THE INFLUENCE OF BOARD COMPOSITION ON PERFORMANCE IN THE BANKING INDUSTRY IN KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017
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Research Project Report Submitted to the Chandaria School of Business in
Partial Fulfilment of the Requirement for the Degree of Masters in
Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2017
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than to the United States International University in Nairobi for academic credit.

Signed: ___________________________ Date: ___________________________

Sharon Awinja Ingari (ID 640902)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Prof. Paul Katuse

Signed: ___________________________ Date: ___________________________

Dean, School of Business
ABSTRACT
The purpose of this study was to analyze the influence of board composition on performance in the banking industry. The study was guided by the following specific objectives: to determine how board member qualifications and experience influence performance, to analyze the effect of board gender diversity on performance and to ascertain if board independence has an effect on commercial banks performance.

The study adopted a descriptive and explanatory research method in analyzing, interpreting, and presenting data. The descriptive research method was the best for this study because it focused on the relationship between organizational board composition and performance of commercial banks. The study used questionnaires to get data from respondents. The study focused on 127 Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries in the eleven commercial banks in Kenya that are listed on the Nairobi Securities Exchange (NSE). The study used census approach on the targeted population. The study adopted descriptive and inferential statistics in data analysis and presentation. The research data was analyzed using Statistical Package for Social Sciences (SPSS) and Microsoft excel programs. Tables were used in data presentation.

The study examined how board member experience and qualification affects an organization’s performance. The study found that board members with high number of years of experience in various industries have a broader understanding of the industry. It was also evident that Non-Kenyan board members contribute positively to a firm’s value and the effectiveness of the board. The study revealed how board gender diversity affects the performance of commercial banks. The study found that the presence of women on the board brings an additional perspective to board decision making. Banks with nomination committees have more women on the board. The study found that women on the board have a positive influence on banks level of entrepreneurship because they frequently ask questions to stimulate constructive and creative discussions. The study examined the effect of board independence on commercial banks performance. The study reveals that the higher the number of Non-Executive board members the better the performance of the bank. The study confirms that separation of the role of the CEO and Board Chairman has promoted
accountability and facilitated division of responsibility in influencing performance of the firm.

The study concludes that board members with high number of years of experience in various industries have a broader understanding of the industry. Also board members with international experience have a positive impact on the effectiveness of the board; hence it concluded that Non-Kenyan board members contribute positively to a firm’s value and the effectiveness of the board. Women on the board frequently ask questions to stimulate constructive and creative discussions hence they pose a positive influence on banks level of entrepreneurship. The study concludes that the higher the number of Non–Executive board members the better the performance of the bank. In addition, separating the board chair and CEO roles has reduced conflict of interest; hence the study concludes that the role of the CEO and Board Chairman has positively impacted the banks’ performance.

The study recommends commercial banks to include on their board, members that have high number of years of experience in various industries because they have broader understanding of the industry. Women on the board frequently ask questions to stimulate constructive and creative discussions, hence they have a positive influence on banks level of entrepreneurship. The study therefore recommends that the number of women in boards should be increased. Non-Executive board members express multiple points of view and are more effective monitors of management. This increases the effectiveness of the board hence the study recommends an increase in the number of Non-Executive directors and having a chairman of the board as a Non-Executive director improves the effectiveness of the board in influencing the performance of the bank.
ACKNOWLEDGEMENT

I would like to first thank God for providing the strength and resources to complete this project. Secondly, I would like to thank my supervisor Prof. Paul Katuse for his availability, guidance and assistance while undertaking this research project.

I would also like to thank all the respondents from the various commercial banks who took time out of their busy schedules to complete the questionnaires and provide valuable and timely responses to facilitate the study.

Finally, I must express my gratitude to my dear family, friends and colleagues for their support and patience throughout my years of study, including the process of researching and writing the project.
DEDICATION

I dedicate this research project to my loving husband, Paul Jakaa and my parents, Dianah and Geoffrey Ingari for all their unending love, support and sacrifice. Thank you for believing in me. This accomplishment would not have been possible without you.
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LIST OF ACRONYMS

ASX: Australian Securities Exchange

CBK: Central Bank of Kenya

CEO: Chief Executive Officer

IPO: Initial Public Offering

NED: Non-Executive Director

NSE: Nairobi Securities Exchange

NZSC: New Zealand Securities Commission

OECD: Organization for Economic Cooperation and Development

ROA: Return on Assets

ROE: Return on Equity

SPSS: Statistical Package for Social Science

SOX: Australian Securities Exchange
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Strategic Management is defined as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objective. It comprises of three main steps; strategy formulation, strategy implementation and monitoring and evaluation. Strategic decisions overarch several areas of a firm's operations and require top management’s involvement. The decision making process of a firm typically contains three levels and the ideal strategic management team includes decision makers from all three company levels (corporate, business and functional). The corporate level is composed principally of the board of directors and the chief executive and administrative officers. They are responsible for the firm's financial performance and for the achievements of non-financial goals such as enhancing the firm’s image and fulfilling its social responsibilities (Pearce & Robinson, 2011).

The World Bank (2013) defined corporate governance as the structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital. Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance can also be defined as the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

Corporate governance drew world’s attention when the big companies such as Enron in United Kingdom and WorldCom in United States collapsed in 2001 and 2002 respectively. With regards to this matter, researchers began to explore the corporate governance field from many perspectives and authorities started to implement rules and regulations to overcome corporate governance. Countries all around the world have set best practice as a guideline; Cadbury Report was produced in United Kingdom, Sarbanes Oxley in United States, The Dey Report in Canada, the Vienot Report in France, the Olivencia Report in Spain, the King’s Report in South Africa, Principles and Guidelines
on Corporate Governance in New Zealand and the Cromme Code in Germany. The goal of most of this regulation was to improve firm’s corporate governance environment (Bhagat & Bolton, 2009).

Corporate governance is important because investors are vulnerable to conflict of interest and managerial incompetence. They are not well protected by contracts and so have to rely on the law to protect them from managerial incompetence. Good Corporate governance should lead to better performance of a firm (Zinkin, 2010). The problem that arises due to the relationship between the managers of a business and its owners and investors is known as the agency problem which was developed by Fama and Jensen (1983); Jensen and Meckling (1976). Armour, Hansmann and Kraakman (2009) define agency problem as a situation which arises whenever the welfare of one party (principal) depends upon the actions taken by another party (agent). It is the likelihood that manager’s may place personal goals ahead of corporate goals whereby managers would aim at satisfying their needs instead of maximizing shareholders wealth. The agency problem can be minimized by acts of market forces (behavior of security market participants and hostile takeovers) and agency costs (Khan & Jain, 2007). Agency problem cannot entirely be overcome therefore firms employ strategies to ensure the alignment of objectives between the principal and the agent. More recent attempts have been concerned with procedural changes through the development of strong systems of corporate governance. Such systems of governance have become enshrined in codes with universal application but cannot be considered to be fully effective and are under continual development and modification (Aras & David, 2010).

According to Dess, Lumpkin and Eisner (2009) agency theory is a theory of the relationship between principals and their agents, with emphasis on the conflicting goals of principals and agents along with the difficulty of principals to monitor the agents, and the different attitudes and preferences towards risk of principals and agents. Corporate governance and agency theory are both characterized by conflict of interest. Business attempts to realize profits as a primary goal on one hand while they face issues of stakeholder rights on the other. Corporate governance is about fair conduct and management by a business and its representatives in all of its relations (Aras & David, 2010).
Corporate governance in Kenya is governed by the Companies Act 1962 c.486 (the Companies Act), Capital Markets Authority Act 2002, the Nairobi Stock Exchange (NSE) Regulations and the Penal Code c.63. The regulations define the role of corporate governance, recommend the appropriate structures for good corporate governance and define the role of directors. The Centre for Corporate Governance (CCG), sometimes referred to as the Private Sector Corporate Governance Trust (PSCGT), was established in 1999 to promote the highest standards of corporate governance in African corporations and institutions through training, education, research, advocacy, monitoring, and evaluation. It is headquartered in Nairobi, Kenya (Center for Corporate Governance, 2015).

The financial sector in Kenya has grown significantly in terms of its contribution to overall Gross Domestic Product (GDP). The sector’s assets stood at 89.52 percent of GDP in December 2014 compared to 85.93 percent in 2013. Market Capitalization for all listed and actively trading equities at the Nairobi Securities Exchange (NSE) accounted for 42.93 percent of GDP at the end December 2014 compared to 40.60 percent at the end December 2013. In terms of the contribution by subsector, the total Banking subsector assets accounted for 60.87 percent of the country’s nominal GDP by end December 2014; the Pension subsector accounted for 14 percent of GDP; Insurance subsector accounted for 7.96 percent of GDP; SACCOS subsector accounted for 5.63 percent of GDP; and the Microfinance banks accounted for 1.06 percent (CBK, 2015).

As at 30 October 2015, the banking sector in Kenya comprised of 43 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference. Out of the 43 commercial banks, 4 are foreign owned but not locally incorporated, 8 are foreign owned but locally incorporated (partly owned by locals), 2 are foreign owned but locally incorporated, 6 have government participation and 23 are locally owned. Eleven commercial banks are listed on the Nairobi stock exchange. The banking sector is regulated by the Central Bank of Kenya (CBK). Kenyan banks are classified into three tiers based on a weighted composite index of their net assets, capital and reserves, customer deposits, number of loans and deposit accounts. According to the Central Bank of Kenya, there were six large banks controlling a market share of 49.9 per cent, 16 medium lenders commanding a market share of 41.7 per cent and 21 small banks with a market share of 8.4 per cent to the period ended December 2014. The banking
sector remained strong in 2015. The total assets of the banking sector grew from KES 3,129.3 billion in October 2014 to KES 3,591.1 billion in October 2015 which translates to an annual growth of 14.76 percent. The main components of banking sector assets were loans and advances, government securities and balances at Central Bank, which accounted for 60.1 percent, 18.0 percent and 6.4 percent, respectively (CBK, Kenya Monthly Economic Review, October 2015).

OECD (2004) asserts that there is no single model of good corporate governance. However, work carried out in both OECD and non-OECD countries have identified some common elements that underlie good corporate governance. The Principles build on these common elements and are formulated to embrace the different models that exist. One of the elements that have been advocated for is the establishment of a Board of Directors. The Capital Markets Authority guidelines contend that every listed company should have an effective board to lead and control the company and be accountable to its shareholders (Capital Markets Authority, 2002).

According to Berkovitch and Narayanan (1993) the board of directors is considered to be the first line of defense against the misappropriation of wealth by management within an organization. The board of directors is an internal mechanism used by organizations to align manager’s objectives with those of shareholders. OECD 2004 posits that Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders. The board should also monitor the effectiveness of the company’s governance practices and make changes as needed.

The role of the Board is, in part, to deal with the potential conflict of interest, and thus reduce agency costs. From time to time we observe the failure of large corporations. On occasion these failures are accompanied by allegations of defalcation and malfeasance on the part of management. In some of these cases the problems have been attributed to a failure of corporate governance, or more specifically, to ineffective Boards. It is tempting, in the wake of large corporate failures, to argue that the Board’s main role is to minimize defalcation, malfeasance, self-dealing, and other such negative behaviors. Casting the Board in this role gives rise to the question, what kinds of people should the board constitute of to enable it accomplish its tasks? (Michael, Steven, & Mitchell, 2007)
According to Belcredi and Ferraini (2014) the board of directors is one of the most important governance mechanisms in modern corporations. In principle the board is responsible for approving major strategic and financial decisions. It has access to privileged and timely information about the firm and meets regularly to discuss this information and has a fiduciary duty towards the shareholders it represents. The role of the board is to advice and monitor management, and for that purpose the board is typically staffed with distinguished individuals who have the required skills to fulfill the role. The board composition question is mainly related to finding a proper balance between involvement and distance. It is a question about dependence and interdependence. Board composition is also about finding a proper group of people who can work together (Morten, 2007).

Within the Board there is the aspect of interdependence which means that in order for the team to function optimally each team member is dependent on all others to perform to the best of their abilities. The Directors should have the appropriate personality and KSA’s (knowledge, skills and abilities) to contribute meaningfully to the collective effort of the board (Barrick & Ryan, 2003). Team composition, in this light is an important precursor to effective group dynamics and performance (Michael, Steven, & Mitchell, 2007).

Board composition has different meanings to different organizations but the most important aspect is to get the right balance. Some researchers have argued that board compositions has to do with Board size, insider verses outsider Directors, board configuration, independence, number of women verses men in the Board and academic qualifications. Most of researchers have identified important variables on board composition however this study will look into the variables granularly and assess their influence on the board’s responsibility on corporate governance.

