INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

BELINDA NGANGA

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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STUDENT DECLARATION

I the undersigned, declare that this research project report is my original work and has not been presented to any college or university for academic credit other than United States International University-Africa

Signed: …………………………… **Date**: …………………………...

Belinda Nganga (Student ID: 646371)

This research project report has been submitted for examination by my approval as the appointed supervisor

Signed: ……………………… **Date:** ………………….

Prof. Paul Katuse

Signed: …………………………… **Date:** ……..………….

Dean, Chandaria School of Business

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ABSTRACT

The purpose of this study was to establish whether corporate governance practices do influence financial performance of commercial banks in Kenya. The study was guided by the following research questions: How does the ownership structure of commercial banks influence the banks financial performance? How does board diversity affect financial performance of commercial banks? How does code of corporate governance influence performance of commercial banks?

Findings on ownership structure show that there exists a statistically significant relationship between ownership of commercial banks and financial performance, r (0.518); $p < 0.01$. All components considered under this research question including block ownership and institutional ownership were important in enhancing financial performance

Findings on board diversity show that there exists a statistically significant relationship between board diversity and financial performance of commercial banks in Kenya, r(0.309); $p < 0.05$. All components considered for this research question including board gender diversity, board size, board independence, and board-director duality were all important in enhancing financial performance of commercial banks

Findings on code of corporate governance shows that there exists a statistically significant relationship between code of corporate governance and financial performance of commercial banks in Kenya. Agency conflict and code of corporate objectivity were all considered and found to have influence on financial performance of commercial banks

This study concludes that both institutional and block ownership are relevant, and important in enhancing commercial banks financial performance., The variance is in how the structure do leverage of their inherent strength to advance financial performance objectives. This study also concludes that all the components considered under board diversity, including board gender diversity, board size, board independence significantly contribute to enhancing commercial banks financial performance. Finally, the study also concludes that agency conflict and code of objectivity are significant and important in enhancing financial performance of commercial bank.

This study recommends that management of commercial banks should invest more in systems and structure that enhance both block ownership and institutional ownership, since they are both relevant within the commercial banking sector. The study recommends that board diversity components, including gender diversity, board size, board independence, and board-director duality are very important to financial performance and need to be strengthened. Finally, the study recommends that commercial banks should continuously review and update their agency conflict policies in line with the changing dynamics within the banking sector.

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I thank God for his continued blessings over my life and good health.

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DEDICATION

I dedicate this research project to my family and friends for their love, support, patience, encouragement and understanding. They gave me the support, will and determination to complete this research project.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Corporate governance influence on firm performance has received enormous attention in economic and finance literature over the last 30 years. Within the period it has become the subject of public and academic debates worldwide by regulators, executives, academics and investors (Centre for Corporate Governance, 2004). The attention given to corporate governance has been motivated by the Asian financial crisis of late 1990s and the financial scandals that rocked the U.S. economy in early and late 2000's and, Enron and WorldCom in the USA shocked the business world with both the scale and age of their unethical and illegal operations. These organizations' collapses seemed to indicate only the tip of a dangerous iceberg (Mang'unyu, 2011).

While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies like Parmalat in Italy, to the multinational newspaper group Hollinger Inc, Adephia Communications Company, Global Crossing Limited and Tyco International Limited, revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its director Dick Grasso amidst public outcry over excessive compensation (La Porta, Lopez, & Shleifer, 2009).

As the names of several top corporations have become synonymous with corporate misconduct and financial scandals, a call for more effective corporate governance has been raised worldwide, from financial reporting and internal controls, to how a corporation selects, trains, and evaluates its board of directors. This has also inspired a close look at a range of issues associated with corporate governance and how some companies are responding to those issues and using compliance efforts to build greater business value (Opondo, 2012).

There have been some legislative changes and provisions imposed by governments on public and private organizations around the world to improve on their governance arrangements. This has resulted in a series of formal reports and proposals put forward in many developed as well as developing countries. In the UK, for example, there have been four important and influential reports produced within eight years of each other, being the Cadbury Report of 1992, Greenbury Committee Report of 1995, Hampel Committee Report in 1998 and Turnbull Committee Report in 1999 (Wepukhulu, 2015).

Corporate Governance concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a catchphrase in the development debate. (Uwuigbe, 2012). In developing nations South Africa has taken a lead in addressing corporate governance issues with the implementation of the King Report on Corporate Governance issued in 1994 (King I), 2002 (King II), and 2009 (King III) by the Institute of Directors in Southern Africa (IoDSA).

In East Africa, regional conferences were held in Kampala, Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of corporate governance. At the 1998 Conference, it was resolved that each member state be encouraged to develop both a framework and a code of best practice, to promote national corporate governance, and that efforts be made to harmonize corporate governance in the East African region under the auspices of the East African Cooperation (as it then was), and through the establishment of a regional apex body to promote corporate governance. This resolution was reaffirmed at the 1999 conference. (Centre for Corporate Governance, 2004)

Despite a number of studies having been undertaken on the subject matter, there is still much debate on the influence of corporate governance on firm performance and more so on the relationship between corporate governance and performance of commercial banks (Opondo, 2012). It is well understood that commercial banks play a key role in the economy of any country by majorly assembling savings from surpluses and directing these funds to deficit accounts for the purpose of increasing their production capacities. The concern over corporate governance in this industry particularly originates from the fact that good corporate governance habits increase a firm's market value, enhance profitability and lower the cost of funds (Oghojafora & Olayemia, 2013).

According to the Nairobi Securities Exchange bulletin the total value of shares issued by listed companies by the end of July 2014 was Kshs. 82 billion, while Equity market turnover for the month of August 2014 was Kshs 15.5 billion (NSE, 2014). All this money is held in banks' investor accounts. This is just a fraction of the loss Kenya will have to bear incase the banking sector collapses (Wepukhulu, 2015). This impact was felt with the recent string of collapse of Dubai Bank of Kenya, Imperial Bank of Bank and Chase Bank Kenya Limited in the years 2015 and 2016.

Despite all these regulations and regulatory bodies serving commercial banks, there are still instances of shocking collapses and malpractices of commercial banks. The wave of mergers, acquisitions and collapse of banks witnessed in Kenya and other parts of the world in the 1990's came as a wakeup call to the Central Bank of Kenya to strengthen its bank supervision arm in 2001 (Kisienya, 2011) and again in 2013 and 2015. In order to achieve this, Central Bank of Kenya has on different occasions issued prudential guidelines on corporate governance that all institutions licensed under the Banking Act Cap 488 laws of Kenya are supposed to adhere to. Accordingly, there has been an upsurge of initiatives by Central Banks and Reserve Banks institutions worldwide such as the Basel Committee on Banking and Supervision and OECD in recognition of the vital role the banking sector plays in economic development. These interventions are aimed at providing governance principles with a view of enhancing management and performance of this very critical sector (Kisienya, 2011).

Organization of Economic Cooperation on Development (OECD, 2004) defines corporate governance as involving a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined. More relevantly, in Kenya, The Centre for Corporate Governance defines corporate governance as the manner in which the power of and over a corporation is exercised in the stewardship of its assets and resources so as to increase and sustain shareholder value as well as satisfying the needs and interests of all stakeholders. (Centre for Corporate Governance, 2004).

A properly defined and functioning corporate governance system helps a company to attract investor funding, investment and strengthen the foundation for company financial performance. Good corporate governance shields a company from vulnerability to future financial distress. The argument has been advanced time and again that the governance structure of any corporate entity affects the company's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2011). In this regard, it has been noted that well governed firms largely perform better and that good corporate governance is of essence to company's financial performance and performance. (Gakeri, 2013). Due to the importance of corporate governance, the Basel II committee on banking underscored the need for commercial banks to embrace uniform corporate governance practices for the sake of fostering stability and performance in this important sector.

1.2 Statement of the Problem

Corporate governance has succeeded in attracting a good deal of public interest because of its apparent importance to the economic health of corporations and society in general. However, corporate governance in emerging markets has not been studied as intensively studied in Kenya with the greater of studies having been in US and other developed economics like Japan and Germany (Bonn, Yoshikawa, & Phan, 2014). In Kenya, between 1984 and 2005, 34 banks collapsed. All the failures were attributed to poor corporate and financial performance (Upadhyaya, 2011). Regardless efforts made to streamline the banking sector, several banks have still been liquidated or put under receivership (Kiruri, 2013) due to poor financial performance.

Several studies have been conducted on corporate governance including Love and Rachinksy (2011) study that established the existence of a negative relationship between corporate governance and bank performance. A study by Kiruri (2013) established that ownership concentration and state ownership in banks lead to lower financial performance while higher foreign and domestic ownership lead to higher financial performance. A study by Nyarige (2012) established that the board size of commercial banks positively affect market performance of commercial banks. However, a study by Wepukhulu (2015) contradicts the above findings concluded that that there is no significant difference between banks ownership structure, corporate governance practices and financial performance of commercial banks in Kenya

Therefore, there exists a gap in literature on whether corporate governance contributes to financial performance. Most of the studies examined above have not provided a conclusive finding on whether corporate governance influences financial performance of commercial banks in Kenya. This study seeks to fill this gap by examining how the ownership structure, board diversity, and code of corporate governance influence financial performance of commercial banks.

1.3 Purpose of the Study

The general purpose of the study is to determine whether corporate governance practices influence financial performance of commercial banks in Kenya.

1.4 Research Questions

This study is guided by the following specific questions:

1.4.1 How do the ownership structures of commercial banks influence the financial performance of commercial banks?

1.4.2 How does board diversity affect financial performance of commercial banks?

1.4.3 How do the Codes of Corporate Governance affect the performance of commercial banks?

1.5 Significance of the Study

The findings of the study focused at understanding and improving the relationship between corporate governance and performance of commercial banks in Kenya, with the intent that the results shall provide general corporate governance indicators useful to Central Bank of Kenya and the business community in formulating policies and making informed decisions. The study is significance to the following categories of people:

1.5.1 The Management of Commercial Banks in Kenya

The management of commercial banks in Kenya will benefit from the findings that will help them enhance responsible governance which leads to sustained productivity and improved performance. It will give them an in depth understanding of corporate governance issues, the role of boards, audit reports and other relevant laws and, institutions in the proper management of their corporations to enhance performance and to minimize waste. The directors in the financial institutions will understand the importance of full disclosure and transparency to the investors as it creates a positive image to the public. This study will also enable commercial banks identify the best corporate governance practices internationally and consider how such can be integrated in their business practices to enhance performance.

1.5.2 The Central Bank of Kenya

As policy makers, the study will go a long way in helping them gain a deeper understanding on the role of corporate governance and performance of commercial banks and hence come up with policies that will help firms improve their performance and in turn the performance of the economy at large. The government of Kenya will also be able to understand the politics behind corporate governance of banks that will assist it improve on areas that negatively impact corporate governance through CBK with a view of enhancing productivity and performance.

