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Influence of Corporate Governance Practices on Financial Performance of Listed Firms in Nairobi Securities Exchange, Kenya

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Abstract
This paper aims at determining the influence of corporate governance practices on the financial performance of listed firms in Nairobi Securities Exchange Kenya. Kenya has put in a lot of effort to ensure a beneficial business climate, resulting in an improvement for most NSE-listed companies. Over the past few years, there have been varying financial outcomes for firms listed on the NSE, and this has been linked to issues surrounding corporate governance practices. According to Okoth & Achuka (2016), Kenya Airways (KQ) recorded their worst figures ever, with a net loss of $258 million USD during fiscal year 2015/16. In comparison, Longhorn saw positive numbers during the same period (Onsongo et al., 2019). The Capital Market Authority report (2016) confirms that there has been a downward trend in the financial performance of companies from the Nairobi Security Exchange. The exact connection between corporate governance practices and financial performance is still somewhat of a mystery; there is no clear consensus on how much of an effect these practices have on Return on Assets (ROA) or Return on Equity (ROE). Different studies have come to varying, even conflicting conclusions. The study uses a correlation research design. This study targeted 66 companies listed on the Nairobi Stock Exchange (NSE) between 2016 and 2020. For this research, data was taken from a sample size of 55 firms which had been consistently listed on NSE since 2016. Those that were either delisted or suspended or those that were newly listed after 2016 were not taken into consideration, resulting in a panel of 275 data points. As it satisfied the criteria of the study, a purposive sampling approach was adopted. The study has used secondary data obtained from annual audited financial statements of listed firms using data collection sheets. The hypothesis has been tested by regressing independent variables against dependent variables. The regression analysis findings showed that board composition had a positive and significant effect on financial performance using ROA (β =1.369, p=0.004) and ROE (β =0.249, p=0.000). Further results showed that board independence negatively and significantly affected financial performance using ROA (β =-0.912, p=0.013). However, board independence positively and significantly affected financial performance using ROE (β =0.148, p=0.000). In addition, results showed that the board committee structure had a positive and significant effect on financial performance using ROA (β =1.633, p=0.004). However, the board committee structure had a positive and insignificant effect on financial performance using ROE (β =0.011, p=0.724). The findings confirm that corporate governance practices significantly affected financial performance using ROA {F (34.150, p=0.006)} and ROE. {F=9.67, p=0.009 respectively. Hypothesis results show that there is a significant influence of corporate governance practices on both ROA and ROE. The study concludes that corporate governance practices significantly influenced the financial performance of listed firms in the Nairobi Securities Exchange, Kenya using both ROA and ROE. This suggests that modifications to corporate governance procedures within an organization will lead to definite positive outcomes with regard to their ultimate financial performance. The study recommended that listed firms ought to establish sound corporate governance practices to remain economically viable. Thisis because good corporate governance practices enable an organization to meet its defined objectives and enhance its performance.

Key Words: Corporate Gouvernance Practices, Board size, CEO Duality, BoardCommittee, Financial Performance

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I. Introduction

Corporate governance refers to monitoring and managing firm operations' policies, actions, and decisions, (Mullins, 2014). Enobakhare, (2010) argued that effective corporate governance practices provide a viable structure or system through which corporations can realize their objectives and goals while focusing on the social, regulatory and market context of development within the operational environment. The United Kingdom Cadbury report, (Cadbury,1992) defines corporate governance as "the system by which companies are directed and controlled ", including board structure and composition and their relationship to firm performance. According to Ibe et al. (2017), various modes of enhancing corporate governance have been at the forefront of international debate. These modes of enhancement, which have become a public and academic subject of discussion, focus on board characteristics (Board size, Board diversity, Board Independence), board committees (audit committee, remuneration committee, risk management committee) and remuneration of directors, (Ibe et al.,2017). Sound corporate governance practices are the recipe for the good financial performance of any firm sincethey ensure better management and fair, efficient and transparent administration that enable an organization to meet its defined objectives, (Wangui, 2017). Empirical investigations found that good corporate governance affects the firm's financial performance, (Wang & Zhou, 2008). Irungu, (2016) and Okoth, (2015), established that Kenya Airways, Mumias Sugar, Athi River Mining PLC, Deacons East Africa PLC, National Bank of Kenya, Uchumi and Nairobi Business Ventures, among others, had been experiencing financial challenges, mainly attributed to poor corporate governance. Cyton Investments report (2016) asserted that investors' wealth for the five NSE-listed companies had been eroded to 223.5 billion shillings. This study will define corporate governance practices within the parameters of board composition-board size and diversity, board independence-non-executive directors and CEO duality, and board committee structure-Audit Committee, Nomination Committee and Remuneration committee. Uwalomwa and Olamide, (2011) established that globally, the importance of corporate governance has become one of the important and most debated topics in finance and this has generally gained more attention due to accounting impropriety and the collapse of some big listed public firms like Enron, WorldCom, and Parmalat : these have resulted in a callfor better corporate governance practices and financing decisions among listed firms. Each of these corporate cases was directly linked to corporate governance failures, (Hussin & Othman, 2012; Abdul-Qadir &Kwambo, 2012)

In the African scene, numerousstudies have also contributed to corporate governance and its effect on organizational performance. Focusing on 20 out of 34 listed companies on the Ghana Stock Exchange, a study by Darko, Aribi, and Uzonwanne, (2016) established the negative relationship between corporate governance (board structure, ownership structure as well as corporate control on firm performance studies as proxy of return on assets, return on equity, net profit margin and Tobin's Q).In Nigeria, a study by Alalade, Onadeko, and Okezie, (2014) using panel data from 10 companies over a period of eight years showed a positive relationship between adopting best practices in corporate governance and financial performance. Garba and Abubakar, (2014) argued that in Africa, countrieslike Nigeria, Uganda, South Africa, and Sir Lanka had experienced turbulent times concerning their corporate governance practices in the last two decades, resulting in low financial returns across the industries.

