

CORPORATE GOVERNANCE AND PROFITABILITY OF AGRICULTURAL FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

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ABSTRACT

The growing dissatisfaction among most stakeholders with the need for improved value in firms in which they have invested is a phenomenon that extends beyond individual firms and becomes a global issue. Most organizations have been forced to close due to prolonged periods of declining profitability, ultimately resulting in management losing control. Listed agricultural firms at the Nairobi Securities Exchange have experienced fluctuating profitability between 2015 and 2024. This volatility was attributed to multiple factors including commodity price fluctuations, exchange rate movements, climatic variability, operational inefficiencies and government structures. While external factors are unavoidable, corporate governance remains an internal mechanism

that firms can control to enhance profitability. This study's main goal was to investigate the effect of corporate governance on profitability of agricultural firms listed at the Nairobi Securities Exchange. Analysing the effects of board committees, remuneration, independence, and size on these companies' profitability, as well as examining the moderating effect of firm size in this relationship, were the specific objectives. The study was grounded on agency, stewardship, stakeholder, and resource dependence theories.

Key words: Corporate Governance, Board Size, Board Independence, Board Committees, Board Remuneration.

INTRODUCTION

Background of the study

Globally, agriculture is recognized as a major engine of economic growth, supporting food security, social stability, and national prosperity. In broadest terms, this kind of economic activity is essentially responsible for supplying us with essential agricultural foods and raw materials for various sectors, namely, food, textiles, etc. Taking into consideration the macroeconomic aspect, the agriculture sector plays a significant role as a contributive sector to the Kenyan economy (more than 22% of the Gross Domestic Product). The sector provides over 40% of total employment and more than 70% of rural employment; it also substantially supports livelihoods in rural areas with few alternative employment opportunities elsewhere (Republic of Kenya planning report, 2025). The significance of agriculture has also been highlighted by its consistent growth despite economic challenges and climate change, which pose a threat to Kenyan agriculture and the environment, endangering people's livelihoods and food security (Faling, 2020). In 2024, the sector's Gross Value Added grew to approximately KES 1.706 trillion, from KES 1.634 trillion in 2023 (Economic Survey, 2025). During the

year, the sector's contribution to Gross Domestic Product (GDP) increased to 22.5% from 21.8% recorded in the previous year. The sector's impact on economic performance, which has a stabilizing effect on economic growth through enhanced crop production, has remained evident (Political Affairs, 2025). In microeconomics, increased productivity in agriculture has the potential to reduce poverty among farming families and help build stronger markets. Eichsteller *et al.* (2022) identified that Kenyan households' economic and social well-being is largely dependent on agriculture. Using expanded value chains, proper technology, and better access to markets, there would be increased economic opportunities, not only for those in farming, but for agribusiness operators, processors, or services associated with the agricultural industry.

According to the economic survey, annual publication (2015-2024), Agriculture Gross Domestic Product GDP has steadily been rising from KES 900 billion in 2015 to KES 1,867 billion in 2024. Apart from the year 2021, when Agriculture Gross Domestic Product declined to KES 1,699 from KES 1,705 in 2020, there has been a consistent increase. Despite the steady performance of the agriculture sector, the profitability of Nairobi Securities Exchange-listed agricultural companies has not been consistently favourable or positive, causing concern for shareholders and stakeholders about whether the currently used governance practices are effective (Kimutai & Ndotono, 2025). Horticulture, Tea, and Coffee are amongst the leading sub-sectors in the agricultural sector, accounting for over 50% of the marketed agricultural production and 46% of the country's total export earnings (Economic Survey 2025). Notably, all companies categorized under the agriculture sector at the Nairobi Securities Exchange are involved in Horticulture, Tea, and Coffee growing and trading business activities. The primary goal of firms listing on a securities exchange is to mobilize capital for growth and expansion and enhance liquidity. Listing also enhances confidence amongst the investors since listed firms are subject to regulatory supervision, coupled with requirements for disclosures and compliance with Corporate Governance guidelines.

This study sought to investigate the connection between corporate governance and profitability of Nairobi Securities Exchange-listed agricultural firms. The analysis was aided by empirical data from local, regional, and global contexts. Globally, using data from 150 listed businesses on the Pakistan Stock Exchange between 2013 and 2018, Husnain *et al.* (2021) investigated the association between corporate governance features and firm profitability in the context of Pakistan's changing stock market globally. Their findings showed a favourable relationship between these companies' profit margins and governance structure. The impact of ownership structure on business performance was examined by Alkurdi *et al.* (2021) utilizing data from all notable companies registered on the Jordanian Amman Stock Exchange between 2012 and 2018 and a multiple linear regression model with fixed regression variables. The study found that corporate management ownership and Return on Assets were inversely related, but that corporate management ownership and Tobin's Q were not significantly correlated.

Regionally, research was undertaken by Okolie (2022) to examine the impact of board attributes on the financial efficacy of Nigerian conglomerates to determine the link between success and financial performance as measured by Return on Assets from 2011 to 2020, and

several variables of the board, such as size, independence, presence of committees meetings, and share ownership. A panel data regression model was adopted. The study found that independence, audit committees, and shareholdings are proven to be key in achieving financial success. Lemma *et al.* (2020) investigated Board compensation, shareholding by directors, and company performance. The results were based on 1,736 cases of company-annual data from publicly listed companies in Johannesburg Stock Exchange from 2005 to 2018. The results demonstrated that there is a very clear association between financial success and the pay for company directors.

