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THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

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Abstract

This study is on the relationship between corporate governance and financial performance of companies listed at the Nairobi Securities Exchange. The study utilized earnings per share to measure financial performance. The study population was all the 64 companies listed at the Nairobi Securities Exchange. Quantitative secondary data for the year 2010 to 2019 was extracted from the companies' websites. The study used Pearson correlation and linear regression analysis and concluded that corporate governance affects firm financial performance. Based on the study findings, in practice boards that are properly constituted as per the corporate governance attributes used in this study and within the study findings may

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result in effective corporate governance that propels agents interest to those of the principal. For Policy, regulators like security or stock exchanges and capital market authorities may use the study findings in their supervisory role. In particular, Nairobi Securities Exchange may use the study findings to aid in revision of Nairobi Securities Exchange's rules and guidelines in terms of registration and deregistration of the companies.

Keywords: Corporate governance, Financial performance, Companies listed at the Nairobi securities exchange

INTRODUCTION

Corporate governance started being a topical and pertinent corporate issue at the start of 21st century preceding a massive large corporate failures and scandals like Enron and WorldCom at the start of the year 2000. The corporate failure that continues to be witnessed to the present has shaken the faith of investors in the financial arena and the current corporate governance practices (PABC, 2002). A common United States of America (USA) Conference Board's Commission on Public Trust and Private Enterprise 2003 states that the corporate failure suggest that the compact among shareholders, boards, and management remarkably weakened and now diminishing the trust of the public and investors on the corporate governance system and that it has begun to negatively impact corporate governance.

Corporate governance has been an agenda for code of corporate governance for many years. Globally, concern was on how organizations were managed and controlled. Centre of Corporate governance (2004) study on corporate governance for publicly listed corporates is important given that public listed companies are evaluated by the public and many conclusions can be drawn due to the risks involved including adverse publicity associated with governance failures and stakeholder relations.

Berle and Means (1932) propelled the agency theory in their study aimed at drawing the distinction between equity and giving direction in modern corporations. The research acknowledged that the principal-agent model is the basis of any discussion on the topic of corporate governance arising from the reports on Private Property and Modern Corporation. That said the researcher holds the view that the era of agency theory with its limited focus to owner agent relationship could be over since that time business was being conducted in a vacuum when the world was not a global village and linked as today. This study entailed to expand the slogan 'purpose of business is business' to include theories such as transactional cost theory, to cater for the benefits of the linked world and stakeholder theory to aid in factual analysis on the effect of perceived other groups on the firm's financial performance.

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Committee of Sponsoring Organization (1992) post public exposure version, states that the numerous financial scandals that hit financial institutions and investors at large did contribute to the appreciation of the most important role of the governance of firms. Since the last update of Principles of Corporate Governance in 2012 by the business roundtable, the environment in which public companies operate worldwide has become multifaceted for companies and investors alike. The business roundtable in its 2012 update states that the additional regulatory requirement levied on public companies in recent years have added extra costs as well as made it very difficult to manage and oversee corporations' business. The operational new challenges as well as the rigidity arising from regulatory perspectives causes need to review and update principles of corporate governance.

Although business roundtable 2012 argues that these principles are meant to guide both current practical and future effective corporate governance practices, it clarifies that all businesses are not the same be it from ownership structures, investors and or from regulatory perspective. Business roundtable concludes that since there is no tailor made approach to corporate governance that may suite all the companies, there is no need to attempt to offer or advocate for particular option and would rather leave it to the considered judgment of boards, management of companies and shareholders. This study interprets this to mean, each country and or body corporate may see these principles as a guide in developing the processes and practices that are suitable to the needs and circumstances hence more research on corporate governance. The importance of corporate governance is further drawn from Zhuang (1999) study in which he examined equity composition as an internal governance method by arguing that ownership structure is critical factor in streamlining the corporate governance system of anybody corporate. This is attributed to tact that it establishes the source of agency problem by bringing to the fore the source of the conflict by identifying whether the conflict emanates between controlling and minority shareholders or managers and shareholders. Arguably, corporate governance is a means of managing an organization as would be distinguished by the organization structure and it is practiced at the board of director's level.

