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## GOVERNANCE STRUCTURES AND ORGANIZATIONAL PERFORMANCE OF LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE IN KENYA

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### ABSTRACT

The study investigated how governance structures influence the organizational performance of firms listed on the Nairobi Securities Exchange (NSE), focusing on board composition and audit committee composition within the theoretical lenses of Agency, Stakeholder, and Stewardship theories. Using a descriptive research design and primary data collected from 138 respondents drawn from a target population of 210 employees, the study applied multiple regression analysis in SPSS (version 28), with validity confirmed through content and face assessment and reliability verified using Cronbach's alpha ( $\geq 0.70$ ). Findings revealed that governance mechanisms significantly affect firm performance individually and collectively, with audit committee composition ( $\beta = 0.315$ ) exerting the strongest impact, followed by board diversity ( $\beta = 0.193$ ), highlighting the value of specialized oversight, diversity, and independent monitoring. The results reinforce the importance of accountability, transparency, and ESG principles as articulated in the guiding theories. Policy recommendations call for the Capital Markets Authority (CMA) and NSE to enhance governance guidelines through mandated gender and expertise diversity, stronger board independence, ESG disclosure requirements, and routine governance audits. Managerially, firms are encouraged to strengthen board capacity, implement succession planning, provide continuous training, establish specialized audit committees, and conduct annual board evaluations to ensure strategic alignment. The study further recommends future research on governance effects on non-financial performance, comparative studies within the East African region, and longitudinal designs to assess the long-term impact of governance reforms on firm sustainability and performance.

**Keywords:** Governance Structures, Organizational Performance, Firms Listed on the Nairobi Securities Exchange (NSE), Board Composition, Audit Committee Composition

## INTRODUCTION

Corporate governance structures play a critical role in shaping firm behavior and performance across global contexts. In China, board composition—particularly diversity in expertise and background has been shown to enhance decision-making and improve performance indicators such as ROA and ROE, as reported by Agrawal and Knoeber (2018) and Johnson et al. (2020), while limited diversity or dominance by specific stakeholders undermines governance effectiveness. CEO duality, where the CEO also chairs the board, remains a contentious governance issue; although some scholars argue it enhances efficiency through streamlined decision-making, studies such as Bhagat and Black (2018) and Ferris et al. (2021) emphasize risks including reduced board independence, diminished accountability, and managerial entrenchment.

A similar emphasis on governance reform emerged in Indonesia following the 1997 Asian economic crisis, which exposed weak supervisory mechanisms and prompted IMF-driven adoption of Good Corporate Governance (GCG) standards to strengthen oversight and protect company value (Tarigan et al., 2019; Maharani & Wahidahwati, 2023). Key governance mechanisms namely audit committees, independent commissioners, institutional ownership, and managerial ownership, are seen as effective in mitigating agency conflicts and enhancing firm performance (Hong, 2019), though persistent issues such as financial report manipulation highlight ongoing weaknesses in governance implementation (Tang et al., 2020). In Ghana, corporate governance is defined as the processes and practices guiding corporate accountability, with regulatory efforts led by the Securities and Exchange Commission (SEC) to enforce best practices and restore investor confidence through the 2010 Code of Best Practices and earlier governance reforms enacted under the Companies Code 1963 (Darko et al., 2018).

Despite such frameworks, governance challenges persist in Uganda's financial sector, where conflicts of interest, weak internal controls, and limited transparency continue to hinder organizational performance, prompting calls for more robust governance structures to enhance profitability and managerial effectiveness (Polycarp et al., 2023; Ntirandekura et al., 2022; Ddamulira et al., 2023). In Kenya, corporate governance lapses have contributed to the collapse of major enterprises such as Nakumatt due to fraudulent withdrawal of working capital (Kisero, 2020), demonstrating the vulnerability of minority shareholders where governance oversight is weak (Shikha & Mishra, 2019). Although disclosure practices among state corporations have improved and reforms such as the Mwongozo Code aim to enhance transparency, political interference and recurring scandals continue to undermine board independence and effective oversight (Mburu, 2019). Strengthening corporate governance in Kenya requires adherence to principles of openness, legal compliance, stakeholder protection, and full disclosure of material

information to facilitate effective oversight and market functioning, supported by robust board monitoring and independent audit structures (Kiruja & Kosgei, 2021).

## **GOVERNANCE STRUCTURES**

Governance structures refer to the formal frameworks, policies, and mechanisms that guide how organizations are directed, managed, and controlled (Tricker, 2019). They define the distribution of rights and responsibilities among shareholders, boards of directors, managers, and other stakeholders, and outline the rules and procedures that shape organizational decision making (OECD, 2015). For firms listed on the Nairobi Securities Exchange, governance structures include board composition and independence, ownership structure, audit committees, internal controls, and disclosure practices (Abor and Adjasi, 2007). These mechanisms promote accountability, fairness, and transparency while reducing risks of fraud, mismanagement, and agency conflicts that arise from the separation of ownership and control (Jensen and Meckling, 1976).