1.5.3 Academicians and Researchers

Future researchers and academic institutions, especially those of higher learning can use the findings of this research as a source for future reference. Thus, the study will serve as a data base for further research. Finally, researchers and academic community could use this study as a stepping stone for further studies on corporate governance in Kenya and around the world. The students and academics will use this study as a basis for discussions on corporate governance and financial performance.

1.6 Scope of Study

The study covers corporate governance within the banking sector in Kenya. Specifically, it covers governance issues within the 43 commercial banks incorporated and operating in Kenya during the period. The study was be carried out in Kenya and target all the registered banks operating under the Banking Act of Kenya.

The time frame of the study shall span from January 2001 to 31 December 2015. The choice of the period allows for a significant lag period for banks to have reviewed and implemented various recommendations made by Central Bank of Kenya as spelt out in various prudential guidelines on corporate governance for institutions licensed under the Banking Act Cap 488 that had been issued. The choice of January, 2001 as the starting point of the study was informed by the fact that this was the effective date when corporate governance guidelines for banking firms were first issued by CBK. In 2006 extremely comprehensive corporate governance mechanisms that superseded the 2000 that were relatively simple were introduced by Central Bank of Kenya. In 2013 new prudential guidelines that superseded the 2006 were issued by CBK.

The research shall be conducted over a period of 6 months starting May 2016 ending November 2016. Data was be collected among the sample size of CEO's, Company Secretaries and/or Corporate Affairs Managers sampled from the target respondents for both the primary and secondary data.

1.7 Definition of Terms

1.7.1 Block Ownership

Computed as the total firm's outstanding shares owned by block holders, which is defined as the sum of the three largest stakes in the bank's equity (Stepanova & Ivantsova, 2012).

1.7.2 Board Diversity

Board diversity is defines as the inclusion gender, age, disability, experiences, and academic sector variations within an organization's board (Brickley, Lease, & Smith, 2008).

1.7.3 Codes of Corporate Governance

Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country's governance systems by recommending a set of norms aimed at improving transparency and accountability among top managers and directors (Nyamongo & Temesgen, 2013).

1.7.4 Financial performance

A firm's relative position within its industry determines where a firm's profitability is above or below the industry average. A firm attains above average profitability in long run through sustainable competitive advantage (Pfeffer & Salancik, 2012).

1.7.5 Institutional Ownership

Institutional ownership refers to ownership of organizations by banks, mutual funds, investment institutions, and insurance companies (Uwuigbe, 2012).

1.8 Chapter Summary

This chapter introduced the research topic starting with the background of the study on corporate governance practices and their contribution towards the performance of commercial banks in Kenya. This was followed by the research questions, then the significance of the study followed by the scope of the study, and finally the definition of terms. Literature review is examined in chapter two, while the research methodology is presented in chapter three.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter details the literature review conducted on each research question. The literature review is divided into three sections. The first section focuses on how the ownership structures of commercial banks influence the financial performance of commercial banks, the second focuses on the impact of board diversity on financial performance of commercial banks, while the third section focuses on evaluating if the codes of Corporate Governance have been successful in contributing to performance of commercial banks in Kenya.

2.2 The Ownership Structure of Commercial Banks

The ownership of commercial banks play a major role in the performance of commercial banks. A study by Jensen (2011) revealed the existence of a significant relationship between ownership and performance of commercial banks. The study found that different ownership structures influence banks performance differently. For instance, block ownership, where majority shareholder's rights determine performance objectives, produce different results compared to institutional ownership (Fama & Jensen, 2013) where institutional performance objectives determine banks performance. As such, the ability for owners to make strategic timely decisions that enhances banks competitive advantage enhances banks performance position (Wepukhulu, 2015).

2.1.1 Block Ownership

Block ownership is defined as the ownership where an organization has a majority shares owned by shareholders who influence strategic objectives of the organization (Jensen, 2011). In this regard, block ownership in commercial banks mean that instead of managers making decisions on banks performance, shareholders' do. Akhalumeh and Ohiokha (2011) argue that soldemly do commercial bank allow shareholders to determine day to day operations that influence performance of the banks. This is the reserve of bank managers. However, bank managers are responsible for the overall performance of the bank. Overall performance forms the basis from which shareholders vote on matters arising from the performance. As such, Black, Jang and Kim (2013) content that block ownership on its on is not sufficient to determine the ultimate performance of banks. For instance, if performance objectives adjudicated by block owners is not properly implemented by managers, then, performance will not be enhanced.

Good corporate governance in a company depends on a combination of two factors namely: how investors' rights are protected, and ownership concentration (Bonn, Yoshikawa, & Phan, 2014). The ownership structure of the firm is an outcome of shareholder's decisions. To maximize the value of the firm may require either concentrated or diffused ownership structure (Bassem, 2009). This is determined by the trading pattern of shares on the stock exchange or security exchange that may reflect the desire of existing shareholders or potential owners to change their ownership stakes (Wepukhulu, 2015). In most instances, diffused ownership structures are problematic to execute since different shareholder's hold different opinions on corporate performance decisions. Thus, coming up with a coherent quick win decisions is not possible (Brickley, Lease, & Smith, 2008). In this regard, if a commercial bank is competing against other banks that have well-structured decision making mechanisms, it is possible that these banks will gain competitive advantage in performance over diffused ownership banks (Andre & Vallelado, 2008).

Conversely, concentrated ownership offers commercial banks the opportunity to have quick decision capabilities since the decision-making structures are centralized (Donaldson & Preston, 2011). Concentrated ownership is not just vital for quicker decisions but also for enhancing banks' ability and enhanced performance. In any given business venture with many players with substitute products, quicker efficient decisions usually enhance a firm's competitive edge in product awareness, and sales that are essential for performance (Brickley, Lease, & Smith, 2008). Most banks do offer similar financial products in loans and deposits/savings. As such, a bank's ability to leverage its concentrated decision structures for quicker decisions does enhance the banks performance.

A study conducted by Berle and Means (2002) suggested that there exists a positive relationship between block ownership and firm performance. However, other studies by Fama and Jensen (2013) and Kee and Hao (2011) did not observe the existence of such a relationship. These findings did indicate that block ownership is only relevant to the extent that the owners institute market policies and performance objectives geared at enhancing banks performance. Failure to institute these policies and internal restructuring means that at the end of the day, the banks will not be able to compete effectively in the market place, and thus, yield average to below average performances. However, Denis (2011) argues that the studies on block ownership can lead to challenges of liquidity necessary for operations if owners fail to raise sufficient capital, and thus, hamper performance objectives for their banks.

The more dispersed the ownership structure of a firm, the higher the agency costs (Jensen, 2011). This is because ordinary shareholders may not have time and relevant skills required to monitor the activities of the company's management. In view of this, the high presence of small ownership in a company may give rise to free rider problems. However, this problem can be neutralized by the presence of block holders in the company's ownership structure. In an agency framework, higher block ownership facilitates more active monitoring of management activities and can help mitigate agency costs (Wepukhulu, 2015).

The CEOs of firms tend to disclose more information to block shareholders on a voluntary basis than to other parties hence reducing monitoring costs (Fama & Jensen, 2013). While examining Czech companies, Claesses and Djankov (2009) found that the more concentrated the ownership, the higher the profitability of a firm. Xu and Wang (1999) find a positive correlation between shareholding ratio of the top ten big shareholders and performance among Chinese firms and found a positive relationship between concentrated ownership and performance.

Despite the positive relationships realized between block ownership and performance reported by various studies, block ownership has been known to raise new corporate governance problems especially in banking firms. For instance, large investors may pay themselves special dividends and are able to exploit business relationships with other firms they own at the expense of the bank (Clarke, 2012). Aghion and Tirole (2014) found that though concentrated ownership provides incentives to monitor the company's management, it also reduces the managers' initiative to acquire information. Managers are less likely to be active if they know that shareholders are likely to interfere with decisions that they make. Since 1990s, careful observation of ownership structures across the world indicate that dispersed shareholdings in firms have become much less frequent paving way for a high degree of block ownership (La Porta & Schleifer, 2015). Consequently, the potential expropriations of minority shareholders by controlling owners have become a normal occurrence.

2.1.2 Institutional Ownership

Institutional investors are organizations which marshal large sums of money that they invest in companies. They take the form of banks, mutual funds or insurance companies among others. Due to their ability to influence the board decisions, absorb monitoring costs and engage in active ownership of the firm, their presence might positively affect firm performance. Institutional investors are known to play a very critical role in the debate on company's shareholder value creation as they will always strife to maximize shareholder value (Fama & Jensen, 2013).

The Cadbury Committee viewed institutional investors to have a very special role in trying to ensure that their recommendations are adopted by companies as they use their influence as owners to ensure that the companies in which they have invested in comply with the Code (Cadbury Report, 1992). Similar sentiments were echoed by Greenbury Report (1995), Hampel Report (1998). These three influential committees on corporate governance matters clearly emphasized the role of institutional investors in companies as far as enforcement of corporate governance issues is concerned. The Cadbury Report points out that institutional shareholders should enter dialogue with companies based on mutual understanding of objectives, when evaluating companies' governance arrangements. Particularly for those related to board structure and composition, they should consider all relevant factors drawn to their attention and they are responsible to make considered use of their votes (Cadbury Report, 1992).

Studies on the relationship between institutional ownership and firm performance provide mixed results. According to Brickley, Lease and Smith (2008) institutional investors can be categorized into two major groups namely: pressure sensitive institutional investors and pressure resistant institutional investors. Pressure-sensitive institutional investors refer to those institutional investors who are likely to have both investment and business relationships with firms in which they hold equity. They include insurance companies, banks, and non-bank trusts. For such investors to protect their business relationships, they may be less willing to vote against the decision brought forward by the management (Brickley, Lease, & Smith, 2008). Heard and Sherman (2013) argue that investment and business relationships held by institutional investors could create conflict of interest between institutional investors and the management since the power gained from their ownership may be tampered by their reliance on the firm for business. This raises the likelihood that there will be a negative relationship between high presence of pressure-sensitive institutional investors and firm performance and therefore it is expected that there will be a positive relationship between high presence of pressure-resistant institutional holders and firm performance (Nyamongo & Temesgen, 2013).

High institutional ownership does not necessarily foster firm performance for they may provide insignificant monitoring to the firm's management due to their own internal agency conflicts (Brickley, Lease, & Smith, 2008). Denis (2011), finds that top management turnover is likely to be high in the presence of high ownership by financial institutions which may negatively impact on firm performance. These findings are in line with those of Mohammad and Shahid (2012) who find a negative relationship between institutional ownership and performance of banks.