1.2 Statement of the Problem

The primary objective of any organization is to maximize wealth for its shareholders. Organizations are inherently faced with the agency problems due to the separation of roles between ownership and control. The shareholders are the owners of the organization who appoint agents (managers) to manage the operations of the organization and make critical decisions on their behalf. Agency problem manifests itself when the managers make decisions to satisfy their own interest as opposed to the shareholders interest.
The Cadbury Report (1992) defines corporate governance as a system by which companies are directed and controlled. One of the elements of the corporate governance is the establishment of a Board of Directors. Board of Directors is an internal mechanism used by shareholders with an attempt to align the management interests and the shareholders interest to reduce the impact of agency problem. The members of the board are appointed by the shareholders to provide oversight and monitor the internal operations of management within the organization. For a board to effectively deliver its responsibilities the right Board composition must be achieved.

According to Pathan and Skully (2010) the Board of Directors in banks is more important than in other industries. In addition, Haniffa and Hudaib (2006) contend that board attributes can minimize both agency conflicts and agency costs and therefore improving the corporate value. The importance of Corporate Governance, particularly Board of Directors structure refers to how a company utilizes the resources effectively to support its performance (Gregory & Simms, 1999).

Board composition is defined as the number and configuration of members on the board. It is essentially how a board should be assembled so that as a group it can successfully carry out its tasks. In international research and debate, board composition has a great extent been about how large the board should be, how many outside members the board should have and CEO duality. It has been argued that there at least three main dimensions to board composition which include independence, competence and process. Board composition is however broader than just finding a proper mix of outside and inside directors. The board composition question is mainly around finding a proper balance between involvement and distance. It is a question of dependence and independence. It’s also about finding a proper balance of competence and finding a group of people who can work together (Morten, 2007).

Similar studies have been performed to assess the influence of board composition or board composition variables on a firm’s performance. However none of the studies performed have been on the banking industry in Kenya. Michael, Steven and Mitchell (2007) empirically examined the relationship between key board composition variables and firm performance. The study comprised of all companies included in the Canadian Toronto Stock Exchange 300 Composite Index. The data analyzed revealed that high
levels of experience, appropriate team size, moderate levels of variation in age and team tenure were correlated with the firm performance.

Belkhir (2009) undertook a study to investigate the relationship between board size and performance in the banking industry using a sample of 174 bank and savings and loan holding companies, in the US during the period 1995-2002. The findings revealed that board size is positively related to banks performance. In addition the findings also revealed that the number of directors leaving the board and the number of those joining the board for the first time increase following poor performance, but the net change in board size is not affected by past performance. Al-Saidi and Al-Shammari (2013) also performed a study to examine the relationship between board composition (i.e. non-executive directors, family directors, role duality and board size) and bank performance, using a sample of nine listed Kuwait banks over the 2006 to 2010 period. The results provide some evidence that board composition of banks is positively related to performance.

Ameer, Ramli and Zakaria (2010) sought to examine the relationship between board composition and firm performance using a board-level aggregation variable. The author used a panel data set of 277 non-financial listed Malaysian firms over the period 2002-2007. The empirical results show that firm-boards with a high representation of outside and foreign directors are associated with better performance compared to those firm-boards that have a majority of insider executive and affiliated non-executive directors.

The studies have identified important findings on board composition or board variables and its influence on board performance. However none of the studies have focused on the banking industry of a developing country in East Africa like Kenya. The study of Kenya’s banking industry will therefore contribute to the literature on board composition (variables) and its influence on a firm’s performance. This study attempts to answer the questions by granularly looking at three board variables which include: board members qualifications and experience, board gender diversity and board independence. The study will therefore assist management and shareholders when selecting board members to ensure the firm remains sustainably profitable.
1.3 General Objective

The general objective of the study is to evaluate the influence of board composition on a firm’s performance in the banking industry.

1.4 Specific Objectives

The study was guided by the following objectives:

1.4.1 To determine the impact of board members qualifications and experience on performance.

1.4.2 To analyze the effect of board gender diversity on performance.

1.4.3 To ascertain if board independence has an effect on performance.

1.5 Significance of the Study

1.5.1 Central Bank of Kenya and other Banking Regulatory Bodies

The results of the study is important to the Central Bank of Kenya and other banking regulatory bodies in reviewing the current regulations to ensure that boards are adequately constituted and configured to enhance good corporate governance oversight.

1.5.2 Center of Corporate Governance

The findings of the research is beneficial to the Center of Corporate Governance in its mandate of training, education, research, advocacy, monitoring, and evaluation by imparting knowledge to the shareholders on board composition and its impact on performance.

1.5.3 Other Banking Institutions

The results of the study provides a benchmark to which other banking institutions can compare themselves in regard to performance and review their board composition to enhance the effectiveness of the board in providing appropriate strategy to management.

1.5.4 Shareholders

The results of the study are useful to shareholders in understanding the concept of board composition, its importance and its effect on the firm’s performance. The results are
likely to inform the shareholders in exercising their voting rights during the Annual General Meeting (AGM).

1.5.5 Academicians and Future Researchers

The study aids further academic research in the area of study to advance knowledge on Board composition.

1.6 Scope of the Study

The study covers commercial banks listed on the Nairobi Securities Exchange (NSE). The population of the study includes Chief Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries. The scope was limited to those who have sat in the commercial bank boards for a minimum of three years.

One of the limitations of the study was accessibility to the board members due to their busy schedules and multiple board commitments. A second limitation was the willingness of the respondents to provide the information required for the study due to confidentiality restrictions and recent challenges faced by the banking industry which have resulted to increased scrutiny by the regulator, CBK. To mitigate the limitations the researcher liaised with associated network to reach the respondents and assure the respondents of confidentiality by signing confidentiality agreements with the respondents. The study was conducted in July 2017.

1.7 Definition of Terms

1.7.1 Corporate Board

A Corporate board can be defined as a high performance select team of mostly independent experts whose collective responsibilities are to infuse strategy and policy advice that helps the business win more over time and maximize long term shareholder value (Daly, 2005).

1.7.2 Board of Directors

The Board of Directors may be defined as a team or group of people brought together for a period of time to work interdependently toward a set of organizational goals (Langton & Robbins, 2007).
1.7.3 Board Composition

Board composition is defined as the number and configuration of numbers on the board. It is essentially about how a board should be assembled so that as a group, it can successfully carry out its tasks (Morten, 2007).

1.7.4 Board Independence

Board Independence is the portion of independent non-executive directors relative to the total number of directors (Kose, Makhija, & Ferris, 2014).

1.7.5 Corporate Governance

Corporate Governance covers the broad array of systems, processes, and procedures that seek to regulate the relationship between managers and shareholders in particular and among firm stakeholders in general (Baker & Anderson, 2010).

1.7.6 Executive Director

Executive director is a director who is involved in the day to day management of the company for pay (Capital Markets Authority, 2002).

1.7.7 Non-Executive Director (NED)

A non-executive director is an external director who is not involved in the administrative or managerial operations of the company. A NED provides corporate advisor and acts as a watchdog with no connection with the company (Capital Markets Authority, 2002).

1.7.8 Board Independence

Board independence is where external directors form at least thirty three percent (33%) of the board (Capital Markets Authority, 2002).

1.7.9 Gender Diversity

Gender diversity refers to the proportion of females to males in an organizational structure (school, company, courts etc.) or workplace. The less the difference between the number of females to males the greater is the diversity. Board gender diversity is measured as the proportion of women on a board (Belcredi & Ferrarini, 2013).
1.8 Chapter Summary

This chapter has depicted the background of the banking industry in Kenya, board composition and performance. It has also outlined the problem statement, general objectives, specific objectives, importance of the study, the scope of the study as well as defining the key terms. In chapter two, the literature review is based on an analysis of board composition and its influence on performance which is the basis of the research. Thereafter the research methodology is discussed in chapter three while chapter four and five bears results and findings and discussions, conclusion and recommendations respectively.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The previous chapter highlighted the statement and background of the problem, the objectives, importance and scope of the study. This chapter reviews the literature on the influence of board composition on a firm’s performance in the banking industry and also attempts to answer the research objectives identified in the first chapter. In section 2.2 literatures is reviewed on the effect of board member qualifications and experience on the firm’s performance while in section 2.3, literature is reviewed on the effect of board member independence on performance. Section 2.4 provides a critical analysis of literature on the role gender diversity on a firm’s performance. A chapter summary is provided in section 2.5.

2.2 The effect of Board Member Experience and Qualifications on a Firms Performance

Qualification can be defined as a quality or accomplishment that makes someone suitable for a particular job or activity while experience may be defined as any experience that a person gains while working in a specific field or occupation. The main issue managers’ face is determining the right qualification and experience (skill set) a board member should have to carry out the strategic and managerial tasks of the board effectively. Board members’ qualification and experience can be seen in three different areas which include: level of education, industry experience, and international exposure. The three areas will be discussed in depth below.

2.2.1 Board Members Educational Qualifications

The roots of the upper echelons perspective lie in the behavioral theory of the firm, which suggests that managerial choices are not always following rational motives but are to a large extent influenced by the natural limitations of managers as human beings. Behavioral factors, such as bounded rationality, multiple and conflicting goals, various aspiration levels are believed to influence strategic choices made by top executives, which in turn determine firm performance (Nielsen, 2010).
Ujunwa (2012) points out that, in management literature there have been a considerable number of studies addressing the influence of the educational background of the upper echelons (the Chief Executive Officer, board members, and top managers) on various aspects of managerial behavior and firms performance. According to the upper-echelon theory, a higher education level is associated with open mindedness, capacity for information processing, and tolerance to changes. The author performed a study to investigate the impact of corporate board characteristics (board size, board skill, board nationality, board gender, board ethnicity and CEO duality) on the financial performance of Nigerian quoted firms. Using panel data from 122 quoted firms in Nigeria between 1991 and 2008, it was found that the number of board members with a PhD qualification were found to impact positively on firm performance. This study agrees with the assertions made by Darmadi (2013) that educational qualification of board members and the CEO matters.

Darmadi (2013) analyzed the influence of the educational qualifications of board members, including the CEO, on the financial performance of Indonesian listed firms. Darmadi, argued that the educational qualifications of board members and the CEO matters to a particular extent. This study used a sample comprising 160 firms listed on the Indonesia Stock Exchange (IDX). Tobin's Q and return on assets (ROA) were used as a measure of financial performance. The study used four proxies for board members' educational qualifications, namely postgraduate degrees, degrees obtained from prestigious universities, degrees obtained from developed countries, and degrees in financial disciplines. This study contends that educational qualification of board members and the CEO matters.

Hsu (2010) investigated the relationship between board characteristics and financial performance of US firms with the initial public offering from 2000-2002. Hsu used Tobin Q to measure the financial performance of the firms. The findings revealed that board quality (board expertise and educational background) is positively related to the firms’ performance. The findings support the conclusions of Darmadi (2013) and Ujunwa (2012).
2.2.2 Board Members Industry Experience

Highly effective boards include a mix of directors with the expertise and experience to fulfill their essential oversight roles. Directors’ responsibilities are expanding, and the number and complexity of the issues they have to oversee are increasing. Having a board made up of the right people with the relevant skill sets is critical in today’s competitive business environment. The most sought after skills in new directors are industry experience, financial expertise and operational expertise (Stuart, 2012).

Legal firm, Evershed performed a study in 2013 to investigate whether board members industry experience affects the share price performance of some of the largest companies across the globe. The report revealed that relevant industry experience is directly related to better performance of companies in some regions (especially in Europe). The USA and Honk Kong did not present any relevant significance of the correlation. However, industry experience was found to be particularly important in certain sectors, including property, insurance, industrial goods and chemicals, utilities and telecoms. This finding partially agrees with the views of Shan, George and Mclever (2011) which found that the expertise of board was not a significant determinant of corporate financial performance in China.

McIntyre, Murphy and Mitchell (2007) explored the relationship between key board composition variables and firm performance. The composite variables included experience, team size, age variation and team tenure. The population for this study comprised all companies included in the Canadian TSE 300 Composite Index (renamed the S&P/TSX Composite Index). The data analyzed revealed that high levels of experience appropriate team size, moderate levels of variation in age and team tenure of board members were positively correlated with the firms’ performance. The conclusion support the findings by McIntyre, Murphy & Mitchell (2007) that high levels of experience of board members were positively correlated with the firms’ performance.

