INVESTIGATION OF STRATEGIC ISSUES CAUSING RECEIVERSHIP IN COMMERCIAL BANKS IN KENYA: A CASE STUDY OF CHASE BANK (K) LTD

BY

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

UNITED STATES INTERNATIONAL UNIVERSITY
AFRICA

SPRING 2018
STUDENT’S DECLARATION

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

Signed: ............................ Date: ......................

Zohreen Abdulla Fidaali (641370)

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

Signed: ............................ Date: ......................

Fred. O. Newa

Signed: ............................ Date: ......................

Dean, Chandaria School of Business
ABSTRACT
The general objective of the study was to establish the strategic issues causing receivership in Chase Bank (K) Ltd. This study was guided by the following specific objectives: To investigate influence of corporate governance issues that has led Chase Bank (K) Ltd go into receivership. To investigate influence of risk management that has led Chase Bank (K) Ltd go into receivership. To investigate monitoring and compliance issues that has led Chase Bank (K) Ltd go into receivership.

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions in relation to strategic issues causing receivership. The target population for this study were respondents who oversee the strategy implementation process at Chase Bank (K) Ltd. This comprised of Heads of Departments, Managers (considered in the business level of the structure) and Assistant Managers (operational level in the structure) in the 63 Chase Bank (K) Ltd branches where the total population was 142. The study applied stratified random sampling method and guided by the rule of thumb and a quota of 50% was drawn from each strata. Out of the total of 72 questionnaires distributed, 69 were filled and returned giving a response rate of 96%.

The first objective set to establish how corporate governance affected receivership and a majority considered the quality of corporate governance and the disclosure of policies and procedures as low. It was also revealed board expertise and experience and board composition highly affected performance of the Board of Directors. The study also revealed that board remuneration and compensation was critical in board performance. However, respondents felt that having non-chase employees on the board did not affect performance of the Board of Directors.

The second objective set to establish how risk management affected receivership. The study revealed that the risk management procedures and policies were not effective neither does the bank have clear policies of accountability for business processes nor does it have procedures to monitor resultant risk and measure and mitigate operational risk. The findings also established that employees at the bank have the necessary skills to perform work effectively however they were not ethical. Changes and restrictions in the regulatory environment have a significant impact on the bank. The study also established that the bank did not pay attention to changes in economic conditions, carried out portfolio risk management, had robust credit standards for borrowers and counterparties and have strict
policies on insider lending. On frequency of credit committee meetings majority of the respondents said it was done weekly.

The third objective set to establish how monitoring and compliance affected receivership. The findings revealed that Chase Bank (K) Ltd did not have an effective compliance department. A majority also strongly agreed that audit committee’s expertise and experience influence on the performance of the bank and internal auditors provide value to the bank. However, respondents disagreed that the bank has an active monitoring and risk management system and strongly disagreed that the bank had an effective and independent internal audit function. The findings also established that internal audits were carried out yearly.

The study concluded that corporate governance is vital in ensuring a bank continues as a going concern. Good corporate governance increases stakeholder confidence which facilitates access to capital, increased market share which in turn improves profitability and liquidity. Robust Independent Risk Management units are lacking in the banking system that identify, monitor, measure and manage key risks facing the bank by adopting and following policies and procedures that have been extensively deliberated. Questions have been asked about the value of bank audits, since auditing did not provide a forewarning of the banking crisis. The banking crisis has highlighted weaknesses in the monitoring and compliance process.

Finally, the research recommends that the quality of corporate governance needs to be enhanced. The bank should provide access to information to its shareholders providing stakeholder confidence and transparency. The bank needs to enhance policies and procedures of risk management to improve performance. Having skilled and ethical workers is vital however accountability or responsibility for business processes is necessary. The bank should also adapt to changing regulatory environment which can be a detriment to performance if not adhered to. It also need to enhance its procedures of monitoring position of resultant risk and risk governance in which it can identify, measure and mitigate operational risk. The bank requires an effective and active monitoring and compliance department. Internal audit creates value to the bank in terms of sound corporate governance however it needs to be an independent function which carries out audits regularly.
ACKNOWLEDGEMENT
I would most importantly like to acknowledge my supervisor, Fred O. Newa for his
guidance and patience during this report writing. In addition, special thanks to the
University for according me the opportunity to pursue my master’s programme in an
environment characterized by the existence of all the necessary resources that contributed
towards successfully completing my project and the MBA degree.
DEDICATION

This study is dedicated to my loving mother Tehzin Abdulla.
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<td>BIS</td>
<td>Bank of International Settlement</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Although many financial historians mark the rise of financial houses in thirteenth century Italy as the origin of modern banking, one of the earliest crises on record goes back to 33 A.D., when a confluence of factors—the sinking of some ships loaded with uninsured commodities, a slave revolt, fraud, defaults on foreign debt, liquidity-draining government policies, and a bout of domestic and international contagion—shut down several banking houses in Rome (Calomiris, 1989). Tiberius Caesar resolved the crisis by providing government funds to reliable bankers and certain debtors, forgiving some interest, and suspending government policies that had temporarily drained liquidity. Most of the institutions recovered.

Commercial banks in Kenya dates to 1896 when the predecessor of the current Kenya commercial bank, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Kenya (Musa, 2011). As per the CBK (2015) annual reports during the period ended June 30, 2015, the Kenyan banking sector comprised 43 commercial banks, and these are grouped according to tiers ranging from one to three. The tier parameters are based on the assets held by a bank. Tier 1 banks have an asset base of over 25 billion Kenya shillings, tier 2 has 6 - 24.9 billion Kenya shillings while Tier 3 are those with assets below 6 billion (Bankelele, 2008). The Global Credit Rating (2015) rated Chase Bank (K) Ltd in tier 2.

Banks have experienced major challenges caused by both external and internal factors. The Kenyan economy, in the 90’s and early 21st century, has been very unstable and there has been growing competition from other banks. Internal factors that have affected banks’ performance were attributed to the fact that many banks were ill prepared to handle demands such as provision of diversified range of financial services, demands on liquidity, foreign exchange, credit products and capital finance obligations (Mweru, 2009).

The banking industry must continuously adapt its operations to the constantly changing environment to succeed in business. Several changes have taken place in the world economies particularly in the banking industry. To survive in this dynamic environment,
banks need strategies that are focused on their activities and deal with emerging environmental and industry challenges accordingly (Mweru, 2009).

In Kenya many financially distressed financial institutions have been merged or placed under statutory management with the aim to rescue them and boost economic growth and stability (Nasieku, 2006). However, based on the three banks that were placed under receivership namely Dubai Bank, which has now been liquidated, Imperial Bank and Chase Bank (K) Ltd the major causes for failure were corporate governance, risk management especially credit risk and audit (Gathaiya, 2017). We will look at each of these in depth and in relation to Chase Bank (K) Ltd.

Banks fail because of, liquidity, insolvency, mismanagement or sudden shocks to the economic system; such as violent fluctuations in interest or exchange rates or outright frauds (Bett, 1992). When a business cannot meet its financial obligations, it is said to be insolvent, and drastic measures may be required. (Adkins, 2017). Depending on the severity of the problems of the failing banks, the remedial measures open to central bank vary. The method used depends on a country's specific situations and the strength of the financial system (Bett, 1992).

Receivership, a type of corporate bankruptcy where a receiver is appointed by creditors or bankruptcy courts to run and manage the company. The receiver whose principal role is to recoup as much of the unpaid loans as possible, has full discretion in deciding the management of assets and is given ultimate decision-making powers. Most often receivers find the best way to recover unpaid loans is through liquidation of company assets, which effectively puts the company out of business. Receivership is an alternative to filing for bankruptcy that may be a better option for some businesses facing tough times (Adkins, 2017).

A Receivership is a remedy available to secured creditors to recover amounts outstanding under a secured loan in the event the company defaults on its loan payments. A Receiver may also be appointed in a shareholder dispute to complete a project, liquidate assets or sell a business. Typically, the process begins with the appointment of a Receiver either by the secured creditor under a security agreement (“Privately Appointed Receivership”) or by the Court on behalf of a secured creditor (“Court Appointed Receivership”). Only a Licensed Insolvency Trustee can act as a Receiver (PricewaterhouseCoopers, 2017).
Privately Appointed Receivers will generally only act on behalf of the secured creditor that appointed them and will realize on the assets specifically covered by the loan agreement. Court Appointed Receivers however, are officers of the Court and act on behalf of all creditors. The powers and rights of Court Appointed Receivers are included in the Court order that appointed them. In a Receivership, a secured creditor or the Court may also appoint a Receiver-Manager to operate and manage the business until it is sold as a going concern (PricewaterhouseCoopers, 2017). Section 43(2) of the Kenya Deposit Insurance Act, 2012 requires CBK to appoint the KDIC as a receiver of a bank, if, among others, an unsafe or unsound condition to transact exists; a bank is likely to fail to meet its financial obligations; a bank has substantially insufficient capital or if there is a violation of any law or regulation.

According to Thygerson (1995), the role of the commercial banks is to service and manage portfolio risk. In Kenya, they act as intermediaries between savers and borrowers, provide investment opportunities for savers and provide savers with experts in financial management. The activities of commercial banks are regulated and supervised by the CBK. However, despite the government efforts to streamline the banking sector by introducing statutory regulations measures has collapsed due to their financial performances (Musa, 2011).