A number of companies in Kenya are experiencing declining fortunes.Some have even been delisted or suspended from the NSE over the last decade. This is largely attributed to poor financial performance and corporate governance issues,(Chebii, Kipchumba & Wasike, 2011). Ongore and K'Obonyo, (2011) have sought to identify several problems facing companies ranging from errors and mistakes to outright fraud. The origins of these problems range from concentrated ownership, weak incentives, and poor protection of minority shareholders to weak information standards. Corporate governance has become one of the most important issues discussed in economics because it represents an important factor that reinforces the economy's success and organizational reforms, (Akbar, 2015; Emile et al., 2014). Black et al. (2006) argue that firms with good corporate governance perform better than those with poor corporate governance.

For a developing economy, Kenya has put considerable effort into ensuring a favourable business environment. This has resulted in an improvement in most companies listed at the NSE. In the last few years companies listed on the NSE have experienced mixed fortunes in financial performance. According to Okoth &Achuka, (2016),Kenya Airways (2016),NSE, (2020),and Onsongo, S., Muathe, S., & Mwangi, L. (2019), Kenya Airways (KQ) reported the worst-ever corporate results in the historyof $258 million US Dollars net loss for the year 2015/2016. In contrast, Longhorn reported good results in the same period, Onsongo, S., Muathe, S., & Mwangi, L. (2019). Capital market Authority report, (2016) affirms that there has been a declining trend in the financial performance of companies listed in the Nairobi Security Exchange.

Prior empirical literature presents contradicting and inconsistent results on whether corporate governance practices viewed through board composition structure attribute affect the firm's financial performance, (Wang & Zhou, 2008). The board composition is the ratio of executive and non-executive directors on the boardintended at monitoringthe management, including diversity of board members and CEO duality. The practices of corporate board structure vary from industry to industry within a country. Following many corporate collapses worldwide, considerable research on corporate governance has been conducted within industrializedcountries, such as the United States, the United Kingdom, Australia, Germany, and Japan. However, such studies need to be adequately conducted for an emerging economy like Kenya, (Rashid,2009). All these studies generated mixed results on whether board structure, especially the dominance of outside directors, CEO duality, or even board size, impacts firm performance,(Rashid et al.,2010). Board size refers to the number of directors on the board, and it is an important factor in determining the board's effectiveness. CMA, (2012) The code of corporate governance in Kenya requires Boards of publicly listed companies to have sufficient sizes; not be too large to undermine an interactive discussion during board meetings; or too small such that the inclusion of wider expertise and skills in improving the effectiveness of the Boards is compromised.

Board independence refers to a corporate board with a majority of independent outside directors compared to an insider-dominated board. An outsider-dominated board is believed to be more vigilant in monitoring managerial behaviors and decision-making of the firm. According to CMA, (2012), the board is considered independent if it comprises the balance of executive and non-executive directors of diverse skills or expertise to ensure that no individual or small group can dominate the board's decision-making processes. Also, Boards are required by law to have a non-executive chairperson and separate roles for the chairman and the CEO; in this case, the board is considered independent, hence effective, Meme, (2013). A board that is not predominantly independent may be more likely to make decisions that unfairly or improperly benefit the interests of management. These decisions may also be detrimental to the long-term interests of shareowners. CEO duality means that the same person has the CEO hat and is the board's chairperson, and non-duality implies that different people hold these positions. Having the same person with too much control over the board and managers creates different problems, for example, lower levels of effort, conflicts, and lower levels of usage of knowledge and skills on the board and in management, (Wang et al., 2011).

Despite evidence ofthe theoretical popularity of board committees in various corporate governance literature, only some previous research has credited board effectiveness with the composition and independence of board standing committees, especially in supporting corporate financial performance and shareholder value maximization, (Puni, 2015). Puni (2015) opines that since most board decisions are initiated at the committee level, board effectiveness is thus enhanced through the type and composition of board committees. In this regard, market regulators across the globe, including the Capital Market Authority (CMA) of Kenya, recommends that listed firms, as part of the internal corporate governance mechanisms, have on their boards standing committees of audit, remuneration, and nomination to assist with the multiple functional responsibilities of the board. The principal functions of the audit committee are in the areas of appointment of external auditors, review of the annual financial report, and internal control issues (Mintz,2008). The agency theory explains that to maintain the board's independence, accountability, transparency, objectivity, and fairness, it must ensure a proper mix of outside and inside directors, Onsongo & Mwangi, (2019). The remuneration committee is a sub-committee of the board of directors responsible for establishing and monitoring the remuneration package and policies of inside(executive)directors and the board as a whole, (Anderson &Bizjak,2003;Conyon& He,2004). The agency theory has advocated that executive remuneration be tied to shareholder value and be adequate to induce maximum performance, (Jensen & Meckling,1976; Jensen & Murphy,1990). The nomination committee assists the board in discharging its responsibility of recommending and presenting new directors who have been appointed and old directors in the annual general meeting for approval and re-appointment. Again, the theory suggests that for the principal's interest to be protected at all times, agents must show integrity, utmost faith, competency, duty of care, and loyalty free from conflict of interest and opportunism, (Puni, 2015).

Again, prior studies concerning corporate board effectiveness are biased towards board composition variables of board size, CEO duality, and the proportion of inside to outside directors, which are mostly inundated with inconsistent findings without regard to board committee, (Hutchinson, 2002; Caylor, 2006; Christensen et al., 2010). Moreover, in many instances, board committee literature has examined the effect of single board committees rather than the entire standing committees of the board, (Puni, 2015) making it difficult to link board effectiveness to board standing committees. Against this backdrop,the current studyexamines how the presence of board committees (audit) affects firms' financial performance among listed firms in Kenya. Adams, Hermalin, and Weisbach, (2008) uncovered that the composition of the audit committee has a significant positive effect on financial performance, while Goh,(2009) asserted that audit committees play a significant role in solving the internal weakness of internal control under the Sarbanes-Oxley Act. Furthermore, Klein, (1988), in the study carried out, was of the view that the composition of the audit committee is significant in predicting a firm financial performance. In their study, Newman and Mozes, (1999) exposed that CEO remuneration was higher in the firm financial performance when the remuneration committee was composed of a majority of inside directors than outsider directors.

