Effects of corporate governance on the financial performance of companies listed in the Nairobi Securities Exchange

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Abstract:

In recent times, interest in corporate governance in the African continent has assumed highest propositions. This is probably due to the great push from the developing countries to the African countries to embrace good governance in order to attract foreign investors and to improve shareholders value. The General objective of the study was to investigate the effect of corporate governance on the financial performance of companies listed in the Nairobi stock Exchange whereas the specific objectives were to find out the effects of board size on the financial performance of firms listed in NSE, to establish the effect of board composition on financial performance of firms listed in NSE, to ascertain the effects of ownership concentration on the financial performance of firms listed in NSE and to establish the effect of sustainable responsible business on the financial performance of companies listed in the NSE. This study utilized four main theories i.e. shareholder’s model, stakeholder models, agency theory, management theory, stakeholders theory and stewardship theory.

The study used longitudinal research design with the target population being companies listed in the Nairobi stock exchange since the year 2004 after the automation of the systems in the stock market. Secondary Data was collected from the capital markets authority library. Data collected was analyzed using SPSS regression analysis. Findings from the study revealed that the coefficient’s p-values (p=0.001<0.005, p=0.002<0.005 and p=0.004<0.005 for ROA, ROI and ROE respectively) show that the results are statistically significant at 5% significance level. These regression results imply that a unit increase in board size would result in an increase of ROA by 0.231, ROT by 0.219 and ROE by 0.205.

From the study, it can be concluded that the board size, ownership concentration, board composition and sustainable responsible business all have a significant effect on the financial performance of companies listed at the NSE. It is evident that corporate governance structure has an influence on financial performance in companies listed in the NSE Kenya. Hence, the study recommends that there is a need to strike a good balance between quality and quantity with regards to board sizes hence board size should be fairly large and not too large that will discourage investors especially shareholders. Further research should be carried More research on individual board structures are needed to assess the effects on its performance. Also future study should look other factors such as shareholders interest, board and CEO compensation to establish its effects on financial performance.