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Effect Of Corporate Governance On Listed Firm Financial Performance In Nairobi Stock Exchange In Kenya

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Abstract:
This study examined the effects of corporate governance on firm financial performance among companies listed on the Nairobi Securities Exchange (NSE) between 2019 and 2023. A census approach was adopted, no sampling was conducted. Secondary data was sourced from audited annual financial statements, and SPSS was utilized for data analysis. Both descriptive and inferential statistical methods were applied. The findings revealed that board independence had a positive and significant relationship with firm performance, measured by return on assets (ROA) and return on equity (ROE). Conversely, board size exhibited a negative and significant relationship with firm performance. The study also found that CEO duality, board tenure, and multiple directorships each had a positive and significant effects on firm performance. Based on these findings, the study concluded that companies should implement policies that promote board independence, CEO duality, and multiple directorships, as they contribute to improved firm performance. However, firms must ensure that board size and board tenure align with their specific operational needs for optimal governance effectiveness.

Key Word: *Corporate governance, Nairobi stock exchange, Measures of firms Performance, CEO Duality.*

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I. Introduction

Corporate governance is a critical component of economic transactions, particularly in emerging and transition economies (Mishra & Srivastava, 2024; Hu, 2024). It plays a crucial role in enhancing corporate performance and ensuring accountability (Mijatović & Ivanišević, 2024). According to Abu Afifa et al. (2025), corporate governance encompasses structures, processes, cultures, and systems that facilitate the effective operation of organizations. The erosion of investor confidence in Kenya has been attributed to weak corporate governance structures and a lack of transparency in the financial system (Ali et al., 2025). Several listed firms, such as Uchumi, Chase bank and various stock brokerage firms, have collapsed due to governance failures. This highlights the urgent need for improved corporate governance practices, particularly in financial institutions, to restore investor confidence. Recent studies suggest that improving corporate governance standards and increasing transparency are vital strategies for corporate stability and economic growth (Chen et al., 2025; Sugandi & Myrna, 2025).

CEO duality—where one individual serves as both CEO and board chair—remains a contentious issue in corporate governance research. While agency theory posits that separating these roles enhances oversight and control, stewardship theory argues that CEO duality fosters strong leadership and efficient decision-making (Ali, 2025). Recent research supports both perspectives, with some studies indicating that CEO duality can enhance firm performance in emerging markets, while others highlight the risks of excessive concentration of power (Paridhi & Ritika, 2025). Kenya has witnessed the collapse of several enterprises due to weak corporate governance frameworks. Even with regulatory improvements, opportunities for financial mismanagement persist. Wahome (2024) identifies excessive executive compensation, improper loans, self-dealing, and underperformance as major governance concerns. The Nairobi Securities Exchange (NSE) has suffered from low investor confidence due to irregular trading activities, which have cost investors billions in losses.

A notable case involved Nyagah Stockbrokers, which was placed under statutory management in 2008 after failing to meet financial obligations. Over 25,000 investors lost significant sums, with claims amounting to billions of shillings (Bélisle-Pipon, 2025). A forensic audit by PricewaterhouseCoopers (PwC) revealed mismanagement, fraud, and collusion involving other stockbrokers and regulatory bodies (Ackah & Dadzie, 2025). This case underscores the need for stricter enforcement of corporate governance policies, increased transparency, and better regulatory oversight. In conclusion, corporate governance remains a key driver of firm performance in emerging economies. Strengthening governance frameworks, promoting transparency, and ensuring accountability can enhance investor confidence and financial stability. Future reforms should focus on balancing board independence, executive oversight, and ethical corporate practices to prevent governance failures and foster sustainable economic growth.

Statement of the problem.

Corporate governance plays a crucial role in shaping economic transactions, particularly in emerging and transitioning economies. Recent studies have highlighted its significance in enhancing corporate performance, investor confidence, and financial stability (Hu, 2025; Tan et al., 2025). Corporate governance encompasses structures, processes, and systems that ensure effective organizational operations (Chen et al., 2025). In Kenya, weak corporate governance practices have been linked to financial scandals, loss of investor confidence, and firm collapses, such as the case of Chase bank in 2016. The firm's financial mismanagement resulted in significant losses for over 25,000 investors (Ali, 2025). Similar corporate failures in emerging economies have been attributed to factors such as excessive executive compensation, financial misreporting, and lack of transparency in capital markets (Mijatović & Ivanišević, 2025).

The debate on CEO duality—where a single individual holds both the CEO and Board Chair positions—remains controversial. Agency theory suggests that separating these roles improves oversight and minimizes managerial self-interest. Conversely, stewardship theory argues that combining the roles strengthens leadership and decision-making efficiency (Bélisle-Pipon, 2025). Empirical evidence from recent research indicates that CEO duality's impact on firm performance depends on the regulatory framework and corporate culture of the respective economy (Afifa et al., 2025).

