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EXAMINING THE MODERATING EFFECT OF ECONOMIC GROWTH ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND ENTERPRISE VALUE ACROSS COUNTY REVOLVING LOAN FUNDS IN KENYA

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Abstract

The literature identifying economic growth as a fundamental determinant of enterprise value of public entities is remote. While traditional research evaluates public owned enterprises through a rigid book-value perspective, this study analyzes the dynamics from a market point of view. The study utilizes Gross County Product (GCP) per capita as an explicit metric for sub-national economic growth and examines it as a condition that moderates the relationship between corporate governance and enterprise value across the county revolving loan funds. This quantitative study utilized secondary cross-sectional data spanning the 2019–2024 fiscal periods. The data was time-averaged and covered 31 selected county revolving loan funds in Kenya. Empirical findings revealed that economic growth exerts a statistically significant and positive conditional moderating influence on how corporate governance translates into realized enterprise value. The results imply that robust oversight by county fund boards is most effective in creating and preserving the funds' enterprise value when embedded within the counties' expanding economic environments.

Keywords: Corporate Governance, Enterprise Value, Economic Growth, Revolving Loan Funds.

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Introduction

The determination of value within public and private business entities remains inherently subject to macroeconomic volatility (Ahmed et al., 2020). To insulate organizational worth from exogenous shocks, institutions must systematically evaluate underlying economic fluctuations and dynamically integrate these realities into their long-term strategic projections (Zhang & Wang, 2025). Within devolved county financial systems, corporate governance mechanism serves as the primary vehicle for aligning operational efficiencies with shifting economic environments. Consequently, robust governance frameworks optimize inherent enterprise values, whereas institutional deficiencies often preclude entities from capitalizing on emergent economic opportunities. In county fiscal contexts, Gross County Product (GCP) serves as a foundational benchmark for assessing regional economic health. When normalized by local demographic metrics to derive GCP per capita, it provides a rigorous empirical indicator of localized economic growth (Kenya National Bureau of Statistics, 2023). Beyond macroeconomic aggregates, contemporary literature emphasizes that qualitative operational dimensions such as corporate governance structures are fundamental determinants in corporate efficacy and business valuation (Wierzbicka, 2018).

The capitalization of the county revolving loan funds typically integrates a combination of direct budgetary allocations, principal loan repayments and accumulated interest revenues. When these net cash flows are discounted, they establish a "Fair Loan Portfolio Value," which serves as a reliable proxy for the fund's holistic enterprise value. The oversight of these loan funds is vested in institutional fund boards. These boards are legally mandated to formulate strategic policies, ensure rigorous regulatory compliance and safeguard the funds on behalf of all the stakeholders. Conceptually, revolving loan funds are designed to operate as self-sustaining credit mechanisms, recycling capital by extending concessionary loans to viable borrowers lacking access to traditional commercial banking sectors. However, these loan funds face structural vulnerabilities, often acting as safety nets for financially non-viable beneficiaries. The misallocation of capital results in rising default rates and necessitates periodic budgetary injections from the county treasuries to prevent the total erosion of the fund's capital base. (Office of the Auditor General, 2023; Njoki, 2019).

The level of return on capital depends on corporate governance which is the mechanism influencing resource allocation within and across entities. Corporate governance can be perceived as a tradeoff between individual and shared goals, thus the intention should focus on aligning interests of the individuals and the society (Arslan & Roudaki, 2017). The current study identifies gender diversity, disclosure reporting, education level and board independence as key indicators for corporate governance. The indicators are quantified via the unified governance scores constructed through a Bayesian latent variable analysis (Merkle & Wang, 2016). Where as, corporate governance is

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viewed by authors like Pakpahan et al., (2025) as a vital accelerator for business worth, its interaction with economic growth remains non-linear. Higher economic growth at the county levels can also generate market distortions that act as a disincentive to the enterprise value of the loan funds. Therefore, understanding the conditional phenomenon through which economic growth moderates the relationship between corporate governance and and enterprise value is critical for safeguarding the county revolving loan funds.

Research Problem

The inherent fair value of a revolving loan fund hinges on a complex interplay between internal institutional design and external macroeconomic performance (Mikesell & Wallace 1996). The primary principals, taxpayers and county executives delegate the management of public funds to the fund boards who act as the agents. The core mandate of a board overseeing a revolving loan fund is to establish an optimal equilibrium between concessionary social lending and capital preservation (Dibihantoro & Suasih, 2024). However, a multi-tiered friction emerges between the fund boards and the government. Thus, in resource-constrained settings, agents frequently face political or social pressures to maximize loan disbursements at the expense of fiscal discipline (Mikesell, 1996). When loans are misallocated to non-viable micro-businesses, high default rates rapidly erode the county revolving loan funds's capital base, rendering them dependent on continuous and unsustainable budgetary bailouts by the devolved governments (Mbugua et al., 2019; Mungai, 2015). While, Muhammed (2023), posits that macroeconomic expansion generally improves borrower repayment capacity and boosts a lending vitality, its relationship with internal governance structures is rarely linear. In fact, a rapid yet uncoordinated growth at a county level can introduce systemic market distortions, disrupted risk assessments and create moral hazards that inadvertently undermine the lifespan of the loan funds (Aberi et al., 2018; Njuguna et al., 2015). Consequently, evaluating economic growth solely as a direct determinant offers an incomplete view. This study instead frames county specific economic growth which is measured through Gross County Product (GCP) per capita as a critical conditional moderator that alters how internal corporate governance affects realized enterprise value.

Existing scholarship has largely overlooked the precise dynamics which define the link between organizational oversight and business worth. Furthermore, the impact of macroeconomic expansion in the framework is noticeably absent. Renowned scholars (Moodley & Govender, 2020; Saidi et al., 2013) typically view public institutions strictly as enablers while casting commercial entities as the sole providers of equity capital. Under this conventional arrangement, the equity investors anticipate monetary yields from corporate executives (Bordaghi & Ahmadpour, 2010). This investigation however, explores the twin functions of devolved authorities acting simultaneously as capital investors and providers of strategic incentives. The study also recognises the position of the loan funds in

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receiving and allocating the capital from the government to the borrowers. The evaluation of their fair value at this position is however puzzling because the loan funds are non-listed public entities. From the works of Sanchez-Fernandez et al. (2007) the paper construes that the transactions moderated by the growth within the devolved economies are the possible pathways through which the revolving loan funds are sustained. There are downward and upward transactions. The downstream transactions are of the amounts drawn from the county budgets by a government into the revolving funds as initial reserve and or as future rounds of funding. While, the upstream transactions are of repayments or money retained into the revolving funds as income interest accrued from the loans. It is evident that the local studies have paid more attention to revolving loan programs under the central government as opposed to those under the devolved units. Moreover, the works such as; Dahir & Bett (2019), Njuguna (2014) and Aluoch (2021), were limited to subjective performance as the outcome variable as opposed to the enterprise value of the revolving funds. Others like Hillary (2020), frequented corporate governance as a moderating variable.

