



**MODERATING EFFECT OF CORPORATE GOVERNANCE
ON THE RELATIONSHIP BETWEEN FIRM CHARACTERISTICS
AND FINANCIAL PERFORMANCE OF LISTED COMMERCIAL
SERVICE COMPANIES IN KENYA**

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Abstract:

Firm characteristics such as size, leverage, liquidity, and corporate governance play a critical role in determining how businesses operate and compete within their environments. These attributes influence market share and ultimately, the financial income generated. In Kenya, the number of companies listed on the Nairobi Securities Exchange has continued to face severe financial challenges, leading to suspensions and delisting over the past decade. This study sought to establish the effect of firm characteristics on the financial performance of listed commercial service companies in Kenya. The objectives were to examine the effect of firm size on the financial performance of listed commercial service companies, to establish the effect of leverage on the financial performance of listed commercial service companies, to determine the effect of liquidity on the financial performance of commercial service providers in Kenya, and to establish the effect of asset tangibility on the financial performance of listed commercial service providers in Kenya. The study was guided by resource-based theory, agency cost theory and stakeholder-based theory. The study was anchored on positivism. A correlation research design was adopted. The target population was 11 commercial services companies listed on the Nairobi Stock Exchange in Kenya. All the listed commercial services were used in the study. Secondary data was collected using a secondary data

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collection sheet from audited financial statements ranging from 2014 to 2023. Panel Data was analyzed using descriptive and inferential statistics. Descriptive statistics comprised of mean, variance, frequencies and standard deviation. Inferential statistics included multiple regression, correlational analysis and the Hausman test for fixed and random effects. Normality was tested using the Shapiro-Wilk and Levin-Lin-Chu test for stationarity. Heteroscedasticity was tested through the Breusch-Pagan test. Multi-collinearity was tested using variance inflation factors and autocorrelation through Durbin-Watson statistics. This study laid the basis for further research and was important to stakeholders and managers of firms by providing more insights into the management of commercial services companies.

JEL: G32 – Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure, G30 – General Financial Markets and Corporate Finance, L25 – Firm Performance: Size, Diversification, and Scope, M21 – Business Economics

Keywords: corporate governance, firm characteristics, financial performance, listed commercial service companies in Kenya

1. Introduction

Financial performance reflects the degree to which a firm utilizes its resources and strategic capabilities to achieve its objectives. Strong performance indicates sound management decisions, efficient asset utilization, and effective cost control, which in turn attract investors, improve creditworthiness, and enhance competitive advantage. Moreover, analyzing financial performance in relation to firm characteristics helps identify which traits are associated with better profitability and stability. This relationship guides managers, policymakers, and investors in making informed decisions on capital structure, operational strategies, and investment opportunities.

Firm characteristics are the internal attributes that define a company's structure, operations, and market position. They play a vital role in determining financial outcomes, but their influence is often contingent upon the effectiveness of governance mechanisms. In many cases, firms with similar characteristics may exhibit different financial results depending on the robustness of their corporate governance practices. Firm attributes, including size, leverage, liquidity, and asset tangibility, directly impact financial performance (Abubaka, Sulaiman, & Haruna, 2018).

Corporate governance, as a moderating factor, affects the relationship between company characteristics and the financial performance of companies. Robust governance via efficient boards, transparency, accountability, and shareholder safeguarding guarantees the appropriate management of leverage, liquidity, and asset tangibility to maximize returns and mitigate risks. Governance systems can mitigate excessive borrowing, optimize the utilization of liquid resources, and direct strategic investments

in physical assets. In contrast, inadequate governance can result in mismanagement, agency disputes, and suboptimal decision-making, undermining the beneficial influence of business attributes on performance (Njenga, 2018).

