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Effect of Managerial Ability on Financial Performance of Firms Listed at Nairobi Securities Exchange, Kenya

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Abstract

The performance of firms in Kenya has been underwhelming in recent years due to intense competition, global economic instability, the impact of a strong U.S. dollar, and the lingering effects of the COVID-19 pandemic. Therefore, the study sought to establish the effect of managerial ability on financial performance of firms listed at Nairobi securities exchange. The study was guided by agency theory. The study adopted an explanatory research design and a panel approach to arrive at the study's conclusions. The total study target population comprised 67 firms listed at the NSE for thirteen consecutive years between the periods of 2011 and 2023. The study's inclusion-exclusion criteria excluded firms with missing annual financial reports and those firms listed later than the year 2011. As a result, the study surveyed 40 firms for 13 years. Therefore, 520 firm-year observations for the firms listed at the NSE. The study utilized secondary data which was analyzed using both descriptive and inferential statistics. The findings revealed a positive and significant relationship between managerial ability and financial performance. The study also found that firm size has a positive and significant effect on financial performance, while firm age had a negative and significant effect. The study concluded that when firms' total assets increase, firms tend to experience better financial outcomes. Firm age reduces financial performance significantly, implying that mature firms, those that have been in existence for a longer period, tend to perform poorly financially compared to younger firms. Finally, Managers with high abilities are more capable of making strategic decisions, efficiently allocating resources, and responding to market changes, all of which enhance the firm's profitability and overall financial health.

Keywords: Financial performance, managerial ability, firms, Nairobi Securities Exchange, Kenya

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Introduction

Financial performance reflects how effectively a company utilizes its assets in its core operations to generate revenue. It provides a comprehensive assessment of a firm's financial health across various elements such as assets, liabilities, equity, income, expenses, and overall profitability. Numerous financial metrics and formulas are used to assess a company's operational efficiency and potential (De et al., 2024). Most stakeholders typically expect returns in the form of dividends, rising share prices, market expansion, or increased profits at the close of a quarter or fiscal year. However, such outcomes are not always guaranteed, as companies may sometimes fall short of performance expectations. Financial performance involves evaluating the monetary outcomes of a firm's strategies and operations. As noted by Serbinenko and Ludviga (2025), performance encompasses current actions that shape the value created in the future. Within the field of global strategic management research, financial performance remains a critical concept and is often employed as a dependent variable (Praveenkumar & Vinayagamoorthi, 2017). In recent years, the financial performance of firms globally has faced significant challenges due to intense competition, global economic instability, and the lasting effects of the COVID-19 pandemic. As a result, while some companies listed on the Nairobi Securities Exchange (NSE) have shown improved performance, others have seen a decline in their fortunes, with a few even opting to delist from the exchange over the past decade. Although financial performance is widely utilized in research and practice, there is still no consensus on its definition, dimensions, or measurement methods, which has hindered progress in financial studies (Alkis et al., 2017). It can be assessed through a range of indicators, commonly referred to as key performance indicators. These include measures such as growth, profitability, market value, customer and employee satisfaction, environmental performance, results from ecological audits, corporate governance quality, and social responsibility performance, as outlined by Selvam et al. (2016).

A study conducted in India by Galant and Cadez (2017) highlighted that financial performance serves as a tool for monitoring an organization's progress toward its strategic goals and for reevaluating those goals when necessary. Their findings indicated that financial

outcomes are often used to benchmark performance against similar firms within the same industry or across broader industry sectors. According to El-Chaarani (2016), financial results are a key determinant in shaping perceptions of value and overall well-being. Firm performance is a multifaceted topic that has been widely examined both domestically and internationally. Hussinki (2022) investigated how business analytics influence firm performance, concluding that strong analytics capabilities, when aligned with business strategy, have a direct impact on financial success and a company's competitive edge (Ansari et al., 2022). Scholars have also classified performance drivers based on their impact on managerial decision-making. Hussinki (2022) emphasized the role of dynamic capabilities in firm performance. They found that managerial decision-making significantly benefits from integrating business analytics capabilities with complementary resources, enabling more informed and adaptive strategies in turbulent environments. A study connecting Porter's generic strategies to firm performance observed that managerial decisions around adopting differentiation or cost-leadership strategies significantly influence performance outcomes. This highlights how strategic choices impact competitive advantage and profitability.