The current study offers a unique contribution in view of corporate governance as a primary explanatory factor of enterprise value, particularly within the context of devolved loan funds. This approach departs from the majority of relevant literature, including Calvo-Pardo et al. (2021), Jáč and Vondráčková (2017) and Tirimba et al. (2015), which relies predominantly on survey questionnaires. Though related, they provide minimal opportunity to resolve ambiguities or complex observations. The approach more often than not, conceals profound, attributes of the target population thus sacrificing holistic insights in the interest of precision. Several studies which adopted interview techniques, including Njuguna et al. (2020) and Moodley and Govender (2020), failed to decouple enterprise from ownership. Consequently, these works overlooked the complex relationships between an enterprise, its external performance and its internal value. Fatma and Chouaibi (2021) and Klemm and Parys (2012) relied on secondary sources of data and or pure metrics but failed to tie capital sources with the supply of the structured financing. In an effort to rebalance the methodological gaps cited, the current study adopts a quantitative method and quasi-longitudinal technique by taking census survey on the distinct objective area of this study. Although county revolving loan programs operate as financial conduits designed to aggregate funds for reallocation, bear credit risk in the process of generating future economic benefits, they are neither leveraged, taxed nor traded. The current study operationalizes their evaluation not on market prices but rather on adaptable constructs from corporate finance to public sector context by using cash-flow–based measures as explained by Brealey et al. (2023). Furthermore, existing frameworks fail to theoretically explain how macro-level institutional compliance interacts with micro-level financial performance metrics in non-traded public funds (Meyer & Höllerer, 2014; Scott, 2014). Based on these gaps, does economic growth significantly moderate the relationship

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between corporate governance and enterprise value across County revolving loan funds in Kenya?

Research Objective

To investigate the the moderating effect of economic growth on the relationship between corporate governance and enterprise value.

Literature review

A comprehensive review of theoretical foundations and previous empirical works that focused on related research variables was done. The review exemplifies the knowledge gaps, displays the conceptual model and further outlines the study hypothesis.

Theoretical Underpinnings

To rigorously investigate how economic growth shapes the efficacy of corporate governance as a primary explanatory factor of enterprise value, this study anchors its empirical framework in two complementary perspectives of Agency Theory and Institutional Theory.

Agency Theory

In 1776, Adam Smith initiated a concept which in the modern formulation is the Agency Theory and is widely attributed to Jensen & Meckling (1976). The theory is based on a four-legged principle-agent relationship; risk aversion, information asymmetry, ownership-control distinction and goal conflicts (Mumuni & Akurugu, 2025). The Information Asymmetry assumption agrees that agents have upper hand in information as compared to their principals. The risk aversion assumption is of the view that the principals are more risk-averse and are likely to prefer lower-risks because they bear the full consequences. The assumption in regard to the separation of ownership and control highlights the distinct roles of principals and agents in modern settings. The distinctions underscore the divergent interests leading to the goal conflict assumption which claims that agents always rate their interests higher than those of the principals (Jensen & Mackling, 1976). In essence, the theory explores the relationship between a "principal" and an "agent". The principal delegates operational mandate to an agent however, the theory recognizes that the interests of both the principal and the agent may be at variance at times. The theory refers to this type of conflict as the principal-agent problem and can lead to agency costs. (Fama & Jensen,1983).

Williamson (1985) suggests that corporate governance mechanisms, should demand for oversight to curtail expenditure and ensure that the agent acts absolutely for the strategic goals of the principal. Agency theory helps in explaining how governance mechanisms oversee the fiduciary aspects to ensure that managers conform to the loan funds mission and not personal gains. The theory achieves this by demonstrating how budgetary provisions from the principals are deployed to the targeted businesses in a manner that mitigates any kind of risk issues inherent in lending. Both the agents and the principals are expected to hold utmost amount of rationality by acting under full and perfect information in the context of the loan funds. This is due to the way a revolving fund may attempt to work as a closed system, one that is not influenced by debt financing, market prices or taxes. While taxes are not directly

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applicable to the governmental support schemes, the overall tax mechanisms impact the economic context, which in turn affects the funds' fair value as a conditional factor. Hence, the theory becomes very important in understanding how macroeconomic stability may moderate the agency costs. In fact, different economic periods are meant to exhibit diverse risk levels and agency conflicts.

The agency theory's assumptions offer protection over the financial health of the revolving funds by advancing their overall enterprise value and sustainability. Simply put, the foundational framework which is linking corporate governance and enterprise value is rooted in Agency Theory (Jensen & Meckling, 1976). The linkage point is about how effective governance, by mitigating agency risk, is meant for inculcating trust and confidence in part of the owners. This offers the opportunity of minimizing the financing costs for the county funds, thereby enhancing their enterprise value. Agency theory has a weakness of reducing the entire economic world to a series of legal and financial agreements between self-interested principals and agents. It completely strips away human relationships, social structures and macroeconomic realities. It does not view an institution as a living community but merely as a "nexus of contracts".

Institutional Theory

To address the limitation identified in the Agency Theory, this study incorporates Institutional Theory. The theory's perspective makes the assumption that, entities do adopt norms, regulations and practices within their environment (Meyer & Rowan, 1977). The organizations do this through a process known as institutional isomorphism (DiMaggio & Powell, 1983). The process occurs because organizations scramble for legitimacy and acceptance which are vital for their survival and acquisition of economic resources. Within the extensive area of corporate studies, institutional theory is applicable in assessing organizational context and its internal behavioural tendencies as being products of its surrounding environment. Conformity and compliance to the macro-environment is dependent on coercive regulations, imitation of successful participants and adherence to professional standards. The theory holds a crucial position which is relevant in explaining how vital elements such as governance structures, standard procedure and professional etiquette are created and diffused within and between organizations (Roszkowska-Menkes, 2023). The theory acknowledges that institutions' structures pre-exist the principals-agent agreements and shape their actions but, people through reflection and intentional actions, can also remodel the institutions over time (Archer, (1995). It can be explained from the works of North (1990), that the institutional environment is often more impactful on the enterprise value elements. The assertions do clearly position economic growth as a powerful driver behind a thriving organization. However, the theory has a limitation in its struggles to adapt to volatile macroeconomic shifts or rapid economic downturns.