According to Ingley, Vander, Carol and Walt (2008) directors see other board members as lacking in experience such as key financial, accounting and other skills and therefore perceive them as not able to influence key outcomes. The authors performed a study to explore the relationship between corporate governance processes and perceived management of risk by the board. The researcher found that skepticism among board
members was lacking. These views were aligned to the contribution of Petri and Soublin (2010) whose findings revealed that a board should possess the necessary depth and breadth of experience to gain the respect and trust of the executives. The evidence contrasts the views of Shan et al. (2011) which found that the expertise of board was not a significant determinant of corporate financial performance in China.

Shan et al. (2011) evaluated the influence of corporate governance characteristics and corporate ownership on financial performance of Chinese companies from 2001 – 2005. Using Tobins Q to measure performance it was found that ownership concentration was significant in determining firm’s performance. The study highlighted that board expertise was not significant in determining a firm’s performance. This contradicts the findings by Shiah and Cheng (2012) that found that outside director’s experience has economic impact on the firms accounting and market performance. The conclusion contradicts the findings by McIntyre et al. (2007) that high levels of experience of board members were positively correlated with the firms’ performance.

2.2.3 Board Members International Experience

Geographical diversity measures the global representation of boards. Executives with international experience tend to have more understanding of global markets and business practices and are more attuned to opportunities to compete globally than are executives without that experience (Cheng & Stucker, 1997). As companies spread their wings and go global, it is important for the board to have directors representing different nationalities. Board needs to understand the potential risk and reward of doing business in different countries. Besides the legal and economic environment a deep understanding of the countries system, culture and work ethos is essential. People’s traditions value systems and lifestyles have a direct impact on business practices in a country. The board as a team must be able to understand the cultural and business needs of different countries (Trompenaars & Turner, 2012).

Belcredi and Ferraini (2014) contend that companies with multinational board members yield better returns. This is because directors from different nations are likely to have divergent upbringing, childhood experiences and value systems which impact their perspectives, behavior and thinking. Such diverse perspectives and views enhance creativity and lead to innovative problem solving. In addition boards with national
diversity can successfully deliver global integration with local relevance. According to Belcredi and Ferraini, the challenge of having international board members is whether the board member understands the language, the culture and the countries governance requirements.

Chio, Sul and Min (2012) analyzed how foreign investors and foreign outside directors interact to enhance firm value. Using longitudinal data from the KOSPI200 index in Korea during 2004 to 2007, the study examined the direct and interaction effect of foreign block holders and foreign board members. The findings of the study reinforce the assertions of Belcredi and Ferraini (2014) which resolved that foreign outside directors have a positive impact on the value of a firm. Similarly, Polovina and Peasnell (2015) who performed a study to explore the effects of appointing foreign directors on the foreign acquired Turkish banks. The authors examined the appointment of foreign directors in three different levels: as a CEO, chairman and board member. The authors analyzed how the appointment of foreign directors in each of these three levels affects the profitability and strategies of foreign acquired banks over a five year period. The authors found that the presence of the foreign chairman has a positive effect on the profitability of the foreign acquired bank and on the improvement of the income generated from interest activities, indicating that foreign chairman improve the monitoring of board of directors and brings new skills and experiences.

Rivas (2012) evaluated the relationship between board and top management team (TMT) members' international experience and CEO multinationality, with their firm's degree of internationalization. Through the lenses of upper echelon theory, on a sample of 108 European and US firms, the author tested the variables “international experience” and “CEO multinationality”, at the board and at the TMT levels. A positive effect is found on internationalization for international experience of both boards and TMTs; also a positive relationship is found between CEO multinationality of TMTs and internationalization. The findings agree with the findings of the study performed by Hyang Mi Choi (2012) which determined that foreign outside directors have a positive impact on firm value.

2.3 The impact of Board Gender Diversity on a Firms Performance

Gender diversity refers to the proportion of females to males in an organizational structure (school, company, courts etc.) or workplace. The more the difference between
the numbers of females to males the greater is the diversity. Board gender diversity which measures the number of women on the board can be analyzed in three different areas which include; the influence of women on Boards, Companies characteristics and Board Gender Quotas and regulatory requirements. The three areas will be discussed below in detail.

2.3.1 Influence of Women on Boards

The study of the influence of women in leadership positions is not at all a useless undertaking or a way to worship the modern woman; it represents a deep, actual and serious issue. Campell and Minguez-Vera (2007) argues that the presence of women on the board enhances shareholder value if women bring an additional perspective to board decision making.

In a study performed by Vinnicombe, Singh, Burke, Bilimoria, Huse (2009) revealed that women bring value to the board. The study revealed that women were remarkable in a variety of board tasks especially in quality oriented tasks (corporate social responsibility) as opposed to quantity-oriented tasks (operational and financial control). In support of this Dominguez, Sanchez, Alvarez (2010) observed that women contribute to the board activities by frequently asking questions to stimulate constructive and creative discussions, solving problem through an intuitive approach. It was also found that women have a feeble tendency to keep control and are more directed towards emotional implication than male colleagues.

Smith (2007) performed a study to examine the gender composition and structure of the board of directors in not-for-profit organizations and their relation to firm-level entrepreneurship. According to Smith (2007) firm-level entrepreneurship refers to those factors that influence the process of creating new businesses within organizations and includes, for example, organizations’ innovativeness, their capacity to perceive new opportunities, to take risks and/or to redirect the orientation of the existing strategy. The research concluded that a high proportion of women in powerful positions were found to have a positive influence on firm-level entrepreneurship. This contradicts the findings by Joecks, Pull and Vetter (2012) that gender diversity is negatively related to firms’ performance. However it supports the study by Mahadeo and Hanuman (2012) that finds a positive relationship between a high ratio of women and the performance of the firm.
Joecks, Pull and Vetter (2012) studied 151 listed German firms for the years 2000–2005, to assess whether the link between gender diversity and firm performance follows a U-shape. The research found that the gender diversity was negatively related to firm’s performance and only after a percentage of thirty (about 3 women per board) was reached was the association positive. Joecks, Pull and Vetter (2012) advocate for companies to identify the critical mass percentage of women that translates in increased firm value. In support of this analogy Torchia et al. (2011) also performed a similar study by assessing the influence of the number of women on the board on performance. The level of innovation was used to measure the performance of the firm. In the study it was found that there was a positive influence on innovation if the number of women board members were three and above. It was found that less than three women on the board did not influence the level of performance of the firm. The study was conducted in 317 Norwegian companies in the period 2005 to 2006. This contradicts the study of According to Smith (2007) that a high proportion of women in powerful positions have a positive influence on firm-level entrepreneurship.

Mahadeo and Hanuman (2012) performed a study on the ratio of women to men in 371 directors of 39 companies listed on the Stock Exchange of Mauritius (2007). Using a performance measure on Return on Assets it was found that there was a positive relationship between a high ration of women and the performance of the firm. In contrast Ahern and Dittmar (2012) performed a similar study on 248 Norwegian public limited firms during the period 2001 – 2009 and found a negative association between high ratio of women and performance. Lu¨ckerath- Rovers (2011) performed a similar study on the influence of the ratio of women on the board to performance using a sample to 99 Dutch companies over the period 2005–2007 and found that there was a positive relationship on the firms return on equity.

2.3.2 Companies Characteristics

Mateos de Cabo, Gimeno and Nieto (2012) performed a study on the gender diversity of the corporate board of European Banks by studying a sample of 612 European banks from 20 European countries. In their study they reaveal that the organisational characteristics of the comapany predicts womens presence on banks boards. They identify three factors that play a particluar improtant role in defining bank boards gender diversity. Firstly in
their conclusion they argue that the presence of women on boards is higher for lower risk banks. Secondly, banks with large boards have a higher portion of women on their boards and lastly, banks that have a growth orientation are more prone to include women on their boards, since they may be seen as providers of diverse external resources that are more valued by firms operating under critical circumstances.

Belcredi & Ferrarini (2013) argues that the number of women on the board is determined by the firms characteristics. A study performed by Campell and Minguez-Vera (2007) in Spain to examine the impact on firm performance of the presence of women on the board of directors indicate that firm value does not affect the ratio of women to men on the board which contrasts Belcredi & Ferrarini (2013) assertions. Another study that contradicts Belcredi & Ferrarini, (2013) assertions is Nekhili and Gatfaoui (2012) which contends that appointment of women directors is strongly related to the family ownership, board size or size of the firm and also the women demographic attributes strongly considered. Another study performed by Wang and Kelan (2013) complements this analogy by asserting that percentage of female directors on boards and other board characteristics can determine the gender of top leaders of organizations. Firms with older and better educated female directors are more likely to appoint female board chairs.

Francoeur, Labelle and Desgagne (2008) performed a study to examine the impact of an increase in female representation on a firm’s financial result and what characteristics or factors lead firms to appointing more women on their board of directors or top management. The findings indicate that the firms operating in complex environments do generate positive and significant abnormal returns when they have a high proportion of women officers in top management. The findings tend to support the policies currently being discussed or implemented in some countries and organizations to foster the advancement of women in business. Brunzel and Liljeblom (2014) performed a survey of the perception of gender diversity between high-risk and low-risk firms. The authors find that firms with nomination committees have more gender diverse boards, as well as indications of a more positively perceived contribution of female representation in high-risk firms compared to the low risk.

Nekhili and Gatfaoui (2012) performed a study on French Board of directors to examine the factors determining the representation of women on boards of directors. Three questions were considered in relation to firm ownership and governance, demographic
attributes of women directors (nationality foreign experience, educational level, business expertise and connections to external sources) and firms characteristics. The study focused on French large and mid-capitalized companies belonging to the SBF 120 stock market index during a five year period running from 2000 to 2004. The findings hold that the appointment of women directors is strongly related to family ownership, board size or firm size and also the women demographic attributes. The findings agree to Belcredi and Ferrarini (2013) assertions that the number of women on the board is determined by the firms characteristics.

Dimovski and Brooks (2006) empirically analyzed the change in the gender composition of the boards of large Australian companies, after listing. This study investigated the gender composition of the boards of large Australian companies at the time of the Initial Public Offering (IPO) and subsequently as these companies matured into established public companies. It also investigated industry influences and organizational size influences on the board composition at the time of the IPO and subsequently. In the study no significant change was found in the proportion of male and female directors holding directorships at the time of the IPO and some five to eight years later when the company was recorded as a top 500 company (by market capitalization) on the Australian lists. A similar study performed by Zaluki (2012) in Malaysia to investigate the gender composition of the board of directors of Malaysian IPO companies. This study found that female representation on the board during the IPO and the subsequent four years (IPO year and three year post IPOs) remained constant at 8% supporting Dimovski and Brooks (2006) analogy.

2.3.3 Board Gender Quotas and Regulatory Requirements

The issue of gender diversity on boards of companies has gained considerable attention in the gender debate in recent years. There is a growing opinion that increasing the number of women on board has a positive effect on performance with several countries recommending quotas for women. Norway was the first country to act politically on this issue by mandating gender balance in the boardroom. According to Baglioni and Colombo (2013) the decision to set quotas to promote parity, was motivated by not just ethical and social responsibility but also economic rationals because boards appoint and monitor CEOs and guide the firms strategy.
The Gender Balance Law (GBL) was proposed to the surprise of many in 2002, passed by Parliament in 2003, and became mandatory in 2008. The 40% gender quota increased the average fraction of directorships filled by females from 11% when the GBL was passed to 42% when it became mandatory five years later. Since then, non-complying firms face the penalty of liquidation. Spain and France require the boards of large, listed companies to reach 40% females by 2015 and 2017, respectively. The Italian Parliament recently passed a 30% quota by 2015 for listed and state owned companies. The Netherlands requires large companies to reach 30% for each gender by January 2016, while Belgium has adopted a law imposing one-third of each gender in management boards of state (1 year to comply) and publicly listed companies (between 5 and 8 years). Other European Union (EU) member states, such as the UK, Finland, and Sweden, have implemented voluntary standards to promote gender balance in boards (Visser, 2011).

Bohren and Staubo (2015) performed a study of companies in Norway and found that forcing radical gender balance on corporate boards is associated with reduced firm value. This was evidenced because mandatory 40% gender quota shifted the average fraction of independent directors from 46% to 67% because female directors are considered much more often independent directors than males. Bohren and Staubo concluded that the quality of the board would suffer if mandatory gender balances in the boardroom forces independence above the optimal level resulting in reduced firm value. According to Campell and Minguez-Vera (2007) women may have a negative impact if the decision to appoint women board member is motivated by societal pressure for gender equality. A study performed by Francoeur, Labelle and Desgagne (2008); Nekhili and Gatfaoui (2012) tend to support the policies being implemented in countries and organizations to foster the advancement of women in business. Nekhili and Gatfaoui (2012) asserts that women face a double glass ceiling and holds that French firms rely more on demographic attributes of the women directors when they are appointed to senior positions.

