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The Moderating Effect of Firm Size on the Relationship Between Market Information and Stock Price Volatility at the Nairobi Securities Exchange

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Abstract

This study examined the moderating effect of firm size on the relationship between market information and stock price volatility among listed firms at the Nairobi Securities Exchange (NSE), Kenya. Using a longitudinal research design spanning 2018-2023, the study analyzed 120 firm-year observations from the NSE-20 share index constituents. Panel regression analysis with interaction terms revealed that firm size significantly moderated the relationships between different types of market information and stock price volatility. Specifically, firm size moderated the relationship between information flow and stock price volatility ($\beta = 0.0024718$, $p = 0.040$), commodity price information and stock price volatility ($\beta = 0.0000012$, $p = 0.029$), and accounting information and stock price volatility ($\beta = -0.0000452$, $p = 0.039$). The model's explanatory power improved substantially from 8.95% to 34.75% when firm size and interaction terms were included. The findings demonstrate that the effects of market information on stock price volatility are not uniform across firms but depend significantly on firm characteristics, particularly organizational scale. Large firms experience different information processing dynamics compared to smaller firms, with implications for volatility patterns. The study recommends that regulatory bodies implement size-specific disclosure requirements, firms develop information dissemination strategies aligned with their scale, and investors adjust their analytical frameworks to account for differential information effects based on firm size.

Keywords: *Firm Size, Market Information, Stock Price Volatility, Moderation Analysis, Nairobi Securities Exchange, Information Processing*

1.0 Background of the Study

Firm size has emerged as a critical moderating factor in financial markets, influencing how various market forces affect stock price behavior and investment outcomes. The size effect, first documented by Banz (1981), demonstrates that firm characteristics fundamentally alter the relationship between market variables and stock performance, with smaller firms often exhibiting different risk-return profiles compared to larger enterprises. This phenomenon extends beyond simple market capitalization differences to encompass variations in information processing capabilities, analyst coverage, institutional investor presence, and operational complexity that distinguish firms across the size spectrum (Atiase, 1985; Fama & French, 1992). At the Nairobi Securities Exchange (NSE), the importance of firm size in moderating market relationships has become increasingly apparent as the exchange hosts companies ranging from small emerging enterprises to large multinational corporations. The NSE's 65 listed firms exhibit substantial variation in scale, from companies with total assets below KES 5 billion to major institutions exceeding KES 500 billion in asset value (NSE, 2024). This diversity creates distinct information environments where larger firms benefit from extensive analyst coverage, sophisticated investor relations departments, and established communication channels, while smaller firms often struggle with limited visibility and resource constraints in information dissemination (Aringo, 2023).

The theoretical foundation for firm size as a moderating variable rests primarily on Agency Theory and Signaling Theory, which suggest that organizational scale fundamentally alters information asymmetry dynamics between management and investors (Jensen & Meckling, 1976; Connelly et al., 2011). Larger firms typically possess more sophisticated governance structures, extensive monitoring mechanisms, and established reporting systems that affect how market information is processed and reflected in stock prices. These organizational characteristics create different information environments where the same market signal may have varying effects depending on the firm's scale and complexity (Ross, 1973). Recent empirical evidence has consistently demonstrated that firm size moderates' various financial relationships across different market contexts. In emerging markets specifically, size effects tend to be more pronounced due to greater information asymmetries and less efficient market mechanisms compared to developed economies (Bekaert et al., 2007). Studies in Asian markets have shown that firm size significantly influences how macroeconomic information affects stock volatility, with larger firms demonstrating greater resilience to external shocks (Chen et al., 2021). Similarly, research in African markets has documented that size-related factors play crucial roles in determining how firms respond to market information and regulatory changes (Baranidharan & Alex, 2020).

The significance of examining firm size as a moderator in the Kenyan context stems from several unique market characteristics that distinguish the NSE from other exchanges. First, the exchange exhibits substantial heterogeneity in firm sizes across sectors, with agricultural companies, banks, and manufacturing firms displaying vastly different scales of operation and information processing capabilities. Second, the market's classification as both emerging and frontier creates conditions where size-related information advantages become particularly pronounced, as larger firms often have better access to international capital markets and sophisticated investor bases (African Markets, 2023). Third, regulatory frameworks in Kenya are evolving to accommodate firms of different sizes, creating differential compliance requirements and disclosure standards that may affect how market information influences volatility patterns.