Manduku *et al.* (2023) conducted a study on the financial performance, firm size, and corporate governance of Kenyan quasi-government firms. The variables included firm size as a moderating variable, while corporate governance variables included board structure, compensation, transparency, and independence. During the 2013 - 2020 study period, quasi-government firms were the target population. Using secondary data, multiple regression analysis, correlation analysis, and descriptive analysis were employed for data analysis. Financial performance was found to be significantly impacted by board structure, compensation, transparency, and independence. The study also indicated that firm size significantly moderated the association between corporate governance and financial performance. The report concluded by advising firms to implement corporate governance practices that enhance financial performance. Meymuna and Aluoch (2024) investigated the sustainability and corporate governance characteristics of a few Kenyan commercial state firms. The corporate governance variables utilized in the study included the size, tenure, committee meetings, and occupational expertise of board members. Explanatory and descriptive research designs were applied, with descriptive regression and panel regression utilized for data analysis, focusing on 5 commercial state corporations obtained by the use of a purposive sampling method for the period 2014 to 2023. Board tenure and size had a significant effect on sustainability, while board committee meetings had no significant effect on sustainability. The study concluded that firms should be innovative and agile for competitiveness and long-term value creation.

Corporate governance

It is the system of rules, practices, structures, and processes by which a firm is directed and controlled. It determines how authority is distributed among shareholders, board members, and management to ensure accountability and performance. It is the process by which authority is used over corporate entities and includes an organization's board structure as well as its interactions with managers, shareholders, and other relevant parties (Aluoch *et al.*, 2021). For listed agriculture companies to be profitable, corporate governance is essential for governance structures under the management of these companies for the strategic oversight, accountability, and decision-making conditions that dictate financial performance. Studies in developing market countries like Kenya and Nigeria have shown in empirical research how effective activities by the board, including regular meetings as well as good functioning of the board committees, are linked positively to profitability, hence proactive governance can lead to higher profitability of the firm (Kieti & Aluoch, 2024; Soongsombat, 2023).

However, research findings show mixed results for specific variables in governance where board dimensions like board size and independence are not always significantly associated with profitability measures like Return on Assets or Return on Equity (Planning Department studies; Corporate Governance Internationals). Capital Market Authority (CMA) is also of the opinion that corporate governance aims at generating long-term shareholder value, promoting accountability and profitability, and also balancing the rights of other stakeholders (Ndotono, 2023). These findings emphasize the significance of solid corporate governance practices that are appropriate for the agricultural firms in question in order to boost profitability and, consequently, long-term financial performance. In this study, corporate governance included board size, independence, committees, and remuneration.

Board size is the number of directors on a firm's board in a given year. It is a key element used to determine the efficacy of a board. Board size was appropriate for this study because it captures the diversity of expertise that can influence strategic decisions and access to critical resources, which are particularly important in agricultural firms. The code of corporate governance practices issued by the Capital Market Authority (CMA) does not mandate a fixed board size, but it follows a principle-based approach, which argues that the board size should be sufficient to allow for a range of viewpoints and areas of expertise while still fostering fruitful dialogue. A board should be sufficient to populate mandatory committees, without overburdening any single director. While the total size is flexible, the composition is strictly regulated (CMA, 2015). A board with a reasonable number can offer an extensive outlook concerning expertise and better oversight, which in turn could lead to improved strategic decisions and firm performance. Recent empirical studies indicate that larger boards are usually followed by better profitability measures like Return on Equity and Tobin's Q because they would bring diversified skills and heightened monitoring ability to support sophisticated decision-making processes (Omenihu & Nwafor, 2025). However, the positive relationship does not hold constant across every research paper. For instance, some studies show that too large a board has coordination difficulties and diluted accountability, which may erode profitability effects in certain contexts.

Board independence is the proportion of non-executive (independent) directors to total board members per year. It was suitable for this study because it ensures effective monitoring of management and safeguards shareholder and stakeholder interests. An independent director is someone free from any business, family, or other relationship with the company that could materially affect their unfettered and impartial judgment. Under the code of corporate governance (CMA, 2015) and Public Offers, Listing and Disclosures (POLD, 2023), board independence is a mandatory structural requirement for Nairobi Securities Exchange - listed agricultural firms. It is generally believed that adding independent directors helps to lower managerial agency expenses. Recent discussions have emphasized that greater board independence correlates positively and significantly with a firm's profitability. It has been argued that this relationship might arise from improved quality and reduced agency costs of board oversight that result in firm profitability (Omenihu & Nwafor, 2025). However, the strength of this positive effect can vary across institutional environments and industries, with

some studies arguing that independence alone is not a guaranteed driver of profitability without supportive governance frameworks (Asare *et al.*, 2025).

Board committees, which include committees such as audits, remuneration committees, etc., are committees of boards of directors formed to attend to specific governance objectives or duties. They were pertinent to this study because specialized committees enhance transparency, accountability, and risk management, directly affecting financial performance. Capital Market Authority (2015) requires all listed companies, including agricultural firms, to establish at least two specific committees, namely, the nominations and compensation committee as well as the audit committee. There is no regulatory cap on the number of committees, so a company can establish as many as it deems necessary to manage specific risks. While the full board sets vision, it is at the committee level where specific levers of profitability, such as risk reduction, executive motivation, and capital efficiency, are managed. While the audit committee secures the integrity of the profit (Yahaya, 2026), the compensation committee ensures that profit is the primary motivation for the executive team. Some recent findings in corporate governance indicate that some characteristics of company boards' audit committees can improve financial reporting efficacy or even influence profitability ratios such as Return on Assets or Return on Equity, indirectly (Altin, 2024). Conversely, most recent findings in board committee effectiveness indicate variable or no influence of board committee size or meeting activity on profitability (Jamiu, 2024).