## **BOARD COMPOSITION**

Board composition refers to the configuration and characteristics of a company's board of directors, including its size, structure, and the diversity of members' attributes (Hillman and Dalziel, 2003). It reflects how directors' backgrounds, skills, and experiences are organized to provide effective oversight, strategic guidance, and managerial monitoring (Tricker, 2019). An effectively constituted board enhances decision-making, strengthens accountability, and supports long-term organizational performance (OECD, 2015). Key indicators of board composition include gender diversity, which improves governance quality, broadens perspectives, and enhances firm performance by reducing groupthink (Carter et al., 2003). Educational qualifications also play a vital role, as highly educated and professionally experienced directors are better equipped to analyze complex issues and contribute to strategic discussions (Kagzi and Guha, 2018). The mix of executive, non-executive, and independent directors further influences board effectiveness, with a higher proportion of independent directors improving monitoring and reducing agency problems (Fama and Jensen, 1983). Member effectiveness, reflected in active participation, diligence, and the ability to leverage knowledge and networks, strengthens board performance through constructive debate and independent judgment (Minichilli et al., 2012). Collectively, these indicators determine the overall quality of board governance and shape how effectively the board fulfills its roles of monitoring, advising, and ensuring accountability to shareholders and other stakeholders.

## **AUDIT COMMITTEE**

Audit committee composition refers to the structure and characteristics of the members serving on an organization's audit committee, encompassing its size,

expertise, independence, and operational dynamics, all of which are critical for effective oversight of financial reporting, internal controls, and risk management (Abbott et al., 2004; Tricker, 2019). A well-constituted audit committee enhances the credibility of financial disclosures, strengthens accountability, and safeguards shareholder interests (OECD, 2015). Committee size influences the quality of discussions and decision making, with an appropriately sized committee balancing diverse perspectives while avoiding coordination challenges associated with overly large groups (Goodwin Stewart and Kent, 2006). Expertise refers to the professional qualifications, financial literacy, and accounting or auditing experience of committee members, which enable them to analyze financial statements, assess internal controls, and detect irregularities more effectively (DeFond et al., 2005). Meeting frequency reflects how often the committee convenes to review reports, evaluate risks, and monitor compliance, with regular meetings supporting timely responses and diligent oversight (Xie et al., 2003). Autonomy, reflected in the independence of members from management, is essential for impartial oversight, as committees dominated by independent non-executive directors are better positioned to prevent conflicts of interest (Klein, 2002). Collectively, these indicators determine the audit committee's effectiveness in ensuring financial reporting integrity, managing risk, and upholding corporate governance standards

### **ORGANIZATIONAL PERFORMANCE**

Organizational performance refers to the extent to which actual output aligns with intended outcomes, with value creation being its core criterion (Karisa & Wainaina, 2020). Measuring performance is essential for achieving organizational goals, particularly in the face of increasing global competition (Ivan et al., 2023). Firms typically assess performance using financial indicators such as profits, ROA, ROI, and sales and non-financial measures, including customer satisfaction, referral rates, delivery time, and employee turnover. However, financial indicators alone may not fully capture the quality or sustainability of firm performance, as they are often historical and limited in scope (Gichohi, 2018; Gallego-Álvarez & Pucheta-Martínez, 2022).

Financial performance evaluates a firm's economic health using metrics such as profitability, ROA, ROE, ROI, and earnings per share (Logavathani & Lingesiya, 2018). Profitability ratios and ROA remain central indicators of managerial efficiency in resource utilization. In Kenya, firms operate within a challenging economic environment that demands sound decision-making and strong corporate governance (Wambua & Muthimi, 2024; Ndirangu & Muthimi, 2024; Kiende & Muthimi, 2024). Effective corporate governance enhances performance by improving access to markets, financing, and profitability (Puni & Anlesinya, 2020).

Kenya's performance landscape is shaped by political stability, infrastructure development, and its regional economic role. Although sectors like technology and financial services show strong profitability, many firms—especially those listed on the Nairobi Securities Exchange (NSE)—have experienced stagnating profits and declining market share due to economic volatility (Chege et al., 2020; KNBS, 2022). The COVID-19 pandemic further reduced firm performance by 0.7% in 2020 (Khatib & Nour, 2021). Declining market share and reduced profits in the manufacturing sector highlight ongoing operational inefficiencies. Corporate governance remains critical to strengthening firm performance. It encompasses the relationships among executives, boards, shareholders, and stakeholders, and is commonly assessed through board diversity, independence, size, and composition (Ahmed et al., 2020; De Villiers & Dimes, 2021; Koji et al., 2020; Chesire, 2021).