In Kenya, many service companies are experiencing poor financial performance for instance Express Kenya public limited company (PLC) experienced net loss of KSH. 107.9 million in 2024 and in the previous year the company had experienced KSH. 103.4 million. Its Revenue declined by 4%, costs rising, and accumulated losses amounted to KSH 606.5 million and its equity falling. Standard Group is experiencing persistent losses for instance in half-year ended June 30, 2024, the company had a net loss KSH 102.9 million, following earlier larger losses. The firm reduced its advertising revenue and struggle to cover costs including salaries (NSE, 2024).

Corporate Governance influences financial outcomes. Good Corporate Governance contributes to shareholder profit maximization and an upsurge in the firm's market value by ensuring that the managers and the shareholders are in good rapport and assists in accomplishing long-term investors' value while taking their well-being into account when directing and managing the affairs of a firm to enhance corporate accountability and business prosperity. Whereas good corporate governance monitors the activities of a firm and promotes a clear business environment, poor corporate governance leads to negligence, corruption and waste. Excellent governance can generate sustainable good business performance regardless of the type of enterprise (Kinyua & Ochieng, 2022). The commercial services sector plays a vital role in the economy, contributing significantly to employment and growth. Understanding the factors that determine the financial performance of listed commercial service companies is therefore important for investors, policymakers, and firm managers alike. Firm-specific characteristics such as size, leverage and age are known to impact financial performance.

1.2 Statement of the Problem

Firm size, age, leverage and liquidity play a critical role in determining market share and financial performance. Many companies maximize on the advantages of various firm characteristics to improve their profitability. However, many commercial service companies listed on the Nairobi Securities Exchange face financial crisis. For instance, Kenya Airways and Deacons were suspended due to persistent losses. Uchumi Supermarket was delisted and later re-listed in 2011 after prolonged losses. Sameer Africa's performance worsened from a profit of Kshs. 104.7 million to a loss of KShs 686.4 million in 2022. Express Kenya PLC experienced a net loss of Kshs. 107.9 million in 2024, and in the previous year, the company had experienced Kshs. 103.4 million.

Its Revenue declined by 4%, costs rose, and accumulated losses amounted to Kshs. 606.5 million. Standard Group PLC is experiencing persistent losses, for instance, in half year ended June 30, 2024, the company had a net loss of Kshs. 102.9 million (NSE, 2024). This has led to the suspension and delisting of some firms over the past decade and the mass loss of jobs and investors' funds. Existing empirical evidence provides mixed

conclusions about the effect of firm characteristics on financial performance. This inconsistency points to the complexity of the relationship, which may vary depending on the context, industry, and market conditions. The reviewed literature also shows overemphasis on banks and limited sector-specific studies. Despite the growing emphasis on corporate governance as a mechanism for enhancing firm performance, the extent to which corporate governance moderates the relationship between firm characteristics and financial performance remains unclear from empirical studies. Therefore, this study seeks to evaluate the moderating effect of corporate governance on the relationship between firm characteristics and the financial performance of listed commercial services companies at the Nairobi Securities Exchange.

1.3 Objectives of the Study

To evaluate the effect of firm characteristics on the financial performance of listed commercial service companies at the Nairobi Securities Exchange. Specifically, the study sought;

- 1) To examine the effect of firm size on the financial performance of listed commercial service companies.
- 2) To establish the effect of leverage on the financial performance of listed commercial service companies.
- 3) To assess the effect of liquidity on the financial performance of listed commercial service companies.
- 4) To determine the effect of asset tangibility on the financial performance of listed commercial service companies.
- 5) To evaluate the moderating effect of corporate governance on the relationship between firm characteristics and financial performance.

2. Literature Review

2.1 Theoretical Literature Review

2.1.1 Resource-Based Theory

The Resource-Based Theory was proposed by Edith Penrose in 1959. The theory argues that firms achieve sustainable competitive advantage through unique internal resources and capabilities that are valuable, rare, inimitable, and non-substitutable. The theory emphasizes that differences in organizational resources explain variations in firm performance.

The theory was relevant to this study because firm characteristics such as size, liquidity, leverage, and asset tangibility represent strategic organizational resources that influence competitiveness and profitability. Larger firms possess broader resource bases and stronger market power, while liquidity and tangible assets improve operational flexibility and financing opportunities.