Kurkure (2006) in his study of elements of excellency in corporate governance and its formation states that the principle of corporate governance emanated from antiquity. Historical records reveal that corporate governance can be traced back to medieval days where tribal groups dominated. The main role of tribal communities was to supervise the undertakings of the tribe as well as monitor the behaviors of tribal members to ensure compliance with tribal norms.

Kurkure (2006) further focuses on historical development of corporate governance by stating that in the Roman Empire, for instance, specific corporate bodies including municipal bodies were advanced to increase transparency in management of public affairs. The

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emergence of governance in religion was prompted by the changes and manifestation of Christianity and Islam mainly in the Muslim region of Middle East. This was the beginning of corporate governance that has since extended to managing body corporates for financial gain.

Financial dimension of organization activities and performance is over focused on profits with little attention given to non-financial performance and no attention for social involvement by organizations performance such as corporate governance (Taylor, 2009). Corporate governance is the management of firms through the directors in order to bring integrity, transparency and accountability by the management (Jayashree, 2006).

Wilson (2006) describes corporate governance as the process through which corporations are held to account, directed and controlled to create effective leadership for corporations to ensure delivery on their societal obligation as the societies' wealth creating organs. Shleifer and Vishny (1997) understand corporate governance as a way in which corporations financiers are guaranteed of reaping return on investment.

Cochran and Wood (1984) has it that company financial performance can be categorized into the return to the investors and the accounting return (profit). The categorization has not been debated in literature hence conclusion that the lack of such research has led to a misunderstanding on how to measure the phenomenon. Hingorani and Ramanathan (1973) define financial performance as the causal relationship between the firm's financial position and profitability through a process of selection, relation and evaluation of the financial statements. Pandey (2015) has it that the techniques used to evaluate the firm's limitations and potential of the association among financial statements is called financial performance analysis. Financial performance is the causal relationship among the different financial factors in the business entity as depicted by a single statement and examination of business trends (Arora, 2016).

Research Objective

To establish the effect of corporate governance on financial performance of companies listed at the Nairobi Securities Exchange

THEORETICAL REVIEW

Agency Theory

The study is anchored on the agency theory. Barry Mitnick and Stephen Ross (1973) are the first scholars to introduce the agency theory. Mitnick (2006) advanced the notion that institutions are natured around agency relationships and face agency issues on a daily basis

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while Ross developed the economic theory of agency and opined that agency theory originated from economic theory.

Panda and Leepsa (2017) state that any debate on matters related to corporate governance emanates from the principal-agent theory from the classical perspective on the private property and modern establishment and that modern firms are managed by agents who cannot be accountable to dispersed shareholders. Two key challenges namely contrary selection and moral hazards confront the principals and thus the agents (managers) must be given the right incentives to decide in a palatable manner in the interest of the shareholders.

Panda and Leepsa (2017) argue that shareholders to some extend also the principals or owners of the companies, employ and or contract the agents to execute tasks. In this regard, the management team of the company is the agent in charge of company operations and are expected to safe guard the assets of the company as they report to the board of directors in charge of corporate governance. However, the agent may resort to opportunistic behavior, self-interest and lack of alignment with the aspirations of the principal desire of corporate governance and the agent’s pursuits leading to variance of internal controls within various companies. They conclude that agency theory can be used to explore the design of incentives appropriately to consider the interests that motivate the agent to act. Corporate governance can invoke agency theory by changing the rules under which the agent operates to restore the principal’s interests.

EMPIRICAL LITERATURE REVIEW

Koji, Bishnu and Tram (2020) studied the association between corporate governance and financial performance of quoted enterprises in the Japanese manufacturing sector. The study covered 1412 firms from Bloomberg between the time frame 2014 and 2018. The study shows that board size increases the success of non-family enterprises compared to family firms. Strangely, the study also reveal that family firms perform better if run by the kingpins compared to that of family businesses managed by the founder. Study concentrated on companies’ family and non-family firms missing out public listed body corporates that are at the center of failure.

