

BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE OF COMPANIES LISTED IN NAIROBI SECURITIES EXCHANGE IN KENYA

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ABSTRACT: This study investigated the effect of board characteristics on the financial performance of companies listed on the Nairobi Securities Exchange (NSE), with firm size examined as a potential moderating factor. The specific objectives of the study were to determine the effect of board size on the financial performance of companies listed on the Nairobi Securities Exchange, to assess the influence of board diversity on the financial performance of companies listed on the Nairobi Securities Exchange, to examine the influence of board committees on the financial performance of companies listed on the Nairobi Securities Exchange, to evaluate the impact of board independence on the financial performance of companies listed on the Nairobi Securities Exchange, and to determine the effect of board expertise on the financial performance of companies listed on the Nairobi Securities Exchange. The study was grounded in agency theory, resource dependence theory, and stewardship theory. The study adopted a cross-sectional research design and a quantitative methodology. Secondary data from the 2020–2024 annual reports of all listed companies on the NSE were analyzed using panel regression techniques. The random effects model results indicated that model was statistically significant (Wald $\chi^2 = 52.16$, $p = 0.0021 < 0.05$) and explained 50.19% ($R^2 = 0.5019$) of the variation in financial performance. The findings showed that board size had a positive and significant effect on financial performance ($\beta = 0.3056$, $p = 0.000 < 0.05$). Similarly, board independence was positively and significantly associated with ROA ($\beta = 0.5312$, $p = 0.001 < 0.05$). In addition, board expertise had a strong positive and significant effect on financial performance ($\beta = 0.4119$, $p = 0.000 < 0.05$). The results further revealed that board diversity positively and significantly influenced financial performance ($\beta = 0.3307$, $p = 0.000 < 0.05$). Likewise, board committees had a positive and significant effect on ROA ($\beta = 0.5421$, $p = 0.008 < 0.05$). The study recommends that firms listed on the Nairobi Securities Exchange strengthen their corporate governance structures by optimizing board composition in terms of size, independence, expertise, diversity, and committee effectiveness, as these were found to significantly enhance financial performance.

I. Introduction

The board of directors plays a central role in corporate governance, serving as the connection between a company's management and its shareholders. Boards are responsible for shaping a firm's strategic direction, overseeing management, and ensuring accountability, all of which significantly influences operational and financial outcomes. In the modern corporate environment, financial sustainability is crucial, ensuring that companies remain solvent and creates long-term value (OECD, 2023). The characteristics of a board such as its composition, structure, diversity, expertise, independence, and leadership determines its effectiveness and, by extension, the organization's performance. A well-structured board ensures that the company is managed in the best interests of stakeholders while addressing the complexities of modern business environments (Harvard Law School Forum on Corporate Governance, 2022).

The financial performance of listed companies is a serious determinant of their survival, growth, and ability to create value for shareholders and stakeholders. System of measurement such as profitability, liquidity, and market valuation are essential for sustaining operations, attracting investment, and maintaining investor confidence (Abdalmuttaieb, 2018). For listed companies, strong financial performance directly influences stock prices, access to capital, and resilience to economic shocks. Poor performance could lead to declining market value, reduced investor confidence, and even delisting, with far-reaching consequences for the company and the broader economy (Omondi & Muturi, 2021). Therefore, understanding the factors that enhances financial performance is crucial for ensuring the sustainability and success of listed companies.

On addition, board characteristics plays a crucial role in shaping financial performance. The board of directors is the basis of corporate governance, responsible for providing strategic direction, overseeing management, and ensuring accountability to shareholders (Gatehi & Nasieku, 2022). Key characteristics, such as board size,

independence, gender diversity, and director expertise, influences financial performance by enhancing decision-making, reducing agency costs, and improving risk management (Ndotono, 2003).

For instance, diverse and independent boards are more likely to challenge management decisions, mitigate conflicts of interest, and promote ethical practices, leading to better financial outcomes (Aluoch, Mwangi, Kaijage, & Ogutu, 2020). Conversely, weak board structures, such as overly large boards or a lack of independent directors, could result in poor governance, mismanagement, and suboptimal financial performance (Mwongera, 2022).

Robust board characteristics could govern and guide top management to provide efficient, effective, and sound operations, hence enhancing the financial performance of commercial banks. It delineates roles and authority levels via which the board of directors and senior management conducted the banks' transactions and operations. Reports have substantiated that robust board characteristics are a vital and efficient mechanism of corporate governance, serving two fundamental functions in the financial performance of commercial banks: supervising top management on behalf of shareholders and facilitating resource provision and assessment. The board employs its resources and time to oversee and regulate top management to improve the financial performance of a bank (Bw'uma, 2021).

The characteristics of boards entails legal responsibilities that differ based on the bank's operations and its operational nature. The board's size, frequency of meetings, gender diversity, and share ownership significantly influences a bank's financial performance. The dimensions of the board are crucial in determining successful governance features by regulating top management, while board meetings and member attendance provides an opportunity to fulfill their fiduciary duties and responsibilities to the bank (Odhiambo & Mwanzia, 2021).

Globally, over the past two decades, the world has observed the failures of esteemed companies such as Swissair (2001), Pacific Gas & Electric Ltd (2001), Enron (2001), WorldCom (2002), Consec (2002), Parmalat (2003), Delta Air Lines (2005), and General Motors (2009), which were previously regarded as well managed entities prior to their demise. Their dissolution sparked the interest of researchers, analysts, industry professionals, and policymakers. This unwarranted phenomenon prompted researchers to initiate studies aimed at assessing the underlying causes of these failures (Bw'uma, 2021).

In United States, statistics generally shows that board independence, active audit committees, and gender diversity positively influences corporate performance. Independent directors are seen as proficient overseers of management, enhancing investor trust and corporate valuation. Gender-diverse boards are linked to enhanced decision-making quality, ethical leadership, and sustained growth, especially in regions that have enacted gender quotas. Nonetheless, extensive boards that reduce their efficacy, indicating the existence of an optimal board size for enhancing business performance (Pucheta-Martínez & Gallego-Álvarez, 2020).

Conversely, in Asia, the relationship between board characteristics and firm performance is influenced by ownership concentration, weak investor protection, and institutional differences. In these markets, family ownership, state control, and political connections often dilutes the independence of boards, limiting their monitoring role. As a result, factors such as directors' experience, professional expertise, and social networks tended to have a greater influence on firm outcomes than formal independence alone. This implies that governance effectiveness in such settings depends more on the quality and functionality of boards rather than their structural composition (Nguyen & Thanh, 2022).

In contrast, Germany functions under stakeholder-oriented frameworks that prioritizes employee representation and long-term strategic objectives. In Germany's dual governance structure, the supervisory board offers independent monitoring, and the management board oversee operational activities. Reports demonstrates that the independence and expertise of supervisory boards improve organizational performance, particularly in large and international organizations. Nonetheless, an oversized board and political appointees could occasionally undermine efficacy. Board activity exhibits a stronger correlation with business success than board composition alone (Ezeani, Salem, Usman, Kwabi, & Bilal, 2023).

Regionally, larger boards are preferred as they enhance the financial performance of commercial banks compared to smaller boards. They assert that due to their numbers, it is challenging for any board member to dominate the board, and the decisions made in the meeting are viewed as having been thoroughly and constructively deliberated. Such actions receive endorsement from senior management, facilitating execution and enhance financial performance (Githaiga & Kosgei, 2023).

In South Africa, it is shown that board independence, gender diversity, and the existence of audit committees could improve the quality of financial efficacy and increase business value. However, governance issues like inadequate regulatory enforcement, concentrated ownership, and insufficient disclosure persist in undermining board efficacy. Gender diversity, specifically, yields favorable outcomes in enhancing transparency and

risk oversight; yet, its effectiveness is frequently hindered by cultural and institutional obstacles that restricts women's involvement in critical decision-making positions (Alhassan & Boakye, 2020).

