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Internal Corporate Governance Mechanism And Firms Value Of Selected Companies Listed At The Nairobi Securities Exchange, Kenya

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Abstract
Manufacturing, construction, and allied firms at the Nairobi Securities Exchange (NSE) faced significant challenges, as evidenced by a decline in market value over recent years. Despite effective corporate governance beneficial value in instilling the confidence of investors and enhancing the market value, empirical studies specifically focusing on the manufacturing, construction, and allied sector in Kenya were lacking. These sectors were important in the Big Four Agenda, specifically in affordable housing and manufacturing policies, with manufacturing expected to grow to 15% of GDP by 2030. Drawing from recent market data, it was evident that companies such as Unga Limited, Eveready, Mumias Sugar, Bamburi Cement, Crown Paints, and East African Portland experienced stagnation or decline in their firm value, highlighting the need for a comprehensive examination of corporate governance mechanisms within the sector. This study's main objective was to ascertain how internal corporate governance practices affected the selected firm value in the NSE. The specific objectives included examining the effect of board size, ownership structure, and board independence on firm value, determining the mediating effect of profitability and the moderating effect of foreign capital flows on the relationship between internal corporate governance mechanisms and firm value. The study variables were anchored on Agency Theory, Transaction Cost Theory, Stakeholder Theory, Knight's Theory of Profit, and Efficient Market Theory. The research opted for the explanatory design and collated panel data for 14 firms at the NSE covering the years 2014 to 2023. Data collection relied on secondary sources, primarily annual financial reports, to identify trends and patterns. Data analysis encompassed both descriptive and inferential techniques, including means, standard deviations, and panel regression analysis using the STATA software. Diagnostic tests were conducted to validate the model and address potential issues such as multicollinearity, normality, stationarity, heteroscedasticity, and model specification. The study tested various hypotheses and found that board size positively affected firm value ($p = 0.001 < 0.05$, $t = 3.41 > 6$, $\beta = 0.075$), with the optimal size around nine members. Board independence was positively correlated with firm value ($p = 0.006 < 0.05$, $t = 2.76 > 6$, $\beta = 0.008$), emphasizing the importance of having independent directors. The study also found that ownership structure, while balanced, did not significantly influence firm value ($p = 0.0287 > 0.05$, $t = 1.12 < 1.96$, $\beta = 0.065$), indicating other governance mechanisms may be more critical. The mediating variable profitability significantly mediated corporate governance and firm value association with a $\beta = 0.344$, ($p = 0.025 < 0.05$). The moderating variable foreign capital inflow was found to be a positive and significant determinant of foreign capital inflow. It explained 10.002% variance of firm value with a Beta of 1.85831. Recommendations for corporate managers include optimizing board size, increasing board independence, and enhancing profitability strategies. Policymakers are advised to promote balanced ownership structures and foreign investment. Stakeholders should advocate for governance practices that align with these findings to ensure sustainable firm value.
Keywords: *Internal Corporate Governance mechanisms, Firm Value, Board Size, Ownership Structure, profitability, Board Independence, Foreign Capital Inflows.*

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I. Introduction

Firm value is a critical metric reflecting stakeholders' perceptions of a company's worth, as indicated by its share price in the capital market (Jensen, 2019). It's a barometer reflecting the financial health of the company and its ability to generate returns for stakeholders (Hermalin & Weisbach, 2022). High firm value signifies a robust financial condition, instilling confidence in stakeholders to invest both equity and debt capital (Shleifer &

Vishny, 2019). Conversely, low firm value deters investment, reflecting a lack of confidence in their prospects (La Porta et al., 2020). Corporate governance plays a pivotal role in shaping firm value. Effective governance mechanisms, such as transparent reporting and strong board oversight, enhance stakeholders' trust in the firm's management, consequently boosting firm value (Hermalin & Weisbach, 2023). Conversely, poor governance practices, such as inadequate disclosure or conflicts of interest, can erode stakeholders' confidence, deteriorating the value of the company (Bebchuk et al., 2022). Thus, firm value and corporate governance association underscores the importance of robust governance frameworks in sustaining stakeholder trust and fostering firm performance (Adams & Mehran, 2023).

Globally, the manufacturing and construction sector stands out as a pivotal driver of economic growth, attracting substantial attention from policymakers and scholars seeking to optimize its operational efficiency (Azeem et al., 2020). This sectors not only contributes significantly to national GDP but also serves as a major generator of employment. Despite its crucial role in economic development, these firms have faced challenges in maintaining profitability and efficiency across various OECD member nations, leading to adverse impacts on revenue generation.