### **STATEMENT OF THE PROBLEM**

Good Corporate Governance (GCG) enhances managerial oversight, strengthens accountability, and improves firm performance and value (Tang et al., 2020). In contrast, weak governance marked by conflicts of interest, limited transparency, and poor internal controls often results in mismanagement and declining investor confidence. At the Nairobi Securities Exchange (NSE), listed firms recorded significant declines between 2016 and 2020, including a revenue drop of Ksh 89.67 billion, a Ksh 294.91 billion fall in market capitalization, and a 1,317.82-point decrease in the NSE 20 Share Index. Although policy reforms have aimed to improve the business environment, many firms still exhibit inconsistent performance linked to governance weaknesses, ownership concentration, and firm size variations (Capital Markets Authority, 2024). These trends highlight the need for studies to apply up-to-date financial indicators aligned with specific performance objectives.

Empirical evidence on the governance-performance nexus remains mixed. Thompson and Manu (2021) found a positive association between board composition and profit-sharing in U.S. firms, while Wayongah (2019) reported that firm size influenced financial outcomes at the NSE, and Eyigege (2018) showed similar effects on stock performance in Nigerian banks. However, most studies are conducted outside Kenya, apply diverse methodologies, or focus on single governance variables, limiting their generalizability. Corporate failures in Kenya—including Kenya Airways, Uchumi, Mumias Sugar, Dubai Bank, and Chase Bank—have been associated with weak governance practices and financial misreporting (Irungu, 2018; Central Bank of Kenya, 2022). Despite these challenges, limited research examines how multiple governance mechanisms collectively influence firm performance in Kenya. Addressing this gap is essential for determining whether robust governance structures can enhance financial outcomes and stabilize investor confidence at the NSE.

## OBJECTIVES

- i. To establish the effect of board composition on performance of Nairobi securities exchange listed firms in Kenya.
- ii. To examine the effect of audit committee composition on performance of Nairobi securities exchange listed firms in Kenya.

## LITERATURE REVIEW

### Theoretical Literature Review

#### Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the relationship between principals (shareholders) and agents (corporate managers), where the principal delegates decision-making authority to the agent to act on their behalf (Armstrong, 1991). This relationship often creates agency problems due to differing interests: shareholders seek wealth maximization, while managers may pursue personal goals such as power or prestige. In corporate settings, particularly within NSE-listed firms, separating ownership and control makes it necessary to establish governance mechanisms that align managerial actions with shareholder objectives (Schneider, 2019; Nugroho, 2021).

Board composition serves as a key governance tool for monitoring management, reducing opportunistic behavior, and safeguarding stakeholder interests (Bualay, 2020). Firms address agency conflicts through incentives such as employee share ownership plans, which motivate managers to act in shareholders' best interests, and through agency costs including audits, internal controls, legal contracting, and restructuring initiatives (Alabdullah et al., 2019). Although monitoring managerial actions is costly, strong governance frameworks remain essential in mitigating agency risks. Agency Theory is relevant to this study because it clarifies how ownership structures and governance mechanisms influence the performance of firms listed on the Nairobi Securities Exchange, demonstrating the importance of aligning managerial behavior with shareholder goals (Njoroge et al., 2020).

#### Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), emphasizes corporate accountability and ethical business practices by recognizing the interests of all parties that affect a firm, including investors, creditors, employees, and the wider community (Donadelli et al., 2016). The theory posits that long-term corporate success depends on building and maintaining strong relationships with stakeholders, as failure to meet their expectations can result in financial, reputational, and operational risks (Harjoto et al., 2019). Boards of directors play a critical role in balancing the interests of multiple stakeholders, ensuring managers

act responsibly and consider the needs of both internal and external parties (Harrison et al., 2015). By prioritizing stakeholder engagement and equitable treatment, firms enhance accountability, sustain social legitimacy, and foster long-term value creation (Wang et al., 2020; Buallay, 2020). For firms listed on the Nairobi Securities Exchange, this approach ensures that profitability aligns with broader societal and stakeholder interests, reinforcing the importance of sustainable business practices.

### **Stewardship Theory**

Stewardship Theory, developed by Donaldson and Davis (1991), contrasts with Agency Theory by assuming that managers, as stewards, act in the best interests of shareholders rather than pursuing personal gains (Mills et al., 2021). The theory emphasizes trust, collaboration, and alignment between executives and owners, asserting that managerial commitment to long-term organizational goals enhances corporate performance (Subramanian, 2018). Managers are expected to safeguard resources, protect shareholder wealth, and maximize firm value while maintaining their reputation and credibility (Dharmadasa, Gamage & Herath, 2021; Welchman, 2012). The theory also supports board structures that empower managers with autonomy and ethical oversight while minimizing monitoring costs, such as combining CEO and chairman roles to foster responsibility and efficiency (Schillemans & Bjurstrøm, 2020). In essence, stewardship principles suggest that firm performance is closely linked to the integrity, motivation, and accountability of managerial stewards, promoting sustainable value creation and transparent corporate governance.