Board remuneration is the total compensation package provided to directors in exchange for their oversight, strategic guidance, and legal responsibilities. It was relevant to study because it aligns managerial incentives with firm goals and promotes long-term profitability. It is a key internal corporate governance mechanism because it influences directors' incentives, independence, and effectiveness. Capital Market Authority does not set a cap on how much a director can earn; instead, it enforces transparency and alignment with performance. The goal is to prevent boards of struggling agricultural firms from paying themselves high bonuses while shareholders suffer. Capital Market Authority (2015) also mandates that board members' remuneration must be sufficient to attract and retain directors, but must not be excessive. By providing a competitive and performance-linked package, the firm ensures that it attracts high-quality experts who are motivated to grow the value of the firm. Ozer *et al.* (2024) discovered a positive and statistically significant correlation between board members' compensation and company performance. These findings demonstrated that board member compensation is a powerful motivator for improving company performance and that directors should have a fair compensation scheme. Businesses can use director compensation as a governance instrument to increase board effectiveness since companies that offer their directors more, or even excessive, incentives typically report better financial performance (Lemma *et al.*, 2021).

Profitability

Profitability describes a fundamental aspect in business and finance in terms of how a firm can generate earnings against its expenditure, as well as other relevant costs, within a predetermined time. This concept has become a major determinant in the fields of finance, with managers, investors, and analysts using it to assess performance, make strategic decisions, and

compare companies across industries. It serves as a core indicator of financial health, reflecting how efficiently an organization turns revenue into profit after covering operational and non-operational costs. In a wider perspective, profitability plays a considerable part in guaranteeing the sustainability and long-term success of businesses. A company with high profitability not only meets everyday expenses but also invests in expansion. Firms that consistently maintain strong profit margins can overcome any economic downturn, attract investment, and finance strategic projects. Since profitability measures efficiency in running an organization or a business, it remains a key determinant in capitalizing on investor confidence and firm value (Primasatria & Alfons, 2025).

Profitability of firms listed on the NSE and regulated under the guidance of Capital Market Authority is typically assessed using financial ratio analysis, with ratios that capture how effectively a firm generates returns relative to its assets, equity and sales (Odaló *et al.*, 2016; CMA Handbook, 2018). Among these ratios, Return on Assets (ROA) is widely employed in academic studies to evaluate a company's ability to use its asset base to generate profits, calculated as net income divided by average total assets, providing a standardized measure of operational efficiency across firms. Moreover, Return on Equity (ROE) measures profitability from the shareholders' perspective by assessing net profit relative to owners' equity, reflecting the returns attributable directly to investors. Return on Assets (ROA) and Return on Equity (ROE) are consistently used as profitability proxies, demonstrating that these measures are reliable indicators of financial performance in empirical analyses of listed agricultural firms (Githiga & Koori, 2022). Together with earnings per share and profit margins, Return on Assets (ROA) and Return on Equity (ROE) constitute core profitability metrics for regulatory reporting and performance evaluation under the Capital Market Authority and Nairobi Securities Exchange regime, aligning with international practices for profitability measurement in equity markets. This study Return on Assets (ROA) to measure profitability of listed agricultural firms.

Existing literature points to mixed performance. Recent empirical studies examining profitability of agricultural firms listed at the Nairobi Securities Exchange identify working capital management, internal controls, corporate governance, and taxation as key determinants of financial performance. For instance, Githiga and Koori (2022) found that operating cash flow positively and significantly influences financial performance, while longer receivables collection periods and inefficient inventory turnover negatively affect profitability among listed agricultural firms. Similarly, Karaya and Waweru (2023) established that elements of internal control systems, particularly the control environment, have a significant positive effect on financial performance. From a corporate governance perspective, Kieti and Aluoch (2024) reported that board meetings and active board committees significantly enhance profitability, although board ownership and tenure showed positive but statistically insignificant effects. Furthermore, Kilonzo and Nkuru (2024) demonstrated that taxation moderates the relationship between profitability and share returns, with results indicating that fiscal factors can significantly alter how profitability translates into market performance. Collectively, these findings suggest that both internal financial management practices and external regulatory factors play a crucial role in shaping the profitability of agricultural firms listed on the NSE.

Firm Size

It is the scale, magnitude, or operational capacity of a business, typically measured by total assets, revenue, number of employees, or market capitalization. It is appropriate to study because it captures the scale-related advantages and resource capabilities that influence profitability, such as market power, access to capital, and operational efficiency. It is the measure of a company's operations and its overall economic footprint. Because size can be subjective, scholars use metrics to quantify it, with total assets being the preferred one. The association between corporate governance and profitability was moderated by firm size, influencing the extent to which governance mechanisms are effective. The fact that firm size has a moderating effect guarantees that corporate governance is not a universally applicable solution but rather, the scale of the firm determines whether governance mechanisms act as a catalyst for profitability or a burden on operational agility (Momanyi & Gatauwa, 2024). Bachmann and Kataishi (2025) conducted a comprehensive meta-regression of 95 studies showing that firm size positively influences innovative performance due to economies of scale and resource availability.

