Effect of Ethical Governance on Firm Performance of Manufacturing Firms in Nairobi County, Kenya

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Abstract:

Purpose: *This study examined the effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya.*
Material/methods: *The study was anchored on Stakeholder Theory and Legitimacy Theory. An explanatory cross-sectional research design was adopted, targeting 500 senior, middle, and lower-level managers drawn from 74 manufacturing firms. Proportionate stratified random sampling was employed to select 222 respondents, of whom 200 provided usable questionnaires, representing a 90.0% response rate. Primary data were collected using structured questionnaires based on a five-point Likert scale to measure ethical governance and firm performance. Data were analyzed using descriptive statistics, correlation analysis, and multiple linear regression.*
Findings: *The findings revealed that ethical governance had a positive and statistically significant effect on firm performance. The findings indicate that manufacturing firms with stronger ethical governance practices tended to report better financial and operational performance.*
Conclusion: *The study concluded that ethical governance is a significant predictor of firm performance.*
Value: *The findings identify practical measures for manufacturing firms, including greater transparency in decision-making, ethical leadership, whistleblowing mechanisms, conflict-of-interest management, and anti-corruption controls to enhance accountability and sustainable organizational performance.*
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1. Introduction

Firm performance remains a fundamental concern in the global manufacturing sector because of its contribution to economic growth, employment creation, technological advancement, and industrial competitiveness. Firm performance refers to the extent to which an organization achieves its financial and non-financial objectives, reflected in profitability, sales growth, market share, operational efficiency, productivity, and sustainability (Kaplan & Norton, 1992; Kaplan, 2010). According to the United Nations Industrial Development Organization (UNIDO, 2024), manufacturing industries contribute significantly to economic transformation through innovation, value addition,

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and employment generation. Nevertheless, manufacturing firms continue to experience performance challenges arising from rising production costs, technological disruptions, competition, regulatory uncertainties, and changing stakeholder expectations (UNIDO, 2024; OECD, 2024). These challenges have intensified the need for effective organizational strategies that enhance accountability, operational efficiency, and stakeholder confidence. Consequently, ethical governance has emerged as an important organizational practice for strengthening competitiveness and achieving sustainable firm performance (Gigauri & Gabelaia, 2025).

Ethical governance refers to the application of ethical principles, values, and standards in organizational leadership, decision-making, and management processes to promote integrity, transparency, accountability, fairness, and responsible business conduct (Palmer, 2025). It extends beyond regulatory compliance by emphasizing ethical leadership, stakeholder participation, responsible decision-making, and the prevention of corruption and exploitative practices (Miranda, 2025; Rabiezade et al., 2025). Globally, ethical governance has gained prominence as manufacturing firms face increasing pressure to demonstrate responsible corporate behaviour. According to Gigauri and Gabelaia (2025), ethical governance is a fundamental component of environmental, social, and governance practices because organizational sustainability requires genuine accountability rather than regulatory compliance alone. Similarly, Ilesanmi (2025) emphasizes ethical leadership development, integrity training, whistleblower protection, and codes of conduct as mechanisms for promoting responsible organizational practices. Within manufacturing firms, these practices may reduce fraud, conflicts of interest, and resource misappropriation while strengthening stakeholder relationships, employee commitment, and operational efficiency. Furthermore, ethical governance enhances organizational legitimacy and investor confidence, thereby supporting improved financial and non-financial performance (ISO, 2010; UN Global Compact, 2024).

In Africa, manufacturing firms operate in environments characterized by infrastructure limitations, regulatory uncertainties, increasing operational costs, weak accountability systems, and governance challenges that undermine organizational performance. Consequently, ethical governance has become important in strengthening corporate integrity, investment confidence, and sustainable industrial development. Evidence from African economies indicates that responsible corporate governance and corporate social responsibility practices can positively influence organizational performance, although the strength of these relationships varies across institutional settings (Wang et al., 2016; Ben Ameur et al., 2024). Studies conducted in South Africa have reported positive associations between responsible organizational practices and financial performance, while highlighting variations associated with organizational characteristics and performance measures (Gladysek & Chipeta, 2012; Muzanya, 2022). Similarly, governance-related studies suggest that transparency, accountability, ethical leadership, and stakeholder engagement can enhance organizational reputation, reduce agency conflicts, and improve resource allocation. However, corruption, institutional weaknesses, regulatory inconsistencies, and limited organizational resources continue to constrain ethical governance implementation. These challenges suggest that the contribution of ethical governance to manufacturing firm performance depends on the prevailing institutional and organizational environment.

