
INFLUENCE OF BOARD COMPOSITION ON PERFORMANCE OF NON-FINANCIAL FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA

 **Therecia Mwende Kavindu^{1*}**,  **Prof. Robert Arasa (PhD)²** and  **Dr. James Karau (PhD)³**

^{1*}School of Business, Economics, Hospitality & Tourism Management, Machakos University, Kenya.

Email: thereciak@gmail.com

²School of Business, Economics, Hospitality & Tourism Management, Machakos University, Kenya.

Email: rarasa4@mksu.ac.ke.

³School of Business, Economics, Hospitality & Tourism Management, Machakos University, Kenya. Email: james.karau@mksu.ac.ke.

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ABSTRACT

Board composition remains a central pillar of corporate governance because it influences strategic oversight, accountability, and organizational decision-making. Despite extensive global research, evidence on its effect on firm performance remains inconclusive, particularly in emerging markets such as Kenya. This study examined the influence of board composition on the performance of non-financial firms listed on the Nairobi Securities Exchange (NSE). The study was anchored on Agency Theory, Resource Dependence Theory, Dynamic Capabilities Theory, and the Resource-Based View Theory. An explanatory research design was adopted, with a census of all 42 NSE-listed non-financial firms. Primary data were collected from corporate secretaries using structured questionnaires, while secondary data were obtained from annual reports and corporate governance disclosures. Reliability was confirmed using Cronbach's Alpha (0.759). Descriptive statistics, correlation, and ordinal logistic regression were used for analysis. Findings indicated moderate implementation of board composition practices, particularly regarding independent directors and professional qualifications. However, board composition had no statistically significant influence on firm performance ($\beta = -0.126$, $p = 0.729$), supported by a weak and insignificant correlation ($\rho = -0.129$, $p = 0.453$). Nevertheless, boards with greater diversity and technological expertise demonstrated stronger strategic responsiveness and innovation. The study recommends strengthening board diversity, digital expertise, and strategic competencies to enhance long-term firm performance.

Keywords: Board composition; corporate governance; firm performance; Nairobi Securities Exchange; Kenya.

1. INTRODUCTION

1.1 Background of Study

Corporate governance has increasingly become a critical determinant of organizational sustainability, accountability, competitiveness, and long-term performance across the globe. In recent years, global corporate failures, financial crises, technological disruptions, and heightened stakeholder activism have intensified calls for stronger governance structures within organizations. International institutions such as the Organisation for Economic Co-operation and Development

(OECD), the World Bank, and the International Finance Corporation (IFC) emphasize that effective corporate governance strengthens transparency, accountability, investor confidence, and organizational resilience in dynamic business environments. According to the OECD Corporate Governance Factbook (2023), firms with strong governance systems demonstrate higher strategic adaptability, lower agency conflicts, and improved long-term financial sustainability. Similarly, the World Bank (2022) noted that sound governance practices are essential for enhancing market confidence, attracting investment, and improving organizational efficiency in both developed and emerging economies.

Among the major dimensions of corporate governance, board composition has attracted significant scholarly, regulatory, and policy attention because boards of directors play a strategic role in monitoring management, safeguarding shareholders' interests, managing risks, and guiding organizational direction. Contemporary governance frameworks increasingly emphasize board independence, gender diversity, professional expertise, age diversity, and technological competence as critical determinants of governance effectiveness. The International Finance Corporation (2023) observed that organizations with diverse and independent boards are better positioned to respond to market uncertainty, innovation challenges, and sustainability pressures. Likewise, the United Nations Conference on Trade and Development (UNCTAD) Corporate Governance Progress Report (2022) emphasized that board diversity strengthens strategic oversight, stakeholder representation, and organizational legitimacy.

Globally, firms continue to strengthen governance practices through the inclusion of independent directors, gender diversity, professional expertise, and board independence. In developed economies such as the United States and the United Kingdom, regulators and institutional investors have increasingly emphasized board diversity and independence as mechanisms for improving organizational accountability and financial performance. For instance, the Spencer Stuart Board Index Report (2023) revealed that over 90% of S&P 500 firms had achieved significant improvements in board independence and gender diversity as part of broader governance reforms. Similarly, the Financial Reporting Council in the United Kingdom (2022) highlighted that firms with diverse boards tend to demonstrate stronger risk oversight, innovation capacity, and strategic responsiveness.

Empirical evidence from developed economies generally suggests that diverse and independent boards enhance monitoring efficiency, decision-making quality, strategic adaptability, and risk management. Recent studies by Chen et al. (2022), Lee et al. (2021), and Morrison and McConnell (2023) found that boards with diverse professional expertise and technological competencies contribute positively to organizational innovation, digital transformation, and financial performance. Additionally, the Deloitte Global Board Practices Report (2024) noted that firms increasingly require directors with digital, sustainability, cybersecurity, and innovation expertise to navigate rapidly changing business environments.

In emerging economies, however, the relationship between board composition and firm performance remains inconsistent and highly context-dependent. While some studies report positive effects of board independence and diversity on organizational performance, others report weak, mixed, or statistically insignificant relationships. Such inconsistencies are particularly evident in African markets, where institutional frameworks, governance cultures, ownership structures, and regulatory environments differ substantially from those in developed economies.

According to the African Development Bank Corporate Governance Outlook Report (2023), many African firms continue to experience governance challenges related to concentrated ownership structures, inadequate board independence, limited gender representation, and insufficient technological expertise within boards. These structural and institutional differences may influence how board composition affects organizational performance.

Within the African context, corporate governance reforms have accelerated in response to globalization, investor expectations, and increased regional integration. The African Peer Review Mechanism Report (2022) emphasized that improving board effectiveness and governance transparency remains critical for enhancing competitiveness and sustainability among African corporations. Furthermore, the IFC Africa Corporate Governance Program Report (2023) observed that firms with stronger governance structures tend to attract more investment, improve stakeholder confidence, and achieve greater operational stability. However, governance implementation across African markets remains uneven, particularly regarding board diversity, independence, and strategic competencies.