From both theoretical and practical perspectives, managerial capabilities are widely regarded as one of the most critical human resources influencing firm performance. In the context of emerging markets, where firms often face limited access to essential resources such as financial capital, advanced technology, physical infrastructure, and a well-educated workforce, the value of skilled management becomes even more pronounced. By strategically deploying talented and capable managers, organizations can significantly boost their productivity, adapt to competitive pressures, and achieve sustainable competitive advantages.

Effective managers play a crucial role in ensuring the optimal use of a firm's limited resources, especially in complex and challenging business environments, by leveraging their academic background and professional expertise (Linkletter, 2024). In addition to knowledge, they apply their practical experience and refined skill sets to drive sustainable organizational growth and long-term success. A manager's personality traits and competencies are central to how efficiently resources are utilized within a firm. For instance, qualities such as emotional intelligence enable managers to recognize, understand, and regulate their emotions and those of others. This emotional awareness plays a key role in making sound decisions, resolving conflicts, and effectively managing interpersonal relationships in the workplace. Additionally, managers who possess industry-specific knowledge and technological insight are better positioned to accurately forecast demand trends, choose high-value projects, and manage organizational resources with precision. These competencies help ensure that the firm not only survives but thrives in competitive markets. Given these insights, the relationship between managerial ability and economic outcomes is of critical importance for scholars and practitioners in the fields of economics, business strategy, and management sciences. While an extensive body of literature exists on how managerial ability influences firm operations and market performance, especially in developed economies, there remains a notable gap in research focused on emerging markets. Therefore, this study sought to determine the effect of managerial ability on the financial

performance of firms listed at the Nairobi securities exchange.

Theoretical Review

The paper reviewed relevant theories in relation to Managerial Ability and Financial Performance. The theories grounded the concepts and the nexus existing between the study's dependent and independent variable: Agency theory, being the main theory underpinning the study, assisted by Upper Echelon theory. Agency theory, first proposed by Michael Jensen and Meckling and Jensen (1976), forms the primary theoretical foundation of this study, offering insight into the dynamics among all key variables. In their influential work "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," they explored the inherent conflict that can arise when the interests of principals (shareholders) diverge from those of agents (managers). Since managers are responsible for operating the firm while shareholders bear most of the financial consequences, shareholders need to implement oversight mechanisms to reduce agency costs. The theory highlights how this fundamental misalignment in goals can lead to inefficiencies if managers prioritize personal interests over shareholder value. Shareholders entrust managers with overseeing the firm's limited resources. However, when managerial goals deviate from shareholder expectations, disputes can emerge. For instance, Mitnick (2019) noted that managers might focus on expanding the company to secure greater personal perks and benefits. As the leaders of these temporary or project-based organizations, managers may place more emphasis on team motivation and strategic goal-setting than on task execution. Meanwhile, as agents of the owners, they are subject to oversight to ensure alignment with shareholders' interests.

These oversight and expansion efforts generate agency costs, which can elevate the overall cost of doing business. According to Calabrò et al. (2019), such dynamics also help explain why project managers often seek professional validation. In pursuit of growth, managers may increase capital expenditures on fixed assets, which can divert short-term profits from shareholders. This expansion strategy entails financial costs that shareholders may resist, as they are expected to absorb these expenses. Panda and Leepsa (2017) explained that managers can choose to finance expansion through equity, debt, or retained earnings. However, debt entails fixed repayment obligations, prompting some managers to limit long-term investments in favor of less risky, short-term ventures. While this conservative approach can help reduce agency conflict, since it aligns managerial caution with shareholder concerns, it also restricts a firm's growth potential (Kahan & Rock, 2017).