In Kenya, manufacturing remains a strategic sector because of its contribution to employment creation, economic diversification, value addition, and industrialization. However, the sector continues to experience performance challenges associated with high production costs, expensive electricity, taxation uncertainties, regulatory burdens,

and competition. According to the Kenya National Bureau of Statistics (KNBS, 2024), manufacturing contributed approximately 7–8% of Kenya's gross domestic product, remaining below the national industrialization target of 15%. The Kenya Association of Manufacturers (KAM, 2024) further identifies high energy costs, taxation unpredictability, and regulatory compliance burdens as major constraints affecting industrial competitiveness. Additionally, governance concerns continue to influence the business environment. Transparency International (2024) reported that Kenya scored 32 out of 100 in the Corruption Perceptions Index, ranking 121st out of 180 countries, indicating persistent corruption risks. Similarly, the Ethics and Anti-Corruption Commission (EACC, 2023) identified integrity challenges that increase transaction costs and weaken accountability. In this context, ethical governance practices such as transparent reporting, ethical leadership, responsible procurement, and anti-corruption measures may enhance organizational efficiency and performance. Nevertheless, Kenyan studies examining corporate social responsibility and firm performance have reported mixed findings, including positive, insignificant, and context-dependent relationships (Mwanja et al., 2018; Mwangi, 2021; Mutave, 2022; Sang, 2023).

Nairobi County provides an important setting for examining ethical governance and manufacturing firm performance because of its concentration of industrial establishments, commercial activities, and business infrastructure. According to KNBS (2023), Nairobi County accounted for approximately 36.9% of Kenya's manufacturing gross value added on average between 2018 and 2022, demonstrating its significance in national industrial development. Despite this contribution, manufacturing firms continue to experience performance challenges arising from operational costs, competition, regulatory compliance requirements, and changing stakeholder expectations (KAM, 2024). Ethical governance may address these challenges through responsible leadership, transparent decision-making, accountability, fair business practices, and stakeholder engagement. However, previous studies have largely examined governance within broader corporate social responsibility frameworks rather than isolating its specific contribution to manufacturing firm performance (Orlitzky et al., 2003; Wang et al., 2016; Zhuang et al., 2021). Furthermore, variations in empirical findings suggest that the relationship between ethical governance and firm performance remains insufficiently understood within Nairobi County's manufacturing sector. Therefore, this study seeks to establish the effect of ethical governance on firm performance of manufacturing firms in Nairobi County, Kenya.

2. Empirical and Theoretical Review

2.1. Theoretical Review

Stakeholder Theory, developed by R. Edward Freeman in 1984, provides a theoretical foundation for examining the effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya. The theory proposes that organizational success depends on the ability of firms to create value for diverse stakeholders, including shareholders, employees, customers, suppliers, regulators, and surrounding communities, rather than focusing exclusively on profit maximization. It emphasizes that organizations should integrate transparency, accountability, fairness, integrity, and responsible decision-making into their operations to address stakeholder interests and expectations. According to Aidoo (2025), organizations that actively engage stakeholders through responsible corporate practices strengthen corporate reputation, stakeholder trust, and long-term competitiveness. Similarly, Ducca (2025) emphasizes that stakeholder-oriented organizations are more responsive to stakeholder expectations, thereby enhancing organizational legitimacy and sustainable value

creation. Sharma et al. (2025) further argue that integrating stakeholder interests into organizational strategies promotes sustainability, operational efficiency, and improved business outcomes. Moreover, Hardiyanto and Ardiyanto (2025) establish that corporate practices aligned with stakeholder values contribute to improved financial returns, brand equity, and organizational performance. In manufacturing firms, ethical governance practices such as transparent reporting, ethical leadership, fair procurement, accountability, and anti-corruption measures can strengthen stakeholder confidence, minimize conflicts of interest, improve resource utilization, and enhance organizational performance. The theory is therefore relevant to the present study because it explains how ethical governance can influence firm performance by promoting responsible stakeholder relationships, organizational legitimacy, and sustainable competitive advantage. However, the theory provides limited guidance on how competing stakeholder interests should be prioritized when their expectations conflict. Despite this limitation, Stakeholder Theory provides an appropriate theoretical basis for examining the effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya.