In Kenya, corporate governance has become increasingly important due to heightened competition, globalization, regulatory reforms, and digital transformation within the corporate sector. The Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) have continued to strengthen governance requirements for listed firms through disclosure standards, governance codes, and compliance regulations. The CMA Code of Corporate Governance Practices for Issuers of Securities to the Public (2023) emphasizes the importance of board independence, diversity, accountability, and professional competence in enhancing organizational performance and investor protection. Similarly, the NSE Sustainability Disclosure Guidance Report (2024) highlights the growing expectation for boards to possess competencies in sustainability, technology, innovation, and risk governance.

Non-financial firms listed on the NSE operate in increasingly competitive and technologically dynamic environments characterized by changing consumer preferences, globalization, digital transformation, environmental sustainability pressures, and economic uncertainty. Consequently, board composition is expected to influence strategic adaptability, innovation capability, and organizational performance. Boards with diverse expertise, independent oversight, and technological competencies may provide stronger strategic direction and improved governance effectiveness in such dynamic environments.

Despite the growing emphasis on governance reforms in Kenya, empirical evidence regarding the direct influence of board composition on firm performance among NSE-listed non-financial firms remains limited and inconclusive. Existing studies within Kenya and other emerging economies continue to report mixed findings concerning the effectiveness of board diversity, independence, and expertise in improving firm performance. Furthermore, limited studies have specifically focused on non-financial firms listed on the NSE, despite their strategic importance to Kenya's economy. This creates an empirical and contextual gap that necessitates further investigation.

This study therefore, sought to examine the influence of board composition on the performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya.

The objective of the study was to examine the influence of board composition on performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya. Additionally, the study was guided by the following hypothesis.

H₀: Board composition does not significantly influence performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya.

2. LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Agency Theory

Agency Theory was developed by Jensen and Meckling in 1976 and explains the relationship between principals (shareholders) and agents (managers). The theory argues that managers may pursue personal interests that conflict with shareholders' objectives, thereby creating agency problems and agency costs. Corporate governance mechanisms are therefore established to align managerial interests with those of shareholders.

Board composition is an important governance mechanism within Agency Theory because independent and diverse boards enhance monitoring effectiveness and managerial accountability. Independent directors are expected to provide objective oversight, reduce managerial opportunism, and strengthen transparency in organizational decision-making (Naz et al., 2022). The theory further suggests that boards composed of qualified and independent directors improve strategic supervision and minimize conflicts of interest.

In the context of NSE-listed non-financial firms, Agency Theory supports the argument that boards with diverse professional expertise and independence are likely to enhance firm performance by improving governance quality and managerial oversight.

2.1.2 Resource Dependence Theory

Resource Dependence Theory was advanced by Pfeffer and Salancik in 1978. The theory argues that organizations depend on external resources for survival and growth, and boards play a critical role in securing these resources. Board members provide firms with access to networks, expertise, legitimacy, and strategic information.

According to the theory, firms with diverse and experienced boards are better positioned to obtain external resources and respond to environmental uncertainty. Directors with varied professional backgrounds contribute valuable knowledge and strategic perspectives that improve organizational adaptability and competitiveness (Zaman et al., 2024).

The theory is relevant to this study because board composition may influence firm performance through access to external resources, technological knowledge, strategic alliances, and stakeholder confidence.

2.1.3 Dynamic Capabilities Theory

Dynamic Capabilities Theory, proposed by Teece (2018), emphasizes the ability of firms to sense opportunities, seize emerging trends, and reconfigure resources in rapidly changing environments. The theory highlights organizational adaptability and innovation as critical drivers of sustained performance.

Boards with technological expertise, innovation-oriented experience, and strategic competencies

are likely to strengthen firms' dynamic capabilities. Such boards can facilitate digital transformation, strategic renewal, and organizational resilience (Zheng et al., 2026)

The theory therefore explains how board composition may indirectly influence firm performance through enhanced innovation capability, digital agility, and strategic responsiveness.

2.1.4 Resource-Based View Theory

The Resource-Based View (RBV) Theory argues that firms achieve sustainable competitive advantage through valuable, rare, inimitable, and non-substitutable resources. Human capital embedded within boards constitutes a strategic organizational resource (Kero & Bogale, 2023).

Board composition becomes strategically important when directors possess specialized competencies, industry expertise, and strategic knowledge that competitors cannot easily replicate. Boards with diverse knowledge bases may therefore contribute to improved strategic decisions and organizational outcomes (Zaabouti & Ben Mohamed, 2025).

In this study, board composition is conceptualized as an internal governance resource capable of influencing organizational performance among NSE-listed non-financial firms.

2.2 Empirical Review

Board composition has been widely studied as an important determinant of firm performance. Existing literature generally focuses on board independence, diversity, professional expertise, and demographic characteristics.

Globally, Board composition is viewed as a critical component of effective governance as it determines the competence, ethnical diversity, and autonomy of the members of the board, which is essential when making any decisions. Impacts of the stated formulation have been observed by the researchers who report that the higher the share of independent directors in board, the better financial performance a board exhibits hence board independence helps to enact a greater level of objectivity and diminish any managerial bias (Gerged, Al-Haddad, and Al-Hajaya, 2021). Lee et al. (2021) examined how board diversity, specifically gender and industry-related expertise firm can affect the performance of a firm. They discovered that the relative proportion of the number of independent directors and industry-experience directors in the board was positively correlated with better firm performance, especially within firms embarking on digitalization. Independence of the board, specifically, was observed to have more positive effects on decision-making due to eliminating managerial entrenchment thereby enabling the respective firm to respond easier to market dynamics and innovation. This is particularly applied in the current context where companies have been forced to use innovations in technology to survive (Lee et al., 2021).

Similarly, Chen et al. (2022) explored how the composition of boards intervened in the digital agility processes of firms established in European nations. They inferred the existence of tech-adept directors as a major stimulator of firm performance. According to the study, firms with board members endowed with experience in technology had greater chances of being digital advocates, thus allowing easier movement toward technological upheavals. The result is compatible with the notion that the board composition affects the chances of a firm to effectively implement the digital strategy, hence improving the overall performance. In a different context, Morrison and McConnell (2023) focused on the organizational culture and its relationship with the composition of the board. They analyzed the board composition effect, that is, the role of boards with different backgrounds, particularly in manufacturing firms globally. Their studies showed that diverse

professional backgrounds in the boards did not bring in a broad range of ideas, but board decision-making mechanisms are thorough. Such diversity and proper technological expertise have helped improve the performance of the firms in terms of developing better strategic planning and management of risks, especially when dealing with super-fast technological changes.

