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CORPORATE GOVERNANCE AND PERFORMANCE OF NON-FINANCIAL FIRMS LISTED AT NAIROBI SECURITIES EXCHANGE

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ABSTRACT

Organizations pursue strategic objectives to fulfill shareholder goals, with growth necessitating separation of ownership and control, thereby requiring effective corporate governance as a strategic management mechanism for aligning stakeholder interests and achieving sustainable competitive advantage. This study determined the relationship between corporate governance mechanisms (management size, board diversity, leadership competence, and board meeting frequency) and the performance of non-financial firms listed at the Nairobi Securities Exchange. Employing a mixed research design and census sampling of all 45 non-financial firms listed at the NSE from 2020 to 2025, data was collected from 450 respondents using validated questionnaires (Cronbach's Alpha = 0.862) and analyzed using descriptive and inferential statistics via SPSS. The findings revealed that management size had a significant negative influence on performance ($\beta = -0.324$, $p = 0.018$), board diversity had a significant positive influence ($\beta = 0.378$, $p = 0.010$), leadership competence positively influenced performance ($\beta = 0.268$, $p = 0.048$), while board meeting frequency had no significant influence ($\beta = 0.145$, $p = 0.541$), with the full model explaining 32.4% of performance variance ($R^2 = 0.324$, $F = 8.56$, $p < 0.001$). The study concluded that corporate governance mechanisms significantly influence performance and recommended that regulators strengthen implementation monitoring, promote board diversity, address emerging governance risks, while firms should optimize board size, enhance diversity, invest in director development, and focus on meeting quality for strategic oversight.

Key Words: Management Size, Board Diversity, Leadership Competence, Board Meeting Frequency

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INTRODUCTION

Corporate governance has emerged as one of the most critical determinants of organizational performance and sustainability in the contemporary business environment. Organizations pursue strategic objectives to fulfill the primary goals of shareholders, with competitive advantage and value creation standing out as key strategic objectives. Growth requires resources, which organizations source from owners, leading to separation of ownership and control (Dockery & Herbert, 2020). Owners cede control to professional managers as organizations grow, and some organizations start with huge capital outlays, thus the separation is from the onset. Corporate governance is therefore an important component to organizations because it enables the linkage between owners and management and serves as a mechanism for achieving organizational objectives. Defee, Williams, Randall and Thomas (2020) defined corporate governance as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.

Corporate governance has become an issue of worldwide importance, with the corporation playing a vital role in promoting economic development and social progress in addition to its purely commercial role. It is an engine of growth internationally, increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both public and private interest, and governance has thereby come to the forefront of the international agenda. Corporate governance encompasses authority, accountability, stewardship, leadership, direction and control exercised in corporations (Brennan, 2020). According to Pearce and Robinson (2007), strategic management is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible. Porter (1998) argued that through strategic management, companies are able to effectively cope with uncertainties in the environment, attain competitive advantage, expected performance and long-term objectives. One of the strategic management tools that a company can use to attain competitive advantage and expected performance is corporate governance.

In recognition of weak corporate governance structures and low disclosure in Africa, there have been numerous initiatives to address corporate governance problems. At its inaugural summit in July 2002 in Durban, South Africa, the African Union adopted a declaration on democracy, political, economic and corporate governance. A peer review mechanism was established to guide future peer reviews based on agreed codes and standards of democracy, political, economic and corporate governance (Demba, 2023). Since then, a large number of governance guidelines and codes of best practice have been adopted in African emerging economies, with local institutes and agencies attempting to promote corporate governance principles and accountability for local companies.

In Kenya, the institutions that have been at the forefront in sensitizing the corporate sector on corporate governance are the Capital Markets Authority (CMA), Nairobi Securities Exchange (NSE), and Centre for Corporate Governance (CCG). CMA created a major impact in the development of corporate governance guidelines in Kenya when it issued the Capital Market Guidelines on Corporate Governance Practice by public listed companies in 2002. These guidelines were published under Gazette Notice No. 369 of 25th January 2002 and not a legal notice and therefore did not have the force of law. However, certain guidelines have subsequently been incorporated into Legal Notice No. 60 of 3rd May 2002 as part of the Capital Markets guidelines and are enforceable in law (Miring'u & Muoria, 2021).

The legal and regulatory framework governing corporate governance in Kenya has evolved significantly. The Companies Act 2015 provided the primary legal framework for corporate governance, with Section 136 requiring every public company to have at least two directors. The Act further provided for the duties and responsibilities of directors, including fiduciary duties, duty of care, and duty to act in the best interests of the company. The Code of Corporate Governance Practices for Issuers of Securities to the Public in Kenya, 2015, set a high bar for enhancing governance within Kenya's capital markets (CMA, 2023). Since its inception in

2016, it has steered issuers towards embedding robust governance principles and practices in their operations (CMA, 2023).

A significant milestone in Kenya's corporate governance landscape occurred on December 15, 2023, when the Capital Markets Authority gazetted the Capital Markets (Public Offers, Listings and Disclosures) Regulations, 2023 (POLD Regulations, 2023), transitioning the code of corporate governance practices from a voluntary obligation to a mandatory continuing obligation under the law (CMA, 2023). These regulations aim to bolster the integrity, transparency, and development of the securities market in Kenya (CMA, 2024).

Local firms, especially SMEs, face challenges like informal business practices, lack of trained directors, and limited enforcement of regulations. Zandstra (2022) stated that Kenyan companies, such as Safaricom, implement corporate governance practices aligned with the Capital Markets Authority (CMA) Code and the EAC Corporate Governance Framework. These governance structures support performance through initiatives like sustainability reporting, community development projects, and employee welfare programs. Strong governance enhances reputation and investor confidence, even for non-listed firms (Miring'u & Muoria, 2021). According to Otieno (2022), firms like Kenya Airways and Equity Bank link governance to sustainability programs, employee development, and community support.