### **Empirical Literature Review**

#### **Board Composition and Organizational Performance**

Recent research highlights the influence of board composition on corporate strategy and firm performance across diverse contexts. Al-Shaer et al. (2023) found that in UK firms, cost leadership strategies are positively associated with board size, independence, gender diversity, and tenure, while differentiation strategies benefit from board size and gender diversity. Moderating effects suggest that board characteristics can enhance or constrain the link between strategy and firm value. Studies in emerging markets further demonstrate that board composition shapes financial outcomes. In Malaysia, Hyarat, Husin & Jos (2024) reported that board size, CEO duality, and independence positively affected firm performance, moderated by ownership concentration. Nigerian insurance firms showed that larger boards improve return on assets, though independence and gender diversity were not significant (Pretoria & Joseph, 2024). Evidence from Uganda and Kenya indicates that non-executive directors and gender-diverse boards often improve financial performance, whereas CEO duality may negatively affect outcomes (Rwakihembo et al., 2020; Cherotich & Obwogi, 2018; Adika et al., 2018). Locally, Kurgat et al. (2025) observed a negative relationship between board

composition and ROI in agricultural cooperatives, moderated by firm size, highlighting context-specific dynamics.

**Audit Committee Characteristics and Organizational Performance**

Audit committee attributes are critical for effective governance and high-quality financial reporting. Evidence from Jordan, Ghana, and Nigeria demonstrates that committee expertise, meeting frequency, independence, and tenure significantly influence financial performance and reporting quality (Alawaqleh et al., 2024; Shatnawi et al., 2022; Puni et al., 2024; Yahaya, 2024; Rashid et al., 2024). Conversely, merely increasing committee size or outside directors does not guarantee better outcomes and may sometimes be counterproductive. In Kenya, studies of deposit-taking SACCOs show that audit committee characteristics positively affect financial performance, with firm size acting as a significant moderator (Ayumba et al., 2024). Effective committees equipped with financial expertise, clear mandates, and operational autonomy enhance oversight, promote accountability, and strengthen firm performance. Overall, strong board and audit committee structures are essential components of corporate governance that directly influence organizational outcomes across sectors.

**SUMMARY OF RESEARCH GAPS**

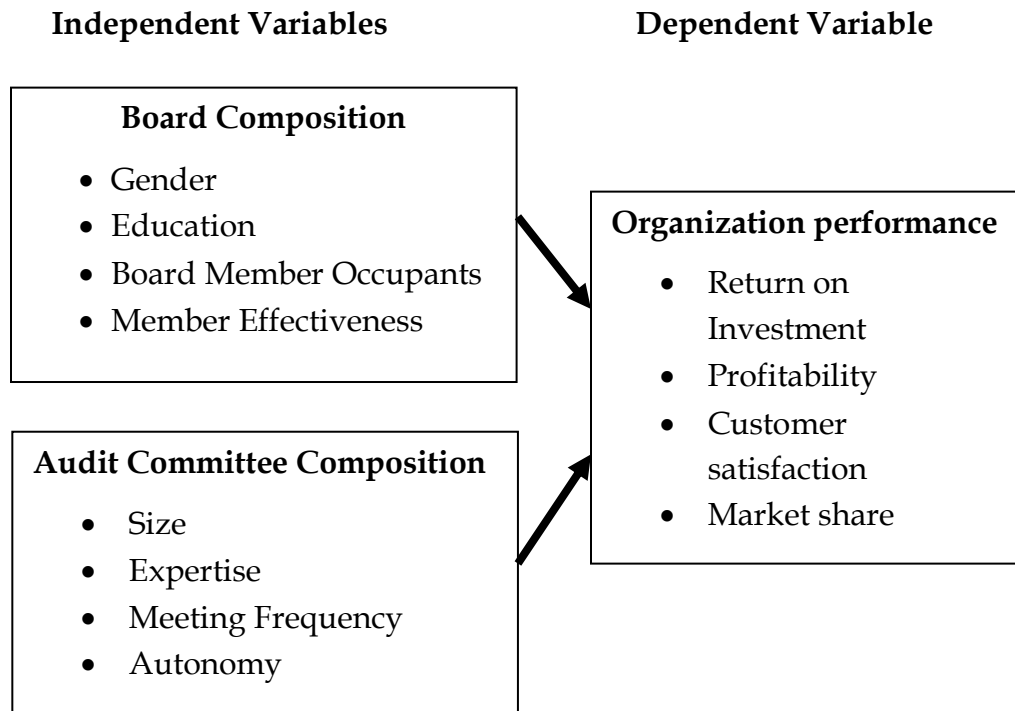
**Table 1: Summary of Research Gaps**

Author/Year	Study	Methodology	Findings	Gaps	Focus of the Current Study
Hyarat, Husin & Jos (2024)	The impact of the board of directors on companies' performance	Used a descriptive research design; data collected from annual reports of 66 listed firms (2017-2021); regression analysis applied	The study confirmed that the size of the board, CEO, duality, and board independence, including OC, all have a positive effect on firm performance	The study was conducted in a developed country, while the current study was conducted in a developing country.	Impact of governance structures on performance of Nairobi securities exchange listed firms in Kenya