Despite the presence of corporate governance regulations, enforcement gaps still allow unethical practices such as insider trading and financial misrepresentation. Strengthening governance frameworks, enhancing regulatory oversight, and increasing transparency in financial reporting are essential to restoring investor trust and promoting sustainable economic growth (Ackah & Dadzie, 2025).

Objectives of the study

To established the effect of corporate governance on Listed firm financial performance in Nairobi Stock Exchange in Kenya

II. Empirical Review Literature Review

The Link between Board of Directors and Firm Performance.

The board of directors plays a critical role in overseeing management on behalf of shareholders, ensuring accountability and strategic decision-making. According to recent studies, the effectiveness of a board in fulfilling its oversight responsibilities is influenced by factors such as board composition, size, CEO duality, diversity, and governance culture (Akinsola, 2025; Ayadi et al., 2025). The structure of a board as a corporate governance mechanism has attracted significant attention from researchers and regulators. While some studies suggest that certain board characteristics enhance firm performance, others argue that board dynamics and processes are more critical determinants of success (Farinelli et al., 2025). The relationship between board structure and firm performance remains a widely debated topic, with empirical findings yielding mixed results (Fera et al., 2025).

Emerging research highlights that board independence and diversity can lead to improved financial performance by strengthening governance frameworks and reducing risks associated with information asymmetries (Messai & Jouini, 2025). However, CEO duality remains a contentious issue, with studies suggesting that its impact depends on firm-specific and industry-specific conditions (Bel-Oms & Grau, 2025). Given these complexities, firms must carefully design their governance structures to align with their strategic objectives while ensuring robust oversight mechanisms that enhance shareholder value and organizational sustainability.

The effects of Board Independence on Firm Performance

Board independence refers to the ability of the board of directors to make objective and unbiased decisions without undue influence from insiders. This is particularly effective when independent directors are appointed from outside the organization, demonstrating professionalism and objectivity in decision-making (Akinsola, 2025). The relationship between board independence and firm performance remains a subject of debate. Some scholars argue that independent boards provide effective oversight, reducing agency conflicts and protecting shareholder interests (Ayadi et al., 2025). Others suggest that executive (inside) directors possess deeper organizational knowledge, making them better equipped to monitor and guide top management (Fera et al., 2025). Conversely, research also highlights that an optimal mix of inside and outside directors is essential for effective governance, as neither extreme independence nor excessive insider dominance guarantees superior firm performance (Messai & Jouini, 2025).

Empirical findings on the subject remain inconclusive, with some studies showing a strong positive correlation between board independence and firm performance, while others suggest no significant relationship (Haralambie & Haralambie, 2025). The effectiveness of independent boards is often influenced by contextual factors such as industry dynamics, regulatory environment, and corporate culture (Bel-Oms & Grau, 2025). Ultimately, board independence can enhance governance effectiveness when directors possess the necessary expertise, experience, and ethical commitment to oversee corporate decisions objectively (Alqatan et al., 2025).

The Effect of Board Size on Firm Performance

Board size is a critical element of corporate governance, influencing a firm's ability to secure resources, manage risks, and enhance decision-making processes. Larger boards are often associated with increased diversity, which can improve strategic oversight and risk management (Handoyo & Bamumin, 2025). However, research has produced mixed findings on the impact of board size on firm performance. Some scholars argue that as board size increases, coordination and decision-making become more complex, potentially hampering firm performance (Farinelli et al., 2025). Conversely, other studies suggest that larger boards offer firms broader expertise and networking opportunities, which can be beneficial under certain market conditions (Elkoca et al., 2025). The relationship between board size and firm performance is further complicated by industry-specific factors, such as regulatory requirements and market dynamics (Njobil et al., 2025).

Empirical evidence remains inconclusive. Some studies have found an inverse relationship between board size and firm value, suggesting that excessively large boards lead to inefficiencies (Messai & Jouini, 2025). Others argue that an optimal board size—balancing oversight capabilities with agility in decision-making—is key to maximizing firm performance (Mamatzakis & Tzouvanas, 2025). Ultimately, firms must tailor their board structures to their unique needs, ensuring a balance between diversity, expertise, and effective governance mechanisms to enhance long-term sustainability and shareholder value (Galavotti et al., 2025).

The effect of Board Tenure on Firm

Board tenure plays a crucial role in corporate governance, influencing firm performance, financial reporting quality, executive decision-making, and overall corporate strategy. Longer board tenure is often associated with stability and experience, fostering favorable perceptions of the board's ability to oversee management effectively (Akinsola, 2025). However, prolonged tenure can also lead to entrenchment, where directors become overly aligned with management, reducing board independence and oversight effectiveness (Elkoca et al., 2025). Research on the relationship between board tenure and firm performance remains mixed. Some studies suggest that firms with long-tenured boards benefit from accumulated experience, enhanced strategic planning, and improved financial outcomes (Mat & Salleh, 2025). However, others highlight potential drawbacks, including resistance to change, decreased adaptability, and agency costs that arise when entrenched directors prioritize personal or managerial interests over shareholder value (Panjwani et al., 2025).