The government, industry regulators, professional bodies and other players have developed rules, codes and guidelines on corporate governance. These rules specify the rights and obligations of various stakeholders on business enterprises and are aimed at ensuring fair, transparent and accountable business environment and therefore improve corporate performance. The findings from recent CMA reports reinforce the view that stronger governance practices are increasingly becoming central to market credibility, positioning Kenya's capital markets for greater investor trust and long-term stability (CMA, 2026).

Statement of the Problem

Corporate governance has emerged as a critical determinant of organizational performance and sustainability globally. The relationship between governance mechanisms and firm performance has been extensively studied across different contexts, yet significant challenges persist. Globally, corporate governance failures have continued to undermine organizational performance and investor confidence. Becht, Bolton, and Rosell (2022) identified that the increasing focus on corporate governance was as the result of significant corporate collapses of major companies globally due to identified weaknesses in their corporate governance. Bhagat and Black (2022) documented that the high-profile collapse of several large corporations, whose governance systems failed to prevent corruption and adequately implement risk management procedures, renewed interest in corporate governance among scholars, practitioners and media alike. Brennan (2020) noted that the efficiency and accountability of the corporation is now a matter of both public and private interest, with governance having come to the forefront of the international agenda. Despite the existence of comprehensive governance frameworks such as the G20/OECD Principles of Corporate Governance (2023) and the UK Corporate Governance Code (2024), corporate failures continue to occur, indicating persistent governance challenges that require ongoing research and reform.

Despite the existence of comprehensive governance frameworks globally, recent assessments reveal persistent challenges. The OECD (2023) noted that while progress has been made, many countries still face significant implementation gaps in corporate governance practices. The Financial Reporting Council (2024) acknowledged that despite revisions to the UK Corporate Governance Code, challenges remain in ensuring effective board oversight and risk management. Russell Reynolds Associates (2023) identified scepticism about board quality and CEOs in the crosshairs as key global governance trends, indicating that governance challenges persist even in mature markets. These global challenges highlight the need for context-specific research to understand how governance mechanisms operate in different institutional environments.

In Kenya, the situation is particularly concerning for non-financial firms listed at the Nairobi Securities Exchange. Nairobi Securities Exchange reports indicated that a significant number of non-financial companies listed on the Nairobi Securities Exchange had been experiencing a sustained decline in their performance. Competitive positioning had been weakening progressively, with declining market share, reduced innovation output, decreasing customer satisfaction, and eroding competitive advantage across the non-financial sector (NSE, 2024). Additionally, between 2011 and 2020, more than 56% of non-financial companies quoted on the NSE experienced a decline in their performance indicators (NSE, 2023). According to Otieno (2022), lenders were less likely to extend credit to such businesses because of the slowdown in effectiveness, creating a cycle of reduced access to capital and further performance deterioration. The incongruence between corporate governance and performance had resulted in the collapse, liquidation, and diminished competitiveness of several corporations in Kenya. Instructively, companies had been delisted from the Kenyan bourse as a result of irregularities and failures that curtailed their effectiveness. Specifically, audits had pointed to failures in corporate governance, which highlighted the lethargy of directors in addressing agency theory conflicts and providing effective oversight.

Several empirical studies supported the observed performance decline among listed firms in Kenya. Kiragu (2018) examined the performance of manufacturing firms listed at the NSE and found a consistent downward trend in competitive positioning, attributing the decline to weak governance structures and poor oversight. Mwangi and Murigu (2019) investigated the performance of commercial and service sector firms and documented declining market competitiveness, linking this trend to ineffective board monitoring and inadequate risk management practices. Okoth and Njeru (2020) analyzed the performance of agricultural firms listed at the NSE and reported declining operational effectiveness metrics, concluding that governance mechanisms play a critical role in sustaining performance. Kipchumba and Kemboi (2021) studied the energy and petroleum sector and found that firms with stronger governance frameworks demonstrated better resilience against performance decline. These studies collectively provided empirical evidence of the performance challenges facing non-financial firms at the NSE.

A comprehensive review of the literature revealed several gaps that justified this study. There existed a contextual gap as most studies on corporate governance and firm performance had been conducted in developed countries such as those by Brennan (2020), Becht et al. (2022), and Bhagat and Black (2022), or in other African nations as documented by Demba (2023) and Shleifer and Vishny (2022). Studies by Otieno (2020), Mohamed and Atheru (2017), and Mbalwa et al. (2014) had examined corporate governance in Kenya, but these studies had largely focused on banking institutions, mobile service providers, and sugar manufacturing firms, creating a sectoral gap in the non-financial sector listed at the NSE. Furthermore, previous studies had not specifically examined the influence of management size, board diversity, leadership competence, and board meeting frequency on the performance of non-financial firms listed at the NSE, creating a conceptual gap as these specific governance mechanisms had not been investigated in this context. Globally, numerous studies had investigated the relationship between corporate governance and performance. However, there was limited scholarly research to ascertain the role of individual board characteristics on listed firms' performance.

These gaps collectively highlighted the need for a comprehensive study that developed and validated research instruments for measuring corporate governance practices in non-financial firms listed at the Nairobi Securities Exchange, utilizing a multi-theoretical framework and rigorous methodological approach. This study therefore sought to determine the relationship between corporate governance and performance of non-financial firms listed at the Nairobi Securities Exchange, addressing the contextual, sectoral, conceptual, instrument, theoretical, and methodological gaps identified in the literature.

Objectives of the Study

The general objective of this study was to determine the relationship between corporate governance mechanisms and the performance of non-financial firms listed at the Nairobi Securities Exchange. The specific objectives were;

- To assess the relationship between management size and the performance of non-financial firms listed at the Nairobi Securities Exchange.
- To examine the influence of board diversity on the performance of non-financial firms listed at the Nairobi Securities Exchange.
- To determine the effect of leadership competence on the performance of non-financial firms listed at the Nairobi Securities Exchange.
- To investigate the relationship between board meeting frequency and the performance of non-financial firms listed at the Nairobi Securities Exchange.