Author/Year	Study	Methodology	Findings	Gaps	Focus of the Current Study
Kurgat, Gatauwa, & Simiyu (2025)	Board composition and financial performance of Agricultural Cooperative Societies in Kericho County	The study targeted 84 agricultural cooperative societies in Kericho County. Data was obtained from 49 agricultural cooperative societies'	The study revealed that board composition has a negative and significant influence on the return on investment	The focus of the study was on agricultural cooperatives societies, whereas the current study was conducted on NSE listed firms	Impact of governance structures on performance of Nairobi securities exchange listed firms in Kenya
Shatnawi, Marei, Hanefah, Eldaia, & Alaaraj (2022)	The effect of audit committee on financial performance of listed companies in Jordan: The moderating effect of enterprise risk management	The study used the data from 2009 to 2017 with 92 selected firms a period of 9 years of companies listed in ASE in industrial and service sectors and data was analyzed using STATA	The findings demonstrated that audit committee effectiveness has a significant relationship with ROA, ROE, and Tobin's Q	The study was conducted in a different geographical area which is different from the current study.	Impact of governance structures on performance of Nairobi securities exchange listed firms in Kenya

Author/Year	Study	Methodology	Findings	Gaps	Focus of the Current Study
Yahaya, Onipe Adabenege (2024)	Audit committee attributes and financial reporting quality of listed consumer goods firms in Nigeria	The study employed an ex-post facto research design, focusing on consumer goods companies listed on the Nigerian Exchange from 2014 to 2023, utilizing a population size of 21 consumer goods firms listed on the Nigerian Exchange, and a sample size of 12.	The findings established that audit committee attributes enhance corporate governance and improve financial.	The study focused on consumer goods firms. This study will focus on NSE listed firms	Impact of governance structures on performance of Nairobi securities exchange listed firms in Kenya

## CONCEPTUAL FRAMEWORK



**Figure 1:** Conceptual Framework

## METHODOLOGY

### Research Design

A research design is a structured blueprint that guides the collection, analysis, and interpretation of data to answer research questions or test hypotheses (Cooper & Schindler, 2020). This study adopted a mixed-methods research design, integrating quantitative and qualitative approaches. Mixed methods combine numerical measurement with in-depth exploration of participants’ perspectives, yielding richer and more credible findings (Khan, 2019; Burns & Burns, 2019). Quantitative methods involved analysis of secondary financial data and structured survey responses to assess governance structures and firm performance. Qualitative methods, including key-informant interviews and content analysis of governance reports, explored managers’ and directors’ perceptions of governance practices and their influence on organizational outcomes. Integrating both strands enhanced the validity and reliability of findings, provided a nuanced understanding of governance–performance dynamics, and supported actionable recommendations for NSE-listed firms.

### Target Population

The study focused on firms listed on the Nairobi Securities Exchange (NSE), covering all sectors. The target population comprised 210 respondents, including managers, directors, and other governance stakeholders, representing the units

directly involved in governance and performance oversight (Cooper & Schindler, 2020).

**Table 2:** Target Population

Category	Population	Percentage
Agricultural	6	9.7%
Automobile and Accessories	2	3.2%
Commercial and Services	13	21.0%
Construction and Allied	5	8.1%
Energy and Petroleum	4	6.5%
Investment	5	8.1%
Investment and Services	1	1.6%
Manufacturing and Allied	8	12.9%
Telecommunication & Technology	1	1.6%
Exchange Trade funds	1	1.6%
Insurance	6	9.7%
Banking	10	16.1%
<b>Total</b>	<b>62</b>	<b>100%</b>

### Sample Size and Sampling Technique

A sampling procedure was used to select a subset of respondent's representative of the target population (MacDonald, 2020). For quantitative analysis, the sample needed to be unbiased and accurately reflect the larger population to allow valid inferences. The Slovin's formula was employed to determine the sample size: Thus, the study targeted 137 respondents, ensuring a representative sample of NSE-listed firms' managers, directors, and other governance stakeholders.

### Research Instruments

Data were collected using structured questionnaires for primary data and secondary sources including annual financial statements and Capital Markets Authority (CMA) reports. The questionnaire employed a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) to capture respondents' perceptions regarding governance structures and organizational performance. Secondary data provided quantitative measures of firm performance, such as ROA, ROE, and profitability metrics.

