation, usually to minority shareholders disadvantage. This may be interpreted to suggest that boards of family-controlled firms in Kenya are less likely to be transparent so as potentially not to expose any private benefits of control extracted. One way in which Kenya, and other similar LDCEEs, could overcome this problem could be by developing policies or providing incentives which discourage excessive ownership of public firms by few individuals or families.

Besides familial grip on firms, poor nomination practices similarly impede board effectiveness. Our conversations with various corporate insiders painted a picture that revealed that board appointments are based on cronyism and tribal politics. Furthermore, these factors usually precede individual competence of the board nominees. This finding is consistent with recent evidence which suggests that appointment of social elites into boards is common phenomena in Africa (Hearn, 2015; Nakpodia and Adegbite, 2018), usually involving *"empowered clans, families or tribal groups"* (Hearn *et al.*, 2017, p.240). This finding is also consistent with the neopatrimonialism perspective which posits that rational CG systems within LDCEEs are often constrained by powerful sociocultural forces, including neopatrimonialism interests (Hopper, 2017). For instance, the presence of non-executive directors on Kenyan boards where selection is based on 'old-boys' network' or tribal association, does little to improve board independence. This is because non-executive directors come potentially as 'outside friends' and less of 'external experts' and monitors, thus adversely impacting board independence (Zahra and Pearce II, 1989).

The ineffectiveness of non-executive directors is a global governance issue and non-executive directors around the world are frequently criticised for failure to understand the business models of their companies and preventing corporate failures (Ullah *et al.*, 2018). We argue that this practice can also lead to seemingly independent, but inept, boards. Indeed, an influential Kenyan financial newspaper cautioned that:

> "*Kenya has […] a boardroom character that operates in an axis of two extremes…monolithic boards that do not encourage contrarian views but thrive in group-think, while on the opposing end are completely discordant boards where fights and public fallouts are the order of the day…*" (Business Daily, 2010)

In line with the boardroom character described above, our interviewees also expressed concerns regarding increasing instances of board malpractices in Kenya. Such practices include nonconformity with the arm's length principle where directors award tenders to their firms or those of their associates, usually at inflated prices (Interviewee 27) or looting firm resources, including cash (Interviewee 11) and inventories (Interviewee 5). We argue that prevalence of such practices may discourage transparency, as perpetrators could view CG disclosures as self-incrimination. To illustrate how widespread board malpractices are in Kenya, a board chair of a Kenyan bank was accused of siphoning client money (Juma, 2012), while a finance director illegally obtained money from his employing institution (Kakah, 2017). Recently, the Kenyan regulatory body, CMA also disclosed that it "*recovered approximately £972,000 from former directors [of a company] as disgorgement of sums irregularly received from offshore accounts*" (Capital Markets Authority of Kenya, 2017, p.92). However, none of these three cases have been concluded by the courts. This is nonetheless unsurprising considering that LDCEEs are observed to have weak CG enforcement mechanisms as well as judicial systems (*e.g. see* La Porta *et al.*, 1998, 2000; Millar *et al.*, 2005; Claessens and Yurtoglu, 2013). This finding also coincides with a prediction of the neopatrimonialism perspective which posits that presence of judicial systems within LDCEEs does not guarantee that they will be able to function effectively (Cammack, 2007) to promote a robust CG climate.

The other high-level theme found to be a hindrance to CG and firm transparency in Kenya is bribery and corruption. Our interviewees suggested that the environment of business in Kenya is permeated by endemic corruption. Consequently, firms are left with few options, such as, partaking in corruption to secure business, or, avoiding it at the expense of their survival (Interviewee 9). This is corroborated by an Ernst & Young's (2015, p.21) report that ranked Kenya top in Africa, and second globally, noting that *"bribery/corrupt practices happen widely in business"*. This also suggests that corruption has become embedded (Whiteman and Cooper, 2000) as a way of doing business in Kenya, despite being a punishable criminal offence under law. Consistent with Barkemeyer *et al.*'s (2015) work, we argue that *"companies exposed to corruption [are] less likely to be transparent"*. To borrow the words of Cieslewicz (2014, p.519):

> "*Corruption has many consequences for accounting. For accountants, corruption means being put in situations where one is expected to conceal and explain away questionable activity. At a minimum, corruption requires the dressing up of financial records…*"

The above excerpt affirms our supposition which predicts a negative association between corruption and firm transparency. Hopper (2017), indeed, notes that exposing corruption in Africa is tantamount to putting one's life on the line. Notwithstanding, we argue that firms which abstain from corruption run the risk of being unable to win business contracts or create wealth for their shareholders, if they are to compete with other competitors within the corporate sector. Whilst this form of corruption may be a cost to firms, managers may view it as a business survival tactic in an otherwise highly corrupt business environment.