2.1.2 Agency Theory

Agency Theory was advanced by Michael Jensen and William Meckling in 1976. The theory explains conflicts arising between principals (shareholders) and agents (managers) due to divergent interests and information asymmetry.

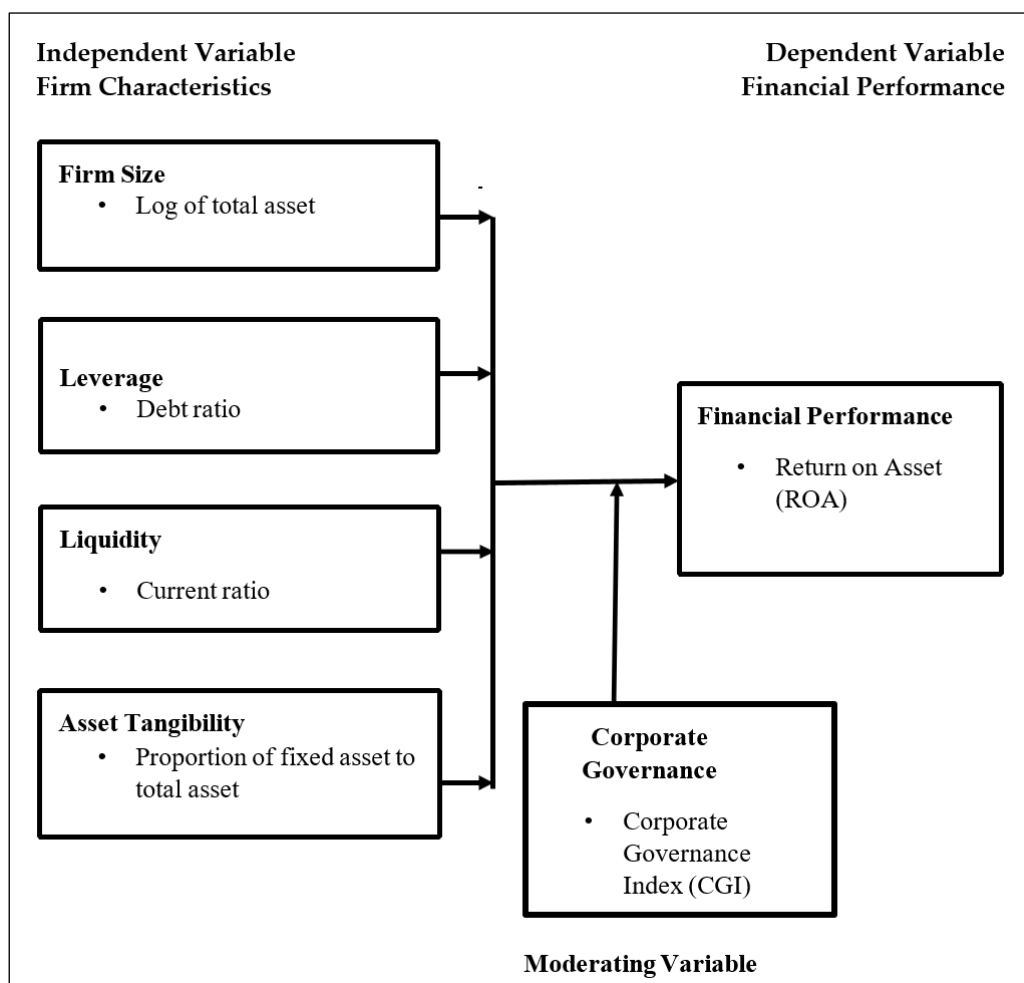
The theory was relevant because corporate governance mechanisms such as board independence, accountability, and transparency help reduce agency conflicts and improve managerial decisions relating to leverage, liquidity, and investment in assets, thereby improving financial performance.

2.1.3 Stakeholder Theory

Stakeholder Theory was proposed by R. Edward Freeman and David Reed in 1983. The theory argues that firms should balance the interests of all stakeholders, including shareholders, employees, creditors, customers, and regulators.