Larger firms, due to increased organizational complexity, greater agency problems, and more dispersed ownership, often derive stronger performance benefits from robust CG mechanisms such as board oversight and audit functions (Umairah *et al.*, 2025). They gain from economies of scale as well, which positively influence share returns and operational efficiency (Ehiedu & Priscilla, 2022). Small businesses, on the other hand, are more negatively impacted by funding and regulatory barriers, in terms of growth, than larger firms, indicating that regulatory and credit constraints hit SMEs harder (Bui *et al.*, 2021). Moreover, recent empirical studies show that firm size can shape how governance influences broader financial performance measures, reinforcing the idea that governance effects vary with a company's scale (Yuliyanti *et al.*, 2025)

Agricultural Firms Listed at the Nairobi Securities Exchange

The Nairobi Securities Exchange serves as Kenya's primary securities market, making it one of the critical markets on which equity trading, as well as raising finances, takes place, with more than sixty listed companies operating in various sectors such as agriculture, banking, the provision of commercial services, and manufacturing. In the agricultural sector, six companies are publicly listed: Eaagads Ltd, Kakuzi PLC, Kapchorua Tea Co. Ltd, Limuru Tea Plc, Sasini Ltd, and Williamson Tea Kenya Ltd, making them essential as they offer a structured opportunity to invest in the agricultural sector of the Kenyan economy (NSE 2016). The Capital Markets Act (Cap 485) sets out the rules and regulations for public companies in Kenya that are to be implemented by these companies as part of their corporate governance practices. Such corporate governance guidelines establish shareholder rights policies, fair treatment for shareholders, participation of persons or groups who have a stake in the society, involvement of shareholders in stockholder interest in the corporation, board structure, transparency, candor, and duties of the board. Capital Markets Act (Cap 485) on public companies provides a set of CG guidelines, including the role of insiders or interested persons in public companies. On the other hand, it is the regulatory body, and Nairobi Securities Exchange is a licensed entity operating within the Capital Markets Act jurisdiction or control.

The listed firms are basically integral to the Nairobi Securities Exchange (NSE), as they assist in capital formation through financing companies in a manner that enhances wealth creation for investors. These companies assist in the promotion of practices through corporate governance mandatory disclosures to the Capital Markets Authority (CMA), thus resulting in increased efficiency in markets. These firms also assist in improving market liquidity, mainly with respect to prices, thus resulting in increased economic growth through enhanced job creation and tax revenues (CMA, 2023; NSE, 2024; World Bank, 2022). The inquiry into whether corporate governance is necessary for a business's profitability in Kenya or just one of many variables affecting performance is still evolving and requires careful consideration.

Statement of the Problem

The agricultural sector plays a critical role in Kenya's economic development; however, firms listed on the Nairobi Securities Exchange (NSE) have exhibited relatively low and volatile profitability levels over the past decade. Industry computations based on Capital Markets Authority (CMA) statistical reports and audited financial statements indicate that the average Return on Assets (ROA) for listed agricultural firms has fluctuated between approximately 2% and 6% between 2015 and 2024, with several firms recording negative Return on Assets (ROA) in certain financial years. These modest returns suggest inefficiencies in asset utilization and raise concerns regarding the sector's ability to generate sustainable shareholder value compared to other listed sectors within the Kenyan capital market. Despite regulatory oversight by the Capital Markets Authority (CMA) and disclosure requirements under the Nairobi Securities Exchange (NSE), the persistent variability and relatively low industry average Return on Assets (ROA) indicate underlying structural, governance, liquidity, or operational challenges affecting profitability.

Notwithstanding the effects of global calamities like the COVID-19 pandemic and geopolitical challenges such as the Russia-Ukraine conflict, instability in the external environment, and macro-economic conditions experienced in any sector, the onus to provide strategic leadership towards profitability lies with the board. However, while corporate governance systems are supposed to improve openness, accountability, and oversight, such systems are found to provide conflicting positive and negative results, sometimes related to weak relationships amongst financial performance parameters for this particular segment of the industry (Njoroge, 2023). This contrast is manifested in the varying profitability levels reported by Kenya's listed agricultural companies since the enactment of the Corporate Governance Act of 2015 (CMA, 2015). However, while some governance practices like board meetings positively affect profitability, others like ownership structure and independence demonstrate unclear or statistically insignificant associations (Kieti & Aluoch, 2024). This mixed evidence implies that the currently used corporate governance processes perhaps overlook the managerial difficulties that have contributed to decreased profitability, such as lacking strategic oversight, improperly aligned governance objectives, and inefficient monitoring systems. However, greater insight must be gained into the impact that corporate governance has on this sector's profitability, as well as discovering new governance interventions that would further fortify economic performance within this vital economic sector. This research aimed to examine how corporate governance influence the profitability of Nairobi Securities Exchange-listed

agricultural firms. The existing conceptual, methodological, and contextual deficiencies within corporate governance, more specifically, board size, independence, committees, and remuneration, were addressed by the study.

General Objective

This study aimed to investigate the effect of corporate governance on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.