2.3 Board diversity and Financial Performance of Commercial Banks

2.3.1 Board Diversity

Board diversity defined as the inclusion of persons of both genders within the organizational structure (Brickley, Lease, & Smith, 2008). However, board diversity is not limited only to gender diversity, but only diversity based on age, religion, occupation and job groups, and diversity in terms of members' experience (La Porta & Schleifer, 2015). Denis (2011) argues that the concept of board diversity enables organizations to reflect the structure of society and properly represent the gender, ethnicity and professional backgrounds of those within it. Boards of directors in a company need to have the right composition to provide diverse viewpoints.

Board diversity supports on the moral obligation to shareholders, stakeholders and for commercial reasons by obtaining extensive decisions (Darmadi, 2013; Daily & Dalton, 2003). Gender diversity is considered part of the broader conception of board diversity and many scholars have shown that few women sit on corporate boards. When compared to men, most women directors possess staff/support managerial skills, such as legal, public relations, human resources and communications rather than operating and marketing skills. Board diversity should also greatly consider the technical expertise of the board members.

A study conducted by Hsu (2011) in the United States to investigate the relationship between board characteristics and financial performance of US firms between 2000 to 2004 revealed the existence of a significant relationship at the board level. The performance of the firms was measured using the Tobin's Q and findings showed that board quality was positively related to firm performance. This supports Ujunwa (2012) whose study found that the number of board members with Doctor of Philosophy (PhD) qualifications impacted positively on Nigerian firms listed on the stock exchange. Thus, according to these two studies, education qualifications had a positive impact on firm performance. In this regard, a firm that has diversity of board members, with keen bias on academic qualifications enhances the probability that the firm will do well financially. Similarly, Darmadi (2013) indicated that organizations that have board members with at least, university degrees in variant fields enhances organizational performance. This is because the board has the capability to tackle different performance perspectives as opposed to a tunnel performance vision that non-diversified boards face.

2.3.2 Board Size

Board size is defined as the number and mix of both Executive Directors and Non-Executive Directors on the Board of the Institution (Fama & Jensen, 2013). Board size has been a subject of significant research in terms of its relationship with firm performance. In most cases, this has been fueled by prominent business failures of large companies such as Enron, WorldCom and Parmalat (Opondo, 2012). There is a convergence of agreement on the argument that board size is associated with bank financial performance (Andre & Vallelado, 2008; Bonn et al., 2014; Gakeri, 2013). However, other scholars like Lam and Lee (2008) and Moscu (2013) argue that the size of the board in itself is not significant but rather the quality and effectiveness of the board. The size of the board should be large enough to incorporate key skills and perspectives, and yet small enough to allow for the active involvement of all the members and the smooth functioning of meetings (Wepukhulu, 2015). There is a belief that the number of directors can affect the performance of a company, especially its financial performance.

It is argued that within a certain range, the larger the board, the more effective it is in its statutory duties of monitoring the management. While there may be no one size fits all recommendation for what constitutes an optimal board size, a board size of 8-10 is often recommended, including the chairman (Shiah-Hou & Cheng, 2012).

In theory, the board of directors is one of the most important governance mechanisms that ensure that the management of a company pursues interests that are in tandem with those of the shareholders. Its task is to monitor, discipline and remove ineffective management teams (Darmadi, 2013). Spencer Stuart Board Index (2015), reports that worldwide board size has been shrinking over the years and that there is a continued trend towards smaller boards. Darmai (2013) notes that if boards were just to satisfy regulatory requirements they would represent very high costs to firms hence the need to observe a minimum board size. In practice, however, boards have been known to be generally larger than what the law requires, bringing up a more reasonable theory that boards are determined by institutions as a tool to help in alleviating agency problems in large firm as part of the equilibrium solution to the contracting problem between dispersed shareholders and the management (Fama & Jensen, 2013).

There are mixed findings on how board size impacts on firm performance. On one hand, it is argued according to the resource dependency theory, that board of directors with their high-level links with the external environment are expected to play an important role of establishing relationships that can enable the firm access information that can be used to its advantage. Therefore, a bigger board having representation of people with diverse backgrounds and from different companies is expected to bring diversified knowledge and expertise to the board and the firm (Donaldson & Preston, 2011).

Given the unique operating environment in which banks operate, it is expected that bank boards be larger than boards in other sectors (Central Bank of Kenya, 2013). The larger board size is further aggravated by their complex organizational structure and the presence of diverse committees such as lending and credit risk committee, audit committee among others, whose composition entails presence of a board member. Generally, bigger banks have bigger boards. Given that the banking sector is different from other sectors, additional knowledge and experience provided by larger boards contributes to better bank performance (Opondo, 2012). This is because non-executives perform an important role and are central to effective resolution of agency problems between managers and shareholders in these kinds of firms. Among other responsibilities, non-executives should critically assess, approve and review the financial and operational decisions of executive management (Fama & Jensen, 2013).

In some cases, a large board size is perceived as a limit on board effectiveness for varying reasons. Large boards prevent meaningful dialogue among directors and it is easier for the CEO to control and manipulate larger boards (Love & Rachinsky, 2007). Yoshikawa and Phan, (2003) find that large boards are a creation of the CEO so as to entrench himself in the company. Thus, for the board to be free from the management and effective control of the CEO, the board size should be small (Bonn, Yoshikawa, & Phan, 2014). Linyuru (2014) is in consensus with the finance literature that large boards impair firm performance. He argues that as board size increases, they become less effective at monitoring management because of free-riding problems amongst directors and increased decision-making time. The ineffectiveness is further aggravated by increased ability of managers to avoid decision making. De Andres and Vallelado, (2008) find an inverted U-shaped relationship between bank performance and board size and further find that inclusion of more directors to the company's board should benefit the monitoring and

2.3.3 Board Independence

Board independence is one of the highly debated issues in corporate governance studies due to its ability to influence board deliberations and ability to control top management decisions and company results (Black, 2001). Board independence is defined as the ability for a board to be free from internal or external interference or pressure in the course of doing their duties. There are many different measurements on the composition of the governing board, and these are varied as number of directors, number of external directors, number of independent directors in the board (Andre & Vallelado, 2008). The concept of board independence was grounded on agency theory (McColgan, 2011). Independent board members provide potentially greater oversight and accountability of operations, as they are less likely to be subject to the principal-agent problem themselves. This is because as independent members do not have inherent self-interests *per se* and are instead guided by the interests of the stakeholders who appointed them (La Porta & Schleifer, 2015). For this reason, a greater percentage of independent members in the boards should promote positive performance. It is argued that independent directors are more likely to act in shareholders' interest in a better way compared to executive directors for they do not have an incentive to collude with internal managers to expropriate shareholders' wealth. (Wepukhulu, 2015).

Based on a wide range of positive findings on the relationship between board independence and firm performance CBK recommends that non-executive directors should not be less than 3/5 of board size in order to enhance accountability in the banking sector (CBK, 2013). Agency theory recommends the need to involve independent directors in the company's board to monitor any self-interested actions by managers with a view of minimizing agency costs (McColgan, 2011). In actual corporate scene, executive directors are normally known to be aligned with the CEO who is the highest ranking company executive with powers to appoint executives. The directors duly appointed by the CEO may not effectively monitor the CEO. Byrd and Hickman (1992) argue that a high caliber CEO may appoint independent directors to please shareholders with an illusion that there is active monitoring in the company's activities when indeed there is none. Accordingly, many researchers all agree in their findings that there is a positive relationship between the high presence of independent directors in the bank's board with their performance (Kisienya, 2011).

Although agency theory recommends involvement of independent non-executive directors to promote independence of the board from management, it has been observed that independent directors rarely blow the whistle on mismanagements perpetrated by executives on the companies' assets that lead to negative performance (Morck & Stezer, 2011). In the study of banks Uwuigbe, (2011) and Stephano (2013) all agree that there is a negative relationship between presence of independent directors in banks boards and their performance. It can be argued whether independent directors are indeed truly independent as they have hidden financial and personal ties with the CEO (Morck & Stezer, 2011). In banking firms, the proportion of outsiders may overstate the board's true independence if there are undisclosed lending relationships with directors or the directors' employers especially where such relationships may be large enough to matter for independence (Kisienya, 2011).

Although independent directors help a great deal in decision making in companies, research has not found any direct link between board independence and firm performance. Two reasons have been advanced for this: board independence in itself is affected by financial performance for companies react to bad performance by adding outside directors to the board and the advantages of an active independent board are normally realized when specific issues such as CEO replacement or acquisition proposals are to be voted on. Though it is a requirement amongst most companies that majority of their directors be independent, the major weaknesses manifested by available research on the impact of independent directors on firm performance point to the fact that the degree of independence is unobservable owing to the choice of directors (Wepukhulu, 2015).

2.3.4 Chief Executive Officer Duality

Chief Executive Officer (CEO) duality occurs when the CEO and chairman positions are held by the same person in an organisation (Lam & Lee, 2008). Board leadership structure is an important corporate governance mechanism, which is reflected in the positions of chairman of the board and CEO. Both agency theory and stewardship theory have addressed the leadership structure of the board. Separation of the role of CEO and chairman of the board is largely grounded in the agency theory which assumed that due to the agency problem, it is necessary to monitor the performance of the CEO and the board to protect the stakeholders' rights including shareholders (Nyarige, 2012). This recommendation was made by the Cadbury Report in 1992; in Dutch Peters Committee Code in 1996 and the Belgian Commission of Banking and Finance Code in 1998 (McColgan, 2011)

Duality represents a problem because people that are responsible for the firm's performance are the same with those who evaluate the efficiency. This situation makes difficult the correct evaluation of the firm's performance and may result to underperformance of the company in the long term, as such an arrangement concentrates too much power in the hands of one executive and may lead to low performance. As qualified as the CEO or Chairman may be, assigning too many responsibilities to his subject may lead to inefficiency if one or both positions are held (Moscu, 2013). Professional theories on CEO duality comes with two different approaches: In terms of agency theory, duality negatively affects the corporate performance while the stewardship theory says the opposite. According to the Centre for Corporate Governance, combining the role of chair of the governing board and the CEO might result in CEO dominance, which will lead to ineffective monitoring of the management and monitoring by the board (Centre for Corporate Governance, 2004).

2.4 Codes of Corporate Governance and Performance of Commercial Banks

Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country's governance systems by recommending a set of norms aimed at improving transparency and accountability among top managers and directors (Nyamongo & Temesgen, 2013). In most legal systems, codes of good governance have no specific legal basis, and are not legally binding. Thus, enforcement is generally left to the board of directors and external market forces. It is only in a few countries e.g. Nigeria- in the case of the corporate governance for banks, Germany and the Netherlands in Europe that the law attaches explicit legal consequences to the codes (Elewechi, 2012). Even if, compliance with code recommendations is traditionally voluntary, evidence shows that publicly quoted companies tend to comply with the codes more than non-quoted firms. The content of codes has been strongly influenced by corporate governance studies and practices, and their implementation is considered a paramount factor to avoid governance problem and hence increase firm performance (Centre for Corporate Governance, 2004).