The theory was relevant because effective governance and management of firm characteristics enhance stakeholder confidence, accountability, transparency, and long-term sustainability, which positively affect financial performance.

2.2 Conceptual Framework



2.3 Empirical Literature Review

2.3.1 Firm Size and Financial Performance of Listed Commercial Services Companies at the Nairobi Securities Exchange

Ombok and Adoyo (2024) carried out a study to establish the influence of firm size on the financial performance of listed firms at NSE. The study used a correlation research design. The target population included a number of companies from different sectors listed on the NSE in Kenya from 2016 to 2020. The study adopted a purposive sampling approach since it satisfied the criteria of the study. Pearson correlation analysis and multivariate regression analysis were used to analyze the data within the panel data framework. Trend results showed the firm size of NSE firms was in an increasing trend across 2016 –2020. According to the results, using ROA, company size had a significant and positive effect. However, using ROE, firm size had an insignificant positive impact. The study employed a correlational design. The study's target population comprised all the commercial services in Kenya as of December 31, 2012. The panel data utilized was from 1998 to 2012.

Onsongo, Mwangi, and Muathe (2019) aimed to evaluate the financial performance of companies in the commercial and services sector at the NSE, Kenya, to ascertain the effects of firm size and operational risk on their performance. The study was based on agency theory. The study utilizes an explanatory research design, focusing on the 11 organizations mentioned in this sector as the target audience. Secondary panel data from published yearly reports for the years 2013 to 2017 were gathered. A panel regression model was employed utilizing the random effects approach, as determined by the Hausman specification test. Findings indicated that operational risk exerted a positive but small impact on performance, as measured by ROA. The results indicated that business size exerted a moderating influence on the connection between operational risks and performance.

Marete (2015) aimed to determine the correlation between firm size and the financial performance of companies listed on the NSE. Specifically, it sought to assess the impact of firm size, profitability, and sales volume on the financial performance of these companies. A census survey was conducted encompassing all 11 listed companies on the NSE.

The variables were analyzed using regression analysis and Pearson's Product-Moment Correlation analysis. Descriptive statistics were calculated for the listed companies and the primary characteristics of the study variables. The study results indicated that firm size had a significant relationship with financial performance. Although numerous studies have examined the relationship between firm characteristics and the financial performance of companies listed at the NSE, several gaps remain. First, most studies on firm size (e.g., Ombok & Adoyo, 2024; Marete, 2015; Onsongo, Mwangi & Muathe, 2019) have either focused on aggregate listed companies or the banking sector, with limited emphasis on commercial and service firms, and the period of study is five years. Their findings are mixed, showing significant effects with ROA but inconsistent

results with ROE, indicating a need for sector-specific and multidimensional performance analysis.

2.3.2 Leverage and Financial Performance of Listed Commercial Services Companies at the Nairobi Securities Exchange

Oketch, Namusonge and Sakwa (2018) did a study to examine the effect of financial leverage on Commercial Services Performance in Kenya using listed commercial services in the NSE between the periods of 2010-2016. Analytical Model used to measure Debt Ratio, Debt Equity Ratio, Interest Coverage Ratio, and Tobin's Q. It was established that while size and liquidity are systematic in nature, market risk premium is emphasized by credit risk analysis, which is a relevant factor in financial performance. The results confirm the notion of leverage premium has important implications for the financials of commercial services in Kenya.

Korir (2024) carried out a study to assess how the financial success of the NSE's commercial and services corporation was affected by the financial leverage. The Modigliani and Miller, agency, pecking order, and trade-off hypotheses served as theories guiding the study variables. Ten service and commercial firms listed with the NSE were the focus of the study. Purposive sampling was used to sample 7 firms that have been consistently listed in NSE from 2017 to 2021. This investigation adopted a causal research approach. STATA software assisted in presenting descriptive and panel data models for analysis, was used to analyze the data. Inferential which were correlations and regressions, were also used. The research revealed that debt leverage had a sizeable impact on ROA. It was discovered that debt equity leverage had a considerable impact on the success of listed businesses and services. However, it was discovered that equity leverage did not meaningfully impact financial success.