Specific Objectives

- i. To determine the effect of board size on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- ii. To establish the effect of board independence on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- iii. To determine the effect of board committees on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- iv. To establish the effect of board remuneration on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- v. To determine the moderating effect of firm size on the relationship between corporate governance and profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.

Research Hypotheses

Below are the study's hypotheses articulated in null form:

- H₀₁** Board size does not have a statistically significant effect on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- H₀₂** Board independence does not have a statistically significant effect on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- H₀₂** Board committees do not have a statistically significant effect on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- H₀₄** Board remuneration does not have a statistically significant effect on profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.
- H₀₅** Firm size does not moderate the relationship between corporate governance and profitability of agricultural firms listed at the Nairobi Securities Exchange, Kenya.

Significance of the Study

Several stakeholders in the agricultural sector would benefit from the study's findings. The senior management team will be more adept at well-informed decisions based on the amount of influence of corporate governance to achieve the desired objectives for a specific group of stakeholders. The government would derive many advantages, including the process of policy-making towards the establishment of an enabling environment of food production in agricultural firms. The new knowledge on how corporate governance affects the profitability and provides vivid guidelines to set policies to be followed by such firms, especially when working to fight poverty and ensure food security. For policymakers and regulatory bodies, the study is significant because it will help evaluate whether current governance regulations, such

as those outlined in the Capital Markets Authority code of corporate governance, adequately address the unique risks facing agricultural firms, including climate variability, commodity price fluctuations, and governance inefficiencies.

Scope of the Study

Profitability of a company is likely to be influenced by a number of factors. Many businesses, including those in the banking and manufacturing industries, are affected by corporate governance mechanisms. The focus of this study was on agricultural firms that are listed at the Nairobi Securities Exchange, though there are other listed firms that form part of the whole population. Listed firms are subject to Capital Markets Authority regulation, which ensures accurate data for research. The scope of this study was limited to all listed agricultural firms at the Nairobi Securities Exchange, Kenya. The study considered only 10 years, spanning from 2015 to 2024, though the productivity level of agricultural firms that are listed on the Nairobi Securities Exchange spans a wide range of time horizons. This is because businesses of this kind were not doing well as a whole. In 2020, the COVID-19 pandemic occurred, geopolitical challenges such as the Russia-Ukraine conflict, instability in the external environment, and macro-economic conditions were experienced. El-Nino rains and drought are two other elements that impacted the agriculture sector during this time.

LITERATURE REVIEW

Introduction

This section provides an evaluation of the literature and empirical evidence supporting the study. It examines the theories that guide the study and offers an analytic view of the context. The chapter also critiques empirical works to explore knowledge gaps in the existing research work.

Theoretical Review

This compilation consists of concepts and theories, notions, and presumptions that help explain a particular event or phenomenon. One can visualize it as a model that researchers use to guide their investigation and to ease the study design and conduct, analyze, and interpret research findings. It maps out the current knowledge gaps, clarifies the relationships among variables, and directs the formulation of research questions, hypotheses, and methods to resolve them (Sreekumar, 2023).

Agency theory

It looks at the conflicts of interest that arise when unequal ownership and control occur, when managers (agents) tend to put their personal interests above those of shareholders (principals) (Jensen & Meckling, 1976; Ross, 1973). The theory investigates how governance mechanisms, such as board independence, separation of the roles of Chief Executive Officer and chairperson, director equity stakes, audit oversight, to name a few, may translate into lower agency costs and higher company performance (Yegon *et al.*, 2024). As indicated from the literature reviews conducted in Kenya, both board function and ownership structures have an impact on the Nairobi Securities Exchange-listed agricultural firms' profitability (Kieti & Aluoch, 2024), making agency theory prominent in the agricultural sector. Likewise, empirical studies in

Nigeria's agro-allied sector have also indicated that agency costs affect firm value directly (Udeh, 2024). Agency Theory offers an extensive view on corporate governance, thus providing insight into how governance policies and practices translate into managerial behavior consistent with shareholder interests, as well as furthering the profits of the agricultural sector. While agency theory provides a useful foundation for examining corporate governance mechanisms and profitability, it has several limitations in the context of Nairobi Securities Exchange-listed agricultural firms. The variables anchored by the study are board independence in the sense that independent directors monitor managers to reduce opportunistic behavior and protect shareholders' interests. It also anchors board committees, as these committees strengthen oversight, control, and monitoring of management decisions to ensure accountability. The theory assumes dispersed ownership and opportunistic managerial behavior, yet many agricultural firms exhibit concentrated ownership structures and long-term managerial involvement, which may reduce traditional agency conflicts. Furthermore, agency theory places limited emphasis on external environmental factors such as climate risks, commodity price volatility, and regulatory policies, all of which significantly affect the profitability of the agricultural firms.