2.2. Empirical Review and Hypothesis Development

Ethical governance has increasingly been recognized as an important determinant of firm performance because it promotes integrity, transparency, accountability, responsible leadership, and effective resource utilization. Li et al. (2021) examined the relationship between corporate culture and firm performance using machine-learning techniques and textual analysis to construct firm-level cultural indices. The findings established that integrity-oriented organizational cultures were associated with improved operating performance, reduced misconduct, and lower organizational risk. Similarly, Shu et al. (2018) investigated corporate integrity and internal control quality among Chinese listed firms using regression analysis. The findings established that corporate integrity significantly reduced internal control weaknesses, suggesting that ethical values complement formal governance systems. Vu et al. (2025) further examined corporate integrity and operational efficiency among United States firms using machine-learning-based integrity measures, data envelopment analysis, and panel regression techniques. Their findings revealed that higher corporate integrity was associated with improved operational efficiency through reduced opportunistic behaviour and effective resource allocation. However, these studies were conducted outside Africa, creating a contextual gap regarding ethical governance and manufacturing firm performance in Kenya.

Other empirical studies have examined specific ethical governance mechanisms and their contributions to organizational performance. Lan et al. (2024) investigated the effect of internal whistleblowing systems on innovation performance among Chinese listed firms using a difference-in-differences approach. The findings established that whistleblowing channels increased innovation quantity and quality through improved information flows and reduced managerial misconduct. Similarly, Duong et al. (2022) examined corporate codes of ethics and the cost of equity capital using multivariate regression analysis. Their findings established that comprehensive ethical codes were associated with lower financing costs, suggesting that ethical governance enhances investor confidence and reduces organizational risk. Bhandari et al. (2022) investigated corporate culture and financial reporting quality using the Competing Values Framework and regression analysis. Their findings indicated that competition-oriented cultures were associated with improved financial reporting quality and fewer internal control weaknesses. Although these studies demonstrate the importance of ethical

governance mechanisms, they primarily examined individual governance practices rather than their collective contribution to firm performance.

Ethical leadership and organizational culture have also received considerable empirical attention as mechanisms through which ethical governance influences performance. Peng and Kim (2020) examined ethical leadership and employee task performance using meta-analytic structural equation modelling. Their findings established that ethical leadership positively influenced task performance through improved leader–member exchange relationships. Similarly, Graham et al. (2022) examined corporate culture as an internal governance mechanism using executive surveys and empirical analysis. The findings indicated that organizational culture influenced firm value through improved managerial decision-making, coordination, and risk management. Chen (2022) investigated corporate culture and financial statement comparability using regression analysis and established that stronger organizational cultures were associated with improved financial reporting comparability. Furthermore, Di Miceli da Silveira (2022) examined board composition and ethical corporate culture among Brazilian firms using approximately 50,000 employee reviews and regression analysis. The findings provided partial evidence that board independence and gender diversity were positively associated with ethical culture. These studies demonstrate that ethical leadership and organizational culture contribute to accountability and organizational performance, although their effects vary across institutional settings.

Further empirical evidence highlights the contribution of ethical governance to investment efficiency, resource allocation, and organizational sustainability. Liu et al. (2025) examined the effect of regional integrity culture on firm investment efficiency in China using quasi-natural experiments and multiple identification strategies. Their findings established that stronger integrity cultures improved investment efficiency by reducing underinvestment and overinvestment, suggesting that ethical governance minimizes agency conflicts and enhances resource allocation. Similarly, Lu et al. (2022) conducted a systematic review of more than 500 studies examining board characteristics and corporate outcomes, including financial and non-financial performance. Their findings revealed mixed but meaningful relationships between board structures, diversity, committee arrangements, and organizational performance, emphasizing the influence of institutional contexts and governance measurement approaches. Collectively, these findings suggest that ethical governance can enhance firm performance through transparent decision-making, improved internal controls, responsible leadership, and efficient resource utilization. However, most studies focused on listed corporations and specific governance mechanisms in countries such as China, the United States, and Brazil, limiting their applicability to manufacturing firms in Nairobi County, Kenya.