Mwangi's (2013) aim of the study was to ascertain the impact of leverage on the performance of companies listed on the Nairobi Securities Exchange (NSE). The study utilized a causal or explanatory research design. Quantitative data was utilized. Multivariate analyses utilizing a panel data model investigated the impact of the independent variable on the company's financial performance. Data was gathered for 30 chosen companies from 2007 to 2015. The coefficient of determination was employed to assess the explanatory variable's contribution to the response variable. The research employed secondary panel data derived from the annual reports and financial statements of chosen companies. The study revealed that leverage had a significant positive impact on the financial performance of selected companies listed on the NSE in Kenya.

2.3.3 Liquidity and Financial Performance of listed commercial services companies at the Nairobi securities exchange.

Abubaka, Sulaiman, and Haruna (2018) examined the impact of liquidity and solvency management on the financial performance of Jordanian manufacturing companies listed on the Amman Stock Exchange, for a period of 10 years from 2010 to 2019. The size of the

company was used as a control variable. The study employs ROA and Earnings Per Share to measure financial performance. Current ratio and total debts to total assets were used as proxies for liquidity and solvency management, while the logarithm of total assets was used to measure the size. Correlation and multiple regression analyses have been applied to analyze the data. The results show a statistically significant impact of independent and control variables (liquidity, solvency management and the size of the company) on financial performance, while the detailed results of the hypotheses indicate that liquidity has an insignificant reverse impact on financial performance.

Jihadi, Vilantika, Hashemi, Arifin, and Bachtia (2021) examined the relationship between liquidity management and the financial performance of commercial banks in Kenya, focusing on the impacts of capital adequacy, non-performing loans, inflation rates, and interest rates. Financial institutions operate within complex environments characterized by risks such as inadequate capital adequacy, loan defaults, poor cash management, and inflationary pressures. These risks, if not effectively managed, can destabilize a bank's financial performance. Using data from the Central Bank of Kenya and applying a random effects model for panel data analysis, this study investigates how these variables influence the profitability of commercial banks, measured by ROA. Using data from the Central Bank of Kenya and applying a random effects model for panel data analysis.

Nyamiobo (2023) sought to assess the implications of financial risk on the performance of these companies. The study applied an explanatory research design. The target population were the 14 companies listed under this segment of NSE. Secondary panel data contained in published annual reports for the period 2013–2017 were collected. A panel regression model was applied, with the random effect model being used based on the Hausman specification test. Findings showed liquidity risk had a significant negative effect on ROE. Jelimo (2020) evaluated the effect of liquidity risk on the financial performance of firms listed in NSE. The study utilized an explanatory design. The target population comprised the 11 companies listed in this category of the NSE. Secondary panel data from published yearly reports for the years 2013 to 2017 were gathered. A panel regression model was employed utilizing the random effects approach, as determined by the Hausman specification test. Liquidity risk had a considerably negative impact on ROE. Liquidity studies (e.g., Jihadi *et al.*, 2021; Nyamiobo, 2023; Jelimo, 2020) have primarily focused on banks or short time horizons, often producing negative but inconclusive results.

2.4 Asset Tangibility and Financial Performance of Listed Commercial Services Companies at the Nairobi Securities Exchange

İltaş and Demirgüneş (2020) aimed to investigate the effect of firm age and asset tangibility on total debt of firms listed on Nairobi Securities Exchange. Study was anchored on pecking order theory and trade off theory. The study utilized descriptive research design. The study used secondary data from annual accounting report of quoted

firms on Nairobi securities exchange. Data analysis was performed in order to convert obtained data into a format that can be used for interpretation and conclusion. Because the study was based on panel data, the analysis was based on panel regression.