In Ghana, the mechanisms that connects board features to financial performance are numerous. Effective boards improve performance by monitoring and controlling managerial behavior, providing strategic guidance, facilitating access to external resources, and overseeing risks. Independent directors and audit committees reduce information asymmetry and improved financial reporting credibility, whereas diverse and experienced boards provide a variety of perspectives and abilities that promote innovation and strategic adaptation. Furthermore, well-governed boards convey good signals to investors, boosting organizations' reputations and access to capital markets (Anning, Snr, Amoako, & Yeboah, 2021).

In Nigeria, board characteristics and financial performance indicate that board independence, gender diversity, and audit committee effectiveness all have a favorable impact on business profitability and value. However, ineffective implementation of corporate governance regulations and concentrated ownership frequently undermines board effectiveness. Larger boards could impede decision-making, whereas smaller, experienced, and diverse boards improve accountability and strategic oversight. Overall, strong governance procedures and transparent board activities are still crucial to boosting corporate performance in Nigerian enterprises (Usman & Yahaya, 2023).

Locally, in Kenya, the economy is hindered by a deficient legal system, which poses challenges in the enforcement of regulations and laws. This necessitates enhanced board governance to mitigate malpractices by top management through vigilant monitoring and oversight of their decisions, aimed at improving financial performance and sustainability (Githaiga & Kosgei, 2023). Consequently, existing reports addresses various factors related to the financial performance of commercial banks in Kenya. A smaller board size is advantageous for the financial performance of these banks, suggesting that the addition of any director will diminish profitability. This indicates that a smaller board is preferable to larger board sizes. Moreover, larger boards are found to enhance decision-making, which positively influences the financial performance of firms in Kenya (Abang'a & Tauringana, 2024).

Bw'auma, (2021) added that board also plays a key role in enhancing corporate governance and ethical practices, promoting transparency, accountability, and ethical behavior. Strong governance practices-built trust with stakeholders such as investors, customers, and regulators, and are associated with improved financial performance and long-term sustainability. In a rapidly changing business environment, the board fosters innovation and adaptability, encouraging a culture of innovation and supporting strategic investments in research and development. Boards that prioritize innovation contribute to the organization's ability to stay competitive and achieve long-term growth (Githaiga, Muturi, & Caroline, 2022).

The board management scandals led to the downfall of major banking institutions in Kenya, including Imperial Bank, Chase Bank, Kenya Finance Bank, Ari Bank Corporation, and Reliance Bank, thereby compromising the integrity of board characteristics and prompting inquiries into the reliability of financial performance and the information provided to users (KIPPR, 2024). In Kenya, examples of Managers and Directors facing charges of insufficient board oversight had led to economic crises, culminating in the collapse of Euro Bank in 2004 and boardroom conflicts at the National Bank of Kenya. Recent management challenges at Dubai Bank, Imperial Bank, and Chase Bank had led to their receivership by the Central Bank of Kenya (Central Bank, 2024).

Dubai Bank Kenya Limited was placed under receivership on 14th August 2015 due to severe liquidity and capital deficiencies. The Kenya Deposit Insurance Corporation (KDIC) was appointed as receiver after the bank breached cash reserve requirements for a month and failed to meet financial obligations, including Kshs 48.2 million owed to Bank of Africa Kenya. On 24th August 2015, the Central Bank of Kenya (CBK) approved KDIC's recommendation to liquidate the bank. KDIC began compensating depositors up to Kshs 100,000 per account in September 2015. With 7,043 accounts totaling Kshs 1.7 billion in deposits, KDIC's payout of Kshs 0.7 billion covered 40.2% of total deposits, and 88.1% of depositors were paid in full, as their balances were below the insured limit (Kenya Retail Report, 2021).

Chase Bank Limited was placed under receivership on 7th April 2016 following liquidity challenges triggered by a bank run caused by inaccurate social media reports and the resignation of its Board Chairman and Group Managing Director. The bank, a medium-sized lender with over 170,000 customers, 62 branches, and assets exceeding Kshs 100 billion, was later liquidated on 16th April 2021. Total recoveries were estimated at Kshs 59.6 billion out of Kshs 76.1 billion in deposits, representing a 78.3% recovery rate and a potential loss of Kshs 16.5 billion to depositors (Kenya Retail Report, 2021).

Charterhouse Bank was liquidated on 7th May 2021, with the Kenya Deposit Insurance Corporation (KDIC) appointed as liquidator to protect depositors and other stakeholders. The bank had been under statutory management since 23rd June 2006 due to serious violations of the Banking Act, including improper lending

practices, inaccurate regulatory returns, and failure to obtain proper customer documentation. As of 2006, the bank held assets worth Kshs 4.0 billion and 4,669 deposit accounts totaling Kshs 2.9 billion. On 31st May 2021, KDIC began compensating depositors up to Kshs 500,000 per account, amounting to an estimated Kshs 2.3 billion, or 80.5% of total deposits (Kenya Retail Report, 2021).

1.2 Statement of the problem

Board characteristics plays a crucial role in influencing the financial performance of firms by shaping strategic decisions, enhancing accountability, and ensuring effective oversight of management. A well-constituted board could improve profitability, reduce risk exposure, and promote transparency through sound governance practices. The financial performance of companies listed on the Nairobi Securities Exchange had remained inconsistent despite the existence of sound corporate governance frameworks and regulatory reforms. Some firms continued to report declining profitability, poor asset utilization, and governance-related scandals that undermined investor confidence. For instance, at closure, Dubai Bank had deposits of Kshs 1.7 billion with a shortfall of Kshs 1.0 billion unpaid. Chase Bank reported Kshs 76.1 billion in deposits, recovering only Kshs 59.6 billion, resulting in a Kshs 16.5 billion loss to depositors. Charterhouse Bank held Kshs 2.9 billion in deposits, with Kshs 0.6 billion unrecoverable (Kenya Retail Report, 2021). These losses reflected major financial mismanagement and governance failures in Kenya's banking sector. Similarly, several firms listed on the Nairobi Securities Exchange such as Uchumi Supermarkets, Mumias Sugar Company, Kenya Airways, TransCentury, and East African Portland Cement Company experienced persistent financial distress, declining share prices, liquidity challenges, and governance-related concerns that weakened shareholder confidence and threatened their sustainability. Reports by the Capital Markets Authority and other studies attributed the poor performance of these firms to weak board oversight, lack of transparency, ineffective strategic decisions, and poor accountability mechanisms. While existing studies had examined the linkage between board characteristics and financial performance, the majority of research in this area had focused on developed economies, leaving a significant gap in understanding how governance dynamics operate in African settings, where institutional, economic, and cultural factors differed substantially. This study aimed to address these gaps by providing empirical evidence from Kenya's listed companies, thereby contributing to the broader discourse on corporate governance in emerging markets.

1.3 Objectives of the study

1.3.1 General objective of the study

To investigate the effect of board characteristics on financial performance of companies in Kenya listed at the Nairobi Securities exchange.

1.3.2 Specific objectives of the study

- i. To determine the effect of board size on financial performance of companies listed on the Nairobi securities Exchange.
- ii. To assess the effect of board diversity on financial performance of companies listed on the Nairobi securities Exchange.
- iii. To examine the effect of board committees on financial performance of companies listed on the Nairobi securities Exchange.
- iv. To evaluate the effect of board independence on financial performance of companies listed on the Nairobi securities Exchange.
- v. To determine the effect of board expertise on financial performance of companies listed on the Nairobi securities Exchange.