There is growing regulatory pressure on firms worldwide to address the underrepresentation of women in senior positions. Regulators have taken a variety of approaches to the issue. Chapple and Humphrey (2014) investigated a jurisdiction that has issued recommendations and disclosure requirements, rather than implementing quotas. The researchers sought to ascertain whether having multiple women on the board is linked to performance, and if there is a within-industry effect. The findings revealed no
evidence of an association between gender diversity and performance, however there was weak evidence of a negative correlation between having multiple women on the board and performance. The results were varied and in some industries gender diversity is positively correlated with performance. This contradicts the findings of Bohren and Staubo (2015) that forcing radical gender balance on corporate boards is associated will reduce firm value.

2.4 The impact of Board Independence on a Firms Performance

Board Independence is the portion of independent non – executive directors relative to the total number of directors. Board independence can be seen in three different areas which include; the influence of Inside and outside board members, Board Committees and Duality. The three areas will be discussed below in detail.

2.4.1 Inside and Outside Board Members

The functions of the board of directors can be divided into the two major roles of monitoring and advising. Boards are traditionally structured with a mix of executive or inside directors and independent or outside directors. Inside directors have more specific knowledge about the company through their role as internal managers, while outside directors are more likely to exercise independent judgment (Gray & Nowland, 2012). On the other hand, outside directors are believed to be more effective monitors of management on behalf of shareholders because they are perceived to be independent. As pressure from the institutional investors to hire outside directors is gaining momentum it has become more crucial to understand the importance of outside directors (Ameer, Ramili, & Zakaria 2010).

The Central Bank of Kenya (2006) requires all institutions licensed under the Banking Act, to have at least five directors, at least three-fifths of who should be Non-Executive Directors, in order to achieve the necessary balance and help mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the institution. Australian Securities Exchange Limited (ASX) Recommendation 2.1 asserts that a majority of the board should consist of Independent directors. However, a company’s optimal board structure involves balancing the costs and benefits of
monitoring and advising and depends on the company’s individual characteristics and its overall bundle of governance mechanisms (Ward, Brown & Rodriguez, 2009). The Basel Committee (2005) states that banks should have an adequate number of directors capable of exercising judgment independent of the views of management, political interests or inappropriate outside interests.

Ameer, Ramli and Zakaria (2010) examined the relationship between board composition and firm performance using a board-level aggregation variable. The researcher used linear regression to analyze the relationship between board role typology and firm performance using a panel data set of 277 non-financial listed Malaysian firms over the period 2002-2007. The empirical results show that firm-boards with a high representation of outside and foreign directors are associated with better performance compared to those firm-boards that have a majority of inside executive and affiliated non-executive directors. The results contradicts the conclusion of Lappalainene and Niskanen (2010) which suggest that firms with outside board members have lower growth rates and are less profitable.

Nyamongo and Temesgen (2013) investigated the effect of corporate governance on the performance of 37 commercial banks in Kenya over a period 2005 – 2009. By using two measures of performance, ROA and ROE and regression analysis the study found that the existence of independent board of directors tends to enhance the performance of the banks in Kenya. The evidence supports the views of Ameer, Ramli and Zakaria (2010) that firms with outside directors were associated with better performance. However it contradicts the findings of Bhagat and Black (1999) that suggest that the contribution of independent and non-executive directors to corporate performance is not significant.

McCabe and Nowak (2008) examined the views of directors of public listed Australian companies regarding the role of independent directors. By using a grounded research approach where 30 directors were interviewed. The findings indicate that a majority of independent minds expressing multiple points of view was perceived to reduce the board room hazard of ’group think’. According to Ameer, Ramil and Zakaria (2010) firm board with a high representation of outside and foreign directors are associated with better performance. In addition Choi, Sul, Min (2012) study of Korea firms confirmed that board independence reinforces the positive impact of foreign outside directors on firm value.
Ameer, Ramil and Zakaria (2010) examined the relationship between board composition and firm performance using a board level aggregate variable by using linear regression to analyze panel data set of non-financial listed Malaysian firms over five years. The findings showed that firm boards with high representation of outside and foreign directors are associated with better performance compared to those firms that have a majority of insider executives and affiliated non-executive directors. This evidence supports the views to Zang (2012) that the proportion of outside directors and CEO non duality were negatively associated with institutional and technical weakness ratings. On the other hand McCabe and Nowak (2008) argued that the more independent directors reduced the hazard of group think.

2.4.2 Board Committees

Board members are also part of committees; therefore, it is beneficial to examine various aspects of committees. The NZSC (2004) recommends that companies have audit committees and remuneration committees to oversee the audit of financial statements and to set up remuneration for executive officers and directors. The committees are important to ensure that the financial procedure is carried out well and the directors are appropriately compensated, hence mitigating any agency problems.

Lappalainenene and Niskanen (2010) performed a research to investigate the impact that ownership structure and board composition have on financial performance in a sample of Finnish small to medium sized enterprises (SMEs). The financial data was collected from 2000 to 2005. The researcher employs panel data estimation and 2SLS methods in their analyses (SMEs). Results suggest that board structure has little impact on the performance of small firms. The conclusion contradicts the findings of Klein (1998) that identified a positive relationship between investment committees and accounting and stock market performance measures. The study partially supports the findings of Carter, Carter, D'Souza, Simkins and Simpson (2010) where no relationship was found between important board committees and financial performance for a sample of major US corporations.

Christensen, Kent, Routledge and Stewart (2015) examined whether the implementation of the 2003 Australian Securities Exchange (ASX) Limited governance recommendations influenced the governance choices of small companies and whether compliance improved
their accounting and market performance and earnings quality. The analysis shows a significant shift by small and large companies to comply with the recommendations around the time of their introduction. The researcher found that formation of an audit committee surrounding the reform period is significantly associated with improved earnings quality for small and large companies. However, compliance with other governance recommendations is not systematically associated with improved performance or earnings quality.

Fauzi and Locke (2012) investigated the role of board structure (board committees) and the effect of ownership structures on firm performance in New Zealand's listed firms. Using a balanced panel of 79 New Zealand listed firms; the researcher used the generalized linear model for robustness. The result revealed that board committees have a positive and significant impact on firm performance. The findings agree with the findings of Lam and Lee (2012) who studied the relationship between board committees and firm performance. This study employed publicly available data from financial databases and annual reports of a sample of 346 firm-year observations of public companies in Hong Kong for the periods 2001-2003. The empirical evidence indicates that a nomination (remuneration) committee is positively (negatively) related to firm performance, depending on the independence of its composition.

2.4.3 Duality

Separating the board chair and CEO roles remains an ongoing debate in corporate governance with compelling arguments on both sides. The issue centers on whether a potential conflict of interest exists when the roles are combined and whether there is an appropriate balance of power between the CEO and the independent board members. As of 2013, 45% of S&P 500 boards currently separate the role.

Countries around the world have different guidelines on how to separate the role. The legacy reports like the Higgs report (2003), Stobaugh NACD Blue Ribbon Commission report (2000) and the Toronto Stock Exchange Committee report (1994) advocate for the two roles to be separated. The Bosch report (1995) recommends for the two roles to be separated however it makes provision and asserts that if the two roles are combined an independent non-executive director should be appointed as a deputy chairman of the board to ensure independence. CBK (2006) on the other had required the two roles of the
CEO and the board chair to be separated. The more recent reports like the OECD (1999) which is the most notable institution that has developed key principals on corporate governance do not provide any guidelines on duality or non-duality. In addition the Sarbanes–Oxley Act (SOX) does not also address the issue of CEO duality.

Different theoretical arguments have been introduced to support either CEO duality structure or CEO non-duality structure. Drawing on the agency theory, advocates of CEO non-duality suggest that CEO duality diminishes the monitoring role of the board of directors over the executive manager, which may in turn have a negative effect on financial performance (Wahba, 2015). The author performed a study to investigate the joint effect of board characteristics (duality) on financial performance. Using the generalized least squares method as a panel data analysis on a sample of 40 Egyptian listed firms during the period from 2008 to 2010. The results demonstrated that, board leadership structure that assigns the duties of the CEO and chairman to the same person increase the proportion of non-executive members to the total number of directors and has a negative impact on firm financial performance. In contrast to this Guillet, Seo, Kucukusta and Lee (2012), concluded that duality improves performance. On the other hand a research by Carty and Weiss (2012) did not find a correlation between bank failure and CEO duality.

Biloslavo, Bagnoli and Figelj (2013) empirically verified whether management of dualities correlates with effectiveness and efficiency of organizations. The research examined 21 dualities at the normative and strategic level of organization policy. The research was undertaken in two phases. In the first phase, effectiveness and efficiency indicators were defined by applying the analytic hierarchy process method within an expert group. In the second phase, a questionnaire was sent to 49 CEOs of mid-size and large companies operating in the food, beverage and foodstuff production industry in Slovenia. The research argues that organizations that are able to transcend the so-called duality paradox enhance their effectiveness or/and efficiency. This contradicts the findings of Carty & Weiss (2012) that contends that there is no relationship between CEO duality and the firm’s failures.

Carty & Weiss (2012) undertook a study to investigate whether CEO duality is associated with bank failure and whether bank regulators, as can be expected, are opposed to CEO
duality. The authors investigated the correlation between CEO duality and publicly traded banks in the USA that received Federal bailout funds, using available databases, and investigated bank regulators’ attitudes to CEO duality using a series of structured interviews. No correlation was found between bank failure and CEO duality. In addition, it was also found that Regulators accepted CEO duality for several reasons and have no agenda to limit it.

Zhang (2012) aimed to link Board demographics diversity and independence to corporate social performance. By using data collected from various sources for a sample of 475 publicly rated Fortune 500 companies over five years, the findings indicate that the portion of outside directors and CEO duality were negatively associated with institutional and technical weaknesses ratings. This evidence supports the views of McCabe and Nowak, (2008) which suggests that majority of independent minds, reduced the hazard of group think.

2.5 Chapter Summary

The first section reviewed the literature on the impact of board member qualification and experience on performance. The second section explored the effect of gender diversity on performance. The third section looked at the impact of Board Independence on performance. Chapter three discusses the research methodology that is used by the researcher in carrying out this study
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This study seeks to analyze the influence of board composition on performance in the banking industry in Kenya. This chapter highlights the various methods and procedures the researcher adopted in conducting the study in order to address and answer the research objectives raised in the first chapter. This chapter is organized in the following structure: the research design, population and sampling, sampling design and sample size, data collection methods, research procedures, data analysis methods and lastly the chapter summary.

3.2 Research Design

According to Cooper and Schindler (2011) research design constitutes the blueprint for the collection, measurement and analysis of data. It is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing hypothesis and the operational implications to the final analysis of data. According to Gill and Johnson (2010) research design is important because it facilitates the smooth sailing of various research operations therefore ensuring that the research is efficient as possible. This in turn ensures that there is maximum information acquired with minimal expenditure of effort, time and money. It also has a significant impact on the reliability of the results obtained and acts as a firm foundation for the entire research.

The study adopted descriptive and explanatory research design. According to Cooper and Schindler (2011) descriptive research is concerned with the description of phenomena or characteristics associated with a subject population, estimates of the proportions of population that have these characteristics and discovery of associations among different variables. If a study is concerned with learning why that is, how one variable produces changes in another is known as causal-explanatory research (Cooper and Schindler, 2011).

Descriptive research design was used in the study to describe the characteristics of the phenomenon or situation by creating a profile of a group of problems, people or events. The research design attempts to answer the questions who, where, when, what and whom.
Descriptive study is therefore, critical in drawing conclusions and describing characteristics associated with the subject population from which the sample is drawn, it discovers and measures cause and effect relationships among variables (Cooper and Schindler, 2001). Explanatory research was used to explain the reasons of the phenomenon that the descriptive research methods describe (Cooper and Schindler, 2011). The independent variables in the study are board members qualifications and experience, board gender diversity and board independence. The dependent variable is performance of the bank.

3.3 Population and Sampling

3.3.1 Population

According to Mugenda and Mugenda (2003) a population is defined as a set of individuals, cases or objects with some common observable characteristics. Kothari (2006) defined population as all items in the field of study. All the individuals or objects within a certain population usually have a common, binding characteristic or trait. A sample is defined as a subset of a population. Therefore a sample must be representative of the population from which it was drawn and it must have a good size in order to warrant statistical analysis. The main function of the sample is to allow a researcher to conduct the study on a sample so that the results of the study can be used to derive conclusions that was applied to the entire population.