Full comprehension of the theory of institutions requires internalization of the factors that shape formal entities, including their informal structures, mandates,

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behavioral expectations and operational tendencies which evolve into blue prints for expected results (Scott, 2014). Institutional theory contributes to the current study's understanding of how organizations get their characters. Perhaps, the revolving loan funds tend to mimic closed systems by ignoring economic pressors triggered by market imperfections. They imitate philanthropic organizations by lending at concessionary rates or just imitating the commercial banks by mitigating risks which are inherent in lending. It can also be said that revolving loan funds are in the process of discovering themselves in the global village or they are struggling to create their own identity. The institutional theory supports adoption of their established requirements because this signals compliance with the institutional expectations. The mere existence of the revolving loan funds and their targeted focus on micro-businesses, is often a response to institutional pressures or government policies aimed at fostering growth in underserved areas. Hence the theory consistently supports the aim of increasing cash flows while lowering the cost of capital**,** as embedded in the funds' institutional and social mandate. The ability by the loan funds to enhance their enterprise value is a clear means to maintaining legitimacy towards continuous budgetary provisions. Over dependence on budgetary capitalization exposes the funds' fair value to possible friction in periods of volatile macroeconomic shifts. For instance, when economic growth slows sharply, rigid bureaucratic governance may stagnate agile decision-making which can destroying enterprise value.

The theory eminently exposes the study to the wider institutional context of the market which may include legal platforms and regulatory frameworks. The stability of the immediate economic ecosystem, is thus viewed as a strong influencer of how successful the governance and the financial mechanisms are. Over and above, the theory enables the study to access the deeper *logics* that underpin the obvious corporate practices by explaining why the practices persist. The institutional theory has been criticized for over emphasising external conformity while ignoring financial realism, market dynamics and internal firm capabilities (Alsharari & Aljohani, 2024). Hence, the theory may treat entities as passive recipients of external pressures rather than strategic actors. Institutional theory prioritizes macro-level compliance at the expense of internal firm dynamics (Meyer & Höllerer, 2014). Consequently, it overlooks how managers can leverage economic growth to evade governance constraints for personal benefit. Nonetheless, this study provides deeper insights into how institutional structures interact with the rest of its variables by analyzing new data and existing empirical literature.

Empirical Literature Review

The empirical review explores and describes earlier studies based on their relevance to the current study objective. Empirical review also focuses on the conceptual foundations, objectives and methodology. The review synthesizes the analysis made in effort to unearth practical differences in the findings and conclusions made to logically discern inherent empirical gaps and to contribute to advancement of

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knowledge. It ends with an outlay of the study's conceptual framework.

Corporate Governance and Enterprise Value

At the organizational level, empirical literature recognizes internal governance characteristics as primary determinants of realized enterprise value, though these outcomes are deeply influenced by ownership structures. Using logistic regression on listed equities in Shanghai and Shenzhen from 2015 to 2019, Šarlija et al. (2016) demonstrated through linear regression that internal financial performance is heavily driven by endogenous financing paths during periods of high economic growth, whereas debt and equity financing models often erode or fail to affect value of the enterprise. The composition of oversight boards is known to alter an enterprise's value creation path. Chen et al. (2019) applied regression modelling on panel data from Chinese enterprises between 2008 and 2013 and confirmed that the positive impacts of information systems and internal controls are optimized when institutional ownership is concentrated. Significant decline in financial performance was mostly observable in firms operating as public enterprises or dealing with governance vulnerabilities of chief executive officer (CEO) duality. Similarly, Liu and Zhang (2017) verified that specific corporate governance configurations directly dictate social responsibility disclosures. The paper relied on multi-year panel data and established empirical regression models.

Dang et al. (2019) applied generalized least squares and structural pathways analysis. The regression results identified firm size and underlying profitability as positive drivers of enterprise value. Notably, their analysis indicated that economic growth factor exercised no statistically significant direct impact on enterprise value which pointed towards a missing moderating framework. Kirigo (2023) utilized correlation, regression and summary statistics to identify key factors influencing loan fund performance. The paper established instrument reliability and addressed ethical considerations for data collection in Kenya's Laikipia County. The analysis focused on the Enterprise Fund and Cooperative Revolving Fund to determine the primary determinants of performance. The study findings proved that loan management practices and operation procedures positively and significantly influenced loan funds' performance. Ibeabuchi-Ani et al. (2025) collected data from corporate publications, applied content analysis and utilized summary statistics alongside panel data regression to test the research hypotheses. The estimations confirmed a strong relationship between corporate governance and firms' enterprise value in Nigeria.

Corporate Governance and Economic Growth

The empirical nexus linking corporate governance with economic growth rates reveals complex and often contradictory outcomes across diverse analytical settings. Utilizing a cross-country log-linear framework, Tiwari (2010) established that an aggressive governance performance shares a significant inverse relationship with broader macroeconomic indicators. Conversely, capital investments and consumption expenditures emerged as

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robust positive drivers of economic output. The macro-economic variation highlights the unique institutional risks present in emerging markets. For instance, Maune (2017) investigated the long-term impact of structural governance designs on economic growth in Zimbabwe from 1968 to 2015. Employing multiple linear regression models on World Bank indicators, the author demonstrated that the marginal return of institutional governance on economic expansion is non-linear, operating in both positive and negative directions depending on underlying institutional quality.

Saberi and Hamdan (2019) applied time-series estimations over a ten-year horizon (2006–2015) within the Gulf Cooperation Council (GCC) region. Their findings showed that while risk capital and regional output are powerful catalysts for investment, governmental support exerts a powerful moderating influence on macro-entrepreneurial growth. Machobani (2024) evaluated the complex dynamics of governance and Gross Fixed Capital Formation (GFCF) within nations across Sub-Sahara Africa**.** Empirical results from the System GMM model revealed that diverse economic drivers have joint influence on GFCF. This reality enforces policymakers to apply elaborate strategies for long-term development. The adamant nature of past capital options means that the governments must continuously stimulate business growth. In a nutshell, macroeconomic determinants such as micro business policies, recurrent votes, gross domestic savings and public spending are capable of creating conducive environment for private sector in Sub-Saharan Africa.