Owiredu and Kwakye (2020) researched on the impact of corporate governance on banks financial performance in Ghana. Data was retrieved from published annual reports of 10 out of 30 banks for the period 2007-2016. Using random effect model, the study established a significant positive association between board size and financial performance as measured by return on equity and return on asset of Ghanaian banks. The research also revealed positive but insignificant relationship between board independence, institutional

ownerships and banks financial performance using return on equity and return on asset as a measure of financial performance of the 10 sampled Ghanaian banks. The research supports the argument that corporate governance practices increase banks financial performance. The study was performed on a sample of 10 banks in Ghana. Such a sample may not provide enough data to warrant enough representation.

Kefiyalew and Dagnachew (2020) explored corporate governance and its effects on financial performance of designated private owned banks in Ethiopia. The research used corporate governance as independent variable with board size, board meetings, board qualification, presence of outside director and board gender as the attributes. Regression analysis based on random effect model analyzed the data retrieved from annual reports for the period 2010 to 2018 in conjunction with primary data using structured open-ended questionnaire was collected from sampled banks. Board qualification, audit committee size, board meeting, female directors revealed positive and significant association with return on asset. The study also found board size to have a negative and statistically negligible association with return on asset and recommended a moderate board size for private commercial banks that should hold meeting for the future fate of banks. The study was selectively on privately owned banks yielding to specific or unique findings of privately owned banks.

Kyere and Ausloos (2020) delved into the impact of corporate governance on financial performance of non-financial quoted firms of the UK. Underpinning the base of the study conceptual framework is agency and stewardship theory. Five corporate governance attributes and two financial performance indicators that is return on asset and Tobin's Q, leveraged on cross-sectional regression technique. In depth empirical researching on 252 companies quoted on London Stock Exchange in 2014, the study shows a negative nexus, but in some occasions, corporate governance aspects have no impact on financial performance and deduce that selecting the correct corporate governance practices boosts the operation of companies. The study period is one year, which may not be sufficient to give a general trend. There is need for similar study covering more than one year.

Kirandoo (2019) analyzed the interrelationship between firm financial performance and corporate governance. Using board size, ownership and CEO duality as attributes of corporate governance, collected secondary data from a sample of UK firms. The regression analysis revealed a link between corporate governance attributes of CEO, board size and ownership with the financial performance and concluded that there is a direct connection between corporate governance and increasing profitability of the UK firms. The study also

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showed that corporate governance helps the 100 UK firms under study to perform better hence more profitable. The study was conducted in UK a developed economy that may not hold in third world countries given that corporate governance of a developed country such as UK cannot be equated to developing countries like Kenya.

Kobuthi et al. (2018) formulated corporate governance rating as per the questionnaires' distributed to 56 CEO's and company secretaries and used corporate governance index score for the different organizations to understand the effect of corporate governance on financial performance of firms quoted at the Nairobi Securities Exchange. Using annual reports for 2015, through a survey, found that corporate governance constructs had influenced financial performance greatly than individual attributes of corporate governance such as board operation and control, disclosure, ethics and social responsibilities. The study concluded that corporations could improve their performance by specifically implementing those measures of good corporate governance that matter. However, the empirical findings failed to expound on and or site those attributes of corporate governance that matter besides the study is broad. This study collated various attributes to their relevant variables to allow combined effect and ease of regression.

Ongore, K'Obonyo, Ogutu, and Bosire (2015) examined the forty-six firms quoted at the Nairobi Securities Exchange in 2011 and used board composition to measure corporate governance. The investigation adopted multiple regression to analyze panel data and using return on earnings, found that independent board members had a negligible impact on the financial performance while board size and financial performance had a strong correlation. Regarding outside directors, their findings were different from the long-term traditional perspective that outsiders accrue better board performance. The scrutiny only focused on three board attributes for their effect on the firm's performance. While the traits examined are vital, other diverse variables like the qualifications of the director, and gender can be explored for collaboration.

Manini and Abdillahi (2015) explored the effect of corporate governance attributes that is audit committee, board gender diversity and on the profitability of the banks and used return on asset as the test for financial performance as per the annual reports of the 42 Kenyan banks for the year 2014. Using multiple regression, discovered board diversity in terms of gender and audit committee size have a negligible impact on bank growth and that board composition negatively influences financial performance. The findings of this research do not tally with prior researches hence need for further research to establish if the

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difference is due to methodological or other corporate governance moderating or intervening mechanism.