LITERATURE REVIEW

Theoretical Review

Agency Theory

Agency theory, by Michael and William (1976), had been fruitfully applied in examining the nature of the relationship in a firm that exists between the principal and the agent (Denise, 2001). Agency theorist argued that in order to protect the principals interest, the board of director must assume an effective oversight function and this should determine the size of the board (Brennan, 2010). The principal-agent relationship provides benefits since it allows specialization between shareholders, as risk bearer, and management in the management of the firm. The theory was based on assumptions of goal incongruence between the principal and the agent. The division of control and ownership was typically related with agency theory. The company's owners (shareholders) and the management who run the company were the players in the context of corporate governance. The foundation proved more beneficial for investors to commission firm operations to appointees rather than try to run it themselves (Schneider, 2019). In this line, managers' impulsive conduct must be limited so as to defend the goals of the owners (Nugroho, 2021). Moreover, management ought to be controlled in order to reduce personal interests that may arise at the expense of company performance. Through the control and oversight framework, the board composition was an effective governance tool that sought to bring an harmonization framework among welfares for both parties. Given this conflict of interests, the agent, if left alone, would pursue his own interests to the detriment of the principal's. Therefore, the monitoring solutions by shareholders, especially major ones, constituted an important mechanism for encouraging managers not to deviate from shareholder interests. The theory was relevant to the study because it linked governance mechanisms directly to performance. It explained the need for governance structures, justified monitoring and accountability mechanisms, linked executive incentives to firm performance, enhanced investor confidence and finally it reduced risk.

Stewardship Theory

Stewardship theory could be traced back to psychology and sociology. According to Davis, Schoorman and Donaldson (1997), a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. It was a special case of accountability concerning the provision of financial statements to shareholders on the use made of their money, and whether the stewards properly managed the organization's assets and liabilities (Gray, Owen & Adams, 2009; Kribat et al., 2013). The theory defined a steward as a person who protects and maximize shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized (Davis et al., 1997). In this perspective, stewards were company executives and managers working for the shareholders, protect and make profits for the shareholders. Unlike agency theory, stewardship theory stressed not on the perspective of

individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. Stewardship theory was highly relevant to corporate governance and performance because it promoted trust-based governance structures, encouraged leadership, enhanced managerial commitment and finally improved long-term performance.

Stakeholder Theory

Stakeholder theory was advanced by Freeman (1984) and posited that in line with the stakeholder approach, organizations are accountable to the owners as well as other stakeholders. Therefore, the contrasting interest of the various stakeholders has to be considered when providing disclosures. This was because, depending on the varying stakeholder interests, this could affect an organization's ability to achieve its goals (Freeman, 1984). Stakeholder theory was used to examine those groups to whom an organization is responsible (Omran & Ramdhony, 2015). According to Boatright (2003), organizations operate for the benefit of the various interested parties in it. This includes owners, employees, customers, regulators, creditors and other stakeholders relevant to the organization. Stakeholder theory held that business organizations should play an active role in the communities and societies in which they operate (Omran & Ramdhony, 2015). The unique approach of stakeholder theory focused on prioritizing the formation and sustenance of long-term connections with stakeholders as the primary driver of corporate success (Freeman et al., 2021). According to the theory, which posited that organizations have both formal and informal agreements with a variety of parties that are involved, therefore, failure to fulfill these contracts could subject corporations to a broad variety of both economic and non-financial risks, as well as reputational harm (Harjoto et al., 2019). Stakeholder argument stated the fundamental function of a company was to develop and distribute gains to a clear majority of stakeholders and the achievement of this goal was dependent on the support and cooperation of the stakeholders themselves (Pinto, 2019). The study was relevant as it expanded corporate governance objectives beyond shareholders, strengthened accountability and transparency, enhanced risk management, improved performance, and promoted long-term sustainability.

Transaction Cost Theory

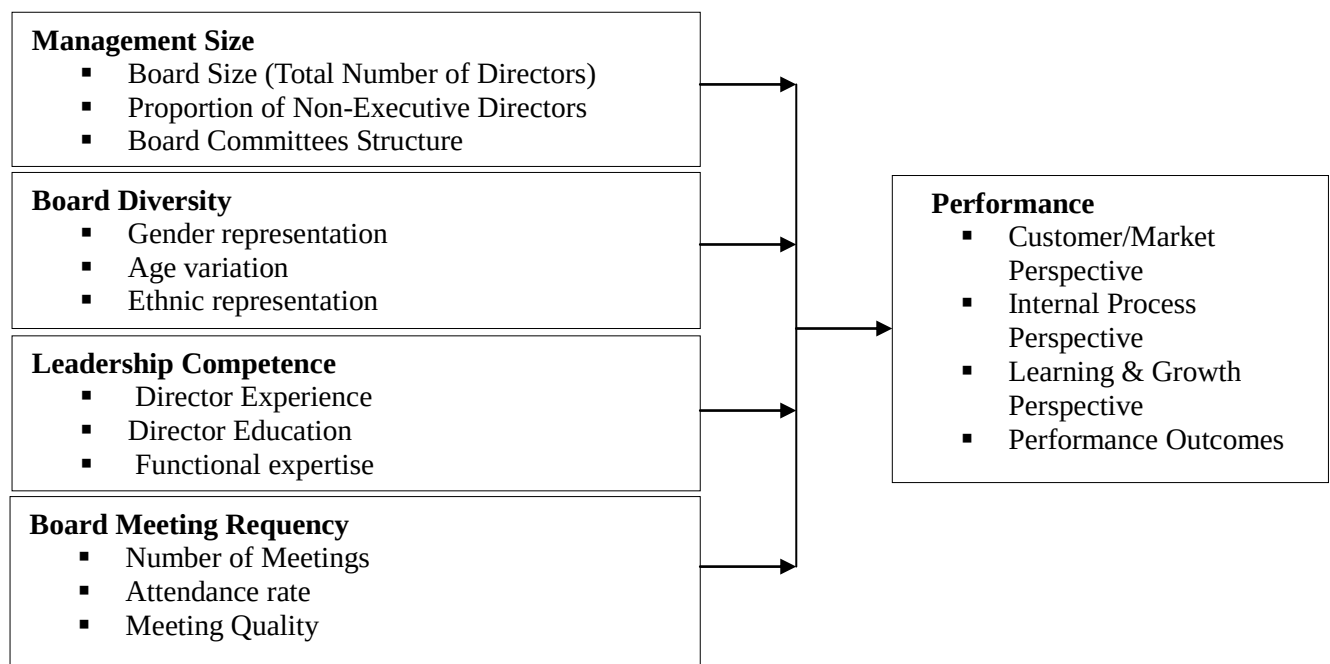
Transaction Cost Theory (TCT) was developed by Ronald Coase (1937) and later expanded by Oliver Williamson. The theory explained why firms exist and how they decide whether to perform activities internally or outsource them to the market. The theory was based on the work of Cyert and March (1963) and broadly stated that the way the company was organized or governed determined its control over transactions. The theory was relevant to the study as it explained governance mechanisms as tools for minimizing transaction costs arising from opportunism, uncertainty, and asset specificity. The theory linked governance efficiency to organizational performance with implication that high governance efficiency would lead to higher performance.