The importance of firm value in Manufacturing and construction and allied industries cannot be overstated. With an estimated 28,000 Manufacturing and construction companies operating globally by 2010, the sector represents a vast and diverse landscape of enterprises (Meredith, 2019). However, reports indicate that the Manufacturing and construction industry experiences a higher rate of business failures compared to other sectors, emphasizing the significance of firm value as a critical performance metric. Given the dynamic and competitive nature of the Manufacturing and construction market, firms must continuously assess and enhance their value proposition through corporate governance.

The manufacturing and construction industry plays a substantial role in both the US and the UK economies, with its performance significantly impacting job creation and economic sales. However, the sector also faces challenges, including a higher rate of business failures compared to other industries. Christensen (2015) highlights that in the US, the percentage of failed manufacturing and construction businesses exceeds the average failure rate, indicating the sector's vulnerability to economic fluctuations. In a similar vein, Strischek and McIntyre (2018) point out that the number of US manufacturing and construction enterprises has dropped significantly in a short amount of time, which shows how vulnerable the sector is to market forces and instability. The fact that even Japanese and German conglomerates in the construction and manufacturing industries have gone bankrupt highlights the inherent hazards of the industry. Listed companies are valued an estimated $80 trillion as of 2019 (De-LaCruz et al. 2019). Without considering their influence on the economy, their value has been diminished due to falling share prices and a global contraction in market capitalization (Cheffins, 2021).

Manufacturing-related businesses contribute significantly to the UK economy by generating jobs and adding value to the national economy. But construction companies have had their development trajectory disrupted by problems including material shortages and excessive inflation rates, which has resulted in closures and insolvencies. Globally, the fall of major companies including Enron, Coloroll, and Ferranti in the United States and WorldCom, Lehman Brothers, and Coloroll in the United Kingdom has prompted an examination of corporate governance standards (Naseem et al., 2017). These high-profile incidents have shown how critical good governance processes are for reducing risks and making sure companies are held accountable.

The Asian economic crisis of 1997 revealed gaps in governance norms and unethical business conduct, which, according to Zhao, Tan and Park (2014), sparked the growths of corporate governance practices in Asia. There needs to be a worldwide reassessment of governance structures because unethical activities and corporate misconduct have eroded investor and shareholder trust. Financial market confidence, openness, and accountability may be restored by regulatory changes and stricter oversight of business actions (Naseem et al., 2017). Corporate governance practices in the manufacturing and construction sectors interact with company value trends, highlighting the importance of strong governance frameworks in protecting shareholder interests and promoting long-term development.

Concerns about corporate governance procedures have centered on the precipitous fall in Nigerian business value. Researchers in Nigeria looked at 63 publicly traded companies that weren't involved in banking from 2012 to 2019 to see how corporate governance compliance affected company performance (Mary et al., 2022). Utilizing an agency theory framework, the research used a compliance index that was based on the Nigerian Security and Exchange Commission. Egejuru (2023) established that compliance rates with CG practices rose over time. However, compliance and performance in financial terms were negatively correlated. This suggests that there are obstacles to turning governance practices into value creation.

The fall in market capitalization from 6161 points in 2007 to 2789.64 points in 2016 is evidence of variations in business value in the Kenyan securities market (Gitagia, 2020). With a market capitalization that ranks it among the most significant in East and Central Africa, the NSE is second to none. Other notable exchanges in the area include those in Tunisia, Egypt, and Morocco. Companies subject to regulatory oversight regarding

their capital structure, investment practices, and cash management are part of the 67 registered companies that make up the NSE's 14 sectors (Gitagia, 2020).

Shares traded in Uganda fell 84%, from Ush. 256 million to Ush. 41 million, and investors in Kenya lost about $70 million as the stock market index fell from 6161 points to 2474.75 points between 2007 and 2009, due to the decline in firm value and investor losses (Uganda Securities Exchange, 2024). Uchumi Supermarkets, Eveready East Africa, and Fashion Retailer Deacon are just a few of the listed corporations that have had financial troubles and corporate governance issues. Financial instability, a loss of investor trust, and a consequent drop in business value may all be consequences of poor corporate governance standards inside listed corporations. Companies listed on the NSE have encountered financial and governance issues, which have shown how important strong governance frameworks are for protecting shareholder interests, being transparent, and improving sustainability in the long run.