The reviewed empirical studies generally indicate that ethical governance is positively associated with organizational outcomes, including operational efficiency, financial reporting quality, innovation, investment efficiency, and firm value (Shu et al., 2018; Li et al., 2021; Duong et al., 2022; Lan et al., 2024; Vu et al., 2025; Liu et al., 2025). Nevertheless, several research gaps emerge. First, a contextual gap exists because most studies were conducted outside Kenya, where institutional environments, regulatory frameworks, and manufacturing conditions differ. Second, a conceptual gap exists because previous studies predominantly examined individual dimensions of ethical governance, including corporate integrity, whistleblowing systems, ethical leadership, and organizational culture, rather than ethical governance as a broader organizational construct. Third, a methodological gap exists because several studies relied on archival data, textual analysis, and secondary financial information rather than directly

examining organizational governance practices and composite firm performance. Therefore, the present study seeks to establish the effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya, while controlling for other corporate social responsibility dimensions and relevant firm characteristics. Based on the reviewed theoretical and empirical literature, the study formulated the following null hypothesis:

H_{01}: Ethical governance has no statistically significant effect on firm performance among manufacturing firms in Nairobi County, Kenya.

3. Research Methodology

The study employed an explanatory research design to examine the effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya. The design was appropriate because it facilitated the examination of relationships between variables and the testing of hypotheses without manipulating the study variables (Saldana, 2011).

Sampling

The target population comprised 500 senior, middle, and lower-level managers drawn from 74 manufacturing firms in Nairobi County, Kenya. Specifically, the population consisted of 20 senior-level managers, 50 middle-level managers, and 430 lower-level managers. The study employed proportionate stratified sampling, with simple random sampling used to select respondents within each management stratum. The sample size of 222 respondents was determined using the Taro Yamane (1973) formula at a 5% margin of error. The sample was proportionately distributed among the management categories, comprising 9 senior-level managers, 22 middle-level managers, and 191 lower-level managers. This approach ensured representation of the different management levels and minimized sampling bias.

Data Collection, Measurement of Variables, Reliability and Validity

Primary data were collected using structured, self-administered questionnaires distributed through the pick-and-drop method (Douglas, 2015; Gibson, 2014). The questionnaire employed a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to measure respondents' perceptions (Bhandari, 2020). Ethical governance was measured using ethical codes and standards, ethical leadership, whistleblowing channels, fair enforcement of sanctions, decision-making transparency, and conflict-of-interest controls (Kaptein, 2008; Huhtala et al., 2018). Firm performance was measured using financial and operational indicators, including profitability, sales growth, market share, return on investment, productivity, quality, customer satisfaction, delivery reliability, innovation, and cost efficiency (Venkatraman & Ramanujam, 1986; Delaney & Huselid, 1996). A pilot study involving 22 respondents, representing approximately 10% of the sample, was conducted in Kiambu County to refine the research instrument (Connelly, 2008). Reliability was assessed using Cronbach's alpha, with a threshold of 0.70 considered acceptable (Bryman, 2012; George & Mallery, 2003). Content and face validity were assessed through expert reviews by university supervisors, while construct validity was evaluated using factor analysis (Orodho & Kombo, 2002; Zikmund, 2000; Hair et al., 2006; Zikmund et al., 2010).

Data Analysis

Collected data were coded, cleaned, and analyzed using the Statistical Package for the Social Sciences (SPSS) version 22. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the

characteristics of respondents and study variables (Somekh & Lewin, 2005). Inferential statistics involved Pearson correlation analysis to establish the strength and direction of relationships between ethical governance and firm performance (Kothari, 2004). linear regression analysis was employed to determine the effect of ethical governance on firm performance while controlling for organizational characteristics and other corporate social responsibility dimensions. Statistical significance was evaluated at the 5% significance level ($p < 0.05$), providing a basis for testing the study hypothesis.

Model Specification

The study employed hierarchical multiple linear regression analysis to examine the effect of ethical governance on firm performance while controlling for organizational age, organizational size, and other corporate social responsibility dimensions. The regression model was specified as follows:

$FP = \beta_0 + \beta_1 OA + \beta_2 OS + \beta_3 EG + \varepsilon$

Where FP represents firm performance; $\beta_0$is the regression constant; OA represents organizational age; OS represents organizational size; EG represents ethical governance; $\beta_1 - \beta_3$are regression coefficients; and ε represents the error term.

4. Findings and Discussion

This section presents and discusses the empirical findings on corporate social responsibility, consumer environmental consciousness, and firm performance among manufacturing firms in Nairobi County, Kenya. The analysis covers response rate, respondent characteristics, descriptive statistics, reliability and validity tests, regression diagnostics, correlation analysis, hierarchical regression, moderation analysis, and discussion of findings. Of the 222 questionnaires administered, 200 were returned and found usable, representing a 90.0% response rate.