### Pilot Study

A pilot study was conducted with 14 respondents ( $\approx 10\%$  of the sample) to assess the clarity, reliability, and relevance of the questionnaire (Burns & Burns, 2019). Feedback helped refine ambiguous items and estimate completion time, ensuring a valid and practical instrument for the main study.

### **Validity**

The questionnaire's construct, content, and face validity were evaluated. Construct validity ensured that the operational definitions reflected theoretical constructs, content validity confirmed all relevant variables were included, and face validity was verified by management experts to ensure clarity and appropriateness (Cooper & Schindler, 2020).

### **Reliability**

Internal consistency was assessed using Cronbach's Alpha, with a threshold of 0.7 for satisfactory reliability. The pilot test confirmed that the instrument yielded consistent and dependable data.

### **Data Collection Procedure**

Approval was obtained from the Management University of Africa and NACOSTI. Primary data were collected using the drop-and-pick-later method, allowing respondents sufficient time to complete the questionnaire. Secondary data were extracted from NSE-listed firms' financial reports, CMA publications, and other official records for the past five years.

### **Data Analysis**

Collected data were coded, cleaned, and transformed to ensure accuracy and consistency. Descriptive statistics (tables, charts, frequencies, percentages) summarized findings, while inferential statistics assessed relationships among variables. Multiple regression analysis was used to examine the influence of governance structures on firm performance

### **Ethical Considerations**

Ethical standards were strictly observed to protect participants and ensure research integrity: Privacy – Participants were assigned unique codes; data were generalized to prevent identification. Informed Consent – Participants were informed of study objectives, duration, and their right to decline or withdraw. Voluntary Participation – Participation was voluntary with no incentives offered. Confidentiality – Data were stored securely in password-protected devices and locked cabinets. Only aggregated results were reported. Anonymity – No personal identifiers were collected; responses were coded to maintain respondent anonymity and encourage candid feedback (Mugenda & Mugenda, 2003). All secondary data were handled ethically, with sensitive or non-public information anonymized and used solely for academic purposes.

## **FINDINGS**

Out of the 137 targeted respondents, 105 completed and returned the questionnaires, yielding a response rate of 77%, which is considered excellent (Saunders et al., 2018). The remaining 32 respondents (23%) did not provide feedback. The high response rate ensured the reliability of the data analysis, which was based on the 105 valid responses. The majority of respondents were male (57%), while 43% were female. This indicates a higher male participation in the study. Gender differences may influence perceptions of organizational challenges, as suggested by Saunders et al. (2018). Most respondents had extensive experience within their organizations, with 37% serving 16–20 years and 30% having 5–10 years of service. A further 16% had over 20 years of experience, 10% had 11–15 years, and only 6% had less than five years. These findings indicate a largely long-serving workforce, reflecting strong employee retention, organizational stability, and informed perspectives on organizational operations. A majority of respondents held a bachelor's degree (54%), followed by master's degree holders (29%). Approximately 13% had a diploma qualification, while 4% held a PhD. No respondents reported certificate-level qualifications. Overall, 84% of participants held at least a bachelor's degree, suggesting a highly educated and skilled workforce capable of providing informed insights on governance practices and firm performance. Education levels are likely to enhance respondents' understanding of organizational strategies and influence their perceptions (Saunders et al., 2018).

**Table 3: Board Composition**

Statement on board composition	SA	A	N	D	SD	Mean	Std.D
The company prioritizes the gender parameter in the formation of the committee since it affects its performance	46%	51%	3%	0%	0%	4.22	.694
The board composition comprises of persons with different academic qualification which enhance performance	54%	40%	6%	0%	0%	4.00	.852
The board members in the committee are drawn from persons with different wide range of skills, experience, and knowledge, which enhances their abilities	55%	40%	3%	2%	0%	4.10	.678
There are strategies in place to measure the effectiveness of each board member in the company	43%	55%	2%	0%	0%	4.38	.678

The board's objectives, visions, and mission are constantly reviewed to ensure continued performance	46%	51%	3%	0%	0%	4.21	.872
<b>Average</b>						<b>4.18</b>	<b>.756</b>