On the other hand, Opler et al. (1999) emphasized that limited access to investment capital poses significant challenges, potentially leading managers to prioritize dividend payments over reinvestment, in an attempt to mitigate shareholder dissatisfaction (Foroughi & Fooladi, 2011). According to UNCTAD (2018), the balance of power between shareholders and managers plays a crucial role in shaping investment diversification. Dittmar et al. (2003) observed that in countries where shareholder rights are strongly protected, managers tend to limit expansion to avoid job insecurity. Conversely, when managerial responsibility indices are high, managers may pursue aggressive growth strategies, even if such actions reduce short-term shareholder returns. In this context, shareholder activism (especially from insiders) becomes a key governance tool. Agency theory, therefore, underpins the

link between managerial ability and financial performance, the latter being the study's dependent variable. As financial performance is central to all stakeholders, particularly shareholders, who are keen to see returns on their delegated capital, they are motivated to monitor managerial actions closely (Panda & Leepsa, 2017). Yet managers may focus on maximizing personal rewards or enhancing their professional stature, creating a classic agency conflict.

Empirical Review

Managerial Ability and Financial Performance

Managerial ability plays a crucial role in guiding a firm toward success, often reflected in indicators such as productivity, strategic investment decisions, compensation structures, and overall financial outcomes. A wealth of literature confirms that specific managerial traits such as competence, experience, and talent significantly influence firm performance across key domains like finance, accounting, and operational management (Demerjian et al., 2012).

According to Bhutta and Mahmood (2024), managers who possess superior abilities tend to take the initiative and implement innovative strategies that maximize the utilization of firm resources, thereby ensuring long-term financial stability. Their findings also emphasize that competencies and personality traits are critical in achieving optimal resource deployment. High-ability managers demonstrate a greater willingness to engage in calculated risk-taking, an attribute positively associated with enhanced firm performance (Yung & Chen, 2018). In the same vein, Pham et al. (2020) found that capable managers, with a strong grasp of the environment, are better positioned to make sound investment choices, ultimately leading to superior firm performance.

Transforming firm resources into performance outcomes is often facilitated by the strategic skills and work experience of the management team. In particular, budgeting and capital expenditure optimization benefit from the expertise of high-ability managers (Demerjian et al., 2013). These managers are more likely to achieve higher returns on investment due to their superior understanding of business operations (Luo et al., 2017). Managerial ability also encompasses the enhancement and creation of operational capabilities within a firm. These capabilities are not static but are instead rooted in a firm's evolutionary processes and learning mechanisms (Correa et al., 2019). Managers with elevated skill sets are also capable of building reputational capital (Palvia et al., 2015), earning stakeholder trust (Fernando et al., 2020), and conveying positive signals about firm quality to potential investors (Andreou et al., 2017). These factors contribute to improved firm performance and reduced information asymmetry (Ting et al., 2021).

High-ability managers typically foster innovation and elevate productivity levels, whereas those with lesser abilities are more likely to make suboptimal or inefficient decisions. Moreover, effective managers engage in environmental scanning to recognize potential threats, identify emerging opportunities, and understand competitive advantages (Bellner, 2014). CEOs with substantial managerial capacity tend to facilitate greater investment, positioning their firms to withstand financial constraints even during periods of economic crisis (Andreou et al., 2013). Managerial ability is also linked to the establishment of effective internal monitoring systems that contribute to enhanced earnings quality and firm performance (Ng'ora et al., 2022). Mishra and Maheshwari (2025) highlighted

that managers with stronger strategic acumen are more opportunity-focused, which aligns with findings by Chen et al. (2015) on improved firm innovation.

Furthermore, high managerial ability supports fundraising efforts, aiding firms in boosting financial performance (Andreou et al., 2013). Competent managers lead firms that are capable of maintaining consistent cash flow and financial stability, which enhances investor confidence. Setiawan (2021) concluded that firms with effective managerial teams are better equipped to make informed decisions that lead to efficient operational and financial performance, as observed in company reports.