According to Onyango (2023), Aluoch (2023) and Gitagia (2020) the Tobin's Q for the majority of NSE firms experienced a notable decline during the period from 2018 to 2023. According to NSE Monthly Market Statistical Bulletins (2024) listed manufacturing and construction companies have had a significant decline in their income levels resulting to a drop of their market value by an average of 29.9% from 2018 to 2023. Apart from East Africa breweries limited, firms in the construction and allied firms had constant or declining firm value for the period 2015 to 2018 (NSE, 2015-2022). East Africa Portland decline in Tobin's Q value from 9.219 in 2014 to 0.49 in 2022, Bamburi decline from 1.843 in 2014 to 0.589 in 2022, crown paints had a flat performance with 1.13 in 2014 and 1.14 in 2022 (NSE 2014-2023). This downward trend in market value not only affects individual investors but also has broader implications for the financial stability and investment landscape of the securities market. Effective corporate governance enhances investor perception and confidence in any sector, potentially attracting more investment and boosting market value. However, an empirical study on the effect of corporate governance on firm value in manufacturing and construction and allied sector in Kenya need to be carried out.

Therefore, this study sought to bridge these gaps by examining the direct relationship between internal corporate governance mechanisms and the firm value of selected firms listed as the Nairobi Security Exchange. Specifically, the study focused on three key independent variables: Board size, Board Independence, Ownership structure. These independent variables were tied to the dependent variable, firm value, with profitability and foreign capital inflows serving as mediating and moderating variables respectively.

II. Literature Review

The empirical studies conducted on the effect of Board size, ownership structure and Board independence provide valuable insights into the impact of these internal corporate governance mechanisms on firm value. However, there are some limitations to the existing studies. One limitation of these studies is that they tend to focus on a specific country or region, sector or industry which may limit the generalizability of the findings. For instance, the research that was conducted by Guo and Yu (2024) delved into board size and performance within S&P USA companies and established that odd-numbered boards are more effective than even-numbered ones. It is unclear, however, how similar dynamics play out in other settings, such as developing markets like Kenya. In a similar vein, Oluwole (2021) investigated corporate governance and profitability of Nigerian banks. It is possible that the conclusions of this studies cannot be generalized to other nations.

Other studies explored the banking or insurance sectors whose regulatory frameworks and financial systems are different from manufacturing and construction and allied firms. Wanyonyi and Olweny's (2021) examined governance practices' effect on the profitability of public insurance firms domiciled in Kenya as Chepkosgei (2018) explored the impact of board composition on bank profits in Kenya. Though, the study findings are useful they are limited in terms of applicability as the banking and insurance sector are subject to banking and insurance regulators. Manufacturing and construction and allied firms are not subject to federal regulatory authority.

The research also investigated the effect of ownership structure on the firm value of the selected firms. Musa and Yahaya (2023), Abubakar, Umaru, and Daikwo (2019) and Hykaj (2020) all do research in these area. The bulk of the research has ignored firm value as the focus has been on ownership structure and profitability. Firm value is different from profitability as a profitable firm doesn't necessarily possess a higher firm value than a less profitable firm. It is also possible for a company to be profitable and not be able to grow, secure financing or attract investors.

Further, the study explored Board independence and firm value. James, Borah, and Lirely (2022) and Fitri and Surjandari (2022) conducted studies in this area. Nevertheless, their research was centered on a distinct setting, resulting in a lack of comprehension of the functioning of these dynamics in developing economies like Kenya.

This study also examined the mediating effect of profitability on the relationship between internal corporate mechanisms and firm value. Most studies conducted in the past have examined profitability in the lens

of a dependent variable and not mediating variable. Panjaitan and Supriati (2023) conducted a study on leverage and firm profit on with firm size as a mediating and moderating element. Ochego, Omagwa, and Muathe (2019) examined the role of financial performance as a mediator in the CG and firm value association for Kenyan banks and Leondo, Santoso, and Willim (2022) investigated profitability and leverage influence on business value, with the moderator being size. Knowing the mediating role of profitability is crucial as it helps explain how internal corporate governance mechanisms influences firm value, aiding in understanding mechanisms of effect and potentially identifying more effective intervention strategies.

This study also examined the moderating role of foreign capital inflows on the relationship between internal corporate mechanisms and firm value. Chen et al. (2016) explored foreign capital inflows on the progress of financial systems and the expansion of economies in developing regions. Kim and Yang (2011) examined how foreign capital inflows influence stock market volatility in Asian nations. Ahmed and Zlate (2014) investigated the correlation between foreign capital inflows, local credit expansion, and financial stability in emerging nations. All the past studies employ foreign capital inflows as the independent variables, whereas the current study adopts it as the moderating variable influencing the relationship between internal corporate governance mechanisms and firm value.

III. Research Methodology

The researcher opted for an explanatory research design. The population consisted of 14 selected non-financial firms, five (5) in the construction and allied sector, as well as nine (9) manufacturing firms at the NSE) in Kenya. The specified time frame for analysis was a decade, from 2014 to 2023.