Stakeholder Theory

According to the theory, businesses exist to enrich shareholders and also to build wealth for a variety of others, such as workers, buyers, suppliers, communities, and regulators (Freeman, 1984). In a nutshell, these thoughts matter, and for agricultural companies in the Nairobi Securities Exchange, generally, this perception of significant profitability may have to deal with long-term farm relationships, supplier input, market destinations, and government regulators. Successful stakeholder engagement has a positive relationship with reputation, supply chain assurance, and reduction of operational risks that ultimately translate into long-term profitability (Donaldson & Preston, 1995; Harrison *et al.*, 2020). New proof shows firms that integrate stakeholder interests within governance systems financially and socially outperform others because the existence of trust and cooperation reduces transaction costs and increases competitiveness (Ayuso *et al.*, 2022). Stakeholder Theory provides a theoretical foundation for relating governance practices and stakeholder management with improved profitability of agricultural firms listed at the Nairobi Securities Exchange. This theory supports board independence, mainly because independent directors help ensure the interests of minority shareholders, employees, suppliers, and other stakeholders are considered. However, stakeholder theory has been criticized for its lack of clear guidance on prioritizing competing stakeholder interests and for the difficulty of empirically measuring stakeholder value. As such, while stakeholder theory offers valuable insights into the governance-profitability relationship, it is most effective when used along with agency theory.

Stewardship Theory

It challenges the assumptions of the Agency Theory by signifying that managers, with control, would act as stewards who prioritize long-term shareholder and firm interests over self-interest (Donaldson & Davis, 1991). This theory posits that trust, organizational commitment, and intrinsic motivation drive managers to conserve resources and strategize towards sustainable performance maximization. Stewardship may be highlighted in the agricultural firms' context that are listed at the Nairobi Securities Exchange due to the long production cycles, environmental risks, and reliance on communities that require management to make decisions that compromise profitability for sustainability. Evidence shows that stewardship-type governance methods (management style), such as family ownership, a unified board, and participative leadership, can produce a more continuous firm performance than control-style governance in a vacuum (Davis *et al.*, 2020; Mutuku & Waweru, 2023). Thus, Stewardship Theory is also offering a second alternative to the Agency and Stakeholder theories, which argues that alignment and trust, rather than control, is the alternative to a sustainable financial path for the listed agricultural firms. The variable anchored by this theory is board remuneration, mainly because properly designed incentives encourage managers to act as stewards, aligning their long-term interests with firm profitability. However, stewardship theory assumes intrinsic managerial motivation, which may not hold in all firms, particularly those with dispersed ownership or weak governance structures. Despite this limitation, stewardship theory offers a valuable complementary perspective to agency theory, emphasizing empowerment and trust as pathways to firm profitability.

Resource Dependence Theory

This theory considers organizations to be open systems that depend on external resources for financial support, technology, information, and raw materials to survive and compete (Pfeffer & Salancik, 1978). The theory posits that firms reduce environmental uncertainty and secure key resources by creating strategic linkages, partnerships, and governance structures that connect them with the outside world. For agricultural firms listed at the Nairobi Securities Exchange, Resource Dependence Theory is especially relevant in its access to credit, foreign markets, government support, and stable supply chains, which have an immediate bearing on their profitability. Boards of directors are especially seen as boundary-spanning tools that give businesses legitimacy, expertise, and access to funds (Hillman, Withers, & Collins, 2009). Current studies indicate that resource-based governance board diversity, institutional shareholders, and external alliances enhance the performance of businesses in developing economies (Abor *et al.*, 2022). In this regard, Resource Dependence Theory provides a conceptual framework to explain how governance structures enhance agricultural businesses' resistance to external dependence and profitability. The variables anchored by this theory are firm size (moderating variable), since larger firms have more resources, better networks, and bargaining power, which reduces dependency on external actors and allows better access to capital, markets, and expertise, and board size, since access to external resources, networks, and knowledge which are critical for firm survival and growth are made possible by larger boards. Nevertheless, resource dependency theory can be difficult to operationalize empirically, and it may underemphasize the role of internal governance mechanisms. Despite these limitations, the theory provides a useful complementary perspective to agency,

stakeholder, and stewardship theories in explaining how governance structures influence firm performance.

Empirical literature review

It seeks to summarize and interpret the empirical research in this field of knowledge. This process consists of a broad comparison of research papers, experimental studies, surveys, and other forms of empirical research to analyze data from a broad range of studies related to the research subject (Snyder, 2019). The primary objective of an empirical literature review is to analyze the research that has already been conducted, identify the benefits and drawbacks of data analysis, and combine empirical research and literature to either support or reject an existing theory (Webster & Watson, 2002). According to this body of empirical information, our research study was based on connecting different dimensions of corporate governance with the profitability of Nairobi Securities Exchange-listed agricultural firms.

Corporate governance and profitability

Aluoch (2021) investigated how the financial performance of Kenyan listed agricultural companies was impacted by corporate governance and financial characteristics that were modified by macroeconomic conditions. The study focused on all seven agricultural companies that were listed at the Nairobi Securities Exchange between 2002 and 2016 and employed a census research methodology. Panel data regression and a random effects model are components of the longitudinal descriptive study strategy that were employed. The study found that financial performance is impacted by corporate governance. Ten years would have been a sufficient duration for the research, as this would have improved accuracy and decreased unpredictability while still producing the same conclusions.

Ndotono (2023) examined the effect of the structure of the Board of Directors on the financial performance of Nairobi Securities Exchange-listed agricultural firms. The study aimed to assess different aspects, including the size of the board, independence, diversity, and educational background of the directors, which affect the financial performance of the firms based on the annual reports of six Nairobi Securities Exchange-listed agricultural firms between 2016 and 2021. The study utilized causal data analysis methods, which involved applying multiple linear regression and Pearson correlation techniques. The results showed that the directors' educational backgrounds, independence, and board diversity all had a favorable impact on the agricultural companies' financial performance. The aforementioned characteristics did not, however, significantly correlate with the board's size. Since a moderating variable was not included in the study, the current study examined how firm size affects the correlation between corporate governance and profitability.