Simpson and Gleason (1999) on banking firms investigated the board size, board structure and CEO duality governance elements in the USA. Financial distress surrogates and control variables were extracted from SNL Bank Digest year 1993. Upon sampling 287 banking firms, a lower likelihood of financial distress was noted in banks with CEO duality. The study relied on single source published information yet companies may have structures and process in place that they do not comment on in their reports and this may lead to presentation of less favorable view of the company than is usually the case. Moreover, the study was conducted in USA a developed market hence the findings may not necessarily apply to developing world.

Research Hypothesis

There is no relationship between corporate governance and financial performance of companies listed at the Nairobi Securities Exchange.

METHODOLOGY

As per Zikmund, Babin, Carr and Griffin (2013) the magnitude of the research problem determines the type of design to be used. The researcher chose descriptive design being the one that most suites the study due to its ability to aid in focusing on describing independent variables. Cooper and Schindler (2014) argue that this design saves time as well as makes it possible to obtain current and factual information.

The study's population is 64 companies quoted at Nairobi Securities Exchange as at 29th March 2019. In this case, quantitative data for the year 2010 to 2019 was extracted from the annual reports at the companies' websites. Before hypothesis testing, the data was subjected to panel data diagnostic tests to determine the appropriateness of the data prior to further analysis using parametric tests. The test carried out were normality, multicollinearity, panel unit root, heteroscedacity and serial correlation tests.

Operationalization of the Study Variables.

Sekaran (2003) states that operationalizing is to describe a concept such that it is measurable. This is done by observing the dimensions, properties or facets designated by the concept. The variables corporate governance and firm financial performance were operationalized as depicted in the following table.

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Table 1: Operationalization of the Study Variables

Variable	Indicator	Measurement	Scale	Source of Data	Comparable Study
Corporate Governance	Board Size	Annual report disclosures for items pertaining to board size were used.	Ratio	Annual reports	Kefiyalew & Dagnachew (2020)
	Board Gender	Annual report disclosures for items pertaining to board gender were used. If number of female directors is disclosed then a composite ratio of female directors against total number of directors computed.	Ratio	Annual reports	Ongore et al. (2015)
	Board Qualification	Annual report disclosures for items pertaining to board qualifications such as technical expertise and relevant industry knowledge were extracted and subjected to a dichotomous scale one (1) upon the disclosure of the item otherwise zero (0) so as to minimize subjectivity in the scoring process and a weighted approach.	Rank	Annual reports.	Kefiyalew & Dagnachew (2020)
	Independent Directors	Annual report disclosures for items pertaining to independent directors was used. If independent directors are present then a composite fraction of independent directors against overall number of directors was computed	Ratio	Annual reports	Ongore et al. (2015)
Financial Performance	Earnings Per Share	Earnings per share is a parameter that describes the companies' share earnings in correspondence to weighted average common outstanding shares. Earnings per share ratio of net income less the expected dividends over weighted average of common shares outstanding was used.	Ratio	Annual reports.	Muhammad et al. (2017)

The study adopted descriptive statistics because it helps in simplifying large data by quantifying features of the variable using mean, median, standard deviation and percentage as used by (Manini & Abdillahi, 2015). Pearson correlation was used to perform correlation to

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identify the relationship between independent, dependent for the relationship between the variables to analyze the data.