Corporate Governance, Economic Growth and Enterprise Value

Over the decades, scholarship has encouraged analysis on the relationship between corporate governance and economic growth. Aligning with this trend, Skare et al. (2016) conducted extensive review on how corporate performance connects to macroeconomic expansion. The review revealed that corporate governance positively influences institutional value and in turn economic growth. The review further concluded that both empirical and theoretical literature position corporate governance as a vital determinant in the area of modern growth models. While, investigating 14 South American countries between 2002 and 2018, Azam (2022) assessed the impact of governance and macroeconomic metrics on economic growth. The study's application of the panel autoregressive distributed lag model demonstrated that corruption severely hinders long-run growth. Conversely, political stability and government effectiveness significantly boost growth. Ultimately, the evidence shows that rising corruption slows economic performance, whereas stable and effective governance accelerates economic growth. Evidence from a descriptive analysis by Aluoch (2021) establishes a multi-layered model for corporate finance. While the data demonstrates that firm-specific financial characteristics fail to mediate the link between governance and performance, it non the less validates economic growth as a powerful external moderator. In dead, the study demonstrates that financial results are most accurately explained when corporate governance, institutional financial

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indicators and wider macroeconomic drivers are modeled together.

Research has suggested that enterprise value is attributable to corporate governance, but there is no uniformly on the influence of economic growth on enterprise value. The realization has led contemporary researchers to explore conditional interaction models. Hapsoro and Syahriar (2021) utilized a purposive sampling methodology to analyze the resilience of market returns. While their direct models indicated that economic growth failed to moderate the relationship between fundamental earnings-per-share (EPS) ratios and stock returns, their interaction equations revealed a high moderating influence of economic growth on the connection between valuation metrics (price-to-earnings and net profit margins) and realized market returns. The aforementioned findings confirm that economic growth function as a moderator in the value metrics and internal corporate governance. This aligns with the concepts formulated by Smyrnov (2024), who posited that economic growth of an enterprise is an integrated function of the organic relationship between underlying economic value, capital formation and strategic processes. The study used panel data from 130 countries over the period 2010–2019 that was analysed through a three-stage least squares approach. A study by Acquah-Sam et al. (2025) examined how macroeconomic policies influence the relation between corporate governance and firm performance in Sub-Saharan Africa. Utilizing a panel research design, the authors analyzed data from 309 firms over a seven-year period spanning 2016 to 2022. To ensure statistical reliability and account for potential outliers, the study applied the Huber M-estimation Robust Least Squares regression method. The empirical results prove that strong corporate governance structures have a positive and significant influence on corporate performance within the region.

Existing research confirms that the link between corporate governance and corporate performance relies heavily on the landscape of macroeconomic policy. This conditional relationship was evaluated by Batoun et al. (2026**)**, who analysed how economic growth rates moderate the aforementioned linkage across listed non-financial firms in the GCC region. Utilizing data from 133 entities over an eight-year horizon (2016–2023), the authors leveraged a two-step System GMM estimation strategy to resolve potential endogeneity and panel dataset biases. Enterprise performance indicators relied on return on assets ROA and Tobin's Q metrics. On the other hand, characteristics of corporate governance were represented by board size, dual CEO-chair roles and independent directorship ratios. The findings indicate that economic growth rates play an uneven, nuanced role in modifying governance performance. The interaction term for board scale and economic growth was significantly positive, illustrating that larger boards generate higher firm value during periods of economic expansion. In contrary, the joint effects involving leadership duality and independent oversight failed to achieve statistical significance, implying that these governance mechanisms operate independently of macroeconomic

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fluctuations. Ultimately, the evidence demonstrates that economic growth primarily boosts the efficacy of resource-driven dimensions of governance while poorly influencing compliance and monitoring setups.

Knowledge Gap and Research Justification

A critical synthesis of the empirical literature reveals a major gap that this study aims to address. The extensive review reveals research on corporate governance or economic growth as isolated and direct drivers of firm performance. The literature reviewed under this study exposes remote empirical exploration on the non-linear interaction where economic growth act as a moderator in the connection between corporate governance and enterprise value. Existing studies are heavily skewed toward large commercial corporations which are listed in advanced or emerging markets. Consequently, their findings cannot be easily applied to decentralized, government-funded and resource-constrained credit systems in Kenya. This study bridges these theoretical and empirical gaps. By implementing a moderated multiple regression model across 31 county revolving loan funds in Kenya, the study provides empirical evidence of how sub-national economic growth changes the degree to which internal board governance determines the funds' enterprise value.

Conceptual Framework

A conceptual framework maps the hypothesized interrelationships among variables within a disciplined empirical inquiry (Tamene, 2016). The structural network models the primary constructs of this study where in, corporate governance drives the enterprise value as conditioned by the moderating influence of economic growth. The model is presented in figure 1.