For firms with shorter-tenured boards, the learning effect tends to dominate, leading to improved decision-making and corporate strategies. Conversely, for firms with long-tenured boards, the entrenchment effect may outweigh these benefits, potentially limiting innovation and strategic flexibility (Abed et al., 2025). Additionally, governance structures such as staggered boards, where only a portion of directors is replaced annually, can introduce further agency problems, restricting timely board renewal and reducing accountability (Khan & Obiosa, 2024). Empirical evidence suggests that the optimal board tenure varies depending on industry dynamics, regulatory frameworks, and firm-specific factors. Balancing experience with periodic board refreshment can help firms maximize governance effectiveness while mitigating the risks of stagnation and entrenchment (Rao et al., 2024).

Effect of CEO Duality on Firms Performance

The debate over whether the roles of CEO and board chairman should be separated remains a highly contested issue in corporate governance. Recent studies continue to explore the advantages and disadvantages of CEO duality, with empirical findings remaining inconclusive (Javed et al., 2024). Advocates of CEO duality argue that combining the roles fosters strong, unified leadership, minimizes conflicts between the board and management, and enhances decision-making efficiency (Bel-Oms & Grau, 2025). Furthermore, some research suggests that CEO duality can improve firm performance by ensuring strategic consistency and reducing agency conflicts (Singh et al., 2025). On the other hand, opponents of CEO duality argue that it weakens board independence, making it difficult to monitor and replace underperforming CEOs (Akhtar et al., 2024). Studies indicate that firms with separate CEO and chairman positions often exhibit stronger corporate governance mechanisms, which can lead to higher firm value and greater accountability (Panjwani et al., 2025). Additionally, research suggests that CEO duality may be particularly detrimental in times of financial distress, as boards may struggle to make objective decisions regarding leadership changes (Alomair & Al Naim, 2025).

While some studies report a positive link between CEO duality and financial performance, others find a negative or negligible impact. The effectiveness of CEO duality largely depends on industry context, regulatory frameworks, and firm-specific governance structures (Alsayed, 2024). Given the mixed evidence, firms must consider their unique strategic needs when determining whether to adopt a dual leadership structure.

The Effect of Multiple Directorships on Firms Performance

Multiple directorships have been widely debated in corporate governance, with scholars divided on their impact on firm performance. Some argue that holding multiple board positions signals director quality and enhances a firm's reputation, as directors gain broader industry insights, networking opportunities, and increased visibility (Gitau, 2024). These benefits can provide firms with strategic advantages, including access to better resources and enhanced decision-making capabilities (Bel-Oms & Grau, 2025). However, other studies suggest that excessive board commitments may reduce a director's effectiveness due to divided attention and time constraints. Research indicates that overextended directors may engage in excessive executive compensation practices and display weaker oversight, leading to governance inefficiencies and lower firm performance (Haque et al., 2025). Furthermore, firms with overly busy directors tend to experience weaker financial outcomes, including lower book-to-market ratios and reduced profitability (Messai & Jouini, 2025).

Regulatory bodies in various countries have also expressed concerns over the risks associated with multiple directorships. In the U.S., corporate governance councils have recommended limiting the number of boards positions a director can hold, while some business groups argue that imposing rigid restrictions may limit access to valuable expertise (Wijaya et al., 2025). Empirical studies remain mixed, with some firms benefiting from the experience of multi-directorship holders, while others suffer from weakened board oversight due to excessive commitments (Federo & Aguilera, 2025). Given these divergent perspectives, firms must balance the benefits of industry connections and strategic insights with the risks of overcommitment when appointing directors with multiple board roles.

Theoritical Framework

The study on the effects of corporate governance on a firm's financial performance can be guided by three key theoretical frameworks: Agency Theory, Stewardship Theory, and Resource Dependence Theory. These theories provide valuable insights into how corporate governance influences financial outcomes, decision-making processes, and overall firm performance.