Table 2: Summary of Objective, Hypothesis, Analytical Model, Interpretation of Results and Comparable Study

Objective	Hypothesis	Analytical Model (s)	Interpretation of the results	Comparable study
To establish the effect of corporate g+overnance on financial performance of firms quoted at the Nairobi Securities Exchange	There is no relationship between corporate governance and financial performance of companies listed at the Nairobi Securities Exchange	• Wald Chi-Square statistic • Pearson correlation • R2 • Goodness of fit test FP_{it}= β_0 + $\beta_1 BS_{it}$ + $\beta_2 BG_{it}$ + $\beta_3 BQ_{it}$+$\beta_4 ID_{it}$+ε_i	If the Wald Chi-Square statistic found significant, null hypothesis was rejected.	Ongore et al. (2015)

ANALYSIS AND FINDINGS

Descriptive statistics

Table 3: Descriptive Statistics for Corporate Governance Attributes: Board Size, Board Gender and Independent Directors

Variable	Obs	Mean	Std. Dev.	Min	Max
BS	463	8.81	2.26	4	16
BG	463	1.72	1.30	0	9
ID	463	2.93	2.74	0	13

Where:

BS is the number of directors

BG is the number of female directors

ID is the number of Independent Directors

Table 4 below presents frequency distribution of number of female directors for the period 2010 to 2019. From the statistics we can infer that on average there is at least one female director in each of the companies listed at the Nairobi Securities Exchange.

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Table 4: Number of Female Directors (Observations=463)

Number of Female Directors	Frequency	Percentage (%)
0	93	20.09
1	127	27.43
2	111	23.97
3	90	19.44
4	37	7.99
5	4	0.86
9	1	0.22

Table 5 below presents frequency distribution of the number of directors for the period 2010 to 2019. The maximum number of directors was sixteen (16) at the time the survey was conducted. This study also reveals that 18.14% of the observations of board size showed that there were 7 directors with a frequency of 84. While 0.86% of the observations of board size attribute showed that the minimum number of directors was 4 while 0.65% showed that the maximum number of directors was 16 with a frequency of 3. The table further indicates during the study period, 17.06 % of the observations of board size attribute showed that there were 11 directors with a frequency of 79.

Table 5: Number of Directors (Observations=463)

Number of Directors	Frequency	Percentage (%)
4	4	0.86
5	28	6.05
6	34	7.34
7	84	18.14
8	68	14.69
9	73	15.77
10	46	9.94
11	79	17.06
12	30	6.48
13	5	1.08
14	5	1.08
15	4	0.86
16	3	0.65
Total	**463**	**100**

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Table 6: Summary of Descriptive Statistics (Obs 463)

Variable/ Measure	Mean	Std. Deviation	Min	Max
Board Size	8.81	2.26	4	16
Board Gender	1.72	1.30	0	9
Independent Directors	2.93	2.74	0	13
Earnings Per Share	-161.911	4151.712	-88714.9	10248.18

Shapiro-Wilk Normality Test for Corporate Governance

The results in table 7 below indicate that corporate governance attributes (BS, BG and ID) reported p-values less than 0.05 and therefore we can reject the hypothesis that the variables BS, BG and ID are normally distributed.

Table 7: Shapiro-Wilk Normality test for Corporate Governance attributes:
Board Size, Board Gender and Independent Directors

Variable	Obs	W	V	z	Prob>z
BS	463	0.98899	3.456	2.971	0.00148
FEM_DIR	463	0.97217	8.735	5.192	0
IND_DIR	463	0.96487	11.026	5.75	0

Where:

BS is total number of directors (board size)

BG is total number of female directors (board gender)

ID is total number of independent directors (total number of independent directors)

Table 8: Multicollinearity Test Results (Mean VIF=1.34)

Variable	VIF	1/VIF (Tolerance)
BS	1.49	0.671136
BG	1.43	0.699166
ID	1.09	0.917924

The objective was to establish the effect of corporate governance on financial performance of firms listed at the Nairobi Securities Exchange. With the hypothesis: There is no relationship between corporate governance and financial performance of firms listed at the Nairobi Securities Exchange

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This research used panel data analysis design since the panel data provides control of heterogeneity (Baltagi, 2005). Individual heterogeneity cannot be controlled using cross section analysis and time series thus the findings could be vague. Both the random and fixed effect models were executed in panel data analysis (Baltagi, 1995).