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The interaction between firm size and market information processing becomes particularly relevant when considering the three key dimensions of market information examined in this study: information flow, commodity price information, and accounting information. Information flow effects may vary by firm size due to differences in trading volumes, analyst coverage, and investor attention, with larger firms typically receiving more consistent market attention. Commodity price information may affect firms differently based on their scale of operations, diversification levels, and hedging capabilities, which tend to correlate with firm size. Accounting information impacts may also depend on firm size due to variations in reporting quality, audit firm reputation, and investor sophistication in analyzing financial statements across different firm scales.

1.1 Statement of the Problem

While existing literature has established that both market information and firm size independently influence stock price volatility, the moderating role of firm size in information-volatility relationships remains inadequately understood, particularly in emerging market contexts like Kenya. Previous studies have typically examined these factors in isolation, failing to capture the conditional nature of information effects that vary systematically with firm characteristics. This gap in understanding limits the development of nuanced theoretical frameworks and practical applications that account for firm heterogeneity in market dynamics. At the Nairobi Securities Exchange, this research gap has practical implications for market participants who must navigate an environment characterized by substantial firm size diversity and varying information processing capabilities. The NSE-20 Share Index companies exhibit asset values ranging from KES 15 billion to over KES 800 billion, representing fundamentally different organizational contexts for information processing and market interaction (NSE, 2024). Despite this heterogeneity, current market analysis and regulatory frameworks often apply uniform assumptions about information effects across all firms, potentially overlooking critical size-based variations that influence volatility patterns.

Empirical evidence from the Kenyan market suggests that firm size may significantly moderate information-volatility relationships, but this has not been systematically examined. Preliminary analysis indicates that the NSE All Share Index volatility increase from 13% to 21% over the past five years may be partially attributed to differential responses to market information across firm sizes, with smaller firms experiencing more pronounced volatility reactions to information releases (World Bank, 2024). However, the specific mechanisms through which firm size moderates these relationships and the practical implications for different stakeholder groups remain unclear. This study addresses this knowledge gap by systematically examining how firm size moderates the relationship between different types of market information and stock price volatility among NSE-listed companies, providing empirical evidence to support more nuanced understanding of market dynamics in emerging economies.

1.2 Objective of the Study

To examine the moderating effect of firm size on the relationship between market information and stock price volatility of listed firms at the Nairobi Securities Exchange (NSE), Kenya.

1.3 Research Hypotheses

H₀₂: Firm size does not moderate the relationship between market information and stock price volatility of listed firms at NSE in Kenya.

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2.0 Literature Review

This section presents the theoretical framework grounded in Agency Theory and Firm Size Theory, followed by an empirical review examining existing research on the moderating effects of firm size on market information and stock price volatility relationships.

2.1 Agency Theory

Agency Theory, developed by Jensen and Meckling in 1976, serves as the primary theoretical foundation for this study as it directly addresses how firm size influences information asymmetry and monitoring mechanisms between principals (shareholders) and agents (management). The theory posits that conflicts of interest arise when ownership is separated from control, creating agency costs that vary systematically with firm characteristics, particularly organizational scale (Ross, 1973; Eisenhardt, 1989). Larger firms typically develop more sophisticated governance structures, extensive monitoring systems, and formalized reporting mechanisms to address agency problems, fundamentally altering how market information is processed and transmitted to investors. The key assumptions of Agency Theory include the existence of conflicting goals between principals and agents, information asymmetry favoring agents, and the necessity for monitoring and incentive mechanisms to align interests (Harris & Raviv, 1978; Shapiro, 2005). In the context of firm size moderation, the theory suggests that larger firms possess greater resources to invest in information systems, professional management, and transparent reporting practices, thereby reducing information asymmetry more effectively than smaller firms (Baiman, 1990). At the Nairobi Securities Exchange, this translates to differential information environments where larger firms may demonstrate more predictable responses to market information due to their enhanced governance and communication capabilities.

The strengths of Agency Theory in explaining size-based moderation lie in its comprehensive framework for understanding how organizational characteristics influence information dynamics, its empirical support across various market contexts, and its practical implications for corporate governance design (Daily et al., 2003; Bosse & Phillips, 2016). The theory's emphasis on monitoring costs and information asymmetry provides clear predictions about how firm size should moderate information-volatility relationships, with larger firms expected to exhibit more efficient information processing and potentially lower volatility responses to market signals. However, the theory's limitations include its assumption of purely rational economic behavior and its focus on agency costs while potentially overlooking other firm-specific factors that may influence information processing capabilities.