Descriptive Statistics for Firm Performance

The study assessed firm performance using ten indicators measured on a five-point Likert scale. The overall mean was 2.95 (SD = 0.79), indicating moderate and mixed perceptions of firm performance among manufacturing firms in Nairobi County. On-time delivery reliability recorded the highest mean (M = 3.06, SD = 1.30), followed by operational productivity (M = 3.00, SD = 1.20), while innovation recorded the lowest mean (M = 2.79, SD = 1.20). Sales growth (M = 2.98), profitability (M = 2.96), market share (M = 2.90), and customer satisfaction (M = 2.96) were generally rated around the scale midpoint, suggesting limited perceived improvements. The composite skewness (0.24) and kurtosis (−0.19) indicated an approximately symmetric distribution without substantial departures from normal-distribution kurtosis. Overall, the findings suggest room for improvement in financial, operational, and innovation performance among manufacturing firms in Nairobi County.

Table 1: Descriptive Statistics for Firm Performance

	Mean	Std. Dev	Skewness	Kurtosis
Our firm's sales have grown over the last three years.	2.98	1.23	0.08	-0.97
Our profitability (e.g., margins/ROI) has improved.	2.96	1.31	0.07	-1.11
Our market share has increased relative to competitors.	2.90	1.24	0.02	-0.98
Operational productivity has improved.	3.00	1.20	-0.04	-0.87
Product/service quality meets or exceeds targets.	2.91	1.24	0.03	-1.03
Customer satisfaction has improved.	2.96	1.31	0.14	-1.13
On-time delivery reliability is high.	3.06	1.30	-0.17	-1.07
We introduce new or improved products/services regularly.	2.79	1.20	0.41	-0.77
Our operating costs are effectively controlled.	2.98	1.29	0.07	-1.13
our organizational performance is strong.	2.94	1.21	0.03	-0.87
Firm Performance	**2.95**	**0.79**	**0.24**	**-0.19**

Descriptive Statistics for Ethical Governance

The study assessed ethical governance using six statements measured on a five-point Likert scale The study assessed ethical governance using six indicators measured on a five-point Likert scale among 200 respondents. The overall mean was 2.99 (SD = 0.98), indicating moderate and mixed perceptions of ethical governance practices among manufacturing firms in Nairobi County. Safe reporting of employee concerns recorded the highest mean (M = 3.05, SD = 1.30), followed by conflict-of-interest management (M = 3.00, SD = 1.17). Ethical codes and ethical leadership both recorded means of 2.99, while anti-corruption policy enforcement had a mean of 2.97. Transparent decision-making recorded the lowest mean (M = 2.94, SD = 1.35), suggesting a need for improvement in organizational openness and accountability. The composite skewness (0.02) and kurtosis (−0.76) indicated an approximately symmetrical distribution without substantial departures from normal-distribution kurtosis. Overall, the findings suggest that ethical governance practices were moderately implemented, with room for improvement in transparency, ethical leadership, and enforcement of organizational policies..

Table 2: Descriptive Statistics for Ethical Governance

n=200	Mean	Std. Dev	Skewness	Kurtosis
A clear code of ethics guides behavior in our firm.	2.99	1.35	0.03	-1.23
Leaders model ethical conduct and integrity.	2.99	1.32	-0.10	-1.07
Anti-corruption and compliance policies are effectively enforced.	2.97	1.28	0.03	-1.05
Employees can safely report concerns (e.g., whistleblowing channels).	3.05	1.30	-0.05	-1.08
Decisions are made transparently and communicated clearly.	2.94	1.35	0.06	-1.17
Conflicts of interest are identified and managed.	3.00	1.17	-0.15	-0.86
Ethical Governance	**2.99**	**0.98**	**0.02**	**-0.76**

Source: Research Data (2026)

Correlation

The partial correlation analysis revealed a moderate, positive, and statistically significant relationship between ethical governance and firm performance among manufacturing firms in Nairobi County, Kenya ($r = .392$, $p < .001$). This finding indicates that manufacturing firms with stronger ethical governance practices tended to report higher levels of firm performance, independent of the influence of organizational age and size.

Table 3: Correlation Analysis

Variable	Firm Performance	Ethical Governance
firm performance	1.000	
Ethical governance	.392*	1.000

* Correlation is statistically significant at the 5% level (two-tailed).