1.4 Hypothesis of the study

H₀₁: Board size had no significant effect on financial performance of companies listed at the Nairobi Securities exchange.

H₀₂: Board diversity had no significant effect on financial performance of companies listed at the Nairobi Securities Exchange.

H₀₃: Board committees had no significant effect on financial performance of companies listed at the Nairobi Securities Exchange.

H₀₄: Board independence had no significant effect on financial performance of companies listed at the Nairobi Securities Exchange.

H₀₅: Board expertise had no significant effect on financial performance of companies listed at the Nairobi Securities Exchange.

II. Literature Review

2.2 Theoretical literature review

The research would be grounded in the following theoretical frameworks; agency theory, resource dependence theory, and stewardship.

2.1.1 Agency Theory

This theory was postulated by Jensen and Mackling in the year 1976. It described how best to establish associations in which one party defined the activity to be carried out but a different individual does the work. In this association, the principal employed an agent to do the work, or to accomplish a commission on behalf of the principal. The theory explained how organization was made up of owners of the economic resources and the agents who were the managers of the principal's resources. The agents might not have shared in the principals' interests and might at times have acted to promote their own benefits at the owner's expense. The principal agency problem was the pursuit of self-interest by agents.

The theory explained the relationship between the principles, which included stockholders and agents. An issue arose when there was a difference between the principals and agent's goals and desires when an agent was motivated to act in his or her own superior interests, which were at odds with those of the principle. This idea was to match the agent and principal with the best contract possible. By attaining the principal's economic goals, the agent worked to maximize individual profits, and as a result, the agent's level of commitment served as a pretext for the alleged value return for accomplishing the principal's objectives. Internal control was one of the many techniques used in company to constrain the challenging agency (Jensen & Meckling, 1976).

The agency theory acknowledged adverse selection and moral hazard as imperfect information about the connection, interests, or productivity of the agent. The agent's production was impacted by moral hazard and adverse selection in two ways: by failing to complete the task for which they were hired and by lacking the necessary information about what should be done. As a result, this had an impact on both the relationship's overall performance as well as the advantages of the principal in the form of cash residuals. Agency may be intrinsic or delegated, which makes it more directly tied to managing stakeholders and so complements the systems theory. When a person was gifted naturally with the power to make decisions without their consent or personal initiative, this was known as intrinsic common agency (Einstnhardt, 1989).

Agency theory could be looked at in two ways. The first is when the agent is observed and the actions and motivations were clear. The solution to this was behavior-based contract purchasing services. The second was when there was a problem of factual asymmetry/incomplete information. The principal had imperfect information about the energy level and the agent's behavior. In this case, the static wage might encourage the agent to avoid efforts and responsibilities because his payment would remain the same regardless of the quality of the work and the amount of energy used (Einstnhardt, 1989).

The theory posited that the organization consisted of owners of economic resources and agents who were managers of the principals' resources. Agents did not always share the principals' objectives and sometimes acted to advance their own interests at the owners' expense. This was made worse by the fact that agents had control over policy implementation and a portion of ownership. The main problem with agencies was their desire for self-interest (David, 2012).

The theory described firms as necessary structures for maintaining contracts and through which it was possible to limit opportunistic behavior of agents. The theory strived to resolve problems existing in agency relationships either because of variance in goals or different aversion levels to risk. The most common agency relationship in finance occurred between shareholders as principals and company executives as agents. In order to harmonize the interests of the agent and the principal, a comprehensive contract was written to address the interest of both the agent and the principal. They further explained that the principal employed an expert to monitor the agent further strengthened the relationship. The contract provided for conflict resolution between the agent, principal, the principal determined the work, and agent undertook the work (Akinyi, 2018).

A major limitation of the theory was the moral hazard problems where, in an agency relationship, agents were required to work toward meeting principals' goals, yet it was the agents' own goals that drove them to succeed on behalf of their principals. The agent had criticized the agency theory for only showing a relationship between owners and managers and it provided deception and misappropriation of funds. This constituted a moral hazard problem endemic in principal agent complexities. Agents made decisions that best fitted their interests, which they champion and which might have risked conflicts of interests and led to agency costs (Akinyi, 2018).

Principals put their capital into a company; devised strategies to maximize their wealth. The owners authorized the use of an agent when they saw an opportunity to maximize their own benefit. This delegation enabled agents to act irresponsibly at the cost of principals' success. In a corporation, the principals owned the company.

They entrusted the agent (the company's manager) to manage the company for them. Agency theory implied that neither the principal nor the agent was driven by selfishness (Mulemba, Ouma, & Atieno, 2022).

Agency theory was pertinent to this study since it elucidated the interaction between corporate proprietors (shareholders) and managers (agents). In publicly traded companies, managers might have prioritized personal interests over those of shareholders, resulting in agency conflicts. Board attributes, including size, independence, and gender diversity, and experience, functioned as governance instruments to oversee and regulate management conduct, ensuring that managerial actions fitted with the maximization of shareholder wealth. Consequently, agency theory established the theoretical foundation for correlating board characteristics with financial performance.

2.1.2 Resource dependence theory

Pfeffer & Salancik, (1978) introduced this theory in the year 1978. Resource dependence theory (RDT) elucidated how an organization's reliance on external resources influenced its behavior, power relations, and strategic choices. Organizations lacked self-sufficiency and had to cultivate relationships with external entities, such as suppliers and consumers, to obtain essential resources such capital, labor, and knowledge. A fundamental element of RDT was the manner in which dependence engendered power disparities, prompting organizations to implement methods to mitigate vulnerability, like the establishment of alliances, mergers, or the diversification of their resource base.

The theory emphasized on the board's responsibility for safeguarding vital resources and managing external dependencies. This idea emphasized how the makeup of boards, in particular the external connections and knowledge of directors, helped businesses obtain vital resources and managed environmental concerns. Boards that offered industry knowledge and strategic networks were especially beneficial to larger companies, which frequently had higher resource requirements and more complicated external contexts (Hillman & Dalziel, 2003).

For example, boards that had links to political or business leaders could make it easier for an organization to obtain funding or regulatory backing, which could subsequently improve financial performance (Johnson *et al.*, 2013). According to recent research conducted in emerging countries, including Kenya, boards that were resourceful contributed to competitive advantage and improved financial outcomes, especially in contexts where resources were limited (Ntim & Osei, 2011).

Resource dependency theory considered agents (management as well as the board) as a resource since they would provide social and business networks and influenced the environment in favor of their firm (Christopher, 2013). Appreciation of different theoretical perspectives would give insights into the contribution of boards to firm's financial performance. The United Kingdom Cadbury Report (Cadbury, 1992) defined corporate governance as "the system by which companies were directed and controlled". Because of large number of recent corporate, collapsed good corporate governance had emerged as a global issue. A number of theoretical perspectives were used in explaining corporate governance and problems.

Despite its contributions, resource dependence theory had been criticized for its limited focus on strategic actions and its assumption of power disparities rather than reciprocal interdependence. However, these limitations could be mitigated by integrating other theoretical views, such as stakeholder theory, which emphasized the inclusion of broader societal and community interests. In the Kenyan manufacturing sector, where socio-economic challenges and stakeholder engagement were critical, blending RDT with inclusive governance practices could enhance the board's effectiveness in driving financial performance.

2.1.3 Stewardship Theory

This theory was propounded by (Donaldson & Davis, 1991). Stewardship theory was a form of corporate governance theory that functioned as a normative counterpart to agency theory. They contended that the steward was responsible for safeguarding and enhancing shareholder capital by guaranteeing optimal organizational performance. This concept emphasized organizational managers as stewards, necessitating the integration of their objectives within the enterprise. This indicated that management would be incentivized and contented just if the organization's objectives were achieved.