An additional study by Singh et al. (2024) investigated how the composition and type of governance affect the performance of firms, with particular regard to the emerging markets. They pointed out that though the role of independent directors was important in enhancing financial performance, the relationship between board diversity and computer literacy was even a stronger predictor of performance in technology-intensive industries. The research proposed that a firm by augments its digital agility in its business is likely to require directors who possess technological and innovation skills to a greater extent in maintaining a competitive edge.

In Sub-Saharan Africa, studies have revealed that more boards that are attractive due to diverse composition, local talents, and international experiences are better placed to counter the challenges of emerging rapidly in the new markets. African Development Bank (2019) provides an argument that boards should be diverse to improve governance practices, which is crucial to firms planning to expand and become competitive in regional and global economies. Moreover, the regulators in the region have begun to foster gender board's diversity understanding that inclusions are essential in enhancing the quality of corporate governance. The Bank of Zambia (2021) also points out that gender-balanced boards result in superior decision-making and outcomes implying that companies with better-balanced boards have higher chances of achieving above-average performance especially in industries that have a high rate of change including technology and finance.

Most recent research like that of Wahba and Elsayed (2021) still supports the claim that board composition contributes to the improvement of accountability and transparency, which shows the importance of this concept regarding the promotion of firm performance in the context of governance. Furthermore, Hillman and Dalziel (2019) endorse the importance of the board diversity and knowledge as the aspects of ensuring resource mobilisation, strategic partnerships and operating the competitive markets. The theory applies to this research topic of investigating the impacts of the structure of a board and market force on the performance of a firm.

On the local level, an Amollo (2021) study examined how the composition of boards influenced the performance of the Kenyan publicly listed firms. The research revealed that the variety of board members (based on gender, education, and experience) positively correlates with the better financial outcomes providing the claim that diversity introduces variety of views to the corporate decision-making process. Another study by Juma and Kinyua (2023) was done on Kenyan firms exploring the role of independent directors and the relationship between them and firm performance. They found that independent directors, especially those who would focus more on long-term plans, were more significant in improving firm performance and more so, when there is an economic uncertainty. Independent directors made it easier to monitor management better and allowed firms to conduct more strategic digital agility campaigns.

Although numerous researches support the positive effects of board diversity and independence, there is a set of researchers, who indicate that the connection between the board composition and the firm performance does not always remain positive. According to Adams and Ferreira (2009), too much independence of a board may at times decrease the performance of a firm as such, by

severing the capacity of a CEO to make fast and strategic decisions. Their research revealed that highly independent boards are likely to be characterized by too much monitoring, a factor that may retard the decision-making process and also reduce the flexibility of the managers. This may especially cause a hitch in an industry that is competitive and requires fast strategic changes to stay afloat. In addition, the independent directors could not be well versed with the inner working of a firm and could result in ineffective monitoring and ill-informed strategic inputs.

On the same note, EmadEldeen et al. (2021) studied the relationship between the composition of a board and firm performance in the UK-listed firms and found no uniform evidence indicating the existence of diverse/independent boards resulting in superior financial performance. The performance of firms whose boards were very independent even fared lower as compared to those with less independent oversight. The case study noted that multifarious opinions are good, but diversity should not be given too much credit since it may lead to disputes, inefficiency, and a slow decision-making process. These results differ from the assumptions that increasing the independence of the board or diversity are sufficient conditions to elevate the performance of firms because the paradigm effectiveness of board composition varies according to context, industry, and the strategy requirement of the firm.

In Kenya, a study by Ongore et al. (2024) of firms listed on the Nairobi Securities Exchange (NSE) identified a positive correlation of gender, among other factors, in board diversity with financial performance and an inverse relationship of board size with financial performance. Similarly, Cherotich and Obwogi (2017) deduced that board independence and gender diversities positively contribute to firm performance whereas CEO duality contributed negatively. According to the research conducted by Matanda et al. (2015), however, board composition has not been found to have a significant effect on the performance of commercial banks in Kenya, showing that other factors may be of a more significant nature in this sector.

There are some of the results of the study of Ameer et al. (2020) that extend the scope of the study to other emerging markets (where they studied Malaysian firms) they state that, there is a better performance correlated to boards with greater presence of outside and foreign directors as opposed to the performance of boards dominated by insiders. On the other hand, Goel et al. (2022) analyzed Indian firms and found that in spite of the positive impacts of board size on performance, the availability of independent directors has negative impacts across the performance levels.

The above research reveals the controversial and contingent status of connections between board composition and firm performance. Although some board attributes (like having diversity and including non-executive directors) are normally used to positively affect performance, their effectiveness depends on contexts and conditions in which they are applied. It is therefore important that firms adopt their own sets of circumstances using board structures to improve performance.

3. MATERIALS AND METHODS

The study was grounded in the positivist research philosophy and employed an explanatory research design to examine the relationship between board composition and firm performance among all 42 non-financial firms listed on the Nairobi Securities Exchange in 2025. A census approach was adopted, with corporate secretaries serving as key respondents due to their governance responsibilities. Primary data were collected through structured questionnaires, while

secondary data were obtained from annual reports, governance disclosures, and NSE publications to enhance triangulation. Instrument reliability was confirmed using Cronbach's Alpha (0.759), while content validity was established through expert review and pilot testing. Data were analyzed using descriptive statistics, Spearman's rho correlation, and ordinal logistic regression, reflecting the ordered nature of the firm performance variable. Ethical standards were observed by ensuring voluntary participation, confidentiality, informed consent, and integrity throughout the research process.

4. RESULTS

4.1 Response Rate

Table 1 presents the response rate obtained from the non-financial firms listed on the Nairobi Securities Exchange (NSE) that were targeted for this study.