Additionally, Sun and Cahan, (2009) exposed that CEO cash remuneration positively associated financial performance for firms with independent remuneration committees than firms without. However, Puni, (2015) investigated the effect of board committees on firm financial performance among companies listed on the Ghana Stock Exchange (GSE). The result shows that board committees have no statistically significant effect on the firm's financial performance of listed firms. Specifically, nomination committees harm firm financial performance, with audit committees having no effect, while remuneration committees showed positive but not statistically significant effects on firm financial performance.

1.2 Problem Statement

The financial performance of companies listed on the Nairobi securities Exchange from 2016 to 2020 showed a decrease in revenue of Ksh -89.671 billion, a decrease in market capitalization of Ksh-294.91 billion and a downward trend in the NSE 20 share index indicated by -Ksh 1317.82 billion. Kenya has put in a lot of effort to ensure a beneficial business climate, resulting in an improvement for most NSE-listed companies. Over the past few years, there have been varying financial outcomes for firms listed on the NSE, and this has been linked to issues surrounding corporate governance practices. According to Okoth & Achuka (2016), Kenya Airways (KQ) recorded their worst figures ever, with a net loss of $258 million USD during fiscal year 2015/16. In comparison, Longhorn saw positive numbers during the same period (Onsongo et al., 2019). The Capital Market Authority report (2016) confirms that there has been a downward trend in the financial performance of companies from the Nairobi Security Exchange.The exact connection between corporate governance practices and financial performance is still somewhat of a mystery; there is no clear consensus on how much of an effect these practices have on Return on Assets (ROA) or Return on Equity (ROE). Different studies have come to varying, even conflicting conclusions.Empirical evidence links firms' financial performance to corporate governance practices. However, this has generally posted mixed results.Despite existing literature, there is no unified opinion on whether corporate governance practices have an effect on a firm's financial performance. Existing outcomes are varying; some are positive, some are negative and some show no influence at all. Such a discrepancy warrants further research and analysis. Against this backdrop, the study intends to investigate the influence of corporate governance practices on the financial performance of firms listed at the Nairobi Securities Exchange, Kenya.

1.3Objective of the Study

This study aims at determining the influence of corporate governance practices on the financial performance of listed firms in Nairobi Securities Exchange Kenya

II. Literature Review

2.1 Theoretical Literature

2.1.1 Agency Theory

Agency theory was developed by Berle and Means, (1932) and became widely accepted when Jensen and Meckling, (1976) formulated agency problems in the governance of firms. According to this theory, managers sometimes act in their self-interests rather than in the interests of the organization's shareholders; in these theories, shareholders, who are the owners or principals of the company, hire the agents to perform work. According to Clarke & Branson, (2012), Principals delegate the running of a business to the directors or managers, who are the shareholder's agents. The leaders are working out a viable leadership structure to avert the agency problem to grow mutual trust and teamwork among the principals and the agents. The decisions of the managers compromise the financial performance of the firm, (Mallin (2015).

Mallin (2015) argued that agency theory identifies the relationship where one party, the principal, delegates work to another, the agent. The study stated that the principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. The study further noted that this separation is linked and governed through proper agency relationships at various levels, among others, between boards and senior management, senior and subordinate levels of management, shareholders and boards of directors. The study concludes that in a principal-agent relationship, there is always an inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals. He quoted the International Swaps and Derivatives Association, (ISDA 2002), that all companies are exposed to agency problems and, to some extent, develop action plans to deal with them. The need for board independence and proper composition is necessary to avert any agency problems centered on corporate governance practices**.**

This study will adopt the agency theory because it focuses on the board of directors as a mechanism which dominates the company governance literature. The theory further explains the association between providers of corporate finances and people entrusted to manage the firm's affairs. Those entrusted to manage the firm finance have conflicting interests. Thus, their decision significantly affects the firm's financial performance. That is also under the works of Ross, (1973); Fama, (1980); Sanda, Mukaila and Garba, (2003) and Anderson, Becher and Campbell, (2004). Agency theory has been a key influence on the design of managerial incentives, the form and composition of corporate boards, codes of governance, optimal capital structure and the use of external finance.
Thus, agency theory offers a solid theoretical foundation for this study.

2.2 Empirical Literature

Ongore, V.O., K'obonyo, P.O., Ogutu, M., & Bosire, E.M. (2015). investigated the effect of board composition on financial performance and have yielded mixed results, largely thanks to contextual variables and the ranging roles of boards in several jurisdictions. Independent members, gender diversity and board size are a variety of the key attributes of boards that are linked to the financial performance of companies in industrialized countries but which, unluckily, have not attracted much scholarly interest and a spotlight in developing countries. The study, which surveyed forty-six firms listed at the Nairobi Securities Exchange in 2011 using statistical methods on panel data, with Return on Assets, Return on Equity, and Dividend Yield as performance indicators, the study acknowledged that gender diversity did have a significant positive effect on financial performance. The study, on the other hand, also indicated that board size had a negative relationship with financial performance.

Dogan and Karayel, (2016) examined how board composition affects firm performance. The study used board size, independent directors, female directors, and foreign directors as the indicators of board composition. The study analysis used a sample of 100 firms drawn from the BIST 100 Index over three years between 2012 and 2014. Return on Assets and Return on Equity was used for financial performance indicators and market performance indicators, and market value was used. After the analysis, the study found that board composition impacts firm performance in BIST 100 companies. This study was unique in analyzing the consequences of the 2012 regulation of mandating a minimum of 1/3 of all board members to be independent directors and suggesting a minimum of one female director to BIST 100 company boards by Capital Boards of Turkey.

Rodrigner, (2014) undertook a study on effect of board size on financial performance. The study's main goal was to investigate whether board size really matters when it comes to a firm's financial performance. The sample involved 50 European firms. The financial performance of the firm was measured using Return on Asset (ROA).The study findings revealed an existing and negative relation between board size and financial performance.