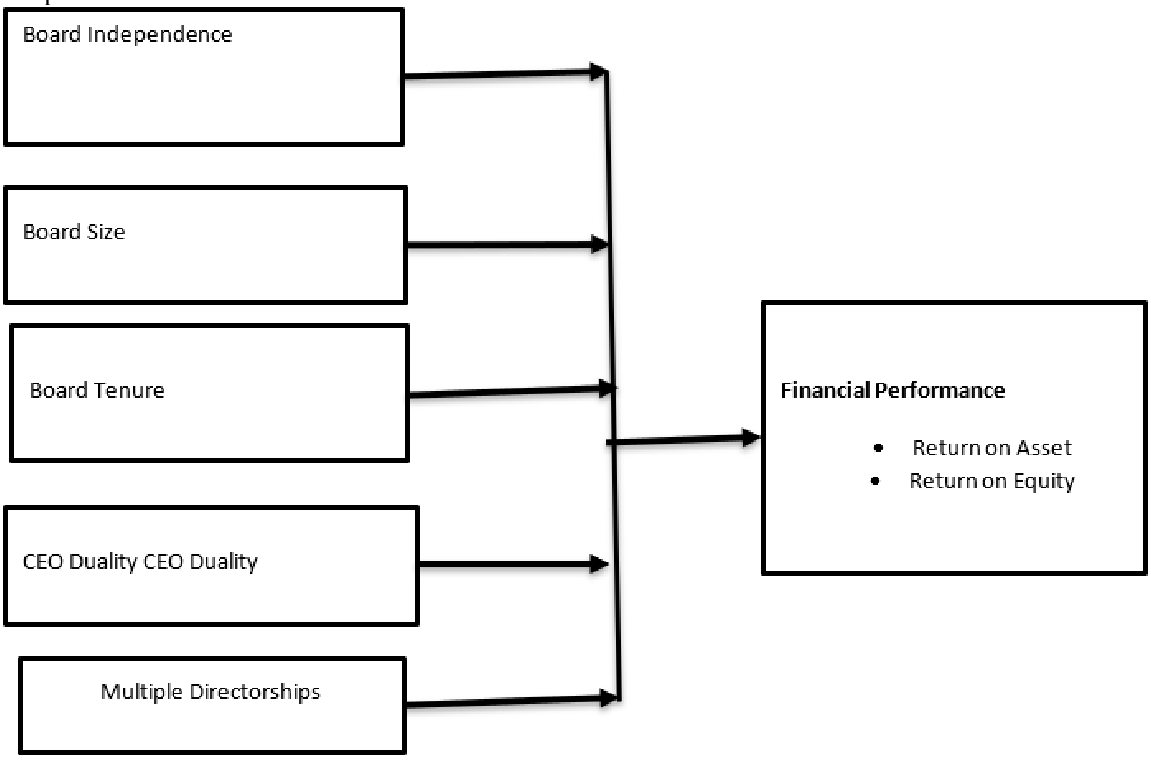
Agency Theory (Jensen & Meckling, 1976) suggests that a conflict of interest exists between managers (agents) and shareholders (principals). Since managers may act in their self-interest rather than in the best interest of shareholders, corporate governance mechanisms such as board independence, executive monitoring, and transparent reporting are necessary to align managerial actions with shareholder objectives. Strong governance structures help reduce agency costs, mitigate managerial opportunism, and ultimately improve financial performance by ensuring accountability and efficiency in decision-making.

Stewardship Theory (Davis, Schoorman & Donaldson, 1997) presents a contrasting perspective, proposing that managers are inherently motivated to act in the best interests of shareholders. It suggests that when managers and executives are given autonomy and trust, they are more likely to work towards long-term organizational success rather than short-term personal gains. This theory supports governance structures that emphasize leadership continuity, CEO duality, and a collaborative boardroom environment, all of which can positively impact financial performance through strategic stability and enhanced corporate culture.

Resource Dependence Theory (Pfeffer & Salancik, 1978) highlights the importance of board composition and external networks in influencing a firm's access to critical resources. A well-structured board with diverse expertise, strong industry connections, and multiple directorships can provide firms with better financial opportunities, regulatory advantages, and strategic guidance. By leveraging these external resources effectively, firms can improve their financial standing and gain a competitive advantage.

Together, these theories provide a comprehensive framework for understanding how corporate governance impacts financial performance. Agency theory emphasizes the need for oversight and accountability, stewardship theory underscores the benefits of leadership trust and autonomy, and resource dependence theory highlights the strategic advantages of a well-connected board. By integrating these perspectives, firms can design governance structures that enhance financial sustainability and long-term value creation

Conceptual framework



Author,2025

III. Research Methodology

According to Babbie (2002), research design refers to the systematic arrangement and methodology employed to address a research problem. This study utilized a combination of correlation and causal research designs to achieve its objectives. The correlation design is employed to investigate the nature and strength of relationships between the independent and dependent variables. This involves analyzing data collected for each independent variable. The data was processed using excel to generate a correlation matrix, which highlights the extent and direction of the relationships among the variables.

The causal design was applied to establish cause-and-effect relationships, focusing on how the independent variables influence the dependent variable. Multiple regression analysis is conducted using excel to identify the specific effects of each independent variable on the dependent variable, offering insights into the dynamics of these relationships. By integrating correlation and causal research designs, this study provided a robust framework for analyzing data and generating actionable recommendations. These recommendations aim to assist the management of listed firms in Kenya in enhancing their financial performance based on the empirical findings derived from the analyses.

Target Population

According to Mugenda and Mugenda (1999), the term "target population" refers to the complete set of cases, individuals, or objects sharing specific characteristics that the researcher aims to generalize the study's findings to. Similarly, Lancaster (2005) defines "population" as the entire set of cases, people, or items under investigation. Cooper and Schindler (2011) elaborate that population encompasses the total collection of elements—such as people, firms, or decisions—about which deductions are sought. The study employed census approach to ensure accuracy by encompassing the entire population. The study's population consisted of the 64 companies listed on the Nairobi Securities Exchange (NSE) as at December,2023.