Legal and Regulatory Framework in Kenya

In Kenya, the legal and regulatory framework governing boards of listed companies was established through several key instruments. The Companies Act 2015 provided the primary legal framework for corporate governance in Kenya. Section 136 of the Act required every public company to have at least two directors. The Act further provided for the duties and responsibilities of directors, including fiduciary duties, duty of care, and duty to act in the best interests of the company. Section 152 outlined the circumstances under which a person was disqualified from being a director. The Capital Markets Authority (CMA) issued the Capital Market Guidelines on Corporate Governance Practice by Public Listed Companies in 2002, which were gazette notice number 369 of 25th January 2002, and were subsequently incorporated into Legal Notice Number 60 of 3rd May 2002, making them enforceable in law. The guidelines recommended a minimum of five directors with at least one-third being independent non-executive directors, a recommended board size of five to twelve directors balancing effectiveness and efficiency, at least four board meetings per year, mandatory audit committee and nomination committee, and directors should be independent of management

and free from any business or other relationship that could materially interfere with their independent judgment. The Nairobi Securities Exchange listing rules required listed companies to comply with continuous disclosure requirements and corporate governance standards, with companies that failed to comply facing delisting or other sanctions. For non-financial firms listed at the NSE, the legal standard required boards to have at least five directors with a minimum of one-third independent non-executive directors, hold at least four meetings annually, establish mandatory committees including audit and nomination committees, comply with disclosure requirements, and ensure board members possess appropriate qualifications and experience. These legal standards informed the selection of board characteristics examined in this study, including board size which related to management size, board composition which related to diversity, and board meeting frequency.

Conceptual Framework



Independent Variable

Dependent Variable

Figure 1: Conceptual Framework

METHODOLOGY

This study used descriptive research design. The target population of this study comprised all 45 non-financial firms listed at the Nairobi Securities Exchange over a five-year period from 2020 to 2025 (NSE, 2025). The unit of observation included individual managers, board members, and other staff within these firms, while the unit of analysis was the performance outcomes of the firms. This study used census sampling, also known as complete enumeration, since the population constituted the entire sample. The justification for census sampling was based on several criteria.

The study used questionnaires as the research instruments to collect data for all the respondents. A questionnaire was a data collection instrument that set out in a formal way the questions designed to elicit the desired information. It consisted of a list of structured questions, non-structured questions and Likert rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Close ended questions had the advantage of collecting viable quantitative data while open-ended questions allowed the respondents freedom of answering questions and the chance to provide in-depth responses. Questionnaire was preferred because it was efficient, cheap and easy to administer.

The questionnaire consisted of both closed-ended and open-ended questions to provide a balanced approach to data collection. For closed-ended items, there were 30 items in total distributed across the sections. Management Size had 5 items using a Likert scale with a response format of 1 to 5 representing Strongly Agree to Strongly Disagree. Board Diversity had 6 items using a Likert scale with the same response format. Leadership Competence had 7 items using a Likert scale. Board Meeting Frequency had 6 items using a Likert scale. Performance had 6 items using a Likert scale. For open-ended items, there were 4 items in total. Board Meeting Frequency had 2 open-ended items to understand the rationale behind meeting frequency and reasons for variations. Leadership Competence had 1 open-ended item to capture additional leadership attributes not covered in closed-ended items. Performance had 1 open-ended item to gather qualitative insights on performance challenges and successes. The balancing approach ensured that closed-ended items provided quantitative data that could be statistically analyzed, allowing for objective measurement of relationships between variables and ensuring consistency in responses and facilitating comparison across respondents and firms. Open-ended items provided qualitative insights that captured the context, nuances, and rationale behind quantitative responses, allowing respondents to express perspectives that may not be captured by closed-ended questions. The integration of both item types enabled triangulation, where quantitative findings could be explained and enriched by qualitative insights. This balanced approach ensured comprehensive data collection, enabling robust analysis and interpretation of findings.

Primary data from the field was edited to eliminate errors that might have been made by the respondents. Coding was done to translate question responses into specific categories so as to organize and reduce research data into manageable summaries. Quantitative data was analyzed using descriptive statistics such as mean and standard deviation with the use of Statistical Package for Social Sciences (SPSS) version 25.0. Descriptive statistics such as frequencies and percentages were used to describe the quantitative data. The analyzed data was presented in form of tables, pie-charts and bar-graphs where applicable.

FINDINGS AND ANALYSIS

Response Rate

The study targeted 450 respondents from 45 non-financial firms listed at the Nairobi Securities Exchange. The respondents were drawn from five departments within each firm: Quality Assurance, Human Resources, Finance, Internal Audit, and Corporate Planning. A total of 450 questionnaires were distributed, and 390 were successfully completed and returned, representing an overall response rate of 86.7%. This response rate was considered excellent for survey research and sufficient for conducting statistical analysis. According to Sekaran (2000), a response rate of 70% and above is considered good for survey research.

Descriptive Statistics for Main Study Variables

This section presents the descriptive statistics for the main study variables based on both primary and secondary data. Descriptive statistics provide a summary of the central tendency and dispersion of the variables under investigation.

Descriptive Statistics for Governance Variables (Primary Data)

The descriptive statistics for the governance variables based on primary data collected through the questionnaire are presented in Table 1 below.

