# CORPORATE GOVERNANCE AND PROFITABILITY OF MANUFACTURING AND ALLIED FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

**JOYLINE NKATHA MUKARIA**

**D53/CTY/PT/21706/2020**

**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND TOURISM IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF BUSNESS ADMINISTRATION (FINANCE OPTION) OF KENYATTA UNIVERSITY**

**JUNE, 2025**

## DECLARATION

**Declaration by the Student**

I declare that this thesis is my original work and has never been presented for a degree or other award in any University. No part of this thesis should be reproduced without authority of the author or/and University

Signature..... Date.....

**Joyline Nkatha Mukaria**

D53/CTY/PT/21706/2020

**Declaration by the Supervisor**

This research project is submitted with my approval as the University appointed supervisor

Signature…….…… Date …….....

**Dr. Moses Odhiambo Aluoch, Phd**

Department of Accounting and Finance

School of Business, Economics and Tourism

Kenyatta University

## DEDICATION

To Mr. and Mrs. Mukaria, I appreciate the support and constant encouragement I have received from them during development of this research project and for instilling in me perseverance.

## ACKNOWLEDGEMENTS

I would also wish to sincerely express my gratitude towards my supervisor, Dr. Moses Aluoch for the encouragement and guidance that enabled me complete this research project. I appreciate the management of Kenyatta University for providing a conducive environment that enabled me complete this work. To my classmates and friends, I appreciate the moral support that they gave me when I was working on this research project.

## TABLE OF CONTENTS

## LIST OF TABLES

## LIST OF FIGURES

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **CFA** | Chartered Financial Analyst Institute |
| **CMA** | Capital Market Authority |
| **GDP** | Gross Domestic Product |
| **KIRDI** | Kenya Industrial Research and Development Institute |
| **MAPI** | Manufacturing Alliance for Productivity and Innovation |
| **NIM** | Net Interest Margin |
| **NSE** | Nairobi Securities Exchange |
| **ROA** | Return on Asset |
| **ROE** | Return on Equity |
| **ROI** | Return on Investment |

## OPERATIONAL DEFINITION OF TERMS

| Term | Definition |
|---|---|
| **Board Diversity** | It is reflected in the number of female directors to the board. In the present study, this variable is measured through ratio of female directors/total number of directors |
| **Board Independence** | It is the presence of independent directors to the board. It was measured using non-executive against overall directorship of the firm |
| **Board Meetings** | These are organized deliberations on the future prospects of the firm. Frequency of board meetings was the measure of this variable. |
| **Board Ownership** | It is the degree of equity ownership maintained by individuals serving on the board of an entity. It was represented by total shares held by members of the board against shares outstanding in the firm |
| **Board Size** | It covers all directors on the board. It was measured by the natural logarithm of total directors to boards of the firms. |
| **Corporate Governance** | It is the active role played by the corporate board to balance and align interest of managers with those of owners of the enterprise. It is represented in this study by board size, board independence, board diversity, board meetings and board ownership. |
| **Inflation** | It is defined as the sustained rise in price of products in an economy. It is measured through CPI in the present study |
| **Manufacturing firms** | These are enterprises that are involved in the transformation of raw materials including components and parts into finished products |
| **Profitability** | It is efficient usage of assets to generate revenue for shareholders. It was measured in this study by return on assets |

## ABSTRACT

Listed manufacturing and allied firms play a key role to the economy of Kenya by contributing to its gross domestic product and in creation of employment. Despite being recognized as pillars of economic upsurge and development, the manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya have consistently faced challenges as far as their profitability is concerned. For instance, the trend in profitability of the manufacturing listed firms at Nairobi Securities Exchange has been a on a declining trend for the 8-year period starting at 1.73 to 0.53 from 2016 and 2023 respectively. Against this background, the study sought to establish the effect of corporate governance on profitability of manufacturing and allied firms listed at the Nairobi Security Exchange in Kenya with inflation as a moderator variable. More specifically, this study sought to establish the effect of board size, board independence, board diversity, board meetings and board ownership on profitability of manufacturing and allied firms listed at Nairobi Securities Exchange with inflation as a moderator variable. The agency, stewardship, resource dependence, stakeholder and Keynesian theories provided anchorage to the proposed study. The study adopted descriptive survey design targeting 8 manufacturing and allied firms that were listed on the Nairobi Securities Exchange and census was adopted. Information from auxiliary sources was gathered on a period 2016-2023 and Statistical Package for the Social Sciences version 27 guided processing. Relevant diagnostic tests including multicollinearity, normality and autocorrelation were carried to test the robustness of the regression models. Ethical issues considered in this study included referencing of the literature reviewed to avoid plagiarism and confidentiality of the data that was collected. Correlation results were that while board size had a moderate but positive relationship with profitability, board independence also had a moderate but negative relationship with profitability. On the other hand, board diversity, board meetings as well as board ownership and inflation rate all had strong and positive relationship with profitability of the listed manufacturing firms in Kenya. Regression results confirmed that corporate governance has significant effect on profitability moderated by inflation. The study concluded that corporate governance and inflation have significant effect on profitability. It was recommended that Capital Market Authority should establish an optimal board size should be used as a benchmark by these listed firms. To improve the profitability of the listed manufacturing firms in Kenya, there is need for more independent and executive directors to be included on boards. Shareholders of the listed manufacturing firms in Kenya should occupy a central role and demand for inclusion of more female and foreign directors to bring in new skills that can enhance profitability. The number of meetings held in a financial year by the board should be increased. The meetings convened by boards should have clear agenda in place. There is need for the Central Bank of Kenya to have in place relevant policies that can stabilize overall prices of goods in the economy.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Around the world, the manufacturing sector has been recognized for its significant contribution to the growth of economies. Profitability of this manufacturing sector in the world has remained relatively stable represented by a margin increase in its value of ROA from 8.10% to 8.68% in 2019 and 2020 respectively (Awasthi, Saxena & Arun, 2020). In developed economies like USA, Canada and China among others, an estimated 35% economic growth is driven by the manufacturing industry in the country (Harb & Bassil, 2023). Right after services sector, manufacturing domain is the second biggest economic driver in Jordan (Allan, Kasim, Mustapha & Shah, 2018). As at 2016, manufacturing field accounted for 18.17% of GDP, while services industry accounted for 66.76%, industrial field accounted for 10.77%, and agricultural field accounted for 4.3% (Jordan's Economy, 2018). The rise of corporate scandals in the manufacturing sector around the world has increased more attention and recognition of corporate governance. These include the Valeant Pharmaceuticals scandal and the Kobe Steel scandal among other world-renowned corporate scandals has created the need for strong corporate governance mechanisms.

Regionally in Africa, and especially in Nigeria, Oduola, Bello and Popoola (2022) argues that most of the manufacturing firms have been posting losses, especially after the rise of COVID-19 pandemic error with an estimated industry ROA average within the period

2020-2023 standing at -0.017. This according to Adu-Danso and Abbey (2022), has continued to affect the contribution of this manufacturing sector to the growth of African countries with regard to the gross domestic product (GDP). Nguimkeu and Zeufack (2024) indicate that there was a decline in the value of ROA from 1.6% to 0.7% in 2020 and 2021 respectively in the manufacturing sector in Sub-Saharan Africa. The manufacturing industry in Nigeria faces unfavorable conditions; data reveal that over 290 manufacturing businesses closed in 2022 output while others laid off employees. It is anticipated that the industry will contribute an average of 4.19% to GDP (Ehiedu & Toria, 2022). as a result of a lack of demand for their goods both domestically and overseas.

Locally in Kenya, its economy has experienced substantial growth and advancement primarily due to the manufacturing and associated sector (Fatoki, Wafula & Waweru, 2021). The manufacturing industry, which ranks fourth in Kenya, constitutes a significant proportion of the nation's GDP. Within Eastern Africa, this sector dominates the industrial landscape, contributing to almost three-quarters of its total output. Given its crucial role in economic progress and well-being, it has recently garnered the recognition it rightfully merits. The production industry in Kenya is largest in terms of expansion patterns compared to other nations in East Africa, and is developing at a much more rapid pace (Yator & Gitagia, 2023). Manufacturing companies in Kenya's economy have not yet reached their full revenue potential as a result of limited market access, limiting regulations, high finance costs, insufficient infrastructure, and a lack of ability to achieve

product quality requirements. The industry's contribution to overall economic output (GDP) has remained at 10% and 8.4% in 2017 (Ajibade, Amuda & Olurin, 2019).

Corporate governance pertains the methods and structural systems employed by stakeholders to actively protect their concerns (Isaac, 2022). It relates management and the board of the firm as they interact to maximize the wealth of shareholders and hence profitability (Opanyi, 2025). Owing to the proliferation and advancement of enterprises in both established and emerging economies, corporate governance has gained greater significance in the contemporary age (Kyere & Ausloos, 2020). Profitability serves as a gauge to assess the execution of companies' monetary assets. Corporate governance involves coordination of making, selling, and giving away of commodities and services and encompasses multiple components that impact the institutional process and overall performance (Dufera, 2018).

### 1.1.1 Corporate Governance

Corporate governance is interaction between shareholders, managers and the board to achieve established goals (Kieti & Aluoch, 2024). In this study, corporate governance was synonymous with board characteristics as adopted by Opanyi (2025). The active role played by the corporate board to balance and align the interests of managers and shareholders of the firm to achieve financial goals is referred to as corporate governance (Larcker & Tayan, 2020). Board size, independence, diversity, meetings and ownership are important considerations in regard to corporate governance in an organization. Board size reflects the total number of directors in the firm. Most firms prefer to have a small

board size. Effective decision making and flexibility do depend on the size of the board. From the agency theoretical view, large boards decrease information asymmetry between the directors and managers of the firm. On the other hand, the smaller the board, the easier it is to coordinate operations which positively influence profitability. In this study, board size was measured by the natural logarithm of the total directorship (Alshirah, Abdul Rahman & Mustapa, 2020).

Board independence is defined as the proportion of non executive directors in the board (Al-Sawalqa, 2021). Soundness and efficacy of the board is strongly influenced by the existence of independent directors. Independent directors play a non-executive role in an organization. They are believed to be more objective and thus can drive objectivity to the board of an organization (Naseem, Xiaoming, Riaz & Rehman, 2017). Board independence is important to an organization as it achieves accountability and transparency in the management of the firm. In the present study, board independence was measured using the ratio of non-executive directors against the total number of directors in an organization.

Board diversity is the variety of attributes, backgrounds and perspectives possessed by members of the board in an organization (Makkonen, 2022). Having a diverse board is an important consideration that can contribute to effective decision making. In achieving diversity in boards, efforts are required to incorporate female directors (Erbil & Özbilgin, 2025). This is of particular importance to Kenya under the one third gender rule as required by the Constitution. Board diversity plays an important role in an organization

by fostering versatility and varied experiences that can be harnessed to improve profitability (Jeyhunov, Kim & Bae, 2025). There are several measures of diversity that are documented in literature in gender, education level, professional competencies and specializations as well as race. In the present study, board diversity was measured using the ratio of female to total directorship in the board.

Board meetings are convened by directors to deliberate on important strategic issues that are likely to affect the operations of the firm (Chen, Hsieh & Hsiao, 2021). In most organizations, board meetings are convened at least three times in a year, although this frequency varies across industries (Apochi, Mohammed & Yahaya, 2023). Board meetings are convened to deliberate on important issues of strategic importance to an organization. According to Haque, Islam, Chowdhury, Hossain and Hassan (2025), board meetings are important in allowing managers and the directors to set the strategic direction of the firm, review progress and undertake appropriate response to enhance profitability. In the present study, the frequency of board meetings in a year was used to measure this variable.

Board ownership is defined as the proportion of the shares of the firm that are held by members of the board (Bunyaminu, Yakubu & Oumarou, 2025). In most organizations directors are encouraged to hold a proportion of share equities in the firm hence board ownership. It helps in aligning board members' interests with overall performance the firm (Habtoor, 2021). The importance of board ownership is that it provides a strong incentive for managers to maximize wealth of owners to earn returns (Bataineh, Alkurdi, Abuhommous & Abdel-Latif, 2025) which can positively affects profitability. In the

long run, board ownership is therefore expected to have direct implication on revenue generating potential and thus profitability of the firm. In this study, board ownership was measured by the number of equity shares held by board members over outstanding shareholdings.

### 1.1.2 Profitability

Profitability can be described as the ability of an entity to efficiently utilize its assets to generate revenue for shareholders (Aydoğmuş, Gülay & Ergun, 2022). A company's competitiveness, business potential, management's financial health, and how consistent current and upcoming contracts are, may all be used to assess its profitability (Dufera, 2018). Profitability is also frequently used to assess the performance of a company over a certain period, and is used to evaluate entire markets or contrast companies in same industry.

There are several ways to evaluate a business's success, but each approach needs to be considered simultaneously. Additionally, to the overall sales figures, it is possible to use categories such as operational profit, flow of funds through business processes, including revenues from processes (Ledley, McCoy, Vaughan & Cleary, 2020). The indicators of profitability include money flow measurements such as cash flow from operations versus earnings and development signals such as previous growth in revenue. The financial viability of a business needs to be evaluated using criteria that are looking upwards, such as expansion, flow of cash, as well as predicted profitability (Almashhadani & Almashhadani, 2022).

Lim and Rokhim (2021) used margin of net interest as well as before-tax profit/total resources as business performance metrics. In previous studies, financial percentages of returns are thoroughly investigated. The effectiveness of the management of a business can be evaluated using measures like the percentage at which the executive team utilizes resources in order to produce financial earnings depending on the amount of investments, assets, or revenues (Almashhadani & Almashhadani, 2022). For the present study, profitability was represented by ROA since company's performance is very dependent on the utilization of its assets. Table 1.1 below is the breakdown of the trend in ROA as a measure of profitability.

**Table 1.1 Table showing the Average ROA for Listed Manufacturing and Allied Firms - 2016-2023**

| Year | Average ROA |
|---|---|
| 2016 | 1.73 |
| 2017 | 1.46 |
| 2018 | 1.49 |
| 2019 | 1.13 |
| 2020 | 1.17 |
| 2021 | 0.78 |
| 2022 | 0.65 |
| 2023 | 0.53 |

Source: Financial Statements for Listed Manufacturing and Allied Firms (2016 - 2023)

From Table 1.1 above, it is clear that ROA of the manufacturing listed firms at NSE has been a on a declining trend for the 8-year period starting at 1.73 to 0.53 from 2016 and 2023 respectively. This means that profitability of these firms has remained a challenge.