Table 1: Response Rate

Category	Number of Firms	Percentage (%)
Targeted Non-Financial Firms	42	100.0
Firms that Participated	36	85.7
Firms that Did Not Participate	6	14.3

Source: Researchers (2026)

The study targeted all the 42 non-financial firms listed on the Nairobi Securities Exchange (NSE). From Table 1, out of the targeted firms, 36 firms successfully participated in the study, representing a response rate of 85.7%, while 6 firms did not participate, accounting for 14.3% of the target population. The achieved response rate was considered adequate for organizational and governance research because it exceeded the commonly recommended threshold for statistical analysis and generalization of findings.

The high response rate strengthened the credibility and reliability of the study findings by ensuring broad representation of non-financial firms listed on the NSE. The participation level further minimized non-response bias and enhanced confidence that the findings accurately reflected governance practices among the sampled firms.

4.2 Reliability Analysis

Reliability statistics in Figure 2 were conducted using Cronbach's Alpha coefficient to assess the internal consistency of the measurement items used in constructing board composition and performance of non-financial firms. Reliability analysis was necessary to ensure that the items consistently measured the intended governance and performance constructs.

Table 2: Reliability Statistics for Study Constructs

Construct	Number of Items	Cronbach's Alpha	Decision
Board Composition	3	0.759	Reliable

Performance of Non-financial Firms	6	0.975	Highly Reliable
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Source: Researchers (2026)

The Board Composition construct from Table 2 achieved a Cronbach's Alpha coefficient of 0.759, indicating good internal consistency among the measurement items relating to board independence, diversity, and professional qualifications. Additionally, the Performance of Non-financial Firms Listed on the Nairobi Securities Exchange recorded an exceptionally high Cronbach's Alpha of 0.975, reflecting very high internal consistency among the six items measuring financial performance, shareholder value, investor confidence, and revenue growth. The acceptable reliability coefficient demonstrated that the instrument was suitable for further statistical analysis. Therefore, the findings confirmed that the study variables were measured consistently and reliably, enhancing the validity and robustness of the empirical results.

4.3 Demographic Characteristics of Respondents

This section presents the demographic characteristics of the corporate secretaries representing the participating non-financial firms listed on the Nairobi Securities Exchange. The demographic information was considered important because it provided contextual understanding of the respondents' professional competence, governance experience, and organizational exposure.

4.3.1 Gender Distribution

Gender distribution was examined to establish the demographic composition of the respondents and assess the extent to which the study captured perspectives from both male and female participants. A balanced representation across gender categories enhances the inclusiveness and credibility of the findings. Figure 1 presents the gender distribution of the respondents who participated in the study.

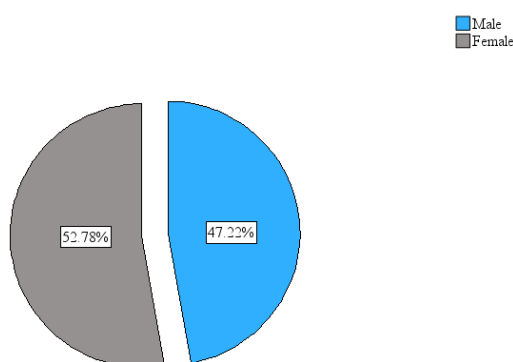


Figure 1: Gender Distribution

Source: Researchers (2026)

The findings in Figure 1 revealed that 19 respondents (52.8%) were female, while 17 respondents (47.2%) were male. The relatively balanced gender distribution indicates that the responses were not disproportionately influenced by one gender category. The balanced representation further enhanced the credibility of the findings by minimizing potential gender-related response bias.

4.3.2 Age Distribution

Age distribution was analyzed to determine the demographic composition of the respondents and assess the diversity of professional experience represented in the study. Understanding respondents' age profiles provides insight into their potential levels of managerial, governance, and organizational exposure. Figure 2 presents the age distribution of the respondents who participated in the study.

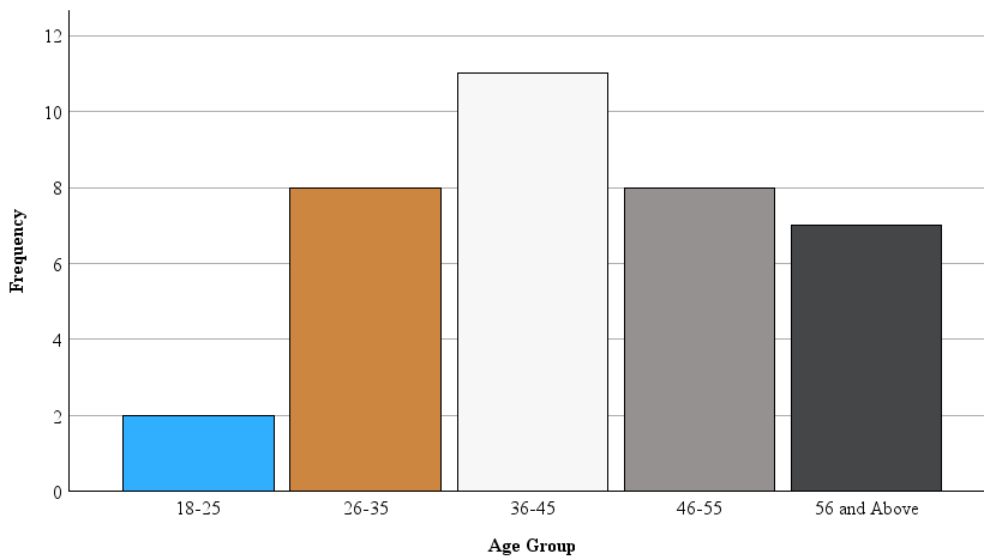


Figure 2: Age Distribution

Source: Researchers (2026)

The study, as shown in Figure 2, established that 5.6% of the respondents were aged between 18 and 25 years, 22.2% were aged between 26 and 35 years, 30.6% were aged between 36 and 45 years, 22.2% were aged between 46 and 55 years, while 19.4% were aged 56 years and above. The largest proportion of respondents fell within the 36–45 years age bracket, suggesting that most responses were obtained from mid-career professionals with substantial governance and managerial experience. The age distribution further demonstrated that the study incorporated perspectives from respondents with varied levels of professional maturity and organizational exposure.