Turning to investment diversification, Kahloul and Hallara (2010) explored the link between risk diversification and firm performance by examining 69 large French firms between 1995 and 2005. Employing both univariate and multivariate analytical techniques on cross-sectional and panel data, the researchers found no significant linear relationship between total risk and diversification. However, the study underscored the mediating role of ownership structure in shaping the connection between diversification and both risk and performance, suggesting that ownership dynamics are vital in understanding this relationship.

In another study, Turkmen and Yigit (2012) examined the impact of diversification on the financial performance of commercial banks in Turkey. They analyzed 40 banks and used the Herfindahl Index (HI) to assess geographic and credit portfolio diversification. The findings revealed that spreading risk across different sectors and regions helps offset losses in one area with gains in another, thus stabilizing bank performance. Kamwaro (2013) investigated how portfolio choice influences the profitability of investment companies listed on the Nairobi Securities Exchange (NSE). Employing a descriptive research design and utilizing secondary data from five investment firms over three years (2012–2014), the study applied multiple linear regression using Ordinary Least Squares (OLS) estimation. The results indicated that portfolio composition plays a significant role in determining the financial outcomes of these companies. Mossisa and Rao (n.d.) studied the impact of industrial diversification on the financial performance of 12 Ethiopian banks over six years (2008/09–2013/14). Using a fixed effects regression model, they found that industrial diversification had a negative and significant effect on both Return on Assets (ROA) and Return on Equity (ROE). The authors highlighted the need for further investigation, especially considering Ethiopia's unique economic and regulatory environment.

In Kenya, Hailu and Tassew (2018) assessed the effect of investment diversification on the financial performance of commercial banks. Utilizing an exploratory research design, they collected both primary and secondary data from 40 banks. Their analysis, involving explanatory and inferential statistics, concluded that insurance-related investment activities had a notable impact on financial performance across the sector. Similarly, Mutega (2016) studied 43 Kenyan commercial banks over five years (2011–2015) to examine how asset diversification influences financial performance. By using a descriptive research design and analyzing secondary data on financial assets, loans, cash, and investments, the study determined that all independent variables had a positive and statistically significant effect on performance. The findings support the idea that diversification strategies, particularly when well-managed, can enhance financial returns.

In summary, a wealth of empirical evidence supports the view that both managerial

ability and investment diversification are critical drivers of financial performance. While capable managers are more likely to make strategic, risk-informed decisions that enhance firm profitability and stability, the effectiveness of diversification strategies appears to be context-dependent, with results varying across industries, countries, and firm structures. Therefore, future research must continue to explore these relationships, especially in emerging markets, to derive more context-specific insights and managerial implications