The target population of the study was all Chief Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries of all commercial banks listed on the Nairobi Securities Exchange (NSE). The list of the commercial banks listed on the NSE has been obtained from NSE. According to the list obtained from NSE there are eleven commercial banks listed on the NSE. The list of Chief Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries has been obtained from the various commercial banks annual reports for 2016 and company websites. According to the annual reports for the commercial banks and websites there are 127 board members and company secretaries. The population includes Chief Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries. The table below highlights the population distribution of the population according to their role in the board and their percentage.
Table 3.1 Population Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td>79</td>
<td>62</td>
</tr>
<tr>
<td>Chief Executive Officers</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Company Secretaries</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>127</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Commercial Banks Published Annual Reports, 2014

3.3.2 Sampling Design

A sample design is a process of obtaining a sample from a population. It is the procedure that was deployed by the researcher to select sample of the study (Kothari, 2006). In addition sampling design is the process by which a particular sample is drawn from the elements in a population (Cooper and Schindler, 2006).

3.3.2.1 Sampling Frame

According to Cooper and Schindler (2011), sampling is the process of selecting some elements from a larger population to be a representation of the entire population as a whole. The same authors highlights that a sampling frame is the list of elements in the population from which the sample is actually drawn from. A good sampling frame is characterized by all individuals in the target population; secondly it excludes all individuals not in the target population, and lastly includes accurate information that can be used to contact selected individuals. The sampling frame for the study is the list of all the commercial banks that are listed on NSE. The list of banks was obtained from NSE. The list of the individual samples in the target population was constructed from the annual financial reports of the commercial banks that have been published as an annual requirement of NSE for all listed companies.

3.3.2.2 Sampling Technique

Sampling technique is the procedure of choosing a particular sample from a population Cooper and Schindler (2006). For this study all individual elements within the target population was sampled. A census was therefore used due to the small population. A
census is the procedure of systematically acquiring and recording information about the members of a given population. It is a regularly occurring and official count of a particular population (Gill and Johnson, 2010). A census is therefore a study of every unit, everyone or everything in a population. It is known as a complete enumeration which means a complete count (Levy & Lemeshow, 2013). According to Chaudhuri and Stenger (2005), a census study provides a true measure of the population by eliminating the sampling error. It provides a study with a benchmark data that may be obtained for future studies and detailed information about small sub-groups within the population that is more likely to be available. The stratas in Table 3.1 indicates the various levels of management to be used in the study.

### 3.3.2.3 Sample Size

A sample is a group of cases, respondents or records comprised of part of the target population carefully selected to represent that population (Cooper and Schindler, 20011). It also refers to the number of items, objects or individuals who are selected for a particular study to represent a population (Chaudhuri & Stenger, 2005). According to Kothari (2006), the size of the sample should neither be excessively large nor too small. It ought to be ideal that is one which fulfills the requirement of efficiency representativeness, flexibility and reliability. Mugenda & Mugenda (2008) recommends an ideal sample to be at least 30 elements. Given the size of the study population and the sampling procedure selected for the study, the sample size is 127 as indicated in Table 3.2.

#### Table 3.2: Sample Size Distribution

<table>
<thead>
<tr>
<th>Category</th>
<th>Population</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td>Chief Executive Officers</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Company Secretaries</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>127</strong></td>
<td><strong>127</strong></td>
</tr>
</tbody>
</table>

*Source: Commercial Banks Published Annual Reports, 2014*
3.4 Data Collection Methods

Data can be defined as the facts, opinions, and statistics that have been collected together and recorded for reference or for analysis (Saunders, Lewis, & Thornhill, 2016). According to Cooper and Schindler (2011), secondary data is data that has had at least one level of interpretation inserted between the event and its recording, while primary data is sought for their proximity to the truth and control over error. This study used both the primary and secondary data collection methods. The primary and secondary data was used to answer the research questions. Secondary data was used to review the financial performance of the banks. Secondary data was obtained from the bank’s published annual reports. They were analyzed to assess the financial performance of the commercial banks and the board composition characteristics for example level of education and experience.

A secondary data collection guide was prepared and used to collect the secondary data. It provided the details of how the data review should be carried out highlighting key aspects that address the research questions. The secondary data guide focused on the key information to be collected limiting the biasness as the data was not initially collected for this specific research.

Primary data relied on as the main source of data as it is independently collected for the purpose of the research and unique to the study of the research. Primary data was collected using a questionnaire. According to Cooper & Schindler (2014), a questionnaire is an instrument delivered to the participant via personal (intercept, phone) or non-personal (computer delivered, or mail delivered) means that is completed by the participant. The questionnaire was administered through non-personal means that is online and mail. The questionnaire was considered because it is relatively cheap due to the target population and easy for respondents to fill. In addition due to the hierarchical seniority of the target population, the confidentiality requirements in the banking industry and the various commitments of the board members the questionnaire was considered ideal because the respondents were given time to understand the questions before responding and is likely to increase the response rate.

The questionnaire and the secondary data guide were developed and organized on the basis of the research questions to ensure relevance to the research problem. The questionnaire was structured based on the research questions. Section one covered the general information questions intended to break the ice and make the respondent conformable to answer the questions. Some of the questions within section one were
screener question which were used to determine whether the questionnaire was filled by a qualifying respondent. The general information questions were answered by the respondent without much thought. This was followed by the most important questions that are meant to capture the information that is very critical to the research problem should the questionnaire not be completed entirely. Section two had questions in relation to board members qualifications and experience, section four covered board gender diversity and section five covered board independence.

The secondary data guide was also structured based on the research questions. Information collected was limited to the information in the annual reports published by the commercial banks to respond to the research questions.

The questionnaires was also structured in two forms that is closed ended questions where this calls for a yes or no answer, short responses or item checking. The questionnaire also had some sections having Likert Scale format. The questions were providing statements which required the agreement by the respondent and a scale of one to five was used where 1 is strongly agree and 5 is strongly disagree. Closed ended questions are easy to use because they are fairly easy to interpret, tabulate and summarize. On the other hand the open ended questions calls for free response from the respondent, allows for greater depth of response. However unlike the closed ended questions, open ended questions are difficult to interpret, tabulate and summarize. Through the use of a statistical package, the results was then analyzed and coded to ensure that the analysis is effective.

3.5 Research Procedures

According to Cooper and Schindler, (2011) a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sampling. Pilot testing should draw subjects from the target population and simulate the procedures and protocols designated for data collection. In this study a pilot test was carried out to determine the completeness, precision, accuracy and clarity of questions in the questionnaire before it is finalized. The purpose of conducting a pilot test was to assess whether the respondent understood the questions and were able to respond. It also helped the researcher to assess the length of time it takes to complete the questionnaire so that time is accurately communicated to the respondents and also in planning for the fieldwork. During the pilot test questionnaires were administered to five colleagues and five board members from two commercial banks not forming part of the sample.
was to ensure that the respondents in the pilot study do not participate in the final study because this may create response bias. Research assistants were used to sense check grammatical errors, the flow of questions and appropriateness of the questions. Once the response was received from pilot test the researcher assessed the response and made adjustments to the questionnaire based on the feedback received and came up with the final questionnaire. The questionnaires were administered to the respondents through mail and online as per the implementation schedule attached by the researcher. The distribution was scheduled to take two week. No quality control was required as the data was collected by the researcher.

The secondary data collection guide was used to collect the data required to answer the research questions. The secondary data to be used for the study was the published annual reports for the financial year 2012 to 2016 from the banks website. The data was collected by the researcher and the data collected included number of board members, number of women on the board, level of independence, and financial performance of the commercial bank for the respective years.

### 3.6 Data Analysis Methods

According Cooper & Schindler (2011) data preparation includes editing, coding and data entry and is the activity that ensures the accuracy of the data and their conversion from raw form to reduced and classified forms that are more appropriate for analysis. The purpose of editing is to ensure the accuracy, consistency and uniformity of the data and it is achieved through detecting errors and omissions, correcting where possible to certify that maximum data quality standards have been achieved. Coding involves assigning numbers or symbols to answers so that the response can be grouped into limited number of categories. Data entry converts the information gathered by secondary or primary means to a medium for viewing and manipulation (Cooper & Schindler, 2011).

Once the data was collected the researcher reviewed the responses and checked for completeness of the responses. The researcher looked for key themes to enable coding. The data preparation techniques involved coding of responses from the questionnaires and the secondary data collected to enable analysis based on the research objectives.

The questionnaires and the results from the secondary data guide was coded for all questions in respect to each research objective so as to ensure that processing of data can
be performed easily. The data that collected was analyzed using quantitative method and analysis was done using descriptive statistics and inferential statistics. According to Cooper and Schindler (2006), descriptive analysis involves the process of transforming raw data into charts, tables with frequency distribution percentages to enable full interpretation of data. A computer package known as Statistical Package for Social Science (SPSS) was used to analyze the data. SPSS is one of the most preffered tools because it enables one to make their research work more scientific and reliable as a number of different statistical tools like ANOVA, paired sample t-test are used. In addition to this, SPSS is quite useful in the graphical representation of the raw data. Different graphs based on different raw data can be drawn easily and effectively. This in turn reduces the time and effort spent in the process of drawing graphs based on the data. The results was then presented in the form of tables and figures.

3.7 Chapter Summary

This chapter discussed the research methodology that was used by the researcher in evaluating the influence of board composition on a firm’s performance in the banking industry. This includes the target population, the sampling frame, sampling technique, sample size, data collection methods, and research procedures and data analysis methods. Chapter four and five presents the findings, conclusions and recommendations of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter shows the analyzed results and findings of the study on the influence of board composition on performance in the banking industry. The first part is about the response rate. The second part is about the background information, which shows the demographic presentation of the respondents. The third part deals with the impact of board members qualifications and experience on performance. The fourth part is about the effect of board gender diversity on performance. The fifth part is on the board independence and performance in the banking industry and the final section is the summary of the whole chapter.

4.1.1 Response Rate

A response rate is the total number of respondents or individuals participated in a study and it is presented in the form of percentage. This study had a population size of 127 executive directors, non-executive directors, chief executive officers and company secretary of Kenyan commercial banks.
The study in Figure 4.1 represents the response rate of the study. From the study, it is clear that 83% of the respondents took part in the study while 17% did not participate in the study. The study, therefore, implies that the response rate was good to be used.

4.2 Background Information

4.2.1 Gender of Respondents

Figure 4.2 depicts the gender representation of the board members. From the figure, it is clearly indicated that 73% of the board members are males and 27% are females. The study implies that more males are board members than females.

![Figure 4.2: Gender of Respondents](image)

4.2.2 Level of Education of Respondents

Table 4.3 represents the level of education of the board members of commercial banks listed on the NSE. The level of education was categorized into four levels as; certificate
and diploma, bachelor degree, master’s degree and PhD level of education. From the figure, it is revealed that, most board members have either bachelor degree or master degree. The study shows that 30% of the respondents had bachelor degree, while 63% master level of education. This means that most of the board members hold master degree level of education which is an advantage to the banking industry since the members are qualified to make informed decisions.

4.2.3 How Long have been board member

![Length of service as a Board Member](image)

Figure 4.4: Length of service as a Board Member

Figure 4.4 depicts the number of years respondents have been board members in commercial banks. From the figure, 5% of respondents have been board members for less than 3 years, 33% of respondents have been board members for 4 to 6 years, 38% of board members have been on the board for 7 to 9 years and 24% of the board members have been on the board for 10 to 12 years.

This means that majority of the board members have more experience to effectively monitor the performance of the banks.

4.2.4 Age of Respondents

To show the respondents’ age categories, Figure 4.5 was used. The figure indicates that 24% of respondents were been 26 to 35 years of age, 33% were between 36 to 45 years of age and 33% had 46 to 60 years of age. The study also reveals that 10% of the
respondents were above 60 years of age. This means that majority of the board members are mature enough to make rational decisions.

Figure 4.5: Age of Respondents

4.2.5 Role in Board Committee Meeting

Figure 4.6: Role in Board Committee

Figure 4.6 reveals the composition of board members of commercial banks in Kenya listed on the NSE. The figure shows that 8% of the respondents were Chief Executive Officers (CEOs), 42% of the respondents were Executive directors and 28% were Non-Executive directors. The study also reveals that 22% of respondents were company secretaries. The implication of the findings is that the board comprises of a variety of roles ensuring that the board is well kept on check.
4.3 Board Member Experience and Qualifications on a Firms Performance

The first objective of the study was to determine the impact of board members qualifications and experience on performance in Kenyan commercial banks.

4.3.1 Descriptive of Board Member Experience and Qualifications

Tests for descriptive statistics were performed using statistical software called SPSS. The descriptive results for variable of board member experience and qualifications were provided in terms of the mean and standard deviation. The total number of respondents analyzed in each case was 105. This was determined by the number of valid complete questionnaires in each case.