Table 1: Descriptive Statistics for Governance Variables

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Average Director Experience (Years)	390	18.45	6.72	8	35
Board Meetings/Year	390	5.76	1.82	3	10
Board Size	390	8.24	2.56	5	15
Qualification Score	390	3.82	0.94	2	5
% Female Directors	390	18.42	12.34	0	44
% Independent Directors	390	35.58	14.21	20	71

The findings in Table 1 revealed that the average board size among non-financial firms listed at the NSE was 8.24 directors, with a minimum of 5 and a maximum of 15. This falls within the recommended range of 8-12 directors as per the CMA guidelines. The mean percentage of female directors was 18.42%, with a minimum of 0% and a maximum of 44%. This indicates that while some firms have made progress in gender diversity, others still have no female representation on their boards. The mean percentage of independent directors was 35.58%, which exceeds the CMA requirement of at least one-third (33.33%) independent directors. The average number of board meetings per year was 5.76, exceeding the CMA's minimum requirement of four meetings per year. The average director experience was 18.45 years, indicating that boards are composed of experienced professionals. The mean qualification score of 3.82 on a 5-point scale suggests that board members generally possess strong academic and professional qualifications.

Descriptive Statistics for Performance Perceptions (Primary Data)

The descriptive statistics for the performance perceptions of respondents are presented in Table 2 below.

Table 2: Descriptive Statistics for Performance Perceptions

Statement	N	Mean	Std. Deviation
Customer satisfaction levels have improved consistently	390	3.78	1.08
Innovation and new developments are key strengths of the organization	390	2.86	1.22
Operational efficiency has improved through process optimization	390	2.18	1.04
The organization has achieved significant market share growth over time	390	3.24	1.12
The organization has achieved sustainable competitive advantage	390	3.98	0.98
The organization enjoys a strong competitive position in the market	390	3.42	1.16

The findings in Table 2 show that the highest mean score was recorded for "The organization has achieved sustainable competitive advantage" (M = 3.98, SD = 0.98), suggesting that respondents generally agreed that their organizations had achieved competitive advantage. This was followed by "Customer satisfaction levels have improved consistently" (M = 3.78, SD = 1.08), indicating a positive perception of customer relationship management. The statement "Operational efficiency has improved through process optimization" recorded the lowest mean score (M = 2.18, SD = 1.04), suggesting that respondents were neutral to slightly disagreeing with this statement, possibly indicating that operational efficiency was not perceived as a major strength in their organizations.

Performance Trends (Secondary Data)

The descriptive statistics for performance extracted from annual reports of the 45 non-financial firms for the period 2020-2025 are presented in Table 3 below.

Table 3: Performance Trends (2020-2025)

Year	N	Mean Market Share (%)	Mean Revenue Growth (%)	Mean Operational Efficiency (%)
2020	45	8.62	5.18	72.34
2021	45	8.18	4.82	71.15
2022	45	7.82	4.12	69.56
2023	45	7.54	3.68	68.34
2024	45	7.38	3.24	67.23
2025	45	7.45	3.38	67.89

The findings in Table 3 reveal a consistent decline in performance from 2020 to 2024. Mean Market Share decreased progressively from 8.62% in 2020 to 7.38% in 2024, representing a decline of 1.24 percentage points over the five-year period. Mean Revenue Growth declined from 5.18% in 2020 to 3.24% in 2024, a decline of 1.94 percentage points. Mean Operational Efficiency declined from 72.34% in 2020 to 67.23% in 2024. However, a marginal recovery was observed in 2025, with Market Share increasing to 7.45%, Revenue Growth to 3.38%, and Operational Efficiency to 67.89%. This recovery may indicate the early effects of governance reforms or economic recovery following the challenges experienced during the COVID-19 pandemic period.

Empirical Findings by Specific Objectives

This section presents the empirical findings organized according to the four specific objectives of the study. The analysis includes correlation analysis to examine the relationships between variables, followed by regression analysis to test the relationships.

Correlation Analysis

Pearson correlation analysis was conducted to examine the relationships between governance variables and performance. The results for primary data (performance perceptions) are presented in Table 4 below.

Table 4: Correlation Matrix (Primary Data)

Variable	AvgExp	BoardSize	Meetings	PctFemale	PctIndep	Performance
AvgExp	1.000					
BoardSize	-0.056	1.000				
Meetings	0.178	0.198	1.000			
PctFemale	0.324	-0.124	-0.108	1.000		
PctIndep	0.412	-0.312	0.256	0.287	1.000	
Performance	0.412	-0.289	0.124	0.398	0.324	1.000

Note: $p < 0.05$, $p < 0.01$

The findings in Table 4.14 reveal that board size had a significant negative correlation with performance ($r = -0.289$, $p < 0.05$), indicating that larger boards were associated with lower performance perceptions. The percentage of female directors had a significant positive correlation with performance ($r = 0.398$, $p < 0.01$), suggesting that greater gender diversity was associated with higher performance. The percentage of independent directors also showed a significant positive correlation with performance ($r = 0.324$, $p < 0.05$), indicating that more independent boards were associated with better performance. Average director experience had the strongest positive correlation with performance ($r = 0.412$, $p < 0.01$), suggesting that more experienced boards were associated with superior performance. Board meeting frequency showed a positive but non-significant correlation with performance ($r = 0.124$, $p > 0.05$), indicating that meeting frequency alone may not be a strong predictor of performance.

The correlation analysis for secondary data (performance metrics) is presented in Table 4.15 below.