The Kenya Capital Markets Authority issued the Code of Corporate Governance Practices for Issuers of Securities to the Public (2015). This Code succeeds the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya, 2002. The Code sets out the principles and specific recommendations on structures and processes, which companies should adopt in making good corporate governance an integral part of their business dealings and culture (Capital Markets Authority, 2015).

The Code advocates for the adoption of standards that go beyond the minimum prescribed by legislation. The Code has moved away from the "Comply or Explain" approach to "Apply or Explain", which approach is principle-based rather than rule-based, and recognizes that a satisfactory explanation for any non-compliance will be acceptable in certain circumstances. The approach therefore requires boards to fully disclose any non-compliance with the Code to relevant stakeholders including the Capital Markets Authority with a firm commitment to move towards full compliance within a stipulated timeline. However, the Code contains mandatory provisions which are the minimum standards that issuers must implement, and these are replicated in the Capital Markets (Securities) (Public Offers, Listing and Disclosures) Regulations, 2002.

An effective board of directors should have an appropriate number of qualified and experienced members, nominated through documented procedures (Fourier, 2006). As part of good corporate governance, institutions should have documented policies on the procedures for establishing boards of directors in terms of size, gender composition, skill mix, experience, terms of office, removal and replacement (Opondo, 2012). Similarly, the CMA Guidelines prescribe that the board of directors should also develop an appropriate staffing and remuneration policy, including appointment of the chief executive and senior management staff (CMA, 2015).

2.4.1 Agency Conflict

Agency conflict is defined as the clash between managers' personal pursuits within the organization and the shareholders' objectives (Akhalumeh & Ohiokha , 2011). This is usually the case where an organization employs managers, who in turn use organizational resources for pursuing personal goals or objectives at the expense of the organization. As such, the organizational performance objectives are not paramount. Opondo (2012) argues that the importance of stipulating agency conflict within organizations is that it helps organizations develop clear frameworks for ensuring that managers are committed to the organization, and are pursuing organizational performance objectives to which they are evaluated. Thus, commercial banks are not different in stipulating parameters of code of corporate governance as a guide to mangers. Such codes of corporate governance are usually stipulated in the managers' contract with remedies and consequences in case of violations (McColgan, 2011).

Advocates of agency theory argue that separation of the stipulating clear guidelines on agency conflict does maximize corporate performance since the managers are guided on do's and don'ts of using organizations resources for self-aggrandizement (Jensen & Meckling, 1976; Lam & Lee, 2008; Moscu, 2013). Similarly, a study conducted by Pi and Timme (2013) noted that that in the banking industry, in the period between 1990-2010, non-duality firms outperformed duality firms because agency conflict issues were eliminated. Where a manager has authority to set organizations agenda, chair the board's agenda, approve and operationalize the same agenda, is a recipe for performance problems (Bonn, Yoshikawa, & Phan, 2014). In such cases, it is difficult to hold managers to accountability standard that are in line with corporate code of conduct. Similarly, Clarke (2012) argues that when managers are the boses of themselves, levels of accountability become weak, and opportunities for agency conflict increase theratening the organizational performance. In the banking sector, the very sensitive nature of dealing with money makes it even more urgent for shareholders to ensure that agency conflict does not happen. One of the ways through which agency conflict threatens performance in the banking sector is through the loans and credit approval departments (Nyamongo & Temesgen, 2013). Banks are usually at a threat when credit departments do not have sufficient checks and balances in terms of who appraises the loans, and who approves the loans. If the appraiser and approver are the same person, the probability of collusion, mismanagement and misappropriation of loan credit increases, which negatively impacts banks performance (Oghojafora & Olayemia, 2013).

One of the ways to ensure that agency conflict in the banking sector does not jeopadize banks financial position is to ensure that management roles and board oversight roles are clearly stipulated (Dehaene, De Vuyst, & Ooghe, 2001). Similarly, role abstraction between senior level managers and middle level managers should be in place to ensure that code of corporate conduct is maintaned with sufficient oversight. A bank that has sufficient levels of code of corporate conduct within the higher levels of management usually safeguards customers deposits and loans, and thus, protects and enhances banks financial performance (Jensen , 2011).

Contrary to agency theory that defines agency conflict, steward theory notes that stewardship empowers an organization's board and management to do that which duty and responsibility calls on them to do (Dehaene et al., 2011). As such, contrary to agency theory, a manager can chair the board, and still have high financial performance since the code of stewardship would guide the manager's action to act in the best interest of the organization (Donaldson et al., 2011). Stewardship code of conduct ensures that in case of dual-CEO, institutional ownership is up held. However, it is important that in such cases an external party examines the organizations operations (Lam & Lee, 2008). Thus, it is external oversight might increase monitoring which is essential for banks financial performance.

2.4.2 Code of Objectivity

Objectivity as a code of corporate governance is defined as the act of being impartial and unbiased when dealing with organizational duties and responsibilities (Stepanova & Invantova, 2013). Commercial banks should develop mechanisms that enhance organizational financial performance. One of the ways to do this is by ensuring that the banks corporate governance includes code of objectivity. Objectivity in dealing with loans is one of the key aspect of organizational financial performance (La Porta, Lopez, & Shleifer, 2009). According to Bassem (2009) banks with well-developed code of objectivity have a higher fnancial performance compared to organizations that do not have such provisions. In addition, an effective board should consist of members sourced from other organisations to enhance independence and objectivity. Such board members may bring new perspectives from their respective organisations, which in turn, may improve the strategic direction given to the management team (Opondo, 2012).

The Capital Markets Authority-Kenya (CMA) Guidelines provide that the board of directors should have a balance of non-executive and executive directors. The non-executive directors should form at least one-third of the entire board. This is to ensure objectivity in the roles and decisions made by the executive directors within commercial banks. Secondly, Lam and Lee (2008) argue that code of objectivity should not only cover senior management in the banking sector, but a trait that should be upheld by all banks employees. Implementing organizational performance goal objectively enhances financial performance for commercial banks.

Additional key elements of good corporate governance include management of accountability and efficiency in the utilization of resources (Mang'unyu, 2011). Efficiency and accountability can only be enhanced through objective implementation of organizational performance goals. In cases where an organization does not have clear performance objectives, then code of objectivity will not be of great importance to financial performance. Bank employees will not be able to properly articulate their performance parameters (Kisienya, 2011). There is also need for commercial banks to be objective in formation of standing committees such as nomination and remuneration committee to ensure that only qualified individuals are included in such boards, and Audit committee to oversee implementation of auditing rules on activities (Opondo, 2012). Transparency is also crucial component of good corporate governance. It reduces information asymmetry between an institution's management and financial stakeholders (Black, Jang, & Kim, 2013). As such, code of objectivity enhances transparency in financial transactions that are pertinent to the performance of commercial banks. Objectivity also enhances disclosure which is desirable in procurement process in terms of tendering methods, tender evaluation, award, as well as staff training and development which is essential in commercial banks financial performance (KIPPRA, 2006).

2.5 Chapter Summary

This chapter covered the literature review based on the three research questions. The review highlighted the various findings and trends on the research questions, and gave a basis for this study. The following chapter represents the research methodology of the study.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodology adopted by the study. The study research design is presented first, followed by population and sampling design, data collection methods, research procedures and data analysis methods

3.2 Research Design

Research design is a comprehensive plan of sequence of operations that a researcher intends to carry out to achieve the objectives of a research study (Srivastava & Rego, 2011). This study shall adopt descriptive research design in analyzing the relationship between corporate governance and performance of commercial banks in Kenya for the period spanning 2001-2015. Descriptive research is often used in quantitative research as they provide statistical scientific findings that describe the study objectives (Adams, Raeside, & White, 2007). Therefore, descriptive survey is sufficient for this study as it enabled the researcher to provide scientific findings that can be verified with similar studies scientifically. Similarly, descriptive survey enabled the researcher to describe study elements in their natural state without influencing the study environment.

3.3 Population and Sampling Design

3.3.1 Population

A population of a study is defined as a total set of elements that a researcher seeks to investigate (Cooper & Schindler, 2013). A research population is generally a large collection of individuals or objects that is the main focus of the study known to have similar characteristics or traits for whose benefit the researches are done (Cooper & Schindler, 2013). The population for this study is 43 senior managers from 43 commercial banks in Kenya. This was in line with the advocacy of the Basel Committee on Banking and Supervision that governance structure should be composed of board of directors and Senior Management (Saunders, Lewis & Thornhill, 2012).

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sample frame is defined as a list elements that constitutes the study population from which a researcher seeks to draw a sample. For this study, a sample frame was drawn from central bank of Kenya (CBK) website that articulated the list of all commercial banks in Kenya.

3.3.2.2 Sampling Technique

Sampling technique is defined as the process through which a researcher peeks a sample that is representative of the entire population (Adams, Raeside, & White, 2007). In research, there exists different forms and types of sampling techniques. This includes random sampling techniques, stratified sampling, convenient sampling, and purposive sampling. This study adopted a purposive sampling to carry out the study. A purposive sampling is defined as the technique of picking a study sample based on their perceived knowledge of the study area or subject (Saunders, Lewis, & Thornhill, 2012). For this study, purposive sampling was essential and necessary since senior banks managers are in charge of corporate governance, and therefore able to answer the study questions with accuracy.

3.3.2.3 Sample Size

A sample size is defined as a smaller representation of a study population selected by a researcher to carry out a study (Cooper & Schindler, 2013). This study was a census, therefore all the study population forms the sample size and take part in the study. A census is defined as a situation in which all subjects or elements of a population are sampled for the study (Adams, Raeside, & White, 2007). Census increases study accuracy since the margin of error is greatly diminished. The sample size is summarized in table 3.1

Table 3.1: Sample Size

Category	Population	Sample Size	% Distribution
Senior Bank Managers	43	43	100%
Total	**43**	**43**	**100%**

3.4 Data Collection Methods

Data collection method is defined as the process of actual field research where data is gathered to answer study research questions (Cooper & Schindler, 2013). For this study, a structured questionnaire was used to collect primary data. The questionnaire was composed of five sections: section I on demographic data; Section II on ownership structure; Section III on board diversity; Section IV on codes of corporate governance; and finally Section V on financial performance. The questionnaire adopted a Likert scale of five levels: strongly disagree to strongly agree covered with a range of 1-5

3.5 Research Procedures

Prior to visiting the study respondents for data collection, the researcher obtained a letter from United States International University, and from the banking association of Kenya to carry the study. The purpose of the letters were to provide sufficient authority for data collection, and to enhance trustworthiness of the study and data collection. Once the approvals were granted, a pilot study was conducted using 10 questionnaires on operation managers in commercial banks that were not part of the actual study respondents. The piloting of the questionnaire enabled the researcher to check the study question structure, reliability and validity. Feedback from the pilot were used to simplify and restructure the questionnaire for ease of administration. Masibo (2005) notes that pilot testing provides a check on the feasibility of the proposed procedure for coding data and shows up flaws and ambiguities in the instruments of data collection. It also yielded suggestions for improvement of data collecting tools. After the pilot, the actual study was conducted by emailing the questionnaire to senior bank managers. The managers were given 7 days to respond. To ensure higher response rate, study respondents were sent a reminder every 2 days via email. On the 6th day, respondents who had not responded were given a phone call. This strategy proved very productive as most of the questionnaires were returned fully filled. The questionnaires were checked for completeness, errors corrected, and each questionnaire coded for data analysis.