Chase Bank (K) Ltd incorporated in 1996, is a commercial bank in Kenya licensed by the Central Bank of Kenya. A tier two bank with an asset base of KES 142Billion as of December 2015. What is now Chase Bank (K) Ltd was a small bank in Kisumu known as United Bank (Kenya) which at that time was under the receivership of the Central Bank of Kenya. The then owners of Chase Bank (K) Ltd bought a 60% stake of the troubled bank for KES 95 Million and rebranded it to its present name, moving its headquarters from Kisumu to Nairobi (Chase Bank (K) Ltd, 2017).

Chase Bank (K) Ltd was established after investors acquired a controlling stake in United Bank (“United”), at that time, United Bank was under statutory administration by the CBK. In 1996, the bank opened for business and was rebranded to its present name. Since then, Chase Bank (K) Ltd grew exponentially, establishing a presence in most of the country’s business hubs (Chase Bank (K) Ltd, 2017).
In March 2013, Amethis Finance, a development finance company based in Paris, France, invested US$10.5 million into the bank. In October 2013, a European Private Equity Fund, invested KSh1.5 billion into the bank and these investments boosted the bank’s core capital and ability to lend more funds to customers. As of December 2015, shareholders’ equity was valued at US$119.7 million (KES: 11.9 billion), (Achuka, 2016).

Chase (K) Ltd distinguished itself as a relationship bank seeking to build long term partnerships with customers that would enable them to achieve what mattered to them most. Having primarily targeted SMEs, Chase Bank (K) Ltd embarked on a strategy to grow its retail presence, as well as to consolidate its position in the SME segment. Chase Bank (K) Ltd had a total of 62 branches as at June 2016 (Chase Bank (K) Ltd, 2017).

In addition to branch expansion, Chase Bank (K) Ltd has also made substantial investments in IT infrastructure to modernize its processes, thus facilitating electronic banking products, such as internet and mobile banking services. The bank offers a full suite of banking products through three main business units, namely: SME, Corporate and Retail Banking. The bank also has a distinctive focus on the agribusiness, trade, energy, women, and youth sectors (Chase Bank (K) Ltd, 2017).

The bank’s retail strategy focused mainly on the upper (high net worth) and middle (middle class/ salaried individuals) retail segment rather than the low end/unbanked mass retail household segment which were served via the bank’s microfinance subsidiary, Rafiki Microfinance Bank.

Chase Bank (K) Ltd had reported a Ksh. 792 million loss in the year 2015 financial results down from a 2.3 billion profit in the previous year, coupled with revelations of unsound transactions such as unregulated insider lending to senior management and directors leading to an increase in non-performing loans from Ksh 3 billion to Ksh 11 billion. These revelations led to the exit of two directors, Zafrullah Khan and Duncan Kabui and widespread news on social media caused capital flight and liquidity problems as customers withdrew their funds in large sums via various platforms. On 7th April 2016, the bank was placed under receivership by the Central Bank of Kenya making it the third bank to be placed under receivership in a span of twelve months after Dubai Bank and Imperial Bank, sighting insider loans and depositors run (Ngugi, 2016). Chase Bank (K) Ltd re-opened on 27th April 2016 with Kenya Commercial Bank, a tier one bank and one of the largest banks in Kenya in terms of asset size, as the appointed receiver manager.
1.2 Problem Statement

Governance has played an important role in ensuring that banks continue as a going concern. While there is no single approach to good corporate governance, the Basel Committee's revised principles provide a framework within which banks and supervisors should operate to achieve robust and transparent risk management and decision-making and, in doing so, promote public confidence and uphold the safety and soundness of the banking system (BIS, 2004).

Robust Independent Risk Management units are lacking in the banking system who identify, monitor, measure and manage key risks facing the bank by implementing and following policies and procedures that have been broadly deliberated. According to Chijoriga (1997) credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risk as it directly threatens the solvency of financial institutions. The magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank’s counterparties (Basel, 1999).

According to the Central Bank prudential guidelines (2016), the boards’ responsibility for risk management should be manifested in a documented risk management policy and plan. Management should develop both the risk management policy and the plan for approval by the board. The boards’ scope of responsibility for risk governance should be expressed in its board charter and supported by induction and training processes for all board members. Where the board has delegated its responsibility for risk management to a board committee, such board committees’ terms of reference should reflect this responsibility and should be approved by the board.

Compliance and Monitoring provides an independent oversight of the institution’s financial reporting and internal control system, ensure checks and balances within the institution are in place and recommends appropriate remedial action regularly. As per Central Banks prudential guidelines (2016), the board should recognize and acknowledge that independent, competent and qualified internal and external auditors, as well as other
internal control functions (including the compliance functions), are vital to the corporate governance process to achieve many important objectives. Senior management should also recognize the importance of the effectiveness of these functions to the long-term soundness of the bank.

The challenges facing the banking sector were crucial in identifying and examining the key factors that brought about receivership with emphasis on corporate governance, risk management and monitoring and compliance which according to the Central Bank Governor Patrick Njoroge were a major issue among banks in Kenya (Irungu, 2016). Chase Bank (K) Ltd was a good example of a bank that went under receivership due to poor governance, risk management and monitoring and compliance. This research therefore sought to examine the key issues revolving around receivership with reference to Chase Bank (K) Ltd.

1.3 General Objectives
The general objective of this study was to investigate the strategic issues in the banking industry that brings about receivership, in relation to Chase Bank (K) Ltd.

1.4 Specific Objectives
This study was guided by the following specific objectives:

1.4.1 To investigate influence of corporate governance issues that has led Chase Bank (K) Ltd go into receivership.
1.4.2 To investigate influence of risk management that has led Chase Bank (K) Ltd go into receivership.
1.4.3 To investigate monitoring and compliance issues that has led Chase Bank (K) Ltd go into receivership.

1.5. Significance of the Study
1.5.1 Management of Chase Bank (K) Ltd
The discoveries of the research are valuable to Chase Bank (K) Ltd and will help the management understand what led to the bank going into receivership and formulate strategies to curb the issues. This study will help the management of Chase Bank (K) Ltd in identifying factors that affect their organization and hence be able to make informed decisions and appropriate strategic responses for continued survival and growth.
1.5.2. Banks
The study will help banks to formulate strategies that will lead to effective corporate governance, risk management, monitoring and compliance which will enable them to continue as a going concern and meet its objectives to its shareholders and customers. Findings of this study will highlight pertinent issues regarding the industry which can assist in policy formulation. Commercial bank managers could use the information and concentrate to improve on areas of corporate governance, risk management and monitoring and compliance.

1.5.3. Depositors
The project will benefit the depositors in understanding more about receiverships and what strategic issues causes them. Customers will be aware of the issues that cause liquidity and bank runs and can make better informed decisions when choosing the bank they want to invest in.

1.5.2 The Government
The study will benefit the government in finding facts that are crucial for the banking sector and the economy as a whole in policy set up and implementation of effective bank supervision through compliance and monitoring aimed at improving the confidence levels in the banking industry as a whole.

1.5.3 Academicians and Researchers
The project findings will be used by researchers as a basis of their research work and be useful as it will highlight areas of further research while also contributing to new insights. Furthermore, the project work will be available in the United States International University Library for scholars to use as reference for their academic and research work.

1.6 Scope of the Study
The aim of the study was to investigate the strategic issues causing receivership in commercial banks with reference to Chase Bank (K) Ltd whose head office is located along Riverside Drive, Nairobi. In this case, the target population for this study were respondents across the branches and head office at Chase Bank (K) Ltd. The study was carried out from January to April 2018. The main limitations of the study which was expected was confidentiality. Confidentiality of the research study limited the study to access information. The respondents were not willing to provide all the needed information due to fear of being reprimanded for giving out information that they might consider to be private or confidential. However, the researcher assured the respondents of confidentiality of the
information that they provided, and the researcher also sought permission from the management to undertake the research.

1.7 Definition of Terms

1.7.1 Corporate Governance
Corporate governance is the system by which firms are controlled, directed and governed (Cadbury Report, 1992).

1.7.2 Risk Framework
Earnings and Liquidity ratios rating and risk management are used to determine the performance of the banks. Risk management is the Value at Risk (VaR) of a business, which is a measure of how much money the business might lose over a period in the future (Butterworth-Heinemann 2000).

1.7.3 Basel Committee
A global standard-setter for the prudential regulation of banks and provides an environment for cooperation on banking supervisory matters. Its mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability (BIS, 2015).

1.7.4 Compliance Function
A function reporting independently to the Board, that identifies, evaluates, recommends, monitors and reports on the institution’s compliance risk, which is the risk of legal or regulatory sanctions, financial loss, or loss to reputation an institution may suffer as a result of its failure to comply with all applicable laws, guidelines, codes of conduct and standards of good practice (BIS, 2004).

1.7.5 Monitoring and Evaluation
A systematic process, which assesses the improvement of activities that are work-in-progress and detect any constrictions for timely remedial action (Mue, 2016).

1.8 Chapter Summary
This chapter aimed at giving an understanding into the expectations received out of this study and what were the driving factors for wanting to pursue this study. This is relayed through the problem statement, the objective, the perceived limitations and the significance of this undertaking. The next chapter will delve into the reviews that exist pertaining to this study touching on corporate governance, risk framework, compliance and monitoring. Chapter two discusses literature review based on the research question, while chapter three
will discuss research methodology that was used in the study. Chapter four will look at the findings while chapter five entails the discussions of the findings.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter presents a literature review by various scholars on strategic issues causing receivership in commercial banks in Kenya, a case of Chase Bank (K) Ltd. In this chapter, the reader will be provided with a review of literature relevant to the stated research questions, which are: Investigate influence of corporate governance issues that has led to receivership. Investigate influence of risk management that has led to receivership. In addition, investigate monitoring and compliance issues that has led to receivership.

