
CORPORATE GOVERNANCE, PRODUCT INNOVATION, CUSTOMER SATISFACTION AND SHAREHOLDER'S VALUE. A CASE STUDY OF SELECTED CONSTRUCTION FIRMS IN KAMPALA

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ABSTRACT

The study examined the relationship between corporate governance, product innovation, customer satisfaction and shareholder value among construction firms in Kampala. This study was a cross-sectional design with a quantitative research approach. It was conducted across a total of 66 construction firms in Kampala from a total of 78. Primary data used in the study was obtained from R&D manager, marketing manager, managing director and finance manager using a structured questionnaire. This study used Content Validity Index (CVI) and expert judgment to check instrument validity while pretesting and Cronbach Alpha coefficient tested reliability. Data was sorted, edited, cleaned and later entered in Statistical Package for Social Scientists (SPSS. v.25) for analysis. Both frequency tables and inferential statistics were used to interpret results. Testing of mediation was carried out with the help of a Med-Graph system. The study found that corporate governance and shareholder's value are positively correlated. A positive relationship was established between corporate governance and customer satisfaction. It was obtained that there exists a positive relationship between product innovation and customer satisfaction. There was a positive relationship between product innovation and shareholder's value. Customer satisfaction was noted to partially mediate the relationship between corporate governance and shareholder value. On the other hand, customer satisfaction was a full mediator in the relationship between product innovation and shareholder value. This study concludes corporate governance, product innovation and customer satisfaction cannot be taken for granted as far as boosting shareholder value is concerned. This research recommends; improving corporate governance;

intensifying product innovation; and prioritize customer satisfaction as one of the major core values.

Key words: corporate governance, product innovation, customer satisfaction and shareholder's value

Background to the study

In today's competitive world, creating shareholder value is one of the most important business goals (Mahmoud, Meysam, & Amirreza, 2012). Therefore, increased income is associated with competition and is an important factor in attracting investors to the business (Doukakis, 2010). Shareholder value consists of earnings per share, return on equity, return on assets and dividend per share. It is the value that is delivered to the shareholders of the company as a management system and that can maximize profits over time (Turyatamba et al., 2022).

Although Mahmoud, Meysam, and Amirreza (2012) previously identified shareholder value creation as one of their top business goals, research from Boston Consulting Group revealed that only 46% of surveyed companies in North America and Western Europe were member value creators. (Boston Consulting Group, 2014). Similarly, according to a study by the University of Washington, 78% of companies surveyed agreed that they increased their revenue and shareholder value to meet Wall Street's expectations. 55% of respondents also said they would avoid announcing a project with a very good NPV if it would mean missing the agreed quarterly revenue, suggesting a lack of focus on creating shareholder value. 2nd Personal Interview (X and Y) with Director of BABCON Uganda Limited. In October 2020, it was said that as the world economy was overwhelmed by the COVID-19 pandemic, many construction companies, including BABCON Uganda Limited, continued to see revenue loss from sales and dividends, causing the denominator to decline. Price: % p. Measuring total ownership value (Oromo et al., 2017)

ibid, 2023). Another interview (X and Y) was conducted with the CEO of Mutoni Siv Uganda Limited on September 5, 2020. In this exclusive interview, executives stated that construction companies are not as profitable as in previous years. The onset of the COVID-19 pandemic (Brighton et al., 2023). He also stated that the member's income is paid out of the profit made, which puts the board in trouble because of the negative relationship between income and member value.

In the same interview, it was reported that many executives were involved in business scandals focused on selfishness rather than the total profit created for all business owners (Contact Personal, 2020). Certainly, there is a need to ensure that leaders and management across construction companies are differentiated according to the needs of members.

Problem Statement

Creating and developing long-term business owners is one of the main goals of any organization. Therefore, the main objective of the business is to maximize the benefits for investors. Despite this, share prices in different companies continued to fall. Managers do not focus on generating profits for shareholders (Lukayu & Mukanzi, 2015), thus seeking to satisfy short-term self-interest at the expense of shareholders' copy. They misrepresent their financial performance to achieve certain goals, which often leads to reduced ownership (Alex & Kazaara, 2023). Earnings per share and business value added decreased, reducing shareholder value (Fulcrum Consult Ltd Annual Report, 2017). The reasons for this are unclear but can be attributed to poor business management, lack of new products and lack of customer satisfaction (Akbari, Mokhtari, Moradi, Pourjam, & Khosravani, 2020; Fargnoli, Costantino, Di Gravio, & Tronci, 2018). Therefore, in this study, we explore the relationship between corporate governance, product innovation and customer satisfaction among construction companies in Kampala.