4.3.3 Highest Level of Education

Figure 3 presents the highest level of education attained by the respondents, providing an indication of their academic qualifications and professional capacity to contribute informed responses to the study.

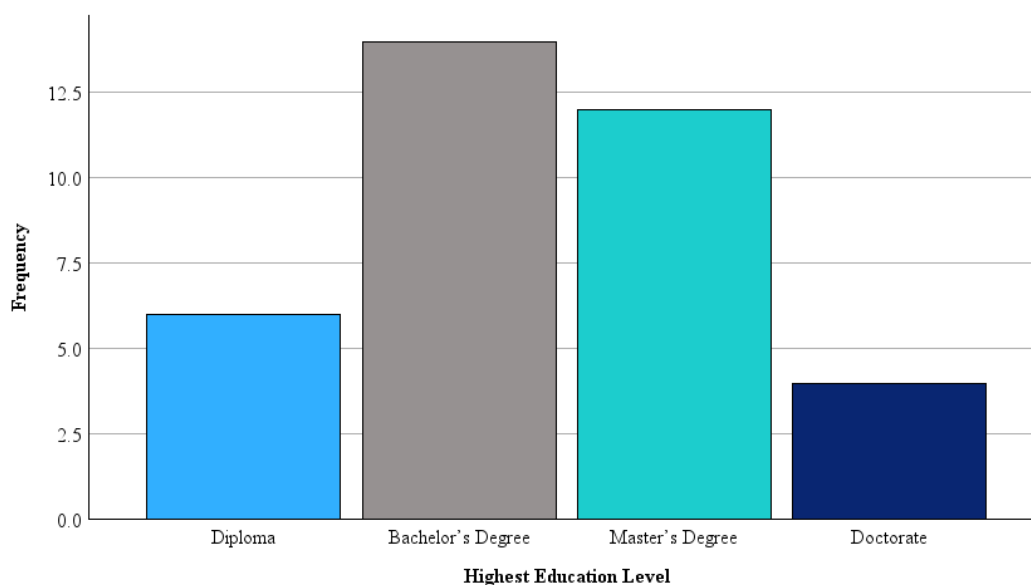


Figure 3: Highest Level of Education

Source: Researchers (2026)

The study findings in Figure 3 showed that 16.7% of the respondents possessed diploma qualifications, 38.9% held bachelor's degrees, 33.3% possessed master's degrees, while 11.1% held doctorate qualifications.

Therefore, the findings indicated that the majority of respondents possessed at least undergraduate education qualifications, reflecting a high level of professional competence among the key informants. The high educational attainment strengthened confidence in the quality, reliability, and accuracy of the information provided by the respondents.

4.3.4 Years of Experience

Table 3 presents the respondents' years of experience in their current roles, providing an indication of their level of organizational knowledge and governance-related expertise.

Table 3: Years of Experience in the Current Role

	Frequency	Percent	Valid Percent	Cumulative Percent
0–5 years	8	22.2	22.2	22.2
6–10 years	15	41.7	41.7	63.9
Valid 11–15 years	10	27.8	27.8	91.7
15 and Above years	3	8.3	8.3	100.0
Total	36	100.0	100.0	

Source: Researchers (2026)

The findings shown in Table 3 further established that 22.2% of respondents had worked in their current roles for between 0 and 5 years, 41.7% had between 6 and 10 years of experience, 27.8% had between 11 and 15 years of experience, while 8.3% had more than 15 years of experience.

The results indicate that the majority of respondents possessed significant governance and managerial experience within their organizations. This enhanced the reliability of the responses

because experienced corporate secretaries are more likely to possess deeper understanding of board structures, governance practices, and organizational performance.

4.3.5 Industry Representation

Table 4 presents the distribution of participating firms across industry sectors, providing an indication of the sectoral diversity represented in the study.

Table 4: Industry Sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manufacturing	2	5.6	5.6	5.6
	Manufacturing & Allied	9	25.0	25.0	30.6
	Agricultural	6	16.7	16.7	47.2
	Construction & Allied	3	8.3	8.3	55.6
	Energy & Petroleum	2	5.6	5.6	61.1
	Energy & Power	1	2.8	2.8	63.9
	Energy	1	2.8	2.8	66.7
	Automobiles & Accessories	1	2.8	2.8	69.4
	Commercial & Services	7	19.4	19.4	88.9
	Investment	4	11.1	11.1	100.0
	Total	36	100.0	100.0	

Source: Researchers (2026)

Table 4 shows that the participating firms were drawn from diverse industry sectors among non-financial firms listed on the Nairobi Securities Exchange. Manufacturing and Allied firms formed the largest proportion at 25.0% (9 firms), followed by Commercial and Services firms at 19.4% (7 firms) and Agricultural firms at 16.7% (6 firms). The representation of firms from different sectors enhanced the generalizability of the study findings.

4.3.6 Corporate Governance Framework

Table 5 presents the status of corporate governance frameworks among the participating firms, providing an indication of the extent to which governance practices are formally institutionalized within the organizations.

Table 5: Corporate Governance Framework

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	36	100.0	100.0	100.0

Source: Researchers (2026)

Table 5 shows that all the participating firms (100%) confirmed the existence of formal corporate governance frameworks within their organizations. The presence of governance structures among all sampled firms demonstrates that governance practices are institutionalized among NSE-listed non-financial firms. The universal existence of governance frameworks further enhanced the suitability of the sampled firms for examining the relationship between board composition and firm performance.

4.4 Descriptive Statistics Analysis

4.4.1 Board Composition

The study assessed board composition practices among NSE-listed non-financial firms using three indicators: academic and governance qualifications, demographic diversity, and board independence as per Table 6.