The government of Kenya anticipates leveraging these firms as pillars in realization of Vision 2030 of getting transformed into a middle-income economy. However, it remains unclear whether such noble goals would materialize with the current trend of poor profitability of the manufacturing firms in Kenya.

### 1.1.3 Inflation Rate

Inflation is general rise in prices of products in the country within a given period of time (Halim, Astuty & Hubeis, 2022). State of economy is significantly impacted by inflation. Economy is affected by inflation either directly or indirectly, as it affects overall perception of people. Inflation is characterized by a rise in general price levels (Monadjemi & Lodewijks, 2021). Inflation is also viewed as a significant gauge of investment. Inflation itself impacts a nation's economy. Another perspective on inflation is perceiving it as a rise in the expenses of goods that diminishes purchasing power of money. Inflation is unfavorable for investors in financial markets. This is due to its potential to elevate the company's operational expenses and impact its dividends, thus lowering its future prospects (Violita & Sulasmiyati, 2017). A number of empirical studies including Odidi and Jagong'o (2020) and Ibrahim, Orsaa and Umale (2023) have demonstrated that inflation is a suitable moderator variable in the relationship between corporate governance and profitability. In Kenya, statistics indicate that inflation rate in 2016 and 2023 stood at 6.3% and 7.68% and the rate has been fluctuating across this period (KNBS, 2024).

Empirical investigations on inflation frequently examine its origins, outcomes, and correlation with other economic factors. By empirically examining inflation, economists and policymakers acquire an understanding of its fluctuations, enabling them to develop suitable monetary and fiscal strategies to control inflation and sustain price steadiness in an economy or an organization to enhance efficiency (Stievany & Jalunggono, 2022), thus highlighting its significance in this research. Inflation is assessed using different techniques and indicators to monitor fluctuations in prices over a period. Popular indicators include Producer Price index, Consumer Price Index, GDP deflator, and Personal Consumption Expenditures (Purwoko, 2021). These indicators record variations in prices of goods and services used in households, goods and services manufactured by businesses, overall economic output, and individual spending.

For this study, CPI was used as this data is available at the central bank of Kenya website. CPI assesses fluctuations in mean costs of collection of items and services utilized by households. It mirrors expenditure of living for typical buyers. National statistical organizations consistently gather price information for broad assortment of products and compute CPI based on weighted means of these costs (Rudianto, 2022). For instance, if CPI for a specific year is 110, signifying 10% rise compared to preceding year, it suggests that prices, on average, have increased by 10% during that duration. The justification for adoption of inflation rate as a moderator variable in the proposed study is because it is a widely documented macro-economic variable in various studies that has potential to contribute meaningfully towards the growth of an economy like Kenya.

### 1.1.4 Manufacturing and allied Firms Listed at the Nairobi Securities Exchange, Kenya

Before Kenya's 1963 declaration of independence, stock exchange served as a place for traders to trade stocks and was far less controlled than those in industrialized nations. Since its founding, the Nairobi Security Exchange, Kenya has undergone several modifications, including the sequence of the swapping regulations, the Central Stores structure, the digitalization of the markets, and the demutualization from a shared company to company limited by shares (NSE, 2016). Nairobi Securities Exchange is greatly regarded in comparison to similar markets in the area since the largest corporations choose to list and trade their shares in Nairobi (Iraya & Musyoki, 2013).

The regulator of the listed manufacturing firms in Kenya is the Capital Markets Authority (CMA) that grants NSE a permit and oversees its operation. The Capital Market Authority is tasked with maintaining excellent corporate governance practices among registered firms and the enhancement of the capital market (NSE, 2016). The 64 firms presently listed on the Nairobi Securities Exchange are spread over several different sectors, including the growing market enterprise category, telecommunication and technology, manufacturing and allied agricultural, banking and insurance.

Major corporations are becoming more interested in investing and operating in Kenya because of the growth of the Kenyan industry (Ndiba, 2016). A favorable climate for manufacturing has been fostered by the Kenyan government, and it now significantly contributes to gross domestic product of country and has helped many Kenyans find

employment. Manufacturing companies have raised equity money and made significant investments in the manufacture of maize, wheat flour, cement, sugar, food and beverages and glass, thanks to a safe and controlled securities market. Even with the significant expenditures made over the past ten years, the manufacturing sector is still not performing up to standard (Ng'ang'a, 2017). Due to the challenging economic climate created by high imports, heavy taxes, outdated technology, and a lack of essential materials, large corporations are still having trouble. The other serious challenge registered by these firms is fluctuating trend in their profitability as demonstrated by their ROA. For instance, statistics from NSE indicate that these firms have reported a declining trend in their ROA for the 8-year period starting at 1.73 to 0.53 from 2016 and 2023 respectively. Against this background of poor profitability, the present study was justified.

### 1.2 Statement of the Problem

The manufacturing industry of Kenya has been designated to contribute significantly towards attainment of the country's Vision 2030, hence its significance. This, however, can only be achieved when firms in this section perform optimally. These firms also play an important role to the economy of the country by contributing to its GDP and in creation of employment. In the past 8 years (2016-2023), the listed manufacturing firms in Kenya have continued to post losses which have in turn negatively affected profitability. For instance, the average value of ROA reported by these firms in the same period stood -0.0134 which implies losses that have continued to exert negative effect on operations of these firms (NSE, 2023).

Despite the studies done concerning corporate governance and financial performance, several research gaps are contained in these studies. Oyerogba, Memba, and Riro (2016) found substantial relationship between size of boards and traded company revenue. Current research, nevertheless, will concentrate on outlined manufacturing businesses in Kenya, whereas previous study concentrated on given banking institutions in Nigeria. Size of board has large and favorable impacts on profitability (Shunu, Bii & Ombaba 2017). Board size has major impacts on profitability of Nigeria's commercial banking institutions (Okoye et al., 2020). Furthermore, Nazari, Basati, and Jamshidinavi (2017) shared that CG significantly enhance monetary performance. The study was however, based on Tehran Stock Exchange context, and not NSE. Similar observations about connections amongst governance practices and profitability were made by Abubakar, Umaru, and Daikwo (2019), although their research was limited to publicly traded businesses in Nigeria.

Thus, although various studies have been conducted on corporate governance and financial performance, some like Nazari, Basati, and Jamshidinavi (2017) largely focused on Iran while the study by Okoye et al., (2020) was on Nigeria and this creates contextual gap. Most of these studies failed to incorporate an appropriate variable like inflation that could have a moderating effect on the interaction between CG and profitability thus creating a conceptual gap.

### 1.3 Objectives of the Study

The study was guided by the following general and specific objectives:

### 1.3.1 General Objective

To establish the effect of corporate governance on profitability of manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya

### 1.3.2 Specific Objectives

The study was guided by the following specific objectives:

i. To assess the effect of board size on profitability of manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.
ii. To assess the effect of board independence on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.
iii. To assess the effect of board diversity on the profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.
iv. To assess the effect of board meetings on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.
v. To assess the effect of board ownership on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.
vi. To determine the moderating effect of inflation rate on the relationship between corporate governances and profitability of Manufacturing and allied firms listed at Nairobi Securities Exchange in Kenya.

## 1.4 Research Hypotheses

The following hypotheses guided this research:

**$H_{01}$:** Board size has no significant effect on profitability of manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.

**$H_{02}$:** board independence has no significant effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.

**$H_{03}$:** Board diversity has no significant effect on the profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.

**$H_{04}$:** Board meetings have no significant effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.

**$H_{05}$:** Board ownership has no significant effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya.

**$H_{06}$:** Inflation rate has no significant effect on the relationship between corporate governance and profitability of Manufacturing and allied firms listed at Nairobi Securities Exchange in Kenya.

## 1.5 Significance of the Study

Policy makers at the Capital Market Authority (CMA) would find the findings of this study useful due to its focus on listed firms in Kenya. Similarly, managers working with NSE would find this study important as there would be documentation of various suggestions and recommendations. Managers of companies listed at NSE in Kenya would be furnished with several conclusions and recommendations concerning corporate

governance, inflation rate and profitability nexus which in turn would be of significant to these groups of stakeholders. The study would guide policy makers at Kenya Association of Manufacturers (KAM) to come up with relevant policies and guidelines that would transform and enhance the corporate governance mechanisms of their member firms. Scholars and future researchers would be guided by the outcomes of this study in the improvement of knowledge. They would further be guided on areas for additional research given findings to be obtained from this study which focused on corporate governance, inflation and profitability relationships regarding quoted firms at NSE, Kenya.

### 1.6 Scope of the Study

The link between CG and profitability for 8 listed manufacturing and allied companies from 2016-2023 was determined. This period was selected because significant developments have occurred including corporate governance restructuring among the listed manufacturing firms and it is important to determine if they were contributing towards profitability. While board size, board independence, board diversity, board meetings and board ownership were independent variables, inflation was a moderator and profitability a dependent variable. The study covered listed manufacturing firms that had experienced significant drop in their profitability across the said period that warranted the present study. Data which is verifiable is available from NSE, CMA and CBK. The study adopted descriptive survey design covering the 8 listed manufacturing firms as it sought to analyze the population patterns, with a view of gaining a better understanding. This

study was conducted at the NSE, CMA and CBK. The study collected data from secondary sources with the help of a data collection sheet.

### 1.7 Organization of the Study

The organization of this study is in five chapters. Background information and laying the basis of the study, study objectives, hypotheses, significance, scope and limitations of the study are covered in the first chapter. The second chapter contains theories and past studies. The third chapter covers the design, targeted population, information gathering and analysis methodologies that aided in achieving the stated objectives of the inquiry. While results are captured in fourth chapter, summarization, concluding remarks and recommendations are indicated in the fifth chapter.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter encompasses the theories that underpinned the variables. Past empirical studies are also provided to indicate gaps. The conceptual framework is also presented with variables and their respective indicators.

## 2.2 Theoretical Framework

The agency, stewardship, resource dependence, stakeholder and Keynesian theories guided the study. The stewardship theory is the main theory in this study underpinning the dependent variable profitability:

### 2.2.1 Stewardship Theory

Donaldson and Davis (1991) developed this theory. They contended that individuals, as caretakers, are assumed to have an inherent drive towards working for other individuals or groups in order to complete different duties that had been assigned to them (Donaldson & Davis, 1991). According to the idea, caregivers are pro-organizational because they choose a communal point of view as opposed to an autonomous method, which assumes that people are self-serving. A person in charge consequently puts forth an effort to advocate for the company along with the community's general well-being (Davis, Schoorman & Donaldson, 2018). Stewardship theory is a viewpoint in organizational theory and corporate governance that highlights the position of managers as stewards or guardians of the organization's assets and concerns. It proposes that managers are driven

by a sense of duty and inherent principles, and they operate in the organization's utmost interests instead of pursuing their self-interests (Subramanian, 2018).

Stewardship theory presents another viewpoint to agency theory, which presupposes that manager are mainly motivated by personal gain and need external supervision and rewards (Isaac, 2022). Stewardship theory proposes that through establishing favorable circumstances and harmonizing interests, managers can function as proficient caretakers, resulting in enhanced organizational performance and shareholder value (Torfing & Bentzen, 2020). Scholars have extensively regarded stewardship theory as a framework that specifies the motivations behind an individual's behavior. The philosophy of stewardship theory is applicable in explaining the responsibility of the board (Torfing & Bentzen, 2020).

Stewardship theory and corporate governance are closely connected. The connection between the two lies in focus on managerial behavior, board of directors' role, the ownership structure, openness, responsibility, and a long-term perspective (Opanyi, 2025). Stewardship theory provides insights into the principles that can guide effective corporate governance, fostering confidence, alignment of interests, and sustainable value creation within organizations, hence underpinning profitability, board size, and board ownership (Kieti & Aluoch, 2024).

The theory has however been criticized for several reasons for example Keay (2017) claimed that stewardship theory is based on excessively optimistic assumptions about the motivations and actions of managers. Critiques argue that managers are not necessarily

motivated solely by intrinsic values and a sense of responsibility, but also by self-interest and personal objectives. The theory's assumption that all managers' exhibit stewardship behavior may oversimplify the intricate dynamics of managerial decision-making agency problems, hence often criticized (Kariuki & Ndede, 2024). Critics contend that the theory fails to adequately address potential conflicts of interest between managers and owners, as well as need for monitoring and control mechanisms to mitigate these conflicts (Podrug, Filipovic, & Milic, 2010). The theory's focus on trust and delegation may overlook the risks associated with opportunistic behavior and slacking off. This theory has also been criticized by Albanese, Dacin, and Harris (1997) for overlying so much on trust and that its basic assumption of managers as stewards limits its realism and relevance in a modern corporation.

Despite the criticisms, this stewardship theory was used to underpin the dependent variable profitability. Lack of self-interested behavior among managers of the firm is believed to be a key driver of profitability of the firm.

### 2.2.2 Agency Theory

Jensen and Meckling (1976) came up with this theory and its advocates of the agency theory, proposed that there may be disputes between executives and stockholders regarding mutual concerns. Agency expenses, which owners incur to oversee and regulate the conduct of executives, can arise from these tensions. In numerous agency agreements, the principal seeks to manage, motivate, and monitor the agent's conduct to reduce agency costs, while the agent strives to maximize gains while minimizing the

principal's secondary expenses (Osano, Rono & Uyoga, 2024). Agency theory is centered on the prevalent agency relationship, in which a principal assigns responsibility to another individual, known as the agent, who then fulfills those responsibilities. Agency theory aims to depict this connection using the analogy of a contract (Eisenhardt, 1989).

Grossman and Hart (1983) created a captivating story about the difference that can occur between the risk preferences of leaders and representatives. The principal's consumption can be influenced by the agent's performance, as the effort put in by the agent affects the firm's output. Therefore, the principal must find a balance between the agent's behavior and a suitable payment plan, for which an algorithmic model was used (Elema, Matanda & Roche, 2024). The leader's knowledge of the level of accuracy of knowledge as well as the representative's propensity for taking up risks are two examples of the elements that affect the system of rewards. When an agent avoids taking risks, the issue of incentives may arise (Onyango, 2023).

