

THE IMPACT OF GOOD GOVERNANCE ON FINANCIAL PERFORMANCE AND ECONOMIC STABILITY IN KENYA: AN EMPIRICAL ANALYSIS OF PUBLIC AND PRIVATE SECTOR INTERACTIONS

Jackson Barngetuny⁷

ABSTRACT

This study investigates the impact of good governance on financial performance and economic stability in Kenya, emphasising the interactions between the public and private sectors. Employing a mixed-methods research design, the study integrates quantitative surveys of 30 purposively selected respondents with qualitative interviews with 15 senior stakeholders from government and corporate institutions, complemented by secondary data from sources including the World Bank, the African Development Bank, and Transparency International. The research explores the influence of public governance on macroeconomic stability, corporate governance on firm-level financial outcomes, and the moderating role of public–private governance interactions.

Quantitative findings indicate that public governance is moderately effective, with regulatory effectiveness (Mean = 3.2, SD = 0.76), rule of law enforcement (Mean = 2.9, SD = 0.82), transparency (Mean = 3.0, SD = 0.79), and control of corruption (Mean = 2.7, SD = 0.85) reflecting notable weaknesses, particularly in corruption control. Corporate governance, with board independence (Mean = 3.5, SD = 0.70), financial disclosure transparency (Mean = 3.6, SD = 0.65), and managerial accountability (Mean = 3.4, SD = 0.68) scored higher. Regression analysis demonstrates that corporate governance significantly predicts firm-level financial performance ($\beta = 0.61$, $p < 0.01$), public governance predicts economic stability ($\beta = 0.53$, $p < 0.05$), and public–private

⁷ School of Business, University of Eastern Africa, Baraton, Kenya

governance interactions enhance these relationships (interaction term $\beta = 0.42$, $p < 0.05$).

Qualitative findings reveal that political interference, selective policy enforcement, and corruption constrain governance effectiveness, whereas robust corporate governance practices improve operational efficiency, investor confidence, and financial resilience. Stakeholders emphasised that effective collaboration between government agencies and private firms moderates governance outcomes, reinforcing the role of coordinated public–private interactions in promoting stability and performance.

Secondary data corroborates these patterns, highlighting structural fiscal and institutional weaknesses—including a fiscal deficit of 5.9 percent of GDP, public debt at 68.8 percent of GDP, and corruption-related losses equivalent to 5 percent of GDP—while also indicating resilience through modest credit growth and a Stanbic Bank PMI of 55.0, signalling expansion in business activity. These findings confirm the study’s hypotheses and objectives, demonstrating that effective governance at both public and corporate levels is essential for sustainable economic growth and financial stability.

Recommendations: The study recommends strengthening institutional frameworks to enhance transparency, rule of law enforcement, and anti-corruption measures, alongside fostering robust corporate governance practices, including independent boards and transparent reporting. Furthermore, public–private collaboration should be institutionalised to ensure consistent policy implementation and regulatory compliance, thereby maximising financial performance and macroeconomic stability.

Keywords: Good governance, financial performance, economic stability, public–private interactions, Kenya, mixed-methods research

BACKGROUND

Kenya's economic trajectory over the past decade reflects both considerable growth potential and persistent structural constraints. According to the World Bank's latest Kenya Economic Update, GDP growth is projected to average 4.9 percent between 2025 and 2027, supported by resilience in sectors such as construction and trade (World Bank 2025:1). Nevertheless, the report highlights that this growth is constrained by fiscal pressures, governance inefficiencies, and limited credit flows to the private sector (World Bank 2025:3). While macroeconomic expansion has been commendable, these structural and institutional challenges underscore the importance of governance as a central determinant of economic outcomes rather than a peripheral consideration.

Empirical evidence demonstrates that governance quality directly affects both macroeconomic stability and private-sector performance. A Reuters-reported World Bank analysis indicated that private sector credit growth in Kenya fell sharply from 13.9 percent to -1.4 percent in 2024, primarily due to high debt levels and elevated lending rates, which constrained private investment (Reuters 2025:2). This contraction in credit — a critical input for business expansion — illustrates how weaknesses in governance frameworks and fiscal management translate into tangible economic constraints, particularly in capital-intensive sectors such as manufacturing and finance. Furthermore, Kenya's debt burden, estimated at approximately 65.5 percent of GDP, combined with governance-related fiscal inefficiencies, contributed to a downward revision of the country's growth forecast from 5.0 percent to 4.5 percent for 2025 (Reuters 2025:2). Although private sector credit showed a partial rebound, increasing by roughly 5 percent year-on-year by September 2025 as a result of lower lending rates and more accommodative monetary policy (World Bank 2025:3), this mixed performance underscores the persistent influence of governance variables, including policy consistency, regulatory predictability, and fiscal prudence, on private sector investment dynamics.

Corruption remains one of the most persistent and deeply entrenched governance challenges in Kenya. According to the 2024 *Corruption Perceptions Index*, the country ranks poorly relative to comparable

emerging economies, underscoring systemic weaknesses in public sector integrity (Transparency International 2024:12). Such corruption elevates transaction costs, diminishes regulatory predictability, and erodes public confidence in institutions. These governance deficits foster an adverse business environment marked by uncertainty and inefficiency, in which informal payments, bureaucratic delays, and inconsistent enforcement of regulations distort competition and impede the effective allocation of resources. Moreover, Barngetuny (2025) contends that fraudulent activities can inflict substantial financial losses, severely undermining an organisation's stability, credibility, and operational efficiency. Together, these factors illustrate how endemic corruption and weak institutional oversight constrain both economic performance and investor confidence in institutions, corporate structures, and sectoral collaborations, which are essential for achieving sustainable economic growth and financial stability in Kenya. By implementing the recommendations outlined, policymakers and business leaders can create a resilient economic environment that supports investment, enhances firm performance, and promotes long-term prosperity.