Table 6: Descriptive Statistics for Board Composition

	N	Mean	Std. Deviation
Board members hold relevant academic and governance qualifications (e.g., advanced degrees, certifications in law, finance, and engineering).	36	2.86	1.175
Board members come from diverse demographic backgrounds (e.g., gender, age, nationality, etc).	36	2.56	.909
The board includes one or more independent directors, which enhances the board's oversight capabilities	36	3.19	1.037
Valid N (listwise)	36		
Grand Mean	36	2.87	

Source: Researchers (2026)

The findings shown in Table 6 indicated that board members' possession of relevant academic and governance qualifications recorded a mean score of 2.86 (SD = 1.175), suggesting moderate presence of qualified directors. Board demographic diversity recorded a mean of 2.56 (SD = 0.909), indicating moderate diversity in terms of gender, age, and nationality. The inclusion of independent directors recorded the highest mean score of 3.19 (SD = 1.037), indicating that most firms had incorporated independent directors within their governance structures. The overall grand mean for board composition was 2.87, implying moderate implementation of board composition practices among the sampled firms.

4.4.2 Firm Performance

Table 7 presents the descriptive statistics for firm performance, measured through indicators related to shareholder returns, shareholder value creation, share price performance, investor confidence, and revenue growth.

Table 7: Descriptive Statistics for Firm Performance

	N	Mean	Std. Deviation
Our firm has consistently achieved high returns on shareholders' equity over the past three years	36	2.97	1.276
The firm's financial management strategies have effectively maximized shareholders' value.	36	3.11	1.166

The firm's share price has shown positive growth over the past financial periods.	36	2.67	1.434
Investor confidence in the firm is reflected in steady or increasing stock prices.	36	3.06	1.330
The firm has experienced continuous growth in net revenues over the past three year.	36	2.81	1.527
Revenue growth in the firm reflects successful business expansion strategies.	36	2.69	1.348
Valid N (listwise)	36		
Grand Mean	36	2.88	

Source: Researchers (2026)

Firm performance was measured using indicators such as shareholder returns, shareholder value maximization, share price growth, investor confidence, and revenue growth.

The findings in Table 7 showed that firms moderately achieved high returns on shareholders' equity (Mean = 2.97, SD = 1.276). Financial management strategies aimed at maximizing shareholder value recorded a mean of 3.11 (SD = 1.166). Share price growth recorded a mean of 2.67 (SD = 1.434), while investor confidence reflected in stock price stability recorded a mean of 3.06 (SD = 1.330). The overall findings suggest that the sampled firms exhibited moderate performance levels.

4.5 Correlation Analysis

Table 8 presents the results of the Spearman's rho correlation analysis conducted to examine the relationship between board composition and the performance of non-financial firms listed on the Nairobi Securities Exchange (NSE).

Table 8: Correlation Analysis

			Board Composition	Performance of Non-financial Firms Listed in NSE
Spearman's rho	Board Composition	Correlation Coefficient	1.000	-.129
		Sig. (2-tailed)	.	.453
		N	36	36
	Performance of Non-financial Firms Listed in NSE	Non-Correlation Coefficient	-.129	1.000
		Sig. (2-tailed)	.453	.
		N	36	36

Source: Researchers (2026)

Spearman's rho correlation analysis in Table 8 was conducted to examine the relationships between board composition and the performance of non-financial firms listed on the Nairobi

Securities Exchange (NSE). Spearman's rho was considered appropriate given the ordinal nature of the data and the non-parametric assumptions of the test. The results in Table 8, board composition showed a negative and weak relationship with firm performance ($p = -0.129$), which was not statistically significant ($p = 0.453 > 0.05$). This implies that variations in board composition were not significantly associated with changes in firm performance among NSE-listed non-financial firms.

4.6 Ordinal Logistic Regression Analysis

Ordinal logistic regression analysis was conducted to determine whether board composition significantly predicts firm performance categories. Table 9 presents the model fitting information, goodness-of-fit statistics, pseudo-R-square values, and the test of the proportional odds assumption.

Table 9: Model Fit, Goodness-of-Fit, and Assumption Tests for the Ordinal Logistic Regression of Board Composition on Firm Performance

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	43.657			
Final	43.537	.120	1	.729
Goodness-of-Fit				
	Chi-Square	df		Sig.
Pearson	23.070	17		.147
Deviance	26.527	17		.065
Pseudo R-Square				
Cox and Snell		.003		
Nagelkerke		.004		
McFadden		.002		
Test of Parallel Lines				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	43.537			
General	43.537	.000	1	.990

Source: Researchers (2026)

Table 9 presents the ordinal logistic regression results examining the influence of board composition on firm performance. The model fitting results indicated that board composition did not significantly improve prediction of firm performance. The likelihood ratio chi-square was 0.120 with a significance level of $p = 0.729$. Also, the regression coefficient for board composition was $\beta = -0.126$ ($SE = 0.363$, $p = 0.729$). The negative coefficient suggests that higher levels of board composition slightly reduced the probability of firms being classified into higher performance categories; however, the effect was statistically insignificant. Moreover, Pseudo R-square values were extremely low, indicating that board composition explained less than 1% of variation in firm performance.

Table 10 presents the parameter estimates from the ordinal logistic regression, including threshold and location coefficients, standard errors, Wald statistics, significance levels, and 95% confidence intervals for the effect of board composition on firm performance.

Table 10: Parameter Estimates

						95% Confidence Interval	
						Lower Bound	Upper Bound
	Estimate	Std. Error	Wald	df	Sig.		
Threshold [FIRM_PERFORMANCE_LEVEL = -.933 Low Performance]	-.933	1.103	.716	1	.397	-3.094	1.228
[FIRM_PERFORMANCE_LEVEL = .334 Moderate Performance]	.334	1.092	.094	1	.760	-1.807	2.475
Location Board Composition	-.126	.363	.120	1	.729	-.836	.585

Link function: Logit.

Source: Researchers (2026)

Table 10 presents the parameter estimate for board composition, which was $\beta = -0.126$ (SE = 0.363, $p = 0.729$). The negative coefficient suggests that higher levels of board composition slightly reduce the log-odds of a firm being classified into a higher performance category (i.e., moderate or high versus low, and high versus moderate/low). However, this effect is not statistically significant, and the 95% confidence interval (-0.836 to 0.585) includes zero, indicating that the true effect could be positive or negative.