The notion states that when business management is functional, the corporation performs better because the supervision in companies is used appropriately, and their abilities are supported in best interests of businesses along with shareholders (Kavetsa, 2025). Key component of effective choice-making and problem-solving is the governing body of executives (Jwailes, 2021). According to agency theory, the types of stakeholders in a corporation as well as the degree of their involvement in it can have a substantial impact on conflict of interest within the organization, consequently influencing the overall performance of the firm (Habtoor, 2021).

This agency theory has been criticized for over-assuming that managers of the firm are always egocentric guided by their own selfish interests. This however may not be factual as selfish behavior can arise from one's own personality. Not all managers in an organization are egocentric and selfish (Injeni, Mangena, Mathuva & Mudida, 2022). Another criticism of this theory is its narrow emphasis and focus wealth maximization objectives required by managers of an organization. Critics of this theory have also indicated the high agency costs incurred to monitor managerial behavior in an organization (Nzau, 2021). In spite of these limitations, this agency theory underpinned board independence, as it aligns with unique interests and goals of shareholders and agents to help improve decision making and profitability of a firm.

### 2.2.3 Resource Dependence Theory

Pfeffer and Salancik (1978) formulated this theory, depicting firms as open systems that depend on the eventualities of the external environment. According to Hillman *et al*. (2000), the board serves as an intermediary for executives, helping them to accomplish authoritative aims. According to Hillman *et al*. (2000), CEOs ought to include the organization's resources including knowledge, experience, and connections to providers, consumers, participants, clear contracts, social events, etc. For instance, board members with particular skills may apply their skillfulness to mentor and train executives in a means to enhance credible performance (Cheboi, Mulili & Nyiva, 2022). Additionally, people can draw the organization's resources by utilizing their support networks. Additionally, RDT is supported by the appointment of other persons to the board in order

to acquire skills, improve their possibilities for obtaining information, and engage in a variety of interactions (Oyedokun, 2019).

In order to reduce unpredictability and subsequently lower the cost of a transaction as well as the possibility of linking the company with outside entities, the RDT assumes that managers create assets such as knowledge, experience, essential components (buyers, providers, groups of people, government decision makers), along with constitutionality (Khisa & Kariuki, 2022). This presents the opportunity to obtain additional resources to proficiency across multiple fields. Productive companies have internal mechanisms that match external ecological requirements, according to Lawrence and Lorsch (1967), who linked the RDT as a spontaneous consequence on corporate governance.

One of the underlying presumptions of RDT is that unpredictability casts a shadow over a company's ability to govern its finances, necessitating strategy adjustments that reduce dependence. The need for relationships with other firms rises in tandem with the growth in unpredictability and dependency (Hillman *et al.,* 2000). Businesses frequently adapt their corporate strategy to account for deficiencies responsible for relationships with different businesses that impact their ability to obtain resources (Anamanjia & Maina, 2022).

This theory has been critiqued for its lack of discrimination between imbalance in power and independence from mutual point of view (Kinyua & Ochieng, 2022). The theory has also been viewed to characterized by a lot of ambiguities in regard to its boundary circumstances (Kieti & Aluoch, 2024). Despite these criticisms, by adopting this theory, the proposed study is going to demonstrate how the makeup and composition of the

governing body of executives (board size & independence) in Kenya's listed manufacturing and allied companies helps to introduce corporate governance practices and how those practices affect their profitability.

### 2.2.4 Stakeholder Theory

The proponent was Freeman (1984). Notably, stakeholder theory is hinged on the notion that corporations are social entities hence are responsible as well as accountable to several sets of actors (Ujunwa, 2012). By ensuring the practice of good corporate governance, an organization can minimize risk among other detrimental factors related to frauds, corporate governance scandals as well and criminal or civil liabilities (Wanzala & Obokoh, 2024). Furthermore, the reputation and image of corporations can be enhanced through effective corporate governance which in turn will serve as an attraction to increased stakeholders' involvement in the corporation (Hassan, Marimuthu & Satirenjit, 2015). As such, improved performance of firms is an outcome of improved corporate governance practice, hence better governed corporations are expected to have better performance as compared to those which are badly governed (Lipman & Lipman, 2006).

The board of directors plays a significant part in a risky business domain by ensuring the smooth operations of corporations. The boards are characterized by various individual teams that bring their skills, experience and knowledge into effect for proper governance roles (Agutu & Githira, 2023). Shareholders being the owners of companies engage by selecting a board of directors of corporations for the purposes of managing the affairs of the corporation on their behalf (Mwenda, 2023).

The criticism of this theory includes its lack of clear measurement and definition. It also has potential of prioritizing some stakeholders against others. Other critics have argued that these implementation mechanisms are not practically feasible and that it fails to consider all groups. In spite of these criticisms, the theory was used to underpin the variable of profitability (Rono, Theuri, Ahmed & Kising'u, 2021). In essence, profitability of corporations is a function of interactions of corporations with several stakeholders (Muthengi & Ragui, 2023). Hence, a higher or better consideration of stakeholder needs and wants would more likely lead to improved profitability of firms.

### 2.2.5 Keynesian Theory

Keynes (1930) created the Keynesian Economic Theory. The idea holds that overall consumption is impacted by a wide range of determinants and sometimes operate periodically, in addition to inflation, rather than fundamentally, equaling the nation's capacity for production. A significant factor influencing the economy's output in the short term is general demand (Omondi, 2024). According to Keynesian theory, the financial market must take proactive measures to address private sector policies that occasionally result in unfavorable macroeconomic effects.

The theory states that regulations focus on the critical requirements including the ways in which fiscal management can quickly improve the economy of a country. The study advances the idea that a strengthening of finances might happen as a result of an increase in expenditure by governments and promotes an alternate framework that incorporates immediate government influence over investments (Saungweme & Odhiambo, 2021). An

increase in public spending encourages investments and decreases investment from the private sector since greater inflation reduces savings in private hands (Orodi, 2022). The theory is pertinent to the research because the government makes a variety of fiscal as well as monetary choices that impact the financial well-being of manufacturing and related businesses in an effort to promote economic growth, hence underpinning inflation rate (Anyona, Matanda & Maina, 2023).

The criticism levelled against this theory is the fact that it overly focuses on economic stability from a short-term point of view while ignoring the long-term perspective as far as growth of an economy is concerned (Mpainei, 2022). Despite this critique, this theory holds that the administration is the only entity capable of ending financial as well as recessions in the economy by means of monetary or fiscal regulations, as well as by generating overall demand to raise the economy's output levels through the support of a financially sound system that can promote ongoing stability in the economy (Muindi & Mukorera, 2022). The theory was therefore used to underpin the moderating variable being inflation rate.

### 2.3 Empirical Review

Past empirical studies are reviewed in this study and presented as indicated in the subsequent sections:

### 2.3.1 Board Size and Profitability

Shahid et al. (2020) determined the effect of board size as a mediator variable, working capital management, and basis factors of CG and performance of the firm. The study was done using 32 sugar milling listed firms in Pakistan. The period of the study covered 2014 all through to 2017. Generalized least square method was adopted for processing of the gathered information. It was clear after analysis that independent directors and ROA had positive and significant nexus with each other. Okoye *et al*. (2020) examined impacts of business governances on Nigerian commercial banking institutions profitability. While using secondary data, size of governing body had substantial effects on business performances of commercialized banking institutions founded on Generalized Moments of Methods (GMM).

Vaidya (2019) determined the effect of board size on performance of the firm, with a focus on BSE 100 companies. The period covered by the study was 2018-19 and ROA was a proxy of performance. It was noted that board size did not exert any significant effect on monetary performance. Thus, board size was not seen to have any impact on performance of an enterprise.

Chaudhary *et al*. (2018) studied board size and financial performance relationships for five (5) automobile firms situated in India. The focus in terms of the period was from 2009 to 2013 and annual data was sourced. Board size was the predictor variable while ROE, ROA, Price per Earnings ratio as well as EPS made up proxies for the outcome variable. Board size possesses an unsubstantial effect on business performances and these

outcomes cut across various indicators used. Rather than focusing on automobile companies, this investigation is going to be centered on manufacturing quoted at the Kenya's NSE.

Shunu, Bii and Ombaba (2017) analyzed board size and financial performance nexus with regard to listed firms in the Nairobi Securities Exchange while focusing on 68 of them as of 2015. An explanatory research method was utilized to obtain additional panel information from business accounting documents as well as NSE bulletins. Board size had significant direct implication on monetary performance. The current study however explored other aspects of corporate governance including board ownership and independence.

### 2.3.2 Board Independence and Profitability

Crifo and Roudaut (2022) determined the effect of independence of the board coupled with expertise on the value of the enterprise. This was an empirical study that tested formulated hypotheses using 120 large firms in France. The period of the study was 2006-2011 and after analysis, the findings were that expertise played a mediating role in the nexus between independence and the value of an enterprise.

Musah and Adutwumwaa (2021) studied financial outcomes of remote banks in Ghana on various corporate governance frameworks, including board independence. Investigation obtained secondary information from thirty regional institutions' yearly filings during ten years, from 2010 to 2019. The study's goals were addressed employing regression modeling, correlation evaluation, as well as statistical methods such as descriptive. Study

found that financial results of small banking institutions were significantly impacted by autonomy of boards. The research is centered on realities in Ghana which differs from those of Kenya, which is focus of this study.

Gambo, Terzungwe, Joshua, and Agbi (2019) investigated effects of board autonomy, experience, including the inclusion of foreign members of the board on the monetary results of quoted Nigerian insurance businesses. The investigation focused on 26 insurance businesses that traded in Nigeria. An accurate representation of 17 insurance companies was obtained by random selection. The investigation discovered that ROA is significantly impacted by autonomy of board. However, it does not have significant impacts on ROE. Experts recommend that the authorities should ensure that board of directors includes capable and independent members. Study focused on insurance companies which is a different institution from focus of this study; Manufacturing and allied firms.

Zubeltzu-Jaka, Ortas and Álvarez-Etxeberria (2019) did an exploration of the link between independent directors and firm's performance. This was a meta-regression study that covered 126 independent sample. The gathered and processed data gave an indication that board independence exert direct and inverse implication on monetary performance.

Shan (2019) examined whether the two-way connections between managerial ownership, board autonomy, and company performance are established. The coming-together-of-interests' hypothesis concerning the entrenched hypothesis analyzes the connection

investigates the relationship amongst board autonomy and company efficiency as well as the relationship connecting ownership by executives as well as the theory of stewardship. The study utilizes a data set comprising 9,302 instances of Australian publicly traded companies from 2005-2015 as well as analyzed the bilateral connections using a three-stage minimum-squares simultaneous equations methodology. The results imply that board autonomy has an adverse effect on business effectiveness as well as the reverse. The variables considered are just managerial ownership and board independence in the study as this study will investigate dimensions, and autonomy, board qualifications, diversity for governing body alongside governing body ownership.

### 2.3.3 Board Diversity and Profitability

Morrone, Bianchi, Marsocci and Faioli (2022) attempted to experimentally confirm whether diversity of board of directors such as gender, age, and nationality impacts performances of company, which was evaluated using metrics of ROE, ROA, and EBITDA margin. The investigation mentioned a considerably larger group - utilized machine learning algorithms using a data-centric strategy built on a three-year (2017–2019) collection of information comprising 59,229 Italian small to medium-sized businesses (SMEs). According to the data, neither positive nor negative influences on firm performances can be attributed to board diversity. Absence of a correlation implies that does not impede appointment of immigrants, women, and young people as directors.

Dong, Liang and Wanyin (2022) examined link between board diversity and company success. Examined within realm of ESG initiatives, investigation’s main emphasis was on

openly traded Chinese businesses. Data used for analysis covered six years, specifically from 2014-2019. In order to model relationships dynamic approach was employed. According to data, there are significant and positive associations between board diversity and firm's success, suggesting that diverse boards are advantageous to firms. The study focused on board diversity but this research will consider board size, independence, diversity, qualifications, diversity and ownership.

Đặng, Houanti, Reddy and Simioni (2020) examined connection amidst variety of gender on boards and financial performances of companies. Investigation utilized control function (CF) methodology suggested by Wooldridge (2015) recently. The CF technique considers the problem of endogenous independent variables that could result in biased results. The study used a subset of companies comprising the S&P 500 from 2004 to 2015. Blau index of diversity or the percentage of female's executives on corporations governing body, both of which measure women's participation in corporate decision-making, were found to have positive and significant impacts on business profitability, as measured by ROA. The study used the control function (CF) methodology however, the investigation of the study for the present investigation is going to be descriptive.

Effects of board composition on economic health of companies that are traded on Pakistan Stock Exchange was studied by Naseem, Xiaoming, Riaz, and Rehman (2017). Pakistan Stock Exchange (PSX) approved firms, which span six distinct industries in the economy, provided the study with the necessary data. From 2009 through 2015, the chosen businesses' yearly information was gathered. There were 1074 measurements

made for the year-company in aggregate. Main verified released yearly statements including accounting records of the chosen corporations, along with articles from the National Bank of Pakistan, were the sources of information on board characteristics as well as the company's financial results. Marketing and accounting parameters were regarded as the factors that were dependent in the study since they served as gauges of business results, while board attributes were considered independent variables. Panel Data regression analysis revealed that board diversity has inverse relationships with financial performances of companies. Geographic context of study is Pakistan which differs from context of this study which is Kenya.

### 2.3.4 Board Meetings and Profitability

Elhabi, Rasid and Basiruddin (2024) conducted an examination on board meeting frequency and their effect on performance at a firm level. The study covered Muscat securities market in Oman. Performance was represented by ROA and ROE and Tobin's Q. After analysis, the nexus between frequency of board meetings and ROA as well as ROE was found to be positive unlike for Tobin's Q.