2.2 Influence of Corporate Governance Issues on Receivership
For starters governance has played an important role in ensuring that banks continue as a going concern. This section will therefore analyse receivership and how governance issues affects banks going into receivership. It will dwell on corporate governance, influence of board of directors, in addition the impact of financial disclosure on banks going into receivership will also be analysed.

2.2.1 Receivership
When a business cannot meet its financial obligations, it is said to be insolvent, and drastic measures may be necessary (Adkins, 2017). Receivership, a type of corporate bankruptcy where a receiver is appointed by creditors or bankruptcy courts to run and manage the company. The receiver whose principal role is to recoup as much of the unpaid loans as possible, has full discretion in deciding the management of assets and is given ultimate decision-making powers. Most often receivers find the best way to recover unpaid loans is through liquidation of company assets, which effectively puts the company out of business (Fisher, 2016).

The external party is called a Receiver if the role is simply to sell assets, or a Receiver and Manager if the role is extended to managing a business. The Receiver can be appointed by a Secured Creditor, usually a Bank, or the Courts (PricewaterhouseCoopers, 2017).

A receiver is an archaic term, used in common law and civil law countries, to elect an individual who holds and conceals pilfered goods for thieves. Currently an independent individual appointed by a court to handle money or property during a lawsuit. Receivers are appointed to take custody, manage and preserve money or property that is subject to
litigation so that when the final judgment is rendered the property remains available to accomplish what has been ordered (Net Industries 2016).

Originally, the duty of the receiver was to secure the property in dispute pendent lite, while the case was tried. He was then required to facilitate, by equitable execution, the satisfaction of creditors’ claims out of assets over which the common law did not afford rights of enforcement. If a business can no longer repay its debts, the debenture holder, usually a bank, will seek to satisfy its claims out of the security given by the debtor (Lange & Hartwig, 1989).

The receiver can neither take title of the property nor can they exercise control of the property outside the territorial authority of the court. If property that has already been transferred in a fraudulent sale designed to defraud creditors is beyond the reach of the receiver; however, they the power to initiate a lawsuit, requesting that the court set aside the transfer. Rights, such as liens or mortgages that others have in the property remain binding. Anyone in possession of property listed in the receivership order can be compelled to turn it over to the receiver. A refusal to comply, or interference with the receivership, is punishable as a contempt of court (Bouvier, 1856).

Section 43(2) of the Kenya Deposit Insurance Act, 2012 requires CBK to appoint the KDIC as a receiver of a bank, if, among others, an unsafe or unsound condition to transact exists; a bank is likely to fail to meet its financial obligations; a bank has substantially insufficient capital or if there is a violation of any law or regulation

2.2.2 Corporate Governance
Corporate governance can be defined as a set of processes and structures for controlling and directing an organization. It constitutes a set of rules, which governs the relationships between management, shareholders and stakeholders (Ching et al, 2006). The term “corporate governance” has a clear origin from a Greek word, “kyberman” meaning to steer, guide or govern. From a Greek word, it moved over to Latin, where it was known as “gubernare” and the French version of “gouverner”. It could also be defined as the process of decision-making and the process by which decisions may be executed. Henceforth, corporate governance has much a different meaning to different organizations (Abu-Tapanjah, 2008).
Corporate governance is not restrictive. Though there is ambiguity in use of words such as regulate, control, manage and govern, there are no organizations exempt from governance. Corporate governance plays ensure leaders play a vital role in establishing effective practices. For most companies, those leaders are the directors, who decide the long-term strategy of the company to serve the best interests of the owners (members or shareholders) and more broadly, stakeholders, such as customers, suppliers, providers of long term finance, the community and regulators (ACCA, 2012).

2.2.3 Corporate Governance and Receivership

So far, all the three banks that have been put under receivership since 2015 have suffered corporate governance issues. The common denominator in all the three cases is irresponsibility of senior management and the boards in these banks, who had been lending excessive amounts to related parties without paying due regard to collateral and their capacity to pay back (Wehliye, 2016).

Corporate governance problems faced by the local banking sector are partly caused by the tendency for bankers to pursue other interests beside their core business. This has created the temptation for insider lending, as these bankers want to promote their interests outside of banking. So, in effect, governance malpractice within banks, has become a way of life in some parts of the industry, enriching a few at the expense of many depositors and investors (Wehliye, 2016).

2.2.4 Board of Directors and Receivership

Nearly all companies are managed by a board of directors, appointed or elected by the shareholders to run the company on their behalf. In most countries, the directors are subject to periodic (often annual) re-election by the shareholders (ACCA, 2012).

There is no convenient formula for defining how many directors a company should have, though in some jurisdictions company law specifies a minimum and/or maximum number of directors for different types of company (ACCA, 2012).

Banks represent a significant and influential sector of business worldwide that plays a crucial role in the global economy. Since banks are complex institutions and may require employees with specialized skills, selecting the right executives could give banks a significant competitive edge as well as contribute to the growth of the economy (Philippon & Reshef, 2012).
Good corporate governance practices require institutions to establish strong and professional boards of directors that can make crucial decisions without bowing to pressure from the political class or other powerful stakeholders (Fourier, 2006). According to the Central Bank prudential guidelines (2016), the board is responsible for considering the legitimate interests and expectations of the institution’s stakeholders in its deliberations, decisions and actions. Bad governance has no specific characteristic but involves generally poor management of firms, organizations and even countries. The board should ensure that integrity permeates all aspects of the institution and its operations and that the institution’s vision, mission and strategic objectives are ethically sound. The way the institution conducts its internal and external affairs should be beyond reproach (CBK, 2016).

The composition of the board of directors can influence a variety of organisation outcomes. More institutions are focused on governance reforms including the separation of the position of the CEO and the board to improve their financial performance.

However, some of the boards and management are not equipped to run banks. In some of these institutions, the board chairman or the CEO often have an overbearing influence on the board while in some cases boards lack independence. If you visit some of our banks, you will most likely see the chairman of the board with a big corner office running the day-to-day affairs of the bank (Wehliye, 2016). This was the case with Chase Bank (K) Ltd where the founder and Chairman Mr. Zafrullah Khan, continued having an office in the bank and was also involved in the day to day running of the bank.

2.2.5 Financial Disclosure and Receivership

Information asymmetry plays a critical role in the banking sector. According to economic theory, information asymmetry creates an adverse selection problem in the banking industry on informed investor’s trade based on their private information (ACCA, 2009). Financial reporting is a critical information component for investors in their decision making. Major risk in corporate financial reporting is that financial statements are not fairly presented due to inadvertent or intentional errors (BDO Corporate Governance Review, 2012). Management may fail to provide certain information to many diverse users of financial statements, deliberately misleading them about the company’s operations. Without the required information, it is impossible to fully understand a company’s financial
condition. Transparency in financial reporting enables investors, creditors, and market participants to evaluate the financial condition of an entity (Beeks & Brown, 2006).

Bennis, Goleman and O’Toole (2008) highlight that in addition to helping investors make better decisions, transparency increases confidence in the fairness of the markets. Thus, regulators should aim to ensure that markets are fair, efficient and transparent and investors are given fair access to markets, price or corporate information. A complex and opaque financial report gives no idea about the genuine risks involved and the real fundamentals of the company. Companies with inscrutable financials and complex business structures are riskier and less valuable investments. There are some companies taking advantage of accounting rules in different ways that inhibit transparency. This may, for example, obscure the company’s level of debt (Bhasin, 2010). If a company hides its debt, investors cannot estimate their exposure to bankruptcy risk. Moreover, transparency is important to corporate governance because it enables boards of directors to evaluate management’s effectiveness and to take early corrective actions, when necessary, to address deterioration in the financial condition of companies (Bosch Committee, 1995).

Therefore, it is critical that all banks provide an understandable, comprehensive and reliable portrayal of their financial condition and performance. If the information in financial reports is transparent, then investors and other users of the information are less likely to be surprised by unknown transactions or events. Investors and creditors expect clear, reliable, consistent, comparable, and transparent reporting of events (Bushman, Piotroski & Smith, 2004). Accounting standards provide a framework that is intended to present financial information in a way that facilitates informed judgments. For financial statements to provide the information that investors and other decision makers require, meaningful and consistent accounting standards and comparable practices are necessary and good financial disclosure has become a corporate governance tool of forming expectations relating to future company performance (Bushman & Smith, 2003).

Chase Bank (K) Ltd troubles came with speed after depositors got wind of the fact that it had reported billions of shillings in insider loans that had not been previously disclosed in the accounts. The situation was made worse by the fact that the auditors – Deloitte East Africa said they could not certify whether the accounts and financial statements represented the actual situation in the bank (Irungu, 2016).
Chase Bank (K) Ltd insider loans jumped from 5.72 Billion to 13.63 Billion in their revised financials for December 2015. Chase Bank (K) Ltd insiders effectively borrowed more than the lender’s total shareholder funds (equity), which stands at Sh11.19 billion. The inconsistency in insider loan reporting was on the account of the bank’s directors and shareholders that was earlier reported at Sh2.6 billion but rose to Sh10.52 billion (Mwaniki, 2016).