The stewardship hypothesis said that if managers were left to their own devices, they would act as responsible stewards of the assets they rule, and it described the existence of a significant correlation between contentment and organizational success. Effective stewards engaged in collaboration rather than individualism and were not driven by instrumental motivations, unlike agents who adhered to agency theory. Individualistic, opportunistic, and self-serving aims would be accomplished if labor was done for the wider good of the organization, according to stewardship theory (Davis, Schoorman, & Donaldson, 1997).

Stewards were motivated by trust, enhancement of reputation, reciprocity, discretion and autonomy, level of responsibility, work satisfaction, stability and tenure, and alignment of goals. Stewardship theory fundamentally depended on the initial trust disposition of both the principal and the steward. Stewardship behavior was positively

correlated with motivational support. The behaviors of relational leadership cultivated reciprocal trust between the leader and the follower within the framework of stewardship. Additionally, contextual assistance could enhance creativity and was linked to stewardship behavior and motivational support.(Hallsworth, 2011).

The stewardship approach on accounting fundamentally viewed the issue it addressed as an organizational challenge. Stewardship accounting originated in antiquity to maintain the financial records of temples, monarchs, merchants, and the landed elite who employed stewards for estate management. Organizations encompassed the behaviors, thoughts, knowledge, and goals of numerous individuals. As managerial labor markets expanded, hierarchical organizations emerged as an efficient structure, prompting the development of stewardship accounting to accommodate them (Contrafatto, 2014).

The primary objective of stewardship theory was to comprehend how individuals may be incentivized to aid in achieving the goals of organizational principles. A fundamental assumption of stewardship theory was that persons acting as stewards would synchronize their interests with those of the principals. Assumptions on the varieties and uses of control systems were not only a principal point of contention between stewardship theory and agency theory, but they also represented the domain where stewardship theory's assertions were the least pragmatic and significant (Keay, 2017).

Stewardship theory posited that any form of direct or indirect control could undermine stewards' motivation, adversely affected their pro-organizational behavior both in the short and long term. Goals facilitated control over outcomes. Stewardship theory possessed an inherent weakness that unrealistically constrained its further advancement. Why would stewards align with principals' objectives if those objectives represented a kind of control, which was inherently demotivating? Furthermore, considering that other organizational processes, such as standard operating procedures, served as an indirect kind of oversight that limited employees' ability to select measures (Chrisman, 2019).

Stewardship theory was relevant to this study, as it perceived managers and directors not as self-serving agents but as stewards who prioritized the interests of shareholders. It underscored trust, teamwork, and intrinsic drive, indicated that effective board attributes such as expertise, diversity, and commitment improved decision-making and oversight. This alignment promoted accountability, strategic direction, and sustainable value generation, therefore enhanced the financial performance of firms listed on the Nairobi Securities Exchange.

2.2 Conceptual framework

A conceptual framework illustrated the variables being studied in this study and the relationship between the variables (independent and dependent variables). Its purpose was to help understand a research problem. It established how the study was significant and relevant and for how the study design appropriately answered research questions. The section presented the components of board characteristics and financial performance.

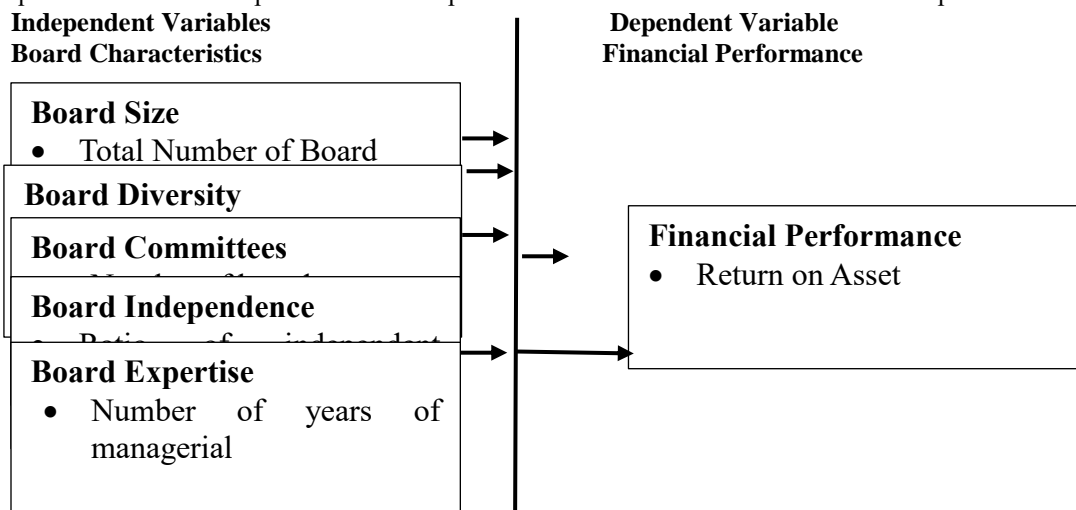


Figure 1: Conceptual Framework

2.3 Empirical literature review

2.4.1 Board size and financial performance

Roffia, Simón-Moya, and Sendra-García, (2022) examined the correlation between board of director characteristics and financial performance in small and medium-sized firms. The study examined a range of variables

pertaining to Board of Directors qualities, including size, characteristics, structure, and processes, for 184 Italian SMEs, alongside their financial data over a four-year period (2014–2017). The research employed an ordinary least squares regression model incorporating time-period and industry-fixed effects on financial performance data. The research identified a substantial association between Board of Directors and financial performance. Specifically, the study model revealed that board of directors size exerted a favorable and significant influence on financial performance.

Alabdullah, Nor, Ahmed, and Yahya, (2018), examined the correlation between board size and firm size, as well as firms' financial Performance, utilizing ROA and ROE as performance system of measurement in Jordan. The study employed a quantitative methodology, with hypotheses evaluated using statistical software, including SPSS 20, Eviews, and PLS for data analysis. The results indicated that board size affects the financial performance of Jordanian industrial companies. The study demonstrated a positive relationship between board size and ROA. Conversely, the study indicated that Firm size does not influence ROA. The analysis indicated that both independent factors, board size and company size, exert an insignificant influence on ROE.

Orozco, Vargas, and Galindo-Dorado, (2018) examined the correlation between board size and both financial and reputational corporate performance among leading corporations as ranked by the Business Monitor of Corporate Reputation – MERCO in Colombia. The study performed correlation and cluster analyses to categorize firms based on performance and control characteristics, utilizing a cross-sectional sample of 84 large corporations in Colombia from 2008 to 2012. The research indicates that large boards correlate with enhanced corporate reputation, as posited by resource dependence theory, while simultaneously predicting diminished financial performance, in accordance with agency theory.

Assenga, Aly, and Hussainey, (2018) examined the influence of board attributes on the financial performance of publicly listed companies in Tanzania. The characteristics of boards, such as the presence of external directors, board size, CEO/Chair duality, gender diversity, board expertise, and foreign directors, within Tanzanian setting. The research employed balanced panel data regression analysis on 80 firm-year observations (2006-2013) derived from annual reports, supplemented by semi-structured interviews with 12 key stakeholders. The study utilized a mixed methods approach, employing a convergent parallel design to incorporate quantitative and qualitative data. The results do not indicate a correlation between financial performance and board size.

2.4.2 Board independence and financial performance

Assenga, Aly, and Hussainey, (2018) evaluated the influence of board independence on the financial performance of publicly listed companies in Tanzania. The characteristics of boards, such as the presence of external directors, board size, CEO/Chair duality, gender diversity, board independence, and foreign directors, within Tanzanian setting. The research employed balanced panel data regression analysis on 80 firm-year observations (2006-2013) derived from annual reports, supplemented by semi-structured interviews with 12 key stakeholders. The study utilized a mixed methods approach, employing a convergent parallel design to incorporate quantitative and qualitative data. The results do not indicate a correlation between performance and board independence.