Table 5: Correlation Matrix (Secondary Data)

Variable	AvgExp p	BoardSiz e	Meeting s	PctFemal e	PctInde p	MarketShar e	RevenueGrowt h	OpEfficienc y
AvgExp	1.000							
BoardSize	-0.056	1.000						
Meetings	0.178	0.198	1.000					
PctFemale	0.324	-0.124	-0.108	1.000				
PctIndep	0.412	-0.312	0.256	0.287	1.000			
MarketShare	0.412	-0.289	0.124	0.398	0.324	1.000		
RevenueGrowth	0.378	-0.256	0.098	0.356	0.298	0.856	1.000	
OpEfficiency	0.324	-0.178	0.145	0.234	0.278	0.678	0.723	1.000

Note: $p < 0.05$, $p < 0.01$

The findings in Table 5 are consistent with the primary data findings. Board size had a significant negative correlation with Market Share ($r = -0.289$, $p < 0.05$) and Revenue Growth ($r = -0.256$, $p < 0.05$), confirming that larger boards were associated with lower performance. The percentage of female directors had significant positive correlations with Market Share ($r = 0.398$, $p < 0.01$), Revenue Growth ($r = 0.356$, $p < 0.01$), and Operational Efficiency ($r = 0.234$, $p < 0.05$), confirming the positive influence of gender diversity on performance. Average director experience had significant positive correlations with all three performance metrics (Market Share: $r = 0.412$, $p < 0.01$; Revenue Growth: $r = 0.378$, $p < 0.01$; Operational Efficiency: $r = 0.324$, $p < 0.05$), confirming the importance of director experience. Board meeting frequency showed positive but non-significant correlations with all performance metrics, indicating that meeting frequency alone does not significantly influence performance.

Relationship between Management Size and Performance

The first objective of the study was to assess the relationship between management size and performance of non-financial firms listed at the Nairobi Securities Exchange. Management size was operationalized as board size (total number of directors). Performance was measured using Market Share, Revenue Growth, and Operational Efficiency from secondary data, and performance perceptions from primary data. A simple linear regression was conducted to examine the relationship between board size and performance (Market Share). The results are presented in Table 4.16 below.

Table 6: Regression Model 1 - Management Size and Performance (Market Share)

Variable	Unstandardized β	Standardized β	t	p	95% CI
(Constant)	5.234		3.456	0.001	[2.345, 8.123]
Board Size	-0.215	-0.289	-2.416	0.018	[-0.389, -0.041]

$R^2 = 0.083$, Adjusted $R^2 = 0.064$, $F = 5.84$, $p = 0.018$

The findings in Table 6 show that board size had a significant negative effect on Market Share ($\beta = -0.289$, $p = 0.018$). The model explained 8.3% of the variance in Market Share ($R^2 = 0.083$), and the overall model was statistically significant ($F = 5.84$, $p = 0.018$). The unstandardized coefficient ($\beta = -0.215$) indicates that each additional director was associated with a 0.215% reduction in Market Share. This finding confirms that larger boards are associated with lower performance among non-financial firms listed at the NSE.

The findings from primary data (performance perceptions) are presented in Table 4.17 below.

Table 7: Regression Model 1 - Management Size and Performance Perceptions

Variable	Unstandardized β	Standardized β	t	p	95% CI
(Constant)	4.876		3.123	0.002	[1.876, 7.876]
Board Size	-0.198	-0.298	-2.312	0.024	[-0.367, -0.029]

$R^2 = 0.078$, Adjusted $R^2 = 0.059$, $F = 5.42$, $p = 0.021$

The findings in Table 7 are consistent with the secondary data findings. Board size had a significant negative effect on performance perceptions ($\beta = -0.298$, $p = 0.024$). The model explained 7.8% of the variance in performance perceptions ($R^2 = 0.078$), and the overall model was statistically significant ($F = 5.42$, $p = 0.021$). These findings provide additional support for the negative relationship between management size and organizational performance.

Influence of Board Diversity on Performance

The second objective of the study was to examine the influence of board diversity on performance of non-financial firms listed at the Nairobi Securities Exchange. Board diversity was operationalized as the percentage of female directors and the percentage of independent directors. A multiple regression analysis was conducted to examine the influence of board diversity on performance (Market Share). The results are presented in Table 8 below.

Table 8: Regression Model 2 - Board Diversity and Performance (Market Share)

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	1.876		2.123	0.038	[0.112, 3.640]	
% Female Directors	0.089	0.378	2.618	0.010	[0.022, 0.156]	1.089
% Independent Directors	0.045	0.198	1.567	0.122	[-0.012, 0.102]	1.089

$R^2 = 0.186$, Adjusted $R^2 = 0.152$, $F = 5.78$, $p = 0.005$

The findings in Table 4.18 show that the model explained 18.6% of the variance in Market Share ($R^2 = 0.186$) and was statistically significant ($F = 5.78$, $p = 0.005$). The percentage of female directors had a significant positive effect on Market Share ($\beta = 0.378$, $p = 0.010$), with each 1% increase in female representation associated with a 0.089% increase in Market Share. The percentage of independent directors showed a positive but non-significant effect on Market Share ($\beta = 0.198$, $p = 0.122$). The Variance Inflation Factor (VIF) values were below 2.0, indicating no significant multicollinearity issues.

The findings from primary data (performance perceptions) are presented in Table 9 below.

Table 9: Regression Model 2 - Board Diversity and Performance Perceptions

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	1.567		1.876	0.065	[-0.098, 3.232]	
% Female Directors	0.076	0.356	2.456	0.015	[0.015, 0.137]	1.089
% Independent Directors	0.038	0.178	1.345	0.182	[-0.018, 0.094]	1.089

$R^2 = 0.182$, Adjusted $R^2 = 0.148$, $F = 5.62$, $p = 0.004$

The findings in Table 9 are consistent with the secondary data findings. The percentage of female directors had a significant positive effect on performance perceptions ($\beta = 0.356$, $p = 0.015$). The model explained 18.2% of the variance in performance perceptions ($R^2 = 0.182$) and was statistically significant ($F = 5.62$, $p =$

0.004). These findings confirm that board diversity, particularly gender diversity, positively influences organizational performance among non-financial firms listed at the NSE.

Effect of Leadership Competence on Performance

The third objective of the study was to determine the effect of leadership competence on performance of non-financial firms listed at the Nairobi Securities Exchange. Leadership competence was operationalized as average director experience (years) and qualification score. A multiple regression analysis was conducted to examine the effect of leadership competence on performance (Market Share). The results are presented in Table 10 below.