Olawale, Adamu and Patience, (2019) conducteda study, which examined the effect of board independence and risk management on the financial performance of listed deposit money banks in Nigeria from 2009 to 2018. The study used a correlational research design, and the data was collected from the annual published financial reports of banks listed in the Nigeria stock exchange. The study's target population comprised the (fourteen) 14 listed deposit money banks, and the study sample size was twelve (12) banks that arrived at using a three-point filter. The data wasanalyzed with the aid of random effect multiple regression techniques. The result showed that board independence has a positive and significant effect on the financial performance of listed deposit money banks in Nigeria's stock exchange.

Rutledge Karim & Lu, (2016)examined the effects of board independence and CEO duality on firm performance. Data analyzed from the NASDAQ-100 firms from 2010 to 2014. The study used an alternative and more appropriate definition of committee overlap and board interlock that only considers independent-director committee overlaps and interlocks. The method includes using a treatment-effect approach to control for endogenous issues that likely caused mixed results in prior research. The three measures of board independence show that; independent director committee overlaps have a significantly positive relationship with firm performance; board interlocks have a positive relationship with firm performance and a negative relationship between CEO duality and firm performance.

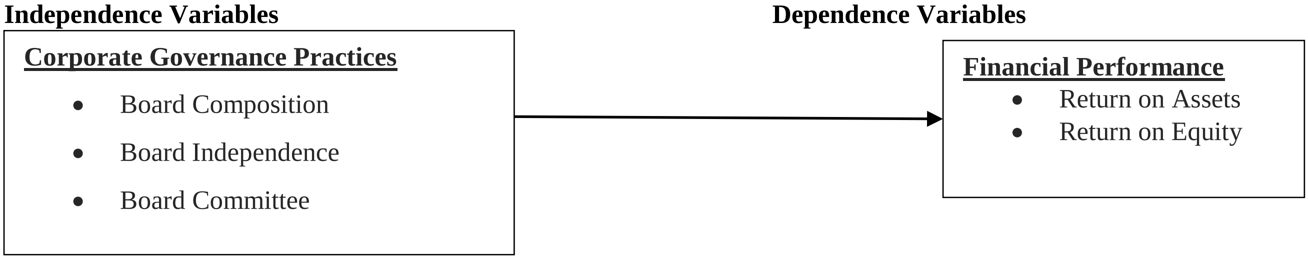
Puni, (2015) investigated the effect of board committees on firm financial performance among companies listed on the Ghana Stock Exchange. The quantitative research design was used to study the predictive effect of the board committee on corporate financial performance for companies consistently listed on the GSE from 2006-2010. The study used data from annual published financial reports of listed firms, and a static panel regression model was employed to analyze the effect of the presence of various committees on corporate financial performance. The result shows that board committees have no statistically significant effect on the firm's financial performance of listed firms. Specifically, the nomination committee harmed the firm financial performance. However, it was statistically insignificant at the 5% level, with the audit committee having no effect. At the same time, the remuneration committee showed a positive but also not statistically significant effect on the firm financial performance. The result suggested that the internal workings of the board's committee needed to be stronger, inferring that the effective supervision expected of these committees is lacking in internal control, effective financial reporting, and fixation on executive remuneration, executive recruitment, and succession planning. The study recommended that board committees be strengthened with capable outside directors and skillful in various technical areas to assist committees in their responsibilities by establishing transparent selection processes. Listed firms must also desist from the choice of inside directors because they will sustain the board's dominance to a more strategic selection approach where outside directors exercise steady oversight responsibility to enable firms to reach their long-term goals.

III. Conceptual Framework

The conceptual framework of the study sought to link Corporate Governance practices provided by Board composition, Board Independence and Board Committee with the firm's financial performance (ROA and ROE).

Figure 1.1 Conceptual framework

Independence Variables **Dependence Variables**



Source:Adopted and Modified from Ng'ang'a's (2017)

This research alters Ng'ang'a's (2017) panel approach to fit its purpose, such as excluding ownership concentration and replacing it by corporate governance practices, managerial shareholdings as moderating variables with firm size and earning per share as proxy of financial performance. It is suggested that corporate governance practiceshave a direct influence on two dependent variables of profitability, represented by Return on Asset (ROA) and Return on Equity (ROE). Various authors, such as Peters & Bagshaw (2014), Ahamed et al. (2014), Ofori et al. (2014), and Mujahid & Abdullah (2014) have confirmed the significance of both ROA & ROE in assessing financial performance.

IV. Research Methodology

The study used a correlation research design. The target population is 66 firms represented by number of companies from different sectors listed on the NSE in Kenya from 2016-2020.This study used data from a panel of 275 data points from 55 companies, which were consistently listed on the NSE in Kenya from 2016 to 2020. The study implemented a purposive sampling approach, as it was suitable for the criteria of this study; firms delisted or suspended after 2016, and those listed afterwards, were excluded. The study used secondary data obtained from annual audited financial statements of listed firms using data collection sheets. The study used descriptive statistics; mean maximum, minimum and standard deviations; inferential statistics; Pearson correlation analysis and multivariate regression analysis to analyze the data within the panel data framework. The hypothesis was tested by regressing independent variables against dependent variables.

V. Research Findings and Discussions

5.1 Descriptive Statistics

Table 1 shows the descriptive statistics for the financial and non-financial sector respectively for period 2016–2020

Table 1: Descriptive Results

Variable	Obs	Mean	Std.Dev	Minimum	Maximum
ROE	275	0.206	0.216	-0.473	1.628
ROA	275	5.164	6.442	-0.357	27.580
Board Composition structure	275	0.838	0.369	0.000	1.000

Board independence	275	0.733	0.443	0.000	1.000
Board committee structure	275	0.879	0.326	0.000	1.000

Source: Authors (2023)

The results showed that the mean ROE of firms listed in NSE from 2016 to 2020 was 0.206. In addition, the minimum ROE was -0.473 and a maximum of 1.628. The standard deviation was 0.216, implying that the ROE of various listed firms was not varied from the mean.