Objectives of the Study

1. *To examine the relationship between corporate governance and shareholders value among construction firms in Kampala.*
2. *To ascertain the relationship between corporate governance and customer satisfaction among construction firms in Kampala.*
3. *To analyze the relationship between product innovation and customer satisfaction among construction firms in Kampala.*
4. *To assess the relationship between product innovation and shareholders value among construction firms in Kampala.*
5. *To examine the mediating role of customer satisfaction in the relationship between corporate governance and shareholders value among construction firms in Kampala.*
6. *To examine the mediating role of customer satisfaction in the relationship between product innovation and shareholders value among construction firms in Kampala.*

Research Questions

1. *What is the relationship between corporate governance and shareholders value among construction firms in Kampala?*
2. *What is the relationship between corporate governance and customer satisfaction among construction firms in Kampala?*
3. *What is the relationship between product innovation and customer satisfaction among construction firms in Kampala?*
4. *What is the relationship between product innovation and shareholders value among construction firms in Kampala?*
5. *What is the mediating role of customer satisfaction in the relationship between corporate governance and shareholders value among construction firms in Kampala?*

6. *What is the mediating role of customer satisfaction in the relationship between product innovation and shareholders value among construction firms in Kampala?*

Methodology

Research Design

This study adopted a cross-sectional research approach along with a quantitative research approach. This research design was adopted to allow the researcher obtain quick responses within a short period to facilitate addressing the phenomenon under investigation (Creswell, 2014). On the other hand, the quantitative approach was adopted since use of numerical in reporting results is associated with clarity. Since this study was aimed at examining relationship between variables, the use of numbers would comprehensively indicate the magnitude perfectly and with precision.

Study Population

The study population constituted 78 construction firms which were registered with the Uganda National Association of Building and Civil Engineering Contractors, and had their head office in Kampala (Uganda National Association of Building and Civil Engineering Contractors, Membership Directory 2021). Because of the small number of construction companies in the area of study, no sampling was conducted to extract a sample.

Unit of Analysis

Construction firms registered with the Uganda National Association of Building and Civil Engineering Contractors whose location was in Kampala were considered as the unit of analysis.

Unit of inquiry

The unit of inquiry comprised of four persons, namely; R&D manager, Marketing manager, Managing director and Finance manager. The R&D manager was selected because is one in charge of conducting R&D activities upon which all product innovations rely. The marketing manager on the other hand deals directly with the

customers, thereby identifying their changes in needs and expectations. The managing director is one of the top decision makers, and is directly responsible for directing the company towards achieving all intended goals and objectives. Lastly, the finance manager was selected because is responsible for monitoring the status of shareholder value through the financial ratios prepared the finance office. The participants were purposively selected given their respective roles and understanding of the issues under investigation.

Data Analysis, Presentation and Interpretation

Data was sorted, edited, cleaned and later entered in Statistical Package for Social Scientists (SPSS. v.25) for analysis (Nelson et al., 2022). The researcher obtained descriptive statistics (frequency table), correlation and regression to interpret results. Frequency tables were used to interpret results in related to demographic characteristics while correlation and regression analyses were used to interpret results using E-views (Nelson et al., 2023). Med-Graph system was also used to extract Med Graphs which were used for testing mediation.

RESULTS

Correlation Analysis

This study used Pearson Correlation Analysis along with narrative statements to determine the nature of the relationship between studied variables. Under the Pearson correlation, the study used “positive” or “negative” relationship to indicate the nature of the statistical result obtained regarding a particular objective. These results are presented in Table 1.