Ayodeji and Okunade, (2019) analyzed the relationship between board independence and the financial performance of Deposit Money Banks, while offering a comparative perspective on Nigeria and Canada. The study employed panel data approach. The research utilized secondary data obtained from the annual financial statements of Deposit Money Banks listed on the Nigerian and Canadian stock markets over a ten-year period from 2008 to 2017. Money banks listed on the Nigerian Stock Exchange and the Canadian stock market over the decade from 2008 to 2017. The data indicate a substantial correlation between board independence and the profitability of deposit money banks in Nigeria and Canada.

Al-Farooque, Buachoom, and Sun, (2020) examined how ownership structures and the features of corporate boards and audit committees affected the market-based financial performance of Thai listed companies. Ordinary least squares and fixed effects were used for robustness checks on a sample of 452 companies listed on the Thai Stock Exchange between 2000 and 2016, with the research system's GMM (generalized method of moments) serving as the baseline estimator technique. The empirical results, which mostly rely on the system GMM estimator, show some new economic patterns in Thailand. Furthermore, as anticipated, market-based firm performance in Thai businesses could be significantly explained by board structure characteristics including audit committee meetings, board independence, size, and meetings and dual roles.

Porter and Sherwood, (2023) analyzed the correlation between SEC laws on board of director independence and the quality of financial reporting, while exploring several pathways to achieve board independence. The sample comprised 1,248 firm observations, with board composition analyzed between 2001 and 2008. Each corporation was classified according to its methods of enhancing board independence. The authors employed ordinary least

squares regression models to evaluate the assumptions. The study findings suggested that no evidence existed about the relationship between a firm's selected approach to enhancing board independence and the quality of financial reporting.

Sobhan, Shohan, and Uddin, (2025) examined the correlation between environmental reporting (ER) and corporate performance, as well as the influence of board independence on this relationship within the setting of Bangladesh, an emerging country. The research utilized a sample of 289 firm-years from the publicly traded manufacturing companies in Bangladesh over the period 2018–2023. Content analysis was conducted to assess ER. The regression analysis indicates a favorable and significant effect of ER on both accounting-based and market-based performance metrics. The presence of enhanced board independence is observed to positively influence the relationship between ER and performance.

2.4.3 Board expertise and financial performance

Lee, Wen, and Thi-Thanh-Nguyen, (2024) introduced an innovative financial performance forecasting methodology that integrates the threshold technique with Artificial Neural Networks (ANN). The threshold regression method was employed to ascertain the elements within the board of directors that affect the financial performance of traditional industries in Taiwan. A greater presence of board members possessing accounting expertise leads to more stable earnings. The augmented presence of individuals possessing financial understanding significantly influences profitability.

Chaudhry, Roomi, and Aftab, (2020) examined the impact of the financial, oversight, and experienced expertise of the Audit Committee Chair (ACC) and the HR, oversight, and experiential expertise of the Nomination Committee Chair (NCC) on the firm's financial performance (FP). This study employed a quantitative approach to gather data from 50 non-financial enterprises in Pakistan. The results indicated that the financial and monitoring proficiency of ACC, along with the experiential expertise of NCC, favorably affect return on assets, return on equity, and the net profit margin of the organization. No substantial impact of ACC's experience expertise and NCC's monitoring and HR expertise on FP was observed.

Aidoo, Nombare, and Boamah, (2024), studied the relationship between board size, board independence, and board expertise with the financial performance of manufacturing firms listed on the Ghana Stock Exchange, while accounting for the moderating effect of board commitment. The research population comprised the specified manufacturing enterprises in Ghana. This study utilized a quantitative research methodology in conjunction with a causal research design. Secondary data (panel) were collected from the annual financial reports of seven publicly traded industrial firms from 2010 to 2022. The board size was shown to have a negligible impact on the financial performance (return on assets and return on equity) of publicly listed industrial firms in Ghana. The independence and expertise of the board positively and significantly influenced the financial performance of publicly listed industrial companies in Ghana.

Gambo, Terzungwe, Joshua, and Agbi, (2019) explored the impact of board independence, experience, and foreign board membership on the financial performance of publicly listed insurance companies in Nigeria. The study population consisted of 26 listed insurance companies on the Nigerian Stock Exchange, from which 17 were randomly selected as the sample size. The regression analysis indicated that board expertise and foreign members significantly affect financial success, as assessed by return on assets (ROA).

2.4.4 Board diversity and financial performance

Hosny and Elgharbawy, (2022) examined the correlation between board diversity and financial performance from a comprehensive viewpoint, encompassing several characteristics of board diversity. This study employed a cross-sectional design focusing on FTSE 350 firms from 2013 to 2019. Data were obtained from the Thomson Reuters Eikon and BoardEx databases and analyzed using ordinary least squares (OLS) regression. Both gender and talent diversity have a significant impact on financial success. Nevertheless, other aspects of diversity, such as board tenure, education, and network, exert no substantial impact on financial performance. Conversely, nationality diversity adversely impacts financial performance, whereas the gender diversity of executive directors detrimentally influences market-based performance.

Hazaea, Al-Matari, Farhan, and Zhu, (2023) examined recent studies on board gender diversity and its influence on financial performance from 2002 to 2022. A total of 152 studies were assessed from 91 high-impact journals using the Web of Science and Scopus databases. The analysis examined the moderating, mediating, and controlling variables while evaluating the predominant theories and theoretical foundations in the literature. The results revealed a discordance among the research about the effect of gender diversity on financial success. Furthermore, the results indicated that most research concentrated on the controllable variables pertinent to the organization rather than those linked with personnel or the external environment.

Arenas-Torres, Bustamante-Ubilla, and Campos-Troncoso, (2021) established that the diversity in board membership positively and significantly influenced the financial performance of companies listed on the Chilean stock market. The study analyzed a sample of 1,106 reports on social responsibility and sustainable development during the period 2015 to 2020 and their corresponding returns. The study was descriptive-correlational, assessing the impact of gender, nationality, and age diversity on the financial performance of the enterprises. The findings indicated a generally low level of gender and nationality diversity within Chilean boards. This study confirmed the variety of results by correlating diversity and financial success, emphasizing the necessity of undertaking adequately disaggregated analyses to comprehend the relationship between these variables.

Singh, Singhania, and Aggrawal, (2023) explored the issue of gender diversity on boards within the distinctive context of the Indian IT sector. The research used a fixed effects panel data regression model to fulfill its aims. The Blau Index and Shannon Index, two commonly employed diversity system of measurement, have been utilized to strengthen the reliability of the findings. The study's results demonstrated a negligible correlation between gender diversity and the financial performance of organizations. The diversity indices also indicated negligible results that corroborated the study's findings. The research demonstrated that enterprises in the IT sector had failed to capitalize on the advantages of gender diversity on their boards.

2.4.5 Board committees and financial performance

Al-Farooque, Buachoom, and Sun, (2020) examined how ownership structures and the features of corporate boards and audit committees affected the market-based financial performance of Thai listed companies. Ordinary least squares and fixed effects were used for robustness checks on a sample of 452 companies listed on the Thai Stock Exchange between 2000 and 2016, with the research system's GMM (generalized method of moments) serving as the baseline estimator technique. The empirical results, which mostly relied on the system GMM estimator, showed some new economic patterns in Thailand. Furthermore, as anticipated, market-based firm performance in Thai businesses could be significantly explained by board structure characteristics including audit committee meetings, board independence, size, and meetings and dual roles.