The findings indicate strong consensus among respondents on the importance of board composition in enhancing organizational performance. Key aspects highlighted include gender inclusivity, academic diversity, varied skills and experience, performance measurement, and continuous review of board objectives. Specifically, 97% of respondents agreed that gender is prioritized in committee formation (mean = 4.22), 94% noted diverse academic qualifications (mean = 4.00), 95% acknowledged varied skills and experience among board members (mean = 4.10), and 98% confirmed that strategies exist to evaluate board members' effectiveness (mean = 4.38). Additionally, 97% agreed that the board's vision and mission are continuously reviewed (mean = 4.21), resulting in an overall mean of 4.18 (SD = 0.756), reflecting strong agreement that effective board composition positively influences firm performance. The analysis shows that board composition has a positive and significant impact on the performance of firms listed on the Nairobi Securities Exchange (NSE). The correlation coefficient ( $R = 0.392$ ) indicates a moderate positive relationship, and the coefficient of determination ( $R^2 = 0.154$ ) suggests that board composition alone explains approximately 15.4% of the variation in firm performance. The regression results indicate that improvements in board composition—such as enhanced gender balance, diversity of skills and expertise, and effective performance evaluation—lead to measurable increases in firm performance. Specifically, a one-unit improvement in board composition corresponds to an average increase of 0.425 units in firm performance. The statistical significance of the model ( $F = 15.462$ ,  $p < 0.001$ ) confirms that board composition is a meaningful predictor of firm outcomes. These findings align with prior research. Al-Shaer et al. (2023) reported that board size, independence, gender diversity, and tenure significantly influence strategic outcomes, though board skills had mixed effects. Similarly, studies in Malaysia (Hyarat, Husin & Jos, 2024) and Nigeria (Pretoria & Joseph, 2024) highlighted that board size positively correlates with performance, while board independence and gender diversity showed inconsistent or insignificant effects. In Uganda, Rwakihembo et al. (2020) found non-executive directors positively influenced financial performance. Conversely, studies in Kenya and Kericho County (Cherotich & Obwogi, 2018; Kurgat et al., 2025) reported mixed results, with some board composition attributes positively affecting performance, while others, such as CEO duality or board size, had insignificant or negative effects. Adika et al. (2018) further confirmed that non-executive directors and directors' nationality positively impact firm performance, mediated through resource dependence mechanisms.

**Table 4:** Committee composition

	SA	A	N	D	SD	Mean	SD
There is an optimal board size in the company which maximize firm value at the NSE.	54%	40%	6%	0%	0%	4.00	.858
The audit committee composition comprises of member with industry specific knowledge to address specific industry needs	54%	40%	6%	0%	0%	4.00	.858
The board members nationality is meant to attract foreign investment and enhance the firm's reputation	43%	52%	4%	0%	0%	4.10	.919
More frequent audit committee meetings lead to better financial and quality reporting which promotes the financial health of the company	43%	55%	2%	0%	0%	4.38	.678
The autonomy of the audit committee contributes to reduced agency fees and improved performance of the company	46%	51%	3%	0%	0%	4.21	.872
<b>Average</b>						<b>4.14</b>	<b>0.848</b>

The findings indicate strong consensus among respondents on the positive role of committee composition in enhancing firm performance. Key elements highlighted include optimal board size, industry-specific expertise, nationality diversity, audit committee meeting frequency, and committee autonomy. Specifically, 94% of respondents agreed that optimal board size maximizes firm value and that audit committee members possess relevant industry knowledge (mean = 4.00). Additionally, 95% affirmed that nationality diversity attracts foreign investment and strengthens corporate reputation (mean = 4.10). Frequent audit committee meetings were considered most impactful (mean = 4.38), while 97% acknowledged that committee autonomy reduces agency costs and improves performance (mean = 4.21). The overall mean of 4.14 (SD = 0.848) demonstrates strong agreement that effective committee composition enhances organizational performance. The analysis demonstrates that committee composition has a strong and positive effect on the performance of firms listed on the Nairobi Securities Exchange (NSE). The correlation coefficient ( $R = 0.577$ ) indicates a stronger association with firm performance than board composition. The coefficient of determination ( $R^2 = 0.333$ ) suggests that committee composition alone explains approximately 33.3% of the variation in firm performance, highlighting its substantial influence.

Regression results show that a one-unit improvement in committee composition leads to an average increase of 0.490 units in firm performance. The standardized coefficient (Beta = 0.577) underscores the significant contribution of well-structured and functional committees relative to other governance factors. The model is statistically robust (F = 42.479, p < 0.001), indicating that committee composition is a reliable predictor of firm outcomes. These findings are supported by previous studies. Alawaqleh et al. (2024) found that audit committee knowledge and meeting frequency significantly improve financial reporting efficiency, while committee size alone has an insignificant effect. Shatnawi et al. (2022) reported that audit committee effectiveness positively influences ROA, ROE, and Tobin’s Q, with firm size enhancing and leverage and firm age reducing performance. Rashid et al. (2024) observed that audit committee chair, tenure and female membership correlate positively with firm performance in Nigerian listed companies, whereas share ownership had no effect. Other studies highlight that autonomy, independence, and structured terms of office for audit committee members strengthen financial reporting and governance outcomes (Otero et al., 2024; Ayumba et al., 2024; Yahaya, 2024).