Sahoo, Srivastava, Gupta, Mittal, Bakhshi and Agarwal (2023) explored connections between board members' traits and business performances. Investigation was mainly modifications implemented in legal framework after enactment of 2013 Indian Companies Act. Researchers utilized fixed panel data estimation approach to analyze data from 113 firms, resulting in a total of 904 observations spanning from 2012–2013 to 2019–2020. Additionally, subsample analysis was conducted. Outcomes demonstrated

favorable correlation is present between regularity of board meetings attendance rate and business performances. The study utilized a fixed panel data estimation approach but a design based on descriptive statistics will be used for this study.

Kyei, Werner and Appiah (2022) covered 48 African countries drawing a sample of 635 banks and determined the effect of board meetings on their performance. The period covered 2000 all through to 2016 and the study entailed testing of hypotheses. It emerged that board meetings contributed towards maximization of the wealth of owners of the firm.

Buchdadi, Ulupui, Dalimunthe, Pamungkas, and Fauziyyah (2019) looked into how effectiveness of companies was affected by a number of variables, such as total meetings held by board, number of executives who attended sessions, along with number of board members who participated in discussions with chief executives. 135 businesses from 2013 to 2016 made up135 enterprises that made up study's data. Model was examined using panel data approach. Based on outcomes, study indicates that board of director meetings have favorable effects on success measured by valuation, but participation at boards of directors' meetings positively influences accounting-based performances. Research studied just effect of board meetings whereas this study will investigate board size, independence, qualifications, meetings and ownership.

Aryani, Setiawan, and Rahmawati (2017) looked at relationships amongst volume of meetings of board as well as overall success. Examination employed ROA as a metric for evaluating organizations' success. Investigation set out to investigate relationships

between governing ideas and Indonesian company outcomes. 175 reports from businesses that had been included on Jakarta Islamic Indexes throughout 2006 and 2016 comprised research's dataset. Purposeful sampling remained the sample strategy employed. Results show indicate total amount of meetings held by board shows no effects on how the company runs. The data source of the study is companies in Indonesia but this study will seek data from manufacturing firms in Kenya.

### 2.3.5 Board Ownership and Profitability

Ownership structure and body of governors were two factors that Apochi, Mohammed, and Yahaya (2023) looked at, in relation to financial performance. The group being studied comprised 75 non-financial services businesses that have appeared on the Nigerian Exchange Group's floor within the period starting from 2012 all through to 2021. The shares held by large investors and the CEO were used to determine ownership structure. Generalized least squares, the White method for adjusting standard errors for heteroskedasticity, and fixed effects were all used in the estimation model. Findings revealed positive associations between ROE and CEO's bonus compensation. The study used generalized least squares, White method for adjusting standard errors for heteroskedasticity, and fixed effects to measure model. This study will use panel regression analysis and test model using stationarity test, test for correlation, normality test and Hausman test.

For the years 2009 to 2020, Kirimi, Kariuki, and Ocharo (2022) studied the connection among the ownership structures and the financial success of Kenya's commercial

banking institutions. The information was gathered from the certified financial accounts of 39 Kenyan commercial banks. Strong support for ownership arrangements in determining the differentiations in the financial performances of commercial banking institutions was found using regression analysis. According to the findings, net interest margin (54.04%) along with return on assets (31.37%) were the two metrics that ownership arrangements had the most impact on. Low return on equity (3.32%) and earnings per share (2.13%) remained unaffected by ownership structures. Commercial banking institutions ought to modify their ownership structures according to the study, to improve financial performance. In order to enhance corporate governance procedures, banks with an elevated proportion of national ownership ought to consider a limited degree of commercialization. Thirdly, banking institutions should implement managerial ownership policies that caps amount of equity stock that executives can hold in order to restrict their ability to make strategic decisions. Fourth, the report suggests a proportion cap on an individual institutional investor's share stock. The report also suggests that in order to ensure that foreign investors are considered in each and every decision made by bank managers, the management of the bank should develop a strategy delineating the role and position of international companies in the process of determining tactical choices. The study mainly focused on ownership structure on financial performance, primary focus of this investigation is going to be connections that exist between governance of companies and financial achievements.

In Jordan, Amneh, Amneh, Hussam, and Mahmoud (2021) examined impacts of structure of ownership on company efficiency. Multiple-regression framework as well as fixed

regression effects were used in the present investigation to analyze the data. Every Jordan's first market companies registered on Amman Stock Exchange (ASE) between 2012-2018 were included in sample. Study's conclusions demonstrate a large and positive correlation among corporate ownership, the market indicator Tobin's Q (TQ) as well as the accounting metric Return on Assets (ROA). ROA and TQ are also impacted by other forms of ownership structures, including as ownership specialization. Even while executive ownership has a poor correlation to ROA, there is no correlation with TQ. This investigation is going to be conducted throughout 2015 until 2022; the previous investigation ran from 2012 till 2018. The study was also conducted in Jordan, is scheduled to take place in Kenya.

Rivelles, Paniagua, and Sapena (2018) examine link between governance structures and ownership structure and a company's economic success. The study used OCA to estimate this association. It combined linear and non-linear multiple regression analysis to improve analysis. 1,207 businesses from fifty-nine nations operating in 19 industries, were included in the panel data utilized for this study from 2013 to 2015. The study contributes in two ways. The several empirical methodologies used in this investigation provide a wider perspective on the empirical examination of financial outcomes, to start. The investigation also advances our knowledge of how corporate ownership and governance impacts the health of a business. The study examined time period from 2013 to 2015, this study will take time period from 2015 to 2022.

Muthoni and Nasieku's (2018) studied ownership identity and capital structure: A Panel Analysis for the Listed Companies in Kenya, institutional ownership and capital structure are positively and significantly correlated. 35 businesses that have reliable data for the years 2008 – 2017 provided the information that was gathered. A longitudinal quantitative study layout was applied. To evaluate the capital base, a leverage ratio was employed. The study made the case that for businesses to gain from research funding, they must have positive relationships with institutional investors including insurance companies, mutual funds, retirement plans, and others.

### 2.3.6 Corporate Governance, Inflation and Profitability

The impact of inflation on the stability of South Sudan's commercial banking institutions was evaluated by Chol (2022). The design selected was of a descriptive character. The investigator gathered data from various South Sudanese banking institutions. Data were drawn on first-hand and secondary sources. Every banking institution in the area participated in the census-based research. Data analysis employed frameworks of analysis for quantitative data. The investigation supported the idea that inflation has detrimental impacts on performance and profitability of banks. Inflation was the moderator variable in the present inquiry.

Odhiambo (2021) looked into how governance of the company, financial traits, macroeconomic conditions, and the financial results of agricultural enterprises registered at the Kenya’s NSE, relate to one another. To ascertain the combined impact of corporate governing, financial features, macroeconomic indicators (inflation), as well as financial

results of quoted agricultural enterprises in Kenya. The study determined how inflation affected traded agricultural enterprises' corporate governances and financial performances in a moderating way. Seven agricultural enterprises that had been traded at NSE from 2002 and 2016 were the research's target demographic, which was determined using a census method. In the research, panel data was utilized. A longitudinal descriptive study approach was used in this research. Regression modeling on panel data and descriptive data were both done. Associations amongst corporate governance and financial performances was positively moderated by inflation, and it was proven that there are strong interactions involving governance of a company, finance features, as well as inflation on financial results.

Khue and Lai (2020) focused on the specified impact caused by inflation as they investigated how the ASEAN-6 countries' banks were affected by inflation. The empirical analysis depends on thresholds models of regression developed with panel data of the ASEAN-6 nations from 1996 to 2016. The outcomes show significant proof of the inflation-threshold effects. The investigation demonstrated that when inflation is within every of these benchmark rates, which are typically about 4-7%, it has a negative impact across all of the major measures of the effectiveness of banks. However, as inflation increases over these thresholds, the negative impact disappears. The asset-quality index, nevertheless, only becomes negative when inflation rises above 3%. The findings will help regulators in the ASEAN-6 nations choose an inflation goal framework that is consistent with the growth of their banking institutions. The study used time period from

1996 to 2016, this study will be conducted in Kenya and use time period from 2016 to 2023.

The impact of inflation on financial stability in OPEC countries from 1970 to 2015 was examined by Mostafa and Mohammad (2019). In order to quantify the nonlinear impacts of inflation in relationships between economic growth and financial developments, the study used Panel Smooth Threshold Regression (PSTR). Estimation's findings indicate that, while in view of the two separate proxies for financial developments, thresholds for inflation rate were 20.33 and 20.36. According to findings of nonlinear assessment, impacts of financial stability in OPEC economies will diminish and possibly even become negative in over-threshold inflations. The study looked at the financial stability of OPEC countries, this study focused on Kenya. The study used time period from 1970 to 2015, this study used time period from 2016 to 2023.

## 2.4 Knowledge Gaps

Table 2.1 gives gapes that were filled by the present study:

**Table 2.1: Knowledge Gaps**

| Researcher | Study topic | Results | Knowledge gap | Emphasis of present study |
|---|---|---|---|---|
| Apochi, Mohamme, and Yahaya (2023) | Examined ownership composition and finances outcomes. | The results showed a detrimental association among Tobin's Q proportion as well as the chief executive's shares remuneration at the firm they supervise, along with an upward relationship involving ROE as well as the chief executive's incentive remuneration. | The study used generalized least squares, the White test for adjusting standard errors for heteroskedasticity , and fixed effects to measure model. | This study used panel regression analysis and test model using stationarity test, test for correlation, normality test and Hausman test. |
| Kirimi, Kariuki, and Ocharo (2022). | Examined the connection among the ownership structures and the financial success of Kenya's commercialized banking institutions | According to findings, NIM and ROA were two metrics that ownership arrangements had most impacts on | The study mainly focused on ownership structure on financial performance | Relationship between governance of corporations and profitability was assessed |

| | | | | |
|---|---|---|---|---|
| Chol (2022). | Inflation and stability of Sudan's commercial banking institutions | Inflation was established to have adverse implication on stability | Conducted on commercial banks in South Sudan, with inflation as an independent variable. | Manufacturing entities were covered, with inflation as a moderating variable. |
| Amneh, Amneh, Hussam, and Mahmoud (2021) | examined how the structure of ownership impacted company efficiency. | A major positive correlation among corporate ownership and market indicator Tobin's Q (TQ) as well as Return on Assets (ROA). | Tobin-Q was an indicator of measuring efficiency of the firm. | ROA represented profitability |
| Odhiambo (2021) | Looked into how governance of the company, financial traits, macroeconomic conditions, and the accounting results of agriculture listed entities | The correlation between financial success and governance of companies was positively moderated by inflation | Research targeted agricultural firms listed on Kenya's NSE | This study targeted listed manufacturing entities at NSE |
| Khue and Lai (2020) | Focused on the specified impact caused by inflation as they investigated how the ASEAN-6 countries' banks were affected by | The investigation demonstrated that when inflation is within 4-7%, it has a negative impact across all of the major measures of | The study covered 6 countries in ASEAN region | The present study was conducted in Kenya |

| | | | | |
|---|---|---|---|---|
| | inflation. | the effectiveness of banks. | | |
| Mostafa and Mohammad (2019). | Impacts of inflation on financial stability in OPEC countries from 1970 to 2015 | Estimation's findings indicate that, while in view of two separate proxies for financial development. | Financial stability was covered as outcome variable . | Profitability was the outcome variable in the present study. |
| Muthoni and Nasieku's (2018) | Explored whether board ownership and capital structure are positively and significantly correlated using a Panel Analysis for the Listed Companies in Kenya | That in order for businesses to gain from research funding, they must have positive relationships with institutional investors including insurance companies, mutual funds, retirement plans, and others. | The study focused more on capital structure. | CG and profitability was explored |
| Rivelles, Paniagua, and Sapena (2018) | Link between governance structures as well as structure of ownership and a company's financial success. | The study showed corporate ownership and governance affect the financial health of a business. | This study adopted firm success as the outcome variable | Profitability was the outcome variable in the present study |

**Source: Researcher (2024)**

## 2.5 Conceptual Framework

Figure 2.1 is the conceptual framework of the study:

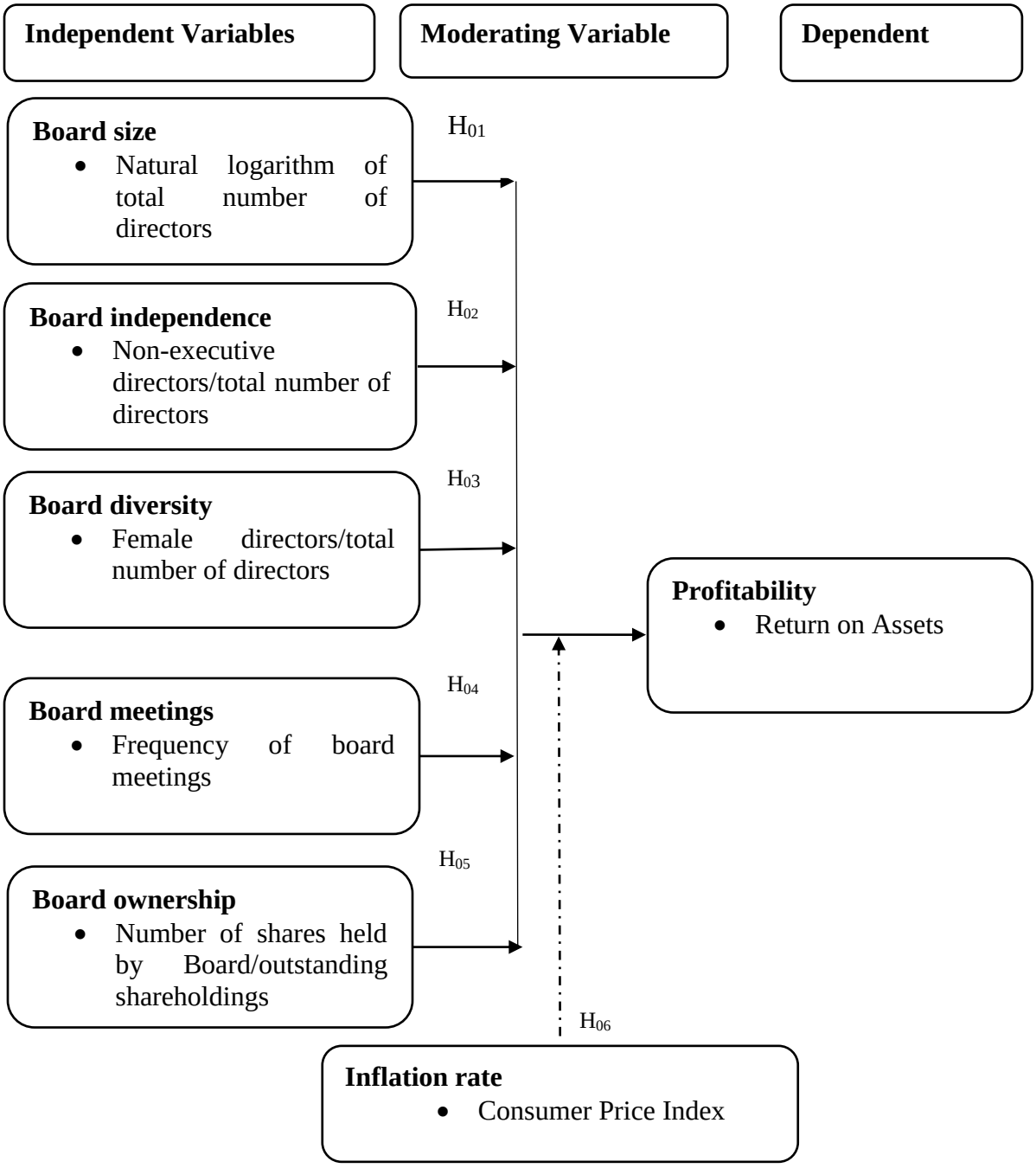



**Figure 2.1: Conceptual Framework**

**Source: Researcher (2024)**

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter details the research methodologies that helped to achieve the formulated objectives. It covers research design, population and sampling techniques. Other details included in this chapter include empirical model, variable operationalizaton, data collection and analysis as well as the ethical issues that were considered.