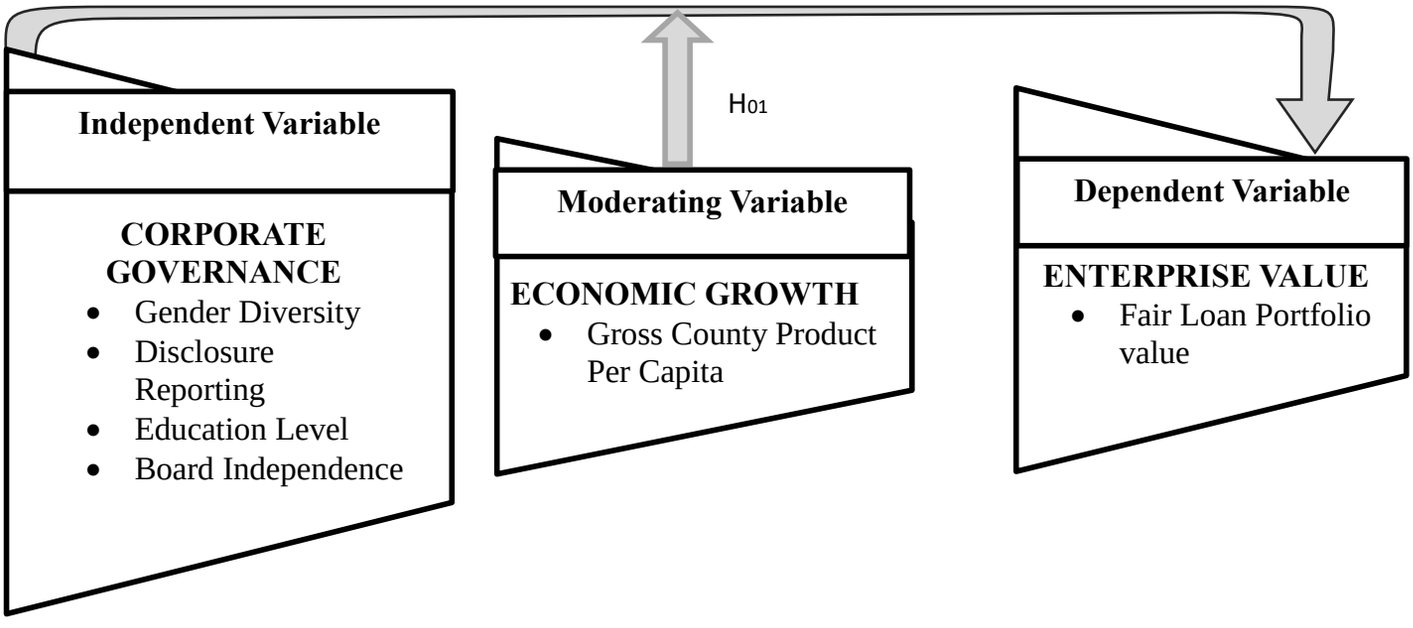


Figure 1: Conceptual Model

Source: Researcher 2024

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As conceptualized in figure 1 above, this study relies on a structured model designed to analyze the relationships among predictor, moderator and response variables. Corporate Governance acts as the primary predictor which is captured through four sub-constructs comprising gender diversity, disclosure reporting, education level and board independence. The response variable is Enterprise Value quantified as the *Fair Loan Portfolio Value* of the county revolving loan funds. Economic Growth which is proxied by *Gross County Product (GCP) Per Capita* is modeled as a moderator that alters the slope and strength of the link between the independent and dependent constructs.

Research Hypothesis

To empirically examine the strengths and signs of the conceptualized interrelationships, the central null hypothesis was developed as follows;

> **$H0_1$:** Economic growth does not exert a statistically significant moderating influence on the relationship between corporate governance and the enterprise value.

Research Methodology

The study's methodology serves as the master blueprint that explains the data under study. It specifies how the research data are sourced, measured and modeled with the explicit goal of answering the research question.

Research Design

The current study adapted the descriptive design as its primary approach. According to Kothari (2004), descriptive design is concerned with relationships between variables, narrating characteristics in a population and prediction of associated facts (Orodho, 2009). Descriptive design is helpful in securing varied, diverse and thorough information which delivers complete and accurate understanding of a research topic. The descriptive design as the core approach of the study, allowed for full description of the funds' environment including internal governance design and external economic conditions. It made attempts to paint the real picture of the overall enterprise value of the revolving loan funds feasible. The study needed to move beyond description to explanation of relationships in a more logical framework. The study had to create index scores across all the revolving loans funds to permit conceptualization of corporate governance as a composite variable. It therefore transformed the sub-constructs of the independent variable into continuous data by computing their numeric averages. This was not applicable to both the moderating and the dependent variable because they each had one sub-construct.

Population, Sample Size and Unit of Analysis

In the current study, the foundational unit of analysis was the revolving loan fund (RLF) and the target population was a total of 38 county revolving loan funds which were established and actively operational within their respective jurisdictions. Kenya has a total of 47 counties and each is legally permitted to establish more than one revolving loan fund (Public finance Management Act 2012). The study confirmed that 35 counties had exercised this authority resulting in a total of 57

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established county revolving loan funds. From these, the 38 actively operational ones emerged as the target population. The study maintained strict focus at the entity level rather than individual loan beneficiaries or broader county governments. This was aimed at allowing for their exact evaluation across the entire country.

Sample sizes greater than thirty (30) but less than five hundred (500) are appropriate for statistical analysis (Churchil & Brown, 2004). By upholding the same view as Kothari (2004) on precise and manageable size of a target research population, a comprehensive census survey was deployed in lieu of a traditional sampling method and extending data collection efforts to all 38 actively operating loan funds. Ultimately, 31 revolving loan funds responded positively and provided complete-researchable data for final analysis. This exhaustive census approach captured uniform metrics across the vast majority of active units. This minimized potential sampling bias and significantly strengthened the empirical validity of the findings by providing a high-coverage of active revolving loan funds in Kenya.

Data Collection Instruments and Procedures

The research benefited from a quasi-longitudinal panel as opposed to a true longitudinal study, an approach with three primary elements, repeated data collection, a sensible time metric and an outcome that varies systematically (Day, 2011). According to Diaz et al. (2022), a quasi-longitudinal configuration is characterized by the incorporation of any two out of the three core elements that define a true longitudinal design. The study collected data from the same loan funds for every year covered, while the only scores that changed from year to year were those of the moderator and the outcome. This type of model is accurately known as quasi-longitudinal because it captures the constant effects of corporate governance and allows for repeated cross-sectional analysis of both economic growth and enterprise value. The approach produced a five (5) year sequence of data points to study thirty-one (31) units, resulting in 155 all time-points. To yield a workable cross-sectional data frame, the study collapsed individual yearly data into numeric averages. The use of quasi-longitudinal approach was appropriate because it enabled retrospective examination of analytical sample at a snap shot. The approach really assisted in unveiling information before processing, to the impact of the indicators as considered in the research question all the way to the application of the analytical techniques. This research exclusively utilizes secondary dataset to execute the quantitative analysis.