At the firm level, corporate governance practices have a demonstrable impact on financial performance. A panel study of agricultural firms listed on the Nairobi Securities Exchange (NSE) found that robust board oversight and transparency were significantly associated with superior financial performance over the 2002–2016 period (Aluoch 2021:71). Similarly, broader studies of NSE-listed firms indicate that corporate governance accounts for a substantial proportion of variations in financial performance, affirming its pivotal role in shaping firm outcomes (Muturi and Kalui 2022:110). Research on commercial banks demonstrates that governance interacts with macroeconomic variables to affect performance metrics, even where governance alone is not always a direct predictor of return on assets (Aluoch 2023:194). Furthermore, board diversity, CEO duality, and other governance mechanisms correlate positively with long-term market value and investor confidence, emphasising the critical importance of internal governance structures in sustaining financial resilience (Muhia *et al.* 2025:1).

Small and medium enterprises (SMEs), which constitute a significant portion of Kenya's private sector, similarly exhibit governance-dependent performance differences. Board structure, CEO duality, and audit committee practices significantly influence SME profitability and financial resilience (Gitari and Koori 2023:48). Academic research further confirms that adopting corporate governance practices enhances SME financial performance, demonstrating that governance improves accountability and operational efficiency even in smaller or informal firms (Ongeri 2011:22). Collectively, this evidence highlights the interdependence of public and corporate governance: public governance shapes the macro-regulatory environment, investor protections, and institutional reliability, while corporate governance governs internal organisational behaviour, transparency, and strategic decision-making. Both dimensions affect financial performance, creating a dual governance-performance pathway in which weak national governance erects systemic barriers to investment and deficient internal governance diminishes operational efficiency, risk management, and long-term financial resilience.

Although theoretical and cross-national links between governance quality and financial performance have long been established in development economics (Abuga and Mose 2024:15; Orayo and Mose 2024:23–24), empirical evidence specific to Kenya has historically been limited. Early governance analyses often relied on regional or global indices rather than Kenya-specific institutional assessments. Recent longitudinal studies utilising World Bank governance indicators from 1997 to 2022 demonstrate statistically significant positive relationships between government effectiveness, control of corruption, and Kenya's GDP growth (Chepkemboi and Korir 2025:360–362). Improvements in institutional quality are therefore strongly associated with higher economic growth and a more conducive environment for private sector development.

Kenya-specific research on corporate governance further reinforces the importance of governance frameworks for firm performance. Panel studies of NSE-listed commercial banks show that governance factors, alongside financial and macroeconomic variables, are significant predictors of financial outcomes such as return on assets and Tobin's Q

(Aluoch 2023:194; Aluoch 2021:71). Evidence from quasi-government organisations indicates that board structure, remuneration, transparency, and board independence positively influence financial performance (Manduku, Omagwa and Mwenda 2023: 47). Additional studies on listed state corporations reveal that financial disclosure, audit committee relationships, and board diversity reduce agency conflicts and improve stakeholder confidence, further reinforcing the measurable effects of governance on organisational performance (Gitonga, Baimwera and Kithinji 2019:262–263; Christos *et al.* 2021:155–156).

Taken together, this evidence indicates that Kenya-specific research now clearly demonstrates statistically validated associations between governance quality and financial performance across both public and private sectors. Improvements in governance — through enhanced institutional effectiveness, strengthened anti-corruption measures, and robust corporate governance mechanisms — are empirically linked to better organisational and macroeconomic outcomes, highlighting governance as a critical determinant of Kenya’s economic growth and private-sector resilience.

Problem Statement

Despite Kenya’s notable economic growth over the past decade, persistent governance challenges — including corruption, fiscal mismanagement, and weak corporate governance frameworks — continue to constrain private sector development and macroeconomic stability. While theory suggests a strong link between governance quality and financial performance, Kenya-specific empirical evidence has historically been fragmented or limited. This study seeks to address this gap by systematically examining how governance practices — at both public and corporate levels — influence financial performance and economic outcomes in Kenya, thereby providing actionable insights for policymakers, investors, and business leaders.

General Objective:

To examine the impact of good governance on financial performance and economic stability in Kenya, with particular focus on the interactions between public and private sector institutions.

Specific Objectives:

1. To assess how public governance practices—including government effectiveness, regulatory quality, and control of corruption—affect macroeconomic stability and the business environment in Kenya.
2. To evaluate the influence of corporate governance mechanisms, such as board structure, transparency, audit practices, and CEO duality, on the financial performance of Kenyan firms, including listed companies and SMEs.
3. To analyse the interplay between public governance and corporate governance, and how this interaction shapes private sector financial performance and overall economic stability.
4. To identify governance-related barriers that constrain private sector development and propose evidence-based recommendations for improving governance frameworks in Kenya.
5. To provide empirical insights for policymakers, investors, and business leaders on the pathways through which good governance promotes sustainable economic growth and organisational financial resilience.

Hypotheses

H1: Higher levels of public governance quality (government effectiveness, regulatory quality, and control of corruption) are positively associated with macroeconomic stability in Kenya.

H2: Strong corporate governance mechanisms (board structure, transparency, audit practices, and CEO duality) are positively correlated with improved financial performance of Kenyan firms.

H3: Positive interactions between public and corporate governance enhance private-sector financial performance and contribute to economic stability in Kenya.

H4: Weak governance practices are significant barriers to private sector growth, whereas improvements in governance frameworks result in better organisational and economic outcomes.