**Table 5:** Firm performance at the NSE

	SA	A	N	D	SD	Mean	Std.D
The NSE listed companies are very effective in generating a good return on investment for their stakeholders	43%	51%	3%	3%	0%	3.95	.739
The NSE listed companies have effective strategies to maximize profits	47%	38%	9%	4%	2%	3.96	.752
Customer satisfaction is at the core of the operations of the listed firms since it enhances the company’s performance.	43%	52%	4%	0%	0%	4.10	.919
The NSE listed company’s have strong and effective strategies to enhance and maintain their growth prospects.	43%	51%	3%	3%	0%	3.95	.739
Effective strategies are put in place by NSE listed companies for sustainable performance in the market.	38%	47%	9%	4%	2%	3.25	.752
<b>Average</b>						<b>3.84</b>	<b>0.768</b>

The findings indicate that respondents generally perceive NSE-listed firms as effective, though performance varies across specific indicators. A majority (94%) agreed that these firms generate strong returns on investment (mean = 3.95), while 85% acknowledged the presence of strategies aimed at profit maximization (mean = 3.96). Customer orientation was highly rated, with 95% agreeing that customer satisfaction is central to operations, enhancing performance (mean = 4.10). Growth strategies were also positively viewed, with 94% confirming that firms implement measures to sustain and enhance growth (mean = 3.95). However, sustainable performance strategies received the lowest rating (mean = 3.25), with 15% of respondents either neutral or disagreeing, indicating gaps in long-term sustainability practices. The overall mean of 3.84 (SD = 0.768) suggests that while NSE-listed firms perform well in profitability, growth, and customer satisfaction, more attention is needed to strengthen strategies for sustainable, long-term competitiveness. The analysis revealed a strong positive relationship between the combined governance variables—board composition, committee composition, board diversity, and board independence—and the performance of firms listed on the NSE ( $R = 0.656$ ). The model explained 43% of the variance in firm performance ( $R^2 = 0.430$ ), with an adjusted  $R^2$  of 0.402, confirming the robustness of the explanatory power even after accounting for multiple predictors. The relatively low standard error of estimate (0.699) indicates that the model provides accurate predictions of firm performance.

The ANOVA results demonstrated that the combined model was statistically significant ( $F = 15.463$ ,  $p < 0.001$ ), confirming that these governance mechanisms jointly contribute meaningfully to firm outcomes. While board composition and committee composition showed significant individual effects, their combined influence was substantially stronger, highlighting the complementary nature of governance practices. These findings emphasize the importance of a holistic approach to corporate governance. Firms that integrate well-structured boards, diverse skills and perspectives, independent oversight, and functional committees are more likely to improve accountability, enhance decision-making, and achieve sustainable competitive performance at the NSE. In essence, governance mechanisms are most effective when implemented together rather than in isolation.

## CONCLUSION

The study established that governance structures significantly influence the performance of firms listed on the Nairobi Securities Exchange (NSE). Board composition, featuring gender inclusivity, diverse expertise, and ongoing performance evaluation, positively affects firm outcomes, while well-structured committees with specialized knowledge, autonomy, and frequent meetings strengthen oversight and financial reporting. Regression results revealed that the combined effect of board composition, committee effectiveness, diversity, and

independence accounted for 43% of the variation in firm performance, highlighting the importance of an integrated governance framework. These findings suggest that firms should prioritize holistic governance practices that reinforce accountability, strategic decision-making, and sustainable competitive advantage. While NSE-listed companies perform well in profitability, growth, and customer satisfaction, gaps remain in long-term sustainability strategies. Firms and regulators should therefore emphasize policies promoting board and committee diversity, independence, and effective oversight, ensuring that governance mechanisms collectively enhance transparency, performance, and sustainable value creation.

### RECOMMENDATIONS

Based on the study findings, several recommendations can be made for theory, policy, and managerial practice. Theoretically, future research should explore integrating Resource Dependence Theory, Agency Theory, and Stewardship Theory to develop a more comprehensive understanding of how board composition, committee effectiveness, and board independence jointly influence firm performance. Additionally, incorporating contextual factors such as firm size, industry type, and ownership structure can help explain variations in governance effectiveness, while longitudinal studies could strengthen the causal understanding of governance mechanisms on firm outcomes over time. From a policy perspective, regulators such as the Capital Markets Authority (CMA) should enforce guidelines that promote gender diversity, skills diversity, and independence in boards and committees of listed firms.

Policies should also require firms to evaluate board member effectiveness regularly and adopt standards for audit and nomination committees, including expertise, meeting frequency, and autonomy, to enhance transparency and accountability. In terms of managerial practice, firms should focus on diversifying boards and committees to include members with varied skills and perspectives to improve decision-making and overall performance. Managers are encouraged to implement formal mechanisms for monitoring board and committee effectiveness, regularly review strategic objectives, and integrate long-term sustainability strategies to ensure continued growth, profitability, and customer satisfaction. Furthermore, investing in training and capacity-building initiatives for board and committee members will strengthen governance competencies and enhance oversight, ultimately improving firm performance.

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