Chijoke-Mgbame, Boateng, and Mgbame, (2020) assessed the impact of female representation and its proportion on company boards and audit committees for financial performance within an African context characterized by inadequate institutions. Utilizing a consortium of 77 companies. The study findings indicated that female board involvement had a positive and significant impact on corporate financial success. The research indicated that the impact of gender diversity on performance was more pronounced in organizations with two or more female directors, implying that achieving a critical mass of female representation improved financial performance. Subsequent analysis revealed that the presence of females on the audit committee seemed to positively influence corporate financial performance.

Chaudhry, Roomi, and Aftab, (2020) examined the impact of the financial, oversight, and experienced expertise of the Audit Committee Chair (ACC) and the HR, oversight, and experiential expertise of the Nomination Committee Chair (NCC) on the firm's financial performance (FP). This study employed a quantitative approach to gather data from 50 non-financial enterprises in Pakistan. The results indicated that the financial and monitoring proficiency of ACC, along with the experiential expertise of NCC, favorably affect return on assets, return on equity, and the net profit margin of the organization. No substantial impact of board committee experience and NCC's monitoring and HR expertise on FP was observed.

Ararat and Yurtoglu, (2021) examined the correlation between female presence on boards and committees and firm valuation and profitability in Turkey from 2011 to 2018. The research utilized manually gathered data including the majority of publicly traded companies. The study constructed various proxies for female representation on boards and finds no evidence that female directors predict business value and profitability using comprehensive system of measurement. The research indicated that female directors anticipated more business value when they engage more actively in board governance via committee memberships and when their representation in these committees was comparatively substantial. The involvement of female directors from controlling families correlated with increased firm value.

III. Study Methodology

3.1 Research design

This study employed a cross-sectional research design with a quantitative analysis approach to investigate the relationship between board characteristics and financial performance of companies listed on the Nairobi Securities Exchange (NSE). The cross-sectional design was particularly appropriate for this study as it allowed for the examination of variables across multiple companies at a single point in time - specifically using 2020 to 2024 annual report data. This approach enabled the researcher to capture a snapshot of corporate governance structures

and their contemporaneous relationship with financial performance system of measurement. The quantitative nature of the study facilitated objective measurement and statistical analysis of the relationships between board attributes and firm performance indicators.

The research design incorporated both descriptive and inferential statistical techniques to analyze the collected data. This methodological approach aligned with similar studies in corporate governance literature (e.g., Adams & Ferreira, 2009; Bhagat & Bolton, 2019) while being adapted to the Kenyan setting. The use of secondary data from audited annual reports ensured reliability and consistency in the measurements, as these documents were prepared under strict regulatory requirements and auditing standards. The study's design was particularly suited to testing hypotheses derived from agency theory, which formed the theoretical foundation for examining how different board characteristics might have mitigated agency problems and enhanced financial performance.

3.2 Target population

The target population for this study comprised all companies listed on the Nairobi Securities Exchange as of December 31, 2019. According to NSE records, there were 59 listed companies at this time, categorized across various sectors including financial services, manufacturing, agriculture, commercial services, and energy. The selection of all listed companies as the target population was justified by the need to understand governance-performance relationships across the entire market range, rather than being limited to specific sectors. This comprehensive approach enhanced the generalizability of findings to the Kenyan listed company environment as a whole.

The population included companies with different ownership structures (local, multinational, government-linked), varying sizes (by market capitalization), and diverse operational histories. However, companies that were under suspension or in the process of delisting during the five-year period were excluded from the population to ensure data reliability. Similarly, newly listed companies that did not have a full year of trading and reporting in the five-year period were excluded to maintain consistency in the financial performance measurement period. The target population thus represents a complete census of established, actively traded companies on the NSE.

3.3 Sampling technique

Census sampling was adopted for this study because the number of companies listed on the Nairobi Securities Exchange (NSE) was relatively small and manageable for comprehensive data collection. A census involved collecting data from the entire population rather than selecting a sample, ensuring complete coverage and eliminating sampling error. This approach provided more accurate, reliable, and generalizable results regarding the relationship between board characteristics and financial performance. It also allowed comparison across all sectors, enhanced validity, and supported robust statistical analysis using panel or cross-sectional regression techniques.

3.4 Data analysis, presentation & Discussion

Data analysis was done using inferential statistical techniques with the aid of STATA. Panel regression method was employed as inferential statistics to analyze the influence board characteristics on financial performance of companies in Kenya listed at the Nairobi Securities exchange. The study employed panel regression model in equation 3.1 to evaluate the effect of board characteristics on financial performance of companies in Kenya listed at the Nairobi Securities exchange

$$FP_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BE_{it} + \beta_3 BD_{it} + \beta_3 BC_{it} + \varepsilon_{it} \dots \dots \dots (3.1)$$

Where:

FP = Financial performance

β_0 = Constant

$\beta_1, \beta_2,$ and β_3 = regression coefficients

BI = Board Independence

BE = Board Expertise

BE = Board Diversity

BC = Board Committees

BOC= Board Characteristics

FS-Firm Size

ε = Error

IV. Panel Regression Analysis

4.1 Fixed and random effects models

Fixed and random effects were compared in order to determine which regression model would be best for the study. The choice between fixed and random effect models was made using the Hausman test. A fixed effects model considered every potential connection between the unobserved and observed variables. When using fixed

effects models, time-invariant effects on time-invariant variables were either totally or partially eliminated. On the other hand, random effects model, it was assumed that the unobserved variables were statistically independent, or more strongly, uncorrelated, with all the observable variables. Although the fixed effects model might estimate effects for time-invariant variables, its standard errors might be pretty substantial, which was why the random effects was favored. This study conducted Hausman specification test to identify the best model for the study.

4.1.2 Hausman test results

The study conducted Hausman specification test to choose the best model for the study between fixed and random effects models. The choice between a fixed and a random effects model was crucial in panel data analysis. Hausman testing was commonly used in panel data analysis to distinguish between fixed and random effect models. The null hypothesis of Hausman specification test was that random effect model was the appropriate model. Table 4.7 presents the results of the Hausman test of the study.

Table 1: Hausman Specification Test

Variable	(b) Fixed	(B) Random	(b-B) Difference
BS	.3731	.3056	.0675
BI	.4384	.5312	-.0928
BE	.5221	.4114	.1107
BD	.4129	.3307	.0822
BC	.6703	.5421	.1282

b=consistent under Bo and Ba; obtained from xtreg
 B= inconsistent under Ba, efficient under Bo; obtained from xtreg
 Test: Bo: difference in coefficients not systematic
 $Chi^2(3) = (b-B') [(v_b-v_B)9-1] (b-B) = 3.32$
 Prob>chi²=0.4831

Source: Study Data

According to the Hausman test results in Table 4.7, the chi2 was statistically insignificant at a 5% level of significance with a P-value of 0.4831. The study came to the conclusion that the random effect model was most appropriate for the study therefore the study adopted the null hypothesis. As a result, the research used a random effect model to extract a regression model that assessed the effects of board characteristics and financial performance of listed firms in Kenya.

4.1.3 Random Effects model

In a random effects model, it was assumed that the unobserved variables were statistically independent, or more strongly, uncorrelated, with all the observable variables. Although the fixed effects model might estimate effects for time-invariant variables, its standard errors might be pretty substantial, which was why the random effects was preferred. The findings were shown in Table 4.8.