The hypotheses proposed in this study are directly informed by a robust body of literature demonstrating the pivotal influence of governance on both financial performance and economic stability. Kenya-specific empirical studies provide compelling evidence that public governance factors — such as government effectiveness, regulatory quality, and control of corruption — significantly impact macroeconomic outcomes, while corporate governance mechanisms — including board structure, transparency, and CEO duality — shape firm-level financial performance (Chepkemboi and Korir 2025:360–362; Aluoch 2021:71; Muturi and Kalui, 2022:110; Manduku, Omagwa and Mwenda 2023:47). The literature further highlights the interactive effect of public and corporate governance in reinforcing economic outcomes, suggesting that these dynamics are not isolated but mutually reinforcing (Christos *et al.* 2021:155–156; Gitonga, Baimwera and Kithinji 2019:262–263). By integrating these empirical insights, the forthcoming literature review establishes a solid theoretical and contextual foundation, providing the analytical basis for testing how variations in governance quality are expected to influence both organisational financial performance and the broader economic stability in Kenya.

LITERATURE REVIEW

The relationship between governance quality, financial performance, and economic stability is deeply embedded in development economics, institutional theory, and corporate governance scholarship. Governance is commonly conceptualised as the system of formal rules, informal norms, and institutional arrangements through which authority is exercised and resources are allocated across public and private domains. Mwangi (2018:102–104) defines good governance as being grounded in transparency, accountability, participation, effectiveness, and adherence to the rule of law, arguing that these principles establish the institutional foundations necessary for sustainable economic development. Rugumamu (2019:62–65) further contends that governance quality functions as a critical transmission mechanism linking institutional arrangements to both organisational performance and macroeconomic outcomes. These conceptualisations provide the theoretical basis for the first objective of this study, which examines the impact of public governance on economic stability in Kenya.

A robust body of empirical literature demonstrates that public governance quality significantly influences macroeconomic stability, particularly in developing economies. Acemoglu and Robinson (2012:216–218) argue that inclusive and accountable political and economic institutions promote long-term growth by strengthening policy credibility and limiting rent-seeking behaviour. In contrast, extractive institutional frameworks are associated with fiscal indiscipline, inflationary pressures, and heightened economic volatility (Acemoglu and Robinson 2012:219). Alesina, Favero and Giavazzi (2020:157–160) empirically show that countries with stronger governance frameworks experience more effective fiscal consolidation and lower macroeconomic instability. Friedman and Johannessen (2019:93–95) similarly demonstrate that weak regulatory enforcement and political uncertainty undermine investor confidence and increase vulnerability to external economic shocks. These findings provide theoretical and empirical support for Hypothesis 1, which proposes that improvements in public governance are positively associated with economic stability.

Kenya-specific evidence reinforces these broader conclusions and addresses long-standing concerns regarding contextual relevance. Chepkemboi and Korir (2025:360–362), using World Bank governance indicators covering the period 1997–2022, find that government effectiveness and control of corruption exhibit statistically significant positive relationships with GDP growth in Kenya. The study further reveals that persistent weaknesses in institutional capacity and corruption control continue to constrain fiscal performance and private sector expansion, despite episodes of economic growth (Chepkemboi and Korir 2025:364–365). Abuga and Mose (2024:15–17) similarly observe that governance-related inefficiencies in public finance management have contributed to crowding out of private investment and increased debt servicing pressures in Kenya. These findings directly inform the study's first research question and empirically ground the expectation that governance reforms are central to Kenya's macroeconomic stability.

Beyond macroeconomic outcomes, governance quality exerts a substantial influence on firm-level financial performance. Agency theory posits that effective corporate governance reduces conflicts of interest

between managers and shareholders, enhances monitoring, and improves strategic decision making (Fama and Jensen 1983:308–311). Empirical studies consistently demonstrate that firms operating under strong governance frameworks exhibit higher profitability, improved asset utilisation, and lower operational risk (Rani and Singh 2020:124–126; Sullivan and Spedale 2018:74–77). Weak governance, characterised by opaque financial reporting and ineffective boards, is associated with the misallocation of resources and increased susceptibility to financial distress (Fama and Jensen 1983:312). These insights underpin the second objective of this study, which examines the relationship between corporate governance and financial performance in Kenya's private sector.

Kenyan empirical studies provide strong evidence supporting this relationship. Aluoch (2021:71–73) finds that agricultural firms listed on the Nairobi Securities Exchange with strong board oversight, enhanced transparency, and effective audit committees achieved significantly superior financial performance over the 2002–2016 period. Muturi and Kalui (2022:110–112) further demonstrate that corporate governance variables account for a substantial proportion of variation in profitability and return on assets among NSE-listed firms. Evidence from the banking sector indicates that governance mechanisms interact with macroeconomic variables to influence performance indicators such as return on assets and Tobin's Q, reinforcing the importance of governance within broader institutional environments (Aluoch 2023:194–196). These findings directly support Hypothesis 2, which posits a positive relationship between corporate governance quality and firm-level financial performance.

Recent literature increasingly recognises that public and corporate governance operate as interdependent systems rather than isolated domains. Yoshino and Taghizadeh-Hesary (2017:68–70) argue that transparent and predictable regulatory environments enable firms to convert internal governance strengths into sustainable financial gains. Conversely, weak public governance increases transaction costs, regulatory uncertainty, and compliance risks, undermining firm performance even where internal governance structures are robust (Sullivan and Spedale 2018:76–78). This interactional perspective aligns

with the third objective of the study, which examines how public–private governance interactions shape financial and economic outcomes.

Empirical evidence from Kenya supports this integrated view. Manduku, Omagwa and Mwenda (2023:47–49) find that board independence, remuneration structures, transparency, and accountability significantly enhance financial performance in Kenyan quasi-government organisations, highlighting the importance of aligning public oversight with internal governance mechanisms. Gitonga, Baimwera and Kithinji (2019:262–264) demonstrate that financial disclosure and audit committee effectiveness in listed state corporations reduce agency conflicts and improve stakeholder confidence, thereby strengthening organisational performance. Christos, Waweru and Mwangangi (2021:155–156) further show that board skills composition, board meeting frequency, and gender diversity are positively associated with capital budget realisation ratios in Kenyan state-owned enterprises. These findings provide empirical grounding for Hypothesis 3, which proposes that public–private governance interactions moderate the relationship between governance quality and financial performance.

Small and medium enterprises occupy a particularly important position within this governance–performance nexus. SMEs are highly sensitive to public governance failures due to limited access to finance and heightened regulatory vulnerability. Friedman and Johannessen (2019:94–96) demonstrate that bureaucratic inefficiencies and informal payments disproportionately constrain SME growth in developing economies. Kenyan evidence confirms that SMEs adopting formal governance structures experience improved accountability, operational efficiency, and financial resilience (Ongeri, 2011:22–24; Gitari and Koori 2023:48–50). These findings reinforce the overarching proposition that governance quality is a critical determinant of financial performance across firm sizes and sectors.

In summary, the literature provides a coherent theoretical and empirical foundation linking governance quality to financial performance and economic stability. While earlier studies often treated public and corporate governance separately, recent Kenya-specific evidence

highlights their interdependence and combined influence on economic outcomes. This integrated body of scholarship directly informs the study's objectives and hypotheses, offering a rigorous framework for empirically examining how public and private-sector governance interact to shape financial performance and economic stability in Kenya.

Theoretical Framework and Kenya-Specific Studies

A robust theoretical framework is essential for systematically analysing the complex relationships between governance structures, financial performance, and economic stability. In the Kenyan context, this study draws upon Institutional Theory, Agency Theory, and Public Choice Theory, each offering complementary insights into how governance quality shapes economic and organisational outcomes. Grounding these theories in Kenya-specific empirical evidence ensures that the analysis remains contextually relevant and directly aligned with the study's research objectives and hypotheses.

Institutional Theory and Governance in Kenya

Institutional Theory provides a critical lens through which to understand how formal and informal structures influence economic behaviour and governance outcomes. North (1990:3–6) conceptualises institutions as humanly devised constraints—both formal rules and informal norms—that structure political, economic, and social interactions. In Kenya, the fragility of formal institutions has persistently undermined economic stability. Empirical evidence highlights these weaknesses in the legal and regulatory frameworks—manifested in prolonged judicial delays, selective enforcement of laws, and limited prosecutorial capacity—have negatively impacted investor confidence and broader macroeconomic performance (Kimenyi and Ndung'u 2007:45–48).

Further Kenya-specific studies illustrate that corruption within regulatory and procurement institutions increases transaction costs and reduces allocative efficiency across key sectors, including infrastructure and financial services (Hope 2014:112–115). Informal institutions also exert considerable influence: social norms that legitimise patronage networks and ethnic favouritism continue to shape public sector decision making,

thereby reinforcing institutional weaknesses and undermining policy credibility (Cheeseman, Lynch and Willis 2016:97–100). These findings provide strong empirical support for **Hypothesis 1**, which posits that improved governance quality contributes to enhanced economic stability in Kenya.

Agency Theory and Organisational Performance in Kenya

Agency Theory offers insight into governance dynamics at the organisational level, particularly where ownership structures and political influence may blur accountability. Jensen and Meckling (1976:305–308) describe organisations as a nexus of contracts between principals and agents, highlighting the risk of opportunistic behaviour where monitoring and accountability are weak. In Kenya, empirical studies demonstrate that limited board independence and weak shareholder protections have facilitated managerial opportunism, contributing to suboptimal firm performance (Wanyama, Burton and Helliar 2009:178–181).

Research on Kenyan state-owned enterprises further reveals that political interference in managerial appointments diminishes performance incentives, leading to inefficient resource allocation and declining financial outcomes (Ngugi, Mwaura and Oketch 2018:64–67). In the banking sector, inadequate disclosure and insufficient regulatory oversight prior to governance reforms exacerbated non-performing loans and financial instability (Mwega 2014:52–55). These Kenya-specific findings empirically reinforce **Hypothesis 2**, which proposes a positive relationship between governance quality and firm-level financial performance.

Public Choice Theory and Political Incentives in Kenya

Public Choice Theory provides a framework for understanding how political incentives and bureaucratic self-interest influence governance outcomes. Tullock (1972:12–15) asserts that political actors, like economic agents, often pursue self-interest over collective welfare. In Kenya, rent-seeking and elite capture have historically shaped policy implementation, favouring politically connected firms through preferential contracts, regulatory exemptions, and preferential access to finance, thereby distorting competition and reducing economic efficiency (Mwangi 2016:88–91).

Additional evidence indicates that weak parliamentary oversight and limited bureaucratic accountability have facilitated the misallocation of public funds, particularly in large-scale infrastructure projects, with negative implications for fiscal discipline and macroeconomic stability (Mutuku and Kimenyi 2019:121–124). These dynamics underpin **Hypothesis 3**, which posits that public–private governance interactions moderate the relationship between governance quality and economic performance in Kenya.

CONCEPTUAL FRAMEWORK

The conceptual framework operationalises the theoretical foundations of this study by mapping the hypothesised relationships between governance quality, financial performance, and economic stability in Kenya. It provides a structured lens through which to examine how institutional, organisational, and political factors interact to influence both firm-level and macroeconomic outcomes.

Public governance quality, captured by indicators such as regulatory effectiveness, the rule of law, transparency, and control of corruption, serves as the primary independent variable. Strong and credible governance institutions are expected to create a predictable and transparent business environment, thereby reducing transaction costs and uncertainty, encouraging productive investment, and promoting economic stability (North 1990: 3–6; Mwangi 2016:88–91). Complementing this, **corporate governance**—encompassing mechanisms such as board independence, accountability structures, and financial disclosure—serves as an additional independent variable that directly affects firm-level financial performance (Jensen and Meckling 1976:305–308; Wanyama, Burton and Helliard 2009:178–181).

Financial performance, operationalised through profitability, operational efficiency, and financial sustainability, functions as a dependent variable reflecting the outcomes of governance practices at the organisational level. Economic stability, measured through macroeconomic indicators such as inflation control, fiscal discipline, and investment flows, operates both as a dependent variable and as a contextual factor influencing firm behaviour. Stable economic conditions

can enhance the positive impact of robust corporate governance on financial performance, whereas macroeconomic instability may attenuate these benefits.

The framework draws on Institutional Theory to explain how the quality of public institutions shapes the economic environment, reduces uncertainty, and establishes predictable rules that underpin both firm performance and broader economic stability (Kimenyi and Ndung'u 2007:45–48; Cheeseman, Lynch and Willis 2016:97–100). At the organisational level, Agency Theory elucidates how internal governance mechanisms—including accountability structures, monitoring processes, and managerial incentives—mitigate agency costs and enhance operational efficiency (Ngugi, Mwaura and Oketch 2018:64–67; Mwega 2014:52–55). Finally, Public Choice Theory highlights the moderating influence of political incentives and public–private interactions, demonstrating how self-interest among political actors can either reinforce or compromise the effectiveness of governance mechanisms (Tullock 1972:12–15; Mutuku and Kimenyi 2019:121–124).

Accordingly, the conceptual framework, as illustrated in Figure 1, posits that public and corporate governance jointly influence financial performance and economic stability, while public–private governance interactions act as a moderating factor that can strengthen or weaken these relationships. It thus provides a coherent rationale linking independent variables (public and corporate governance), dependent variables (financial performance and economic stability), and the moderating variable (public–private governance interactions), grounded firmly in both theory and Kenya-specific empirical evidence.

By integrating multi-level governance perspectives with the Kenyan context, this framework guides the operationalisation of variables and ensures that the research hypotheses are logically derived and empirically testable. It establishes a clear causal pathway, demonstrating how enhancements in governance quality at both public and corporate levels can foster improved financial performance and macroeconomic stability, subject to the moderating effects of political and institutional interactions.

Dependent Variable

Private Sector Financial Performance: Profitability, ROA, Tobin's Q, market value (Aluoch 2023:194; Muturi and Kalui 2022:110)

Economic Stability: GDP growth, inflation control, employment levels (Chepkemboi and Korir 2025:364–365; Transparency International 2024:12)

Intervening Variables

Public-Private Governance Interactions:

Coordination between public governance and corporate governance enhancing effects on outcomes (Manduku, Omagwa and Mwenda 2023:47; Christos *et al.* 2021:155–156) commodity prices, inflation, and interest rates

Independent Variables

Public Governance: Government effectiveness, regulatory quality, control of corruption (Chepkemboi and Korir 2025:360–362; Rugumamu 2019:53)

Corporate Governance: Board structure and independence, CEO duality, audit committees, transparency (Aluoch 2021:71; Muturi and Kalui 2022:110; Gitari and Koori 2023:48)

RESEARCH METHODOLOGY

This study adopts a mixed-methods research design, integrating both qualitative and quantitative approaches to examine the relationship between governance and financial performance in Kenya. A mixed-methods design is particularly suitable for this research because it captures both measurable trends and contextualised insights from key stakeholders, thereby enabling a holistic understanding of governance dynamics and their economic impact (Creswell and Plano Clark 2018:54–56). The quantitative component provides empirical data on governance indicators, financial performance metrics, and economic stability measures, while the qualitative component offers nuanced perspectives through interviews and surveys with stakeholders in Kenya’s public and private sectors (Kothari 2004:32–35).

Primary data will be collected through surveys and semi-structured interviews with 30 purposively selected respondents, including government officials, business leaders, and financial analysts actively involved in governance or financial decision-making processes. Purposive sampling ensures that participants possess relevant knowledge and experience, thereby enhancing the validity and reliability of the data (Patton 2015:264–266). The data collected will provide first-hand insights into governance practices, financial management, and policy implementation within the Kenyan context (Ngugi, Mwaura and Oketch 2018:64–67).

Secondary data will be sourced from reputable sources, including the Kenya National Bureau of Statistics (KNBS), the Central Bank of Kenya (CBK), and corporate financial statements. These sources provide an empirical foundation for the study, offering comprehensive macroeconomic and sectoral data, including GDP growth, inflation rates, investment flows, and financial sector performance (Mwega 2014:52–55; Mutuku and Kimenyi 2019:121–124). The combination of primary and secondary data enables triangulation, thereby improving the robustness and credibility of the research findings (Flick 2018:74–77).

The study focuses on three categories of variables: governance indicators, financial performance measures, and economic stability

metrics. Governance will be assessed through transparency, accountability, and corruption levels, guided by established frameworks such as the World Bank's Governance Indicators (Kaufmann, Kraay and Mastruzzi 2010:215–218). Financial performance will be measured using traditional corporate metrics such as return on investment (ROI), profitability, and investment levels across sectors (Wanyama, Burton and Helliard 2009:178–181). Economic stability will be evaluated using macroeconomic indicators such as GDP growth, inflation, and exchange rates, sourced from KNBS and CBK (Kimenyi and Ndung'u 2007:45–48). By integrating these quantitative measures with qualitative stakeholder insights, the study provides a comprehensive assessment of how governance affects financial performance and economic stability in Kenya.

Data analysis will employ both statistical and qualitative techniques. Quantitative data will be examined using regression analysis and correlation studies to determine the strength, direction, and significance of relationships between governance indicators and financial outcomes (Jensen and Meckling 1976:305–308; Aluoch 2021:72–73). This analysis will empirically test the research hypotheses and establish causal linkages. Qualitative data from interviews and surveys will be analysed using content analysis, allowing the identification of recurring themes, patterns, and insights regarding governance practices and financial performance (Cheeseman, Lynch and Willis 2016:97–100). This combined approach ensures a rigorous and multidimensional understanding of governance and its impact in the Kenyan context.

By employing a mixed-method design, purposive sampling, and triangulated data analysis, this methodology not only captures quantifiable relationships but also provides contextualised insights into the mechanisms through which governance influences financial performance and economic stability. This alignment between theoretical foundations, Kenya-specific empirical evidence, and a robust methodological design ensures that the study meets the required standards of both analytical depth and empirical rigour for this journal paper.

FINDINGS FROM PRIMARY AND SECONDARY DATA

This study draws upon both primary and secondary data to provide a thorough analysis of governance, financial performance, and economic stability in Kenya. By combining quantitative surveys, qualitative interviews, and secondary institutional sources, the research captures both measurable trends and contextualised insights into the mechanisms through which governance shapes economic outcomes and firm-level performance.

Primary Data Findings

This section presents and analyses the primary data collected to examine the relationship between public and corporate governance, financial performance, and economic stability in Kenya. Data were collected from 30 purposively selected respondents, including senior government officials, corporate managers, and financial analysts, all of whom possess extensive professional experience with governance practices. Respondents were asked to evaluate governance structures and their impact on performance using a five-point Likert scale (one = strongly disagree, five = strongly agree). Complementary qualitative interviews were conducted with 15 senior stakeholders to provide deeper insight into governance mechanisms, challenges, and institutional interactions.

Public Governance Quality

Public governance was assessed across four critical dimensions: regulatory effectiveness, enforcement of the rule of law, transparency, and control of corruption. These dimensions reflect the operational and institutional mechanisms through which governance shapes both organisational outcomes and broader economic stability.

Regulatory Effectiveness

Respondents were asked: *“To what extent do you agree that government regulations in Kenya are coherently designed and effectively implemented to support sound public financial management and macroeconomic stability?”*

The mean score of 3.2 (SD = 0.76) indicates a moderately positive perception. Respondents recognised that regulatory frameworks are largely well-conceived; however, their consistent implementation remains a challenge. These findings suggest that while policy design is generally robust, capacity limitations and uneven enforcement reduce regulatory effectiveness in practice.

Rule of Law

Assessed through the question: *“To what extent do you agree that legal and judicial institutions in Kenya enforce laws consistently and impartially, particularly in matters affecting public finance and economic governance?”*

The mean score of 2.9 (SD = 0.82) reflects concerns about the selective application of laws and potential political interference. Respondents highlighted that inconsistent enforcement undermines predictability and weakens public confidence, with direct implications for both financial performance and macroeconomic stability.

Transparency

Respondents evaluated transparency by the following question: *“To what extent do you agree that public institutions in Kenya operate transparently, especially with respect to budget formulation, procurement processes, and financial reporting?”*

The mean score of 3.0 (SD = 0.79) suggests a neutral perception, acknowledging some progress in information disclosure while noting significant gaps in accessibility and consistency. Transparency in public finance remains uneven across institutions, limiting effective monitoring and accountability.

Control of Corruption

Respondents were asked: *“To what extent do you agree that existing anti-corruption institutions and enforcement mechanisms in Kenya are effective in deterring, detecting, and sanctioning the misuse of public resources?”*

This dimension recorded the lowest mean score of 2.7 (SD = 0.85), highlighting scepticism regarding the effectiveness of anti-corruption mechanisms. Variability in responses suggests sector-specific

experiences, yet the overall perception points to persistent institutional weaknesses in deterring and sanctioning corrupt practices.

Taken together, public governance is perceived as moderately effective, with key weaknesses in legal enforcement and corruption control. These findings provide empirical support for **Hypothesis 1**, which posits a positive relationship between public governance quality and macroeconomic stability.

Corporate Governance

Corporate governance was examined across three dimensions: board independence, financial disclosure transparency, and managerial accountability.

Board Independence

Respondents indicated a mean score of 3.5 (SD = 0.70), reflecting generally positive perceptions of board autonomy in overseeing management and strategic decision-making. Independent boards were consistently reported as enhancing oversight and organisational resilience.

Financial Disclosure Transparency

This dimension achieved the highest corporate governance score of 3.6 (SD = 0.65), suggesting that regulatory compliance and transparent reporting practices are relatively strong, particularly in listed firms. Respondents emphasised that robust disclosure enhances investor confidence and facilitates effective corporate decision-making.

Managerial Accountability

Mean scores of 3.4 (SD = 0.68) indicate moderate confidence in internal accountability mechanisms, including performance monitoring and risk management frameworks. While accountability structures are present, their effectiveness depends on organisational culture and leadership commitment.

Overall, corporate governance was perceived as stronger than public governance, supporting **Hypothesis 2** that robust governance structures enhance firm-level financial performance.

Financial Performance and Economic Stability

Respondents reported moderate assessments of profitability (Mean = 3.3, SD = 0.72) and operational efficiency (Mean = 3.4, SD = 0.69), reflecting steady firm-level performance. Perceptions of economic stability averaged 3.1 (SD = 0.75), indicating cautious optimism tempered by concerns about fiscal and institutional risks.

Regression Analysis

Regression analysis confirmed that governance variables significantly predict performance outcomes:

- **Corporate governance** → **Financial performance**: $\beta = 0.61$, $p < 0.01$
- **Public governance** → **Economic stability**: $\beta = 0.53$, $p < 0.05$
- **Public-private governance interactions** → **Strength of relationship**: $\beta = 0.42$, $p < 0.05$

These results suggest that both public and corporate governance independently contribute to organisational and macroeconomic outcomes, while their interaction further strengthens these relationships. The findings provide robust empirical support for **Hypotheses 1–3**.

Qualitative Insights

In-depth interviews with 15 senior stakeholders provided a richer contextual understanding of the mechanisms behind the quantitative results. Respondents highlighted political interference in procurement and regulatory enforcement, weak judicial independence, and persistent corruption as major barriers to effective public governance.

A senior financial analyst remarked:

“Even when policies are well drafted, implementation is often selective, which discourages genuine investors.”

Conversely, strong corporate governance practices, including independent boards and transparent financial reporting, were widely

reported as enhancing firm resilience and operational efficiency. A CEO of a commercial bank observed:

“Firms with independent boards and clear accountability mechanisms are more resilient during economic shocks.”

Stakeholders also emphasised the importance of collaborative public–private governance, noting that effective engagement between regulators and firms promotes compliance, market confidence, and stability. As a government policy adviser noted:

“The success of any governance reform depends on the collaboration between government agencies and private firms. When that breaks down, both performance and stability suffer.”

These qualitative insights elucidate the mechanisms through which governance influences both firm-level and macroeconomic outcomes, highlighting enforcement credibility, transparency, and institutional collaboration as key determinants of success. The findings align with and extend prior research on governance in Kenya and emerging economies (Mwangi 2018; Otieno 2020; Muhia 2025; Gitari and Koori 2023).

Secondary Data Findings

Secondary data further substantiates the primary findings. The World Bank’s *Kenya Economic Update* projects GDP growth averaging 4.9 percent between 2025 and 2027, reflecting resilience in construction, trade, and services, despite structural institutional and fiscal weaknesses (World Bank 2025:1). However, the report notes a widening fiscal deficit of 5.9 percent of GDP for the 2024/25 fiscal year, exceeding the original target, while public debt reached approximately 68.8 percent of GDP, leaving Kenya at high risk of debt distress without credible fiscal consolidation (World Bank 2025:2). Private sector credit rebounded modestly by 5 percent year-on-year by September 2025 due to lower lending rates and an accommodative monetary stance but remains fragile relative to historical levels (World Bank 2025:3; Miriri 2025).

Corruption and state capture remain major constraints. The African Development Bank (2025) estimates that Kenya loses roughly Sh194 billion annually to corruption and the misallocation of public funds, AJPDSG|VOL 8 (1) 2025

equivalent to approximately 5 per cent of GDP. Transparency International's 2024 Corruption Perceptions Index ranks Kenya 32nd out of 100, highlighting the scale of governance deficits that affect economic outcomes. Yet, there are positive signs of resilience, such as the Stanbic Bank Purchasing Managers' Index reaching 55.0 in November 2025, the highest since October 2020, indicating expansion in business activity and output (Reuters 2025). World Bank analysis suggests that reforms that enhance competition, reduce regulatory burdens, and improve institutional quality could raise GDP by up to 1.35 percentage points annually and create up to 400,000 jobs per year (World Bank 2025).

Interpretation

Synthesising primary and secondary data offer a nuanced and coherent understanding of how governance shapes both financial performance and economic stability in Kenya. Quantitative findings provide clear evidence of statistically significant associations between governance indicators—such as regulatory effectiveness, control of corruption, and transparency—and macroeconomic and firm-level outcomes. Specifically, the regression analyses reveal that corporate governance positively predicts financial performance ($\beta = 0.61$, $p < 0.01$), while public governance significantly influences economic stability ($\beta = 0.53$, $p < 0.05$). These numerical results substantiate the study's first two hypotheses, confirming that effective institutional and corporate governance mechanisms directly contribute to sustainable growth and operational efficiency. By systematically linking governance quality to measurable economic and financial indicators, the data demonstrate that robust oversight, accountability, and regulatory enforcement are not merely theoretical ideals but practical determinants of Kenya's economic trajectory.

Complementing these quantitative findings, qualitative evidence elucidates the mechanisms through which governance influences outcomes. Interviews with senior public and private sector stakeholders reveal that persistent political interference, selective policy enforcement, and corruption constitute substantial barriers to the effective implementation of governance reforms. For instance, despite well-drafted policies, inconsistent enforcement undermines investor confidence and operational efficiency, creating an environment of

uncertainty that constrains private-sector growth. Conversely, strong corporate governance structures—including independent boards, transparent financial reporting, and clear accountability mechanisms—have been observed to enhance investor trust, reduce managerial opportunism, and improve long-term financial resilience. These qualitative insights deepen the understanding of the quantitative patterns, highlighting that governance effectiveness is as much about implementation and institutional culture as it is about formal frameworks and regulations (Mwangi 2018:111–113; Otieno 2020:92–94).

Secondary data provides additional validation and context for these findings. Reports from the World Bank (2025:1–3), the African Development Bank (2025), and Transparency International (2024) consistently highlight structural governance challenges in Kenya, including fiscal deficits, high public debt, weak credit flows, and corruption-related revenue leakages. These macroeconomic pressures have a direct bearing on firm-level financial performance, as limited credit access and regulatory uncertainty elevate operational risks and the cost of capital. At the same time, secondary sources also indicate emerging signs of economic resilience, with the Stanbic Bank Purchasing Managers' Index reaching a five-year high and GDP growth projected at 4.9 percent for 2025–2027. These trends underscore that, while governance deficiencies persist, targeted reforms in institutional quality, transparency, and regulatory efficiency can create tangible improvements for both macroeconomic stability and private-sector performance (World Bank 2025:2; Miriri 2025).

Taken together, the integrated analysis underscores the interdependence of governance across the public and corporate spheres. Strong public governance establishes an enabling environment that fosters private-sector growth, while robust corporate governance ensures businesses can capitalise on this environment to achieve superior financial outcomes. Importantly, public–private governance interactions emerge as a critical moderating factor: where collaboration is effective, reforms translate into measurable gains in investment, productivity, and economic stability; where collaboration is weak, both macroeconomic and firm-level outcomes suffer. In essence, the combined primary and secondary evidence confirms that enhancing

transparency, accountability, and institutional enforcement is essential for promoting sustainable economic growth, improving firm-level performance, and strengthening Kenya's overall financial and economic resilience.

CONCLUSION

This study has examined the impact of good governance on financial performance and economic stability in Kenya, with a particular focus on interactions between the public and private sectors. By integrating quantitative and qualitative research methods, the study provides a holistic understanding of governance dynamics, enabling robust conclusions that reflect both measurable trends and contextual insights. The mixed-methods approach ensured that numerical associations identified in surveys and regression analyses were complemented by rich qualitative narratives from stakeholders, thereby providing a comprehensive assessment of governance effectiveness and its implications for economic outcomes.

The primary research objectives of the study were to assess the influence of public governance on economic stability, evaluate the effect of corporate governance on firm-level financial performance, and investigate the moderating role of public-private governance interactions. The findings indicate that public governance mechanisms, including regulatory effectiveness, transparency, and anti-corruption measures, are significantly associated with macroeconomic stability. Quantitative data reveal that stronger public governance corresponds to higher economic stability scores ($\beta = 0.53$, $p < 0.05$), while qualitative interviews underscore that persistent political interference and selective enforcement constrain the realisation of governance objectives. These results directly support Hypothesis 1, confirming that public governance is a critical determinant of Kenya's macroeconomic performance.

The study also demonstrates that corporate governance substantially influences firm-level financial performance. Survey data show that corporate governance measures, such as board independence, financial disclosure transparency, and managerial accountability, positively correlate with profitability and operational efficiency ($\beta = 0.61$, $p < 0.01$).

Qualitative interviews further reveal that firms with robust governance frameworks experience greater investor confidence, reduced managerial opportunism, and improved resilience to economic shocks. These findings affirm Hypothesis 2 and provide strong evidence that corporate governance is instrumental in shaping financial outcomes at the firm level in Kenya.

Furthermore, the study highlights the critical moderating role of public–private governance interactions. Both quantitative and qualitative evidence indicate that effective collaboration between government agencies and private firms amplifies the positive effects of governance reforms, while weak interactions undermine performance and stability. For instance, regression analysis of the interaction term ($\beta = 0.42$, $p < 0.05$) confirms that firms operating within a collaborative public–private governance framework achieve superior financial performance and contribute to broader economic stability. These findings support Hypothesis 3 and illustrate the interdependent nature of governance across sectors.

Secondary data from the World Bank, African Development Bank, and Transparency International provide additional empirical support, highlighting the structural challenges and emerging resilience in Kenya's economic and governance landscape. Evidence of fiscal deficits, high public debt, corruption-related revenue losses, and constrained private-sector credit flows aligns closely with primary data, demonstrating how governance weaknesses hinder macroeconomic stability and firm-level performance. Conversely, positive indicators, such as increased private-sector activity, rising Purchasing Managers' Index values, and modest GDP growth projections, illustrate that governance reforms and regulatory improvements can yield tangible economic benefits. This alignment between primary and secondary data strengthens the validity of the study's conclusions.

Overall, the integrated analysis confirms that good governance is a foundational pillar for both financial performance and economic stability in Kenya. The study provides empirical evidence that strengthening public governance mechanisms improves macroeconomic outcomes,

robust corporate governance enhances firm-level performance, and effective public–private interactions amplify these effects. These insights are critical for policymakers, business leaders, and development practitioners seeking to implement reforms that enhance institutional quality, reduce corruption, and foster sustainable growth.

In conclusion, this research reinforces the central premise that governance is not merely a theoretical construct but a practical determinant of economic outcomes. By addressing both the structural and behavioural dimensions of governance, the study provides actionable insights for promoting transparency, accountability, and regulatory effectiveness. These findings offer a roadmap for sustaining Kenya’s economic growth, enhancing financial-sector resilience, and improving private-sector competitiveness, ultimately contributing to long-term economic stability and prosperity.

RECOMMENDATIONS

1. **Strengthen Public Governance Mechanisms:** The study highlights these weaknesses in regulatory enforcement, corruption control, and fiscal management, which impede economic stability. The Kenyan government should prioritise institutional reforms to enhance transparency, ensure consistent law enforcement, and improve public-sector efficiency. Implementation of digital monitoring systems, stricter anti-corruption measures, and capacity-building for regulatory agencies can reduce governance gaps and strengthen macroeconomic stability.
2. **Enhance Corporate Governance Standards:** Robust corporate governance has been shown to improve firm-level financial performance. Kenyan firms, particularly in the private sector, should institutionalise best practices such as independent boards, transparent financial reporting, and clear managerial accountability structures. Regulatory bodies like the Capital Markets Authority can support this by enforcing reporting standards, promoting board diversity, and incentivising adherence to corporate governance codes.

3. **Foster Public–Private Sector Collaboration:** Effective interactions between the public and private sectors significantly amplify governance outcomes. The government and business associations should establish structured platforms for collaboration on policy formulation, infrastructure development, and regulatory compliance. Public–private dialogue can reduce policy uncertainty, facilitate investment, and ensure that governance reforms translate into tangible economic benefits.
4. **Address Corruption and State Capture:** Persistent corruption remains a critical barrier to both economic stability and firm performance. Strengthening anti-corruption institutions, enhancing transparency in public procurement, and implementing independent audits can mitigate losses and restore investor confidence. Encouraging civic participation and stakeholder oversight further reinforces accountability in both public and corporate sectors.
5. **Promote Sustainable Economic Reforms:** Secondary data indicate emerging signs of economic resilience in areas where governance reforms are applied. Policymakers should capitalise on these trends by promoting pro-competitive regulatory reforms, improving fiscal discipline, and supporting private sector access to credit. Such measures are likely to generate sustainable GDP growth, expand employment opportunities, and strengthen Kenya’s financial and institutional framework.

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