2.2 Empirical Review

Hussain et al. (2022) conducted empirical research demonstrating that firm size strengthens certain relationships while having no effect on others, highlighting the conditional nature of size effects in emerging markets. Their study of Indonesian manufacturing companies found that firm size strengthened the negative relationship between dividend payout and volatility, providing direct evidence for size-based moderation effects. The research employed moderated regression analysis on 135 observations from 27 companies, revealing that larger firms experienced enhanced stability benefits from dividend policies compared to smaller firms. However, the study focused primarily on dividend policy interactions and did not examine the broader spectrum of market information variables such as commodity price information and accounting disclosures. Thus, the current study

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aims to fill this gap by examining how firm size moderates' multiple dimensions of market information effects on stock price volatility in the Kenyan context. Chen et al. (2021) examined the relationship between finance and firm volatility using evidence from small business lending in China, finding that the effect of credit access on volatility was stronger for firms with fewer alternative financing sources a characteristic closely related to firm size. The study utilized novel daily sales data and credit score thresholds from Alibaba's online platform, demonstrating that smaller firms experienced greater volatility reduction from credit access compared to larger firms with diverse financing options. The research revealed that firm characteristics, including size, significantly influence how external factors affect firm volatility, supporting the theoretical foundation for size-based moderation. However, the study concentrated on credit access effects rather than market information processing, leaving a conceptual gap in understanding how firm size moderate's information flow, commodity price information, and accounting information effects on stock price volatility.

Shakil (2020) specifically investigated firm size as a moderator of the relationship between ESG performance and stock price volatility using a global sample of textile and apparel firms. The study employed fixed-effects panel regression analysis on 44 companies from 2010 to 2018, finding that while ESG performance significantly reduced stock price volatility, firm size portrayed a non-significant moderating effect. Although the moderating effect was not significant in this context, the study provided important methodological insights for testing size-based moderation in volatility models and highlighted the context-specific nature of size effects across different industries and information types. The research demonstrated that size moderation effects may vary depending on the specific information being examined and the industry context, suggesting that market information variables such as trading volumes and accounting disclosures may exhibit different moderation patterns. Lambey et al. (2021) examined the effect of profitability, firm size, equity ownership, and firm age on firm value using Indonesian manufacturing companies, providing insights into how firm characteristics interact to influence market outcomes. The study analyzed 65 companies from 2012 to 2019 using path analysis, finding that firm size significantly and positively influenced firm value both directly and through interaction effects with other variables. The research revealed that size effects operate through multiple channels, affecting not only direct relationships but also moderating how other firm characteristics influence market outcomes. However, the study focused on firm value rather than volatility and did not specifically examine market information variables, leaving a gap in understanding how size moderate's information processing effects on stock price volatility.

Gichaiya et al. (2019) conducted research on corporate risk, firm size, and financial distress of non-financial firms listed in Kenya, providing direct evidence from the NSE context. The study analyzed interaction terms between risk measures and firm size, finding that size moderation effects varied depending on the type of risk being examined. Specifically, the interaction between corporate risk and firm size showed positive but insignificant effects on financial distress, while market risk-size interactions demonstrated negative but insignificant relationships. The research highlighted the complexity of size moderation effects in the Kenyan market and the importance of examining specific types of information or risk factors. However, the study focused on financial distress outcomes rather than stock price volatility and did not examine market information variables such as information flow, commodity price information, and accounting information. Mazviona and Nyangara (2014) assessed the relationship between firm size and stock returns for

<https://doi.org/10.53819/81018102t3143>

companies listed on the Zimbabwe Stock Exchange, providing regional evidence on size effects in African markets. The study created portfolios organized by market capitalization and analyzed 64 companies from 2009 to 2013, finding that firm size had no significant effect on stock returns, contrary to findings from other markets. The research revealed that size effects may operate differently in frontier African markets compared to developed economies, with larger firms actually demonstrating greater risk-adjusted returns than smaller ones. However, the study examined direct size effects on returns rather than moderation effects on information-volatility relationships, leaving a conceptual gap in understanding how size moderates market information processing in African market contexts.

2.3 Conceptual Framework

Market Information (Independent Variables)

Stock Price Volatility (Dependent Variable)