Conceptual Framework

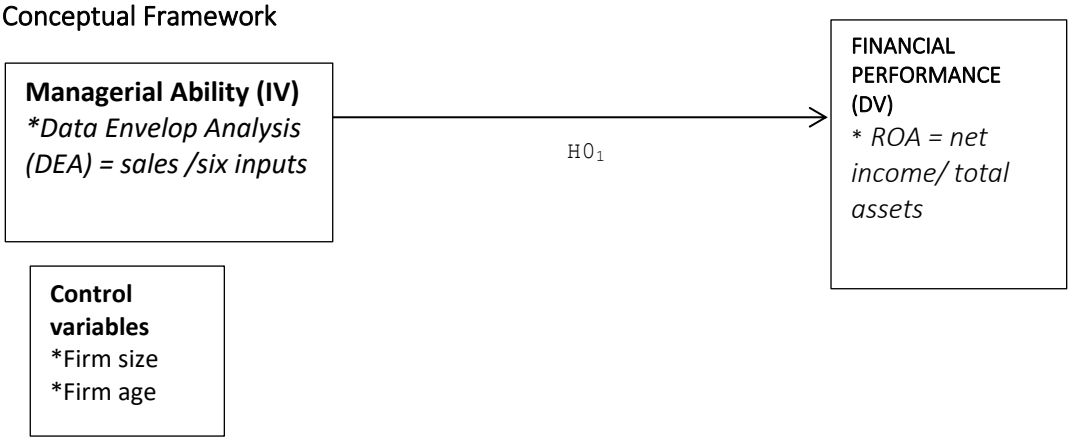

Figure 1: Conceptual framework for the study

Methodology

The study adopted an explanatory research design and a panel approach to arrive at the study's conclusions. This is because the study sought to explain the cause-and-effect relationship between the research variables. The total study target population comprised 67 firms listed at the NSE for thirteen consecutive years between the periods of 2011 and 2023, which is sufficiently long to examine maturity in capital markets. The study's inclusion-exclusion criteria focused on firms that were in operation within the 2011-2023 period. The study excluded firms with missing annual financial reports and those firms listed later than the year 2011. As a result, the study surveyed 40 firms for 13 years. Therefore, 520 firm-year observations for the firms listed at the NSE. The study utilized secondary data obtained from the annual audited financial reports of firms listed on the NSE. Detailed information regarding managerial ability, financial performance, firm age, and firm size were collected from the published company reports, planning documents, and audit financial statements of the firms listed on the Nairobi Stock Exchange. Finally, data was analyzed using both descriptive and inferential statistics.

Measurement of Variables

Return on Assets (ROA) was used to measure financial performance. Tandelilin (2010) illustrates the extent to which the assets owned by a company can generate profits. The study measured ROA by comparing net income with total assets (Edwin et al., 2017). ROA is a ratio that shows the results of the total assets used in the company (Suardana et al., 2018). Company performance is the result of implementing company policies, such as ROA, used by investors and prospective investors as a basis for their decision to invest. According to Salim and Winanto (2020), companies with a high return on assets (ROA) attract investors to invest

their capital in the company because the company is considered to be more efficient in generating profits by utilizing all assets owned by the company (Mulyana & Susilawati, 2021). Financial performance is a key agenda of shareholder wealth maximization. In this study, the ROA is calculated by Net income divided by total assets, showing how effectively the company uses its assets to generate profits. Managerial ability was measured using the Demerjian et al. (2013) model which is regarded as the most reliable tool to measure the firm's managerial ability. This is a more comprehensive and simpler model that uses the firm's financial statement information. In addition, this model makes it possible to compare the managerial ability across the competitors. Firm size by using the natural logarithm of total assets and Firm age by the year of observation minus the establishment date of the company.

The Table 1 presents the descriptive and correlation results for the financial performance firm size, firm age and managerial ability. The results show that the mean for financial performance of firms is 27%, indicating a wide variation in the financial performance of firms listed on the Nairobi Securities Exchange; hence, on average, firms are achieving moderate financial success. However, the standard deviation of 31% indicates a substantial spread in performance levels, with some firms outperforming others by a significant margin while others underperform. The same findings were also evident in Kiragu (2024), who analyzed the performance of firms listed on the NSE, identifying a similar pattern where firms with well-structured corporate governance practices performed significantly better than those with poor governance, echoing the wide variance in financial results. Oluoch and Ojah (2024) concluded that firms exposed to negative economic shocks tend to underperform, with some even reporting losses, while those better positioned in their industries or with strong risk management capabilities could achieve significantly higher financial performance. These studies confirm that firms listed on the NSE experience varied financial outcomes, with both positive and negative extremes due to multiple internal and external factors.

The results also, reveal that the Firm size mean was 7.29, representing the average value of Firm Size across all observations in the dataset. It indicates that the typical firm size, based on the measurement scale used for log-transformed total assets, is 7.29 with a dispersion of 0.88 standard deviations. The data were normally distributed (Skew = -0.06); hence, a Low standard deviation suggests consistency across firms in size. A standard deviation of 0.88 suggests that most firm size values are relatively close to the mean, with a typical deviation of 0.88 units above or below it. The minimum firm size was 4.89, and the maximum was 9.34, indicating a great disparity in firm sizes listed at the NSE. The firms operating at the NSE proved heterogeneous in terms of size and were highly dispersed from the mean, hence suggesting the need to control for the variable in the study. Consistently, Reyna (2018) realized the same disparity in firm sizes for a study conducted within firms listed on the Mexican stock exchange. Ahmed and Ahmed examined the impact of corporate governance on firm performance in emerging markets, which is in a similar spec to this study. They found that larger firms benefit from better managerial ability due to more resources, stronger management teams, and more rigorous regulatory scrutiny. As a result, controlling for firm size helped clarify the relationship between governance practices and firm performance. Queiri et al. (2021) found that firm size plays a crucial role in moderating the relationship between governance and performance, with larger firms seeing more significant benefits due