Moreover, our findings revealed the incompetence of accounting practitioners as a contributing factor to weakened state of CG and transparency. Our interviewees expressed concerns that the quality of education and training offered to accountants and auditors in Kenya fails to provide them with capacity needed to keep up with demands of their jobs (see section 4.3). In addition, the accounting curricula in many Kenyan tertiary institutions is noted to have little relevance to international accounting standards (World Bank, 2010). These findings coincide with Hopper (2017, p.241) observation that:

> "*international accounting and auditing standard setters*[3] *have little representation from developing countries," and that the few well trained accounting professionals available are educated in the 'west' where training "promotes western accounting systems and beliefs, and neglect accounting's relationship to development issues and contexts.*"

It is apparent from the preceding discussion that inadequate training of accounting professionals, both accountants and auditors, potentially place constraints on CG and firm transparency in Kenya (*see also* Holm and Zaman, 2012). The lack of sufficiently skilled accountancy professionals may be partly explained by the obstacles faced by black Kenyans during colonial and postcolonial periods, relative to minority immigrant Asians and while settler communities (Sian, 2006, 2007). As Sian (2011) cited in Hopper *et al.* (2017, p.133) further notes, despite previously excluded black Kenyans holding accountancy training, *"their full acceptance and integration [into Kenya's professional accounting fraternity] remain distant objectives"*. This is consistent with Nkomo's (2011) sentiment, formulated from a postcolonial viewpoint, that colonialism resulted in the belittlement of African's dignity and heritage.

Accordingly, lack of auditor independence was also found to be an encumbrance to CG progress within the corporate sector. Our interviewees accounts suggested that Kenya is a relatively small market for the big four audit firms. This is because most Kenyan companies are small-and-medium-size firms, while large firms comprise only a minority of the registered companies. The major audit firms are thus left with only a handful of firms that they provide audit work and other non-audit services (e.g. book keeping, management consultancy and tax advisory). This finding coincides with Habib and Islam (2007) observation that large firms prefer to be audited by international audit firms. We however argue that the tendency for large firms, many of which are foreign multinational enterprises (MNEs) (*e.g. see* Musikali, 2008), to prefer international audit firms over local ones only perpetuates Western hegemony (Hopper *et al.*, 2017). Certainly, this does little to promote capacity of majority indigenous auditors and domestic auditing standards, besides "*sustaining asymmetrical power/knowledge by providing [Western auditing firms with] positional superiority*" (Said, 1979, cited in Nkomo, 2011, p.228). The present paper further argues that auditor objectivity is inherently impaired in Kenya, as audit firms are compelled to compete for limited clientele to survive. This is not to mention that Kenya's CG code and company statutes do not prohibit provision of non-audit services to firms by their auditors, a factor noted to be a contributor for financial statement fraud (*e.g. see* Rezaee, 2005). Interestingly, three of the top four major global audit firms are under investigation for abetting accounting fraud in five large Kenyan firms (The Institute of Certified Public Accountants of Kenya website, 2015). We thus contend that Northern (international) accounting firms are not infallible to poor conduct, and, indeed, also contribute to the imperfect state of CG and transparency within LDCEEs, such as in this case of Kenya.

[3]Such bodies include: The International Federation of Accountants (IFA)and International Accounting Standards Board (IASB).

Not least, our interviewees expressed awareness concerning deficiencies within the corporate sector regulatory framework. For instance, it was apparent that firms are occasionally faced with conflicting regulatory requirements from various regulatory bodies. This mainly arises when a regulator, such, the Central Bank of Kenya or Institute of Certified Public Accountants of Kenya, revise their regulations, whereas other regulators, such as, Capital Markets Authority or Nairobi Stock Exchange do not (see section 4.5). In that regard, firms are thus inclined to comply with requirements of the 'strictest' regulator (e.g. Interviewee 19), notwithstanding rationale of the choices made. The other source of weakness in the regulatory environment is ineffective regulators (e.g. Interviewee 27). Interviewees expressed awareness that many corporate sector regulators are severely under-resourced, subsequently constraining their ability to attract and retain skilled staff. To put this into perspective, Gatamah (2002) cited in Okeahalam (2004) noted that the "*Registry of Companies does not have the resources, technology or capacity to effectively monitor the more than 20,000 companies*" incorporated in Kenya. It is possible that underfunding of enforcement agencies, including meagre compensation in the public sector, may predispose regulatory officials to engage in bribery and corruption to supplement their incomes. The regulatory landscape discussed above coincides with prior studies which report that LDCEEs regulatory environments are generally weak (*e.g.* La Porta *et al.*, 1998, 2000; Millar *et al.*, 2005; Claessens and Yurtoglu, 2013). Chang (2007, p.102) nonetheless contends that there is no country with a flawless regulatory environment, including "*the richest countries which have sophisticated regulators commanding ample resources*." We however argue that it would be naïve for proponents of Western CG models, or other such economic reforms or accounting innovations, to expect the same results across LDCEEs and Western countries contexts.