2.3 Influence of Risk Management on Receivership

The perception of risk management is fundamentally changing within today’s institutions. It is no longer purely used as a control mechanism but as a critical input into the basic business question on whether revenues will compensate for the additional risk. Effective management of risk is a much-debated topic in the banking sector. This section will not only seek to look at the influence of risk management that has led banks go into receivership but also influencing factors of risk management on receivership. Thus, the section will focus on credit risk, liquidity and capital adequacy and operational risk management.

2.3.1 Risk Management

As per Ozturk and Aktan (2007), risk management is a process through which managers satisfy their needs of risk taking. This need is met through the identification of key risks, attainment of understandable, operational, consistent risk measures, selecting which risks to increase and which one to reduce and the way it must be carried out.

Studies have shown that risk management in financial institutions is a cornerstone to fair and acceptable banking practice. In such manner all banks in the present-day unstable and flimsy money related environment are confronting various risks to be specific: credit hazard, liquidity risks, remote trade risks, showcase risks and financing cost risks and so on. These mentioned risks among others may in one way or the other lead to closure of commercial banks because of their inability to meet its financial obligations. We can therefore conclude that, banking is a business of risk hence efficient risk management is a crucial to the survival of commercial banks (Carey, 2001).

Moreover, to satisfy the need of taking risks, managers must establish procedures so that they can monitor the position of the resulting risk. This means that risk management calls for the assessment of dangers associated with a specific position by measuring its magnitude and mitigating such exposures in a way that the institutional goals of the banking firm are not deterred (Awojobi.et al, 2011).
2.3.2 Risk Management and Receivership

Risk management in a firm setting can determine the financial performance of firms. Firms engaging in risky operations attract investors who like to take risks. The relationship between the risk businesses and returns need to be efficiently worked so that the risk-taking investors do get the returns associated with the risks undertaken (Forbes, 2002).

According to the Central Bank prudential guidelines (2016), the boards’ responsibility for risk management should be manifested in a documented risk management policy and plan. Management should develop both the risk management policy and the plan for approval by the board. The boards’ scope of responsibility for risk governance should be expressed in its board charter and supported by induction and training processes for all board members. Where the board has delegated its responsibility for risk management to a board committee, such board committees’ terms of reference should reflect this responsibility and should be approved by the board.

Banks should have an independent risk management function with sufficient authority, stature, independence, resources and access to the board. The oversight of risk management in the institution should be assigned to an independent risk manager who reports to the Board Risk Management Committee. The Risk Manager (RM) should be a suitably experienced person who should have access to and interact regularly with the board and appropriate board committee and executive management. The RM must sufficiently be independent of the business lines to ensure an adequate separation of duties and the avoidance of conflicts of interest. While the Risk Manager may report to the Chief Executive or other senior management, he/she should also report and have direct access to the board and its risk committee without impediment (CBK, 2016).

Management is accountable to the board for designing, implementing and monitoring the system and process of risk management and integrating it into the day-to-day activities of the company. Risks should be identified and monitored on an ongoing firm-wide and individual entity basis, and the sophistication of the bank’s risk management and internal control infrastructures should keep pace with any changes to the bank’s risk profile (including its growth), and to the external risk landscape (CBK, 2016).

Effective risk management requires robust internal communication within the bank about risk, both across the organization and through reporting to the board and senior management. Information should be communicated to the board and senior management in
a timely, complete, understandable and accurate manner so that they are equipped to make informed decisions (CBK, 2016).

2.3.3 Credit Risk and Receivership
Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximise a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. Banks should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organisation (Basel, 2000).

According to Chijoriga (1997), credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risk as it directly threatens the solvency of financial institutions. The magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank’s counterparties (Basel, 1999).

Since exposure to credit risk continues to be the leading source of problems in banks worldwide, banks and their supervisors should be able to draw useful lessons from past experiences. Banks should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The Basel Committee is issuing this document to encourage banking supervisors globally to promote sound practices for managing credit risk. Although the principles contained in this paper are most clearly applicable to the business of lending, they should be applied to all activities where credit risk is present (Basel, 2000).

The Chairman and MD stepped aside over the credibility of the financials after two sets of 2015 accounts were published for quarter 3. Chase Bank (K) Ltd non-performing loans had
increased from Sh3 billion in 2014 to Sh11 billion in 2015 and were issued with a qualified opinion by their auditors Deloitte and Touche. The CBK told reporters that the high non-performing loans in the sector could have been because of weak lending policies, laced with management failures and interests (Mwaniki, 2016).

The restated financials also showed that the bank had under-reported insider loans by a Sh8 billion, putting into question the authenticity of the financial health of the lender, which also reported a Sh743 million loss. Several banks have shown sharp increases in bad loans indicating that CBK is beginning to demand proper financial reporting (Mwaniki, 2016).

2.3.4 Liquidity and Capital Adequacy and Receivership

Capital adequacy is the determination of the minimum capital amount required to satisfy a specified economic capital constraint. This is usually expressed as a capital adequacy ratio of equity that must be held as a percentage of risk-weighted assets. Capital requirements govern the ratio of equity to debt, recorded on the assets side of a firm's balance sheet. (Bindseil, 2004).

Liquidity is one of the important financial stability indicators since liquidity shortfall in one bank can cause systemic crisis in the banking sector due to their interconnected operations. Banks with sufficient capital should be able to obtain extra liquidity from the central bank against adequate collateral. Furthermore, the aim of the New Basel Accord to create a better alignment of regulatory capital with the risk to which banks are exposed, and the stronger focus on diversification, should eventually reduce mismatches between solvency and effective liquidity (Lannoo & Casey, 2005).

Earnings and Liquidity ratios rating and risk management are used to determine the performance of the banks. In Kenya, the Central Bank applies the CAMEL rating system to assess the soundness of financial institutions which is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CBK, 2010). Numerous prior studies have examined the efficacy of CAMEL ratings and they generally conclude that publicly available data combined with regulatory CAMEL ratings can identify and/or predict problem or failed banks (Gasbarro et al., 2002).

The first global minimum capital adequacy standard for the banking sector Basel I was agreed and adopted in 1988. It required banks to maintain minimum capital to asset ratio with the assets weighted using broad risk classifications. Basel II came in to effect in 2006.
intended to keep the overall amount of capital required for the banking system broadly unchanged, while giving firms a modest incentive to incur the costs of building satisfactory models enabling them to adopt more advanced risk-sensitive approaches (Gudmundsson et al, 2013).

In Kenya, the Central Bank of Kenya (CBK) increased the minimum capital requirement, aimed at strengthening institutional structures and improving resilience of the banking industry. According to the Finance Act (2008), new and existing banks must comply with a minimum capital requirement of KES 1 billion (approximately US$ 12 million) as of December 2012, up from KES 250 million (US$4 million) in 2008, and in December 2014, the national treasury increased minimum requirement capital to KES 5 billion to be attained by December 2018, to operate as a commercial bank in Kenya. The main reason for the hastened build-up of capital was the perception that stronger banks are likely to withstand financial turbulences and therefore increase banking sector stability and growth. Higher capital for banking sector could encourage mergers of smaller lenders to have bigger banks to take up opportunities in the economy (Gudmundsson et al, 2013).

2.3.5 Operational Risk Management and Receivership

Operational risk is defined by the Basel Committee on Banking Supervision (2006) as: “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk”

Losses from operational risk have been quite significant, stemming from a wide range of breaches in controls, conduct and security. Investors and supervisors are increasingly questioning whether banks will be able to retain all the earnings they initially report, or whether they will have to pay back a significant portion in fines and restitutions. Banks’ reputations have suffered perhaps even more than their finances (Huertas, 2016).

Sound risk governance provides the framework in which banks can identify, measure and mitigate operational risk. This defines the bank’s risk appetite, assigns responsibilities and develops specific plans (Huertas, 2016).

2.4. Effect of Monitoring and Compliance Issues on Receivership

In today’s stringent regulatory business environment with new standards and mandates coming to effect at a never-before pace, the need to keep up with regulatory changes and ensure ongoing compliance with them has emerged as the bank’s crucial priority. Also, as
banks face increasing compliance complexity from the growth of regulations, ad hoc approaches to compliance management can expose them to significant risk. This section will therefore analyse monitoring and compliance issues that have led banks go into receivership with focus on internal and external audit.

2.4.1 Monitoring and Compliance
Monitoring is one of the most significant aspects of compliance in any banking institution, used internally, while externally central banks use regulatory and supervisory measures. Monitoring is a continuous activity which involves performing procedures occasionally and reviewing banks documentation to confirm that all procedures have been performed as required. (Muhota, 2005). The tools used in many organizations are reconciliations, internal checks and audits to ensure the accuracy of transactions being reported in financial statements in monitoring loans (Diamond, 1984).

Compliance Risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer because of its failure to adhere to laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct applicable to its banking activities (together, “compliance laws, rules and standards”) (Basel 2000).

The compliance department is a bank's internal police force. It is the unit that ensures that a financial institution complies with applicable laws, regulations and rules, and it plays an essential role in helping to preserve the integrity and reputation of the bank. The compliance department's goal is to ensure that a bank does not cross the lines drawn by legislators, regulators or its board of directors (Dye, 2017). Regardless of how the compliance function is organised within a bank, it should be independent and sufficiently resourced (Basel, 2000).

2.4.2. Monitoring and Compliance and Receivership
There is no doubt that the banking industry is critical to the economy; hence instability within the industry would have negative consequences on the Kenyan economy. This serves as the basis for safeguarding the sector to ensure equitable, fair and strong business practices and not giving room for complacency. Poor performance or non-compliance with regulations by individual banks can introduce systemic risks and jeopardize the entire banking industry. There is a growing acknowledgement from banks that a consistent and effective compliance risk management framework can help them achieve organizational
objectives and superior performance as well as be competitive on the Kenyan market (Tung’a, 2012).