Sampling Design

A sample is a subset of the total items that represents the entire population under study." According to Mugenda and Mugenda (2003), a sample refers to a smaller group selected from the accessible population, while Kumar (2012) defines it as a subgroup of the population of interest. In this study, no sampling design will be employed; instead, the researcher will opt for a census method. The study targeted a total of 63 staff working in listed firms. In this study, the targeted respondents were the finance managers/senior accountants and Head of Internal Audit Department, as they are integral to the governance process and possess valuable insights relevant to the study. Their expertise ensured that the researcher gathered a comprehensive and informed perspectives as presented.

Research Instrument

The study will use the Primary and secondary sources of information. The primary data will be collected using structured questionnaire while Secondary data will be accessed in NSE website such as Audited financial statements.

Data Collection procedure.

The views and perception on corporate governance were collected using structured questionnaire. The questionnaire was issued to targeted staff. The data for dependent variable (Financial performance) was obtained from secondary data from the Nairobi Securities Exchange (NSE) website, particularly audited financial statements. The researcher employee data collection sheet to capture data in excel format. To facilitated more in dept comparative study, the researcher collected the information form published financial statements from 2019-2024.This approach ensures access to reliable and comprehensive data for supporting the study's objectives.

Data Validity and Reliability

Validity refers to the extent to which a measuring instrument accurately assesses what it is intended to measure (Kumar, 2012). It is gauged by how well the outcomes derived from data analysis represent the phenomena being studied (Mugenda & Mugenda, 2003). In this study, ensuring the validity of the instruments involved employing both face validity and content validity methods for the questionnaire and data collection sheet. Face validity ensured the clarity and relevance of data aligned with study objectives and minimized the ambiguity.

Content validity was ensured through expert review in the field of study, with guidance from the reviewer which enhanced the instrument's alignment with research goals. Reliability, on the other hand, measures the consistency of outcomes produced by a research instrument across repeated trials (Kothari, 2003). It assesses whether the instrument yields consistent results when administered to the same respondents' multiple times. To establish reliability, the instruments undergone a pilot test. The reperformance method were employed, where the data was recaptured and variance analysis was performed and variance was corrected.

Research ethical considerations

The researcher ensured that the captured data from published financial statements were are used for the research purpose. The privacy and confidentiality of collected data were rigorously protected, with methods for data anonymization and secure storage clearly outlined. The researcher seeks informed consent from all respondents, ensuring participants they were fully aware of the research purpose, procedures, risks, and benefits.

IV. Results And Discusions

Results Findings

Descriptive Statistics

Table 1: A summary of firm corporate governance		
Descriptive Statistics	**Mean**	**Std. Deviation**
Board Independence	0.57	0.22
Board Size	7.71	3.2
Board Tenure	4.69	1.92
CEO Duality	0.09	0.28
Multiple directorship	7.14	4.01
ROA	0.08	0.15
ROE	0.13	0.20

The results in Table 1 indicate that the companies analyzed had an average board independence of 0.57, with a standard deviation of 0.22. This suggests that the decision-making processes of most companies were influenced by both internal and external factors, with an estimated effect of 43%. The average board size was 7.71 members, with a standard deviation of 3.2, meaning most boards comprised approximately eight members. The mean values for CEO duality and multiple directorships were 0.09 and 7.14 respectively, indicating that a significant number of institutions had dual board leadership structures and multiple directorships. Additionally, the companies had an average return on assets (ROA) of 0.08 and return on equity of 0.13 reflecting overall strong financial performance.

Inferential Data Analysis

Correlation

This section of the study examines the degree of association between corporate governance variables and firm performance. Specifically, it analyzes governance proxies such as board size, board independence, CEO duality, board tenure, and multiple directorships in relation to firm performance. Based on the priorities outlined in the previous chapter, a positive relationship was anticipated between corporate governance measures and the overall performance of the firms.

Table 2: Correlation Analysis

Correlations	Board Independence	Board size	Board Tenure	CEO Duality	Multiple directorship	ROA	
Board Independence	Pearson	1					
	Correlation						
	Sig. (2-tailed)						
Board Size	Pearson	.338**	1				
	Correlation						
	Sig. (2-tailed)	0					
Board Tenure	Pearson	.241**	.212**	1			
	Correlation						
	Sig. (2-tailed)	0	0				
CEO	Pearson	0.048	.123*	0.055	1		
Duality	Correlation						
Multiple	Sig. (2-tailed)	0.371	0.021	0.308			
directorship	Pearson	.403**	.336**	.391**	0.04	1	
	Correlation						
	Sig. (2-tailed)	0	0	0	0.453		
ROA	Pearson	.439**	.211**	.366**	.133*	.432**	1
	Correlation						
	Sig. (2-tailed)	0	0	0	0.013	0	

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

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

The results presented in Table 2 indicate that corporate governance variables have a positive and significant association with the firm performance of listed companies. Specifically, the findings show a strong and statistically significant relationship between board independence, board size, CEO duality, board tenure, multiple directorships, and firm performance (measured by ROA) at a significance level of 0. 000.Board independence exhibits a positive correlation with firm performance, as evidenced by a significant p-value of 0.000 and a beta coefficient of 0.439. Similarly, board size is positively and significantly associated with firm performance, supported by a p-value of 0.000 and a beta coefficient of 0.211. Board tenure also shows a significant positive correlation with firm performance, with a p-value of 0.000 and a beta coefficient of 0.366.