## 3.2 Research Design

The research design outlines the researcher's plot to carry out research goals during data collecting and analysis. There are various research designs including descriptive, explanatory an exploratory design. The rationale of adopting descriptive survey in this present study was because it enabled the researcher to unearth details that, when combined with quantitative data, identifies features of the population under investigation (Ledford & Gast, 2018). A number of related relevant studies have applied descriptive survey design. These include Liu and Suzuki (2025) in China, Njobil, Mbotor, ITO and Ekpo (2025) in Nigeria and Kimunei (2025) locally here in Kenya. The descriptive design was appropriate since it allowed for the methodical gathering of real information that is required for making decisions, and identifying methods, situations, and relationships with the acquired data (Bryman, 2006).

### 3.3 Target Population

A collection of people or things having observable features a researcher seeks to use for research is known as a target population (Mugenda & Mugenda, 2013). This study targeted 8 listed manufacturing and allied firms on the NSE in Kenya (NSE, 2024) as the unit of analysis (appendix I). The rationale of targeting the listed manufacturing firms was because secondary data was readily available in public domain unlike focusing on all the manufacturing firms.

### 3.4 Sampling Technique

Sampling is the procedure used by a researcher to collect participants, sites to investigate (Kothari, 2014). There are two broad methods of sampling, probability and non probability sampling. This study made use of census approach which is a non probability method since the target population was small. As the population in this study was small, census was used. Thus, all the 8 manufacturing and allied listed firms at the NSE were included in this study. According to Omair (2025), census is appropriate when population contain less than 200 units which was the case with the present study.

### 3.5 Empirical Model

The study incorporated Whisman and McClelland (2005) models. The study's direct empirical model is as indicated below:

#### 3.5.1 Direct Regression Model

$$FP_{it} = \beta o + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_3 BM_{it} + \beta_4 BO_{it} + Ɛ \ldots\ldots i$$

Where:

$FP_{it}$= Profitability of firm i at time t

$BS_{it}$ = Board Size of firm i at time t

$BI_{it}$= Board Independence of firm i at time t

$BD_{it}$ = Board Diversity of firm i at time t

$BM_{it}$= Board Meetings of firm i at time t

$BO_{it}$ = Board Ownership of firm i at time t

$\beta o$ = Constant

$\beta o$-$\beta_4$ = Beta Coefficients

$\mathcal{E}$ = Error term

### 3.5.2 Moderation/Product Model

Moderation test was done using a 2-step approach in view of Whisman and McClelland (2005) as follows:

$$\mathbf{FP_{it} = \beta o + \beta_1 CG_{it} + \beta_2 IR_{it} + \mathcal{E} \ldots\ldots\ldots\ldots\ldots\ldots\ ii}$$

$$\mathbf{FP_{it} = \beta o + \beta_1 CG_{it} + \beta_2 IR_{it} + \beta_3 CG*IR_{it} + \mathcal{E} \ldots\ldots\ldots\ iii}$$

Where:

$FP_{it}$= Profitability of firm i at time t

$CG_{it}$ = Corporate Governance of firm i at time t

$CG*IR_{it}$= Corporate Governance* Inflation Rate of firm i at time t

Model i was when inflation was introduced alongside corporate governance considered as a composite. In model II, the interaction term was introduced.

### 3.6 Operationalization and Measurement of Variables

Corporate governance is the dependent variable because it affects Nairobi Securities Exchange's manufacturing and related companies' performances. The amount was expressed in millions of Kenyan shillings. The independent factors in corporate governance included board independence, ownership, size, and diversity. Operationalization and measurements of research variables follow as indicated in Table 3.1 below:

**Table 3.1: Operationalization and Measurement of Variables**

| Variable | Type | Operationalization | Measurement | Formula |
|---|---|---|---|---|
| Profitability | Responding variable | Financial evaluation of a company's performance in relation to its goals, strategies, and external circumstances | Return on Asset | Net income/Total assets |
| Inflation | Moderating variable | Is the continuous rise in the overall cost level of products and services in an economy over a duration of time | Consumer Price Index | Already computed |
| Board size | Independent variable | The total number of members with voting rights on a board of directors is referred to as the board size. | Number of directors | Natural logarithm of total number of directors |
| Board Independence | Independent variable | The condition whereby every or a significant proportion of the individuals on a board of directors do not have any affiliation with the company other than their roles as directors. | Board members who are not executives relative to the overall number of directors | Non-executive directors/total number of directors |
| Board diversity | Independent variable | It is reflected in the number of female directors to the board. | Feale directors on the board | Female directors/total number of directors |
| Board Meeting | Independent variable | The meeting of the board of directors of a company aimed at discussing and making decisions related to the strategic direction, performance, and governance of the organization. | Frequency of board meeting | Frequency of board meetings |
| Board ownership | Independent variable | people and organizations who are highly invested in and have significant control over how the business operates and are committed to maintaining its capital structures | Number of shares held by Board/outstanding shareholdings | Number of shares held by Board/outstanding shareholdings |

**Source: Research Data (2024)**

### 3.7 Data Collection Procedure and Instruments

Information in its auxiliary nature was gathered in this study from CMA and NSE as well as CBK. This information was gathered on a period of 8 years (2016-2023). Secondary information on performance and company traits was gathered for the study from publicly accessible official statements of publicly listed firms, including annual financial reports and statistics. Through publicly accessible annual reports to shareholders and annual proxy statements to shareholders, secondary information on corporate governance was acquired.

### 3.8 Data Analysis and Presentation

In order to verify whether study hypothesis is reliable, data was analyzed by the researcher. SPSS version 26 statistical package was used since it is simple to use and ideal for analyzing management-related attitudes (Martin and Acuna, 2015). A descriptive statistical analysis was performed on the data. Multiple regression approaches were used towards analyzing the correlations amongst corporate governance, inflation and profitability as well as the degree to which they were correlated. Two regression models, the product and moderated models were adopted as inferential analysis in this study to test the formulated hypotheses and drawn relevant inferences. This was done at 5% level of significance, such that p-value less than 0.05 meant the relationship between variables was significant. Presentation of findings was aided by tables and figures.

### 3.9 Diagnostic Tests

They were carried out during investigations to ensure data appropriateness for examination. As components of research, assessment procedures for Hausman tests, normality, correlation and stationarity are going to be carried out.

#### 3.9.1 Heteroscedicity Test

This test is conducted to ascertain if there is variation in error term. It was tested through Level test. False inferences are drawn from non-static data collection. The null hypothesis was invalidated when statistical probability value is below 0.05, indicating that data collection has heteroscedicity. In case of Heteroscedicity, it was treated through log transformation of the data.

#### 3.9.2 Multicolinearity Test

The degree of a connection among each factor is determined by the correlation analysis. Green (2008) asserts that multicollinearity does not exist when a pair of variables correlates with -0.8 or 0.8 (i.e., an r of 64% or higher). The nature of correlation between variables of the study could either be positive or negative. The values of VIF were computed to test for collinearity with values 1-10 being the threshold.

#### 3.9.3 Normality Test

Normality assessment helps make certain that metrics circulates normally. Non-normal structure of data could result in inaccurate choices being formed. Green claims that alternative hypothesis asserts because data has normal distribution while null hypothesis suggests that data doesn't have normal distribution (Yin, 2023). Data that has p-value of

less than 0.05 is considered to be out of norm, whereas data that has p-value of more than 0.05 is considered to be normal. For this study, Skewness and Kurtosis were computed and applied to test for normality assumption.

### 3.10 Ethical Consideration

Researcher took measures to guarantee that investigation complies with ethical research standards. Investigator was next registered as a member online with CMA, NSE, and Kenyan Investor websites, which gave access to crucial information through downloads of companies' data on makeup of their corporate governances and profitability. Only information from audited or verified sources was included in this study to ensure accuracy and completeness.

# CHAPTER FOUR

# DATA ANALYSIS AND DISCUSSIONS

## 4.1 Introduction

The analysis was aided by means and standard deviation and presentation was aided by tables and figures. While the study targeted the 9 listed manufacturing firms in Kenya, Mumias Sugar Ltd was excluded from analysis since it had been suspended from the list by CMA from 2019. The chapter captures results of descriptive, diagnostic tests and inferential statistics as well as discussions by incorporating the reviewed literature.

## 4.2 Descriptive Statistics

Table 4.1 is a breakdown of the findings of descriptive analysis..

**Table 4.1: Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Board size | 56 | .70 | 1.08 | 1.0137 | .05959 |
| Board independence | 56 | .25 | .46 | .3345 | .05986 |
| Board diversity | 56 | .17 | .60 | .2659 | .07735 |
| Board meetings | 56 | 2.00 | 5.00 | 3.9821 | .96278 |
| Board ownership | 56 | .02 | .56 | .1986 | .13301 |
| Inflation rate | 56 | 4.69 | 8.01 | 6.3862 | 1.19045 |
| Profitability | 56 | .00 | .45 | .0668 | .09063 |

**Source: Research Data (2025)**

Table 4.1 indicates that board size, independence, diversity, meetings and ownership all averaged at 1.0137, 3345, .2659, 3.9821 and .1986. The average values for standard deviations and profitability were 6.3862 as well as 0.0668. On average therefore, 6.68%

of the profits generated by the studied firms was attributed to effective utilization of the assets they had in place. The values of standard deviations were all less than 1 except for inflation rate. This means that there was significant variation in the inflation rates in the country across the study period that perhaps affected the cost of living of people. All other aspects of corporate governance remained relatively stable across the period of consideration in this study.

### 4.3 Diagnostic Tests

Heteroscedicity Test, autocorrelation, normality and co-linearity test were conducted on the sample data that was gathered.

#### 4.3.1 Heteroscedicity Test

This test is conducted to ascertain if there is variation in error term. it was tested through Level test. False inferences are drawn from non-static data collection. The null hypothesis was invalidated when statistical probability value is below 0.05, indicating that data collection has Heteroscedicity.

**Table 4.2: Heteroscedicity Test**

| | **Significance** |
|---|---|
| Board size | .766 |
| Board independence | .543 |
| Board diversity | .654 |
| Board meetings | .985 |
| Board ownership | .876 |
| Inflation rate | .775 |

**Source: Research Data (2024)**

All the p-value across the study variables were all less than 0.05. This concurs with Glass (1966) who noted that when using Levene test, any resultant p>0.05 signify absence of Heteroscedicity condition.

### 4.3.2 Multicolinearity Test

The degree of a connection among each factor is determined by the correlation analysis. Green (2008) asserts that multicollinearity does not exist when a pair of variables correlates with -0.8 or 0.8 (i.e., an r of 64% or higher).

**Table 4.3: Test for Multicolinearity**

| | **Tolerance** | **VIF** |
|---|---|---|
| Board size | .461 | 2.168 |
| Board independence | .708 | 1.413 |
| Board diversity | .545 | 1.833 |
| Board meetings | .889 | 1.125 |
| Board ownership | .845 | 1.184 |
| Inflation rate | .852 | 1.174 |
| **Mean VIF** | **.717** | **1.483** |

**Source: Research Data (2024)**

The mean VIF value stood at 1.483, this concur with Daoud (2017) who observed that VIF values in the range of 1-10 clearly indicate that multicollinearity is absent in the sample data of the study.

### 4.3.3 Normality Test

Normality assessment helps make certain that metrics circulates normally. Non-normal structure of data could result in inaccurate choices being formed. Green claims that

alternative hypothesis asserts because data has normal distribution while null hypothesis suggests that data doesn't have normal distribution (Yin, 2023). Data that has p-value of less than 0.05 is considered to be out of norm, whereas data that has p-value of more than 0.05 is considered to be normal. For this study, Skewness and Kurtosis Test was applied.