Liban (2023) investigated the effect of firm characteristics on financial performance of non-financial firms listed at the Nairobi Securities Exchange for the period from 2009 to 2018. This study used both cross sectional and longitudinal research designs, organized as panel data. The sample population of the study consisted of thirty-three (33) nonfinancial listed firms. The study employed purposive sampling procedure in the determination of the sample size and secondary data from annual financial reports of the firms, African Listed Companies, NSE publications and Capital market Authority handbooks. The data collected was analyzed using STATA which was basically descriptive, correlation and regression analysis. The findings of the study showed a significant negative effect of asset tangibility on financial performance as measured by ROA.

Irungu, Muturi, Nasieku, and Ngumi (2018) aimed to ascertain the cumulative impact of Tangibility on the financial performance of commercial and service enterprises listed on the Nairobi Securities Exchange. The study was based on the following theories: The study period spanned from 2012 to 2021, including a decade. The study utilized secondary data as obtained. The study employed a descriptive research design. The panel data technique was employed to conduct descriptive and diagnostic tests, as well as regression analysis. The Hausman test indicated a preference for the Fixed Effects model over the Random Effects technique. Furthermore, certain variables were converted from their nominal values to their natural logarithmic equivalents. The study findings indicated that asset tangibility has a significant effect on financial performance. Research on asset tangibility (e.g., Liban, 2023; Irungu *et al.*, 2018; Beisengaliyeva *et al.*, 2024) has often assessed broad non-financial firms without narrowing down to commercial and service firms, with most evidence pointing to a negative relationship.

2.4.1 Moderating Effect of Corporate Governance on the Relationship between Firm Characteristics and Financial Performance of Commercial Service Companies

Corporate governance structures are very critical for efficient firm performance in various sectors. The study seeks to establish the effect of corporate governance on the financial performance of listed firms in Kenya. The study is underpinned by agency theory, stakeholder theory and stewardship theory. A descriptive design was adopted by this study.

The study population was all listed firms, consisting of 64 firms that had floated shares at the NSE as of 31 December 2019. The study was a census of all 64 companies. This study uses secondary data retrieved from the annual reports of all the listed companies on the NSE. Data extracted is recorded on data collection sheets for each company. Data collected for a period of five years from 2015 to 2019. Diagnostic tests are performed on the variables before regression to ensure the model for analysis is robust

for the purpose of estimation and forecasting. The study specifically tests assumptions including heteroscedasticity, normality, autocorrelation, multicollinearity and unit root tests. The collected data were sorted and classified, ready for use (Mwangi M. W., 2013).

The issue of corporate governance is still a debate across the world, with some emphasizing its role in their firm's performance, whereas others underplay its role in some other business. The purpose of the current study is to establish the influence of corporate governance attributes on the financial performance of microfinance institutions in Nairobi. The specific objectives of the study are to establish the influence of board size, board composition, chief executive characteristics, audit committee characteristics, and the firm's ownership type on the financial performance of Microfinance Institutions in Nairobi County.

The study is guided by the stewardship theory, agency theory, and legitimacy theories. Nairobi City County microfinance institutions, totaling 351, are considered for the study. Yamane's formula was used to provide a sample of 187 respondents for the study. Primary data is collected through the drop and pick method through questionnaires, whereas secondary data is collected from financial newsletters and published financial statements. Data was analyzed through descriptive analysis. Multilinear regression was conducted to establish the nature of the relationship between independent and dependent variables. Presentation of the results was done using tables and graphs. The study reveals that board size and financial performance have a significant relationship; board composition and financial performance have a significant relationship; chief executive characteristics and financial performance have a significant relationship; audit committee characteristics and financial performance have a significant relationship (Kimani, 2020).

3. Methodology

This study was guided by positivism philosophy. Positivism relates to the philosophical stance of the natural scientist and entails working with an observable social reality to produce law-like generalizations. Positivism philosophy was appropriate for this study because, based on both the independent and dependent variables and corporate governance as a moderating variable, most of the data required for the study were quantitative, and positivism would accurately establish the current state of firm characteristics and financial performance of commercial service companies.