The secondary data covering the fiscal periods between 2019 and 2024 was retrievable from county treasuries and existing national records regarding the study variables. Archived news articles provided historical timeline of events or shifts in the broader financial or community-based perspectives. Government publications were also resourceful in detailing the economic climate, regulatory landscape and policy environment affecting the incentive schemes. The study even used information about lending performance across the sector

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to contextualize data about the revolving loan funds. Data sheets were designed to collect data from a set of thirty eight (38) units. The use of secondary data was helpful in guiding, uncovering and reshaping the underlying attributes within the county revolving loan funds. Use of secondary data enabled access to large, time ordered and robust datasets that resulted in significant statistical power than would be in the resource-intensive primary source. The research findings remained more objective as secondary data had no direct influence from the researcher's presence or actions. The collection method was also invaluable in facilitating and blending longitudinal elements with cross-sectional design through which, fewer resources were utilized to obtain quality data. Even though Quasi-longitudinal designs carry information that can admit both aggregate and individual-level analyses (Lebo & Weber, 2014), the study collapsed data on each study variable into their mean scores. This was done with the aim of creating workable composite scores for each revolving loan fund under study. indeed, aligning elements of quantitative data with quasi-longitudinal design increased the robustness of the subsequent analyses.

Operationalization and Measurement of Variables

According to Dovetail Editorial Team (2023), operationalization is the process of turning abstract concepts or ideas into measurable observations. The process is important because it permits clear definition of the measurement of an occurrence that draws its existence from other happenings and whose measurement can't be directly done. The operationalization of this study is grounded on multi-item indicators which are categorized and interpreted based on the type of raw data that was collected. Ratio scales were used on all the indicators representing the concepts of the study because their processed and testable details were metric in nature. Ratio scale of measurement assisted in ensuring high mathematical precision, permitting absolute comparisons and establishing rigorous foundation for subsequent statistical modeling and hypothesis testing.

The independent variable which was corporate governance, was evaluated through gender diversity, disclosure reporting, board education level and board independence as the operational indicators. Gender diversity, a reflection of the demographic and social makeup of the boards was operationalized as the fraction of female board members. Disclosure reporting capturing transparency and accountability was quantified by the periodic submission of mandatory financial reports. board education level, accounting for the intellectual capacity of the board, was measured as the percentage of academic or professional credentials earned by the members. Lastly, board independence assessing board objectivity was calculated as the fraction of external, non-executive board members.

The moderating variable which was economic growth, was represented by the Gross County Product per capita. To ensure statistical stability, satisfy the assumptions of linearity and manage variance within the data, the indicatorwas mathematically transformed by calculating the square root of its absolute value. The ultimate

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dependent variable, the enterprise value, was executed using the Fair Loan Portfolio value. Because financial portfolio values often span a wide range and exhibit right-skewness, the metric was mathematically stabilized. This was done using the natural logarithm of the absolute fair loan portfolio value. This helped to compresses the scale of large figures and prepare the data for robust linear regression modeling.

Data Analysis.

Descriptive and inferential statistics were applied to the collected data with specific focus on regularized moderated multiple regression.

Research Results

The results of the study on the variables and their relationships are presented from descriptive statistics and regression tests.

Descriptive Analysis

Fundamental descriptive statistics for the core study variables across the sampled county revolving loan funds (N = 31), including their arithmetic mean, standard deviation (SD) and coefficient of variation (CV) are reported in table 1.

Table 1: Descriptive statistics for the study variables

Variable	Arithmetic Mean	Standard Deviation	Coefficient of Variation (%)
Enterprise value	17.39	1.602	9.22
Corporate governance	6.63	0.843	12.7
Economic growth	4.72	3.984	84.5

Source: Research data (2024)

The results from table 1 show that the dependent variable, enterprise value is displaying arithmetic mean score of 17.386, a standard deviation (SD = 1.602) and a relatively low coefficient of variation of 9.215%. The data demonstrates high stability and narrow dispersion, indicating that business worth remain consistently distributed across the county revolving loan funds. Similarly, the primary independent variable, corporate governance is showing arithmetic mean of 6.626, standard deviation (SD = .843) and a low coefficient of variation (CV = 12.73%). This suggests that most of the sampled revolving loan funds maintain uniform operational compliance, structured governance standards and excellent influence on fair fund values with minimal exceptions.

In stark contrast, the moderating variable, economic growth is exhibiting arithmetic mean of 4.718 but carries a remarkably high standard deviation of 3.984. This wide dispersion is reflected in a substantial coefficient of variation of 84.46% and is implying that economic growth exerts a negligible direct effect on enterprise value. The exceptionally high CV indicates significant macroeconomic heterogeneity across the different counties in Kenya. While some county revolving funds operate within highly vibrant economic regions, others navigate deeply constrained and low-growth sub-national economies. This

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extreme variation in the economic environment provides an empirically rich justification for testing economic growth as a moderating factor. This is because its broad fluctuations could fundamentally alter how corporate governance characteristics translate into realized enterprise value.

Regression Analysis

The hypothesis was tested using multiple regression models. The empirical estimations, statistical significance tests and corresponding interpretations ultimately made.

The Direct Effect of Corporate Governance on Enterprise Value

The direct empirical relationship between corporate governance and enterprise value was initially isolated through a simple linear estimation. The resulting regressions are presented in table 2.

Table 2*:* Regression estimates for corporate governance and enterprise value

Regressor	**Coefficient (*B*)**	**Std. Error (SE)**	**Standardized Beta**	**T- Stat**	***P*-Value**
Constant	6.456	1.169		5.522	< .001
Corporate governance	1.650	0.175	0.868	9.422	< .001
Model Fit Statistics	**Value**	**Parameters**			
R	.868				
R^2	.754				
Adjusted R^2	.745				
Std. Error of Estimate	.809				
***F*-Statistic**	88.766	df = (1, 29)	—	—	< .001

a. Dependent Variable: Enterprise value

Source: Research data (2024)

The results of the simple regression analysis indicates that corporate governance exhibits a significant predictive effect on enterprise value. This accounts for 75.4% of the variance (R^2 = .754, F = 88.766, p < .001). Enterprise value rises by 1.650 units for every unit gain in corporate governance (B = 1.650, t = 9.422, p < .001). The findings corroborate that corporate governance and the mitigation of agency conflicts are fundamental prerequisites for stronger enterprise value. In devolved public service, characterized by institutional voids, a robust internal corporate governance essentially acts as a vital signaling factor. It reduces default risks, compensates for broader regulatory

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deficiencies and directly preserves the revolving pool of the loan funds.

The Joint Effects of Corporate Governance and Economic Growth on Enterprise Value

The main effect of economic growth as measured via Gross County Product (GCP) per capita was introduced into the model alongside corporate governance. The multiple linear regression findings are detailed in Table 3.