Table 9: Random Effect Model

Dependent Variable: Financial performance, Predictors: BS, BG and ID

	(1)
VARIABLES	**Model 1**
BS	0.309**
	(0.131)
BG	-0.190**
	(0.0780)
ID	0.00124
	(0.00640)
Constant	2.658***
	(0.321)
Observations	424
R-Squared	0.0232
Wald chi2 (3)	10.11
Prob > chi2	0.0176
Number of FIRM_ID	48

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The results in Table 9 above provides information about model regression coefficients showing a significant effect of both BS (β= 0.309, $p<0.05$) and BG (β=-0.190, $p<0.05$) on financial performance for the random effect model which also reveals that the association between financial performance and board gender is negative and statistically significant.

The value of Wald Chi-Square statistic (Wald chi2 (3) is 10.11 and p-value is 0.0176. The Wald test tested the hypothesis that one of the predictors' regression coefficient had value not equal to zero (Phillips & Park, 1988). The results from the Wald Chi-Square test reveal that all the predictors' of regression coefficients taken jointly are significant. R-squared (R^2) was 0.0232 which suggests that board size, board gender and board independence account for 2.32% of the variance in firm financial performance.

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Study results indicate the link between financial performance and board gender is negatively significant hence a research gap based on the works of Bathula (2008) that found the role of women on the board improves decision making quality and financial performance of the firm. Whereas board gender composition is important, the presence of female gender on the board does not improve companies' operation and firm financial performance unless they are competent. The researcher holds the view that whether gender diversity helps improve firm's financial performance, factors like experience, education and assertiveness of female directors are key (Manini & Abdillahi, 2015).

The relationship between firm financial performance and board size is positively significant. These study findings show that unit increase in the board size leads to increase in the firm financial performance. Ongore et al. (2015) found the same. The study finding is inconsistent with Cheng, Evans and Nagarajan (2008) who established no significant association between BS and firm financial performance and concluded that board size increase in number does not increase in firm financial performance. Andres and Valelado (2008) argument that a large board is more appropriate to a small size due to possibility of specialization that causes effective advising and monitoring functions is not supported by this study's findings. Moreover, Shakir (2008) states that board size does not portray its effectiveness.

Board independence has no significant influence on firm financial performance ($\beta = 0.00124$, $p>0.05$). From the study findings, a board member's independence is not a predictor of financial performance of firms quoted at the Nairobi Securities Exchange. The findings are supported by Nicholson and Kiel (2007) who claimed inside directors have deeper understanding about the firm than outsiders do. In similar argument, Brennan (2006) concludes that independent directors are from outside and visit the company occasionally thus they lack inside information which inhibits such directors the inside information that in turn reduces their competence to perform their duties.

The hypothesis examined the association between financial performance (dependent variable) and corporate governance attributes in firms quoted at the Nairobi Securities Exchange by suggesting that there is no association between corporate governance and financial performance of firms quoted at the Nairobi Securities Exchange. Results of this study indicate that both board size ($\beta = 0.309$, $p<0.05$) and board gender ($\beta = -0.190$, $p<0.05$) have a significant effect on financial performance of companies listed at the Nairobi Securities Exchange. The findings show that 2.32% of the variance in financial performance of firms quoted at the Nairobi Securities Exchange is accounted for by the three corporate governance attributes namely board size, board gender and board independence. The results from the Wald

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Chi-Square test indicate, as a whole, the model is significant. The hypothesis was therefore rejected. Meaning there is significant association between corporate governance and financial performance of firms quoted at the Nairobi Securities Exchange. Ironically board qualification was constant for all study observations and was therefore omitted during analysis.

The prediction equation,

$FP_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BG_{it} + \beta_3 BQ_{it} + \beta_4 ID_{it} + u_{it}$

Where;

FP_{it}= Financial performance, BS_{it} = Board size, BG_{it} = Board Gender, BQ_{it}= Board Qualifications and ID_{it} = Board independence:

$FP_{it} = 2.658 + 0.309 BS_{it} - 0.190\, BG_{itt} + 0.00124 ID_{it} + u_{it}$

Hausman test was used to choose random effect model as the preferred to fixed effects model.