Banks need to change the role of their compliance departments from that of an adviser to one that puts more emphasis on active risk management and monitoring. In practice it means expanding beyond offering advice on statutory rules, regulations, and laws and becoming an active co-owner of risks to provide an independent oversight of the control framework (Kaminski & Robu, 2016).

Risk culture has a special place in the compliance playbook. Most serious failures across financial institutions in recent times have a cultural root cause leading to heightened regulatory expectations. Elements of “strong” risk culture are relatively clear (albeit not always explicitly articulated) and include timely information sharing, rapid elevation of emerging risks, and willingness to challenge practices; however, they are difficult to measure quantitatively. Compliance risks are driven by the same factors that drive other risks however their stakes are higher in terms of adverse outcomes (Kaminski & Robu, 2016).

Chase Bank (K) Ltd was put under receivership as it experienced liquidity difficulties and could not meet its financial obligations. The Bank had under-reported insider loans by Sh8 billion. The restated financial results published showed that insider loans that is money advanced to directors, shareholders, associates and employees of the banks, stood at Sh13.62 billion. The bank received a qualified opinion from its auditors Deloitte and Touche meaning the information provided to auditors was limited in scope (BD Reporter, 2017).

2.4.3 Internal and External Audit and Receivership

Chase Bank (K) Ltd troubles came with speed after depositors got wind of the fact that it had reported billions of shillings in insider loans that had not been previously disclosed in the accounts. The situation was made worse by the fact that the auditors – Deloitte East Africa said they could not certify whether the accounts and financial statements represented the actual situation in the bank. After noting that Sh16.6 billion in loans and advances raised serious questions (Irungu, 2016).

Auditing provides an independent oversight of the institution’s financial reporting and internal control system, ensure checks and balances within the institution are in place and
recommends appropriate remedial action regularly, preferably at least once in three months (ICPAK, 2015).

As per Central Banks prudential guidelines (2016), the board should recognize and acknowledge that independent, competent and qualified internal and external auditors, as well as other internal control functions (including the compliance functions), are vital to the corporate governance process to achieve several important objectives. Senior management should also recognize the importance of the effectiveness of these functions to the long-term soundness of the bank.

A strong internal control system, including an independent and effective internal audit function, is part of sound corporate governance. Banking supervisors must be satisfied as to the effectiveness of a bank's internal audit function that policies and practices are followed and that management takes appropriate and timely corrective action in response to internal control weaknesses identified by internal auditors. An internal audit function provides vital assurance to a bank’s board of directors and senior management (and bank supervisors) as to the quality of the bank’s internal control system. In doing so, the function helps reduce the risk of loss and reputational damage to the bank (BIS, 2012).

Internal audit should be objective and impartial, that is perform its activity free of doubts and interference. Members of the internal audit team may not participate in the bank's day to day operations or in the choice and implementation of internal control systems. Competence, as well as internal motivation and systematic professional development of each internal auditor are vital factors for the correct functioning of the whole internal audit department of the bank. Rotation of individual auditors in the framework of the department is necessary so that the routine performance of work activities is avoided. The internal audit department manager should be responsible for the performance of the department and its activities in accordance with the due guidelines of internal audit (Dumitrescu, 2004).

The external and internal auditors of a banking institution should have free access to the Audit Committee. The auditors should be allowed to attend and be heard at any meeting of the Audit Committee. Upon the request of the auditors, the Chairman of the Audit Committee should convene a meeting to consider any matter that auditors believe should be brought to the attention of directors or shareholders (EcoDa, 2011).
To this end the board should set-up an effective internal audit department, staffed with qualified personnel to perform internal audit functions, covering the traditional function of financial audit as well as the function of management audit. Additionally, they should set-up an independent Compliance Function that, among other things, routinely monitor compliance with laws, corporate governance rules, regulations, codes and policies to which the bank is subject and ensure that deviations are reported to an appropriate level of management and, in case of material deviations, to the board (EcoDa, 2011).

Deloitte said it had issued a “disclaimer of opinion” to mean that enough evidence on the financial operations at the bank was not available. “Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph (Sh16.6 billion loans), we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion”. Accordingly, we do not express an opinion on the financial statements. The accounting firm also said it was “unable to establish if proper books of account have been kept by the bank” (Irungu, 2016).

Auditors and accountants who act as the corporate gatekeepers did not fulfil their gatekeeping role in the monitoring and advising. Several audit queries have since arisen in the case of Chase Bank (K) Ltd, including the fact that Deloitte had over the years audited the company but never raised the issue of secret insider loans or uncollateralized credit in their audit reports. It was also not clear what role the audit firm had played in the restatement of Chase Bank (K) Ltd results to provide for the dud or nonperforming loans. The restatement of the bank’s accounts came with the requisite auditor’s signature, which had been absent in the first publication of the results. The signed auditor’s report was dated April 4, 2016 yet the bank should have reported its results six days earlier. Banks are required to report their previous years audited results by March 31 of every year. The bank changed the content of its financial statements in the second (restated results) to provide for the huge non-performing loans that caused panic among depositors (Irungu, 2016).

The Institute of Certified Public Accountants of Kenya (ICPAK), a body mandated to regulate auditors in Kenya absolved the external auditors of any complicity in the collapse of Chase Bank (K) Ltd amid accusations that the lender’s auditors failed to detect and prevent irregularities such as insider lending, saying that the primary responsibility for fair presentation of the financial results is that of the board of directors. International Standards
on Auditing (ISAs) make it clear that the external statutory auditor is not responsible for the prevention and detection of fraud (Ngugi, 2016).

2.5 Chapter Summary
This chapter presents literature review based on research questions; Investigate influence of corporate governance issues that has led to receivership. Investigate influence of risk management that has led to receivership. Investigate monitoring and compliance issues that has led to receivership Chapter three will discuss research methodology that will be used in the study to collect data.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
This chapter discusses the general methodology that was applied in this research. The chapter looks at the research design, population, and sample size, data collection methods, research procedures and data analysis and the presentation methods that were utilized in this research.

3.2 Research Design
Research design is a plan and structure of investigation so conceived to obtain responses to the research questions (Coopers & Schindler, 2008). The function of a research design is to ensure that the evidence obtained enables us to answer the research questions as unambiguously as possible (DeVaus, 2001). This was used as the guide for the collection and analysis of data, based on the research questions of this study at hand. According to Devi, (2017), descriptive research designs help provide answers to the questions of who, what, when, where, and how associated with a research problem; a descriptive study cannot conclusively ascertain answers to why. Descriptive research is used to obtain information concerning the status of the phenomena and to describe "what exists" with respect to variables or conditions in a situation. This study adopted this design because the study aimed at collecting information from respondents on their perceptions in relation to strategic issues causing receivership. Further, the correlational approach was adopted as the study was seeking to describe relationship between the independent –corporate governance, risk management and monitoring and compliance -and dependent variables–receivership.

According to Cooper and Schindler (2011, p. 149) one of the objectives of descriptive studies is the discovery of associations among different variables. This objective is sometimes labelled a correlation study, a sub set of descriptive studies.

The study obtained the views of the respondents from Chase Bank (K) Ltd branches in line with establishing the strategic factors that caused the receivership of Chase Bank (K) Ltd. The study used quantitative research to gain a better knowledge and in-depth understanding of the results. The main objective of this study was to provide a clear understanding of strategic issues causing receivership and therefore conclude on its impact on Chase Bank (K) Ltd.
3.3 Population and Sampling Design

3.3.1 Population

Borg and Crall (1959), define a target population as a universal set of the study of all members of real or hypothetical set of people, events or objectives to which an investigator wishes to generalize the result. The bank has 800 employees in total. The target population for the study was 142 employees comprising of Heads of departments, managers and assistant managers at different levels of the hierarchy and from different locations to provide an insight to their prospective views on the receivership of the bank.

Table 3.1: Population Distribution

<table>
<thead>
<tr>
<th>Unit of analysis</th>
<th>Target population</th>
<th>% distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of departments</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>Managers</td>
<td>63</td>
<td>45</td>
</tr>
<tr>
<td>Assistant managers</td>
<td>63</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>142</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Chase Bank (K) Ltd HR Records

3.3.2 Sampling Design

According to Kothari (2005), a sampling design is a definitive plan for obtaining a sample from a given population. In probability sampling, the elements in the population have some known, nonzero chance or probability of being carefully chosen as sample subjects. This design is used when the representatives of the sample is of importance in the interest of broader generalizability. This was the design that the study adopted, as the sample is inferred to the population (Sekaran & Bougie, 2013).

3.3.2.1 Sampling Frame

A sampling frame represents a list of all those within a population who can be sampled, and may include individuals, households or institution (Zikmund & Babin, 2012). In this study, the total population size was 800 employees according to the human resource records at Chase Bank (K) Ltd as at 2018. The sampling frame comprised of all heads of department, managers and assistant managers at Chase Bank (K) Ltd and was obtained from the Human Resources office.

3.3.2.2 Sampling Technique

A sampling technique is the method of selecting elements of the population that represents the population. It is a scientific procedure of selecting those units that would produce
required estimates to reflect the population characteristics. The findings of the study will be assumed a true representative of the study population. (Coopers & Schindler, 2008). The sampling technique used is stratified random sampling method. This entailed dividing the population into mutually exclusive groups, in this case heads of department, managers and assistant managers. Then random samples were drawn from each strata.