Additionally, CEO duality is positively correlated with ROA, as indicated by a significant p-value of 0.013 and a beta coefficient of 0.133. However, while CEO duality is also positively associated with ROE, this relationship is not statistically significant, as shown by a p-value of 0.177 and a beta coefficient of 0. 072.Finally, multiple directorships demonstrate a positive correlation with firm performance (ROA), supported by a significant p-value of 0.000 and a beta coefficient of 0.432. These findings suggest that improvements in corporate governance structures contribute to enhanced firm performance.

Test for Multicollinearity

Multicollinearity occurs when two or more independent variables are highly correlated, leading to instability in the estimation of regression coefficients and potentially misleading significance values. When multicollinearity is present, the regression coefficients may become undefined or unstable, and the standard errors of the coefficients can be inflated, making them statistically insignificant. To assess the presence of multicollinearity, the variance inflation factor (VIF) and tolerance level are commonly used. The VIF measures how much an independent variable is explained by other independent variables, while the tolerance level is its reciprocal. According to Gujarati (2003), a VIF greater than 10 and a tolerance level greater than 1 indicate the presence of harmful multicollinearity.

Based on the results shown in Table 4.3, all variables in the model have VIF values below 10, confirming that there is no severe multicollinearity. Additionally, since the individual p-values of all variables are less than 0.05, they remain statistically significant. Therefore, Table 4.3c/4.4c presents the results of the multicollinearity test among the explanatory variables, ensuring that any collinearity issues that could distort the regression model are eliminated. This confirms the robustness of the regression analysis.

Regression Analysis

The study employed panel data regression analysis to examine the relationship between corporate governance and firm performance. The regression analysis was conducted using two key performance indicators: Return on Assets (ROA) and Return on Equity (ROE). The first regression model assessed the impact of corporate governance variables on ROA, providing insights into how governance structures influence a company's profitability relative to its total assets. The second model focused on ROE, measuring the effectiveness of governance mechanisms in generating returns for shareholders' utilizing panel data regression, the study effectively captured both cross-sectional and time-series variations, allowing for a more comprehensive evaluation of the long-term relationship between corporate governance and firm performance.

Return on Assets (ROA) as a Performance Indicator

The results from Table 4.3 show a p-value of 0.000, indicating that corporate governance significantly influences the performance of firms listed on the Nairobi Securities Exchange (NSE). Since the p-value is less than 0.01, the relationship is statistically significant at the 1% significance level, confirming a strong impact of corporate governance on firm performance.

Furthermore, the coefficients for all the governance variables were found to be statistically significant, reinforcing the conclusion that corporate governance plays a crucial role in determining firm performance. These findings suggest that well-structured governance mechanisms contribute to improved financial outcomes for NSE-listed firms.

Table 3a: Summary of the Regression Model for ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.561[a]	.315	.305	.1284699

a. Predictors: (Constant), Board Size, CEO Duality, Board Tenure, Board Independence, multiple directorship

Table 3b: ANOVA of Regression Model for ROA

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.609	5	.522	31.611	.000[b]
	Residual	5.678	344	.017		
	Total	8.286	349			

a. Dependent Variable: ROA

b. Predictors: (Constant), Board Size, CEO Duality, Board Tenure, Board Independence, multiple directorship

Table 3c: Coefficients of Regression Model for ROA

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.155	.027		-5.807	.000		
Board Independence	.205	.035	.298	5.922	.000	.786	1.272
Multiple directorship	.009	.002	.237	4.500	.000	.717	1.396
CEO Duality	.056	.025	.102	2.258	.025	.984	1.017
Board Tenure	.016	.004	.201	4.103	.000	.833	1.200
Board Size	-.001	.002	.025	-.503	.615	.824	1.214

a. Dependent Variable: ROA

Y=-0.155+0.205(Board Independence) +0.009(Multiple Directorship) +0.056(CEO Duality) +0.016 (Board Tenure) + -0.001(Board Size).

The regression results indicate a positive relationship between corporate governance and firm performance among companies listed on the Nairobi Securities Exchange (NSE). The R-value of 0.561 suggests a moderate positive correlation between corporate governance variables and firm performance. The coefficient of determination (R^2) is 0.315, meaning that corporate governance factors account for 31.5% of the variation in Return on Assets (ROA) among NSE-listed companies, while the remaining 68.5% is explained by other factors not included in the model. The F-value of 31.611, with a p-value of 0.000, is statistically significant at the 5% significance level (0.05). This confirms that the overall regression model is robust and that corporate governance significantly impacts firm performance.