3.6 Data Analysis Methods

Data analysis is the process of converting raw data into meaningful consumable data for specific research users (Adams, Raeside, & White, 2007). Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) version 22. Data was analyzed both for descriptive statistics (including frequencies and percentages) and inferential statistics (correlation and regressions analysis). Data is presented using tables and figures.

3.7 Chapter Summary

This chapter has presented the study methodology adopted for the study. The study research design has been presented followed by population and sampling design, data collection methods, research procedures, and data analysis methods.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter is about results and findings of the study. The findings are presented in the following format. First, general information on respondents of the study is presented, then findings per each research question. The findings on how ownership structure influences performance is presented first, then influence of board diversity on performance, and finally, how code of corporate governance influences performance. Response rate was 100%, all the 43 banks returned their questionnaires fully filled. The study had a Cronbach reliability above 0.7, a required threshold for a reliable study instrument as indicated in table 4.1

Table 4.1: Cronbach Alpha Reliability Analysis

Variable	No. of Items	Alpha Value
Ownership Structure	10	0.822
Board Diversity	10	0.786
Code of Corporate Governance	9	0.816

4.2 General Information

This section highlights general information concerning respondents of the study. This includes gender, work department, designation and number of years with their organization.

4.2.1 Gender of Respondents

The findings of this study show that (56%) of respondents were male, while (44%) of respondents were female as summarized in figure 4.1

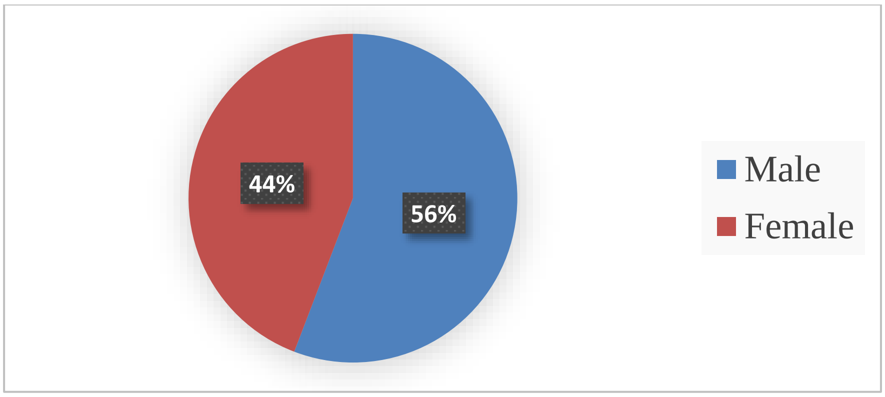

Figure 4.1: Gender of Respondents

4.2.2 Work Department

The findings show that respondents of the study were represented by (44%) respondents from human resource department, (25%) from finance, (19%) from operations department, and finally, (12%) from director's office

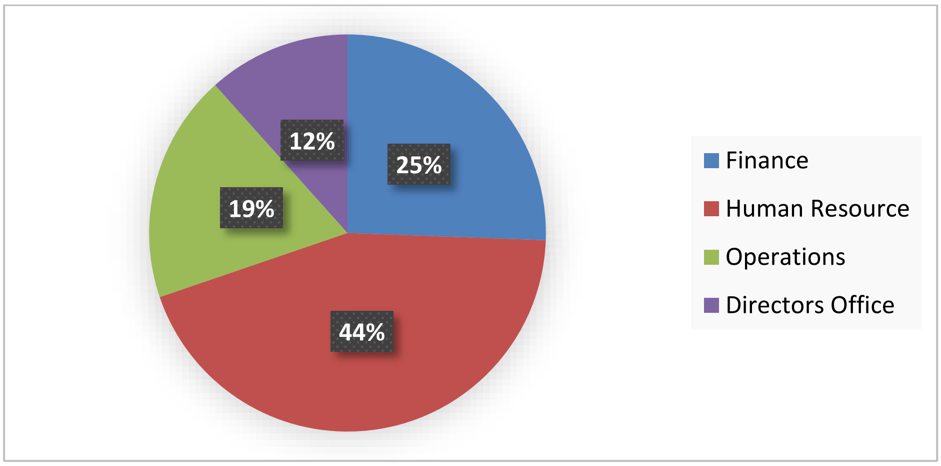

Figure 4.2: Work Department

4.2.3 Respondents Designation

On respondents' designation, (44%) indicated that they were the human resources managers, (25%) from finance managers, (19%) operations managers, and (12%) directors as summarized in figure 4.3

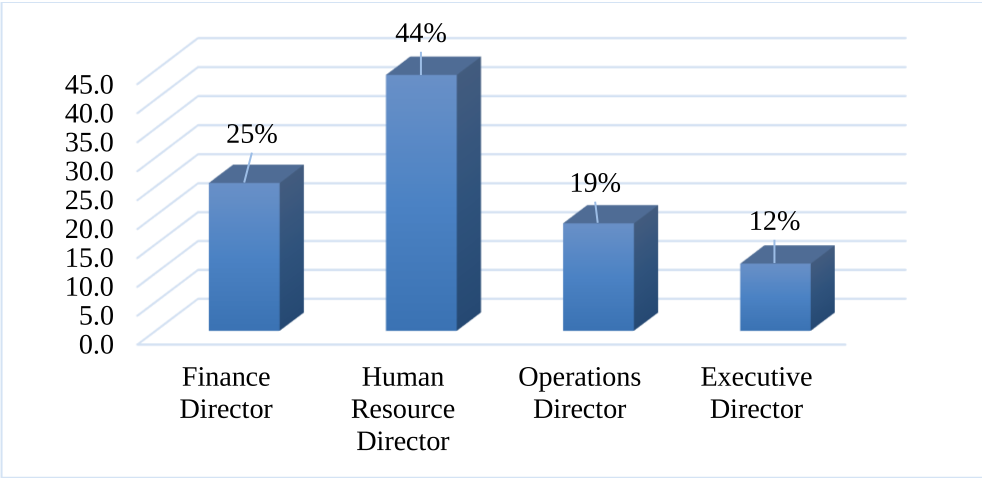

Figure 4.3: Respondents Designation

4.2.4 Level of Education

On the question on respondents' level of education, (65%) indicated they had a bachelor's degree, while (35%) had master degree as highlighted in figure 4.4

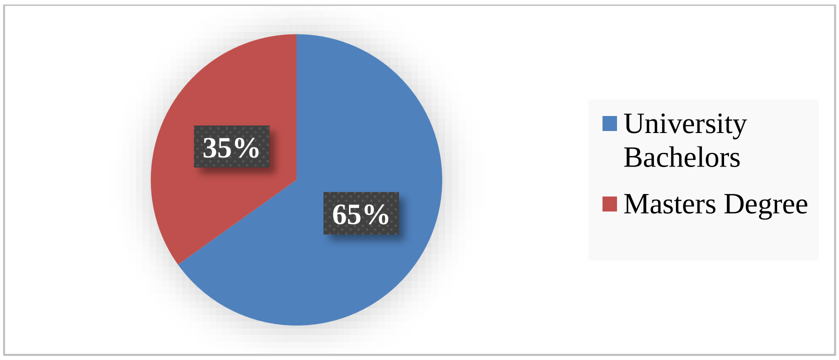

Figure 4.4: Level of Education

4.2.5 Number of Years at the Organization

On the question on number of years respondents had spent at the organization, (42%) had spent more than 10 years with their respective banks, (37%) had spent 5-10 years, while the remaining (21%) had less than 5 years with their respective banks as summarized in figure 4.5

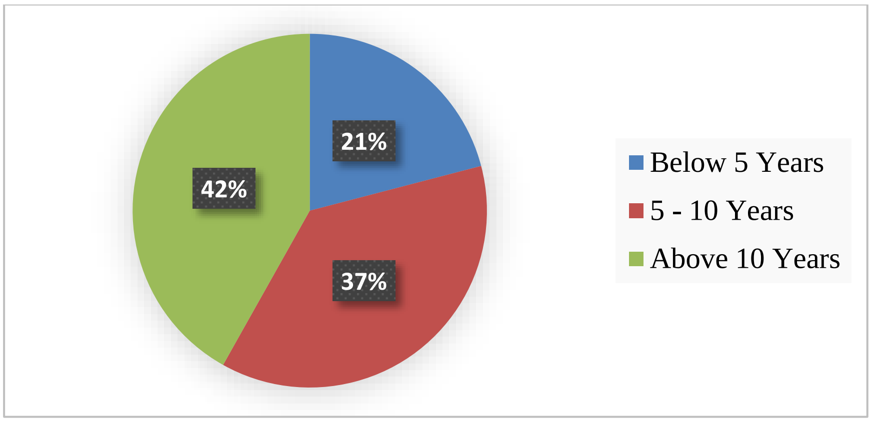

Figure 4.5: Number of Years at the Organization

4.3 Influence of the Ownership Structure of Commercial Banks on Financial Performance

This study sought to determine whether the ownership structure of commercial banks had influence on financial performance of commercial banks. Findings are presented as follows:

4.3.1 Availability of Corporate Governance Practices

On the question on whether respective banks had corporate governance practices in place, (42%) of respondents strongly agreed, (39%) agreed this to be the case, while (14%) remained neutral. The remaining (5%) of respondents disagreed as summarized in table 4.2

Table 4.2: Availability of Cooperate Governance Practices

Scale	Frequency	Percent
Disagree	2	4.7
Neutral	6	14.0
Agree	17	39.5
Strongly Agree	18	41.9
Total	43	100.0

4.3.2 Block Ownership

When respondents were asked whether they had block ownership at their respective banks, (60%) agreed, (25%) remained neutral, while (5%) strongly agreed, strongly disagreed, and disagreed respectively as summarized in table 4.3

Table 4.3: Block Ownership

Scale	Frequency	Percent
Strongly Disagree	2	4.7
Disagree	2	4.7
Neutral	11	25.6
Agree	26	60.5
Strongly Agree	2	4.7
Total	43	100.0

4.3.3 Block Ownership is Good for Banks Performance

On the question on whether block ownership was good for banks financial performance, (63%) of respondents agreed this to be the case, (18%) were neutral, (14%) strongly agreed, while the remaining (5%) disagreed as summarized in table 4.4.4

Table 4.4: Block Ownership is Good for Banks Performance

Scale	Frequency	Percent
Disagree	2	4.7
Neutral	8	18.6
Agree	27	62.8
Strongly Agree	6	14.0
Total	43	100.0

4.3.4 Block Ownership Enhances Financial Performance

On the question on whether block ownership enhances, (74%) agreed this to be the case, (14%) strongly agreed, (9%0 were neutral, while the remaining (2%) disagreed as summarized in table 4.5

Table 4.5: Block Ownership Enhances Financial Performance

Scale	Frequency	Percent
Disagree	1	2.3
Neutral	4	9.3
Agree	32	74.4
Strongly Agree	6	14.0
Total	43	100.0

4.3.5 Block Ownership and Shareholder Values

When respondents were asked whether block ownership enhanced shareholders value.