Table 2: Random Effect Model

Variable	Coef.	Std. Err.	Z	P> z
BS	.3056	.1386	2.20	0.000
BI	.5312	.1771	2.99	0.001
BE	.4114	.0949	4.34	0.000
BD	.3307	.0813	4.07	0.000
BC	.5421	.1478	3.67	0.008
FS	.4181	.0897	4.66	0.001
Cons	.0816	.0253	3.23	0.000

R-sq:
 Within = 0.4126
 Between =0.4813
 Overall =0.5119

Wald chi²(3) = 43.15
 Prob>chi² = 0.0001

Source: Study Data 2026

4.2 Interpretation of Findings

Regression analysis was conducted to test the study hypotheses after diagnostic tests confirmed that the assumptions underlying linear regression were not violated. The Hausman specification test indicated that the random effects model was more appropriate than the fixed effects model. Accordingly, a random effects regression model was employed to examine the effect of board characteristics, namely board size, board diversity, board

committees, board independence, and board expertise, on the financial performance of companies listed on the Nairobi Securities Exchange. Firm size was incorporated as a moderating variable in the model to assess its moderating effect on the relationship between board characteristics and financial performance. The discussion of the regression equation and the interpretation of the results were guided by the study objectives. The results of the regression analysis were presented in Table 4.8, while the estimated regression model was shown in Equation 4.1.

$$FP_{it} = .0816 + .3056BS_{it} + .5312BI_{it} + .4114BE_{it} + .3307BD_{it} + .5421BC_{it} + .4181FS_{it} \dots 4.1$$

Based on the regression model, the constant of 0.0816 indicated that the financial performance of listed firms in Kenya would be 0.0816 even if board characteristics and firm size factors were not actively influencing outcomes.

4.2.1 Board Characteristics and Financial Performance of Listed Firms in Kenya

The results presented in Table 4.8 demonstrated that the regression model was statistically significant based on the random effects analysis. Specifically, the Prob > chi² value of 0.0001, which was below the conventional significance threshold of 0.05, provided strong evidence that the overall model reliably predicted financial performance. These findings further highlighted that board characteristics, such as board size, board diversity, board committees, board independence, and board expertise, played a critical role in determining the financial performance of companies listed on the Nairobi Securities Exchange. The overall R-squared value of 0.5119 indicated that approximately 51.19% of the variation in financial performance across the firms could be explained board characteristics, suggesting that effective governance structures substantially impacted firm outcomes. However, the remaining 47.82% of the variation in financial performance was attributed to other factors not included in this analysis. Therefore, while board characteristics were key drivers of financial performance, a comprehensive understanding of company performance required consideration of both governance and other contextual factors, including firm size as a potential moderating influence.

4.2.2 Board Size and Financial Performance of Listed Companies in Kenya

The first objective of the study was to ascertain the effect of board size on financial performance of listed companies in Kenya. The study's null hypothesis was that board size had no significant effect on financial performance of listed companies in Kenya. The findings of the study indicated that board size had a positive and significant effect on financial performance of listed firms in Kenya. This was backed up by regression coefficients of 0.3056 with Probability values of 0.000 < 0.05 and Z-statistics 2.20 greater than the Z-critical of 1.96, implying that board size positively and significantly affected financial performance, thus rejecting the null hypothesis. Therefore, the study concluded that board size positively and significantly affected financial performance of listed companies in NSE.

4.2.3 Board Independence and Financial Performance of Listed Companies in Kenya

The second objective of the study was to examine the impact of board independence on the financial performance of listed companies in Kenya. The corresponding null hypothesis stated that board independence had no significant effect on the financial performance of listed companies. The study's findings, however, revealed that board independence had a positive and statistically significant impact on financial performance. This was supported by a regression coefficient of 0.5312, a p-value of 0.001 (which is less than 0.05), and a Z-statistic of 2.99, exceeding the critical value of 1.96. These results indicated that board independence positively and significantly influenced financial performance, leading to the rejection of the null hypothesis. Consequently, the study concluded that board independence had a positive and significant effect on the financial performance of companies listed on the NSE.

4.2.4 Board Expertise and Financial Performance of Listed Companies in Kenya

The third objective of the study was to evaluate the effect of board expertise on the financial performance of listed companies in Kenya. The corresponding null hypothesis posited that board expertise had no significant effect on financial performance. The study's results, however, demonstrated that board expertise had a positive and statistically significant effect on financial performance. This was evidenced by a regression coefficient of 0.4119, a p-value of 0.000 (less than 0.05), and a Z-statistic of 4.34, which exceeded the critical value of 1.96. These findings indicated that board expertise positively and significantly influenced financial performance, leading to the rejection of the null hypothesis. Therefore, the study concluded that board expertise significantly affected the financial performance of companies listed on the NSE.

4.2.5 Board Diversity and Financial Performance of Listed Companies in Kenya

The fourth objective of the study was to evaluate the effect of board diversity on the financial performance of listed companies in Kenya. The corresponding null hypothesis stated that board diversity had no significant effect on financial performance. The results revealed that board diversity positively and significantly influenced financial performance, with a regression coefficient of 0.3307, a p-value of 0.000, and a Z-statistic of 4.07, exceeding the

critical value of 1.96. These findings indicated that board diversity significantly contributed to enhanced financial performance, leading to the rejection of the null hypothesis.

4.2.6 Board Committees and Financial Performance of Listed Companies in Kenya

The fifth objective of the study was to evaluate the effect of board committees on the financial performance of listed companies in Kenya. The corresponding null hypothesis stated that board committees had no significant effect on financial performance. The results revealed that board committees positively and significantly influence financial performance, with a regression coefficient of 0.5421, a p-value of 0.008, and a Z-statistic of 3.67, exceeding the critical value of 1.96. These findings indicated that board committees significantly contributed to enhanced financial performance, leading to the rejection of the null hypothesis.

4.3 Discussion of Findings

The discussion interpreted the empirical results within the theoretical and contextual framework of board characteristics and financial performance, connecting statistical outcomes with adopted theories and prior empirical evidence. The analysis underscored how board characteristics and financial performance of listed companies in Kenya.

4.3.1 Overview and Model Significance

The regression model results revealed a statistically significant relationship between board characteristics and financial performance, as indicated by a p-value ($\text{Prob} > \chi^2$) of 0.0000. This suggested that, collectively, board characteristics, such as independence, expertise, and diversity, played a meaningful role in influencing the financial performance of listed companies in Kenya. Additionally, the R^2 value of 0.5119 indicated that approximately 51.19% of the variation in financial performance was explained by these board characteristics, highlighting their substantial contribution to firm outcomes.

From the perspective of agency theory, these findings supported the notion that well-structured boards mitigated agency problems between managers and shareholders. For instance, independent directors and diverse boards were more likely to monitor management effectively, reducing managerial opportunism and ensuring that decisions aligned with shareholders' interests. This monitoring role enhanced accountability, which could lead to improved financial performance. In line with resource dependence theory, the positive impact of board characteristics on performance underscored the board's role in providing access to critical resources, expertise, and networks. Board members with relevant expertise and diverse backgrounds could offer strategic guidance, industry knowledge, and connections that helped firms acquire valuable resources, navigate complex environments, and seize growth opportunities, thereby improving financial performance.

From a stewardship theory perspective, the results suggested that directors act as stewards who were intrinsically motivated to work in the best interest of the organization. The positive and significant effect of board characteristics indicated that when directors are competent, independent, and diverse, they are better positioned to collaborate with management to achieve organizational goals, enhance decision-making, and drive superior financial outcomes. Overall, these findings highlighted that board characteristics not only serve monitoring and control functions (agency theory) but also provided essential strategic resources (resource dependence theory) and foster cooperative, goal-aligned stewardship (stewardship theory), collectively contributing to improved financial performance of listed companies in Kenya.

4.3.2 Board Size and Financial Performance of Listed Companies in Kenya

Board size demonstrated a positive and statistically significant effect on financial performance, with a regression coefficient of 0.3056 and a p-value of 0.000 (less than 0.05). This finding indicated that an optimally organized board contributed to a 30.56% improvement in the financial performance of listed firms in Kenya. The result suggested that larger boards, when effectively structured, could provide a broader range of expertise, experience, and strategic oversight, which enhanced decision-making and overall firm performance.