The study also adopted a correlation research design within a panel data framework. The correlation design was appropriate since the study seeks to establish the cause of the moderating effect of corporate governance on relationships between firm characteristics and the financial performance of commercial and service companies listed at the NSE. The target population for this study comprised all commercial service companies listed on the NSE. As of 2025, there are 11 companies under the commercial services sector consistently listed on the NSE. The choice of this population is justified by

their significant contribution to the NSE market capitalization Panel secondary data collection sheet was used as the main tool of data collection. The secondary data was obtained from audited financial statements of listed commercial and service firms. The data was collected for a period of ten years, from 2014 to 2023. The data collected was processed and cleaned using Microsoft Excel before exporting to STATA. Panel data was analyzed using descriptive and inferential statistics. Descriptive statistics included mean, standard deviation, variance, and frequencies to summarize data characteristics. Inferential statistics included correlation analysis and multiple regression analysis. The Hausman specification test was used to determine whether fixed effects or random effects models were appropriate. Financial performance was measured using Return on Assets (ROA), while firm size was measured using the logarithm of total assets, leverage through debt ratio, liquidity through current ratio, and asset tangibility through fixed assets to total assets ratio. While findings were presented by use of tables, graphs and pie-charts.

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive statistics indicated variability in firm characteristics across the listed commercial service companies. Firm size exhibited moderate dispersion, indicating differences in operational scale among firms. Leverage levels varied significantly, suggesting differences in financing strategies. Liquidity ratios showed that some firms maintained sufficient current assets to meet short-term obligations, while others faced liquidity constraints. Asset tangibility levels also differed considerably among firms.

The descriptive statistics provide a comprehensive overview of the distribution and variability of the study variables across 110 observations, offering a durable foundation for subsequent empirical analysis. Firm Size has a high mean of 16.34 with moderate dispersion, indicating that the sample includes firms of varying scales, which is essential for examining size-related effects on performance. Firm Leverage shows a mean of 0.79 but a notably high standard deviation of 1.34, suggesting significant differences in capital structure decisions, with some firms relying heavily on debt while others use minimal leverage. Firm Liquidity with a mean of 1.02 and a standard deviation of 0.75, reflects that most firms maintain adequate short-term solvency, although variation exists in working capital management practices. Asset Tangibility has a mean of 0.46 and a standard deviation of 0.29, indicating a balanced but diverse mix of tangible and intangible assets across firms. Corporate Governance, the moderating variable, shows a high mean of 0.94 and moderate dispersion, suggesting that governance structures are strong but differ meaningfully among firms. Financial Performance records a low mean of 0.05 and a standard deviation of 0.30, highlighting modest average profitability alongside substantial variability. The presence of both negative and high

positive values indicates that while some firms experience losses, others achieve strong returns.

4.2 Inferential Statistics

Regression analysis established that firm size positively and significantly influenced financial performance. Larger firms benefited from economies of scale, diversified operations, and improved access to financing. Leverage exhibited a significant negative effect on financial performance. Excessive debt financing increased interest obligations and financial risk, reducing profitability. Liquidity positively influenced financial performance, implying that firms with adequate liquidity maintained operational stability and met short-term obligations efficiently. Asset tangibility exhibited mixed effects on financial performance. While tangible assets improved collateralization and financing capability, excessive investment in fixed assets reduced flexibility and operational efficiency. Corporate governance significantly moderated the relationship between firm characteristics and financial performance. Strong governance practices enhanced accountability, transparency, and prudent resource utilization, thereby improving financial outcomes.

The findings of this study had strong theoretical relevance as they empirically substantiate the propositions of Resource-based theory, Agency theory and stakeholder-based theory in the context of listed commercial service companies in Kenya. Agency theory explains how corporate governance reduces agency conflicts, aligning managers with owners, thus strengthening the impact of firm characteristics on financial performance. The study demonstrates that corporate governance mechanisms, including independent boards, audit committees, and internal controls, effectively mitigate these agency conflicts by monitoring managerial discretion and reducing the scope for financial performance. The moderating effect of corporate governance on the relationship between firm characteristics and financial performance highlights its role as a key agency control mechanism that aligns managerial actions with shareholder interests.