The analysis shows a positive relationship between board independence, board tenure, CEO duality, and multiple directorships with firm performance, as supported by the following beta coefficients: board independence (β = 0.205), CEO duality (β = 0.056), board tenure (β = 0.016), and multiple directorships (β =

0.009). These results suggest that higher board independence enhances firm performance, CEO duality contributes positively, longer-serving board members add stability, and multiple directorships provide additional expertise. Conversely, board size has a negative relationship with firm performance, as indicated by a beta coefficient of -0.001, implying that larger boards may reduce decision-making efficiency and hinder firm performance.

The regression equation suggests that when all governance factors are held constant at zero, the firm performance of NSE-listed companies would be -0.155. A unit increase in board independence leads to a 0.205 increase in firm performance, making it the most influential governance factor. Similarly, a unit increase in CEO duality results in a 0.056 increase in performance, while board tenure (0.016), multiple directorships (0.009), and board size (-0.001) also affect performance, though to a lesser extent.

Overall, the findings confirm that corporate governance is a statistically significant determinant of firm performance, as the p-value of 0.000 is below the conventional 0.05 threshold. Among the governance factors, board independence has the most substantial impact, followed by CEO duality, board tenure, multiple directorships, and board size. These results emphasize the importance of strong corporate governance structures in enhancing the financial performance of companies listed on the NSE.

Hypothesis Testing

In order to achieve the research objectives, the following five objectives were tested to find out if there exists a statistically significant relationship between corporate governance and firm performance of listed firms in NSE, Kenya. Table 4.5 below presents the summary of result of the test of the hypothesis.

Table 4: Summary of Hypothesis Test

Hypothesis	**Corporate Governance Proxy**	**ROA**	**Conclusion**
		Coefficient (β)	
$H0_1$	Board Independence (BI)	0.205	Reject
$H0_2$	Board size (BZ)	-0.001	Reject
$H0_3$	CEO Duality (CEOD)	0.056	Reject
$H0_4$	Board Tenure (BT)	0.016	Reject
$H0_5$	Multiple Directorship (MD)	0.009	Reject

From the results indicated above, the beta coefficient of all the independent variables were above zero but less than 1 with significance on the dependent variable.

$H0_1$: There is no significant effect of board independence on firms' performance.

The coefficient for board independence is 0.205 for the first model (ROA), implying that it positively affects return on assets further positively. This shows that in all the cases firm performance are affected by board independence. Reject the null hypothesis.

$H0_2$: There is no significant effect of Board size on firms' performance.

On the effect of board size on performance, the coefficients were -0.001 using return on assets as the performance indicator respectively. This implies that, board size affects the performance negatively; consequently, the null hypothesis is rejected.

$H0_3$: There is no significant effect of board tenure on firms' performance.

Board tenure has a coefficient of 0.016. This implies that board tenure positively affects ROA, which is the performance of a firm. Consequently, the null hypothesis is rejected.

$H0_4$: There is no significant effect of CEO Duality on firms' performance.

CEO Duality was found to have coefficients of 0.056. This shows that the model has a positive impact on the performance of an institution. Therefore, the two models lead to rejecting of the null hypothesis.

$H0_5$: There is no significant effect of multiple directorships on firms' performance

Multiple directorships have a positive effect on return on assets as shown by a coefficient of 0.008 and 0.009. Therefore, null hypothesis was rejected.
This shows that corporate governance affects the performance of institutions listed in Nairobi stock exchange.

V. Summary Of Finding, Conclusion And Recommendation

Summary of Findings

The objective of this study was to investigate the effect of corporate governance on listed firm financial performance among companies listed on the Nairobi Securities Exchange (NSE), Kenya. The findings revealed that corporate governance proxies, including board size, board independence, CEO duality, board tenure, and multiple directorships, influenced firm performance, measured as return on assets (ROA), in different ways. Notably, board size exhibited an inverse relationship with ROA, suggesting that larger boards may negatively affects firm performance. The study hypothesized that board size, board tenure, CEO duality, and multiple directorships significantly affect firm performance. The results indicated that the average board size among NSE-listed companies was nine members, with an average board independence of 57.4%. Additionally, seven board members on average held multiple directorships, while CEO duality was present in 9.0% of firms. The majority of boards had an average tenure of five years, while companies reported an average ROA of 8.0% and a return on equity (ROE) of 13.0%.

To examine the relationship between corporate governance and firm financial performance, both correlation and regression analyses were conducted. The first hypothesis suggested that board independence has no significant effect on firm performance. However, the study found a positive and significant relationship between board independence and firm financial performance (ROE), with a p-value of 0.000 and a beta coefficient of 0.205. These results align with findings from Al-Matari et al. (2021) and Chouaibi et al. (2022), who emphasized that independent boards enhance strategic decision-making, transparency, and corporate accountability, thereby improving firm performance. Furthermore, these findings support the stewardship theory, which posits that firms benefit from having skilled and independent directors who contribute to effective policy planning and implementation (Donaldson & Davis, 1991).