From a theoretical perspective, agency theory explained this effect by highlighting that larger boards might improve monitoring of management, thereby reduce agency conflicts and align managerial actions with shareholders' interests. Resource dependence theory supported the finding by suggesting that bigger boards bring diverse networks, knowledge, and access to critical resources, which could help firms exploit market opportunities and strengthen competitive advantage. Similarly, stewardship theory posited that well-composed boards foster collaboration and collective responsibility, with directors acting as stewards motivated to achieve organizational goals, ultimately enhancing financial performance.

4.3.3 Board Independence and Financial Performance of Listed Companies in Kenya

Board independence exhibited a positive and statistically significant effect on financial performance, with a regression coefficient of 0.5312 and a p-value of 0.000 (below the 0.05 significance threshold). This indicated that greater board independence was associated with a 53.12% improvement in the financial performance of listed firms

in Kenya. The result suggested that independent directors enhance oversight, ensure accountability, and reduce managerial opportunism, thereby promoting more effective decision-making and improved firm outcomes.

From a theoretical perspective, agency theory explained this relationship by emphasizing that independent directors strengthen monitoring mechanisms, minimizing agency conflicts between management and shareholders. Resource dependence theory highlighted that independent directors could bring external knowledge, networks, and strategic resources that improved organizational performance. Stewardship theory further suggested that independent directors, motivated by organizational success rather than personal gain, could collaborate with management to advance firm goals, thereby enhancing financial performance.

4.3.4 Board Expertise and Financial Performance of Listed Companies in Kenya

Board expertise demonstrated a positive and statistically significant effect on financial performance, with a regression coefficient of 0.4119 and a p-value of 0.000 (below the 0.05 significance level). This suggested that greater board expertise was associated with a 41.19% improvement in the financial performance of listed firms in Kenya. The finding indicated that directors with relevant skills, knowledge, and experience contribute to better strategic decision-making, effective oversight, and the optimization of firm resources.

From a theoretical perspective, agency theory posited that board expertise enhanced monitoring and reduced managerial opportunism, ensured that management decisions align with shareholders' interests. Resource dependence theory emphasized that expert directors provided access to critical resources, industry knowledge, and networks that facilitated strategic initiatives and firm growth. Stewardship theory highlighted those skilled directors, motivated by organizational success, work collaboratively with management to achieve corporate goals, thereby improving financial performance.

4.3.5 Board Diversity and Financial Performance of Listed Companies in Kenya

Board diversity exhibited a positive and statistically significant effect on financial performance, as evidenced by a regression coefficient of 0.3307 and a p-value of 0.000, which is below the 0.05 significance threshold. This finding indicated that increased board diversity was associated with a 33.07% improvement in the financial performance of listed firms in Kenya. The result suggested that diverse boards enhanced the quality of decision-making through the inclusion of varied perspectives, skills, and experiences, leading to more innovative and balanced strategic choices.

From a theoretical standpoint, agency theory supported this finding by positing that diverse boards enhance monitoring effectiveness and reduce managerial dominance, thereby mitigating agency conflicts. Resource dependence theory explained the result by emphasizing that board diversity broadens access to external resources, networks, and legitimacy, which were critical for firm competitiveness and performance. Similarly, stewardship theory suggested that diverse directors acted as stewards of the organization, fostering collaboration and collective responsibility that contributed to improved organizational outcomes.

4.3.6 Board Committees and Financial Performance of Listed Companies in Kenya

Board committees exhibited a positive and statistically significant effect on financial performance, as indicated by a regression coefficient of 0.5421 and a p-value of 0.008, which was below the 0.05 significance threshold. This finding suggested that the presence and effectiveness of board committees were associated with a 54.21% improvement in the financial performance of listed firms in Kenya. The result implied that well-structured board committees enhanced oversight, specialization, and efficiency in key governance functions such as audit, risk management, and remuneration, thereby contributing to improved financial outcomes.

From a theoretical perspective, agency theory explained this relationship by emphasizing the role of board committees in strengthening monitoring and control mechanisms, which helped reduce agency conflicts between management and shareholders. Resource dependence theory highlighted that specialized committees provided firms with access to expert knowledge and critical governance resources that supported informed decision-making and strategic alignment. Additionally, stewardship theory suggested that board committees promoted collaborative governance and accountability, enabling directors to act as responsible stewards of organizational resources, which ultimately enhanced firm performance.

V. Conclusions and Recommendations

5.1 Conclusions

This study set out to examine the influence of board characteristics on the financial performance of firms listed on the Nairobi Securities Exchange, with particular attention to the moderating role of firm size. The evidence from the panel data analysis demonstrated that board governance structures significantly and positively influenced financial performance. Specifically, board size, board independence, board expertise, board diversity, and the presence of specialized board committees each exhibited a positive and statistically significant relationship with

return on assets (ROA). These findings indicated that effective and well-structured boards contributed to improved oversight, strategic decision-making, and resource utilization, which in turn enhanced financial performance for listed firms.

5.2 Recommendations

Based on the empirical findings of this study, several actionable recommendations were proposed for practitioners, corporate leaders, and policymakers to enhance the financial performance of firms listed on the Nairobi Securities Exchange (NSE). Firms should enhance the quality of board characteristics by ensuring the presence of adequately sized boards with a mix of diverse competencies. The positive effects of board size, expertise, independence, diversity, and committee structures on financial performance suggested that boards should be structured to balance oversight and strategic capacity. This included setting clear succession plans, professionalizing director recruitment, and embedding continuous training to ensure directors had relevant skills and industry experience. Effective recruitment and development of directors would support robust strategic guidance and oversight functions.

Given the demonstrated positive influence of diversity on performance, firms should pursue inclusive board practices, particularly in increasing female representation and diversity in backgrounds, perspectives, and professional experiences. Studies in the Kenyan setting had similarly recommended the inclusion of female and diverse directors as part of governance reforms to strengthen performance outcomes. Independent directors contributed significantly to reducing agency problems and enhancing monitoring. Firms should therefore maintain a high proportion of truly independent directors in line with regulatory guidelines and ensure that board committees, such as audit, risk, and remuneration committees, are effective, well-resourced, and empowered to perform specialized oversight functions. Regulators and corporate governance codes should reinforce independence standards and committee best practices to sustain governance quality.

Since firm size was found to strengthen the positive effect of governance on performance, governance frameworks should be context-sensitive. Larger firms should adopt more sophisticated governance mechanisms, with expanded committees and deeper expertise, while smaller firms could focus on scalable governance improvements that match their operational complexity. Regulators might consider scaled governance requirements that reflect firm size and risk profiles rather than uniform mandates for all listed entities.

The study's findings supported ongoing corporate governance reforms in Kenya. Stakeholders, including the Capital Markets Authority (CMA) and NSE, should continue to refine and enforce governance codes to embed global best practices, such as regular board evaluations, disclosure standards, and performance benchmarks. Reforms could also promote gender diversity and periodic review of director competencies to enhance board effectiveness.

Investors and analysts should integrate corporate governance system of measurement into their investment appraisal frameworks. Metrics such as board independence ratios, expertise indices, and committee effectiveness scores could help in evaluating firm quality and long-term performance prospects, supporting more informed capital allocation decisions in the Kenyan capital market. Further research should explore additional governance variables (e.g., CEO duality, director tenure, ownership structure) and their dynamic effects on performance. Enhanced transparency in governance disclosures by listed firms would support richer analysis and benchmarking, ultimately aiding investors, regulators, and academic research communities.

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