to stricter regulatory oversight and better access to resources. This, therefore, justifies the need for controlling firm size measured by a log of the total assets in the study.

Further, the results indicates that the average log of the age of firms listed on the Nairobi Securities Exchange was 1.78 years, with a standard deviation of 0.21 years. This observation suggests that NSE-listed companies are quite old, with the youngest having 1.15 years and the oldest with 2.19 years of the log-transformed age. This also indicates a greater dispersion and the same findings were evident in Wang and Chen (2021) in their study on the impact of firm age on financial performance and innovation in emerging markets. The study uses the number of years a company has been incorporated to analyze how firm maturity influences its ability to innovate and compete in dynamic environments.

The mean of managerial ability was 96%, indicating that managers with better ability take initiatives and innovative actions to utilize firm resources for long-run financial sustainability for firms listed on the Nairobi Securities Exchange. The value of the middlemost observation is 96%, the standard deviation, which is the distance between the values of the data in the set and the mean, stands at 20%. This means that there are firms that have different levels of managerial work experience and levels of strategic skills that managerial teams possess, especially when it comes to budgeting and optimization of capital expenditures and vice versa. The statement highlights that managerial ability is crucial for the long-term financial sustainability of firms listed on the Nairobi Securities Exchange. This implies that, on average, firms benefit from high levels of managerial skills, where managers are proactive and innovative in utilizing resources effectively for sustained financial performance. This variation in managerial ability can significantly affect a firm's performance. Managers with higher ability are more likely to implement strategic initiatives, innovate, and adapt to market conditions, which enhances resource utilization and drives financial success over the long term. On the other hand, firms with lower managerial ability may struggle to maintain a competitive advantage or adapt to changes in the business environment. This is consistent with the findings of Mwangi (2022), they found that firms with higher managerial competence tend to outperform their peers, emphasizing that effective management is key to leveraging firm resources for growth and long-term sustainability.

Table 1 also presented the correlation results indicating that the Pearson correlation show that firm size showed a positive and significant ($r=0.6457$, $p<0.01$) association with financial performance. It follows, therefore, that an increase in firm size also increases financial performance in a firm listed at the NSE. The interpretation means that large firms are more likely to improve financial performance as compared to small firms. The same findings were also evident in the previous studies of Elouaourti and Ezzahid (2022), who found that larger firms tend to experience higher financial performance than smaller ones. This is attributed to their access to better financing options and their ability to exert more influence in their operating environment. Conversely, medium-sized firms face more barriers to performance compared to both small and large firms due to their limited flexibility and political advantage. The output indicated that firm age is positively and significantly ($r = 0.3808$, $p < 0.01$) correlated with financial performance. This is an indication that as the age of a firm increases, the likelihood of financial performance also increases. Thus, from the findings, it is evident that older firms tend to perform better in their

financial performance than younger firms, which are still growing; hence it motivates performance, whereas large firms are deemed to have more pressure to perform well at the declining stage, therefore, compelling management to engage in financial performance. The same findings were evident in Arthurs et al. (2008), who studied the impact of firm age and life cycle stages on performance and concluded that older firms tend to perform better financially due to their more efficient use of resources, established reputation, and ability to leverage past experiences for future growth.

Managerial ability (MA) had a positive and significant ($r = 0.6508$, $p < 0.01$) association with financial performance. This means that an increase in good Managerial ability in the firm significantly increases discretionary financial performance. This output concurs with that realized in the previous studies of Cheng et al. (2020), which found that firms with high managerial ability tend to perform better, particularly during crises like the COVID-19 pandemic. High-ability managers can make more strategic decisions that enhance firm performance, even under economic strain.