The study also showed that the mean ROA of firms listed in NSE between 2016 and 2020 was 5.164. In addition, the minimum ROA was -0.357 and a maximum of 27.580. The standard deviation was 6.442, implying that various listed firms' ROA was not different from the mean.

The board size measured the board composition structure. The study findings also showed that the mean board size of firms listed in NSE from 2016 to 2020 was 0.838. In addition, the minimum board size was 0 and a maximum of 1. The standard deviation was 0.369, implying that the board size of various listed firms was not varied from the mean.

The CEO duality measured the board's independence. The study, therefore, showed that the mean CEO duality of firms listed in NSE between 2016 and 2020 was 0.733. In addition, the minimum CEO duality was 0 and a maximum of 1. The standard deviation was 0.443, implying that the CEO duality of various listed firms was not varied from the mean.

The board committee measured the board committee structure. The study, therefore, showed that the mean of the board committee listed in NSE from 2016 to 2020 was 0.879. In addition, the minimum board committee was 0 and a maximum of 1. The standard deviation was 0.326, implying that the board committee of various listed firms was not varied from the mean.

5.2 Trend Analysis

This section presents the analysis of the trends of the variables. The study conducted a trend analysis to establish the movement of the variables over time.

5.2.1 Trend Results for Financial Performance

The trend results for return on assets was shown in Figure 1.

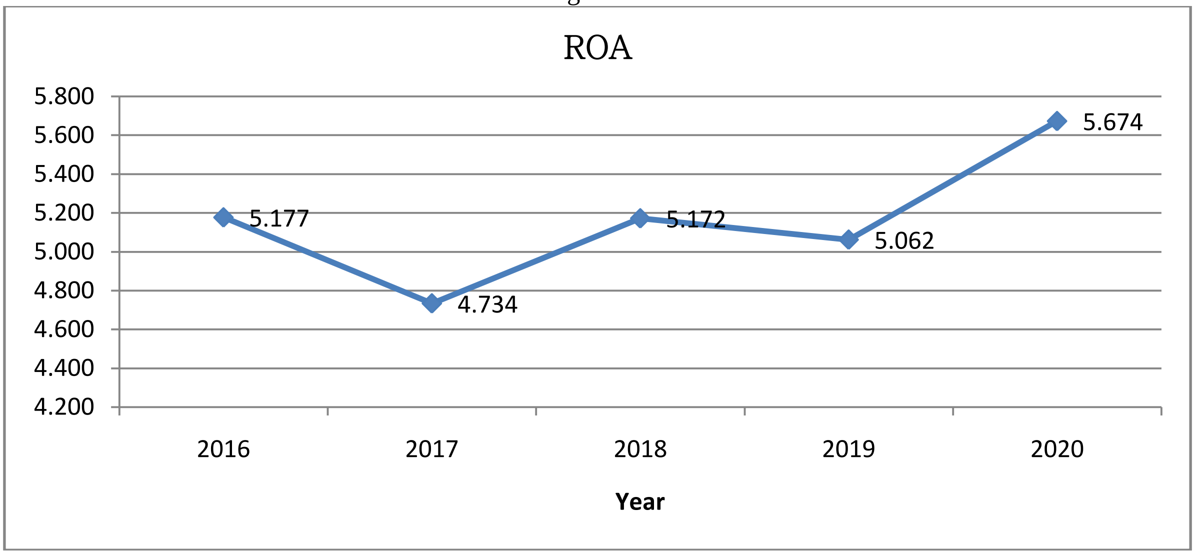


Figure 1: Return on Assets

Source: Authors (2023)

Results showed that the mean ROA for the firms listed in NSE was 5.177 in 2016. However, the mean ROA declined to 4.734 in 2017 but increased to 5.172 in 2018. The ROA's mean declined to 5.062 in the year 2019 but further increased to 5.674 in the year 2020. That implied that the ROA of most NSE firms was irregular across 2016 – 2020.

The trend results for return on equity were shown in Figure 2.

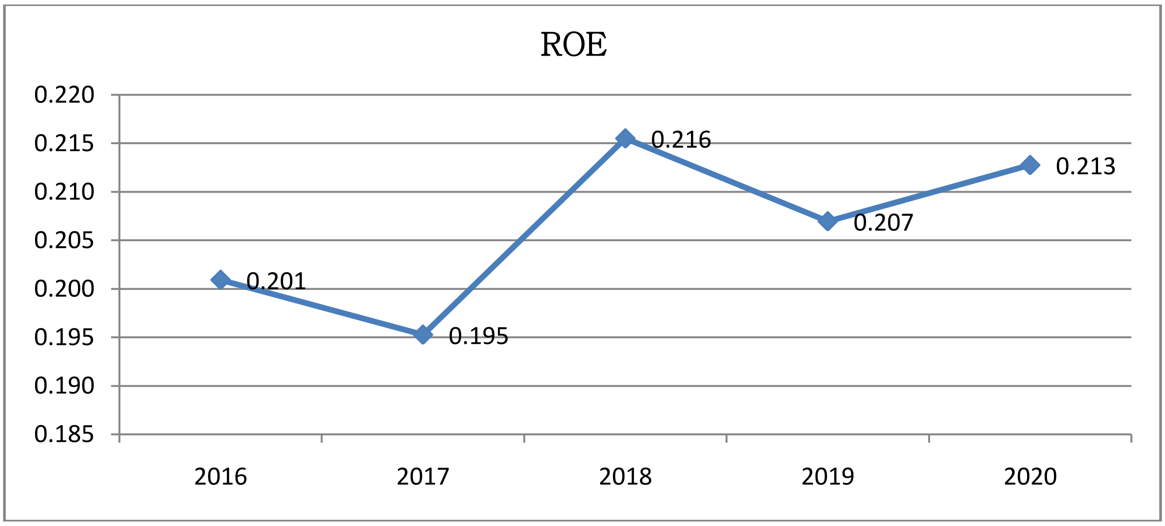


Figure 2: Return on Equity

Source: Authors (2023)

Results showed that the mean ROE of firms listed in NSE was 0.201 in 2016. However, the mean ROE of firms listed in the NSE declined to 0.195 in 2017 and increased to 0.216 in 2018. The mean ROE further declined to 0.207 in the year 2019 and further increased to 0.213 in the year 0.213. That implied that the ROE of most NSE firms was irregular across 2016 – 2020.