**Table 4.4: Normality Test**

| | N | Skewness | | Kurtosis | |
|---|---|---|---|---|---|
| | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| Board size | 56 | -2.756 | .319 | 1.295 | .628 |
| Board independence | 56 | .336 | .319 | -.964 | .628 |
| Board diversity | 56 | 1.485 | .319 | 2.897 | .628 |
| Board meetings | 56 | -.597 | .319 | -.601 | .628 |
| Board ownership | 56 | 1.043 | .319 | .591 | .628 |
| Inflation rate | 56 | .088 | .319 | -1.530 | .628 |
| Profitability | 56 | 2.316 | .319 | 2.147 | .628 |

**Source: Research Data (2024)**

Table 4.4 indicate that the highest values of Skewness and Kurtosis were -2.756 and 2.897 with lowest values standing at .088 and .591 respectively. Bai and Ng (2005) argued that when such values are in the range of +/-3, the inference drawn is that normality is present. Thus, the data in the study had properties of normal distribution

### 4.4 Correlation Matrix

Table 4.5 gives a review of the analyzed findings from correlation analysis:

**Table 4.5: Correlation Matrix**

| | | Profitability | Board size | Board independence | Board diversity | Board meetings | Board ownership | Inflation rate |
|---|---|---|---|---|---|---|---|---|
| Profitability | Pearson Correlation | 1 | | | | | | |
| | Sig. (2-tailed) | | | | | | | |
| | N | 56 | | | | | | |
| Board size | Pearson Correlation | .485 | 1 | | | | | |
| | Sig. (2-tailed) | .000 | | | | | | |
| | N | 56 | 56 | | | | | |
| Board independence | Pearson Correlation | -.387 | .091 | 1 | | | | |
| | Sig. (2-tailed) | .525 | .505 | | | | | |
| | N | 56 | 56 | 56 | | | | |
| Board diversity | Pearson Correlation | .863 | .566 | -.100 | 1 | | | |
| | Sig. (2-tailed) | .000 | .000 | .461 | | | | |
| | N | 56 | 56 | 56 | 56 | | | |
| Board meetings | Pearson Correlation | .613 | .321 | -.033 | .539 | 1 | | |
| | Sig. (2-tailed) | .000 | .016 | .808 | .000 | | | |
| | N | 56 | 56 | 56 | 56 | 56 | | |
| Board ownership | Pearson Correlation | .713 | .539 | -.044 | .577 | .434 | 1 | |
| | Sig. (2-tailed) | .000 | .000 | .745 | .000 | .001 | | |
| | N | 56 | 56 | 56 | 56 | 56 | 56 | |
| Inflation rate | Pearson Correlation | .052 | .184 | -.058 | .072 | -.271 | .212 | 1 |
| | Sig. (2-tailed) | .706 | .175 | .673 | .600 | .043 | .117 | |
| | N | 56 | 56 | 56 | 56 | 56 | 56 | 56 |

**Source: Research Data (2024)**

The study noted from Table 4.5 that board size (r=0.485) had a moderate but positive relationship with profitability. Board independence (r= -0.387) also had a moderate but negative relationship with profitability. On the other hand, board diversity (r of 0.863), board meetings (r being 0.613) as well as board ownership (r of 0.713) and inflation rate

(r of 0.706) all had strong and positive link with profitability of the listed manufacturing firms in Kenya.

### 4.5 Inferential Statistics and Hypotheses Testing

This helped to test the formulated hypothesis. The findings were established and presented as indicated in the subsequent sections:

#### 4.5.1 Direct Regression Results

The findings of the model summary were determined and presented as indicated in Table 4.6:

**Table 4.6: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .916[a] | .838 | .822 | .03821 |

a. Predictors: (Constant), Board ownership, Board independence, Board meetings, Board size, Board diversity

**Source: Research Data (2024)**

Adjusted $R^2$ is given as 0.822; this shows that 82.2% profitability of the studied listed manufacturing entities in Kenya can be explained by their corporate governance. It then follows that there exist other factors in addition to corporate governance which have an effect on profitability of the studied firms which future scholars should seek to establish. The findings on Analysis of Variance were established and presented as indicated in Table 4.7.

**Table 4.8: Analysis of Variance**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | .379 | 5 | .076 | 51.888 | .000[b] |
| Residual | .073 | 50 | .001 | | |
| **Total** | **.452** | **55** | | | |

a. Dependent Variable: Profitability
b. Predictors: (Constant), Board ownership, Board independence, Board meetings, Board size, Board diversity
**Source: Research Data (2024)**

The results in Table 4.7 generally indicate that on overall, the regression model that was adopted in this study was significant ($F=51.888$, $p<0.05$).

**Table 4.8: Beta Coefficients and Significance**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | -.070 | .104 | | -.674 | .503 |
| Board size | .171 | .113 | .112 | 1.521 | .135 |
| Board independence | -.213 | .088 | -.009 | -2.421 | .019 |
| Board diversity | .765 | .096 | .653 | 7.972 | .000 |
| Board meetings | .015 | .006 | .154 | 2.247 | .029 |
| Board ownership | .225 | .051 | .330 | 4.426 | .000 |

a. Dependent Variable: Profitability
**Source: Research Data (2024)**

The following equation is predicted and fitted between corporate governance and profitability:

$$FP_{it} = -0.070 - 0.213BI_{it} + 0.765BD_{it} + 0.015BMit + 0.225BO_{it} + Ɛ \ldots\ldots\ldots\ldots\ldots\ldots \text{(i)}$$

Where:

$FP_{it}$= Profitability of firm i at time t

$BS_{it}$ = Board Size of firm i at time t

$BI_{it}$= Board Independence of firm i at time t

$BD_{it}$ = Board Diversity of firm i at time t

$BM_{it}$= Board Meetings of firm i at time t

$BO_{it}$ = Board Ownership of firm i at time t

βo = Constant

βo-$\beta_4$ = Beta Coefficients

Ɛ = Error term

Taking the level of significance as 5%, the study noted that while board size was not significance (p lower than 0.05), board independence (p lower than 0.05), board diversity (p lower than 0.05), board meetings (p<0.05) and board ownership (p lower than 0.05) were significant. This means that on overall corporate governance significantly enhances profitability.

### 4.5.2 Moderated/Product Regression Results

Stepwise regression analysis aided moderation testing and Table 4.9 gives the findings:

**Table 4.9: Model Summary after Moderation**

| | | | | Std. Error of | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | the Estimate | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .706[a] | .499 | .490 | .06475 | .499 | 53.744 | 1 | 54 | .000 |
| 2 | .733[b] | .538 | .520 | .06279 | .039 | 4.434 | 1 | 53 | .040 |
| 3 | .748[c] | .559 | .533 | .06191 | .021 | 2.520 | 1 | 52 | .119 |

a. Predictors: (Constant), Corporate Governance
b. Predictors: (Constant), Corporate Governance, Inflation rate
c. Predictors: (Constant), Corporate Governance, Inflation rate , Interaction Term

**Source: Research Data (2024)**

On overall, there were changes in R-square in model 2 and 3. In particular, there was an R-squared change of 0.039 and 0.021 in models 2 and after introduction of inflation and the interaction term respectively. These changes in R-squared signified the moderating influence of inflation in the model. Table 4.10 gives the findings of the regression ANOVA findings after testing for moderation of inflation.

**Table 4.10: ANOVA Findings**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .225 | 1 | .225 | 53.744 | .000[b] |
| | Residual | .226 | 54 | .004 | | |
| | Total | .452 | 55 | | | |
| 2 | Regression | .243 | 2 | .121 | 30.798 | .000[c] |
| | Residual | .209 | 53 | .004 | | |
| | Total | .452 | 55 | | | |
| 3 | Regression | .252 | 3 | .084 | 21.960 | .000[d] |
| | Residual | .199 | 52 | .004 | | |
| | Total | .452 | 55 | | | |

a. Dependent Variable: Profitability
b. Predictors: (Constant), Corporate Governance
c. Predictors: (Constant), Corporate Governance, Inflation rate
d. Predictors: (Constant), Corporate Governance, Inflation rate , Interaction Term

**Source: Research Data (2024)**

Table 4.10 gives three F calculated values for models 1, 2 and 3 as 53.744, 30.798 and 21.960 with all resultant p-values being $p<0.05$ implying model significance. Table 4.10 gives beta coefficients.

**Table 4.11: Coefficients and Significance**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.271 | .047 | | -5.779 | .000 |
| | Corporate Governance | .058 | .008 | .706 | 7.331 | .000 |
| 2 | (Constant) | -.388 | .072 | | -5.406 | .000 |
| | Corporate Governance | .062 | .008 | .746 | 7.829 | .000 |
| | Inflation rate | .015 | .007 | .201 | 2.106 | .040 |
| 3 | (Constant) | -.928 | .348 | | -2.668 | .010 |
| | Corporate Governance | .151 | .057 | 1.832 | 2.654 | .011 |
| | Inflation rate | .192 | .049 | 1.209 | 3.918 | .015 |
| | Interaction Term | -.023 | .008 | -1.334 | -2.875 | .019 |

a. Dependent Variable: Profitability

**Source: Research Data (2024)**

From the findings in Table 4.11, corporate governance is significant under model 1 ($p<0.05$). In model 2, both corporate governance and inflation rate are significant ($p<0.05$). With the introduction of interaction term in model 3, both inflation and corporate governance are still significant (p is lower than 0.05). Thus, inflation is a significant moderator.

### 4.5.3 Hypotheses Testing and Discussions

Table 4.12 gives a summary of hypotheses and the decision-making criteria based on the p-values from regression models earlier presented:

**Table 4.12: Hypotheses Testing and Discussions**

| Hypotheses | P-value | Deduction |
|---|---|---|
| **$H_{01}$:** Board size has no effect on profitability of manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya. | .135 | $p>0.05$ hence $H_{01}$ was accepted |
| **$H_{02}$:** board independence has no effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya. | .019 | $P<0.05$ hence $H_{02}$was rejected |
| **$H_{03}$:** Board diversity has no effect on the financial performance of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya. | .000 | $P<0.05$ hence $H_{03}$was rejected |
| **$H_{04}$:** Board meetings have no effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya. | .029 | $P<0.05$ hence $H_{04}$was rejected |
| **$H_{05}$:** Board ownership has no effect on profitability of Manufacturing and allied firms listed at the Nairobi Securities Exchange in Kenya. | .000 | $P<0.05$ hence $H_{05}$was rejected |
| **$H_{06}$:** Inflation has no effect on the relationship between corporate governance and profitability of Manufacturing and allied firms listed at Nairobi Securities Exchange in Kenya. | .040 & .015 | $P<0.05$ hence $H_{06}$ was rejected |

**Source: Research Data (2024)**

From results, board size had $p>0.05$ and hence the first hypothesis was accepted. The finding contradicts with Shunu et al. (2017) who established that board size had significant positive influence on financial performance according to results of examination using multiple regression techniques.

From the results, board independence had $p<0.05$ and hence the second hypothesis was rejected. It was therefore deduced that board independence had significant effect on profitability. The finding is consistent with Gambo, Terzungwe, Joshua, and Agbi (2019)

who noted that ROA is significantly impacted by autonomy of board. Musah and Adutwumwaa, (2021) found that financial results of small banking institutions were significantly impacted by autonomy of boards.

From the findings, board diversity had p-value below 0.05 and hence this hypothesis was rejected. Thus, it was inferred that board diversity has significant effect on profitability. The finding is consistent with Morrone, Bianchi, Marsocci and Faioli (2022) who established that neither positive nor negative influences on firm performances can be attributed to board diversity. Dong, Liang and Wanyin (2022) established that there are significant and positive associations between board diversity and firm's success, suggesting that diverse boards are advantageous to firms.

The findings indicate board meeting had $p<0.05$ and thus this hypothesis was rejected. Thus, board meetings have significant effect on profitability. Aryani, Setiawan, and Rahmawati (2017) looked at relationships amongst volume of meetings of board as well as overall success. Examination employed ROA as a metric for evaluating organizations' success. Investigation set out to investigate relationships between governing ideas and Indonesian company outcomes. 175 reports from businesses that had been included on Jakarta Islamic Indexes throughout 2006 and 2016 comprised research's dataset. Purposeful sampling remained the sample strategy employed. Results show indicate total amount of meetings held by board shows no effects on how the company runs. The data source of the study is companies in Indonesia but this study will seek data from manufacturing firms in Kenya. Buchdadi, Ulupui, Dalimunthe, Pamungkas, and Fauziyyah (2019) established that board of director meetings have favorable effects on

success measured by valuation, but Sahoo, Srivastava, Gupta, Mittal, Bakhshi and Agarwal (2023) demonstrated favorable correlation is present between regularity of board meetings attendance rate and business performances.

From the findings, board ownership had $p<0.05$ and hence this hypothesis was rejected. Thus, board ownership was a significant predictor of profitability. The finding agrees with Amneh, Amneh, Hussam, and Mahmoud (2021) who established that even while executive ownership has a poor correlation to ROA, there is no correlation with TQ. Kirimi, Kariuki, and Ocharo (2022) established that in order to enhance corporate governance procedures, banks with an elevated proportion of national ownership ought to consider a limited degree of commercialization.

From the results, p-values were $p<0.05$ and hence this hypothesis was rejected. It was therefore inferred that inflation rate was significant. The impact of inflation on financial stability in OPEC countries from 1970 to 2015 was examined by Mostafa and Mohammad (2019). According to findings of nonlinear assessment, impacts of financial stability in OPEC economies will diminish and possibly even become negative in over-threshold inflations. In the study by Odhiambo (2021), the associations amongst corporate governance and financial performances were positively moderated by inflation, and it was proven that there are strong interactions involving governance of a company, finance features, as well as inflation on financial results.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction of the Chapter

Summarization and conclusion as well as recommending remarks are presented in this chapter. Limitations and areas requiring further research are also highlighted.

## 5.2 Summary of the Findings

The aim of the study was to establish the nexus between corporate governance, inflation and profitability of manufacturing and allied firms listed at NSE. The specific aspects of corporate governance that were covered in this study include board size, independence, diversity, meetings and ownership. These variables guided the development of null hypotheses that were tested in this study.

From descriptive statistics, board size was an evident variable in the studied listed manufacturing firms. Based on correlation analysis, the study noted that board size had a moderate but positive relationship with profitability. Regression analysis indicated that board size significantly influenced profitability ($p<0.05$).

The findings of descriptive statistics indicated that some extent, there was independence in the boards of the studied listed manufacturing firms in Kenya. From correlation analysis, board independence also had a moderate but negative relationship with profitability. The findings of regression analysis were that board independence had significant effect on profitability ($p<0.05$).

From the descriptive statistics, there was diversity in the boards of the studied firms. Based on correlation analysis, board diversity had strong and positive correlation with profitability. The findings of regression analysis showed that board diversity was a significant predictor of profitability ($p<0.05$).