The effect of institutional ownership on the financial performance of agricultural companies listed on the NSE was examined by Njoroge and Mutwiri (2024). The research design used was both descriptive and analytical. Data was obtained from the annual reports of the six agricultural firms that were listed at the NSE between 2015 and 2020. Data was analyzed using SPSS software (both the inferential and descriptive statistics). The study found that institutional ownership had a negative effect on financial performance and that lowering institutional

ownership can be a helpful strategy for increasing profitability. However, this study highlighted institutional ownership as the only determinant of profitability, while other elements of corporate governance that might indirectly affect financial performance were not considered. This current study applied the four dimensions of corporate governance, including board size, independence, committees, and remuneration.

Board size and firm profitability

Githiomi and Koori (2024) examined how the composition of a board influences the financial success of manufacturing and related sectors listed on the NSE. The study findings indicated that merely increasing the count of board members does not necessarily lead to enhanced profitability. The study utilized panel data of eight manufacturing firms operating as listed companies at the NSE between 2015 and 2022. It also utilized panel regression, correlation analysis, and descriptive statistics. The study did not, however, investigate how a firm's nature, e.g., industry or firm size, would be able to moderate the connotation between board composition and profitability. In this study, the moderating effect of firm size on the link between corporate governance and a firm's profitability was investigated.

Dongol (2023) examined Nepalese commercial banks' performance according to the size of their boards. As per the data collected for eight years from 2013 to 2020, this research compared banks with seven or more directors on a board and banks with fewer than seven. There were 27 banks in the sample. Using an independent sample t-test, the study investigated the relationship between board size and firm performance and found that board size has no discernible impact on Nepal's commercial banks' performance.

Namanya *et al.* (2021) examined how board size influences the financial outcomes of publicly traded firms within the East African Community. This research was framed within the positivist paradigm and specifically focused on companies that are listed within the East African Community stock exchanges between 2008 and 2014. The study established that the optimal board size for the listed companies in the EAC region should be between 9 and 10 individuals.

Board independence and firm profitability

The association between board independence and the financial success of multinational companies with Nigerian headquarters was examined by Akinleye *et al.* (2019). The study utilized a static panel estimation approach and secondary data from four of these companies between 2012 and 2016. The study discovered that board independence, or the presence of independent directors, negatively affected Return on Assets. This current study examined the moderating influence of firm size on the link between corporate governance and the profitability of agricultural enterprises listed on the NSE, as the previous study did not employ a moderating variable.

In Bangladesh, Islam *et al.* (2025) investigated how the board's enhanced independence influences a company's operational performance under new Corporate Governance reforms. Panel data were drawn from 183 non-financial firms listed at the Dhaka Stock Exchange between 2007 and 2017. The empirical results from the difference-in-difference estimation

showed that doubling the number of independent board members is connected with enhanced firm performance.

Voveris *et al.* (2024) studied the relationship between state-owned companies' financial performance and independent board members. Independent board members increased from 13% of board members in 2015 to 61% in 2021, among the 27 state-owned businesses studied. The financial performance indicators (especially Return on Assets) lacked a statistically significant connection with the proportion of independent board members. This quantitative determination was supported by qualitative discussions with multiple board members.

Board committees and firm profitability

Hassan (2022) studied the effect of audit committees on the profitability of non-financial firms in Saudi Arabia. This research collected economic data from 100 companies from 2010 to 2019. The study found that the performance of companies was adversely affected by larger committee sizes and more committees. A significant correlation was also found between a company's financial results and the independence of its audit committee. The purpose of this study was to look into how various aspects of board size, independence, committees, and remuneration affect the profitability of agricultural companies that are listed at the NSE.

Fariha *et al.* (2021) studied the impact of board and audit committee characteristics on the financial performance of listed commercial banks in Bangladesh. Thirty publicly traded commercial banks that were listed on the Dhaka Stock Exchange were employed in the study. The study's data came from annual reports that were released between 2011 and 2017. A pooled OLS regression model was used to analyze the data. The results indicated a negative correlation between the audit committee's size and Tobin's Q.

Board remuneration and firm profitability

Ozer *et al.* (2024) examined the association between board compensation and firm performance in the context of corporate governance. 210-firm year observations from 76 non-financial companies listed on the BIST 100 (Turkey) between 2018 and 2020 were used for panel regression analysis. Return on Assets, Return on Equity, and Earnings Per Share were used to gauge the performance of the company. According to the study, board member compensation was favorably and statistically significantly correlated with company performance, indicating that fair compensation is a powerful motivator that can improve company performance.

Lemma *et al.* (2020) investigated firm performance, directors' ownership, and compensation: The evidence from South Africa (firms listed on the JSE). The data was analyzed using pairwise correlation and descriptive statistics, such as mean and median. Indicating that companies with higher board compensation tended to record stronger financial performance, the study found a positive direct association between directors' compensation and business performance. This suggests that compensation can be utilized as an incentive tool to increase board effectiveness.