Table 4.1: Board Member Experience and Qualifications on a Firms Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members with high number of years of experience in various industries</td>
<td>105</td>
<td>4.76</td>
<td>.428</td>
</tr>
<tr>
<td>have a broader understanding of the industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Kenyan board members contribute positively to a firm’s value and</td>
<td>105</td>
<td>3.14</td>
<td>.469</td>
</tr>
<tr>
<td>the effectiveness of the board.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members with international experience have a positive impact on the</td>
<td>105</td>
<td>4.48</td>
<td>.502</td>
</tr>
<tr>
<td>effectiveness of the board.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members with international experience are more attuned to</td>
<td>105</td>
<td>4.29</td>
<td>.769</td>
</tr>
<tr>
<td>opportunities to compete globally.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of education of a board member is associated to open mindedness of</td>
<td>105</td>
<td>3.21</td>
<td>1.009</td>
</tr>
<tr>
<td>the board member.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members who are self-employed challenge management more than those</td>
<td>105</td>
<td>3.57</td>
<td>1.262</td>
</tr>
<tr>
<td>who are employed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of education of a board member influences their impact on the</td>
<td>105</td>
<td>3.81</td>
<td>1.264</td>
</tr>
<tr>
<td>board oversight responsibilities.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The level of education of a board member influences the effectiveness of</td>
<td>105</td>
<td>3.67</td>
<td>1.651</td>
</tr>
<tr>
<td>the board member during board meetings.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members with experience in the financial services sector contribute</td>
<td>105</td>
<td>4.33</td>
<td>4.199</td>
</tr>
<tr>
<td>the most during board meetings.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members without accounting and finance skills contribute the least in</td>
<td>105</td>
<td>3.29</td>
<td>4.309</td>
</tr>
<tr>
<td>board meetings.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The mean for board member experience and qualifications ranged from 3.21 to 4.76. The findings of the study mean that board members of Kenyan commercial banks have good experience and high qualifications hence that is why they perform better. The study shows that most of the respondents agreed that board member experience and qualifications enhance the performance of Kenyan commercial banks.
From the findings of the study, it is revealed that the standard deviation for board member experience and qualifications ranged from 0.428 to 4.309. The least significant variable with highest standard deviation was that the board members without accounting and finance skills contribute the least in board meetings while the most significant variable with lowest standard deviation was that the board members with high number of years of experience in various industries have a broader understanding of the industry.

4.3.2 Regression Board Member Experience and Qualifications on a Firms Performance

To determine relationship between board member experience and qualifications and firms performance regression was done between board member experience and qualifications as a predictor variable against the firm performance achieved in the banking industry.

Table 4.2: Model Summary of Board Member Experience and Qualifications

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.944a</td>
<td>.890</td>
<td>.889</td>
<td>.25936</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Board Member Experience

The R² of the model was 0.890. This means that 89% of the variations in the performance achieved is as a result of board member experience and qualifications in the Kenyan commercial banks. The 11% difference is due to parameters not predicted in this model symbolized by the error term. Given this strong regression model, the study tested whether there is a strong empirical ground to conclude that board member experience and qualification significantly enhances the performance of Kenyan commercial banks.

From ANNOVA in Table 4.3, there is a p-value of 0.000. The study concludes that there is a significant relationship between board member experience and qualifications and performance of commercial bank in Kenya. This implies that board member experience and qualifications has a significant influence in enhancing performance of commercial banks.
Table 4.3: ANOVA of Board Member Experience and Qualifications

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>56.259</td>
<td>1</td>
<td>56.259</td>
<td>836.324</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>6.929</td>
<td>103</td>
<td>.067</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>63.187</td>
<td>104</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Board Member Experience

The standardized coefficient is 0.944 and p value is 0.000. The study used linear regression model to test the relationship between board member experience and qualifications and firm performance in banking industry. The linear equation model is stated as; \( Y = \alpha_0 + \alpha_1 X_1 + \epsilon \): Where \( Y = \) Firm Performance, \( \alpha = \) Constant value, \( X_1 = \) board member experience and qualifications and \( \epsilon = \) error term

The following were the results of the model in Table 4.4,

Table 4.4: Coefficients Variation of Board Member Experience and Qualifications

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.709</td>
<td>.105</td>
<td></td>
<td>.000</td>
</tr>
<tr>
<td>Board Member Experience</td>
<td>.764</td>
<td>.026</td>
<td>.944</td>
<td>28.919</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The study thus represents firm performance as,

Firm Performance = 0.709 + 0.944 board member experience and qualifications + \( \epsilon \)

It means that a unit change in board member experience and qualifications causes a change of 0.944 in performance of commercial banks.

4.4 Board Gender Diversity and a Firms Performance

The second objective of the study was to determine the influence of gender diversity on performance of commercial banks in Kenya listed on the NSE.

4.4.1 Descriptive of Board Gender Diversity

The study adopted mean and standard deviation (S.D) as statistical tools that were used to rank the significance of the variables. The total number of respondents analyzed in each measure was 105.
### Table 4.5: Board Gender Diversity and Firms Performance

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The presence of women on the board brings an additional perspective to board decision making.</td>
<td>105</td>
<td>4.62</td>
<td>.578</td>
</tr>
<tr>
<td>Banks with nomination committees have more women on the board.</td>
<td>105</td>
<td>2.33</td>
<td>.645</td>
</tr>
<tr>
<td>Women on the board have a positive influence on banks level of entrepreneurship.</td>
<td>105</td>
<td>3.90</td>
<td>.687</td>
</tr>
<tr>
<td>Women on the board frequently ask questions to stimulate constructive and creative discussions.</td>
<td>105</td>
<td>3.62</td>
<td>.726</td>
</tr>
<tr>
<td>Banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management.</td>
<td>105</td>
<td>3.10</td>
<td>.754</td>
</tr>
<tr>
<td>High value banks (firms registered on NSE) have a high number of women on the board.</td>
<td>105</td>
<td>2.86</td>
<td>.777</td>
</tr>
<tr>
<td>Government Regulations on the ratio of men to women on boards improves the performance of an organization.</td>
<td>105</td>
<td>3.38</td>
<td>.903</td>
</tr>
<tr>
<td>The number of women on the board is determined by the firms characteristics e.g. ownership, value, profitability etc.</td>
<td>105</td>
<td>3.76</td>
<td>.976</td>
</tr>
<tr>
<td>Boards increase the number of women when they intend to raise capital through Initial Public Offerings (IPO).</td>
<td>105</td>
<td>2.71</td>
<td>1.035</td>
</tr>
<tr>
<td>Women are effective on the board once they have reached a certain percentage of the board in total.</td>
<td>105</td>
<td>3.24</td>
<td>1.275</td>
</tr>
</tbody>
</table>

The means for board gender diversity and firm performance ranged from 2.33 to 4.62. This means that on average, listed commercial banks in Kenya balance their board gender diversity to enhance performance. This is shown with the moderate opinions of the respondents about board member gender diversity.

The study also shows that the standard deviation for board gender diversity on firm performance ranged from 0.578 to 1.275. This means that there was high deviation among the opinions of the respondents about how board gender diversity enhances performance of listed commercial banks in Kenya. The opinions were especially highly deviated on the statement that women are effective on the board once they have reached a certain percentage of the board in total.

### 4.4.2 Regression Analysis of Board Gender Diversity and a Firms Performance

The study sought to statistically test whether board gender diversity significantly affects performance of Kenyan commercial banks. This was tested using the perceived board
gender diversity as a predictor variable against the performance achieved in the banking industry.

Table 4.6: Model Summary of Board Gender Diversity and a Firms Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.069&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.005</td>
<td>-.005</td>
<td>.78139</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Board Gender Diversity

The R2 from this test is 0.005 meaning that 0.5 percent of the variation in performance of commercial banks results from board gender diversity.

Table 4.7: ANNOVA of Board Gender Diversity and a Firms Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>.298</td>
<td>1</td>
<td>.298</td>
<td>.488</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>62.889</td>
<td>103</td>
<td>.611</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>63.187</td>
<td>104</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Board Gender Diversity

The ANNOVA in Table 4.7 above has a p-value of 0.486. The study concludes that there is a no significant relationship between board gender diversity and performance of commercial banks.

The study used linear regression model to test the relationship between board gender diversity and performance of listed commercial banks. Table 4.8 depicts the results of the model.

Table 4.8: Coefficients Variation of Board Gender Diversity and a Firms Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B (Std. Error) Beta t Sig.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.985 (.968) Beta 3.082 .003</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Board Gender Diversity</td>
<td>.201 (.288) Beta .069 .699 .486</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The study thus represents firm performance as,
Firm Performance = 2.985 + 0.069 \text{board gender diversity} + €

It means that a unit change in board gender diversity causes a change of 0.069 in performance of commercial banks even though the relationship is not significant.

4.5 Board Independence on a Firms Performance

The objective of the study was to examine the effects of board independence on performance of Kenyan commercial banks.

4.5.1 Descriptive of Board Independence

Tests for descriptive statistics were performed using a statistical software call SPSS. The descriptive results for variable of board independence were provided in terms of the mean and standard deviation. The total number of respondents analyzed in each measure was 105.

The mean for board independence ranged from 1.33 to 5.57. The findings of the study mean that firms in banking industry depend on board independence to achieve higher performance. The study shows that respondents agreed that board independence enhances the performance of commercial banks.

The board independence and firm performance had standard deviation range from 0.713 to 8.807. It means that there is a great variation in respondents’ opinions about the impact of board independence on the performance of commercial banks.
Table 4.9: Board Independence has an Effect on Performance

<table>
<thead>
<tr>
<th>Description</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The higher the number of Non-Executive board members the better the performance of the bank.</td>
<td>105</td>
<td>3.86</td>
<td>.713</td>
</tr>
<tr>
<td>Banks with Non-Executive board members are less profitable</td>
<td>105</td>
<td>1.33</td>
<td>.780</td>
</tr>
<tr>
<td>Separating the role of the CEO and Board Chairman has positively impacted the banks’ performance.</td>
<td>105</td>
<td>4.76</td>
<td>.872</td>
</tr>
<tr>
<td>Board members that have a higher number of independent non-executive directors to non-executive directors are more profitable.</td>
<td>105</td>
<td>3.81</td>
<td>1.102</td>
</tr>
<tr>
<td>Boards with majority Non-Executive board members enhance the performance of the banks</td>
<td>105</td>
<td>3.29</td>
<td>1.555</td>
</tr>
<tr>
<td>Non-Executive directors are more effective monitors of management</td>
<td>105</td>
<td>3.71</td>
<td>1.758</td>
</tr>
<tr>
<td>Separating the board chair and CEO roles has reduced conflict of interest.</td>
<td>105</td>
<td>3.71</td>
<td>1.758</td>
</tr>
<tr>
<td>Separation of the role of the CEO and Board Chairman has promoted accountability and facilitated division of responsibility in influencing performance of the firm</td>
<td>105</td>
<td>3.81</td>
<td>1.798</td>
</tr>
<tr>
<td>Having the chairman of the board as Non-Executive director has improved the effectiveness of the board in influencing the performance of the bank</td>
<td>105</td>
<td>3.81</td>
<td>1.798</td>
</tr>
<tr>
<td>Non-Executive board members express multiple points of view which increases the effectiveness of the board</td>
<td>105</td>
<td>5.57</td>
<td>8.807</td>
</tr>
</tbody>
</table>

4.5.2 Regression Analysis of Board Independence has an Effect on Performance

Table 4.10 shows that the coefficient of determination for the relationship between board independence and firm performance was 0.927 and this means that 92.7 percent of performance in commercial banks was explained by board independence. The remaining 7.3 percent was explained by other factors not considered in the model.

Table 4.10: Model Summary of Board Independence has an Effect on Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.963*</td>
<td>.927</td>
<td>.926</td>
<td>.21179</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Board Independence

Table 4.11 shows the overall model significance with a p-value of 0.000. The study hence concluded that board independence has a significant influence in the performance of commercial banks.

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Table 4.11: ANNOVA of Board Independence and a Firms Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>58.567</td>
<td>1</td>
<td>58.567</td>
<td>1305.656</td>
<td>.000a</td>
</tr>
<tr>
<td>Residual</td>
<td>4.620</td>
<td>103</td>
<td>.045</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>63.187</td>
<td>104</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance
b. Predictors: (Constant), Board Independence

Table 4.12 shows the beta coefficients of board independence. The beta coefficient of board independence was positive meaning that a unit change in the application of board independence causes a positive change in performance.