Data analysis was accomplished using STATA software version 18. The quantitative findings were then presented by the researcher through the use of tables. The findings were then summarized using descriptive statistics. Inferential were the; Pearson correlation, multiple regressions, ANOVA and coefficient of determination. To test the relationship between study variables, a panel regression model was used.

Empirical Model

Tobins Qit = $\beta 0it + \beta 1it\ BSit + \beta 2it\ BIit + \beta 3it\ OSit + \varepsilon it$ ………………………………… 3.1

Y represented the dependent variable (Firm Value) as measure by Tobin's q

βo is the intercept, β1, β2…βn are the regression coefficients of independent variables, BS, BI, and OS were determinants hypothesized to affect firm value which were board size, ownership structure and board independence. The cross-sectional aspect was represented by I, in the 14 selected firms and the trend was represented by t…10years (2014-2023).

Test of Mediation

The four-step casual path analysis proposed by Baron and Kenny (1986) was adopted to test for statistical mediation of profitability on corporate governance mechanism and firm value association.

Step 1: Static Panel Regression of the independent variable, internal corporate governance mechanisms (Xi) (composite index of board size, board independence and ownership structure) predicting the dependent variable firm value (Tobin's q)

Tobin's Q = $\beta_{0it} + \beta_{4i} X_i + \varepsilon$……………………………………………………………….3.1

Step 2: Regression of independent variable internal corporate governance mechanism Xi Predicting the mediating variable Pit (Profitability).

$P_{it} = \beta_0 + \beta_{5it} X_i + \varepsilon$………………………………………………………………………….3.2

Step 3: The mediating variable P_{it} (Profitability) predicting the dependent variable firm value (Tobin's Q)

Tobin's Q = $\beta_{0it} + \beta_{6it} P_{it} + \varepsilon$……………………………………...……………………3.3

Step 4: Static Panel Regression analysis with internal corporate governance mechanism CG_{it} and the mediator (profitability) P predicting the dependent variable firm value (Tobin's Q)

Tobin's Q= $\beta 0it + \beta 7itCGit + \beta 8it\ Pit + \varepsilon$……………………………………………… ….3.4

Where:

CG_{it} = Composite Index of Corporate Governance of firm I and at time t

P_{it}= Profitability of firm I at time t

$\beta_{4it,\ 5,}$ and $_7$ are the coefficients of the composite index of corporate governance

β_{6it} and β_{8it} are the coefficients of P

$\beta_{o\ it}$ = Constant

ε = Error Term

Testing the Moderating Effect

The moderation analysis aimed to test the differential effects of internal corporate governance mechanisms on the firm value in the moderator (foreign capital flow) presence. The moderation test was conducted using the equation suggested by Aiken and West (1991).

Tobin's Q= $\beta_0 + \beta_{1it}CG_it + \varepsilon it$…………………………………………………………...3.5
Tobin's Q= $\beta_0 + \beta_{1it}CG_it + \beta_{2it}FCF_{it} + \varepsilon_{it}$…………………………………………….………….3.6
Tobin's Q= $\beta_0 + \beta_{1it}CG_it + \beta_{2it}FCF_{it} + \beta_{3it}\, CG_{it}\, FCF_{it} + \varepsilon_{it}$…………………….………………3.7
Where.
β_0 = Constant
β_{1it} = Coefficient of composite index of Corporate Governance
β_{2it} = Coefficient of Foreign Capital Flow
β_{3it} = coefficient of the interaction of the composite index of CG and the moderator (FCF)
FCF= Foreign Capital Flow
CG= Composite Score index of Internal Corporate Governance mechanism = $\frac{\{(\text{Weighta x a})+(\text{Weightb x b}) + (\text{Weightc x c})\}}{\text{sum of weights}}$
a = Board Size; b = Ownership Structure; c= Board Independence
Weight a = Risk Weight of Board Size
Weight b= Risk Weight of Ownership Structure
Weight c = Risk Weight of Board Independence

IV. Research Findings And Discussions

The mean, minimum, and maximum values of variables, as well as standard deviation are presented. This section analyzed descriptive statistics where each study variable gave mean and standard deviations. The number of observations was 139 because one of the firms did not have data for one year.

Table 1: Descriptive Statistics

	Obs	Minimum	Maximum	Mean	Std. Deviation
Board Size	139	2	15	8.99	3.260
Ownership Structure (%)	139	21	40	30.5	2.223
Board Independence	139	.20	.79	.4508	.12356
Firm Value	139	.69	2.93	1.9717	.39760
Profitability	139	.05	.36	.1990	.06870
Foreign Capital Flow	139	1.27	42.00	15.6202	7.94657

Source: Author (2024)

From the results presented in Table 1, the average board size is 9 members, ranging 2 to 15 members with a variation from the mean indicated by standard deviation of 3.260. This suggests a diverse range of board compositions for the studied population. A board size of 9 is generally considered optimal, as it balances the benefits of diverse perspectives and effective decision-making (Nomran & Haron, 2020). Larger boards can sometimes lead to coordination issues and slower decision-making processes, while smaller boards may enhance agility and responsiveness. Thus, the moderate average size reflects an inclination towards effective governance without compromising operational efficiency. Overall, the data suggest that firms may benefit from periodically reviewing their board size to ensure it aligns with their strategic goals.