Corporate governance, firm size, and profitability

Bachmann & Kataishi (2025) conducted a meta-analysis of 25 years' worth of data to examine the relationship between business size and inventive performance. To evaluate the overall impact of firm size on innovation, meta regression analysis of 95 empirical studies with 655 estimations from the literature covering 1993-2017 was conducted. The average impact of business size on inventive performance was favorable. Due to economies of scale and greater resource availability, larger enterprises typically show a larger average effect; however, results are also influenced by contextual factors and measurement choices, such as the type of innovation and region. To handle complexity and foster innovation, larger boards frequently have a more defined governance structure (bigger boards, more committees).

Umairah *et al.* (2025) examined the moderating effect of profitability in the link between business size, firm value, and sound corporate governance. quantitative study employing a purposive sample of 23 companies, panel regression for data analysis, and secondary data from non-cyclical consumer sector companies listed on the Indonesian Stock Exchange between 2020 and 2024. By enhancing the impact of certain governance mechanisms, such as the board of commissioners, audit committee, and firm size, on firm value, but not all governance elements, the study discovered that effective corporate governance mechanisms and firm size have an impact on firm values and profitability.

Ehiedu and Priscilla (2022) studied the impact of economies of scale on operational efficiency, typically within corporate or firm-level settings. Quantitative analysis using firm financial data to assess how operational scale relates to efficiency measures like cost ratios or productivity. The study concluded that a larger scale usually improves operational efficiency due to the cost of spreading and resource utilization; smaller firms often show higher costs per unit and lower efficiency. Efficient operations often require oversight and structured decision-making, which are functions of governance mechanisms like committees and board monitoring, which lead to improved operational efficiency, directly translating to higher profit margins.

Conceptual Framework

A concise synopsis of the relationships between the study's variables is provided, along with a visual depiction of the variables and how they affect each other. A visual depiction of the study variables and their effects on each other is included, along with a succinct summary of the relationships between the variables. For the years 2025 to 2014, the conceptual framework covers three variables: firm size, the profitability of agricultural firms listed on the NSE, and corporate governance elements such as board size, independence, committees, and remuneration

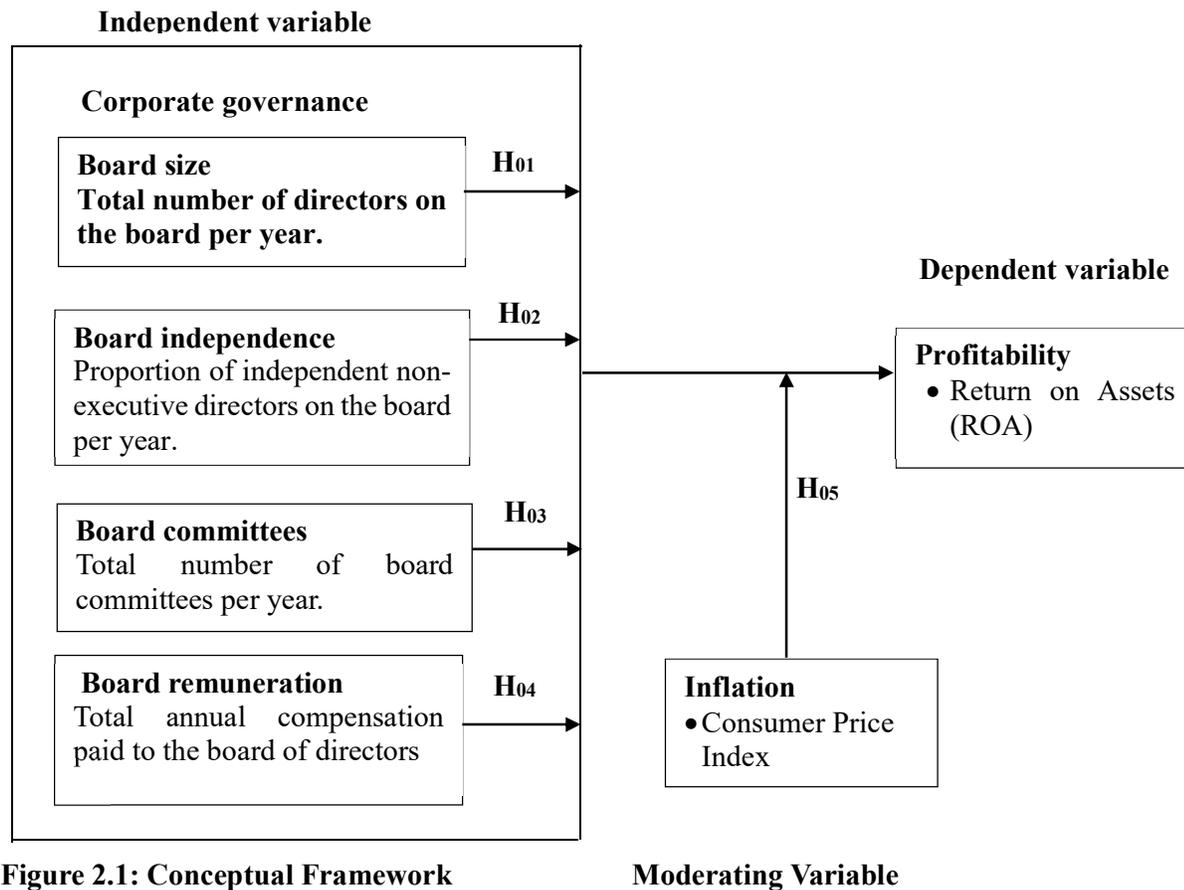


Figure 2.1: Conceptual Framework
 Source: (Researcher, 2026).

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