Lastly, multiple data sources demonstrated that shareholder activism is missing in Kenya. This is corroborated by interviewees' responses, first co-researcher's observation of AGMs and archival evidence. One contributing factor for this problem is the lack of shareholder engagement, due to poor attendance of AGMs. We argue that non-attendance of AGMs by minority shareholders makes them susceptible to mistreatment by controlling investors (Uche and Atkins, 2015; Nakpodia *et al.*, 2016), in addition to squandering an opportunity to demand accountability from managers (Kimani, 2016). The evidence examined in this paper further suggests that a high proportion of Kenyan shareholders cannot comprehend corporate information published in the English language (Tauringana *et al.*, 2008). Notwithstanding, the first co-researcher observed that most AGMs are also conducted in the English language, which leaves most shareholders in attendance at a disadvantage. We argue that information prepared for public reporting, such as annual reports, should be disseminated in a local language (i.e. Swahili or other major, local dialects) as opposed to a colonial language like English, which many of the intended users might have limited proficiency. This situation is exacerbated by the fact that Kenya does not have a shareholder's association, which could employ experts to assist various investors in interpreting financial statement information. Elsewhere, evidence has demonstrated that shareholder activism is critical in safeguarding managerial accountability (Uche and Atkins, 2015; Uche *et al.*, 2016).

6.0 Conclusion, implications and future avenues of research

This paper contributes to limited literature on CG within LDCEEs contexts. It integrates insights from postcolonial and neopatrimonialism perspectives to analyse the state of CG and transparency within Kenya. Consistent with Cieslewicz's (2014, p.526) observation, we find that "*changing financial reporting practices, improving auditing [entails] much more than formal adoption of standards, principles, or innovations.*" The present paper has uncovered several constraints to CG and firm transparency in Kenya, including: ineffective corporate boards, rampant corruption, inadequately-skilled accounting professionals, weak enforcement systems and lack of shareholder engagement. We also find that these challenges originate from the reality of Kenya's institutional environment. Accordingly, we argue that implementation of foreign-originating CG models, such as, Anglo-American governance and accounting innovations, including IFRSs, within LDCEEs like Kenya may not improve governance practices. Rather, this only earns firms '*legitimacy […] in an international business environment*' (Adegbite, 2015, p.320), and creates an 'illusion' that robust CG practices will thrive (Bakre and Lauwo, 2016), partly as submission to powerful postcolonial hegemony (Banerjee and Linstead, 2004; Cooper and Hopper, 2006; Chang, 2007). An 'institutional collision' is also manifested in our findings, where we see clash between the demands of formal structures and vigorous informal institutions, such as corruption and cronyism in board appointments, based on native neopatrimonialism social order (Lassou and Hopper, 2016; Hopper, 2017).

Accordingly, our analysis has revealed that the framework of accounting and CG in Kenya is encumbered by various institutional constraints highlighted above. This therefore puts to question the effectiveness of Kenya's corporate sector, and its subsequent ability to support the country's development objectives. There is apparent chasm between the rationale of the western-originating accounting and CG framework and the underlying institutional environment. For instance, we find that the underlying social order prevails over the formal (western-oriented) corporate sector regulatory infrastructure. We argue that there is need to reconsider the existing corporate sector regulatory framework and reconcile it with the needs of the underlying institutional environment. Until that is done, it is unlikely that Kenya will be able to harness the potential of the corporate sector to drive economic growth and development.

Finally, we have focussed only on listed firms which comprise a small proportion of all registered companies in Kenya. The findings of this study should therefore be interpreted in this regard. In order to shed more light on CG issues and disclosure practices in Kenya's corporate sector, we call for further research in several areas. We call for research on board processes in Kenya to uncover how crony-based appointments affect board effectiveness. Where possible, action research during board meetings may be considered in understanding boardroom politics in African context. We also encourage research on pedagogical development of accounting curriculum in Kenya. Such knowledge can benefit the government and professional accountancy body in understanding how well accounting practitioners are prepared to carry out accounting and auditing functions. We also found that no shareholder association exists in Kenya. We thus call for research to examine how minority shareholders negotiate with firms, prepare for AGMs, and secure board representation.

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