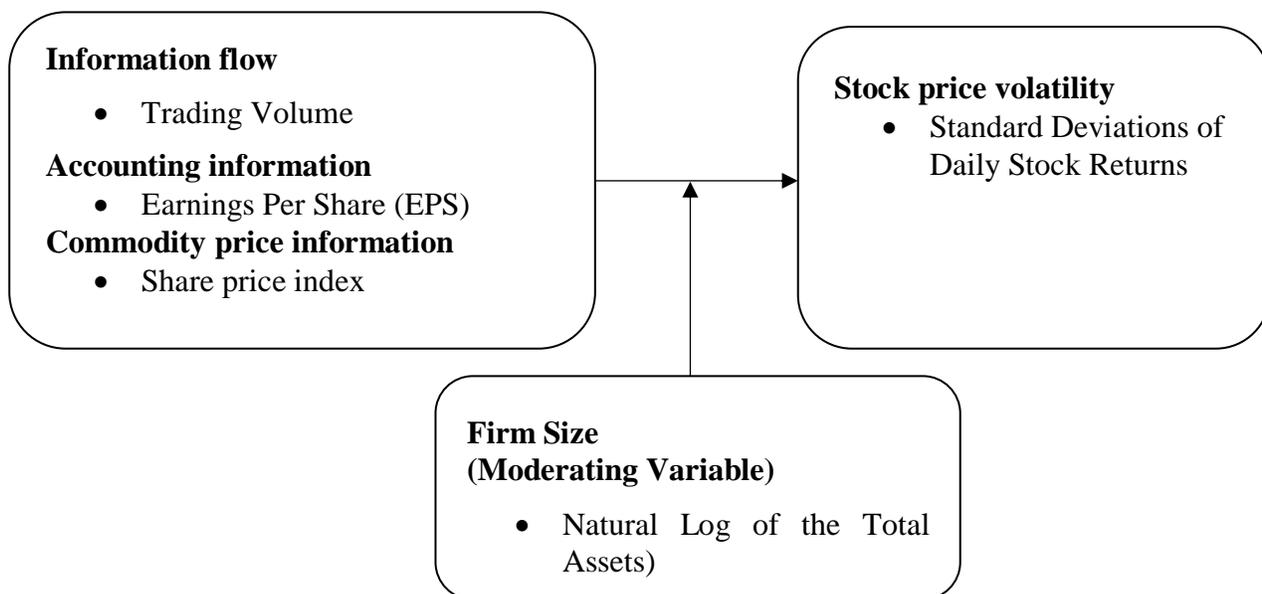


Figure 1: Conceptual Framework

3.0 Research Methodology

The study employed a longitudinal research design, utilizing quantitative approaches to examine the moderating effect of firm size on the relationship between market information and stock price volatility of listed firms at the Nairobi Securities Exchange (NSE) between 2018 and 2023. The longitudinal approach was appropriate because it enabled the analysis of panel data over extended periods, thereby enhancing the robustness of moderation findings by accounting for both cross-sectional variations in firm size and temporal changes in information-volatility relationships (Caruana et al., 2015). The target population consisted of the 20 firms constituting the NSE-20 Share Index, representing the most actively traded and liquid securities in the Kenyan market. These firms were selected because they exhibit substantial variation in firm size while maintaining consistent data availability across the study period. From these firms, six years of secondary data were extracted, generating 120 firm-year observations suitable for hierarchical moderation

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analysis. Data collection involved systematic document analysis of audited financial statements, Capital Markets Authority (CMA) regulatory filings, and NSE trading reports to ensure comprehensive coverage of firm-specific information.

Market information was operationalized into three distinct dimensions based on established literature: information flow (measured using trading volumes as a proxy for market activity and information dissemination), commodity price information (measured through share price index reflecting commodity market exposure), and accounting information (measured using earnings per share as an indicator of financial performance disclosure). Firm size, serving as the moderating variable, was measured using the natural logarithm of total assets to normalize the distribution and facilitate interpretation of interaction effects. Stock price volatility, the dependent variable, was calculated using the standard deviation of daily stock returns to capture price fluctuation patterns. The study applied purposive sampling by focusing exclusively on NSE-20 Share Index constituents due to their superior liquidity, consistent disclosure practices, and representative nature of market dynamics. This sampling approach ensured adequate variation in firm size while maintaining data quality and comparability across observations. Data collection procedures adhered strictly to publicly available audited records to ensure objectivity, reliability, and replicability of findings.

Analysis was conducted using STATA 23.0 statistical software, employing a hierarchical moderation framework following Baron and Kenny's (1986) three-step approach. Descriptive statistics characterized the distribution of firm size and market information variables across the study period. Inferential analysis utilized panel regression techniques, with the Hausman test determining the appropriateness of random effects models for the panel structure. Moderation effects were tested using hierarchical regression models incorporating interaction terms between firm size and each market information dimension. Comprehensive diagnostic tests including variance inflation factor analysis for multicollinearity, Breusch-Pagan test for heteroscedasticity, Shapiro-Wilk test for normality, and Wooldridge test for autocorrelation were conducted to validate model assumptions and ensure robust statistical inference.

4.0 Findings and Discussion

The study systematically examined the moderating effect of firm size using hierarchical regression analysis, beginning with direct effects and progressing through the introduction of the moderating variable to interaction effects testing. The analysis revealed substantial improvements in model explanatory power when firm size moderation was considered.