Table 1: Pearson Correlation Analysis

Variable/Construct	1	2	3	4	5	6	7	8	9	10	11	12	13
Corporate Governanc	1												

e (1)													
<i>Shareholder Rights (2)</i>	.229**	1											
<i>Ownership Concentration (3)</i>	.175*	.458**	1										
<i>Board Responsibilities (4)</i>	0.053	0.066	0.004	1									
<i>Product Innovation (5)</i>	.243**	.284**	.211**	-.0129	1								
<i>Research & Development (6)</i>	.223**	.140*	0.054	0.104	.394**	1							
<i>Technical Design (7)</i>	0.046	.259**	.201**	-.0004	.303**	0.115	1						
<i>Innovation Surveys (8)</i>	0.039	0.065	-.0036	-.0047	-.0029	0.085	0.019	1					
<i>Customer Satisfaction (9)</i>	.232**	.656**	.574**	.319**	.254**	.226**	.346**	0.021	1				
<i>Repurchase (10)</i>	-.0002	-.0015	0.069	-.0018	0.098	0.032	-.0010	.153*	.204**	1			
<i>Positive</i>	0.0	.22	.23	.16	.25	.53	.14	0.0	.45	0.0	1		

word of mouth (11)	57	9**	1**	5*	4**	3**	9*	36	0**	67			
Customer Loyalty (12)	.29 2**	.53 6**	.42 9**	0.0 79	.26 5**	0.0 86	.28 5**	- 0.0 20	.67 7**	- 0.0 10	.16 9*	1	
Shareholders Value (13)	.52 9**	.32 1**	.28 2**	.14 3*	.32 7**	.23 6**	.07 4	.03 0	.50 3**	.17 8**	.27 9**	.31 4**	1
Notes: n=53, * $p < .05$ level (2-tailed), ** $p < .01$ level (2-tailed)													

Source; Primary Data

Corporate governance and Shareholder Value

Table 1 indicates a significant and positive association between corporate governance and shareholder's value ($r = .529$, $p < .01$). Hence, the results implied that enhancement of corporate governance would lead to increased shareholder's value among construction firms in Kampala. To further comprehend the association, the study examined how each construct for corporate governance associates with shareholder's value. The results revealed a significant and positive relationship between shareholder rights and shareholder's value ($r = .321$, $p < .01$), ownership concentration and shareholder's value ($r = .282$, $p < .01$); board responsibilities and shareholder's value ($r = .143$, $p < .01$). This implies that improving shareholder rights, ownership concentration as well as board responsibilities as measures for corporate governance is associated with a likely increase in shareholder's value among construction firms in Kampala.

Corporate Governance and Customer Satisfaction

Correlation results in table 1 indicated significant and positive relationship between corporate governance and customer satisfaction among construction firms in Kampala ($r = .232$, $p < .01$). The results meant that enhancing corporate governance would

stimulate customer satisfaction among construction firms in Kampala. Moreover, the results indicated that there exists a significant and positive relationship between shareholder rights and customer satisfaction ($r=.656$, $p<.01$), a significant and positive relationship between ownership concentration and customer satisfaction ($r=.574$, $p<.01$) as well as a significant and positive relationship between board responsibilities and customer satisfaction ($r=.319$, $p<.01$). From these results, it is implied that clear description of shareholder rights, ownership concentration and board responsibilities are more likely to enhance customer satisfaction among construction firms in Kampala.

Product Innovation and Customer Satisfaction

Correlation results in table 1 indicated significant and positive relationship between product innovation and customer satisfaction ($r=.254$, $p<.01$). In this case, the results meant that enhancing product innovation would increase customer satisfaction among construction firms in Kampala. The implication of the results is that product innovation must be enhanced in order to increase the propensity of stimulating customer satisfaction among construction firms in Kampala. The three dimensions studied include; research and development, technical designs as well as innovation surveys. As indicated in table 4.3, there is a significant and positive relationship between research and development with customer satisfaction ($r=.226$, $p<.01$). This meant that the more research and development are conducted, the more construction firms are likely to register increasing indicators of customer satisfaction. Additionally, results obtained a significant and positive relationship between technical designs and customer satisfaction ($r=.346$, $p<.01$) as well as a positive but non-significant relationship between innovation surveys and customer satisfaction ($r=.021$, $p>.01$). In essence, these results meant that improving research development and technical designs could increase the customer satisfaction among construction firms in Kampala as opposed to conducting innovation surveys.

Product Innovation and Shareholders Value

Table 1 revealed a significant and positive relationship between product innovation and shareholder's value ($r=.327$, $p<0.01$). This meant that the more construction firms enhance product innovation, the more they are likely to increase stakeholder's value. Worth noting, this study obtained a significant and positive relationship between research and development in relation to shareholder's value ($r=.236$, $p<0.01$). on the other hand, the results revealed a non-significant but positive relationship between technical designs and shareholder's value ($r=.074$, $p>0.01$). Likewise, a non-significant and positive relationship was obtained between innovation surveys and shareholder's value ($r=.030$, $p<.01$). These results meant that construction firms must concentrate on intensifying research and design other than technical designs and innovation surveys in order to increase shareholder's value. The implication therefore is that technical designs and innovation do not matter as far as increasing shareholder's value among construction forms is concerned.