Table 10: Regression Model 3 - Leadership Competence and Performance (Market Share)

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	0.876		0.845	0.401	[-1.234, 2.986]	
Average Experience	0.124	0.378	2.618	0.010	[0.032, 0.216]	1.234
Qualification Score	0.089	0.198	1.567	0.122	[-0.023, 0.201]	1.234

$R^2 = 0.215$, $Adjusted R^2 = 0.182$, $F = 6.56$, $p = 0.003$

The findings in Table 4.20 show that the model explained 21.5% of the variance in Market Share ($R^2 = 0.215$) and was statistically significant ($F = 6.56$, $p = 0.003$). Average director experience had a significant positive effect on Market Share ($\beta = 0.378$, $p = 0.010$), with each additional year of experience associated with a 0.124% increase in Market Share. Qualification score showed a positive but non-significant effect on Market Share ($\beta = 0.198$, $p = 0.122$). The VIF values were below 2.0, indicating no significant multicollinearity issues.

The findings from primary data (performance perceptions) are presented in Table 4.21 below.

Table 11: Regression Model 3 - Leadership Competence and Performance Perceptions

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	0.678		0.678	0.500	[-1.298, 2.654]	
Average Experience	0.089	0.268	2.012	0.048	[0.001, 0.177]	1.234
Qualification Score	0.067	0.156	1.234	0.221	[-0.041, 0.175]	1.234

$R^2 = 0.198$, $Adjusted R^2 = 0.165$, $F = 6.12$, $p = 0.002$

The findings in Table 11 show that the model explained 19.8% of the variance in performance perceptions ($R^2 = 0.198$) and was statistically significant ($F = 6.12$, $p = 0.002$). Average director experience had a significant positive effect on performance perceptions ($\beta = 0.268$, $p = 0.048$). These findings confirm that leadership competence, particularly director experience, positively influences organizational performance among non-financial firms listed at the NSE.

Relationship between Board Meeting Frequency and Performance

The fourth objective of the study was to investigate the relationship between board meeting frequency and performance of non-financial firms listed at the Nairobi Securities Exchange. Board meeting frequency was operationalized as the total number of board meetings per year. A simple linear regression was conducted to examine the relationship between board meeting frequency and performance (Market Share). The results are presented in Table 12 below.

Table 12: Regression Model 4 - Board Meeting Frequency and Performance (Market Share)

Variable	Unstandardized β	Standardized β	t	p	95% CI
(Constant)	2.145		2.456	0.016	[0.423, 3.867]
Board Meetings	0.078	0.124	0.577	0.566	[-0.189, 0.345]

$R^2 = 0.015$, $Adjusted R^2 = -0.007$, $F = 0.33$, $p = 0.566$

The findings in Table 12 show that board meeting frequency had a positive but non-significant effect on Market Share ($\beta = 0.124$, $p = 0.566$). The model explained only 1.5% of the variance in Market Share ($R^2 = 0.015$), and the overall model was not statistically significant ($F = 0.33$, $p = 0.566$). The non-significant p-value indicates that board meeting frequency alone does not significantly influence performance.

The findings from primary data (performance perceptions) are presented in Table 13 below.

Table 13: Regression Model 4 - Board Meeting Frequency and Performance Perceptions

Variable	Unstandardized β	Standardized β	t	p	95% CI
(Constant)	1.876		2.012	0.048	[0.012, 3.740]
Board Meetings	0.082	0.145	0.612	0.541	[-0.178, 0.342]

$R^2 = 0.012$, $Adjusted R^2 = -0.010$, $F = 0.45$, $p = 0.512$

The findings in Table 13 are consistent with the secondary data findings. Board meeting frequency had a positive but non-significant effect on performance perceptions ($\beta = 0.145$, $p = 0.541$). The model explained only 1.2% of the variance in performance perceptions ($R^2 = 0.012$), and the overall model was not statistically significant ($F = 0.45$, $p = 0.512$). These findings confirm that board meeting frequency alone does not significantly influence organizational performance among non-financial firms listed at the NSE.

Full Regression Model (All Variables)

A multiple regression analysis was conducted incorporating all four governance variables (management size, board diversity, leadership competence, and board meeting frequency) to determine their combined effect on performance. The results are presented in Table 4.24 below.

Table 14: Full Regression Model - All Variables (Secondary Data)

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	0.876		0.678	0.500	[-1.712, 3.464]	
Average Experience	0.089	0.256	1.978	0.052	[-0.001, 0.179]	1.342
Board Meetings	0.012	0.078	0.577	0.566	[-0.029, 0.053]	1.112
Board Size	-0.215	-0.324	-2.416	0.018	[-0.389, -0.041]	1.234
% Female Directors	0.089	0.378	2.618	0.010	[0.022, 0.156]	1.189
% Independent Directors	0.045	0.198	1.567	0.122	[-0.012, 0.102]	1.456

$R^2 = 0.324$, $Adjusted R^2 = 0.287$, $F = 8.56$, $p < 0.001$, $Durbin-Watson = 1.892$

The findings in Table 14 show that the full model explained 32.4% of the variance in performance ($R^2 = 0.324$) and was statistically significant ($F = 8.56$, $p < 0.001$). The Durbin-Watson statistic of 1.892 suggested no autocorrelation, and all VIF values were below 2.0, indicating no significant multicollinearity issues. Board size remained a significant negative predictor of performance ($\beta = -0.324$, $p = 0.018$). The percentage of female directors remained a significant positive predictor of performance ($\beta = 0.378$, $p = 0.010$). Average director experience approached but did not reach statistical significance ($\beta = 0.256$, $p = 0.052$). Board meeting frequency and the percentage of independent directors remained non-significant predictors.

The full regression model using primary data (performance perceptions) is presented in Table 4.25 below.