5.2.2 Trend Results for Board Size

The trend results for board size were shown in Figure 3.

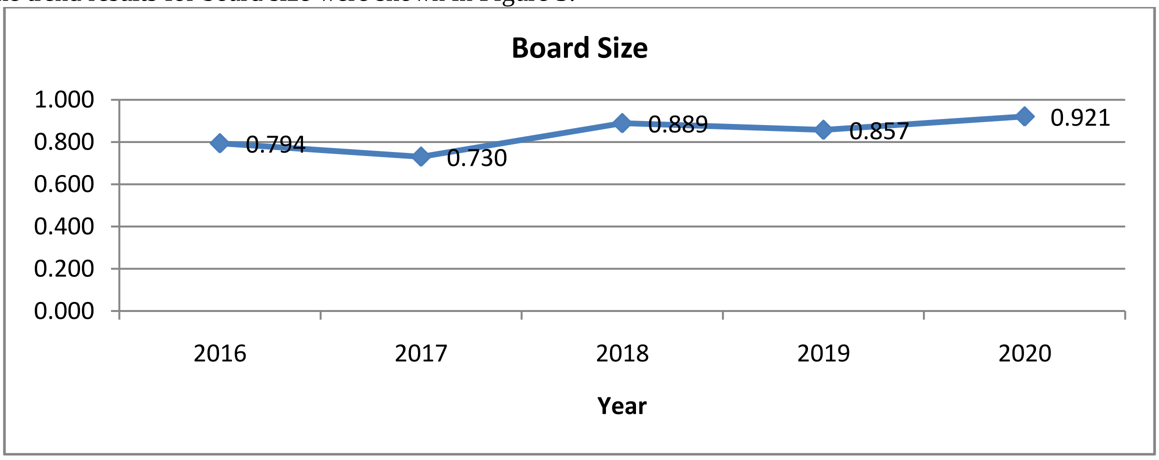


Figure 3: Board Size

Source: Authors (2023)

The results showed that the mean board size of firms listed in NSE was 0.794 in 2016. In 2017 the mean board size declined to 0.730 and rose to 0.880. In the year 2019, the mean board size rose to 0.857 and further rose to 0.921 in the year 2020. That implied that the board size of most NSE firms was irregular across 2016 – 2020.

5.2.3 Trend Results for CEO Duality

The trend results for CEO duality were shown in Figure 4.

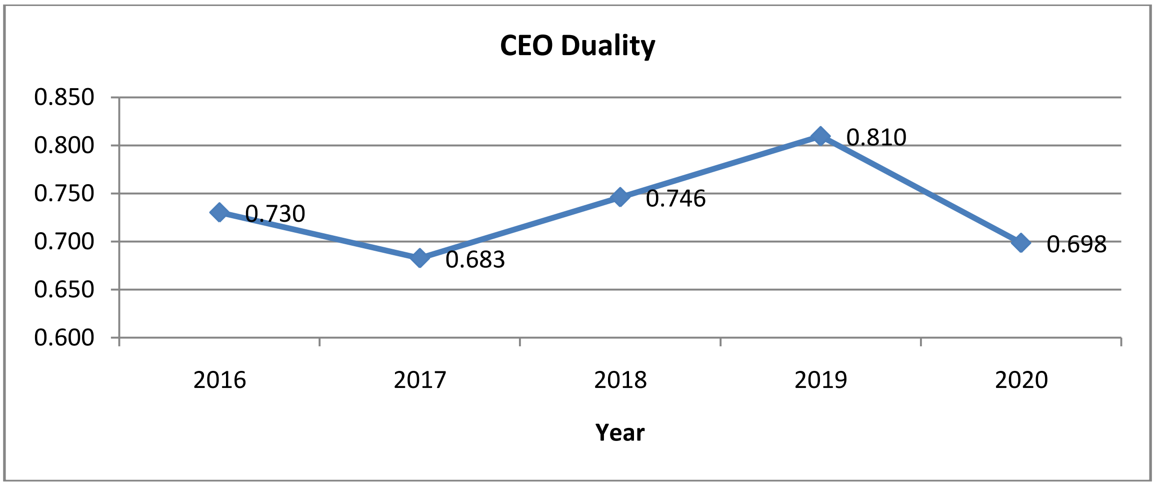


Figure 4: CEO Duality

Source: Authors (2023)

The results showed that the mean CEO duality of firms listed in NSE was 0.730 in 2016. In 2017 the mean of CEO duality declined to 0.683 and rose to 0.746. In 2019, the mean board size rose to 0.810 but declined to 0.698 in 2020. That implied that the CEO duality of most NSE firms was irregular across 2016 – 2020.

5.2.4 Trend Results for Board Committee

The trend results for board committee were shown in Figure 5.