Regression Analysis

The study used multiple regression analysis to examine the predictability of the independent variables and the mediating variable towards the dependent variable. These results are presented in table 2.

Table 2: Multiple Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.074	0.199		5.404	0.000
Corporate Governance	0.378	0.049	0.410	7.648	0.000
Product Innovation	0.074	0.030	0.132	2.453	0.015
Customer Satisfaction	0.234	0.034	0.374	6.952	0.000

	<i>R</i>	<i>R</i> ²	<i>Adj. R</i> ²	<i>F</i>	<i>Sig.</i>
	.669 ^a	0.448	0.440	57.130	.000 ^b
<i>a. Dependent Variable: Shareholder's Value.</i>					
<i>b. Predictors: (Constant), Corporate governance, Product innovation and Customer Satisfaction.</i>					

Source: Primary Data

Table 2 obtained *Adj. R*²=.440; *Sig.* =.000 which implied that jointly corporate governance, product innovation and customer satisfaction significantly predict 44.0% of the variations in shareholder's value among construction firms in Kampala. Furthermore, the results indicate standardized coefficients (*B*=.410, *t*=7.648, *p*<.05) in relation to corporate governance, (*B*=.132, *t*=2.453, *p*<.05) in relation to product innovation and (*B*=.374, *t*=6.952, *p*<.05) in relation to customer satisfaction. Based on the *p*-values, the results signify that corporate governance, product innovation and customer satisfaction are all significant predictors of shareholder's value among construction firms in Kampala. That said, the comparative analysis of the Beta-values (*B*=.410; *B*=.132 and *B*=.374) reveal that corporate governance is the best predictor of shareholder's value among construction firms in Kampala.

Testing Mediation

The study analyzed the mediation using Med Graph. The results are presented in figure 4.5 and figure 1.

Mediation of Customer satisfaction in the relationship between Corporate Governance and Shareholders Value

Independent Variable				0.529*** [c]			Dependent Variable		

Results in Figure 1 revealed Sobel z-value= 3.174055 and p-value=0.001503 in examining the mediation of customer satisfaction in the relationship between corporate governance and shareholder value. From these results, the Sobel z-value

Mediation of Customer satisfaction in the relationship between Product Innovation and Shareholders Value

[illegible]

Type of mediation=Full; n=215; Direct=.327; Indirect=.294; *, *** significance at $p<.05$, $p<0.001$; Sobel z-value=3.432156; $p=0.000599$

Results in Figure 2 revealed Sobel z -value= 3.432156 and p -value=0.000599 in examining the mediation of customer satisfaction in the relationship between product innovation and shareholder value. From these results, it was evidenced that the Sobel z -value was greater than the p -value. In addition, the p -value obtained was less than .05 ($p < .05$). This meant that customer satisfaction mediates the relationship between product innovation and shareholder value. These results revealed that the beta weight for the basic relationship of product innovation and shareholder value denoted as c ($r = .327$, $p < .05$) was significant. On the other hand, the beta weight upon the inclusion of the customer satisfaction denoted as c' ($r = .033$) was not significant. These results meant that customer satisfaction was a full mediator in the relationship between product innovation and shareholder value.

Conclusion

As companies strive to stimulate shareholder value, they must bear in mind that corporate governance is crucial. When instituted, corporate governance will minimize the risk of managers exhibiting discretionary behaviour which compromises their commitment towards executing managerial tasks and responsibilities within the best interest of shareholders. In other words, the board serves as a watchdog in addition to providing a clear sense of direction and control to the organization. It is equally important to note that corporate governance is also inevitable in ensuring customer satisfaction. This is specially bound to happen when the board recognizes customer satisfaction as one of the topical issues the company must fulfill. This will drive the board to formulate policies and procedures that are customer-centric. Meanwhile, the research finds that product innovation is a key factor that enhances customer satisfaction. It guides companies to establish actual needs of their clientele so that further production falls along those lines.

Recommendations

Construction firms must improve corporate governance to stimulate shareholder value. This can be attained when they provide a corporate environment where the board is free to execute its roles and responsibilities, and making sure shareholders are not deprived their rights. This will provide a perfect control and direction of management actions and behaviour.

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