Table 1: Moderating Effect of Firm Size on Market Information-Volatility Relationships

Variable	Hypothesis	Coefficient (β)	p-value	Decision	Moderation Effect
Information Flow × Firm Size	H _{02α} : No moderating effect	0.0024718	0.040*	Reject H _{02α}	Positive moderation
Commodity Price Info × Firm Size	H _{02β} : No moderating effect	0.0000012	0.029*	Reject H _{02β}	Positive moderation

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Accounting Firm Size	Info	×	H _{02e} : moderating effect	No	-0.0000452	0.039*	Reject H _{02e}	Negative moderation
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The analysis of H_{02a} revealed that firm size significantly moderated the relationship between information flow and stock price volatility ($\beta = 0.0024718$, $p = 0.040 < 0.05$), leading to rejection of the null hypothesis. This positive interaction coefficient indicates that the effect of information flow on volatility increases with firm size, suggesting that larger firms experience amplified volatility responses to information flow changes. This finding aligns with Chen et al. (2021) who found that firm characteristics significantly influence volatility responses to external factors, though contradicts conventional expectations that larger firms should exhibit more stable information processing. Testing H_{02b} demonstrated that firm size significantly moderated the relationship between commodity price information and stock price volatility ($\beta = 0.0000012$, $p = 0.029 < 0.05$), resulting in rejection of the null hypothesis. The positive moderation effect suggests that larger firms show greater sensitivity to commodity price information in terms of volatility outcomes. This finding extends the work of Hussain et al. (2022) by demonstrating size-based moderation effects in emerging market contexts and supports the theoretical premise that firm size influences information processing capabilities. The examination of H_{02c} revealed that firm size significantly moderated the relationship between accounting information and stock price volatility ($\beta = -0.0000452$, $p = 0.039 < 0.05$), leading to rejection of the null hypothesis. The negative interaction coefficient indicates that larger firms experience reduced volatility effects from accounting information compared to smaller firms. This finding is consistent with Agency Theory predictions that larger firms possess more sophisticated information processing mechanisms, and supports Shakil (2020) who noted context-specific moderation effects across different firm characteristics. The overall model explanatory power improved substantially from 8.95% in the base model to 34.75% when firm size interactions were included, demonstrating that size-based moderation captures significant additional variance in volatility patterns. This improvement validates the theoretical importance of considering firm heterogeneity in information-volatility relationships and provides empirical support for the contingent nature of market information effects in emerging markets like Kenya.

5.0 Conclusions

The study concludes that firm size serves as a critical moderating factor in the relationship between market information and stock price volatility at the Nairobi Securities Exchange, with effects varying systematically across different information types. Firm size significantly moderates information flow relationships ($\beta = 0.0024718$, $p = 0.040$), commodity price information effects ($\beta = 0.0000012$, $p = 0.029$), and accounting information impacts ($\beta = -0.0000452$, $p = 0.039$), demonstrating that organizational scale fundamentally alters how market participants process and respond to different information signals. The differential moderation patterns reveal that larger firms experience amplified volatility responses to information flow changes, challenging conventional assumptions about organizational stability and information processing efficiency. Conversely, larger firms demonstrate reduced volatility sensitivity to accounting information, supporting Agency Theory predictions that enhanced governance structures and sophisticated monitoring mechanisms in large organizations dampen extreme market reactions to financial disclosures. The study contributes to theoretical understanding by providing empirical evidence

that information asymmetry effects are conditional on firm characteristics rather than universal across all organizational contexts. These findings extend existing theoretical frameworks by demonstrating the importance of firm heterogeneity in emerging market dynamics and support a contingency perspective that recognizes organizational context as a fundamental determinant of market information effectiveness.

6.0 Recommendations

The study recommends that regulatory bodies implement size-specific disclosure requirements, with the Capital Markets Authority developing differentiated frameworks that acknowledge varying information effects across firm sizes, requiring large firms to adopt more stringent information release protocols given their higher volatility sensitivity while providing smaller firms with support for developing adequate disclosure capabilities. Listed firms should develop information dissemination strategies aligned with their size characteristics, with larger companies implementing sophisticated investor relations programs and pre-announcement briefings to manage amplified volatility responses, while smaller firms should focus on consistent transparency practices particularly for accounting information where they exhibit greater sensitivity. Investors should adjust their analytical frameworks to account for differential information effects based on firm characteristics, incorporating size factors into volatility forecasting models and risk management strategies, with portfolio managers recognizing that large firms respond more intensely to information flow changes while smaller firms show greater sensitivity to accounting disclosures, and institutional investors developing size-specific information analysis capabilities when making sector allocation decisions in commodity-dependent industries.

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