3.3.2.3 Sample Size
Cooper and Schindler (2008), argue that a sample size of the set of elements from which data is collected. Researchers rarely survey the entire population for two reasons (Jackson, Thorpe, & Smith, 2008), the cost was too high, and the population was dynamic in that the individuals making up the population may alter over time. The study engaged a sample size of 72 respondents from the heads of department, managers and assistant managers. This sample was arrived at based on the respondents who were willing to participate in the study and the convenience of finding them was also taken into consideration. From the initial target population of 142, this being more than 100 but less than 500, and guided by the rule of thumb, the study used simple random sampling and a quota of 50% was drawn from each sample.

The Cochran’s sample size formula was used to calculate an ideal sample size given a confidence level of 95%. The formula is \( n_0 = \frac{\frac{z^2 pq}{\epsilon^2}}{2} \) where \( \epsilon \) the desired level of precision (i.e. margin of error) is, \( p \) is the (estimated) proportion of the population which has the attribute in question and \( q \) is 1-\( p \). With a \( z \) of 1.96 at 95 per cent confidence level, \( PQ \) of 50-50 and an \( \epsilon \) of plus or minus 5%, a sample size of 385 was arrived at, however a sample size of 72 respondents was adopted due to the scale of the research, resource scarcity and time constraints.

<table>
<thead>
<tr>
<th>Unit of Analysis</th>
<th>Target Population</th>
<th>% of Sample</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Departments</td>
<td>16</td>
<td>50%</td>
<td>8</td>
</tr>
<tr>
<td>Managers</td>
<td>63</td>
<td>50%</td>
<td>32</td>
</tr>
<tr>
<td>Assistant Managers</td>
<td>63</td>
<td>50%</td>
<td>32</td>
</tr>
<tr>
<td>TOTAL</td>
<td>142</td>
<td>50%</td>
<td>72</td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods
This study depended on the primary data obtained using self-administered questionnaires, which were administered to heads of departments, managers and assistant managers of Chase Bank (K) Ltd. The choice of this instrument was because the information obtained is satisfactory and precise for the research. The questionnaires were designed by the researcher based on the research objectives. This study focused on primary data which is facts, assumptions or premises obtained directly from the field. Data was collected for the first time and has never been used anywhere else. The primary data was collected through a structured questionnaire which will be hand delivered and was developed using relevant literature review and personal perception.

The study instrument utilized a four-point Likert scale to ask respondents to express their opinion on given statements, and they were expected to either agree, strongly agree, remain neutral, disagree, or strongly disagree. The Likert scale was preferred as they are easy to comprehend and draw conclusions from. The questionnaire was distributed into five sections with the first addressing the demography, the second, third and fourth sections addressing the objectives of the research while the last section addressed the dependent variable.

Questionnaires are economical in gathering data due to the use of minimal resources. Questions are structured and gather only relevant information thus make respondents more at ease as they protect the respondent’s identity.

3.5 Research Procedures
A cover letter showing the study is for scholarly purposes was obtained from Chandaria School of Business, as this was also a requirement from Chase Bank (K) Ltd before data collection. The questionnaire developed for this study was pre-tested on five respondents, who are bankers but not from Chase Bank (K) Ltd., done to avoid selecting a respondent twice or having pre-test respondent pre-informing potential respondents of the impending study. The pre-test was undertaken to confirm flow, accuracy, and clarity of the interview questions. Where necessary adjustments were made before the final administration.
Interview questions and the questionnaires were administered by hand delivery and email and respondents requested to complete the questionnaires within one week of delivery. Follow-up visits and email reminders were made to ensure timely appointment for completion of the questionnaire before analysis began.

3.6 Data Analysis Methods
Data analysis is the process of analysing, cleaning, transforming, and modelling data collected in a research. Data analysis methods used in the study included quantitative techniques (Cooper & Schindler, 2011). Data is coded according to different variables of the study for ease of data entry and interpretation. The descriptive statistical tool, Statistical Package for Social Sciences (SPSS) and excel applications were used to help the researcher describe the data and this was through descriptive analysis of means, standard deviations, and frequencies. Inferential statistics was also used, data collected was analysed using multiple regression analysis. The Ordinary Least Square (OLS) method of regression was used in estimating the relationship between receivership and the strategic issues. The output of the analysis was prepared through frequency tables, graphic presentations and inferential statistics outputs.

3.7 Chapter Summary
This chapter clearly described the methodology that the research expects to use to reach the objectives of the study. The research methodology was presented under the following sections; research design, population, sampling frame, sampling technique, Sample size, data collection and data analysis. Chapter four will cover data analysis and presentation of the findings of the research.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents data analysis, results and discussions of the study as set out in the research methodology. The study objectives were to establish the strategic issues causing receivership in commercial banks in relation to Chase Bank (K) Ltd. The data will be interpreted according to research statistics and presented using charts and tables.

4.1.1 Response Rate
The analysis for response rate was as follows;

Figure 4.1 below shows the response rate. Based on the analysis, 96% of the total respondents duly filled and returned the questionnaires while 4% of the total respondents did not return the questionnaires. In conclusion majority of the respondents participated in the study.

![Figure 4.1 Response Rate](image)

4.1.2 Reliability Test
A reliability test was done by use of Cronbach Alpha on the variables of corporate governance, risk management and monitoring and compliance. Cronbach’s alpha measure assesses the reliability or internal uniformity, of a set trial items. The desired Cronbach alpha value should be below 0.6 (α >0.6). For the study, all the values were below 0.6 hence making the variables very reliable as indicated in table 4.1 below.
### Table 4.1: Reliability Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance</td>
<td>0.6010</td>
<td>4</td>
</tr>
<tr>
<td>Risk Management</td>
<td>0.806</td>
<td>9</td>
</tr>
<tr>
<td>Monitoring and Compliance</td>
<td>0.6140</td>
<td>5</td>
</tr>
</tbody>
</table>

#### 4.2 Demographical Factors

The research analysed data about the demographic factors and results presented as follows:

##### 4.2.2 Gender Analysis

The analysis of gender was as follows;

Figure 4.2 below shows gender disparities. Based on the analysis, 54% of the total respondents were female while 46% of the total respondents were male. From the study, it was concluded that female staff dominated the organization.

![Figure 4.2 Gender Respondents](image)

##### 4.2.3 Years of Service

The analysis for years of service was as follows;

Figure 4.3 below shows years of service. Based on the analysis, 61% of the total respondents worked for the bank between 0-5 years, 25% of the total respondents worked for the bank between 6-10 years and 14% worked for the bank between 11-15 years.
4.2.4 Age Analysis
The analysis of the age of respondents was as follows;

Figure 4.4 below shows the age of employees in the organization. Based on the analysis, 74% of the total respondents indicated that they were 18-30 years, 22% were of the age 31-40 years, 4% were of the age 41-50 years. From the study, it was concluded that staff were young and energetic.

4.2.5 Management Level
The analysis of management level was as follows;

Table 4.2 below shows the level of management. Based on the analysis, 9% of the total respondents were heads of department, 45% were managers while 46% were assistant managers.
Table 4.2 Level of Management

<table>
<thead>
<tr>
<th>Management Level</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of Department</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Manager</td>
<td>31</td>
<td>45</td>
</tr>
<tr>
<td>Assistant Manager</td>
<td>32</td>
<td>46</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.6 Highest Level of Education
The analysis of level of education was as follows;

Figure 4.5 below shows the highest level of education of this organization. Based on the analysis, 65% were university graduates while 28% had masters and 7% had other qualifications such as ACCA. From the study, it was concluded that the staff were generally literate and Chase Bank (K) Ltd hired graduates.

![Figure 4.5 Level of Education](attachment:image.png)

4.2.7 Department
The analysis of department was as follows;

Table 4.3 below shows the various departments that were interviewed. Based on the analysis, 4% of the total respondents were from the audit department, 16% of the total respondents were from the credit department, 10% of the total respondents were from the finance department, 4% of the total respondents were from the risk department, 17% of the total respondents were from the operations department, 3% of the total respondents were from the receiver manager while 7% of the total respondents were from the treasury department and 38% of the total respondents were from branch management. From the study, it was concluded that the respondents were from various departments to provide an insight to their prospective views on the receivership of the bank.

![Table 4.3 Department Analysis](attachment:image.png)
4.3 Corporate Governance Issues on Receivership
The first objective set was to establish how corporate governance brought about receivership. Respondents were asked a set of questions to indicate to what extent from highest to lowest they agreed with the statement related to corporate governance and receivership, using a four-point Likert scale where 1-lowest to 4-highest.

4.3.1 Quality of Corporate Governance
The research was geared towards identifying the quality of corporate governance at Chase Bank (K) Ltd and it was established that from a scale of 1 (lowest) and 4 (highest), 45% of the respondents ranked the quality as 2, 33% ranked it as 1 and 22% ranked it as 3 as shown in figure 4.6.

4.3.2 Disclosure Policies and Practices
The research also set to establish Chase Bank (K) Ltd policies and practices on disclosure and whether the bank provides access to information to shareholders. Majority of the respondents weighed the disclosure policies and practices at Chase Bank (K) Ltd 2. With
50% feeling that the bank does not provide equal access to information for shareholders as shown in fig 4.7 below.