The findings of descriptive statistics indicated that meetings were convened by boards of the studied firms. In regard to correlation analysis, board meetings had strong and positive relationship with profitability. Regression analysis indicated that board diversity has significant effect on profitability ($p<0.05$).

The findings of descriptive statistics indicated that there was board ownership in the studied firms. In regard to correlation analysis, board ownership was found to exert strong and positive relationship with profitability. In regard to regression analysis, board ownership had significant effect on profitability ($p<0.05$).

The findings of descriptive statistics showed that there was some degree of inflationary pressure in the economy of the country. Inflation rate had strong and direct relationship with profitability. inflation rate was a significant moderator ($p<0.05$).

### 5.3 Conclusion

The nexus between board size and profitability was explored. Based on regression analysis, the study concludes that board size has no significant effect on profitability. This means that focusing on the size of the board can not contribute towards profitability of manufacturing firms in Kenya. In other words, the size of board members among firms

in the manufacturing sector is not relevant as far as their profitability is concerned. This aligns with the stewardship theoretical lens where the board is seen as an irrelevant tools for monitoring agency behavior as managers are already presumed to lack selfish character and hence the absence of conflict of interest.

The nexus between board diversity and profitability was determined. From the findings, board diversity has significant effect on profitability. Board diversity brings in different perspectives and backgrounds as well as approaches in decision making and problem handling in an organization. It increases creativity and innovation that determine the long run profitability status of the firm. It also increases compliance and accountability which are salient issues contributing to profitability of the enterprise.

The study determined the link between board meetings and profitability. From regression the study conclude that board meetings have significant effect on profitability. Board meetings create structured forum for the executives of the firm to make crucial decisions on accountability and long term profitability of their firms. They allow for boards to deliberate on crucial strategic issues, review profitability trend and handle any inherent risk in the environment likely to negatively affect profitability. This in turn contributes towards long term growth and success and therefore profitability of the firm.

The link between board ownership and profitability was assessed. Board ownership was a significant predictor of profitability. Board ownership acts as incentive for directors to effectively carry out their oversight role to ensure managers achieve their role of wealth maximization. It aligns the interests of the owners of the firm with those of directors

which contribute towards long-term enhancement in corporate governance mechanisms. It also provide a strong incentive for directors of the firm to undertake decisions that guarantee long term success and profitability of their firms since their own investments is also affected directly by such undertakings.

The moderating implication of inflation on the link between CG and profitability was explored. It was concluded from regression analysis that inflation rate was significant moderator variable. This means that sound and effective corporate governance related decisions for enhancing profitability of the firm should also consider the prevailing state of the economy especially in terms of inflation. In particular, high level of inflation may increase the cost of capital that directly affects long term strategic investments of firms as valued and determined by the board and managers. The high cost of capital driven by inflation can also alter the capital structure of the firm in terms of debts and equity mix, requiring an intervention of the board and managers to address.

### 5.4 Contribution to Body of Knowledge

Corporate governance has been established an effective mechanism that firms can leverage to enhance their profitability. Existence of a strong corporate governance mechanism is likely to minimize conflict of interest between owners of the firm and managers. This can act as an incentive for managers to optimize shareholders' wealth and hence profitability. This reasoning is aligned with the agency theory. However, the economic factors like inflation should not be ignored in considering the role played by corporate governance on profitability of the firm.

## 5.5 Recommendations of the Study

### 5.5.1 Recommendations for Policy

It emerged that inflation had significant effect on profitability. Hence, there is need for the Central Bank of Kenya to have in place relevant policies that can stabilize overall prices of goods in the economy. Policy makers working with listed manufacturing firms in Kenya need to formulate and implement sound policies to strengthen their corporate governance mechanisms. Policy makers with Kenya Association of Manufacturers should align their policies with corporate governance practices embraced by their member firms.

### 5.5.2 Recommendation for Practice

It is critical to review the constitution of directors working with listed manufacturing firms in Kenya. CMA should establish an optimal board size should be used as a benchmark by these listed firms.

Board independence was noted to have significant effect on profits. Thus, to improve the profitability of the listed manufacturing firms in Kenya, there is need for more independent and executive directors to be included on boards.

It was noted that diversity was significant. Thus, on the basis of this finding, shareholders of the listed manufacturing firms in Kenya should occupy a central role and demand for inclusion of more female and foreign directors to bring in new skills that can enhance profitability.

The study noted that board meetings were significant. Thus, on the basis of this finding, it is recommended that the number of meetings held in a financial year by the board should be increased. The meetings convened by boards should have clear agenda in place.

### 5.6 Limitations of the Study

The study encompassed only the 8 listed manufacturing firms in Kenya. This target population was small and was expected to limit generalization of findings to the entire manufacturing industry and sector in Kenya at large. This limitation had potential of reducing the number of data points to support the use of regression analysis. The study was also limited to data that was collected from secondary sources.

### 5.7 Recommendations for Further Research

On overall, the value of adjusted R-square was given as 0.822; this shows that there exist other additional factors aside from ones that were covered in this study that can potentially influence the relationship between the two variables. Thus, future scholars should be conducted to establish these additional issues. Inquiries in future can be conducted focusing on other firms like those operating in the financial sector in Kenya aside from the manufacturing firms. Future studies should consider the use of both primary and secondary data.

## REFERENCES


Adu-Danso, E., & Abbey, E. (2022). Does foreign ownership enhance technological innovation amongst manufacturing firms in Sub-Saharan Africa? *Journal of Small Business & Entrepreneurship*, *34*(2), 195-221.

Agutu, O. J., & Githira, W. C. (2023). Sustainability reporting and financial performance of listed financial firms in Kenya. *Journal of Accounting, Business and Finance Research*, *17*(1), 31-42.

Ajibade, A. T., Amuda, M. B., & Olurin, O. T. (2019). Dividend Policy and Financial Performance-A Study of Quoted Manufacturing Firms in Nigeria and Kenya. *South Asian Journal of Social Studies and Economics*, *3*(3), 1-8.

Allan, A. J. A., Kasim, N. A. B. A., Mustapha, M. B., & Shah, S. B. M. (2018). An overview of Jordanian manufacturing sector in light of current regional political situation. *International Journal of Economics, Commerce and Management*, VI, 5, 373-377.

Almashhadani, M. (2021). A brief review of corporate governance structure and corporate profitability in developed and developing economy: A review. *International Journal of Business and Management Invention*, *10*(11), 42-46.

Almashhadani, M., & Almashhadani, H. A. (2022). The impact of ownership on profitability: An conceptual study. *International Journal of Business and Management Invention*, *11*(6), 01-06.

Alshirah, M. H., Abdul Rahman, A., & Mustapa, I. R. (2020). Board of directors' characteristics and corporate risk disclosure: the moderating role of family ownership. *EuroMed Journal of Business*, 15(2), 219–252. https://doi.org/10.1108/EMJB-09-2019-0115.

Aluoch M. O. (2021). Corporate Governance, Financial Characteristics, Macroeconomic Factors and Financial Performance of Agricultural Firms Listed at the Nairobi Securities Exchange, Kenya. *European Scientific Journal*, ESJ, 17(19), 71

Anamanjia, S., & Maina, R. (2022). Strategic alignment and performance of Kenya Revenue Authority. *International Academic Journal of Innovation, Leadership and Entrepreneurship*, *2*(2), 297-338.

Anyona, A. O., Matanda, J., & Maina, K. (2023). Macroeconomic factors and financial performance of Kenya Tea Development Agency managed factories in Western Rift of Kenya. *International Academic Journal of Economics and Finance, 3*(10), 199-236.

Apochi, James & Mohammed, Shuaibu & Yahaya, Onipe. (2023). Ownership structure, board of directors and financial performance: Evidence in Nigeria. 13. 77-98. 10.4172/graf.1000116

Awasthi, A., Saxena, K. K., & Arun, V. (2020). Sustainability and survivability in manufacturing sector. In *Modern Manufacturing Processes* (pp. 205-219). Woodhead Publishing.

Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. *Borsa Istanbul Review, 22*, S119-S127.

Bai, J., & Ng, S. (2005). Tests for skewness, kurtosis, and normality for time series data. *Journal of Business & Economic Statistics*, *23*(1), 49-60.

Bataineh, H., Alkurdi, A., Abuhommous, A. A. A., & Abdel Latif, M. (2025). The role of ownership structure, board, and audit committee in corporate social responsibility disclosure: Jordanian evidence. *Journal of Islamic Accounting and Business Research, 16*(3), 608-632.

Bunyaminu, A., Yakubu, I. N., & Oumarou, S. (2025). The impact of board attributes and ownership concentration on firm market value: empirical evidence from an emerging market. *Cogent Business & Management*, *12*(1), 2437147.

Central Bank Kenya, (2020). Bank supervision Annual report. [Online] Available: http://www.centralbank.go.ke

Cheboi, D. J., Mulili, B., & Nyiva, M. (2022). Strategic alliances and firm competitiveness: a survey of supermarkets in Nairobi-Kenya. *Journal of Strategic Management*, *6*(2), 11-24.

Chen, K., Hsieh, F., & Hsiao, Y.J. (2021). Hospital Board of Directors' Composition and Financial Performance: Empirical Evidence from Taiwan. *Inquiry: A Journal of Medical Care Organization, Provision and Financing, 58*.

Crifo, P., & Roudaut, G. (2022). Economic Crisis and Corporate Governance: How Can Board Independence and Expertise Maximize the Firm Value? *Theoretical Economics Letters*, *12*(5), 1227-1258.

Daoud, J. I. (2017, December). Multicollinearity and regression analysis. In *Journal of Physics: Conference Series* (Vol. 949, No. 1, p. 012009). IOP Publishing.

Donaldson, L., & Davis, J. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Academy of Management Review*, 20(1), 65-73.

Ehiedu, V. C., & Toria, G. (2022). Audit indicators and financial performance of manufacturing firms in Nigeria. *Linguistics and Culture Review*, *6*(S1), 14-41.

Elema, B. D., Matanda, J., & Roche, C. (2024). Agency costs and financial performance of licensed insurers in Kenya. *International Academic Journal of Economics and Finance*, *4*(2), 90-103.

Elhabi, M. A., Rasid, S. Z. A., & Basiruddin, R. (2024). The Impact of the Frequency of Board Meetings on Firm Performance: The Case of Oman

Erbil, C., & Özbilgin, M. F. (2025). Board diversity as institutional competence: Recognition and misrecognition of diversity claims. In *Handbook of Diversity Competence* (pp. 17-25). Springer, Cham.

Fatoki, O. I., Wafula, F., & Waweru, G. (2021). Effect of Financial Performance on Capital Structure of Listed Manufacturing Companies in Kenya. *Financial Reviews*, *2*(1), 21-31.

Gambo, J., Terzungwe, N., Joshua, O., & Agbi, S. (2019). Board Independence, Expertise, Foreign Board Member, and Financial Performance of Listed Insurance Firms in Nigeria. *International Journal of Management, Accounting, and Economics*, 6(11), 780-794.

Glass, G. V. (1966). Testing homogeneity of variances. American Educational Research Journal, 3(3), 187-190.

Habtoor, O.S. (2021). The Influence of Board Ownership on Bank Performance: Evidence from Saudi Arabia. *Journal of Asian Finance, Economics and Business*, 8, 1101-1111.

Halim, H., Astuty, P., & Hubeis, M. (2022). Effect of inflation, consumption credit on purchase power of the community. *International research journal of management, IT and social sciences.*

Haque, M. R., Islam, S., Chowdhury, S. P., Hossain, M. A., & Hassan, M. Z. (2025). Changes in the board of directors' number of meetings: why and so what?. *Corporate Governance: The International Journal of Business in Society*.

Harb, G., & Bassil, C. (2023). TFP in the manufacturing sector: long-term dynamics, country and regional comparative analysis. *Economies*, *11*(2), 34.

Ibrahim, T., Orsaa, D., & Umale, O. (2023). Moderating Impact of Inflation Rate on the Relationship Between Capital Structure and Financial Performance of Nigerian Consumer Goods Companies *International Journal of Sustainable Applied Sciences* 1(5):643-656

Injeni, G., Mangena, M., Mathuva, D., & Mudida, R. (2022). Agency and institutional-related factors and the heterogeneity of sustainability and integrated report information disclosures in Kenya. *Journal of Financial Reporting and Accounting*, *20*(5), 809-840.

Iraya C, N., &Musyoki, L. (2017). Performance of socially screened portfolio at the Nairobi Securities Exchange.,. *International Journal of Humanities And Social Science* 3 (6).

Isaac, R. M. (2022). Contribution of corporate governance on performance of listed companies in Kenya. *European Journal of Business and Management Research*, *7*(1), 104-112.

Jeyhunov, A., Kim, J. D., & Bae, S. M. (2025). The Effects of Board Diversity on Korean Companies' ESG Performance. *Sustainability*, *17*(2), 787.

Jordan's Economy." (2018). Jordan Economy - GDP, Inflation, CPI and Interest Rate. Retrieved February 21, 2018, from https://www.focus-economics.com/countries/jordan.

Jwailes, A.R. (2021). The Effect of Board Independence, Board Size, and Ceo Duality on Jordanian Firm Performance. *Journal of Advance Research in Business Management and Accounting (ISSN: 2456-3544)*.

Kariuki, C. H. M., & Ndede, F. W. (2024). *Board Characteristics and Profitability of Manufacturing and Allied Firms Listed at the Nairobi Securities Exchange, Kenya* (Doctoral dissertation, Kenyatta University).

Kavetsa, A. (2025). Corporate Tax Compliance on the Financial Performance of Manufacturing Companies in Kenya. *African Journal of Commercial Studies*, *6*(2), 119-126.

Khisa, J. W., & Kariuki, P. (2022). Strategic Alliances and Performance of Firms in the Motor Vehicle Industry in Nairobi County. *Journal of International Business and Management*, *5*(2), 01-18.

Kieti, W. M., & Aluoch, M. O. (2024). Corporate Board of Directors' Activities and Profitability of Agricultural Firms Listed on the Nairobi Securities Exchange, Kenya. *International Academic Journal of Economics and Finance*, *4*(2), 59-89.