Table 10: Random–Effects Regression Results

Dependent Variable: Firm Financial Performance, Predictor: Corporate Governance

VARIABLES	**(1)** **Model 1**
Corporate governance	-0.239
	(0.203)
Constant	3.338***
	(0.145)
Observations	424
Number of FIRM_ID	48
R-Squared	0.0004
Wald chi2(1)	1.40
Prob > chi2	0.2373

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Panel Random Effect Model was run to estimate the association between firm financial performance and corporate governance. The results of panel regression results are presented in Table 10 above. The results of Wald Chi-Square test indicate that the model as a whole was

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not significant. The model regression coefficient of corporate governance (β= -0.239, $p>0.05$) was also not statistically significant. Meaning corporate governance does not predict firm financial performance.

CONCLUSION

Summary of Findings

The relationship between firm financial performance and corporate governance shows a very weak, positive and statistically significant association ($r=0.0189$, $p<0.05$) meaning that an improvement in company financial performance is positively correlated with corporate governance.

The objective was to establish the effect of corporate governance on financial performance of firms quoted at the Nairobi Securities Exchange with the hypothesis suggesting that there is no relationship between corporate governance and financial performance of firms quoted at the Nairobi Securities Exchange. Results of this study indicate that 2.32% of the variance in listed firm's financial performance at the Nairobi Securities Exchange is accounted for by the three corporate governance attributes board size, independent directors and board gender with the model as a whole being statistically significant hence rejection of the hypothesis. This means that there is significant association between corporate governance and listed companies' financial performance. Owieredu and Kwakye (2020) found progressive relationship between size of the board and financial performance of Ghanaian banks. This is consistent with this study that shows the relationship between firm financial performance and board size as positive and significant meaning that any increase in the board size results in increased financial performance.

Contribution of the Study

The study's empirical evidence makes contribution to the knowledge, policy, practice and theory on the relationship between corporate governance and firm financial performance. On the theory side, the study holds the view that the era of agency theory with its limited focus to owner agent relationship could be over since that time business was being conducted in a vacuum when the world was not a global village and linked as today.

Contribution to knowledge: the study's findings contribute to existing literature on the relationship between corporate governance and firm financial performance. First the study adduces evidence that there is a direct link between corporate governance and firm financial performance.

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Contribution to policy and practice: the study's findings aid the board of directors, company management, investors and regulators in decision-making. The effect of corporate governance on firm financial performance as found in this study has implication to the governance of a company in as far as the composition of the board of director's impacts companies in financial performance. This is particularly so now given that positive and significant link exists between corporate governance and firm financial performance. Boards that are properly constituted as per the corporate governance attributes used in this study and within the study findings may result in effective corporate governance that propels agents interest to those of the principal.

Contribution to theory: this study relied on a positivistic approach since it relied on evidence and statistics to determine the relationship among variables. This study finding contribute to theory by outlining the relationship between variables. Jensen and Meckling (1976) agency theory underpins the idea behind the study to support principal agent relationship argument. As a theoretical contribution, incentives should be given to board members and management so as to redirect their behavior to realign their interest to that of the principal's. That despite the fact that agency theory's theoretical assumptions overlook the diverse identities of stakeholders that is the other groups' interests and how these groups affect firm financial performance (Wicks and Harrison, 2015).

Limitation of the study

The study had its limitation but as much as mitigation were made towards it, admittedly, it was never possible to eliminate all of them. The study used secondary data extracted from Nairobi Securities Exchange database, companies' websites, financial and annual reports. These being reports for other purpose not meant for research, any shortcomings in the data reported could have affected the reliability of the study findings.

The research used descriptive design to investigate the relationship between variables, regardless, this study could not establish the causality between variables as one of its major limitation. Moreover, limited attributes for corporate governance and firm financial performance were used. This therefore means that the findings have limitation so far as the attributes used in the study. The two variables have other attributes that may have been missed out in this study yet their effect could have had additional influence on the study findings.

Suggestions for Further Study

Further research can be initiated by using different attributes to test the direct effect of corporate governance on firm financial performance. Secondly, this study used financial

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performance. Similar study could use company performance rather than limit it to financial performance to widen scope for better collaboration. In any case the study could not control all the study variables. This study focused on companies listed at the Nairobi Securities Exchange. Similar studies can look at both public and private companies including state corporation. Finally, a limited sample of only firms quoted at the Nairobi Securities Exchange may restrict the generalization of the results.

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