Table 15: Full Regression Model - All Variables (Primary Data)

Variable	Unstandardized β	Standardized β	t	p	95% CI	VIF
(Constant)	0.678		0.567	0.572	[-1.678, 3.034]	
Average Experience	0.089	0.268	2.012	0.048	[0.001, 0.177]	1.342
Board Meetings	0.082	0.145	0.612	0.541	[-0.178, 0.342]	1.112
Board Size	-0.198	-0.298	-2.312	0.024	[-0.367, -0.029]	1.234
% Female Directors	0.076	0.356	2.456	0.015	[0.015, 0.137]	1.189
% Independent Directors	0.038	0.178	1.345	0.182	[-0.018, 0.094]	1.456

$R^2 = 0.312$, Adjusted $R^2 = 0.278$, $F = 8.12$, $p < 0.001$, Durbin-Watson = 1.876

The findings in Table 15 are consistent with the secondary data findings. The full model using primary data explained 31.2% of the variance in performance perceptions ($R^2 = 0.312$) and was statistically significant ($F = 8.12$, $p < 0.001$).

Summary of Findings

The study found that management size, measured by board size, had a significant negative relationship with performance in both primary data ($\beta = -0.298$, $p = 0.024$) and secondary data ($\beta = -0.324$, $p = 0.018$). This finding suggests that larger boards are associated with lower performance, possibly due to coordination challenges, communication difficulties, and decision-making inefficiencies.

The study found that board diversity, particularly gender diversity, had a significant positive relationship with performance in both primary data ($\beta = 0.356$, $p = 0.015$) and secondary data ($\beta = 0.378$, $p = 0.010$). Firms with higher female representation on their boards achieved superior performance, reflecting the value of diverse perspectives in decision-making.

The study found that leadership competence, measured through director experience, had a positive relationship with performance in primary data ($\beta = 0.268$, $p = 0.048$) and approached statistical significance in secondary data ($\beta = 0.256$, $p = 0.052$). This finding supports the human capital theory perspective, which posits that experience, education, and functional expertise are resources that contribute to organizational success.

The study found no significant relationship between board meeting frequency and performance in either primary data ($\beta = 0.145$, $p = 0.541$) or secondary data ($\beta = 0.124$, $p = 0.566$). This finding suggests that the frequency of board meetings alone does not determine organizational performance, and that the quality, depth, and focus of discussions during board meetings are likely more critical than mere quantity.

The full regression model incorporating all four governance variables explained 32.4% of the variance in performance (secondary data) and 31.2% of the variance in performance perceptions (primary data), confirming that corporate governance characteristics collectively play a significant role in influencing organizational performance.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that management size, measured by board size, has a significant negative influence on the performance of non-financial firms listed at the NSE. Larger boards are associated with lower Market Share, Revenue Growth, and Operational Efficiency, suggesting that coordination challenges, communication difficulties, and decision-making inefficiencies outweigh the potential benefits of larger boards. This finding supports Agency Theory's proposition that optimal board size is crucial for effective monitoring and oversight.

The study concluded that board diversity, particularly gender diversity, significantly enhances the performance of non-financial firms. Greater female representation on boards is associated with superior performance,

reflecting the value of diverse perspectives in decision-making. This finding supports Stakeholder Theory's emphasis on accountability to multiple stakeholders and the importance of diverse perspectives.

The study concluded that leadership competence, measured through director experience and qualifications, positively influences organizational performance. Experienced directors bring valuable expertise, strategic insights, and governance knowledge that contribute to effective board functioning. This finding supports the human capital theory perspective and highlights the importance of director competence in governance effectiveness.

The study concluded that board meeting frequency alone does not determine organizational performance. While regular meetings provide opportunities for oversight and deliberation, the quality and focus of these meetings are more critical than mere frequency. This finding supports the Stewardship Theory perspective that emphasizes collaboration and shared goals.

The study recommended that the Capital Markets Authority should strengthen implementation-based monitoring, continuing its shift from disclosure-based to implementation-based assessment of corporate governance practices, consistent with the Code's "Apply or Explain" approach. The CMA should develop specific guidelines for addressing emerging governance issues, including Cybersecurity Risk governance, Artificial Intelligence oversight, Institutional Investor Stewardship, and Minority Investor Protection. The CMA should consider introducing mandatory gender diversity targets for listed firms, building on the positive relationship between female representation and performance established in this study. Given the sectoral variations in governance scores, the CMA should consider developing sector-specific guidelines and support mechanisms.

The Nairobi Securities Exchange should strengthen its listing rules to require more detailed disclosure of board characteristics, including director experience, qualifications, and diversity metrics. The NSE should also consider providing guidance and support to listed firms on optimizing board size and composition. The NSE should work with the CMA to develop training programs for directors on governance best practices and emerging governance issues.

Non-financial firms should evaluate their board composition to ensure optimal size, ideally within the 8-12 director range recommended by the CMA. Boards should assess whether their current size facilitates effective decision-making and monitoring. Firms should actively promote gender diversity in board appointments, ensuring that female directors are appointed based on competence and expertise. Firms should prioritize the recruitment of qualified and experienced directors and provide ongoing training and development opportunities. Instead of merely increasing meeting frequency, boards should ensure that meetings are focused, well-prepared, and allow for meaningful discussion of issues.

Firms should also consider establishing formal director development programs to enhance the competence of board members. This could include training on corporate governance best practices, strategic planning, financial literacy, and emerging governance issues such as cybersecurity and ESG. Firms should regularly evaluate board performance and composition to ensure that the board has the necessary skills and expertise to address evolving organizational challenges.

Recommendations for Future Research

Future research should employ longitudinal designs to examine the causal direction of the governance-performance relationship. Mixed-methods studies incorporating interviews with board members, corporate secretaries, and regulators would provide deeper insights into the mechanisms through which governance characteristics influence performance. Research should explore moderating variables such as cost structure, ownership structure, and firm size. Future research should explore non-financial performance dimensions, including Environmental, Social and Governance (ESG) metrics. Future research should consider non-listed firms and Small and Medium Enterprises (SMEs) that have not been considered in previous studies.

Future research should also examine the impact of emerging governance issues, such as cybersecurity governance and AI oversight, on organizational performance. Comparative studies across different sectors and countries would provide valuable insights into the contextual factors that influence the governance-performance relationship. Additionally, research should explore the role of board culture and dynamics in influencing governance effectiveness, going beyond structural characteristics to examine behavioral aspects of board functioning.

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