The ownership structure of the firms revealed an average score of 30.5%, ranging from 21 per cent to 40 per cent with a SD of 2.223 from the mean. This implies a diversified ownership concentration, suggesting that ownership is distributed among several stakeholders rather than being concentrated in a few hands. A moderate ownership structure signifies chances of good governance, as shareholders are likely to be more involved in oversight (AlQadasi & Abidin, 2018). However, if ownership becomes too concentrated, it may lead to agency issues. Therefore, firms should consider maintaining a balance in ownership distribution to promote effective governance and align the interests of all stakeholders.

Board independence had an average score of 0.45, with a range of 0.20 to 0.79 and SD of 0.12. The mean value shows that less than half of the board members are independent directors. The presence of independent directors is crucial for effective governance, as they can provide unbiased oversight and mitigate conflicts of interest. The relatively low average suggests that many firms may be lacking adequate oversight, which could affect their governance quality and, consequently, their performance. To improve governance, firms may consider increasing the proportion of independent directors on their boards, thereby enhancing their oversight capacity and accountability.

The average firm value was found to be 1.97, ranging 0.69 to 2.93 with an SD of 0.397. This indicates that firms maintain a solid market value, reflecting positively on their overall performance and market perception. A higher firm value typically correlates with better financial health and operational efficiency. The relatively small standard deviation suggests that while firms have varying market valuations, they are generally perceived favorably in the marketplace. To sustain and enhance firm value, companies should focus on strategic initiatives that improve operational efficiency and market competitiveness, ultimately enhancing investor confidence.

Profitability is observed with a mean value of 0.1990, min of 0.05 and max of 0.36 and had an SD of 0.068. These results indicate a moderate level of profitability among the firms studied. While some firms achieve higher profitability, others struggle, leading to a significant variation in performance. This variability may result from differences in operational efficiencies, market conditions, or management practices (Adnan *et al.,* 2023). Firms with consistent profitability tend to attract more investment and create more value for stakeholders. Therefore, it is crucial for companies to identify and implement best practices that enhance profitability, such as cost management strategies and effective pricing models.

Further, the analysis revealed a mean foreign capital flow of 15.62, with a substantial range from 1.27 to 42.00 and a standard deviation of 7.95. This significant variability suggests that while some firms excel at attracting foreign investment, others are less successful. The ability to attract foreign capital is often associated with better firm performance and growth opportunities (Borin & Mancini, 2016). The relatively high average indicates a healthy interest from international investors, which can enhance firm resources and capabilities. To leverage this, firms should develop strategies to attract foreign capital, such as improving corporate governance.

From the correlation results presented in Table 2, board size and firm value are positively but weakly correlated (r = 0.033, p = 0.000). The finding contradicts the results of Alouch (2023) who found that board size and firm value had a positive correlation which was not significant, it also doesn't support the findings by Wanyonyi & Olweny (2023) from insurance companies' context where the relationship was negative but not significant. However, in the commercial banking context Afif (2016) the findings supported a significantly positive association of board size on firm value.

The findings of the study also revealed ownership structure and firm value were positively and significantly related (r = 0.021, p = 0.023). The findings contradict, Alouch (2023) who found out that board ownership negatively influenced firm value. The findings also contradict Sulia (2018) who disaggregated ownership structure into family ownership, corporate ownership, government ownership and in all cases the correlation was insignificant.

The results also show that Board independence and firm value were positively but had a weak correlation (r = 0.096, p = 0.003). The findings contradict Wanyonyi & Olweny (2023) from the insurance context where the correlation was positive but not significant.in the commercial bank context. Afif (2016) found an insignificantly positive association, this result was supported by Patel (2022). Kadongo Mokoaleli-Mokoteli and Maina (2014) in their study of NSE firms in Kenya where they found that profitability and firm value had a positive but not significant correlation. Akmad (2021) in a study carried out in Indonesian stock exchange found out that profitability and firm value had a positive significant coefficient. In addition, there appears to be no multicollinearity amongst the independent, moderating and mediating variables as all the r value are below 10.