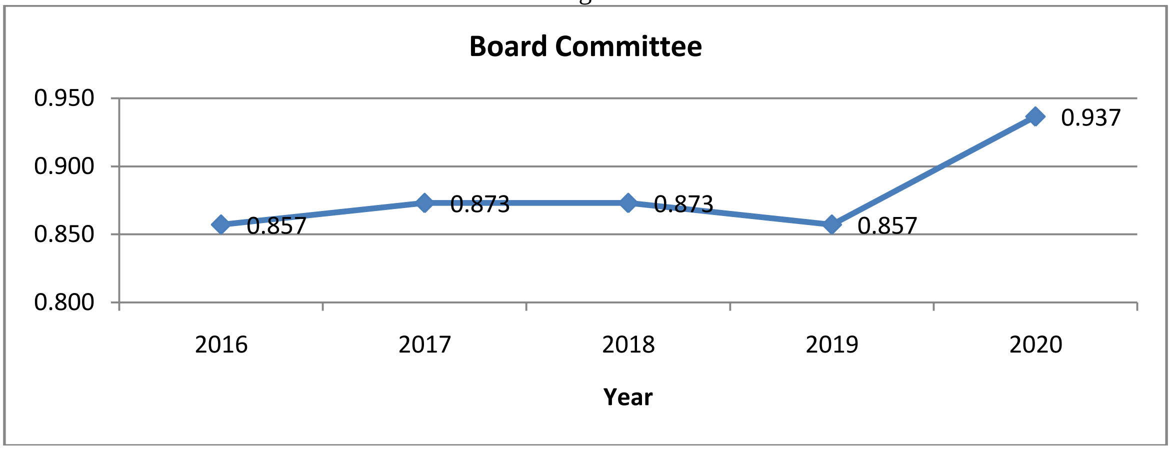


Figure 5: Board Committee

Source: Authors (2023)

The results showed that the mean of the board committee of firms listed in NSE was 0.857 in 2016. In 2017 the mean of the board committee rose to 0.873 and further rose to 0.873. In 2019 the mean of the board committee declined to 0.857 but rose to 0.937 in 2020. That implied the board structure of most NSE firms was improving across 2016 – 2020.

5.3Correlation Analysis

The study conducted a spearman's correlation analysis for corporate governance and financial performance using ROA to examine the statistical relationships between each pair of variables. Table 2 shows the correlation matrix of all the variables.

Table 2: Correlation Matrix Using ROA

	ROA	**Board Composition structure**	**Board independence**	**Board committee structure**
ROA	1			
Board Composition structure	-0.037	1		
	0.509			

Board independence	0.068	0.125	1	
	0.028	0.027		
Board committee structure	-0.242	0.155	0.041	1
	0	0.006	0.467	

Source: Authors (2023)

The results in Table 2 show that board composition had a negative and insignificant correlation with financial performance (ROA) (r=-0.037, p=0.509). The findings agreed with Ongore et al. (2015), who indicated that board composition had a negative relationship with financial performance.
Further, results revealed that board independence had a positive and significant correlation with financial performance (ROA) (r=0.068, p=0.028). The findings agreed with Ebrahim (2014), who found a positive relationship between CEO duality with ROA.
Results also showed that board committee structure negatively and significantly correlated with financial performance (ROA) (r=-0.242, p=0.000). The findings disagreed with Ebrahim (2014), who found a positive relationship between the board committee with ROA.
The study conducted a spearman's correlation analysis for corporate governance and financial performance using ROE to examine the statistical relationships between each pair of variables. Table 3 shows the correlation matrix of all the variables.

Table 3: Correlation Matrix Using ROE

	ROE	**Board Composition structure**	**Board independence**	**Board committee structure**
ROE	1			
Board Composition structure	-0.066	1		
	0.244			
Board independence	0.124	0.125	1	
	0.028	0.027		
Board committee structure	-0.026	0.155	0.041	1
	0.651	0.006	0.467	

Source: Authors (2023)
The results in Table 4.3 show that board composition structure had a negative and insignificant correlation with return on equity (r=-0.066, p=0.244). The study findings agreed with Ongore and Bosire**,** (2015), who indicated that the board size negatively affected return on equity.
In addition, board independence had a positive and significant correlation with return on equity (r=0.124, p=0.028). The findings agreed with Waithaka et al. (2014), who showed a positive relationship between board independence and financial performance. Further results showed that board committee structure had a negative and insignificant correlation with return on equity (r=-0.026, p=0.651). The findings disagreed with Ebrahim, (2014), who found a positive relationship between the board committee with ROE.

5.4 Effect of Corporate Governance Practices on Financial Performance

Regression analysis was conducted to determine whether there was a relationship between corporate governance practices and financial performance. Table 4 presents the regression model on corporate governance practices versus financial performance using ROA.

Table 4: Corporate Governance Practices on Financial Performance (ROA)

Fixed-effects (within) regression		**Number of obs = 275**			
Group variable: firm1		**Number of groups =55**			
R-sq:					
Within	=	0.390	F(3,249)	=	34.150
Between	=	0.498	Prob > F	=	0.000
Overall	=	0.429			

ROA	**Coef.**	**Std.Err**	**Z**	**P>|z|**	**(95% conf.interval)**	
Board Composition structure	1.369	0.468	2.930	0.004	0.448	2.290
Board independence	-0.912	0.366	-2.490	0.013	-1.634	-0.191
Board committee structure	1.633	0.560	2.910	0.004	0.529	2.737
_cons	3.250	0.622	5.220	0.000	2.024	4.475
sigma_u	6.398					
sigma_e	2.263					
Rho	0.889					

Source: Authors (2023)

As presented in the table, the coefficient of determination overall R Square is 0. 429. That implied that corporate governance practices explain 42.9% of the variation in return on assets. The findings further confirm that corporate governance practices had an overall significant effect on financial performance using ROA {F (34.150, p=0.006)}.This indicates that the findings were significant at a p value less than 5% ($p<.05$).

Therefore, corporate governance practices account for a significant percentage change in Return on Assets of the firms. These values are statistically significant since the p-values were less than 0.05. It can be inferred from these values that a unit change in corporate governance practices would lead to a unit change in return on assets. These findings agreed with Wangu, (2017), who indicated that sound corporate governance practices are the recipe for the good financial performance of any firm since it ensures better management and fair, efficient and transparent administration that enables an organization to meet its defined objectives.

The analysis tested the null hypothesis (Ho1) that corporate governance practices have no influence on the financial performance of firms listed in the NSE using ROA.Consequently, the study does not reject the null hypothesis and accepts the alternative hypothesis that corporate governance practices have a statistically significant influence on the financial performance of firms listed in the NSE using ROA. Thus, corporate governance practices have a significant influence on the Financial Performance (ROA) of listed firms in the Nairobi Securities Exchange, Kenya. These findings agreed with Wangui, (2017), who indicated that sound corporate governance practices are the recipe for the good financial performance of any firm since it ensures better management and fair, efficient and transparent administration that enables an organization to meet its defined objectives.