Hence, the ordinal logistic regression results demonstrate that board composition does not significantly influence the probability of non-financial firms listed on the NSE being classified into higher performance levels. Since the likelihood ratio test was not significant ($p = 0.729 > 0.05$), the null hypothesis was not rejected. Therefore, the findings indicate that board composition does not significantly influence the performance of non-financial firms listed on the Nairobi Securities Exchange.

4.7 Qualitative Content Analysis

Responses related to board composition emphasized the importance of diverse qualifications, backgrounds, and experience. Many respondents observed that while boards possessed strong governance experience and sector knowledge, gaps existed in digital competencies, technology adoption skills, and specialized sector expertise. The analysis indicated that such gaps could hinder the board's ability to provide strategic guidance in fast-evolving business environments. Respondents suggested enhancing diversity in terms of gender, age, and technical expertise to improve decision-making effectiveness.

A participant commented: *"Including members with technology and sustainability experience would strengthen board guidance and decision-making capacity."*

4.8 Secondary Data Analysis

The secondary data presented in this section were systematically collected, processed, and analyzed to complement the primary quantitative data and support triangulation of the study findings. The data covered the period 2023–2025 and were obtained from publicly available and verifiable sources, including annual reports, corporate governance disclosures, remuneration reports, IT strategy documents, Nairobi Securities Exchange filings, AGM minutes, and reputable media publications.

The secondary data analysis of board characteristics across the 38 firms in Table 11 revealed that

approximately 79% of firms had a non-executive chairman, reflecting adherence to widely recognized corporate governance best practices. Board sizes varied between six and twelve members, with independent directors constituting 28% to 48% of total board membership. Age diversity among board members ranged from 35 to 68 years, with an average age of 50 years. The professional backgrounds of directors were broadly distributed across finance, law, management, and sector-specific expertise, providing a blend of functional knowledge and industry experience. Further analysis showed that boards with higher proportions of independent directors recorded stronger financial performance, averaging a return on assets (ROA) of 9.3%, compared to 7.1% for boards with fewer independent directors. Additionally, firms whose boards exhibited greater age and skill diversity demonstrated more rapid decision-making and were more likely to engage in strategic innovation. These findings indicate that board independence and diversity positively influence firm performance, corroborating insights obtained from primary qualitative data, which emphasized the importance of diverse perspectives in enhancing governance effectiveness.

Table 11: Board Composition Metrics (N = 38)

Metric	Minimum	Maximum	Average	Notes/Observations
Non-executive chairman (%)	–	–	79% of firms had non-executive chairman	Out of 42 proposed firms, 38 had complete data
Board size (members)	6	12	9	Independent directors represented 28–48% of total board membership
Independent directors (%)	28%	48%	38%	Higher proportion linked with higher ROA (9.3% vs 7.1%)
Age diversity (years)	35	68	50	Boards with mixed age and skill diversity showed faster decision-making

Source: Annual reports (2024 - 2025) and corporate governance disclosures of the 38 firms studied.

5. DISCUSSION

The study sought to determine whether board composition significantly influences the performance of non-financial firms listed on the Nairobi Securities Exchange.

The findings of this study reveal that board composition does not have a statistically significant influence on firm performance among non-financial firms listed on the Nairobi Securities Exchange (NSE). While descriptive and secondary evidence suggest the presence of important compositional attributes such as independence and diversity, the inferential results indicate that these attributes, as measured in this study, do not meaningfully predict whether a firm falls into a low, moderate, or high-performance category. This contrast between descriptive patterns, qualitative insights, and statistical insignificance requires careful interpretation.

Descriptive statistics showed that board composition practices were moderately implemented across the sampled firms (grand mean = 2.87). The inclusion of independent directors recorded the highest mean (3.19), suggesting that most firms have embraced independence as a governance norm. However, diversity in demographic representation recorded a relatively lower mean (2.56), indicating moderate variation in gender, age, and nationality. Academic and governance

qualifications of board members also reflected moderate presence (mean = 2.86). In my assessment, these moderate scores suggest that while compositional elements are formally present, they may not be sufficiently differentiated across firms to produce observable performance variation. If most firms cluster around similar composition profiles, statistical models may struggle to detect strong performance effects.

The ordinal logistic regression results confirmed this observation. The model-fitting statistics showed no significant improvement when board composition was introduced ($\chi^2 = 0.120$, $p = 0.729$). The regression coefficient ($\beta = -0.126$, $p = 0.729$) was negative but statistically insignificant, and the pseudo R-square values indicated that board composition explains less than 1% of the variation in firm performance. Although the proportional odds assumption was satisfied, the predictor itself did not significantly alter the probability of firms transitioning across performance categories. Consequently, the null hypothesis (H_{02}) was not rejected.

Interestingly, qualitative findings presented a more nuanced picture. Respondents emphasized the importance of diverse qualifications, sector knowledge, and especially digital and sustainability expertise. However, they also acknowledged gaps in technological competencies and emerging sector skills. One participant explicitly noted that inclusion of members with technology and sustainability experience would strengthen board guidance. These insights suggest that board composition may matter in specific capability areas particularly digital agility but that the current composition of many boards may not yet reflect the specialized expertise required to influence performance outcomes in a measurable way.

Secondary data further complicates the interpretation. Boards with higher proportions of independent directors recorded stronger average ROA (9.3% versus 7.1%), and boards with greater age and skill diversity were associated with faster decision-making and strategic innovation. At face value, this appears inconsistent with the regression results. However, this divergence could be interpreted as indicative of indirect or conditional effects. Board composition may contribute to performance through mediating variables such as strategic innovation, risk management, or digital transformation, rather than exerting a direct and immediate statistical effect on aggregated performance categories. This interpretation aligns with the Dynamic Capabilities Theory, which posits that governance attributes may influence performance by enhancing the firm's ability to sense, seize, and reconfigure resources in response to environmental change.