Table 3*:* Regression estimates for corporate governance, economic growth and enterprise value

Regressor	**Coefficient (*B*)**	**Std. Error (SE)**	**Standardized Beta**	**T- Stat**	***P*-Value**
Constant)	7.111	1.185		5.998	<.001
Corporate governance	1.597	0.171	0.840	9.318	<.001
Economic growth	-0.065	0.036	-0161	-1.786	.085
Model Fit Statistics	**Value**	**Parameters**			
R	.883				
R^2	.779				
Adjusted R^2	.763				
Std. Error of Estimate	.780				
***F*-Statistic**	49.329	df = (2, 28)	—	—	< .001

a. Dependent Variable: Enterprise value

Source: Research data (2024)

The multiple regression model demonstrated a strong statistical tie between enterprise value and both corporate governance and economic growth. This is evidenced by the analysis of variance results (F (2, 28) = 49.329, p < 0.001. This confirms a highly reliable empirical fit. The second model shows the multiple correlation coefficient improving to R = .883. This conveys a stronger combined linear association of 88.3% between corporate governance, economic growth and enterprise value. The table 3 results indicate the coefficient of determination (R^2 = .779). This implies that, variations in the combination of corporate governance and economic growth contribute to 77.9% of the total variance in enterprise value across the selected county revolving funds. This prompts a net incremental variance explanation of 2.5% over the preceding table 2 results. When adjusting for the degrees of freedom within the joint explanatory power of time-averaged cross-sectional dataset, the Adjusted R^2 remains increasingly stable at

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.763. This indicates minimal risk of model over-fitting. The remaining 22.1% of the variance is explainable by factors excluded from the model

The regression coefficients reveal that the jointly estimated parameters significantly and positively influence the outcome in their individual assessments. The unstandardized constant intercept (B = 7.111, t = 5.998, p < .001), suggests the valuation of the county revolving loan fund operating at the starting point. Controlling for this intercept, the unstandardized regression coefficient for Corporate Governance is positive and highly significant (B = 1.597, t = 9.318, p < 0.001). This means that, *ceteris paribus*, a single-unit improvement on the standardized corporate governance scale triggers an absolute increment of 1.597 units in the enterprise value. This cross-model consistency proves that corporate governance is an unyielding anchor for enterprise value regardless of the shifting economic surrounding. On the other hand, the findings also discovered a secluded insignificant economic growth**.** Holding corporate governance constant, the individual effect of economic growth is negative and fails to achieve statistical significance at conventional thresholds (B = -0.065, t = -1.786, p = .085). From analytical standpoint, this statistically insignificant main effect is a vital finding.

The statistically insignificant effect demonstrates that economic expansion alone does not automatically benefit the operations of the devolved revolving funds. Instead, it strongly implies that the true effect of economic growth at the decentralized credit schemes is not direct and perhaps conditional. This outcome provides an excellent empirical justification for moving to the final step to test the multiplicative interaction term (corporate governance multiplied by economic growth) to confirm if economic growth acts as a catalyst rather than a direct driver.

The Interaction Effect of Corporate Governance and Economic Growth on Enterprise Value

The core hypothesis as dictated by the study's title was tested and it marked the final stage of the hierarchical linear regression estimation. The model introduces the multiplicative interaction term computed from mean-centered corporate governance and economic growth. This specific configuration evaluates whether the county economic climate actively alters the capacity of oversight frameworks of the fund boards to generate and preserve enterprise value within the county revolving loan funds. The outcome of the regression test satisfying the research objective is reported in table 4.

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Table 4: Regression estimates for corporate governance economic growth, the interaction term and enterprise value

Regressor	**Coefficient (*B*)**	**Std. Error (SE)**	**Standardized Beta**	**T- Stat**	***P*-Value**
Constant	10.402	1.682		6.185	< .001
Corporate governance	1.080	0.256	0.568	4.225	< .001
Economic growth	-0.884	0.322	-2.198	-2.746	.011
Corporate governance * Economic growth	0.130	0.051	2.019	2.558	.016
Model Fit Statistics	**Value**	**Parameters**			
R	.907				
R^2	.822				
Adjusted R^2	.802				
Std. Error of Estimate	.712				
***F*-Statistic**	41.577	df = (3, 27)	—	—	< .001

a. Dependent Variable: Enterprise value.

Source: Research data (2024)

The hierarchical regression analysis proved the overall model was statistically significant. It established a very strong statistical tie between enterprise value and all the three predictor variables as evidenced by the analysis of variance results ($F (3, 27) = 41.577$, $p < .001$). This proves an exceptionally robust overall model fit. The findings show the multiple correlation coefficient improving to R=.907. This conveys a stronger combined linear association of 90.7% between corporate governance, economic growth, the interaction term and enterprise value. While, the coefficient of determination ($R^2 = .822$). implies that, variations in the combination of corporate governance, economic growth and the interaction term contribute to 82.2% of the total variance in enterprise value across the county revolving funds. This means that moving to the interaction block explains an incremental of 4.3% of previously unexplained variance (Change in $R^2= .043$). When adjusting for the degrees of freedom within the joint explanatory power of time-averaged cross-sectional dataset, the Adjusted R^2 remains increasingly stable at 0.802. This indicates minimal risk of model over-fitting. The remaining 17.8% of the variance is explainable by factors not in the model.

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These uncaptured factors may include fund-specific loan terms such interest rates or subsidies as well as borrower characteristics including business sector composition and their entrepreneurial experiences. On the other hand, the individual regression coefficients confirm that corporate governance shares a significant positive relationship with enterprise value (B = 1.080, t = 4.225, p < .001). In contrast, economic growth exhibits a significant negative connection with enterprise value (B = -0.884, t = -2.746, p = .011). This negative effect indicates that economic growth rate can reduce enterprise value when board oversight is ineffective**.** This implies that the primary impact of growth is driven by its interaction with governance. Supporting this, the interaction term portrays a statistically significant positive association with enterprise value (B = 0.130, t = 2.558, p = .016). This result clearly illustrates that the interaction between GCP per capita and corporate governance characteristics is fundamental in determining fair loan portfolio value.