Table 4.12: Coefficient of Variation of Board Independence has an Effect on Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.733</td>
<td>.057</td>
<td></td>
<td>30.291</td>
</tr>
<tr>
<td>Board Independence</td>
<td>.512</td>
<td>.014</td>
<td>.963</td>
<td>36.134</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The relationship in the table was represented by the following equation:

Firm Performance = 1.733 + 0.963 board independence + €

The regression equation shown above indicates that a unit change in the board independence causes an increase of 0.963 in performance of commercial banks.

4.6 Chapter Summary

The results and findings of the study have been provided in this chapter. These results and findings were based on the data given out by the respondents from listed commercial banks in Kenya. The chapter provided analysis on the response rate, background information, board member experience and qualifications, board gender diversity and board independence in enhancing performance in commercial banks. The next chapter provides the summary, discussion, conclusions and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion, conclusions and recommendations of the study. In the first part, the summary of the study is presented. The discussion and conclusion of the study is in part two and three respectively. Part four demonstrates the recommendations.

5.2 Summary of the Study

The purpose of this study was to analyze the influence of board composition on performance in the banking industry. The study was guided by the following specific objectives: to determine how board member qualifications and experience influence performance, to analyze the effect of board gender diversity on performance and to ascertain if board independence has an effect on performance.

The study adopted a descriptive and explanatory research method in analyzing, interpreting, and presenting data. The descriptive research method was the best for this study because it focused on the relationship between organizational board composition and performance of commercial banks. The study used questionnaires to get data from respondents. The study focused on 127 Executive Officers (CEOs), Executive Directors, Non-Executive Directors and Company Secretaries in the eleven commercial banks in Kenya that are listed on the Nairobi Securities Exchange (NSE). The study used census approach on the targeted population. The study adopted a descriptive and inferential statistics in data analysis and presentation. The research data was analyzed using Statistical Package for Social Sciences (SPSS) and Microsoft excel programs. Tables were used in data presentation.

The study examined how board member experience and qualification affects an organization’s performance. The study found that board members with high number of years of experience in various industries have a broader understanding of the industry. It was also evident that Non- Kenyan board members contribute positively to a firm’s value and the effectiveness of the board. The study revealed that Board members with international experience have a positive impact on the effectiveness of the board hence
they are more attuned to opportunities to compete globally. The study found that the level of education of a board member is associated to open mindedness of the board member. The level of education of a board member influences their impact on the board oversight responsibilities.

The study revealed how board gender diversity affects the performance of commercial banks. The study found that the presence of women on the board brings an additional perspective to board decision making. Banks with nomination committees have more women on the board. The study found that women on the board have a positive influence on banks level of entrepreneurship because they frequently ask questions to stimulate constructive and creative discussions. Banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management hence the study revealed that high value banks (firms registered on NSE) have a high number of women on the board. Government Regulations on the ratio of men to women on boards improves the performance of an organization.

The study examined the effect of board independence on commercial banks performance. The study reveals that the higher the number of Non-Executive board members the better the performance of the bank. The banks that separate the role of the CEO and Board Chairman have positively impacted the banks’ performance. The study confirms that separation of the role of the CEO and Board Chairman has promoted accountability and facilitated division of responsibility in influencing performance of the firm. Board members that have a higher number of independent non-executive directors to non-executive directors are more profitable. From the study, it was observed that Non-Executive directors are more effective monitors of management. The study also found that having the chairman of the board as Non-Executive director has improved the effectiveness of the board in influencing the performance of the bank.

5.3 Discussion

5.3.1 Board Member Experience and Qualifications and Firms Performance

The study evaluated the influence of board member experience and qualifications on performance of commercial banks. The study found that board members with high number of years of experience in various industries have a broader understanding of the industry. The study supports the findings of Stuart (2012) who argue that highly effective
boards include a mix of directors with the expertise and experience to fulfil their essential oversight roles. Shan et, al. (2011) on the other hand revealed that a board made up of the right people with the relevant skill sets is critical in today’s competitive business environment. To support the findings, the study found that the responsibilities of directors are expanding and the number and complexity of the issues they have to oversee are increasing hence the most sought after skills in new directors are industry experience.

The study found that non - Kenyan board members contribute positively to a firm’s value and the effectiveness of the board. The study findings agree with the findings of Chio et, al. (2012) that argue that foreign investors and foreign outside directors interact to enhance firm value. Belcredi and Ferraini (2014) confirmed in their study that foreign outside directors have a positive impact on the value of a firm. Consequently, Polovina and Peasnell (2015) found that the presence of the foreign chairman has a positive effect on the profitability of the foreign acquired bank and on the improvement of the income generated from interest activities, indicating that foreign chairman improve the monitoring of board of directors and brings new skills and experiences. Belcredi and Ferraini (2014) on the other hand confirm that directors from different nations are likely to have divergent upbringing, childhood experiences and value systems which impact their perspectives, behavior and thinking. Such diverse perspectives and views enhance creativity and lead to innovative problem solving.

The study showed that board members with international experience are more attuned to opportunities to compete globally. The study findings agree with the findings of Cheng and Stucker (1997) who studied the experience of international board members and local members and found that executives with international experience tend to have more understanding of global markets and business practices and are more attuned to opportunities to compete globally than are executives without that experience. The study found that people’s traditions value systems and lifestyles have a direct impact on business practices in a country hence as companies spread their wings and go global, it is important for the board to have directors representing different nationalities. Allen and Helms (2009) on the other hand found that besides the legal and economic environment a deep understanding of the countries system, culture and work ethos is essential hence the board as a team must be able to understand the cultural and business needs of different countries.
From the study, it is well demonstrated that the level of education of a board member is associated to open mindedness of the board member. To confirm the findings of the study, Unjunwa (2012) adds that a higher level of education enhances the capacity for information processing and tolerance to change. The study supports the findings of Darmadi (2013) who asserted that the numbers of board members with a PhD qualification were found to impact positively on firm performance. Unjunwa (2012) argued that the educational qualifications of board members and the CEO matters to a particular extent. The study found that the level of education of a board member influences their impact on the board oversight responsibilities. The study confirms that members of the board are appointed by the shareholders to provide oversight and monitor the internal operations of management within the organization.

The study also reveals that Board members with experience in the financial services sector contribute the most during board meetings. The study supports the findings of Ingley et al. (2008) who revealed that board members lacking in experience such as key financial, accounting and other skills are perceived as not able to influence key outcomes. These views were aligned to the contribution of Petri and Soublin (2010) whose findings revealed that a board should possess the necessary depth and breadth of experience to gain the respect and trust of the executives. The evidence contrasts the views of Shan et al. (2011) which found that the expertise of board was not a significant determinant of corporate financial performance.

5.3.2 Board gender Diversity and Firms Performance

The study found that the presence of women on the board brings an additional perspective to board decision making. The study findings concur with the views of Vinnicombe, et, al. (2009) who revealed that women bring value to the board. The study confirmed that women are remarkable in a variety of board tasks especially in corporate social responsibility as opposed to operational and financial control. Dominguez, et, al. (2010) on the other hand observed that women contribute to the board activities by frequently asking questions to stimulate constructive and creative discussions, solving problem through an intuitive approach. The study found that women have a feeble tendency to keep control and are more directed towards emotional implication than male colleagues.
From the study, it is found that Women on the board have a positive influence on banks level of entrepreneurship. This contradicts the findings by Joecks, Pull and Vetter (2012) that gender diversity is negatively related to firms’ performance. However it supports the study by Mahadeo and Hanuman (2012) that finds a positive relationship between a high ratio of women and the performance of the firm. The study also contradicts the findings of Joecks, et, al. (2012) who found that the gender diversity was negatively related to firm’s performance and that after a certain percentage of diversity is met is when it contribute to a positive performance. The study advocate for companies to identify the critical mass percentage of women that translates in increased firm value. In support of this analogy Torchia et al. (2011) found that there is a positive influence on innovation if the number of women board members were three and above.

From the study, it is confirmed that banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management. To support the study, Brunzel and Liljeblom (2014) affirm that firms with nomination committees have more gender diverse boards, as well as indications of a more positively perceived contribution of female representation in high-risk firms compared to the low risk. The findings of Nekhili and Gatfaoui (2012) hold that the appointment of women directors is strongly related to family ownership, board size or firm size and also the women demographic attributes. The findings agree to Belcredi and Ferrarini (2013) assertions that the number of women on the board is determined by the firms characteristics.

The study reveals that government regulations on the ratio of men to women on boards improve the performance of an organization. In contrast Ahern and Dittmar (2012) found a negative association between high ratio of women and performance. This contradicts the study according to Smith (2007) that a high proportion of women in powerful positions have a positive influence on firm-level entrepreneurship.

From the study, it is confirmed that the number of women on the board is determined by the firms’ characteristics for instance, ownership, value, and profitability. Mateos de Cabo, et, al. (2012) confirm that the organisational characteristics of the company predicts womens presence on banks boards. In addition Belcredi & Ferrarini (2013) found that banks that have a growth orientation are more prone to include women on their
boards, since they may be seen as providers of diverse external resources that are more valued by firms operating under critical circumstances.

The study found that Boards do not increase the number of women when they intend to raise capital through Initial Public Offerings (IPO). From the study by Schonberger (1994), it is confirmed that there is no significant change in the proportion of male and female directors holding directorships at the time of the IPO.

5.3.3 Board Independence and Firms Performance

The study confirms that the independence of the board has an effect on commercial bank performance. The study found that the higher the number of non-executive board members the better the performance of the bank. The study findings contradicts Guillet et, al.(2012) who affirm that board leadership structure that assigns the duties of the CEO and chairman to the same person increase the proportion of non-executive members to the total number of directors and has a negative impact on firm financial performance. The study found that duality improves performance. Ramayah, et, al. (2011) found that commercial banks should have an adequate number of directors capable of exercising judgment independent of the views of management, political interests or inappropriate outside interests. The study confirms that banks with non-executive board members are less profitable.

The study found that separating the role of the CEO and Board Chairman has positively impacted the banks’ performance. Wahba (2015) in his study asserts that if the two roles of CEO and board chair are combined an independent non-executive director should be appointed as a deputy chairman of the board to ensure independence. Carty and Weiss (2012) suggest that CEO duality diminishes the monitoring role of the board of directors over the executive manager, which may in turn have a negative effect on financial performance. On the other hand, Guillet, et, al. (2012) revealed that duality improves performance.

The study found that boards with majority non-executive board members enhance the performance of the banks. Ward et, al. (2009) confirm that in order to achieve the necessary balance and help mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the institution. Ameer, Ramli and
Zakaria (2010) revealed that company’s optimal board structure involves balancing the costs and benefits of monitoring and advising and depends on the company’s individual characteristics and its overall bundle of governance mechanisms. The study found that firm-boards with a high representation of outside and foreign directors are associated with better performance compared to those firm-boards that have a majority of inside executive and affiliated non-executive directors.

From the study, it was confirmed that having the chairman of the board as Non-Executive Director has improved the effectiveness of the board in influencing the performance of the bank. To support the findings, Biloslavo, et, al. (2013) found that organizations that are able to transcend the duality paradox enhance their effectiveness and efficiency. This contradicts the findings of Carty and Weiss (2012) that assert that there is no relationship between CEO duality and the firm’s failures. This evidence supports the views of McCabe and Nowak, (2008) which suggests that majority of independent minds, reduced the hazard of group think.

The study revealed that separation of the role of the CEO and Board Chairman has promoted accountability and facilitated division of responsibility in influencing performance of the firm. Allen and Helms (2001) found that separating the board chair and CEO roles remains an ongoing debate in corporate governance with compelling arguments on both sides. This approach guarantees superior value that helps a company generate higher profitability. The study found that formation of an audit committee surrounding the reform period is significantly associated with improved earnings quality for small and large companies.

The study found that firms with outside directors are associated with better performance. However, these findings contradict the findings of Bhagat and Black (1999) that suggest that the contribution of independent and non-executive directors to corporate performance is not significant. On the other hand, Ameer, et, al. (2010) found that board with a high representation of outside and foreign directors is associated with better performance. In addition Choi, et, al. (2012) confirmed that board independence reinforces the positive impact of foreign outside directors on firm value.
5.4 Conclusions

5.4.1 Board Member Experience and Qualifications and Firms Performance

The study concludes that board members with high number of years of experience in various industries have a broader understanding of the industry. Also board members with international experience have a positive impact on the effectiveness of the board, hence it is concluded that Non-Kenyan board members contribute positively to a firm’s value and the effectiveness of the board. The study also concludes that board members with international experience are more attuned to opportunities to compete globally. The level of education of a board member influences their impact on the board oversight responsibilities hence the study concludes that the level of education of a board member is associated to open mindedness of the board member. The level of education of a board member influences the effectiveness of the board member during board meetings hence board members with experience in the financial services sector contribute the most during board meetings.