Figure 4.7 Disclosure Policies and Practices

4.3.3 Descriptive on variables of Board of Directors
The study sought to establish the factors that affect performance of the Board of Directors. The results established that most respondents highly ranked board expertise and experience (3.51), board composition (3.07). It was also established that board remuneration and compensation was critical in board performance (3.51). However, respondents lowly ranked non-chase employees on the board (2.57) as shown in table 4.4 below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Composition</td>
<td>3.0725</td>
<td>1.00468</td>
</tr>
<tr>
<td>Board Remuneration and Compensation</td>
<td>2.9275</td>
<td>0.87982</td>
</tr>
<tr>
<td>Board Expertise and Experience</td>
<td>3.5072</td>
<td>0.55897</td>
</tr>
<tr>
<td>Non-Chase Employees on the Board</td>
<td>2.5652</td>
<td>0.84850</td>
</tr>
</tbody>
</table>

4.4 Risk Management on Receivership
The second objective was set to establish how risk management affected receivership. Respondents were asked a set of questions to indicate to what extent from highest to lowest or agree or disagreed with statement related to risk management and receivership, using a four-point Likert scale where 1-lowest to 4 –highest or1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.
4.4.1 Effectiveness of Risk Management Procedures and Policies.
The study sought to establish whether the organization has effective risk management procedures and policies and it was established that 49% (rank 2) and 42% (rank 1) that majority of the respondents felt that the banks risk management procedures and policies were not effective. Only 9% ranked the effectiveness as 3 as shown in fig 4.8 below.

Figure 4.8 Risk Management Procedures and Policies

4.4.2 Descriptive on Variables of Operational Risk
The findings established that respondents strongly agreed that employees at the bank have the necessary skills to perform work effectively (3.58), and changes and restrictions in the regulatory environment have a significant impact on the bank (3.10). Respondents agreed that the bank has no clear policies of accountability or responsibility for business processes (2.99). Respondents disagreed that the bank has procedures to monitor the position of resultant risk (1.99) and the bank has sound risk governance in which it can identify, measure and mitigate operational risk (1.87). However, respondents strongly disagreed that employees at the bank possessed ethical behaviors necessary to mitigate the bank against people risk (1.13), as shown in table 4.5 below.

Table 4.5 Descriptive on Variables of Operational Risk

<table>
<thead>
<tr>
<th>Operational Risk</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees at the bank possess ethical behaviours necessary to mitigate the bank</td>
<td>1.1304</td>
<td>0.51200</td>
</tr>
<tr>
<td>Teachers at the bank have the necessary skills to perform work effectively</td>
<td>3.5797</td>
<td>0.52597</td>
</tr>
<tr>
<td>Changes and restrictions in the regulatory environment have a significant</td>
<td>3.1014</td>
<td>0.38900</td>
</tr>
<tr>
<td>The bank has procedures to monitor the position of resultant risk</td>
<td>1.9855</td>
<td>0.79507</td>
</tr>
<tr>
<td>The bank has sound risk governance in which it can identify, measure and</td>
<td>1.8696</td>
<td>0.70530</td>
</tr>
<tr>
<td>mitigate operational risk</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4.3 Descriptive of Variables of Credit Risk
The findings established that all managers disagreed that the bank paid attention to changes in economic conditions (2.1304), carried out portfolio risk management (1.8986), had robust credit standards for borrowers and counterparties (1.7826). However, respondents strongly disagreed that the bank had strict policies on insider lending (1.2899) and as shown in table 4.6 below.

**Table 4.6 Descriptive of Variables of Credit Risk**

<table>
<thead>
<tr>
<th>Credit Risk Variables</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank carries out portfolio risk management</td>
<td>1.8986</td>
<td>0.73053</td>
</tr>
<tr>
<td>The bank pays attention to changes in economic conditions</td>
<td>2.1304</td>
<td>0.87301</td>
</tr>
<tr>
<td>The bank has robust credit standards for borrowers and counterparties</td>
<td>1.7826</td>
<td>0.66132</td>
</tr>
<tr>
<td>The bank has strict policies on insider lending</td>
<td>1.2899</td>
<td>0.70921</td>
</tr>
</tbody>
</table>

4.4.4. Frequency of Credit Committee Meetings
The study intended to establish how often credit committee meetings were held and it was established that 55% said it was done weekly while 23% said it was done fortnightly and 22% said it was done monthly as shown in fig 4.9 below.

![Figure 4.9 Frequency of Credit Committee Meetings](image)

4.5 Monitoring and Compliance Issues on Receivership
The third objective set was to establish how monitoring and compliance issues affected receivership. Respondents were asked a set of questions to indicate to what extent from highest to lowest or agree or disagreed with statement related to monitoring and compliance...
issues, using a four-point Likert scale where 1 - lowest to 4 –highest or 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.

4.5.1 Effectiveness of Compliance Department
The study sought to establish whether the compliance department was effective at the bank and it was established that 68% ranked the effectiveness as 2, 20% ranked it as 1, 12% ranked it as 3 and 3% ranked it as 4 as shown in fig 4.10 below, concluding that the compliance department was not effective at the bank.

![Figure 4.10 Effectiveness of Compliance Department](image)

4.5.2 Descriptive of Variables of Audit
The findings established that all respondents strongly agreed that audit committee’s expertise and experience influence on the performance of the bank (3.0725). Respondents also agreed internal auditors provide value to the bank (3.0435). However, respondents disagreed that the bank has an active monitoring and risk management system (2.5507) and strongly disagreed that the bank had an effective and independent internal audit function (2.4348) as shown in table 4.7 below.

Table 4.7 Descriptive of Variables of Audit

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal auditors provide value to the bank</td>
<td>3.0435</td>
<td>0.88176</td>
</tr>
<tr>
<td>Audit committee's expertise and experience influences on the performance of the bank</td>
<td>3.0725</td>
<td>0.91264</td>
</tr>
<tr>
<td>The bank has an active monitoring and risk management system</td>
<td>2.5507</td>
<td>0.60722</td>
</tr>
<tr>
<td>The bank has an effective and independent internal audit function</td>
<td>2.4348</td>
<td>0.75689</td>
</tr>
</tbody>
</table>
4.5.3 Frequency of Internal Audits

The study intended to establish how often internal audits were carried out in branches and departments in the bank and it was established that 61% said it was done yearly, while 38% said it was done monthly and 1% said it was done fortnightly as shown in fig 4.1 below.

![Figure 4.11 Frequency of Internal Audits](image)

4.6 Inferential Statistics

4.6.1 Correlation

A Pearson correlation analysis was done to establish the relationship between the dependent variable (receivership) against independent variable of corporate governance and the result established a negative relationship between the variables as indicated in table 4.8 below. Therefore, increased variables of corporate governance issues ($r=-0.726, P<0.05$) will result in increased chances of a bank going into receivership.

<table>
<thead>
<tr>
<th>Table 4.8 Corporate Governance Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receivership</strong></td>
</tr>
<tr>
<td>Receivership</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
**. Correlation is significant at the 0.01 level (2-tailed).

A Pearson correlation analysis was done to establish the relationship between the dependent variable (receivership) against the independent variable of risk management and the result established a negative relationship between the variables as indicated in table 4.9 below. Therefore, increased variables of risk management issues (r=0.339, P<0.05) will result in increased chances of a bank going into receivership.

Table 4.9 Risk Management Correlations

<table>
<thead>
<tr>
<th></th>
<th>Receivership</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivership</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>69</td>
</tr>
<tr>
<td>Risk</td>
<td>Pearson Correlation</td>
<td>.339**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.004</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>69</td>
</tr>
</tbody>
</table>

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

A Pearson correlation analysis was done to establish the relationship between the dependent variable (receivership) and the independent variable of monitoring and compliance and the result established a negative relationship between the variables as indicated in table 4.10 below. Therefore, increased variables of monitoring and compliance issues (r=0.523, P<0.05) will result in increased chances of a bank going into receivership.

Table 4.10 Monitoring and Compliance Correlations

<table>
<thead>
<tr>
<th></th>
<th>Receivership</th>
<th>Monitoring and Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivership</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>69</td>
</tr>
<tr>
<td>Monitoring and Compliance</td>
<td>Pearson Correlation</td>
<td>.523**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>69</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
4.6.2. Regression Analysis
The research analysed relationship between the dependent variable (receivership) against corporate governance. The results showed that the variations in receivership were explained by variations in Corporate Governance R2 value were 0.528 hence 52.8%, as illustrated in table 4.11 below.

Table 4.11 Corporate Governance Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.726a</td>
<td>.528</td>
<td>.521</td>
<td>.25184</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Governance

The research analysed relationship between the dependent variable (receivership) against risk management. The results showed that the variations in receivership were explained by variations in Risk R2 value was 0.115 hence 11.5% as illustrated in table 4.12 below.

Table 4.12 Risk Management Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.339a</td>
<td>.115</td>
<td>.102</td>
<td>.39931</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Risk

The research analysed relationship between the dependent variable (receivership) against monitoring and compliance. The results showed that the variations in receivership were explained by variations in Monitoring and Compliance Risk R2 value was 0.273 hence 27.3% as illustrated in table 4.12 below.