Regression Results (Hypothesis Testing)

The regression analysis established a positive and statistically significant effect of ethical governance on firm performance among manufacturing firms in Nairobi County, Kenya ($\beta = 0.253$, $t = 4.531$, $p = 0.000 < 0.05$). The findings indicate that a one-unit increase in ethical governance was associated with a 0.205-unit increase in predicted firm performance, holding other factors constant. The full regression model explained 42.9% of the variance in firm performance ($R^2 = 0.429$). Therefore, the null hypothesis (H_{01}), which stated that ethical governance has no statistically significant effect on firm performance among manufacturing firms in Nairobi County, Kenya, was rejected. The findings suggest that strengthening ethical governance practices is associated with improved organizational performance.

Table 4: Regression Results for Effect of Ethical Governance on Firm Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	1.52	0.23		6.64	0.00
Firm Age	0.06	0.05	0.08	1.22	0.23
Firm Size	0.17	0.05	0.23	3.62	0.00
Ethical Governance	0.29	0.05	0.36	5.65	0.00
R	0.447				
R Square	0.2				
Adjusted R Square	0.188				
Std. Error of the Estimate	0.71349				
F	16.316				
Sig.	0.000				
a Dependent Variable: Firm performance					

Discussion of Findings

The study established that ethical governance had a positive and statistically significant effect on firm performance among manufacturing firms in Nairobi County, Kenya ($B = 0.205$, $\beta = 0.253$, $t = 4.531$, $p < 0.001$), indicating that stronger ethical governance practices were associated with improved financial and operational performance. The findings suggest that integrity, transparency, accountability, ethical leadership, and responsible decision-making are important governance practices associated with organizational efficiency and sustainable performance. These findings agree with Li et al. (2021), who established that integrity-oriented corporate cultures were associated with improved operating performance and reduced organizational misconduct. Similarly, Shu et al. (2018) found that corporate integrity significantly reduced internal control weaknesses among Chinese listed firms, while Vu et al. (2025) established that stronger corporate integrity was associated with improved operational efficiency among United States firms. The findings also concur with Lan et al. (2024), who established that internal whistleblowing mechanisms enhanced innovation performance by improving information flows and reducing managerial misconduct. Similarly, Duong et al. (2022) found that comprehensive corporate codes of ethics were associated with reduced financing costs through improved investor confidence, while Bhandari et al. (2022) established that organizational culture influenced financial reporting quality and internal control effectiveness. Furthermore, the findings support Peng and Kim (2020), who established that ethical leadership positively influenced employee task performance through improved leader–member relationships. Graham et al. (2022) similarly found that corporate culture influenced firm value through improved managerial decision-making and risk management, while Chen (2022) established that stronger corporate cultures were associated with improved financial reporting comparability. Di Miceli da Silveira (2022) further reported positive associations between selected board characteristics and ethical organizational culture, emphasizing the role of governance structures in promoting responsible organizational conduct. Additionally, the findings are consistent with Liu et al. (2025), who established that stronger integrity cultures improved investment efficiency by reducing underinvestment and overinvestment, and Lu et al. (2022), who identified meaningful

but context-dependent relationships between corporate governance characteristics and organizational performance.

The findings further support Stakeholder Theory advanced by Freeman (1984), which emphasizes that organizational success depends on responsible relationships with employees, customers, shareholders, suppliers, and other stakeholders. Ethical governance may strengthen these relationships through fairness, accountability, transparency, and integrity, thereby enhancing organizational legitimacy, stakeholder confidence, and competitive advantage. Overall, the findings are consistent with previous empirical evidence demonstrating positive relationships between ethical governance and organizational performance (Shu et al., 2018; Li et al., 2021; Duong et al., 2022; Lan et al., 2024; Vu et al., 2025; Liu et al., 2025). The present study extends this evidence by examining ethical governance as a broader organizational construct within manufacturing firms in Nairobi County, Kenya, while controlling for other corporate social responsibility dimensions and firm characteristics. Therefore, the null hypothesis stating that ethical governance has no statistically significant effect on firm performance was rejected, suggesting that strengthening ethical leadership, transparent decision-making, accountability mechanisms, and responsible corporate practices may contribute to improved firm performance among manufacturing firms in Nairobi County, Kenya.