The findings show that (56%) of respondents agreed, (37%) strongly agreed, (5%) were neutral, while (2%) disagreed as indicated in table 4.6

Table 4.6: Block Ownership and Shareholder Value

Scale	Frequency	Percent
Disagree	1	2.3
Neutral	2	4.7
Agree	24	55.8
Strongly Agree	16	37.2
Total	43	100.0

4.3.6 Concentrated Ownership

On the question on whether concentrated ownership enhances performance decision making processes, (56%) agreed this to be the case, (19%) strongly agreed, (23%) were neutral, while the remaining (2%) strongly disagreed as summarized in table 4.7

Table 4.7: Concentration of Ownership

Scale	Frequency	Percent
Strongly Disagree	1	2.3
Neutral	10	23.3
Agree	24	55.8
Strongly Agree	8	18.6
Total	43	100.0

4.3.7 Recommendation of Block Ownership

Respondents were asked whether they could recommend for block ownership of commercial banks. The findings show that (42%) strongly agreed, (37%) agreed, (12%) were neutral, (7%) strongly disagreed, while (2%) disagreed as indicated in table 4.8

Table 4.8: Recommendation of Block Ownership

Scale	Frequency	Percent
Strongly Disagree	3	7
Disagree	1	2.3
Neutral	5	11.6
Agree	16	37.2
Strongly Agree	18	41.9
Total	43	100.0

4.3.8 Institutional Ownership

On the question on whether banks have institutional ownership, (49%) agreed, (42%) strongly agreed, while (9%) remained neutral as indicated in table 4.9

Table 4.9: Institutional Ownership

Scale	Frequency	Percent
Neutral	4	9.3
Agree	21	48.8
Strongly Agree	18	41.9
Total	43	100.0

4.3.9 Institutional Ownership and Financial Performance

On the question, on whether institutional ownership enhances banks financial performance, (59%) agreed this to be the case, (26%) strongly agreed, (11%) were neutral, while (7%) disagreed as indicated in table 4.10

Table 4.10: Institution Ownership and financial Performance

Scale	Frequency	Percent
Disagree	3	7.0
Neutral	5	11.6
Agree	24	55.8
Strongly Agree	11	25.6
Total	43	100.0

4.3.10 Block Ownership versus Institutional Ownership

When respondents were asked whether block ownership enhances financial performance compared to institutional ownership, (39%) strongly agreed, (35%) agreed, (16%) remained neutral, (7%) strongly disagreed while (2%) disagreed as summarized in table 4.11

Table 4.11: Block Ownership versus Institutional Ownership

Scale	Frequency	Percent
Strongly Disagree	3	7.0
Disagree	1	2.3
Neutral	7	16.3
Agree	15	34.9
Strongly Agree	17	39.5
Total	43	100.0

4.4 Influence of Board Diversity on Financial Performance of Commercial Banks

This study sought to determine whether board diversity had influence on financial performance of commercial banks. The findings are presented as follows:

4.4.1 Availability of Board Diversity on Gender

Respondents were asked to indicate whether their respective banks had gender board diversity. The findings show that (51%) agreed they do, (42%) strongly agreed, while (7%) remained neutral as summarized in table 4.12

Table 4.12: Availability of Board Diversity

Scale	Frequency	Percent
Neutral	3	7.0
Agree	22	51.2
Strongly Agree	18	41.9
Total	43	100.0

4.4.2 Availability of Board Age Diversity

On the question on whether respective banks had a board that was diverse in age representation, (54%) agreed, while (46%) strongly agreed as highlighted in table 4.13

Table 4.13: Availability of Board Age Diversity

Scale	Frequency	Percent
Agree	23	53.5
Strongly Agree	20	46.5
Total	43	100.0

4.4.3 Board Diversity on Academic Disciplines

Respondents were asked whether their respective banks had board diversity based on academic disciplines. Majority (51%) agreed, (28%) strongly agreed, (16%) were neutral, (while 5%) disagreed as summarized in table 4.14

Table 4.14: Board Diversity on Academic Disciplines

Time	Frequency	Percent
Disagree	2	4.7
Neutral	7	16.3
Agree	22	51.2
Strongly Agree	12	27.9
Total	43	100.0

4.4.4 Board Diversity and Performance

When asked whether board diversity enhances banks financial performance, (39%) strongly agreed this to be the case, (35%) agreed, (16%) were neutral, while (5%) disagreed and strongly disagreed as indicated in table 4.15

Table 4.15: Board Diversity and Performance

Scale	Frequency	Percent
Strongly Disagree	2	4.7
Disagree	2	4.7
Neutral	7	16.3
Agree	15	34.9
Strongly Agree	17	39.5
Total	43	100.0

4.4.5 Board Size and Financial Performance

On the question on whether the size of the board influences financial performance, (54%) agreed, (30%) strongly agreed, (14%) were neutral, while (2%) disagreed as highlighted on table 4.16

Table 4.16: Board Size and Financial Performance

Scale	Frequency	Percent
Disagree	1	2.3
Neutral	6	14.0
Agree	23	53.5
Strongly Agree	13	30.2
Total	43	100.0

4.4.6 Adequate Number of Board Members

Respondents were asked whether their respective banks had adequate number of board members. Majority (52%) agreed that their banks do have adequate boards, (26%) strongly agreed, (9%) were neutral, while (7%) strongly disagreed and disagreed respectively as summarized in table 4.17

Table 4.17: Adequate Number of Board Members

Scale	Frequency	Percent
Strongly Disagree	3	7.0
Disagree	3	7.0
Neutral	4	9.3
Agree	22	51.2
Strongly Agree	11	25.6
Total	43	100.0

4.4.7 Independence of the Board

On the question on whether banks boards were independent, (58%) agreed that they do have independent boards managing their banks, (28%) strongly agreed, (17%) were neutral, while (2%) strongly disagreed as highlighted in table 4.18

Table 4.18: Independence of the Board

Scale	Frequency	Percent
Strongly Disagree	1	2.3
Neutral	5	11.6
Agree	25	58.1
Strongly Agree	12	27.9
Total	43	100.0

4.4.8 Board Independence and Financial Performance

On the question on whether board independence was essential for banks financial performance, (44%) strongly agreed, (42%) agreed, (9%) were neutral, while the remaining (5%) disagreed as summarized in table 4.19

Table 4.19: Board Independence and Financial Performance

Scale	Frequency	Percent
Disagree	2	4.7
Neutral	4	9.3
Agree	18	41.9
Strongly Agree	19	44.2
Total	43	100.0

4.4.9 Board-CEO Duality

When asked whether Board-CEO duality was not good for the board independence, (30%) disagreed, (23%) strongly agreed, (19%) agreed, (16%) were neutral, while (17%) strongly disagreed as highlighted in table 4.20

Table 4.20: Board-CEO Duality

Scale	Frequency	Percent
Strongly Disagree	5	11.6
Disagree	13	30.2
Neutral	7	16.3
Agree	8	18.6
Strongly Agree	10	23.3
Total	43	100.0

4.4.10 Board-CEO Duality Threatens Performance

When respondents were asked whether Board-CEO duality threatened financial performance, (33%) remained neutral, (25%) strongly disagreed, (19%) strongly agreed, (14%) agreed, while (9%) disagreed as indicated in table 4.21

Table 4.21: Board-CEO Duality Threatens Financial Performance

Scale	Frequency	Percent
Strongly Disagree	11	25.6
Disagree	4	9.3
Neutral	14	32.6
Agree	6	14.0
Strongly Agree	8	18.6
Total	43	100.0

4.5 Influence of Code of Corporate Governance on Financial Performance of Commercial Banks

This study sought to determine whether code of corporate governance influences financial performance of commercial banks. The findings are presented as follows:

4.5.1 Availability of Banks Code of Corporate Governance for Board

On the question on whether respective banks had codes of corporate governance for board members, majority (51%) agreed this to be the case, (47%) strongly agreed, while (2%) remained neutral as highlighted in table 4.22

Table 4.22: Available of Bank Code of Corporate Governance for Board

Scale	Frequency	Percent
Neutral	1	2.3
Agree	22	51.2
Strongly Agree	20	46.5
Total	43	100.0

4.5.2 Code of Corporate Governance for Bank Managers

When respondents were asked whether their respective bank had code of corporate governance for bank managers, (35%) strongly agreed, (26%) agreed, (23%) were neutral, (12%) strongly disagreed, while the remaining (5%) disagreed as indicated in table 4.23

Table 4.23: Code of Corporate Governance for Bank Managers

Scale	Frequency	Percent
Strongly Disagree	5	11.6
Disagree	2	4.7
Neutral	10	23.3
Agree	11	25.6
Strongly Agree	15	34.9
Total	43	100.0

4.5.3 Code of Corporate Governance and Performance Objectives

Respondents were asked to indicate whether their respective banks code of corporate governance enhanced performance objectives; majority (65%) agreed, (16%) strongly agreed, (14%) were neutral, while (2%) strongly disagreed and disagreed respectively as summarized in table 4.24

Table 4.24: Code of Corporate Governance and Performance Objectives

Scale	Frequency	Percent
Strongly Disagree	1	2.3
Disagree	1	2.3
Neutral	6	14.0
Agree	28	65.1
Strongly Agree	7	16.3
Total	43	100.0

4.5.4 Code of Conduct Diminishes Agency Conflict for Board

On the question on whether code of conduct diminishes agency conflict for board is necessary for financial performance, (58%) agreed this to be the case, (37%) strongly agree, while (9%) remained neutral as summarized in table 4.25

Table 4.25: Code of Governance Diminishes Agency Conflict for Board

Scale	Frequency	Percent
Neutral	4	9.3
Agree	25	58.1
Strongly Agree	14	32.6
Total	43	100.0

4.5.5 Code of Governance Diminishes Agency Conflict for Managers

When asked whether code of corporate governance diminishes agency conflict for senior managers, (53%) agreed this to be the case, (23%) strongly agreed, while (17%) were neutral and disagreed respectively as summarized in table 4.26