The results showed that board composition positively and significantly affected financial performance using ROA (β =1.369, p=0.004). This implied that an increase in board composition would lead to a 1.369 change in return on assets of listed firms in Nairobi Securities Exchange, Kenya. The findings agreed with Ongore et al. (2015), who indicated that board composition had a negative relationship with financial performance.

The study's further results showed that board independence negatively and significantly affected financial performance using ROA (β =-0.912, p=0.013). This implied that an increase in board independence would lead to a 0.912 change in return on assets of listed firms in the Nairobi Securities Exchange, Kenya. The findings agreed with Ebrahim, (2014), who found a positive relationship between CEO duality with ROA. In addition, results showed that the board committee structure had a positive and significant effect on financial performance using ROA (β =1.633, p=0.004). That implied that an increase in board committee structure would lead to a 1.633 change in return on assets of listed firms in Nairobi Securities Exchange, Kenya. The findings agreed with Ebrahim, (2014), who found a positive relationship between the board committee with ROA.

$Y = 3.250 + 1.369X1 - 0.912X2 + 1.633X3$

Where: Y = Financial Performance (ROA)

X1 = Board Composition

X2 = Board Independence

X3 = Board committee structure

Table 5 presents the regression model on corporate governance practices versus financial performance using ROE.

Table 5: Corporate Governance Practices on Financial Performance (ROE)

Fixed-effects (within) regression		**Number of obs = 275**			
Group variable: firm1		**Number of groups = 55**			
R-sq:			F(3,24)	=	9.67
Within	=	0.218	Prob >F	=	0.009

Between	=	0.258				
Overall	=	0.207				
ROE	**Coef.**	**Std.Err**	**z**	**P>|z|**	**(95% conf.interval)**	
Board Composition structure	0.289	0.067	10.350	0.000	0.558	0.820
Board independence	0.148	0.030	4.970	0.000	0.206	0.089
Board committee structure	0.011	0.032	0.350	0.724	-0.052	0.075
_cons	0.170	0.036	4.750	0.000	0.099	0.240
sigma_u	0.183					
sigma_e	0.130					
Rho	0.664					

Source: Authors (2023)

As presented in the table, the coefficient of determination overall R Square is 0.207. That implied that corporate governance practices explain 20.7% of the variation in Return on equity. The findings further confirm that corporate governance practices had an overall significant effect on financial performance using ROE {F=9.67, p=0.009)}. This indicates that the findings were significant at a p value less than 5% (p<.05). Therefore, corporate governance practices account for a significant percentage change in Return on equity of the firms.These values are statistically significant since the p-values were less than 0.05. It can be inferred from these values that a unit change in corporate governance practices would lead to a unit change in Return on equity. These findings agreed with Wangui, (2017), who indicated that sound corporate governance practices are the recipe for the good financial performance of any firm since it ensures better management and fair, efficient and transparent administration that enables an organization to meet its defined objectives.

The analysis tested the null hypothesis (Ho1) that corporate governance practices have no influence on the financial performance of firms listed in the NSE using ROE. The study, therefore, does not reject the null hypothesis and accepts the alternative hypothesis that corporate governance practices statistically significantly influence the financial performance of firms listed in the NSE using ROE. Thus, corporate governance practices have a significant influence on the Financial Performance (ROE) of listed firms in the Nairobi Securities Exchange, Kenya

The results showed that board composition positively and significantly affected financial performance using ROE (β =0.249, p=0.000). This implied that an increase in board composition would lead to a 0.249 change in the Return on equity of listed firms in the Nairobi Securities Exchange, Kenya. The study findings were inconsistent with Ongore and Bosire, (2015), who indicated that the board's size negatively affected Return on equity. Further results showed that board independence positively and significantly affected financial performance using ROE (β =0.148, p=0.000). This implied that an increase in board independence would lead to a 0.148 change in the Return on equity of listed firms in the Nairobi Securities Exchange, Kenya. The findings agreed with Ebrahim, (2014), who found a positive relationship between CEO duality with ROA.

In addition, results showed that the board committee structure had a positive and insignificant effect on financial performance using ROE (β =0.011, p=0.724). That implied that an increase in board committee structure would lead to a 0.011 change in the firms' Return on equity in Nairobi Securities Exchange, Kenya. The findings agreed with Ebrahim (2014), who found a positive relationship between board committee structure with ROE.

Y =0.170 + 0.249X1 +0.148X2 + 0.011X3
Where: Y = Financial Performance (ROE)
X1 = Board Composition
X2 = Board Independence
X3 = Board committee structure

VI. summary of Findings, Conclusions and Recommendations of the Study

6.1 Summary of Findings

The trend results showed that the board size of most NSE firms was irregular across 2016 – 2020. The CEO duality was also found to have an irregular trend across 2016 -2020. However, the board committee of the firms listed in NSE was increasing across 2016 – 2020.

Regression results showed that board composition positively and significantly affected financial performance using ROA and ROE. Further results showed that board independence negatively and significantly affected financial performance using ROA. However, board independence positively and significantly affected financial performance using ROE. In addition, results further showed that the board committee structure positively and significantly affected financial performance using ROA. However, the board committee structure had a positive and insignificanteffect on financial performance using ROE. Hypothesis results showed that there is a significant influence of corporate governance practices on both ROA and ROE.

6.2Conclusions of the Study

The study concluded that corporate governance practices had a significant influence on financial performance of listed firms in Nairobi Securities Exchange, Kenya using both ROA and ROE. This implies that any change in corporate governance practices will have effect on the financial performance of the firm. Also, the corporate governance practices adopted by the firm should be carefully evaluated since its implication will be reflected in the end results of the firm.

6.3 Recommendations of the Study

Having noted the conclusions as observed above, the study recommended that listed firms should establishsound corporate governance practices. This is because good corporate governance practices enable an organization to meet its defined objectives, andenhance its performance.

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