5. Conclusion and Recommendations

Conclusion

The study concluded that ethical governance has a positive and statistically significant effect on firm performance among manufacturing firms in Nairobi County, Kenya ($\beta = 0.253$, $p = 0.000 < 0.05$). The findings demonstrate that manufacturing firms with stronger ethical governance practices tend to achieve better financial and operational performance. Specifically, ethical leadership, transparent decision-making, accountability, clear ethical standards, effective whistleblowing mechanisms, and responsible management of conflicts of interest are important practices associated with organizational efficiency and sustainable performance. The study further established that ethical governance remained a significant predictor of firm performance after controlling for environmental responsibility, community engagement, employee well-being, firm age, and firm size. These findings support Stakeholder Theory by demonstrating the importance of responsible organizational conduct and stakeholder relationships in enhancing firm performance. The study therefore concludes that ethical governance is an important strategic organizational practice associated with competitiveness, stakeholder confidence, and long-term sustainability among manufacturing firms in Nairobi County, Kenya.

Recommendations

Managerial Implications

The study recommends that management of manufacturing firms in Nairobi County strengthen ethical governance practices by establishing clear codes of conduct, promoting ethical leadership, enhancing transparency in decision-making, and enforcing accountability mechanisms. Manufacturing firms should institutionalize confidential whistleblowing channels, strengthen anti-corruption controls, and develop effective procedures for identifying and managing conflicts of interest. Additionally, managers should conduct regular ethics training, establish transparent reporting systems, and ensure consistent enforcement of organizational policies across all management levels. Particular attention should be given to improving transparency in

organizational decisions. These initiatives may strengthen employee trust, reduce organizational misconduct, improve resource utilization, and enhance financial and operational performance

Policy Implications

The study recommends that policymakers and regulatory institutions, including the Ministry of Investments, Trade and Industry, the Ethics and Anti-Corruption Commission (EACC), and the Kenya Association of Manufacturers (KAM), strengthen frameworks that promote ethical governance within the manufacturing sector. Regulatory agencies should encourage manufacturing firms to adopt transparent reporting procedures, effective anti-corruption mechanisms, ethical procurement standards, and whistleblower protection systems. Furthermore, policymakers should support governance capacity-building initiatives, regular compliance assessments, and industry-specific ethical governance guidelines. The Kenya Association of Manufacturers should promote ethical governance through professional training, industry benchmarking, and recognition of firms demonstrating responsible corporate conduct. Such initiatives may strengthen corporate accountability, investor confidence, industrial competitiveness, and sustainable manufacturing performance.

Theoretical Implications

The findings contribute to Stakeholder Theory advanced by Freeman (1984) by providing empirical evidence that ethical governance is positively associated with firm performance within Kenya's manufacturing sector. The theory emphasizes that organizational success depends on responsible relationships with stakeholders, including employees, customers, suppliers, investors, regulators, and surrounding communities. The significant positive relationship between ethical governance and firm performance supports the theoretical argument that transparency, accountability, integrity, and responsible leadership are important in strengthening stakeholder confidence and organizational legitimacy. Furthermore, the study extends the application of Stakeholder Theory by examining ethical governance as a distinct corporate social responsibility dimension rather than considering corporate responsibility as a single broad construct. The findings therefore provide a basis for future theoretical investigations into how ethical governance mechanisms and stakeholder relationships contribute to financial and operational performance in emerging economies

6. Limitations and Further Research

The study was subject to several limitations that provide opportunities for future research. First, the study employed a cross-sectional explanatory research design, which limited its ability to establish causal relationships between ethical governance and firm performance. Future studies should adopt longitudinal research designs to examine how changes in ethical governance practices influence organizational performance over time. Second, the study relied on self-reported questionnaire responses, which may have been influenced by social desirability bias and common-method variance. Future research should incorporate objective financial indicators, audited reports, governance disclosures, and qualitative interviews to strengthen the validity of the findings. Third, the study focused on manufacturing firms in Nairobi County, limiting the generalizability of its findings to other geographical and industrial contexts. Future studies should extend investigations to manufacturing firms in Kiambu, Mombasa, Nakuru, Machakos, and other counties to establish whether similar relationships exist. Additionally, future researchers should examine the mediating roles of organizational trust, corporate reputation, and employee commitment, as well as the

moderating effects of organizational culture, regulatory compliance, and institutional environments on the relationship between ethical governance and firm performance. These investigations would provide a more comprehensive understanding of the mechanisms and conditions through which ethical governance contributes to organizational performance.

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