5.4.2 Board Gender Diversity and Firms Performance

From the study it is concluded that the presence of women on the board brings an additional perspective to board decision making. Women on the board frequently ask questions to stimulate constructive and creative discussions hence they pose a positive influence on banks level of entrepreneurship. The study concludes that the banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management. Women are effective on the board once they have reached a certain percentage of the board in total hence the government regulations on the ratio of men to women on boards improves the performance of an organization. The study also concludes that the number of women on the board is determined by the firms’ characteristics, for instance ownership, value, profitability.

5.4.3 Board Independence and Firms Performance

The study concludes that the higher the number of Non-Executive board members the better the performance of the bank. Separating the board chair and CEO roles has reduced conflict of interest; hence the study concludes that the role of the CEO and Board
Chairman has positively impacted the banks’ performance. Non-Executive directors are more effective monitors of management hence the study concludes that board members that have a higher number of independent non-executive directors to executive directors are more profitable. Having the chairman of the board as Non-Executive director has improved the effectiveness of the board in influencing the performance of the bank.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Board Member Experience and Qualification and Firm Performance

The study recommends commercial banks to include on their board, members that have high number of years of experience in various industries because they have broader understanding of the industry. Non- Kenyan board members contribute positively to a firm’s value and the effectiveness of the board hence the study recommends that board members with international experience have a positive impact on the effectiveness of the board. The level of education of a board member is associated to open mindedness of the board member hence the study recommends the inclusion of highly educated members as their level of education influences their impact on the board oversight responsibilities. The study also recommends the inclusion of members with experience in financial services sector as they contribute the most during the board meeting.

5.5.1.2 Board Gender Diversity and Firm Performance

The study recommends commercial banks to encourage more women to join boards as the presence of women on the board brings an additional perspective to board decision making. Women on the board frequently ask questions to stimulate constructive and creative discussions, hence they have a positive influence on banks level of entrepreneurship. Banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management. Women are effective on the board once they have reached a certain percentage of the board in total hence government should regulate on the ratio of men to women on boards. This improves the performance of an organization as it was confirmed that high value banks have a high number of women on the board.
5.5.1.3 Board Independence and Firm Performance

The study recommends more of non-executive member on the board because it was confirmed that the higher the number of Non-Executive board members the better the performance of the bank and that non-executive directors are more effective monitors of management. The study recommends the separation of the role of the CEO and Board Chairman as it has positively impacted the banks’ performance by reducing conflict of interest. Non-Executive board members express multiple points of view which increases the effectiveness of the board hence the study recommends a non-executive chairman citing that having the chairman of the board as Non-Executive director has improved the effectiveness of the board in influencing the performance of the bank.

5.5.2 Recommendation for Further Research

The aim of the study was to evaluate the influence of board composition on a firm’s performance in the banking sector. The study was only carried in companies from one industry (banking industry). Further researches about influence of board composition on a firm’s performance should be carried on in other industries or sectors like, education, industrialization and agricultural.

The study encourages future scholars to assess the factors that determine the selection of board members in organizations.
REFERENCES


Ernst & Young. (2013). *Eastern Africa Banking Sector; Strong economies stimulate asset growth, but lower interest rates squeeze profits*. London: Ernst & Young.


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APPENDIX I: COVER LETTER

Sharon Ingari
United States International University,

P.O.BOX 556 – 00200,

Nairobi.

Dear Sir/ Madam,

I am carrying out a research on the influence of board composition on financial performance of commercial banks in Kenya. This is in Partial Fulfillment of the requirements of the Masters of Business Administration degree program at the United States International University.

The study is being performed within the banking industry from which you have been selected as one of the respondents. By completing the questionnaire, you provide information that will lead to:

- Determination of current practice on board composition and its impact on the banks financial performance
- Development of benchmarks on board composition where banks can leverage off to improve the effectiveness of the board on financial performance of the firm
- Enhancement of the knowledge in the corporate governance area of study

As a respondent, this is an important opportunity for you to re-examine the composition of your board with the aim of identifying areas of strength and those that would require improvement. This is an academic research and confidentiality is strictly emphasized. Your response to this questionnaire will be entered directly into a database and treated with confidentiality. Kindly spare sometime to complete the questionnaire attached.

Yours faithfully,

Sharon Ingari
APPENDIX II: QUESTIONNAIRE

PART I: GENERAL INFORMATION

1. What is your gender?
   ☐ Male ☐ Female

2. To which age bracket do you belong?
   ☐ Below 25 years ☐ 26-35 years ☐ 36-45 years
   ☐ 46-60 years ☐ 61 and above

3. Are you a Kenyan Citizen only?
   ☐ Yes ☐ Dual Citizenship (Specify) ………… ☐ No (Specify) …………

4. When you attend the main board or board committee meetings, what is your role?
   ☐ Chairman ☐ CEO ☐ Executive Director ☐ Non-Executive Director
   ☐ Company Secretary ☐ Senior Management ☐ Other (Specify) …………

5. How often do you attend the main Board or Board committee meetings?
   ☐ Quarterly ☐ Three times in a year ☐ Two times in a year ☐ once in a year
   ☐ Once in two years ☐ Once in three years ☐ Never ☐ Other (Specify) …………

6. What is the total number of board members?
   ☐ 1-10 ☐ 11-20 ☐ 21-30 ☐ 31 and above

7. For how long have you been a board member or Senior Manager in the current commercial bank?
   ☐ 0 – 3 years ☐ 4-6 years ☐ 7-9 years
   ☐ 10-12 years ☐ 13-15 years ☐ above 15 years

8. What is your highest level of education?
   ☐ Certificate ☐ Diploma ☐ Bachelor Degree ☐ Masters ☐ PhD
   ☐ Other (Specify) …………

9. What professional qualifications do you have?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

10. Have you studied out of Kenya (post high school education)?
    ☐ Yes- Specify duration ………… ☐ No

11. Have you ever been employed out of Kenya?
12. What is your work status?
   □ Self-Employed – Specify duration …………
   □ Employed – Specify duration …………

13. Which region have you previously worked? If you are a board member indicate which region you have been a board member? Tick all that are appropriate.
   □ Africa (except Kenya) □ Only Kenya □ Asia □ North America □ South America □ Antarctica □ Europe □ Australia

14. Which industry do you have experience in? Tick all that are appropriate.
   □ Mining □ Construction □ Manufacturing □ Retail □ Agriculture
   □ Financial Services □ Transportation □ Healthcare □ Education
   □ Telecommunication □ Information Technology
   □ Other (Specify) …………………

For each of the above industries selected please specify the duration of your experience using the ranges listed below

   □ Below 3 years □ 3-5 years □ 5-10 years □ 10 years and above

<table>
<thead>
<tr>
<th>Industry</th>
<th>Duration Range</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

15. Within the last 10 years have you been a board member or worked in a foreign company (a company in a foreign country) in any industry?
   □ Yes □ No

16. What is the duration of your experience in the foreign company?
   □ Below 3 years □ 3-5 years □ 5-10 years □ 10 years and above
PART II: BOARD MEMBER QUALIFICATIONS AND EXPERIENCE

Please tick (√) on the box corresponding to your level of agreement or disagreement with the indicated statements. The rating is as shown below:

5-Strongly Agree   4-Agree   3- Neutral   2- Disagree 1- Strongly Disagree.

<table>
<thead>
<tr>
<th>17. Board members qualifications and experience</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of education of a board member is associated to open mindedness of the board member.</td>
<td></td>
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</tr>
<tr>
<td>The level of education of a board member influences the effectiveness of the board member during board meetings.</td>
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<tr>
<td>The level of education of a board member influences their impact on the board oversight responsibilities.</td>
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</tr>
<tr>
<td>Board members with experience in the financial services sector contribute the most during board meetings.</td>
<td></td>
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<tr>
<td>Board members without accounting and finance skills contribute the least in board meetings.</td>
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<tr>
<td>Board members with international experience have a positive impact on the effectiveness of the board.</td>
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<tr>
<td>Board members with international experience are more attuned to opportunities to compete globally.</td>
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<tr>
<td>Non-Kenyan board members contribute positively to a firm’s value and the effectiveness of the board.</td>
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</tr>
<tr>
<td>Board members who are self-employed challenge management more than those who are employed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Board members with high number of years of experience in various industries have a broader understanding of the industry</td>
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<td></td>
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</tbody>
</table>

In which other way does Board members qualifications and experience influence the performance of an organization?

i. .................................................................

ii. .................................................................
### PART III: BOARD GENDER DIVERSITY

Please tick (√) on the box corresponding to your personal opinion for each statement

5-Strongly Agree  4-Agree  3- Neutral  2 Disagree  1- Strongly Disagree.

<table>
<thead>
<tr>
<th>18. Board gender diversity</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The presence of women on the board brings an additional perspective to board decision making.</td>
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<tr>
<td>Women on the board frequently ask questions to stimulate constructive and creative discussions.</td>
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<tr>
<td>Women on the board have a positive influence on banks level of entrepreneurship.</td>
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<tr>
<td>Women are effective on the board once they have reached a certain percentage of the board in total.</td>
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<tr>
<td>The number of women on the board is determined by the firms characteristicse.g ownership, value, profitability e.t.c</td>
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<tr>
<td>High value banks (firms registered on NSE) have a high number of women on the board.</td>
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<tr>
<td>Banks operating in complex environments generate positive returns when they have a high proportion of women in the board and in top management.</td>
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<tr>
<td>Banks with nomination committees have more women on the board.</td>
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<tr>
<td>Boards increase the number of women when they intend to raise capital through Initial Public Offerings (IPO).</td>
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<tr>
<td>Government Regulations on the ratio of men to women on boards improves the performance of an organization.</td>
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</tbody>
</table>

In which other way does Board gender diversity influence the performance of an organization?

i. ..............................................................

ii. ..............................................................
IV: BOARD INDEPENDENCE

Please tick (√) on the box corresponding to your personal opinion for each statement

5-Strongly Agree  4-Agree  3- Neutral  2 Disagree  1- Strongly Disagree.

<table>
<thead>
<tr>
<th>19. Board Independence</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Executive directors are more effective monitors of management</td>
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<tr>
<td>Banks with Non-Executive board members are less profitable</td>
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<tr>
<td>Boards with majority Non-Executive board members enhance the performance of the banks</td>
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<tr>
<td>Non-Executive board members express multiple points of view which increases the effectiveness of the board</td>
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<tr>
<td>The higher the number of Non-Executive board members the better the performance of the bank.</td>
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<tr>
<td>Separating the board chair and CEO roles has reduced conflict of interest.</td>
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<tr>
<td>Separating the role of the CEO and Board Chairman has positively impacted the banks’ performance.</td>
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<td>Separation of the role of the CEO and Board Chairman has promoted accountability and facilitated division of responsibility in influencing performance of the firm</td>
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<td>Having the chairman of the board as Non-Executive director has improved the effectiveness of the board in influencing the performance of the bank</td>
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<tr>
<td>Board members that have a higher number of independent non-executive directors to non-executive directors are more profitable.</td>
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</tbody>
</table>
In which other way does the board independence influence the performance of an organization?

........................................................................................................................................

20. Any final comments?

i. ........................................................................................................................................

ii. ........................................................................................................................................
APPENDIX III: SECONDARY DATA GUIDE

Secondary data review guide on the influence of board composition on a firm’s performance in the banking industry in Kenya

Research conducted in Partial fulfillment of the requirements for the Degree of Masters in Business Administration (MBA)

Section 1: Company Characteristics

<table>
<thead>
<tr>
<th>Year</th>
<th>Name of Bank</th>
<th>Ownership</th>
<th>No. of women in the Board</th>
<th>No. of women in top management</th>
<th>Number of outside directors</th>
<th>Duality (Yes/No)</th>
<th>Number of Audit Committees</th>
<th>Net Profit</th>
<th>Return on Assets</th>
<th>Return on Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
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</table>

Section 2: Board member level of education and experience

<table>
<thead>
<tr>
<th>Reference No</th>
<th>Name of Bank</th>
<th>Age</th>
<th>Length of service</th>
<th>Level of Education</th>
<th>Industry Experience</th>
<th>Foreign Experience</th>
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<td></td>
<td>Commercial Banks Listed on NSE</td>
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<tr>
<td>1</td>
<td>Barclays Bank Ltd</td>
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<tr>
<td>2</td>
<td>CFC Stanbic Holdings Ltd</td>
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<td>National Bank Kenya Ltd</td>
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<td>Equity Bank Ltd</td>
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<td>11</td>
<td>The Co-operative Bank Ltd</td>
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</table>