Table 2: Correlation Analysis

		FV	BS	OS	BI	ROA	FCF
FV	Pearson Correlation	1	.033	.021	.046	.254	.029
	Sig. (2-tailed)		.000	.023	.003	.023	.017
BS	Pearson Correlation	.033	1	.626	.482	-.312	.773
	Sig. (2-tailed)	.000		.075	.063	.782	.442
OS	Pearson Correlation	.021	.626	1	.551	.369	.118
	Sig. (2-tailed)	.023	.075		.070	.402	.202
BI	Pearson Correlation	.096	.482	.551	1	.280	.280
	Sig. (2-tailed)	.003	.063	.070		.063	.103
ROA	Pearson Correlation	.054	-.312	.369	.280	1	.280
	Sig. (2-tailed)	.023	.782	.402	.063		.063
FCF	Pearson Correlation	.029	.773	.118	.280	.336	1
	Sig. (2-tailed)	.027	.442	.202	.103	.333	

Source: Author (2024)

Table 3 presents the results of the random effect panel regression. From the results presented in Table 3, the joint effect of board size, ownership structure and board independence (internal corporate governance mechanism) had effect on firm value as indicted by Wald Chi-Square 613.14, Probability >F 0.0000. This means the selected RE model is a good fit and it can explain a considerable percentage variance in the response variable-(firm value) due to the explanatory variables-corporate governance. In addition, the overall R-Squared is 0.8471 implying that about 84.71 percent of the changes in the firm value are determined by the internal corporate

governance factors that the study did consider and only 15.29 percent of the changes are determined by other factors that were beyond the scope of this study. R-squared measures the coefficient of determination which indicates the variability of firm value due to changes in internal corporate governance mechanism. alongside R-squared Rho. The contribution by each firm in the model is given by the value of rho which is 0.2845 implying that each firm contributes 28.45 percent in the model.

Findings in Table 3, also show that board size was a significant determinant of firm value (p = 0.001 < 0.05, t = 3.41 > 6). The association was also positive (β = 0.075). Ownership structure was an insignificant determinant of firm value (p = 0.0287 > 0.05, t = 1.12 < 1.96). The association was also positive (β = 0.065). The coefficient of board independence was 0.080 with a p = 0.006 < 0.05 and t-statistic of 2.76 > 1.96 this indicating a statistically significant effect.

Table 3: Random Effect Panel Regression Results

Variable	Coefficient	Std. Error	z-value	p-value
Board Size	0.075	0.022	3.41	0.001
Ownership Structure	0.063	0.018	1.12	0.287
Board Independence	0.080	0.029	2.76	0.006
Constant	0.902	0.245	3.68	0.000
F(9, 17)	61.23	Probability >F		0.0000
Sigma u	0.7465	Wald Chi-Square		613.14
Sigma e	2.558	Prob Chi-Square		0.000
Rho	0.2845	R-Square	Within Between Overall	0.8458 0.8674 0.8471

Source: Author (2024)

Table 4 presents the Step 1 of the Barron & Kenny (1986) mediating effect test.

Table 4: Step 1 of the Mediation Steps

Step	Regression and Path(s) tested	Predictor	Outcome	Unstandardized Coefficient B	Standardized Coefficient Beta	P value
1	c	CG	FV	0.232	0.293	0.003*

Source: Author (2024)

Table 4 shows that Step 1 passed the Barron & Kenny (1986) test since; β = 0.232, and p = 0.003 < 0.05), suggesting that corporate governance (CG) were statistically related to firm value (FV). This confirms that when the number of directors and board independence increased and the ownership structure is enhanced, companies registered an increase in their value, a linear relationship. Table 5 presents the Step 2 of the Barron & Kenny (1986) mediating effect test.

Table 5: Step 2 of the Mediation Steps

Step	Regression and Path(s) tested	Predictor	Outcome	Unstandardized Coefficient B	Standardized Coefficient Beta	P value
2	a	CG	P	0.412	0.333	0.041*

According to table 5 step 2 of Baron and Kenny (1986) passed Beta = 0.412, (p<0.05), suggesting that corporate governance contributed to increased profitability of the studied firms. Increasing the independent directors, thus giving the BOD more independence and enhancing the listed firms' ownership structure influences their profitability significantly.

Table 6 presents the Step 3 of the Barron & Kenny (1986) mediating effect test.

Table 6: Step 3 of the Mediation Steps

Step	Regression and Path(s) tested	Predictor	Outcome	Unstandardized Coefficient B	Standardized Coefficient Beta	P value
3	b	P	FM	0.382	0.301	0.001*

Source: Author (2024)

The third step of mediation demonstrates how the mediating influence of profitability on the business value. Correlating the mediator and the outcome alone is insufficient; the mediating influence on the response

variable should also be determined since the two variables are also influenced by the explanatory variables. Table 6 shows that step three passed the Barron & Kenny (1986) test: β = 0.382, p = 0.001 < 0.05. This implies that there was proof that profitability (P) was statistically related to firm value (FV).