Table 4.26: Code of Governance Diminishes Agency Conflict for Managers

Scale	Frequency	Percent
Disagree	5	11.6
Neutral	5	11.6
Agree	23	53.5
Strongly Agree	10	23.3
Total	43	100.0

4.5.6 Reduction of Agency Conflict and Financial Performance

When asked whether reducing agency conflict would enhance banks financial performance, (44%) strongly agreed, (40%) agreed, (14%) remained neutral, while (2%) strongly disagreed as highlighted in table 4.27

Table 4.27: Reduction of Agency Conflict and Financial Performance

Scale	Frequency	Percent
Strongly Disagree	1	2.3
Neutral	6	14.0
Agree	17	39.5
Strongly Agree	19	44.2
Total	43	100.0

4.5.7 Agency Conflict for Employees

On the question on whether agency conflict should include employees, (39%) of respondents strongly agreed and agreed respectively, (19%) were neutral, while (2%) disagreed as indicated in table 4.28

Table 4.28: Agency Conflict for Employees

Scale	Frequency	Percent
Disagree	1	2.3
Neutral	8	18.6
Agree	17	39.5
Strongly Agree	17	39.5
Total	43	100.0

4.5.8 Code of Objectivity and Financial Performance

Respondents were asked whether code of objectivity was good for banks financial performance; (49%) agreed and strongly agreed, while (2%) were neutral as indicated in table 4.29

Table 4.29: Code of Objectivity and Financial performance

Scale	Frequency	Percent
Neutral	1	2.3
Agree	21	48.8
Strongly Agree	21	48.8
Total	43	100.0

4.5.9 Recommendation of Code objectivity for Board and Managers

On the question on whether banks respondents could recommend code of objectivity to board and management, (46%) strongly agreed and agreed respectively, (5%) were neutral, while the remaining (2%) disagreed as summarized in table 4.30

Table 4.30: Recommendation of Code of Objectivity for Board and Managers

Scale	Frequency	Percent
Disagree	1	2.3
Neutral	2	4.7
Agree	20	46.5
Strongly Agree	20	46.5
Total	43	100.0

4.6 Correlation

A regression analysis was conducted to establish relationships between the ownership structure, board diversity, code of corporate governance and financial performance. The findings show that ownership structure had the strongest relationship with financial performance, r (0.518); $p < 0.01$; followed by the relationship between code of corporate governance and financial performance, r (0.309); $p < 0.05$; and finally, the relationship between board diversity and financial performance, r (0.235); $p < 0.01$. All the relationships were statistically significant as summarize in table 4.31

Table 4.31: Correlations

Variables		1	2	3	4
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	43			
Ownership Structure	Pearson Correlation	.518**	1		
	Sig. (2-tailed)	.002			
	N	43	43		
Board Diversity	Pearson Correlation	.235**	.491**	1	
	Sig. (2-tailed)	.000	.001		
	N	43	43	43	
Code of Corporate Governance	Pearson Correlation	.309*	.499**	.504**	1
	Sig. (2-tailed)	.000	.001	.001	
	N	43	43	43	43

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4.7 Regression

Since the study correlation s revealed existence of statistically significant relationships, a multiple regression was conducted to establish the level of the relationships. The multiple regression findings shows an adjusted R squared value (0.337), which means that about (34%) of financial performance in commercial banks is attributable to code of corporate governance, ownership structure, and board diversity as highlighted in table 4.32

Table 4.32: Multiple Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.425[a]	.406	.337	.45570

a. Predictors: (Constant), Code of Corporate Governance, Ownership Structure, Board Diversity

The Analysis of Variance (ANOVA) which examine whether there exist significant differences between the study variable means. The findings show $F_{(3, 39)} = 4.540$; p value = 0.002. the F value was above 2 and p value less than 0.05; meaning the variables were statistically significant, since there was also no significant differences in the mean of variables

Table 4.33: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.960	3	.320	4.540	.002[b]
Residual	8.099	39	.208		
Total	19.059	42			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Code of Corporate Governance, Ownership Structure, Board Diversity

Table 4.34 shows that ownership structure had the highest standardized beta coefficient, β (0.657) p value = 0.002; followed by board diversity β (0.488); p value = 0.02; and finally, code of corporate governance β (0.436); p value = 0.010.

Table 4.34: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.551	.780		3.268	.002
Ownership Structure	.766	.213	.657	3.309	.000
Board Diversity	.881	.171	.488	3.474	.002
Code of Corporate Governance	.428	.180	.436	3.269	.010

a. Dependent Variable: Financial Performance

4.8 Chapter Summary

This chapter has presented the study results and findings. The major findings of the study show that ownership structure had the strongest relationship with financial performance, r (0.518); $p < 0.01$. followed by code of corporate governance r (0.309); $p < 0.05$; and finally, board diversity, r (0.235); $p < 0.01$. Chapter five presents analysis of study discussion, conclusions, and recommendations

CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

The study discussion, conclusion and recommendations on the influence of bank ownership structure, board diversity, and code of corporate governance based on the findings of the study are presented and analyzed in this chapter. The entire study summary is presented first, followed by discussion, conclusions, and recommendations.

5.2 Summary of Findings

The purpose of this study was to establish whether corporate governance practices do influence financial performance of commercial banks in Kenya. The study was guided by the following research questions: How does the ownership structure of commercial banks influence the banks financial performance? How does board diversity affect financial performance of commercial banks? How does code of corporate governance influence performance of commercial banks?

Findings on ownership structure shows that there exists a statistically significant relationship between ownership of commercial banks and financial performance, r (0.518); $p < 0.01$. All components considered under this research question including block ownership and institutional ownership were important in enhancing financial performance

Findings on board diversity shows that there exists a statistically significant relationship between board diversity and financial performance of commercial banks in Kenya, (0.309); $p < 0.05$. All components considered for this research question including board gender diversity, board size, board independence, and board-director duality were all important in enhancing financial performance of commercial banks

Findings on code of corporate governance shows that there exists a statistically significant relationship between code of corporate governance and financial performance of commercial banks in Kenya. Agency conflict and code of corporate objectivity were all considered and found to have influence on financial performance of commercial banks

5.3 Discussion

5.3.1 Influence of Ownership structure on Financial Performance of Commercial Banks

This study sought to determine whether ownership structure of commercial banks had significant influence on financial performance. The findings have indicated that there exists a statistically significant relationship between ownership structure and financial performance of commercial banks, r (0.518); $p < 0.01$. This finding confirms a study by Jensen (2011) that recorded the existence of a significant relationship between ownership and financial performance of commercial banks. Further, the study had noted that the ownership structure influences bank performance in different ways. For instance, block ownership where majority shareholders determine the performance objectives, and as a result, directly influence performance. The ability of owners to influence financial performance is usually evident within the strategic formulation that owners engage in at the bank. Bonn, Yoshikawa and Phan (2014) had argued that good corporate governance that enhances financial performance depends on two things: How investors rights are protected and how ownership concentration protects the investors rights to financial profit. Both the concentrated structure and diffuse structures are important, and contribute to financial performance, the variance is in how performance objectives are set within the organization.

This study found that block ownership enhances financial performance of commercial banks. Block owners has the authority to determine how the stocks of the bank will be traded, determine policy on recruitment of managers who have the operational responsibility to enhance performance, and how client engagement policies are established. This is in line with arguments advanced by Wepukhulu (2015) who argued that block shareholders are the key players in financial performance of commercial bank since they set the performance agenda. However, Donaldson and Preston (2011) had argued to the contrary. They noted that concentrated ownership can be detrimental to financial performance if the decision makers make the wrong decisions that can end up costing the bank significantly. In as much as concentrated ownership is not just important for enhancing decision making processes, its ability to be effective is pegged on owners' ability and knowledge of financial operations in the banking sector, and how they can leverage this knowledge for enhancing financial performance. Therefore, banks' ability to leverage on concentrated decision making structures for quicker decisions does enhance financial performance.

This study found that block ownership of commercial banks had significant influence on financial performance of commercial banks. This finding contradicts the findings by Black, Jang, and Kim (2013) that noted that block ownership was not that essential in establishing financial performance of commercial banks. Further, they argued that block ownership in itself, does not constitute financial performance factor that is necessary for banks performance. Block ownership only tells one story: who owns the bank. however, ownership has to be translated into concrete strategies that enhance performance. If owners of the bank can put in place mechanisms that spur innovation, customer satisfaction, and growth, then, over time, the bank can easily grow financially. However, if block ownership impedes management function, growth, innovation and customer care, it is inevitable that the bank will not perform well financially. This is to say that, ownership is not a growth and performance strategy on itself. This argument was also advanced by Bonn, Yoshikawa and Phan (2014) who noted that in commercial banks, performance depended on two factors: how investors are protected, and ownership concentration. This means that is owners and managers work to enhance returns for investors, and not at the expense of investors, then banks tend to flourish, however, if owners do not advance investors interest but self-interest, then it will be difficult to say that concentrated ownership was of any value, both to investors, and to commercial banks financial performance.

5.3.2 Influence of Board Diversity on Financial Performance of Commercial Banks

This study sought to determine whether board diversity influenced commercial banks financial performance. The findings show that there exists a statistically significant relationship between board diversity and financial performance of commercial banks in Kenya, r (0.235); $p < 0.01$. Major components examined under this research question include board gender diversity, board size, board independence and Board-CEO duality. This finding confirms similar study by Darmadi (2013) that noted that board diversity enhances moral obligation to shareholders which by enabling divergent views that fortify sound decision making suitable for financial performance. Equally, a study by Hsu (2011) in the USA in 2000-2004 revealed the existence of significant relationship between board diversity of financial institutions and financial performance. The study used the Tobin's Q framework to establish the variable relationship. In another study conducted in Nigeria by Ujunwa (2012) noted that diversity of the board in terms of academic qualification was important to financial performance of the firm. Thus, one could argue that academic diversity and gender diversity on the board significantly and positively enhances financial performance. This is further confirmed by Darmadi (2013) who argued that organizations that have board members with at least university degree enhanced board experiences, which is essential in promoting policies that are good for financial performance.

This study found that board composition size significantly contributes to commercial banks financial performance. Opondo had argued that the size of the board has a significant convergence with financial performance. This argument was equally advanced by Andre and Vallelado (2008); Bonn eta al., (2014); and Gakeri (2013). This notwithstanding, other studies have disputed the relevance and significance of board size to firm's financial performance. Authors like Lam and Lee (2008) and Moscu (2013) have argued that the size of the board in itself is not sufficient, but rather, the effectiveness and efficiency of the board in dispatching quality decisions that enhance operational performance essential for financial performance. Further to this they contend that a board should not be too large or too small to impede operations, but should be congruent to the needs of the organization. The quality of decisions a board passes over to management determines how effective a board is, and how the board decisions thereby translates into performance. Too large boards can be an impasse to effective decision making since it takes longer to build consensus even for simple decisions that need timely implementation in order for an organization to gain competitive advantage. Failure to make timely decisions can be detrimental to financial performance of commercial banks.