The study found that firm characteristics have a significant and positive relationship with financial performance among listed commercial service companies. Overall, the results indicate that variations in firm size, leverage, liquidity, and asset tangibility explain a substantial proportion of changes in financial performance, confirming their importance as key determinants.

Resource-based theory explains that firm resources drive performance. Governance enhances resource use efficiency. The study focused on Kenyan listed commercial service firms and how governance moderates' performance effects. This finding reinforces the notion that accounting outcomes are contingent not only on managerial incentives but also on the institutional and organizational mechanisms that regulate managerial behavior. Stakeholder theory links governance to balancing stakeholder interests, improving firm performance via firm characteristics. The study focuses on Kenyan listed commercial service firms and the moderating role.

5. Conclusion

The study generally concludes that firm characteristics significantly and positively influence the financial performance of listed commercial service companies. Firm size, leverage, liquidity, and asset tangibility are confirmed as key determinants of performance, indicating that firms with stronger resource bases, efficient financing structures, adequate liquidity, and higher tangible assets are better positioned to achieve superior financial outcomes. Specifically, larger firms benefit from economies of scale and improved access to capital, leverage enhances investment capacity when properly managed, liquidity supports operational stability, and asset tangibility improves access to external financing through collateral. These factors collectively strengthen firms' ability to generate returns.

The results support agency theory, demonstrating that corporate governance plays a crucial role in aligning the interests of managers and shareholders. The positive and significant moderating effect of governance indicates that strong oversight mechanisms reduce agency conflicts, enhance accountability, and ensure efficient utilization of firm resources. Consequently, effective governance strengthens the impact of firm characteristics on financial performance, supporting the proposition of agency theory that well-structured control mechanisms improve firm value and performance outcomes.

5.1 Recommendations

Future studies should investigate other moderating and contextual variables that may affect the link between firm characteristics and financial performance. For example, analyzing factors such as technological advancement, audit effectiveness, regulatory changes, and competitive market forces could offer richer insights into how managerial decisions, together with governance mechanisms, influence performance outcomes. While this study provides valuable insights into the effects of firm characteristics and corporate governance on financial performance in Kenyan commercial service companies, several areas remain open for future research.

- 1) The model explains 62% of financial performance; the remaining 38% may be influenced by external conditions such as inflation, interest rates, and exchange rates. Future studies should incorporate these macroeconomic variables to assess how economic fluctuations affect firm performance and whether they weaken or strengthen the relationship between firm characteristics, corporate governance, and financial outcomes.
- 2) While corporate governance shows a significant moderating effect, it is treated as a composite variable. Future research should disaggregate governance into components such as board independence, board size, gender diversity, ownership concentration, and audit quality to identify which specific elements most strongly enhance financial performance and interaction effects.

- 3) The unexplained 38% may also stem from omitted firm-level factors. Future studies can include variables such as firm age, ownership structure, managerial expertise, innovation capacity, and organizational culture to provide a more comprehensive understanding of internal drivers of financial performance.
- 4) Since the current study focuses on 11 commercial service companies, the findings may not be generalizable. Future research should expand to other industries or conduct cross-sector comparisons to determine whether the 62% explanatory power is consistent or varies depending on industry characteristics and competitive dynamics.
- 5) The current analysis may be limited to a specific time. Future studies should adopt a longer time horizon to examine how relationships evolve over time, especially during different economic cycles, to determine whether the 62% explanatory power remains stable or changes under varying conditions.
- 6) Future studies should adopt a study on the "Effect of Digital Transformation" as a characteristic. Since these are "Commercial Service" firms, technology is likely a missing resource-based variable in the current 2014–2023 dataset.

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Conflict of Interest Statement

The authors declare no conflicts of interest.

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