Table 1: Descriptive statistics and correlation matrix

Variable	Mean	SD	FP	Fsize	Fage	MA
FP	0.27	0.31	1			
Fsize	7.29	0.88	0.6457	1		
Fage	1.78	0.21	0.3808	0.1813	1	
MA	0.96	0.20	0.6508	0.8503	0.1508	1

FP: Firm performance, Fsize: firm size, Fage: Firm age, MA: managerial ability, and SD: standard deviation.

The Table 2 presents the regression results of the effect of firm size, firm age, and managerial ability on financial performance. The results showed that firm size had a positive and significant effect ($b=0.0267$, $p=0.000$) on financial performance. Meaning that a unit change in firm size increases financial performance by 0.0267. Firm age had a negative and significant effect ($b=-0.0530$, $p=0.034$) on financial performance, indicating that a unit change in firm age leads to a decrease in firm financial performance by 0.0530. Managerial Ability showed a positive and significant effect ($\beta=0.0761$, $p=0.002$) on Financial Performance. The p-value was less than 0.05, indicating that Managerial Ability significantly affects Financial Performance. Additionally, the t-value (3.0812) given the intervals falls within the rejection region, also justifying the significant effect of Managerial Ability on Financial Performance. Moreover, the positive coefficient indicates that a unit increase in Managerial Ability increases Financial Performance by 3.0812 units. Zhang and Li (2022) found that strong managerial skills are critical to enhancing firm performance in a competitive, digitally transformed economy. The null hypothesis that managerial ability has no significant effect on financial performance of firms listed at NSE was rejected because the p-value was less than 0.05, concluding that managerial ability has a significant effect on financial performance. The positive coefficient indicates that a high managerial ability is associated with improved decision-making. Efficient resource allocation and enhanced firm performance. For instance, recent research highlights that managerial ability influences firm outcomes through capital structure, risk-taking, and operational

efficiency. Managers with better abilities tend to make decisions that optimize financial performance by enhancing cash flow management and reducing operational costs. The results concur with the findings in previous studies by Zhang and Li (2022), who found that strong managerial skills are critical to enhancing firm performance in a competitive, digitally transformed economy.

Table 2: Direct effects on financial performance

Coefficients:	Estimate	Std. error	t-value	p-value
Fsize	0.0267	0.0068	3.9054	0.000
Fage	-0.0530	0.0250	-2.1254	0.034
MA	0.0761	0.0247	3.0812	0.002

Fsize: Firm size, Fage: firm age, and MA: managerial ability

Conclusions and Recommedations

The study sought to investigate the effects of managerial ability on financial performance. The study analysis found that an increase in firm size significantly increases financial performance. This means that when firms' total assets increase, firms listed at the Nairobi Securities Exchange tend to experience better financial outcomes; therefore, larger firms benefit from economies of scale, which allow them to reduce costs per unit of output as they grow. They also typically have a more established market presence and customer bases, stronger bargaining power with suppliers, and access to cheaper capital due to lower perceived risks by investors. This helps them maintain a competitive edge and achieve higher profitability compared to smaller firms. Firm age reduces financial performance significantly, implying that mature firms, those that have been in existence for a longer period, tend to perform poorly financially compared to younger firms. The study findings on managerial ability found that managerial ability had a direct effect on financial performance. This means that the skills, knowledge, and experience of managers significantly influence how well firms listed on the Nairobi Securities Exchange perform financially. Managers with high abilities are more capable of making strategic decisions, efficiently allocating resources, and responding to market changes, all of which enhance the firm's profitability and overall financial health. Managerial ability involves decision-making skills, leadership, and resource management, which are key drivers of financial performance. Managers with high capabilities can optimize the use of assets, implement cost-saving measures, and drive the organization toward its financial goals. This results in better financial performance, as skilled managers are more likely to adopt innovative practices, improve operational efficiency, and maintain a competitive edge in the market. The study findings supported the agency theory argument.

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