Table 7 presents the Step 4 of the Barron & Kenny (1986) mediating effect test.

Table 7: Mediation Role of Profitability on Corporate Governance and Firm Value

Step	Regression and Path(s) tested	Predictor	Outcome	Unstandardized Coefficient B	Standardized Coefficient Beta	P value
4	C'	CG P	FM	0.344	0.387	0.025*

Source: Author (2024)

Table 7 shows that mediation step 4 passed the Barron & Kenny (1986) test: β =0.344, (p = 0.025 < 0.05). Because the coefficients of path c/ is positive in sign (0.344) to the indirect effect (path ab), it was concluded that profitability mediated the corporate governance mechanism and firm value relationship. The results collectively suggest partial mediation, as all coefficients are significant, indicating that while profitability mediates corporate governance and firm value link, CG retains a direct effect on firm value even after accounting for profitability. These results show the significance of both aspects in strategic management and financial decision-making, underscoring the interaction between corporate governance practices and profitability in enhancing business value.

Table 8 presents the step 1 of the moderation effect test.

Table 8: Corporate Governance and Firm Value

Step	Predictor	Outcome	Unstandardized Coefficient B	Standardized Coefficient Beta	P value
1 R squared = 0.7396 F value = 8.46 Prob F = 0.000	CG	FV	0.232	0.293	0.003*

Source: Author (2024)

Table 8 shows that internal corporate governance index directly and significantly influenced Firm value (FV) since beta is 0.232 and p = 0.003 < 0.05. This indicates that as corporate governance had a joint effect on the firm value, corporate governance if enhanced in an organization the firm value also increases.

Table 9 presents step 2 of the moderation test.

Table 9: Firm Value, Foreign Capital Inflow and Corporate Governance

Firm Value |	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
CG |	0.78311	.2933	2.67	0.0315	.24497	.3694
FCF |	1.7981	.5211831	3.45	0.0225	.38851	1.29879
_cons |	2.79685	1.09252	2.56	0.041	.9907	3.1075

R-sq.: within = 0.7983
Wald chi2(6) = 622.31
F-test = 58.13
Prob > chi2 = 0.0011

Source: Author (2024)

Table 9 shows that corporate governance composite index had a positive and significant effect on firm value (β=0.78311, p=0.0315<0.05, t = 2.67>1.96) and foreign capital inflow directly and significantly influenced firm value (FV) since beta is 1.7981 and p = 0.0225 < 0.05. This indicates that as more foreign capital was injected into the firm, the business value increased. Consequently, we reject the null hypothesis, and accept the alternative hypothesis.

Table 10 presents step 3 of the moderation test.

Table 6: Moderating Effect of Foreign Capital Inflow

|	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
CG |	1.1577	0.3011	3.845	0.035	-.2449713	.0369451
FCF |	1.871839	0.8682	2.156	0.023	-.7885113	1.2987
*FCF *CG*|	1.85831	0.90871	2.045	0.016	-.8075617	1.1528
_cons |	-0.41098	.1623150	-2.532	0.001	-.0587452	.312135

R-sq: within = 0.8985
Wald chi2(6) = 672.95
F-test = 66.14
Prob > chi2 = 0.0064

Source: Author (2024)

Table 10 presents the overall moderating effect of foreign capital inflow on corporate governance index and firm value. Exogenous, moderator variable and interaction effect considered in the panel regression model resulted in 89.85% variability in firm value as observed from model R-squared. Thus, 10.5% of fluctuations result from variables not included in the model. Comparing R squared found before introduction of the moderator variable in table 8, after the introduction of moderator variable as an independent variable in table 9 and introduction of interaction effect in table 10 reveals that the inclusion of the interaction term resulted in R2 change of {0.8985 - 0.7983) = 0.1002, The results show a presence of a significant moderating effect. The moderating foreign capital inflow variable explains a 10.002 percent variance of firm value above and beyond the variance by internal corporate governance mechanisms.

Table 10 also shows that foreign capital inflow (FCF) was a significant moderator of the corporate governance and firm value (FV) relationship since p = 0.016 < 005. Beta was 1.85831 The positive value of this coefficient suggests that the presence of foreign capital flow strengthens the positive correlation between corporate governance (CG) and firm value relationship. The interaction term (β_3) is statistically significant; therefore, positing that foreign capital flow moderates internal CG mechanisms and FV relationship. These findings highlight the critical role of foreign capital flow in enhancing the positive effects of corporate governance on firm value, emphasizing the importance of integrating external financing strategies within corporate governance frameworks to optimize firm performance.