This study also found that board independence is essential in enhancing financial performance of commercial banks in Kenya. McColgan (2011) argued that the concept of board independence was grounded on agency theory that seeks to provide greater fiduciary oversight over management financial operations and as such, does enhance financial outcomes of an organization. For this reason, board that have curved greater independence from management operations and from agency conflict. In most cases, Wepukhulu (2015) had argued that firms lack clearly demarcated agency policy and board independence usually run into management board conflict, that can be detrimental to sound financial operations. Board independence is geared to ensure that members do not have inherent financial interest per see, but rather are guide by the interest of the stakeholders

5.3.3 Influence of Code of Corporate of Governance on Financial Performance of Commercial banks

This study sought to determine the influence of code of corporate governance on financial performance of commercial banks in Kenya. The findings have established the existence of a statistically significant relationship between code of corporate governance and financial performance. Code of agency conflict and code of objectivity were examined, and found to have significant importance in influencing commercial banks performance. This finding confirms study conducted by Elewechi (2012) who argued for the existence of significant relationship between codes of corporate governance and organizational performance. Similarly, Nyamongo and Temesgen (2013) study found that codes of corporate governance do help organizations improve transparency and accountability, which are essential ingrediencies in enhancing financial performance not only in banks, but also in financial institutions. In most instances, code of corporate governance is usually left to the board of directors to make a determination on what would constitute an organizations code of corporate governance. This is to say that banks that have a well-structured and well elaborate code of corporate governance have a higher chance of running efficiency and effective systems since, it is assumed that everyone within the organization understands their expectations and deliverables, and as such, minimizes wastage, and misappropriations. In such instances where there are adequate checks and balances on organizations' operations, chances are that, the organization will enhance financial performance. Elewechi (2012) regards code of corporate governance as the most important aspects in financial performance since they do lay the foundation upon which commercial banks operations are execute. Looking at it from this angle, one could therefore argue that codes of corporate governance should be thorough, articulate, and complete in order to accomplish desired objectives of financial performance

The findings of this study have established that agency conflict is very critical in operations of commercial banks and in resultant financial performance. Opondo (2012) argued that agency conflict was important in that t helps organizations develop clear frameworks for ensuring that managers are committed to the organization and are not pursuing their own personal interest. Organizations that have the full commitment and attention of management and the board have a higher performance compared to those organizations with loosely defines relations between management engagement and performance expectations. It is therefore important that commercial banks should ensure that agency conflict is not only stipulated for the board and management, but also for staff. Bing an advocate of agency theory, McColgan (2011) argues that agency conflict helps cub human tendency to exploit systematic weaknesses, in addition to authority vested in them by their organizations. This is to say that, code of corporate governance through agency conflict helps eliminate organization vulnerabilities to financial risks and by extension, enhance performance.

The findings of this study have also established that code of objectivity enhances commercial banks financial performance. Bassem (2009) similarly argued that a well-developed code of objectivity enhances commercial banks performance, compared to poorly developed code of objectivity. Further, he notes that the reason why organizations do have boards is to enhance objectivity that is necessary for performance. To this end, La and Lee (2008) had argued that organizational code of objectivity should not only cover senior managers, but should be practiced and upheld by all. Mang'unyu (2011) argues that code of corporate governance enhances efficiency and accountability, and objective implementation of organizations' performance goals, which has been advanced by the findings of this study.

5.4 Conclusion

5.4.1 Influence of Ownership Structure on Financial Performance on Commercial Banks

This study sought to determine whether the ownership structure of commercial banks had influence on financial performance. The study found that there exists a significant relationship between ownership structure and financial performance. Ownership structures that was considered in this study included block ownership and institutional ownership. Therefore, this study concludes that both institutional and block ownership are relevant, and important in enhancing commercial banks financial performance., The variance is in how the structure do leverage of their inherent strength to advance financial performance objectives.

5.4.2 Influence of Board Diversity on Financial Performance on Commercial Banks

This study sough to determine whether board diversity of commercial banks influence their financial performance. The study found the existence of a statistically significant relationship between board diversity and financial performance of commercial banks in Kenya. Therefore, this study concludes that all the components considered under board diversity, including board gender diversity, board size, board independence significantly contribute to enhancing commercial banks financial performance.

5.4.3 Influence of Code of Corporate Governance on Financial Performance of Commercial Banks

The findings of this study have established the existence of a statistically significant relationship between code of corporate governance and financial performance of commercial banks in Kenya. Therefore, this study concludes that agency conflict and code of objectivity are significant and important in enhancing financial performance of commercial bank. Agency conflict help commercial banks to ensure that the board and management are not serving their own interest but the interest of the organization, which is necessary in advancing banks financial position.

5.5 Recommendations

5.5.1 Recommendation for Improvement

Recommendations for improvement on corporate governance practises are provided for in this section

5.5.1.1 Influence of Ownership Structure on Financial Performance of Commercial Banks

Since this study has established a significant relationship between ownership structure and financial performance of commercial banks, the study recommends that management at commercial banks should invest more in systems and structure that enhance both block ownership and institutional ownership, since they are both relevant within the commercial banking sector. There is need to ensure that bureaucracy associated with institutional commercial banks are eliminated, while, with block ownership, there is need to ensure that majority shareholders have clear policy guidelines non-interference with commercial banks internal operations.

5.5.1.2 Influence of Board Diversity on Financial Performance of Commercial Banks

Since this this study has established the existence of a statistically significant relationship between board diversity and financial performance, the study recommends that board diversity components, including gender diversity, board size, board independence, and board-director duality are very important to financial performance and need to be strengthened. There is need for managers to also ensure that the size of the board is also congruent to organizational needs, such that the board size, competencies, skills and ability advance organizational quest for financial performance.

5.5.1.3 Influence of Code of Corporate Governance of Financial Performance of Commercial Banks

Since this study has established the existence of a significant relationship between code of corporate governance and financial performance of commercial banks, the study recommends that commercial banks should continuously review and update their agency conflict policies in line with the changing dynamics within the banking sector. Equally, there is need to ensure that code of objectivity is not limited the board and senior managers, but also middle lever managers and employees as well. This will ensure that the entire organization has singular purpose for enhancing Perfomance and is committed to doing so through systems and structures available at the banks

5.5.2 Recommendation for Future Studies

This study focused on corporate governance practices that influence commercial banks performance. The variables considered for the study includes ownership structure of the banks, board diversity, board size, board independence, and board-director duality. In as much as this are essential components of corporate governance, they are not exhaustive. Future studies should focus on other aspects of corporate governance like organizational culture, influence of personality traits of board and managers on financial performance, and commercial banks policy on performance

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APPENDICES

APPENDIX A: INTRODUCTION LETTER

Dear Respondent,

RE: RESEARCH PROJECT

I am a postgraduate student of United States International University - Africa pursuing Masters of Business Administration. As a requirement of my study, I am carrying out a survey on Impact of Corporate Governance on the performance of Commercial Banks in Kenya. The success of this study will substantially depend on your willingness and co-operation to provide the information required.

I kindly request you to allow me have a short interview session for data gathering. The attached interview schedule is specifically designed for the purpose of this study only, and all responses will be treated in absolute confidence and anonymity. A copy of the final report will be made available to you at your request.

Thank you for your cooperation.

Yours faithfully,
Belinda Nganga

APPENDIX B: QUESTIONNAIRE

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or fill in the space provided.

SECTION I: GENERAL INFORMATION

1 Please indicate your Gender

( ) Male ( ) Female

2 What is your work department?

Finance ( ) Operations ( )

Human Resources ( ) Directors office ( )

3 What is your designation ?

Executive Director ( )

Operations Director ( )

Human Resource Director ( )

Finance Director ( )

4 What is your highest level of education?

Secondary ( ) College diploma ( )

University degree ( ) Master's degree ( )

Others (please state) ....

5 How many years have you worked in this institution?

Below 5 years ( ) 5-10 years ( ) Above 10 years ( )

SECTION II: Ownership Structure and Commercial Banks Financial Performance

[Please rank in order of priority where 1 is strongly disagree, while 5 is strongly agree]

Nos	Statements	1	2	3	4	5
6	You believe that your bank has corporate governance practises in place					

7	You have block ownership at your bank					
8	Block ownership is good for bank financial performance					
9	Block ownerships enhances financial performance objectives					
10	Block ownership enhances shareholders value					
11	Concentrated ownership enhances performance decision making processes.					
12	You would recommend commercial banks to adopt block ownership					
13	You bank has institutional ownership					
14	You believe that institutional ownership enhances financial performance					
15	Block ownership enhances financial performance objectives compared to institutional ownership					

SECTION III: Board Diversity and Commercial Banks Financial Performance

Kindly tick in the box that best represents your answer (1= strongly disagree; 5 = strongly agree)

Nos	**Statements**	**1**	**2**	**3**	**4**	**5**
16	Your bank has board diversity based on gender					
17	Your bank has board diversity based on age					
18	Your bank has board diversity based on academic disciplines					
19	Board diversity enhances banks financial performance					
20	The size of the board determines banks financial performance					
21	Your bank has adequate number of board members					
22	Your bank has board independence in					

	managing banks operations					
23	Board independence is essential for banks financial performance					

Nos	**Statements**	**1**	**2**	**3**	**4**	**5**
24	Board -CEO duality is not good for independence of the board					
25	Board CEO duality can threaten banks financial performance					

SECTION IV: Codes of Corporate Governance and Commercial Banks Financial Performance

Kindly

Nos	**Statements**	**1**	**2**	**3**	**4**	**5**
26	Your bank has code of corporate governance for board members					
27	Your bank has code of corporate governance for bank managers					
28	Code of corporate governance is essential in setting performance objectives					
29	Code of corporate governance diminishes agency conflict between the bank and board members					
30	Code of corporate governance diminishes agency conflict between the bank and senior management					
31	Reducing agency conflict enhances banks financial performance					
32	Agency conflict should include employees critical to banks financial performance					
33	Code of objectivity is good for banks financial performance					

34	You would recommend code of objectivity for board and senior managers					

SECTION V: Financial Performance

Kindly tick the box for the that represents your answer (1=strongly disagree; 2 = strongly agree)

Nos	**Statements**	**1**	**2**	**3**	**4**	**5**
35	Your banks has increased financial performance because of the ownership structure					
36	Financial performance has increased banks revenue					
37	Financial performance has increased banks' profits					
38	Board diversity has enhanced financial performance					
39	Well-structured codes on agency conflict has helped enhance banks financial performance					

END OF QUESTIONNAIRE

Thank you very much for your participation