Secondly, the study found a negative and significant relationship between board size and firm performance, measured as ROA, with a p-value of 0.000 and a beta coefficient of -0.001. These findings are consistent with Bose et al. (2023), who found that larger boards can lead to inefficient decision-making, coordination challenges, and reduced firm performance. This supports the argument that as boards expand, internal conflicts may arise between directors and management, ultimately hindering effective corporate governance (Coles et al., 2008).

Thirdly, the study revealed a positive and significant relationship between CEO duality and firm performance (ROA), with p-values of 0.000 and beta coefficients of 0.056 and 0.031, respectively. This aligns with Abdullah et al. (2020), who argued that CEO duality can enhance decision-making efficiency by reducing conflicts between management and the board. However, these findings contradict Ramdani and Witteloostuijn (2010), who suggested that separating the CEO and board chair roles improves board oversight and accountability

The fourth hypothesis proposed that board tenure has no significant relationship with firm performance. However, the study found a positive and significant relationship between board tenure and firm performance (ROA), supported by p-values of 0.000 and beta coefficients of 0.016 and 0.015, respectively. These results are in line with Brickley et al. (2021), who argued that longer-serving board members accumulate industry-specific knowledge, leading to improved firm governance and decision-making efficiency.

Finally, the study hypothesized that multiple directorships have no significant effect on firm performance. However, the results indicated a positive and significant relationship between multiple directorships and firm performance (ROA), with p-values of 0.000 and beta coefficients of 0.009 and 0.008, respectively. These findings support the research of Kim & Cannella (2008), who found that directors serving on multiple boards contribute valuable expertise, strategic insights, and networking opportunities, positively impacting firm performance.

Overall, the findings reinforce the importance of corporate governance in shaping firm performance. The study confirms that board independence, CEO duality, board tenure, and multiple directorships positively impact firm performance, while larger board sizes may lead to inefficiencies that negatively affect performance. These insights provide practical implications for policymakers and corporate leaders seeking to enhance governance structures and optimize firm performance among NSE-listed companies.

Conclusion

The study concluded that there is a positive relationship between firm performance and key corporate governance factors, including board independence, CEO duality, and multiple directorships. The correlation analysis indicated that while corporate governance principles influence performance, the relationship is not particularly strong, necessitating the use of regression analysis, which is more sensitive to detecting smaller causal relationships. The p-values for all the tests were below 0.05, confirming the statistical significance of the regression models. This implies that the results can be reliably used to make statistical inferences with a high degree of accuracy. Despite the study finding an inverse and significant relationship between board size and firm performance, it highlights the importance of aligning board size with a company's specific needs. The negative relationship may be attributed to increasing agency costs as board size expands, potentially leading to inefficiencies in decision-making and governance structures. Therefore, firms should optimize board composition to balance effective oversight and operational efficiency while minimizing unnecessary governance costs.

Recommendations

Based on the findings of this research, several recommendations can be made to stakeholders in corporate governance regarding its impact on firm performance. There is a need to enhance corporate governance features that have a positive effect on firm performance, such as CEO duality and board independence, while discouraging governance practices that negatively impact firm performance. Additionally, while multiple directorships have been advocated by some as beneficial, the study highlights the potential negative relationship between multiple directorships and operating performance. This suggests that board independence plays a critical role in disciplining management and monitoring underperforming firms. To ensure effective oversight, regulatory bodies should require additional disclosures regarding financial or personal ties between directors, the organizations they work for, and the company or its CEO. This would strengthen the independence of board members, ensuring they can effectively oversee management decisions without conflicts of interest. Furthermore, firms should be allowed to experiment with minor deviations from the existing corporate governance norm of a supermajority independent board, allowing for one or two inside directors to contribute to decision-making.

To strengthen corporate governance further, mandatory compliance measures with the corporate governance code should be developed. Additionally, an effective legal framework should be established to clearly define the rights and responsibilities of firms, directors, and shareholders. This framework should also outline disclosure requirements and ensure the effective enforcement of corporate governance laws. There is also a need to establish a unified corporate body responsible for collecting and compiling corporate governance-related data, constructing relevant indices, and facilitating corporate governance research in Kenya.

Finally, for the academic community, further research should explore corporate governance and firm performance over a longer time period to provide more comprehensive insights. Additionally, similar studies should be conducted on the relationship between corporate governance and firm performance in microfinance institutions (MFIs) in Kenya, as this sector may have unique governance challenges and opportunities.

Limitations

One major challenge during the literature review was the vast amount of existing research in the field of corporate governance. Analyzing and identifying the most relevant literature required significant time and effort. Data collection also presented difficulties, primarily due to the confidential nature of the required information. Since the data was obtained through secondary sources, collaboration with third parties such as the Nairobi Securities Exchange (NSE) and the Capital Markets Authority (CMA) was necessary. However, the process was delayed by bureaucratic procedures, necessitating multiple follow-ups and reminders to secure the required data.

Additionally, time constraints posed a significant challenge throughout the research process, particularly during literature review and data collection. Despite these difficulties, effective time management and careful planning helped mitigate the constraints. By ensuring timely execution of activities and avoiding procrastination, the study was successfully completed within the set timeframe, achieving all its objectives and research aims

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