V. Conclusions

The study concludes that the average board size of approximately 8.99 members among the firms studied is within the optimal range for effective governance. The descriptive results indicate that this moderate size is likely to balance diverse perspectives with effective decision-making. The regression analysis further supports this by showing a significant negative effect of board size on firm value, suggesting that increasing board size beyond this range may diminish firm value. Therefore, firms should consider maintaining a board size that supports operational efficiency without leading to decision-making delays.

The findings reveal a moderate level of ownership concentration, with an average score of 4.85, indicating a balanced distribution of ownership among stakeholders. The regression results, however, suggest that ownership structure does not have a statistically significant impact on firm value. This implies that while ownership concentration may contribute to governance, its influence on firm value is minimal within the context of the firms studied. Consequently, firms should focus on other governance mechanisms to enhance firm value while ensuring that ownership concentration does not lead to governance issues.

The study concludes that board independence, with an average score of 0.4508, is below the ideal threshold where independent directors could provide substantial oversight. The regression results demonstrate that board independence has a significant positive effect on firm value, reinforcing the importance of independent directors in governance. This suggests that firms can enhance their governance quality and firm value by increasing the proportion of independent directors on their boards, thus ensuring better oversight and mitigating conflicts of interest.

Profitability, with a mean value of 0.1990, is identified as a critical factor in firm performance, as evidenced by the significant positive impact on firm value observed in the regression analysis. The variability in profitability among firms suggests differences in operational efficiency and market conditions. The study concludes that profitability is a key driver of firm value, and firms should prioritize strategies that enhance profitability, such as improving cost management and optimizing pricing models, to sustain and increase their market value.

The study finds that foreign capital flow, with a mean of 15.6202, is significantly variable among firms, indicating differences in their ability to attract foreign investment. The regression results confirm that foreign capital flow has a significant positive effect on firm value and also moderates the relationship between corporate governance and firm value. From the analysis, the study has clearly shown that the internal corporate governance

mechanisms the study did considered positively and significantly affect the firm value of the listed firms in the Nairobi Security Exchange, Kenya. This conclusion highlights the importance of enhancing internal corporate governance to boost the firm value of the listed firms.

VI. Recommendations

The study therefore recommends that Corporate managers (firm level implementation), Nairobi securities exchange (market level implementation) and the capital market authority (policy implementation) to critically evaluate and optimize board size to ensure it is conducive to effective decision-making and governance. Given the study's findings that an average board size of approximately nine members is optimal, managers should avoid excessively large boards that may hinder agility and responsiveness. Additionally, increasing the proportion of independent directors on the board is recommended to strengthen oversight and governance quality, which in turn can enhance firm value. Managers should also focus on strategies that improve profitability, such as refining cost management practices and adopting effective pricing models, as profitability has been shown to significantly impact firm value.

The study also found out that board independence had an effect on firm value therefore the study recommends that the Nairobi securities exchange (market level) and the capital market authority policy level) shareholders firm level) to ensure that the board of directorship is majorly composed of independent directors and is well diversified in terms of skills, gender and age. Furthermore, policies that incentivize the inclusion of independent directors on corporate boards could enhance governance practices across firms.

The study also found out that profitability had a mediating effect on firm value the study therefore recommends that corporate managers should enhance consistent bottom line (profitability) in order to create firm value in the long term. therefore, profit persistent is important in creating firm value. The corporate managers should therefore have strategies that enhance the market share and increase revenue generation.

Additionally, foreign capital flow had a moderating effect on the relationship between internal corporate governance mechanism and firm value, this could be due to firms adopting international practices of corporate governance which eventually enhance firm value. policymakers should consider developing frameworks that encourage foreign investment, as the study highlights the positive role of foreign capital flow in moderating the relationship between corporate governance and firm value. By facilitating an environment conducive to foreign investment, policymakers can help firms strengthen their resources and improve overall performance. The capital market authority should deepen the market by introduction of global depository receipt which will encourage more of foreign investors to buy shares of Kenyan firms.

Stakeholders, including investors and shareholders, should advocate for governance practices that align with the findings of this study. Specifically, they should support the maintenance of optimal board sizes and the inclusion of independent directors to ensure robust oversight and decision-making. Stakeholders should also recognize the importance of profitability as a key determinant of firm value and encourage management to implement strategies that enhance financial performance. Moreover, stakeholders should view foreign capital as a valuable resource and support initiatives that attract and retain foreign investment, which has been shown to positively influence firm value. By actively engaging in these areas, stakeholders can contribute to the long-term success and sustainability of the firms they are invested in.

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