Kieti, W. M., & Aluoch, M. O. (2024). Corporate Board of Directors' Activities and Profitability of Agricultural Firms Listed on the Nairobi Securities Exchange, Kenya. *International Academic Journal of Economics and Finance*, *4*(2), 59-89.

Kimunei, P. K. (2025). Corporate governance, firm age and financial stability of microfinance banks in Kenya. *African Journal of Empirical Research*, *6*(2), 649-665.

Kinyua, B., & Ochieng, D. E. (2022). Firm Characteristics, Corporate Governance and Financial Leverage: A Critical Literature Review. *African Development Finance Journal*, *4*(3), 78-103.

Kirimi, Kariuki, Ocharo (2022). Ownership Structure and Financial Performance: Evidence from Kenyan commercial banks. *PLOS ONE 17(5): e0268301.*

Kyei, S. M., Werner, K., & Appiah, K. O. (2022). Board meetings and bank performance in Africa. *Cogent business & management*, *9*(1), 2034235.

Kyere, M., & Ausloos, M. (2020). Corporate governance and firms' financial performance in the United Kingdom. *arXiv: General Finance*.

Larcker, D., & Tayan, B. (2020). *Corporate governance matters*. FT Press.

Ledley, F. D., McCoy, S. S., Vaughan, G., & Cleary, E. G. (2020). Profitability of large pharmaceutical companies compared with other large public companies. *Jama*, *323*(9), 834-843.

Lim, H., & Rokhim, R. (2021). Factors affecting profitability of pharmaceutical company: Indonesian evidence. *Journal of Economic Studies*, *48*(5), 981-995.

Liu, W., & Suzuki, Y. (2025). Corporate governance, institutional ownership, and stock liquidity of SMEs: evidence from China. *Asia-Pacific Journal of Accounting & Economics*, *32*(2), 299-328.

Monadjemi, M., & Lodewijks, J. (2021). International Evidence on Purchasing Power Parity: A Study of High and Low Inflation Countries. *Journal of Economics and Management Science*s, 4(3), 1-11.

Mpainei, A. N. (2022). *The Effect of Government Expenditure on Economic Growth in Kenya* (Doctoral dissertation, University of Nairobi).

Muindi, N. N., & Mukorera, S. Z. (2022). Implications of fiscal policy on household consumption in Kenya: A nonlinear auto-regressive distributed lag approach. *Journal of Economic and Financial Sciences*, *15*(1), 746.

Musah, A., & Adutwumwaa, M. Y. (2021). The effect of corporate governance on financial performance of rural banks in Ghana. *International Journal of Financial, Accounting, and Management*, 2(4), 305-319.

Muthengi, F. K., & Ragui, M. (2023). Corporate Governance and Organizational Performance of Referral Hospitals in Kenya: A Case of Kenyatta National Hospital. *International Journal of Business Management, Entrepreneurship and Innovation*, *5*(2), 1-12.

Mwenda, B. (2023). Nexus Between Corporate Social Responsibility Disclosure And Profitability Of Firms Listed At Dar Es Salaam Stock Exchange. *Jurnal Manajemen Dayasaing*, *24*(2), 122-132.

N Vaidya, P. (2019). Board size and firm performance: A study on BSE 100 companies. *Journal of Management (JOM)*, *6*(3).

Nairobi Securities Exchange [NSE]. (2019). The 2018 –2019 handbook. Nairobi: Government Printers.

Naseem, M. A., Xiaoming, S., Riaz, S., & Rehman, R. U. (2017). Board attributes and financial performance: the evidence from an emerging economy. *The Journal of Developing Areas*, 51(3), 281297.

Nguimkeu, P., & Zeufack, A. (2024). Manufacturing in structural change in Africa. *World Development*, *177*, 106542.

Njobil, E. M., Mbotor, E. D., ITO, A. N., & Ekpo, N. S. (2025). Dimensions of Corporate Governance on Performance of Manufacturing Companies in Nigeria: A Theoretical Review. *Frontiers in Management Science*, *4*(1), 43-48.

Nzau, S. K. (2021). *Effect of ownership structures on financial performance of listed manufacturing firms in Kenya* (Doctoral dissertation, KCA University).

Odidi, M. V., & Jagong'o, A. (2020). The moderating effect of inflation on the relationship between foreign direct investment, financial market development, and economic growth in Kenya. *International Academic Journal of Economics and Finance*, *3*(6), 168-180.

Oduola, M., Bello, M. O., & Popoola, R. (2022). Foreign direct investment, institution and industrialisation in Sub-Saharan Africa. *Economic Change and Restructuring*, 1-30.

Okoye, L. U., Olokoyo, F., Okoh, J. I., Ezeji, F &Uzohue, R. (2020). Effect of Corporate Governance on the Financial Performance of Commercial Banks in Nigeria. Bank and Bank Systems, 15 (3), 55 – 69.

Omair, A. (2025). Sample size estimation and sampling techniques for selecting a representative sample. *Journal of Health specialties*, *2*(4), 142.

Omondi, O. (2024). Public debt and economic growth in Kenya.

Onyango, M. (2023). *Dividend Policy, Agency Costs, Liquidity and Value of Firms Listed at the Nairobi Securities Exchange* (Doctoral dissertation, University of Nairobi).

Opanyi, R. O. (2025). The Effect of Board Characteristics on the Fiancial Sustainability of Commercial State Corporations in Kenya. *African Development Finance Journal*, *8*(5), 99-128.

Orodi, S. (2022). The effects of fiscal policy on the performance of commercial banks in Kenya. *African Journal of Commercial Studies*, *1*(1), 18-27.

Osano, D. K., Rono, L., & Uyoga, D. (2024). Effect Of Agency Costs On The Financial Performance Of Listed Companies, Kenya. *Journal of African Interdisciplinary Studies*, *8*(3), 26-40.

Oyedokun G. O. (2019). Board characteristics and financial performance of Commercial Banks in Nigeria. *Accounting and Taxation Review*, 3(2), 31-48

Oyerogba, E. O., Memba, F., & Riro, G. K. (2016). Impact of Board Size and Firms' Charcateristics on the Profitability of Listed Companies in Nigeria. *Research Journal of Finance and Accounting*, 7(4),

Purwoko, B.S. (2021). Analysis of the Effect of Inflation on Exports of Non-Oil and Gas Commodities Through the Port of Tanjung Perak Surabaya. *Eduvest - Journal of Universal Studies.*

Republic of Kenya. (2017). Kenya Vision 2030: A globally competitive and prosperous Kenya. Nairobi: Ministry of Planning, National Development and Vision 2030.

Rono, G. K., Theuri, F. S., & Ahmed, A. H., & Kising'u, TM (2021). Stakeholder Management and Sustainability of Community Based Tourism in Kenya. *New Trends of Global Influences in Africa. Nairobi: CEDRED Publications*, 357-371.

Saungweme, T., & Odhiambo, N. M. (2021). Inflation and economic growth in Kenya: An empirical examination. *Advances in Decision Sciences, 25*(3), 1-25.

Shahid, M. N., Abbas, A., Latif, K., Attique, A., & Khalid, S. (2020). The mediating role of board size, philanthropy and working capital management between basic corporate governance factors and firm's performance. *Journal of Asian Business and Economic Studies*, *27*(2), 135-151.

Shan, Y.G. (2019). Managerial ownership, board independence and firm performance. Accounting Research Journal.

Shunu, A. H., Bii, P., & Ombaba, K. M. (2017). The effect of board size on firm financial performance of listed firms in Nairobi security exchange. *European Journal of Business, Economics and Accountancy*, 5(6), 48-51. ISSN 2056-6018

Stievany, G.M., & Jalunggono, G. (2022). Analysis of The Effect of Inflation, Exports and Imports on Indonesia's Economic Growth. Marginal: *Journal of Management, Accounting, General Finance and International Economic Issues. 3(4), 50-65*

Wanzala, R. W., & Obokoh, L. (2024). The Effects of Working Capital Management on the Financial Performance of Commercial and Service Firms Listed on the Nairobi Securities Exchange in Kenya. *Risks, 12*(8), 119.

Yator, J., & Gitagia, F. (2023). Effect of equity financing on the financial performance of manufacturing firms listed in Nairobi Securities Exchange. *International Academic Journal of Economics and Finance*, *3*(9), 426-436.

Zubeltzu-Jaka, E., Ortas, E., & Álvarez-Etxeberria, I. (2019). Independent directors and organizational performance: new evidence from a meta-analytic regression analysis. *Sustainability*, *11*(24), 7121.

# APPENDICES

## Appendix I: Firms

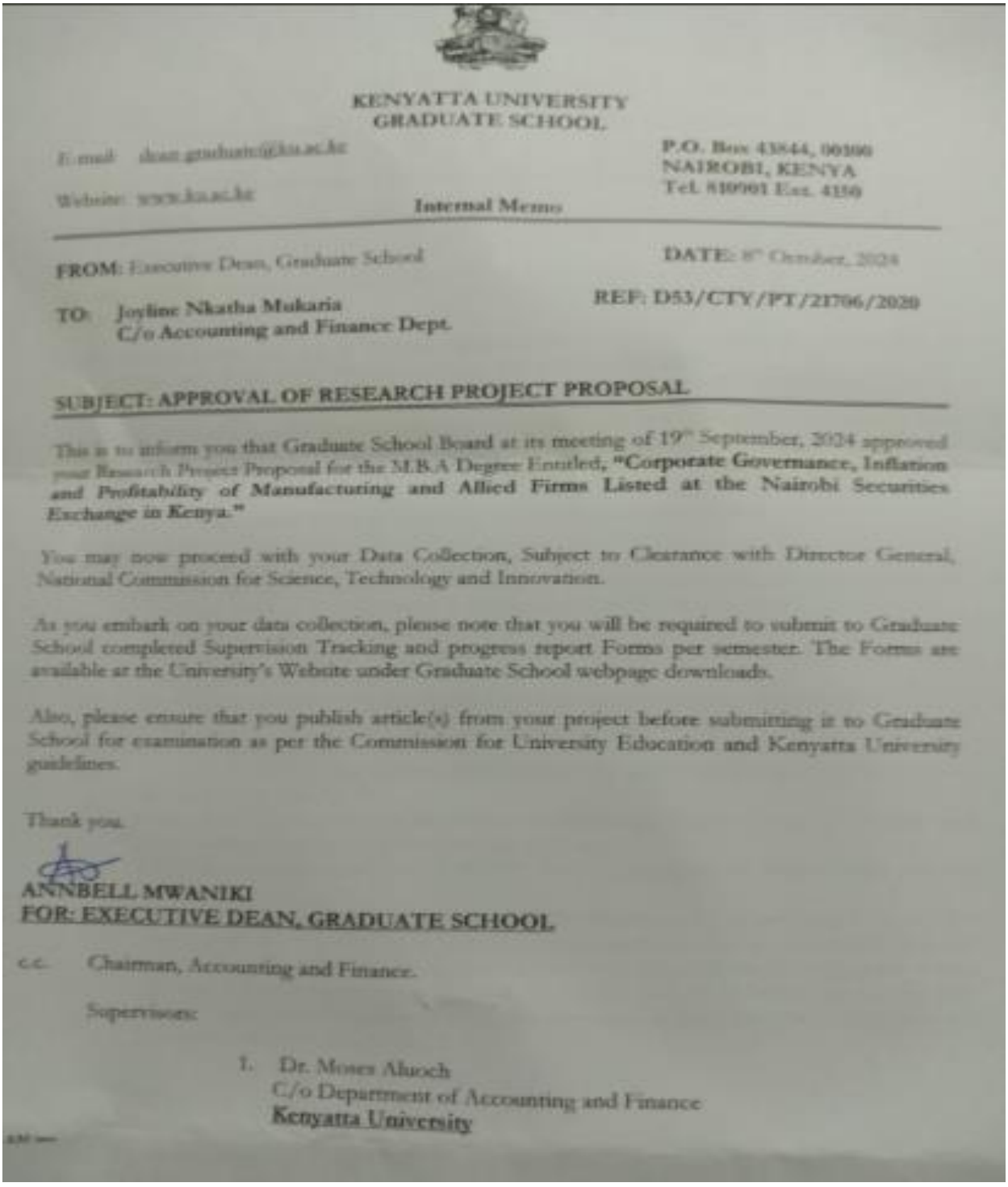
| |
|---|
| 1. B.O.C Kenya Plc. |
| 2. British American Tobacco Kenya Plc. |
| 3. Carbacid Investments Plc. |
| 4. East African Breweries Ltd. |
| 5. Unga Group Ltd. |
| 6. Kenya Orchards Ltd. |
| 7. Flame Tree Group Holdings Ltd. |
| 8. Mumias Sugar |

**Source: NSE (2024)**

## Appendix II: Data Collection Table

| Time | Board Size | Board independence | Board diversity | Board meetings | Board Ownership | Inflation Rate | Net Profit | Total Assets |
|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | |
| **2017** | | | | | | | | |
| **2018** | | | | | | | | |
| **2019** | | | | | | | | |
| **2020** | | | | | | | | |
| **2021** | | | | | | | | |
| **2022** | | | | | | | | |
| **2023** | | | | | | | | |

## Appendix III: Authorization Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean.graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4350

Internal Memo

**FROM:** Executive Dean, Graduate School

**DATE:** 8th October, 2024

**TO:** Joyline Nkatha Mukaria
C/o Accounting and Finance Dept.

**REF:** D53/CTY/PT/21706/2020

**SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL**

This is to inform you that Graduate School Board at its meeting of 19th September, 2024 approved your Research Project Proposal for the M.B.A Degree Entitled, **"Corporate Governance, Inflation and Profitability of Manufacturing and Allied Firms Listed at the Nairobi Securities Exchange in Kenya."**

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Moses Ahuoch
C/o Department of Accounting and Finance
Kenyatta University

## Appendix IV: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 354285

Date of Issue: 06/January/2025

RESEARCH LICENSE

This is to Certify that Ms. Joyline Nkatha Nkatha of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: CORPORATE GOVERNANCE, INFLATION AND PROFITABILITY OF MANUFACTURING AND ALLIED FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA for the period ending : 06/January/2026.

License No: NACOSTI/P/25/414968

354285

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions