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The Effect of Board Tenure and CEO Duality on Firm Performance of Companies Listed in Nairobi's Stock Exchange

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Abstract

Purpose: This study sought to investigate the effects of board tenure and CEO duality on firm performance among companies listed in Nairobi Stock Exchange from a time period of year 2014 to 2023.

Methodology: The study was based on the Agency Theory of Jensen &Mackling (1976) emphasizing on managerial behavior in an organization. The study adopted a causal study design which was appropriate. The target population comprised of 65 listed firms in Nairobi Stock Exchange and a sample size of 41 firms, excluding financial and insurance firms as they are being regulated. Secondary data was collected from the audited annual financial reports and was analyzed by using both descriptive and inferential statistics.

Findings: The study revealed that board tenure had significant effect on the performance of firms listed in Nairobi stock exchange. Where the board tenure (β 0.016), (P=0.000 had positive and significant relationship on firm performance. The study also revealed that CEO duality had a positive non-significant relation with firm performance (β 0.056), (P=0.25).

Unique Contribution to Theory, Practice and Policy: The study recommended improvement of those corporate governance features which have positive impact on firm performance such as CEO Duality.

Keywords: *Agency Theory, CEO Duality, Firm Performance, Nairobi Securities Exchange*

JEL Codes: *D23, G34, L25, G15*

INTRODUCTION

Corporate governance is a pivotal determinant of firm performance in emerging and transitional economies, shaping accountability frameworks and strategic oversight structures (Solomon, 2020). In Kenya, persistent governance weaknesses (particularly those related to power concentration and leadership entrenchment) and opaque practices have eroded investor confidence, exemplified by the collapse of firms such as Uchumi (Nkaiwuatei, 2022). These weaknesses are directly linked to two critical governance dimensions: CEO duality, which concentrates decision-making authority, and board tenure, which may foster entrenchment and reduce oversight agility. Rebuilding trust in the financial sector demands robust governance reforms, with particular emphasis on board leadership and accountability mechanisms. Among the most contested governance dimensions is CEO duality, where one individual simultaneously holds the roles of CEO and board chair; highlighting the tension between unified leadership under stewardship theory and agency concerns over unchecked executive power (Donaldson & Davis, 2020). Board tenure also emerges as a potentially influential factor, shaping performance through its impact on oversight effectiveness, institutional continuity, and strategic adaptability. As East African economies navigate post-crisis recovery, investigating the implications of CEO duality and board tenure for firm performance on the Nairobi Securities Exchange is both timely and policy-relevant.

Significant strides in corporate governance across Sub-Saharan Africa have been shaped by foundational efforts such as the 1994 King's Council Reports and South Africa's Code of Practice, which advanced corporate management principles across the continent (Corvino et al., 2020). Complementary support from the World Bank and the Commonwealth Secretariat has helped several African nations (Botswana, Senegal, and Zambia) develop essential governance infrastructure through knowledge-sharing and technological assistance (World Bank, 2022). In East Africa, conventions held in Kampala in 1998 and 1999 promoted regional cooperation and encouraged member states to establish strong national governance standards (East African Community, 2020). More recent initiatives, such as the proposed regional apex body under the East African Cooperation, reflect continued efforts to institutionalize governance best practices (Lincoln, 2023). Within this evolving landscape, the roles of board tenure and CEO duality have become increasingly relevant in assessing how governance structures shape firm performance among companies listed on the Nairobi Securities Exchange.

Corporate governance in Kenya has undergone significant evolution, with early efforts such as the adoption of a national code of business management standards in 1999 and ongoing regional collaboration with Tanzania and Uganda to establish a Center of Excellence (Rashed & Shah, 2021). While governance was scarcely acknowledged in the 1990s, Kenya began implementing more structured frameworks by 1998. Institutions like the Capital Markets Authority have since emphasized governance as a mechanism for enhancing accountability, ethical conduct, and stakeholder alignment (Fraedrich & Ferrell, 2020). However, persistent lapses, particularly those involving excessive CEO power and prolonged board tenure, are evident in high-profile collapses such as Nyagah Stockbrokers, Francis Thuo, and Discount Securities, which exposed weaknesses in oversight and eroded investor trust (Oluoch & Odhiambo, 2020). These failures underscore the need to scrutinize internal governance dynamics, especially the concentration of power through CEO duality and the potential stagnation from entrenched board leadership. As commercial banks increasingly acquire brokerage licenses to restore confidence, the effectiveness of governance structures within listed firms on the Nairobi Securities Exchange remains a critical area for empirical investigation.

Problem Statement

Board-level leadership is widely expected to play a pivotal role in enhancing firm performance, particularly through mechanisms such as CEO duality and board tenure, which influence strategic oversight, accountability, and adaptability. However, recent data from the Capital Markets Authority (2021) reveals that several firms listed on the Nairobi Securities Exchange (NSE) have faced severe financial distress due to governance failures. These failures are those involving excessive executive control and prolonged board entrenchment, prompting regulatory interventions including trusteeship and mandatory oversight. For instance, the 2006 receivership of Uchumi was directly attributed to governance misconduct, where the CEO also served as board chair, raising concerns over unchecked decision-making authority. Similarly, Nyagah Stockbrokers' collapse in 2008 was linked to long-serving board members who failed to enforce accountability mechanisms amid financial irregularities. These breakdowns have had far-reaching consequences, undermining investor confidence, exposing shareholders to financial losses, and destabilizing the broader capital market. According to CMA (2021), over 40% of distressed firms exhibited CEO duality, while the average board tenure among underperforming firms exceeded 7 years; suggesting a pattern of leadership concentration and oversight fatigue. While previous studies have examined the general relationship between corporate governance and firm performance in Kenya (Muriithi & Waweru, 2022), limited attention has been paid to the specific influence of CEO duality and board tenure, two governance dimensions that may either reinforce or compromise board effectiveness. This study seeks to fill that gap by empirically investigating how these board characteristics affect the performance of companies listed on the NSE, thereby informing more nuanced governance reforms and strengthening institutional accountability.

Theoretical Framework

This study is anchored in three foundational theories: Agency Theory, Stakeholder Theory, and Stewardship Theory. They provide conceptual lenses for examining how board tenure and CEO duality influence firm performance among companies listed on the Nairobi Securities Exchange.

Agency Theory, as proposed by Jensen and Meckling (1976), explores the principal-agent relationship that arises when shareholders delegate decision-making authority to managers. The theory posits that managers may pursue self-interested goals at the expense of shareholders, especially under conditions of information asymmetry and weak oversight. Conflicts of interest may emerge between shareholders and managers, or between equity holders and debt holders, particularly when executives are incentivized to prioritize short-term gains or risky ventures. In this context, governance mechanisms such as board structure and leadership roles become critical in mitigating opportunistic behavior and aligning managerial actions with shareholder interests (Vitolla et al., 2020; Sumantri & Kusnawan, 2021). CEO duality, in particular, raises concerns about concentrated power and reduced board independence, potentially exacerbating agency risks. Conversely, board tenure may influence oversight quality, either enhancing institutional memory or entrenching managerial alliances that weaken accountability.

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Stakeholder Theory, as later expanded by Jensen (2001), broadens the scope of governance beyond shareholders to include other parties such as employees, regulators, and creditors. While traditional stakeholder theory emphasizes balancing diverse interests, Jensen critiques its lack of a unified objective and proposes the Enlightened Shareholder Value model. This revised framework advocates for maximizing long-term firm value while safeguarding the interests of key stakeholders, offering a practical benchmark for evaluating governance decisions such as allocating resources only to projects that yield proportional future returns. In Kenya's context, stakeholder pressures are shaped by a relatively concentrated ownership structure, limited institutional investor activism, and regulatory gaps that constrain enforcement. Unlike developed markets where stakeholder influence is often institutionalized through formal channels, Kenyan firms face more informal and politically mediated pressures, especially in sectors with state involvement or public scrutiny. These dynamics heighten the relevance of board leadership in balancing competing interests and ensuring ethical conduct. In the context of board tenure and CEO duality, this theory underscores the importance of leadership structures that promote sustainable value creation and ethical stewardship.

Stewardship Theory offers a contrasting view to agency assumptions by positing that managers are intrinsically motivated to act in the best interests of the organization. It emphasizes trust, shared goals, and unified leadership as drivers of performance. CEO duality, from this perspective, is seen not as a threat but as a mechanism for strong, coherent decision-making and strategic clarity. In environments where boards are cohesive and aligned with executive leadership, dual roles may enhance responsiveness and reduce bureaucratic friction. However, the theory also assumes a high level of professionalism and ethical commitment, which may not always hold in contexts with weak regulatory enforcement or limited transparency. Board tenure, under stewardship theory, may contribute positively by reinforcing continuity and deep organizational understanding.

Together, these theories inform the construction of the study's conceptual framework by highlighting the tension between managerial discretion and stakeholder accountability. They guide the empirical investigation into how board tenure and CEO duality shape firm performance, either by reinforcing strategic oversight or by introducing risks of entrenchment and power imbalance. This theoretical foundation supports the study's aim to generate context-specific insights that can inform governance reforms within Kenya's capital markets.

Conceptual Framework

The framework below shows the interrelationship between the independent variables (board tenure and CEO duality) and the dependent variable (firm performance).

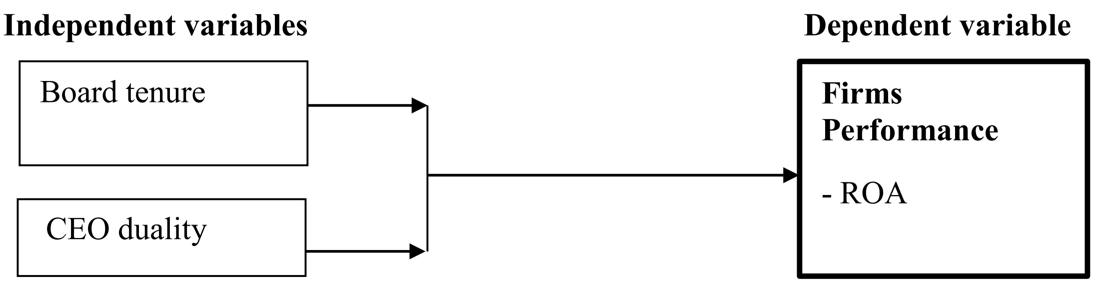

Figure 1: Conceptual Framework

Empirical Review

The Effect of Board Tenure on Firm Performance

According to Adams et al. (2020), longer tenure reflects favorable perceptions of the committee's competency in a dynamic labour environment. This suggests that committee members will be more likely to "go along" with administration on important managerial choices in order to maintain high grade boards. Since contenders who are vehemently opposed are less likely to be renominated, existing directors are more inclined to select CEOs with long tenure (Masulis and Mobbs, 2019). Long-serving CEOs are consequently expected to have more managerial power because of their greater influence over board members and their improved capacity and efficiency.

Research on this topic has revealed a connection between director duration and business value, which is represented in managerial salary, CEO substitution, M&A efficiency, finance statement effectiveness, and business tactics and development. The findings show that whereas establishment effects are dominated by the residual effect of board learning for companies with short-tenured boards, this is not the case for companies with long-tenured boards. Transfer charges may take the shape of agency charges for boards with long tenure. For example, the choice of board tenure may indicate the degree of CEO control over the board nomination process. Moreover, companies utilizing staggered boards are limited in their ability to replace board members annually, which presents agency issues in and of itself (Ferreira and Kirchmaier, 2022). Transaction costs for boards with short tenure may manifest as difficulties finding directors in the labor market.

The empirical examination of research in this field reveals that, in addition to other often studied business and board characteristics, board tenure matters because of its relationship to corporate policies and company worth. The findings point to a time-varying trade-off between entrenchment and knowledge for board effectiveness, which needs to be considered while creating the structure of the board (Ferreira and Kirchmaier, 2022).

The Effect of CEO Duality on Firms Performance

It's been debatable whether the CEO and chairman roles ought to be kept distinct. Many studies have been conducted on the benefits and cons of separating the CEO and chairman roles, for example: The CEO gains more authority when the chairman and CEO roles are combined. A study by Li and Tang (2020) found that CEOs typically become chairman of the board after exceeding peers in the organization. They contend that the position of chairman is an implied vote of confidence from outside directors and is given to a new CEO who has shown exceptional achievement. Johnson et al. (2021) claim that mandating businesses to keep the CEO and chairman roles separate would deprive boards of a crucial instrument for inspiring and rewarding new CEOs. While highlighting the benefits of having two roles for better decision-making and strategy coherence, Smith and Lee (2022) also caution against the dangers of an excessive concentration of power.

But having one person serve as both the chairman and the CEO makes it more difficult for the board to fire a CEO who isn't doing well, which can limit the board's ability to address significant performance drops (Lorsch & MacIver, 2019). According to Fahlenbrach et al. (2020), large industrial companies that have chairmen who are not CEOs have higher price-to-book multiples.

CEO-chairman duality refers to a situation in which a company's CEO also serves as the board of directors' chairman. The CEO-Chairman duality is the subject of two schools of thought. The CEO-chairman duality, according to some researchers, is bad for businesses because the same individual will be marking his "own examination papers." According to Krause et al. (2020) and Zhu et al. (2019), the division of responsibilities will result in the following: (i) prevention of CEO entrenchment; (ii) improvement of board monitoring efficacy; (iii) availability of the board chairman to counsel the CEO; and (iv) establishment of independence between the board of directors and corporate management.

However, other researchers contend that the company will benefit from having a single CEO and chairman in the following ways: (i) strong, clear leadership; (ii) internal efficiencies through unity of command; (iii) no longer have the possibility of a conflict between the CEO and board chair; and (iv) avoid confusion caused by having two public spokespersons speaking to firm stakeholders (Cornelissen, J. P., 2023).In line with these arguments, Kyere and Ausloos (2021) report a positive relationship between financial performance and a dual leadership structure, Smith et al. (2019) find a negative market reaction upon the announcement of role splitting, Brown et al. (2020) find no evidence of significant abnormal returns upon role splitting announcement in the post-Cadbury period, and Taylor et al. (2022) report a lower likelihood of financial distress for companies that combine the roles of chairman and CEO. Upon thorough examination of the empirical data, it becomes clear that there is a conflicting and ambiguous relationship between CEO-chairman duality and corporate performance (Kim, Park, & Choi, 2023).

Research Gap

Board leadership structures, particularly board tenure and CEO duality have attracted growing scholarly attention due to their potential influence on firm performance, strategic oversight, and governance accountability. While global studies have explored the implications of CEO duality and board tenure on managerial power, entrenchment, and decision-making efficiency (Adams et al., 2020; Krause et al., 2020), much of this literature is concentrated in developed economies such as the US and UK. These studies often overlook the contextual realities of emerging markets, where institutional maturity, regulatory enforcement, and board dynamics differ significantly. In Africa, research has begun to examine broader corporate governance frameworks (Amankwah-Amoah & Debrah, 2021), but few studies have isolated the specific roles of board tenure and CEO duality in shaping firm outcomes. Even within Kenya, existing literature tends to focus on general governance mechanisms or ownership structures, with limited empirical evidence on how board-level leadership configurations affect performance among listed firms.

Kenya presents a critical test case for such inquiry due to its hybrid market composition, featuring both state-owned enterprises and privately held firms, alongside rapid capital market expansion and a history of governance volatility. The Nairobi Securities Exchange has witnessed repeated governance lapses, including high-profile collapses and regulatory interventions, which underscore the need to evaluate how internal board dynamics contribute to firm resilience or vulnerability. Moreover, Kenya’s evolving regulatory landscape, led by institutions such as the Capital Markets Authority, offers a unique opportunity to assess the effectiveness of board leadership under transitional governance regimes. Given the unique governance challenges facing companies on the Nairobi Securities Exchange, this study seeks to fill a critical gap by

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investigating how board tenure and CEO duality influence firm performance in the Kenyan context. By doing so, it contributes to a more nuanced understanding of governance effectiveness in emerging capital markets.

METHODOLOGY

This study adopted causal study design. A panel data analysis was performed to forecast the causal link between the independent and dependent variables. The study's population consisted of a census of all companies registered on the Nairobi Stock Exchange. The sample that was employed was gathered during a ten-year period, from 2014 to 2023, from the listed firms. The Nairobi Stock Exchange guidebook (2014) states that there are 65 listed companies on the Nairobi Stock Exchange; nevertheless, the study used a sample of 41 companies for its assessment. This is due to the fact that the Banking Act and Insurance Act were used to facilitate repatriation, leaving out financial and insurance companies. The study used secondary data that was gathered from Nairobi Stock Exchange fact books, listed firms' annual reports, and audited financial statements. A quantitative data analysis approach was applied in the study. The following basic model illustrates the relationship between board tenure and CEO duality and the performance of the company.

$Y = \beta_0 + \beta_1 X_i + \beta_2 X_i + \varepsilon_i$………………………………………………………… (i)

RESULTS

Descriptive Statistics

Table 1: Board Tenure and CEO Duality

Descriptive Statistics	Mean	Std. Deviation
Board Tenure	5.69	1.92
CEO Duality	0.09	0.28
ROA	0.09	0.15

The majority of the organizations had several leadership positions and dual board participation, as indicated by the mean values for board tenure and CEO duality which are 5.69 and 0.09, respectively as shown in Table 1 above. The companies' average return on assets (ROA) was 0.09, indicating that the majority of them were operating profitably.

Trends Analysis

The investigation examined the operational performance trend of the NSE-listed companies. From 2014 to 2023, the patterns of board tenure and CEO duality were examined.

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Trends in Board Tenure from 2014 to 2023

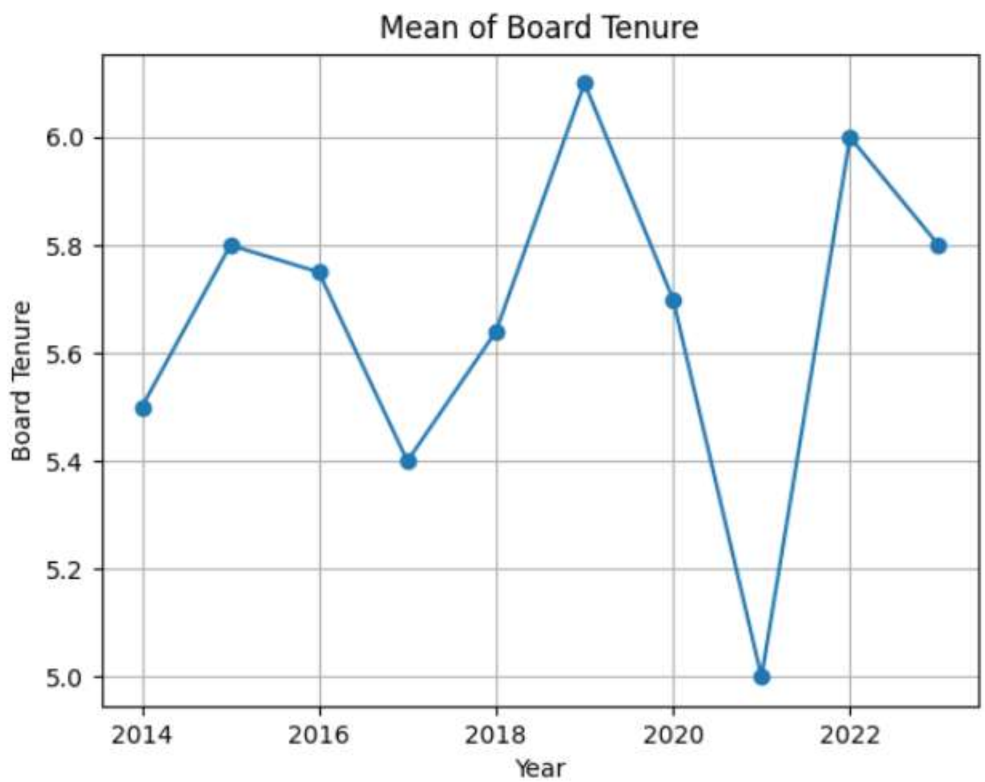

Figure 2: Average Trends for Board Tenure from 2014 to 2023

The board tenure trend analysis for the chosen firms showed that in 2021, board tenure was low. This might be because of the new Kenyan government that took office. 2019 was the top of the trend, which may have been caused by directors acquiring new contracts or renewing their tenure agreements. On the other hand, board tenure has generally been increasing.

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Trends in CEO Duality from 2014 to 2023

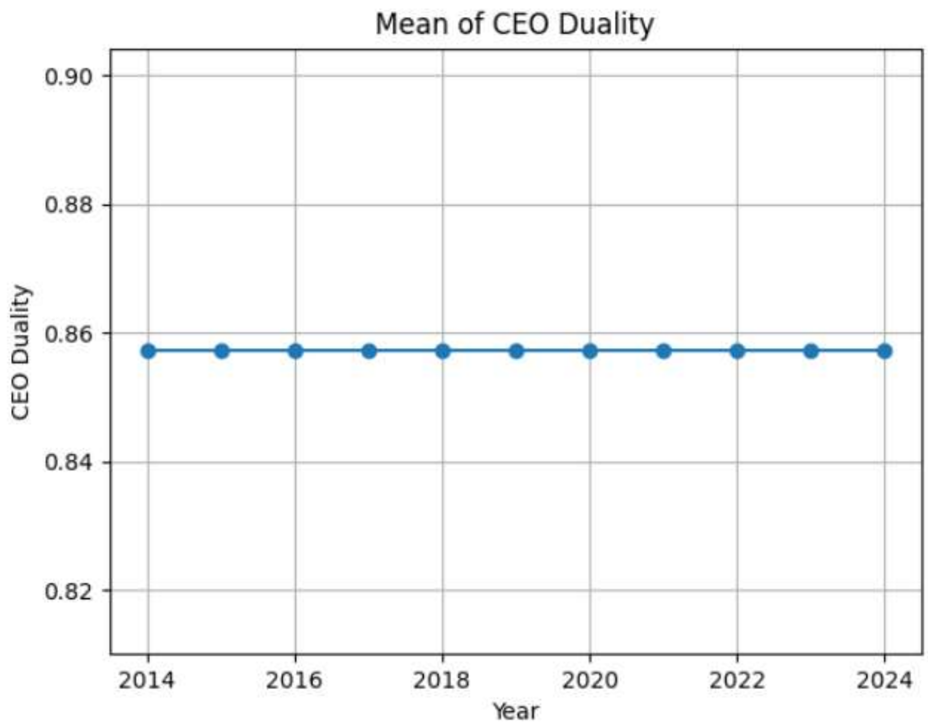

Figure 3: Average Trends for CEO Duality from 2014 to 2023

The examination of trends CEO duality showed that throughout the course of ten years (2014–2023), the CEO dualism for the chosen organizations remained consistent. This indicates that the number of people with dual management in the businesses included was minimal and consistent.

Trends in Return on Assets (ROA) from 2014 to 2023

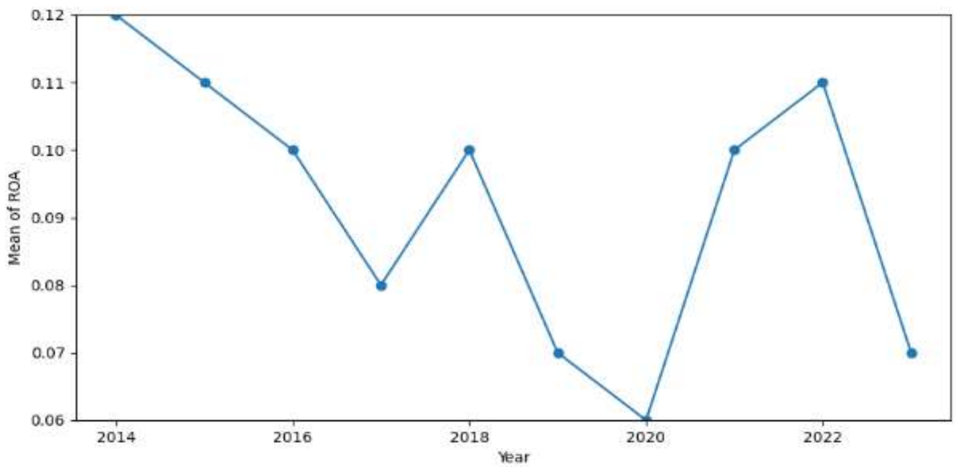

Figure 4: Average Trends for Return on Assets from 2014 to 2023

The trend study of ROA showed that, for the chosen companies, ROA peaked in 2014 and fell in 2020. There has been a downward tendency in the ROA overall. The last ten years' worth of financial and economic difficulties may be to blame for this.

Inferential Data Analysis

In order to determine the relationship between board tenure and CEO duality and company performance, this research performed a correlation analysis.

Correlation

The research assessed the level of correlation between the company's success and the oversight factors in this section.

Table 2: Correlation Analysis

Correlations		Board Tenure	CEO Duality	ROA
	Sig. (2-tailed)			
Board Tenure	Pearson Correlation	1.000		
	Sig. (2-tailed)			
CEO Duality	Pearson Correlation	0.055	1.000	
	Sig. (2-tailed)	0.308		
	Sig. (2-tailed)	0.000	0.453	
ROA	Pearson Correlation	.366**	.133*	1.000
	Sig. (2-tailed)	0.000	0.013	

The findings presented in Table 2. showed a statistically significant positive correlation (p value of 0.000) and beta coefficient of 0.366 between board tenure and firm performance (ROA). The findings also demonstrated a positive correlation between CEO Duality and ROA, which is backed by a strong beta coefficient of 0.133 and p value of 0.013.

Test for Multicollinearity

Table 3 shows the results of the Multicollinearity test among the explanatory variables.

Table 3: Multi Collinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
	(Constant)		
1	Board Tenure	.833	1.200
	CEO Duality	.984	1.017

Generally speaking, hazardous multicollinearity is present when the tolerance level is larger than 1 and the VIF is greater than 10 (Gujarati, 2003). Overall, it can be said that there are no instances of deadly multicollinearity based on the size of the correlation coefficient, taking into account the VIF and tolerance, which are all less than 10 as indicated in Table 3 above.

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Regression Analysis

The p-value of 0.000 from Table 4 below suggests that board tenure and CEO duality have an impact on firm performance. This occurs as a result of the p-value being below the test significance value of 0.01.

Table 4: ANOVA of Regression Model for ROA

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	2.609	2	.522	31.611	.000[b]
1	Residual	5.678	347	.017		
	Total	**8.286**	**349**			

a. Dependent Variable: ROA
b. Predictors: (Constant), Board Tenure, CEO Duality

Table 5: Summary of the Regression Model for ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.561[a]	.315	.305	.1284699

a. Predictors: (Constant), Board Tenure, CEO Duality

The R value was 0.561 based on the regression results presented above. The R squared, or coefficient of determination, was 0.315. This indicates that 31.5% of the return on assets of the NSE-listed companies may be explained by Board Tenure and CEO Duality. Other determinants can account for the remaining 68.50%. At the 5% level of significance, the F value of 31.611 is significant at a significance value of 0.000, which is less than 0.05.

Table 6: Coefficients of Regression Model for ROA

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	-.155	.027		-5.807	.000		
1	Board Tenure	.016	.004	.201	4.103	.000	.833	1.200
	CEO Duality	.056	.025	.102	2.258	.025	.984	1.017

a. Dependent Variable: ROA

Y=**-0.155+0.016** Board Tenure + **0.056** CEO Duality

Table 3.6 indicates that the performance of firms listed on the Nairobi Securities Exchange (NSE) in Kenya is positively associated with both board tenure and CEO duality. Specifically, a one-unit increase in board tenure corresponds to a 0.016 increase in firm performance. Although CEO duality also shows a positive coefficient ($\beta = 0.056$), the relationship is statistically non-significant ($p = 0.25$), indicating that the concurrent holding of CEO and board chair roles does not exert a meaningful impact on firm performance within the sampled firms.

Hypothesis Testing

An overview of the hypothesis test results is shown in Table 7 below.

Table 7: Summary of Hypothesis Test

Hypothesis	Corporate Governance Proxy	ROA		Conclusion
		Coefficient (β)	Sig.	
$H0_1$	Board Tenure (BT)	0.016	.000	Reject
$H0_2$	CEO Duality (CEOD)	0.056	.025	Accept

$H0_1$: There is no significant effect of board tenure on firms' performance.

A regression coefficient of β = 0.016 and a p-value of 0.000 were obtained for board tenure. This indicates a positive and statistically significant relationship between board tenure and firm performance (measured by ROA). Accordingly, the null hypothesis (H_{01}) is rejected, suggesting that board tenure has a significant effect on firm performance.

$H0_2$: There is no significant effect of CEO Duality on firms' performance.

CEO duality yielded a regression coefficient of β = 0.056 and a p-value of 0.025. While the coefficient is positive, the p-value exceeds the conventional 0.05 threshold for statistical significance. Therefore, the relationship is statistically non-significant, and the null hypothesis **is** accepted. This implies that CEO duality does not have a statistically significant effect on firm performance

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings, the study concludes that board tenure is positively and significantly associated with firm performance among companies listed on the Nairobi Securities Exchange (NSE). This supports the view that independent boards contribute to more effective oversight and improved organizational outcomes. However, the relationship between CEO Duality and firm performance was negative but statistically non-significant, suggesting that CEO Duality alone may not be a reliable predictor of business success in this context.

Recommendations

First, it is imperative for firms to strengthen governance attributes that demonstrably enhance performance, particularly board independence and the strategic separation of the CEO and board chair roles. While CEO duality may offer certain coordination benefits, its potential to dilute board oversight and accountability necessitates careful scrutiny. Organizations should critically evaluate whether such leadership configurations align with their strategic goals and risk tolerance, especially in contexts where performance outcomes are suboptimal. Moreover, board tenure policies should be reviewed to ensure that long-serving directors do not compromise the board's objectivity, adaptability, or responsiveness to emerging challenges.

Future research should extend the temporal scope to assess the long-term implications of board tenure and CEO duality, while also exploring sector-specific dynamics. In particular, comparative studies focusing on microfinance institutions (MFIs), state-owned enterprises, and other strategic sectors would provide valuable insights into the contextual variability of governance effects and inform more nuanced policy interventions.

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