Discussion of Findings

This research was designed to examine the interaction between corporate structures and macroeconomic conditions. The research analyzed how economic growth moderates the effect of corporate governance on enterprise value. The results established that the impact of corporate governance on enterprise value is significantly contingent upon economic growth (B = .130, R^2 = 799, p <.05). The findings established that the joint product of corporate governance and economic growth carries a positive unstandardized coefficient of 0.130, suggesting that enterprise value is directly proportional to economic growth. On the whole, for revolving loan funds in counties where rise in GCP per capita were higher, the accelerated effect attributable to corporate governance corresponded to greater escalation in enterprise value than for those in counties whose GCP per capita were lower. On the specifics, the findings imply that quality corporate governance within the county loan funds is linked to appreciation of the funds' enterprise value even in the absence of an economic accelerator. Suggesting that, strong oversight of the loan funds can improve efficiency, impede risk, and ensure prudent lending practices.

The individual results further demonstrate how economic growth can trigger fluctuations in the funds' enterprise value even in the absence of a meaningful corporate governance. Meaning that, if a county has no quality corporate governance over its loan funds, a rapid economic growth would impede on the loan fund's enterprise value. In other words, the absence of oversight during an economic boom, could lead to riskier, poor-quality loans or mismanagement that ultimately hurts the fund's fair value. The particular important finding from table 4 is the interaction term (+0.130). The interaction term is important in revealing the conditional nature of the relationship. In this case, the corresponding enterprise value stemming from sufficient corporate governance is not constant but dependent on the degree of a county's economic growth**.** To be specific, the significant positive interaction means that, the fair

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value of the revolving loan funds generated by corporate governance is amplified during periods of higher Gross County Product**.** Indeed, the manner in which corporate governance jointly with economic growth shapes enterprise value is multiplicative rather than additive.

The current research has no previous concurrence on exactly related results. However, there are fairly related findings on the behaviours of economic growth in similar contexts. For instance; Aluoch (2021) conducted research whose findings confirmed that the financial performance outcomes of corporate governance are significantly contingent upon economic growth. The success of a revolving funds in the face of economic instability is common in small-business support programs. For example, some funds designed to support communities after the 1997 financial crisis in East Asia were successful even when the region's economy was in turbulence. The fund's internal processes and management were the driving forces behind their performance. The government prioritized transferring capital to poor communities, which was a specific mission-driven, rather than simply maximizing profits in a market economy (Ramesh, 2009).

There are studies with conceptually related value metrics that the current research draws from. A case in point is Skare et al. (2016) which evaluated the predictive link from economic growth to corporate performance. The review concluded that corporate governance positively influences institutional value and in turn economic growth. Interestingly, literature review by Hapsoro and Syahriar (2021) found that economic growth failed to directly influence the relationship between fundamental earnings-per-share (EPS) ratios and stock returns, their interaction terms confirmed a highly significant interaction effect of economic growth on the tie between valuation metrics (price-to-earnings and net profit margins) and realized market returns. The findings confirm that economic growth functions as a moderator in the value metrics and corporate governance. There are those studies which isolated corporate governance elements for analysis as opposed to their combined effect. Notably, Batoun et al. (2026) analysed economic growth as the moderater in the process where firm performance is amplified by corporate governance among the six member states of the Gulf Cooperation Council. The results revealed a selective moderating effect of economic growth. The interaction between board size and economic growth proved positive and statistically significant while, the interaction effects of CEO duality and board independence were found to be statistically insignificant. The interaction between board size and economic growth exhibited a statistically positive association. The respective interaction effects for both CEO duality and board independence were also established.

Conclusion

The study investigated the moderating influence of economic growth on the relationship between corporate governance and the enterprise value. The study implemented a hierarchical moderated regression model across 31 selected devolved revolving loan funds in Kenya. Based on this analysis, the empirical results

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rejected the null hypothesis. The interaction model confirmed that the integration of regional economic growth, measured through Gross County Product (GCP) per capita, explains significant incremental variance in enterprise value. These are very powerful findings exposing us to a contextual reality where, corporate governance holds protective and growth-enhancing effects on a county's loan fund and is particularly important during periods of high economic growth, when the potential for both high lending returns and high credit risk is elevated. Even though economic growth indicated negligible and negative effect, the significant positive interaction between corporate governance and Gross County Product is paramount.

The findings strongly imply that, in the absence of a strong corporate governance, an economic boom has the potential of influencing reckless or poor lending practices, possibly driven by pressure to disburse more loans. This would increase the risk of default and deprive the funds' their enterprise value. In the same length, during seasons of high economic growth, the effects of corporate governance in causing the funds to thrive is much stronger. Good oversight and financial management become more effective in ensuring that loans are directed to the most promising businesses, increasing collection rates and optimizing the financial resilience of the loan portfolios. The practice eventually counters the potentially negative effects that might arise from unsound incentive decisions or reckless lendings during an economic boom. Inversely, during economic downturns, the broader economic environment is not as conducive to maximizing the funds' fair portfolio value. During such periods, the contribution of corporate governance remains beneficial but with reduced effect on the funds' enterprise value. As a whole, the research findings confirm that; enhancing corporate governance and fostering economic growth are critical strategies for improving enterprise value across the county revolving loan funds.

Contribution to Public Finance and Practice

The fundamental contribution of this study lies in demonstrating that corporate governance does not influence enterprise value within a vacuum. By shifting the analytical lens away from static, insular book-value assessments, this research provides a dynamic framework showing that quality of corporate governance is inherently contingent upon the surrounding macroeconomic environment. This contribution is particularly critical for resource-constrained decentralized jurisdictions across Kenya. The practical implications of these findings offer clear structural guidance for public administrators, county executives and implementing partners whether domestic or international. The findings particularly may assist in mitigating pro-cyclical lending risks**.** For example, when the economy is booming, local credit ecosystems face increased systemic risks. Thus, oversight through the fund boards must implement strict, independent risk-assessments to counter internal pressures to expand credit disbursements indiscriminately. The findings may also be used in prioritizing pre-emptive governance reforms**.** Institutional capacity-building and

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governance adjustments must be enacted before injecting capital into the local revolving schemes. Equally important is the results application in insulating funds during downturns. During economic contractions, the marginal protective return of corporate governance faces friction due to widespread market pressures. Consequently, policymakers should design flexible capital-cushion mechanisms to protect the county revolving loan funds from systemic exogenous shocks. Ultimately, these insights offer a comprehensive framework for designing self-sustaining, devolved public credit systems which are capable of supporting long-term financial mechanisms.

Ethical Approval

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Conflicts of Interest

There are no conflicts of interests in the research.

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