From a theoretical perspective, Agency Theory would predict that higher board independence should reduce agency costs and enhance firm performance. Numerous empirical studies support this expectation. For instance, Gerged et al. (2021), Juma and Kinyua (2023), and Amollo (2021) documented positive relationships between independent or diverse boards and firm performance. Similarly, Lee et al. (2021) and Chen et al. (2022) emphasized the role of industry expertise and technological competence in enhancing strategic responsiveness and digital agility. Under Resource Dependence Theory, diverse and independent boards provide access to valuable external resources, networks, and information, which should strengthen competitive positioning.

However, the present findings are more aligned with studies that report mixed or insignificant relationships. EmadEldeen et al. (2021) found no uniform evidence linking board diversity to superior performance in UK-listed firms. Adams and Ferreira (2009) argued that excessive independence may constrain managerial flexibility and slow decision-making. Matanda et al. (2015) also found no significant relationship between board composition and performance among Kenyan commercial banks. The results of this study therefore contribute to the growing body of

evidence suggesting that the board composition–performance relationship is context-dependent and contingent rather than universally positive.

Several possible explanations may account for the contrast between this study and prior empirical works. First, contextual institutional factors may moderate the relationship. In Kenya's NSE environment, regulatory frameworks already mandate minimum levels of independence and governance disclosure. This regulatory convergence may reduce variability across firms, limiting the ability of composition differences to generate statistically distinct performance outcomes. In other words, if independence has become a baseline compliance requirement rather than a strategic differentiator, its marginal performance effect may diminish. Second, the measurement of performance as an ordered categorical variable (low, moderate, high) may attenuate observable effects. Board composition may influence specific financial metrics such as ROA or revenue growth, but when aggregated into broad categories, subtle differences may be obscured. Third, board composition may exert long-term rather than short-term effects. Changes in diversity or expertise may influence innovation capability, risk posture, or digital strategy over time, effects that may not be immediately captured in cross-sectional performance classifications. Fourth, the qualitative findings suggest capability gaps in digital and technological expertise. Under the Technology-Organization-Environment (TOE) framework and Dynamic Capabilities Theory, technological competence within boards is crucial for fostering digital agility. If boards are diverse demographically but lack deep technological expertise, the anticipated performance benefits may not materialize. This may explain why diversity in general terms does not translate into statistically significant performance gains in this sample.

From a Resource-Based View (RBV) perspective, board composition can only generate competitive advantage if it constitutes a valuable, rare, inimitable, and non-substitutable resource. In the NSE context, where most firms demonstrate moderate and relatively similar compositional features, such attributes may no longer be rare. Consequently, they may not create measurable performance differentials. Hence, the findings suggest that board composition alone is insufficient to drive performance unless it is strategically aligned with firm-specific needs, particularly in technology-intensive and rapidly changing environments. Independence and diversity are important governance foundations, but their effectiveness depends on the depth of expertise, contextual alignment, and integration with other governance mechanisms such as board structure and compensation incentives. Therefore, while descriptive and qualitative evidence indicate that board composition is strategically important, the inferential results show that it does not significantly predict firm performance in this study. This does not imply that board composition is irrelevant; rather, it suggests that its impact may be indirect, contingent, or mediated by other organizational capabilities. The findings therefore, extend existing literature by highlighting the contextual and conditional nature of the board composition–performance relationship within Kenyan non-financial firms listed on the NSE.

6. CONCLUSION AND RECOMMENDATIONS

The study examined the influence of board composition on the performance of non-financial firms listed on the Nairobi Securities Exchange, Kenya.

The findings established that board composition practices among NSE-listed firms were moderately implemented, particularly regarding board independence and professional qualifications. Nevertheless, statistical analysis revealed that board composition did not

significantly influence firm performance. Therefore, the study concludes that board composition alone may not directly determine organizational performance unless supported by strategic competencies, technological expertise, and organizational adaptability. The findings further suggest that the effectiveness of board composition depends on contextual factors such as institutional environments, strategic alignment, and industry dynamics.

The study made the following recommendations:

Non-financial firms listed on the Nairobi Securities Exchange should strengthen board diversity beyond traditional demographic considerations by appointing directors with technological expertise, innovation management capabilities, and sustainability knowledge. Such competencies are increasingly important in the modern business environment characterized by rapid digital transformation, environmental concerns, and dynamic market conditions. Boards composed of members with diverse strategic and technical expertise are more likely to provide effective oversight and support long-term organizational competitiveness.

Firms should ensure that board composition is aligned with their strategic organizational needs and long-term business objectives. This involves appointing board members whose skills, experience, and professional backgrounds complement the firm's strategic direction, operational environment, and industry demands. Strategic alignment between board composition and organizational goals can enhance decision-making quality, strengthen innovation initiatives, and improve the firm's ability to respond effectively to environmental and technological changes.

Regulators and policymakers should continue promoting effective corporate governance practices by encouraging competency-based board appointments rather than focusing exclusively on compliance-oriented diversity measures. While demographic diversity remains important, governance effectiveness is more likely to improve when firms appoint directors based on relevant expertise, strategic knowledge, leadership capability, and industry experience. This approach would strengthen the quality of governance among NSE-listed firms and contribute to sustainable organizational performance.

Organizations should provide continuous governance education and digital transformation training programs for board members and directors. Ongoing professional development would enhance directors' understanding of emerging governance challenges, technological advancements, cybersecurity risks, sustainability concerns, and innovation trends. Improved board knowledge and competencies can strengthen strategic oversight, enhance organizational adaptability, and support effective decision-making in increasingly dynamic business environments.

Non-financial firms should integrate board expertise with broader governance mechanisms such as strategic planning, innovation management, enterprise risk management, and organizational performance monitoring systems. Effective integration of board competencies with organizational governance structures can improve accountability, strengthen strategic execution, and support sustainable performance outcomes. Firms that effectively combine governance expertise with operational and strategic processes are more likely to achieve long-term resilience and competitiveness.

AREAS FOR FURTHER RESEARCH

Future studies should examine the indirect and mediating effects of board composition on firm performance through variables such as digital agility, innovation capability, and organizational resilience.

Longitudinal studies may also provide deeper insights into the long-term influence of board

diversity and expertise on organizational outcomes.

Further research should additionally explore sector-specific governance dynamics among financial and non-financial firms within emerging economies.

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