Table 4.13 Monitoring and Compliance Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.523a</td>
<td>.273</td>
<td>.262</td>
<td>.45923</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Monitoring and Compliance

An anova analysis was done between receivership and corporate governance, at 95% confidence level, corporate governance the F critical was 74.883 and the P value was (0.000), and therefore significant the results are illustrated below in table 4.14 below.
An ANOVA analysis was done between receivership and risk management at 95% confidence level, risk management F critical was 8.698 and the P value was (0.004) therefore significant the results are illustrated below in table 4.1 below

### Table 4.14 Corporate Governance ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.749</td>
<td>1</td>
<td>4.749</td>
<td>74.883</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>4.249</td>
<td>67</td>
<td>.063</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8.998</td>
<td>68</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Governance Receivership  
b. Predictors: (Constant), Governance

### Table 4.15 Risk Management ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.387</td>
<td>1</td>
<td>1.387</td>
<td>8.698</td>
<td>.004</td>
</tr>
<tr>
<td>Residual</td>
<td>10.683</td>
<td>67</td>
<td>.159</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.070</td>
<td>68</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Risk Receivership  
b. Predictors: (Constant), Risk

An ANOVA analysis was done between receivership and monitoring and compliance at 95% confidence level, monitoring and compliance F critical was 25.190 and the P value was (0.000) therefore significant the results are illustrated below in table 4.16 below

### Table 4.16 Compliance and Monitoring ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.312</td>
<td>1</td>
<td>5.312</td>
<td>25.190</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>14.130</td>
<td>67</td>
<td>.211</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19.442</td>
<td>68</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Monitoring Receivership  
b. Predictors: (Constant), Monitoring and Compliance
Table 4.17 Corporate Governance Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.253</td>
<td>.166</td>
<td>13.602</td>
</tr>
<tr>
<td></td>
<td>Governance</td>
<td>.467</td>
<td>.054</td>
<td>.726</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Governance Receivership

Table 4.18 Risk Management Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.142</td>
<td>.243</td>
<td>8.825</td>
</tr>
<tr>
<td></td>
<td>Risk</td>
<td>.336</td>
<td>.114</td>
<td>.339</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Risk Receivership

Table 4.19 Monitoring and Compliance Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.154</td>
<td>.350</td>
<td>3.299</td>
</tr>
<tr>
<td></td>
<td>Monitoring and Compliance</td>
<td>.595</td>
<td>.119</td>
<td>.523</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Monitoring Receivership

As per Table 4.27, 4.28 and 4.29, the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \) becomes:

\[ Y = (2.253 + 2.142 + 1.154) + 0.467 X_1 + 0.336 X_2 + 0.595 X_3 \]

\[ Y = 5.549 + 0.467 X_1 + 0.336 X_2 + 0.595 X_3 \]

Where Y is the dependent variable receivership
$X_1$ – Corporate Governance  
$X_2$ – Risk  
$X_3$ – Monitoring and Compliance

The regression equation illustrated has established that taking all factors into account (Corporate Governance, Risk, Monitoring and Compliance) all other factors held constant receivership increases by 5.549. The findings presented also showed that with all other variables held at zero, a unit change in governance would lead to a 0.467 increase in receivership and a unit change in risk would lead to 0.336 increase in receivership. Moreover, the study also showed that a unit change in monitoring and compliance would result in 0.595 change in receivership. This implies that at Chase Bank (K) Ltd monitoring and compliance, corporate governance and risk management issues all led to it going into receivership.

4.7 Chapter Summary
The findings in this chapter have been presented in frequency tables, contingency tables, and pie charts. The first section provided an analysis of demographic data of the respondents, the second section dealt with data on corporate governance, the third section looked at the data on risk management, and the fourth section covered issues of monitoring and compliance. In chapter five these results will be discussed, and relevant conclusions and recommendations made regarding receivership of Chase Bank (K) Ltd.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This section will seek to discuss the findings, and this will be done by comparing with previous literature related to receivership. This will be organized based on the specific research questions which sought to establish how corporate governance, risk management and monitoring and compliance affected receivership at Chase Bank (K) Ltd.

5.2 Summary
The general objective of the study was to establish the strategic issues causing receivership at Chase Bank (K) Ltd. This study was guided by the following specific objectives: To investigate influence of corporate governance issues that has led to receivership. To investigate influence of risk management that has led to receivership. To investigate monitoring and compliance issues that has led to receivership.

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions in relation to strategic issues causing receivership. Further, the correlational approach was adopted as the study was seeking to describe relationship between the independent –corporate governance, risk management and monitoring and compliance -and dependent variable –receivership. The target population for this study were respondents who oversee the strategy implementation process at Chase Bank (K) Ltd. This comprised of Heads of Departments, Managers (considered in the business level of the structure) and Assistant Managers (operational level in the structure) in the 63 Chase Bank (K) Ltd branches.

The sampling technique was stratified random sampling method. This entailed dividing the population into mutually exclusive groups, in this case heads of department, managers and assistant managers. Then random samples were drawn from each group. Using purposive or judgmental sampling technique, a sample size of 385 was arrived at, however a sample size of 72 respondents was adopted for the study due to financial and time constraints. Out of the total of 72 questionnaires distributed, 69 were filled and returned giving a response rate of 96%.
The first objective set to establish how corporate governance affected receivership and a majority considered the quality of corporate governance as low. It was also established that majority of respondents weighed the disclosure policies and practices as low indicating that the bank does not provide equal access to information for shareholders. It was also revealed board expertise and experience and board composition highly affected performance of the Board of Directors. The study also revealed that board remuneration and compensation was critical in board performance. However, respondents felt that having non-chase employees on the board did not affect performance of the Board of Directors.

The second objective set to establish how risk management affected receivership. On the effectiveness of the banks risk management procedures and policies majority of the respondents felt that they were not effective. The findings also established that respondents strongly agreed that employees at the bank have the necessary skills to perform work effectively and changes and restrictions in the regulatory environment have a significant impact on the bank. Respondents also agreed that the bank has no clear policies of accountability or responsibility for business processes. However, respondents disagreed that the bank has procedures to monitor the position of resultant risk and that the bank has sound risk governance in which it can identify, measure and mitigate operational risk. Respondents also strongly disagreed that employees at the bank possessed ethical behaviors necessary to mitigate the bank against people risk. The study also established that all managers disagreed that the bank paid attention to changes in economic conditions, carried out portfolio risk management, had robust credit standards for borrowers and counterparties. However, respondents strongly disagreed that the bank had strict policies on insider lending. On frequency of credit committee meetings majority of the respondents said it was done weekly.

The third objective set to establish how monitoring and compliance affected receivership. The findings revealed that Chase Bank (K) Ltd did not have an effective compliance department. A majority also strongly agreed that audit committee’s expertise and experience influence on the performance of the bank. Respondents also agreed internal auditors provide value to the bank. However, respondents disagreed that the bank has an active monitoring and risk management system and strongly disagreed that the bank had an effective and independent internal audit function. The findings also established that internal audits were carried out yearly.
A Pearson correlation analysis was done to establish the relationship between receivership against other core factors. The findings established a strong positive relationship between the variables. From a regression analysis 52.8% of the variation in receivership was explained by the variation in Corporate Governance, 11.5% was explained by the variation in Risk Management and 27.3% was explained by the variation in Monitoring and Compliance. All core factors were significant (P<0.05).

5.3 Discussions
5.3.1 Effects of Corporate Governance on Receivership
The research was geared towards identifying the quality of corporate governance at Chase Bank (K) Ltd and majority considered the quality low. Corporate Governance is essential in the survival of banks in Kenya. It is not an end but a means of supporting economic efficiency, sustainable growth and financial stability. Due to individuals pursuing their own interest and not focussing on the core business the quality of corporate governance at Chase Bank (K) Ltd was low with individuals enriching their pockets at the expense of other shareholders. Lending excessive amounts to related parties with minimal or no collateral and their capacity to service those loans, creating major liquidity issues and more so when depositors began liquidating their funds and withdrawing the same.

The research also set to establish Chase Bank (K) Ltd policies and practices on disclosure and whether the bank provides access to information to shareholders, with the majority feeling that the bank does not provide equal access to information for shareholders. Corporate Governance facilitates access to capital for long term investment and ensures fair treatment of all shareholders and stakeholders who have contributed to the success of the bank. Good corporate governance increases stakeholder confidence and hence increased customers for the bank which in turn improves liquidity and profitability, a benefit for the shareholders in the end (OECD, 2016). Chase Bank (Kenya) Ltd financials did not disclose all information especially on insider lending and non-performing loans hence overstating profits, providing false information to stakeholders. The situation became worse when depositors got wind of the undisclosed billions of shillings in insider loans a situation made worse when Deloitte East Africa gave a qualified opinion.

The study sought to establish the factors that affect performance of the Board of Directors. The results established that most respondents highly ranked board expertise and experience and board composition indicating they are important factors that affect performance of the
Board of Directors. The board of directors should set the direction of the corporation and monitor management in order that the company will achieve its objectives. The corporate governance framework should underpin the board’s accountability to the corporation and its members. There is no formula defining the number of directors a company should have, however, in some jurisdictions company law specifies a minimum and/or maximum number of directors for different types of organisations (ACCA, 2012). Chase Bank (K) Ltd had a highly experienced board with expertise however lacked professionalism in that they sought their own agendas rather than the overall corporate objectives. The chairman had an overbearing influence on the board and even had an office at the bank and was involved in the day to day running of the bank.

It was also established that board remuneration and compensation were critical in board performance. It is generally recognised that executive remuneration packages should be structured in a manner that will motivate them to achieve the long-term goals of the organisation. Therefore, offering a competitive basic salary and fringe benefits attracts and retains people of the right calibre, combined with performance-related rewards such as bonuses linked to medium and long-term targets, shares, share options and eventual pension benefits (often subject to minimum length of service requirements) (Souster, 2012). However, in the case of Chase Bank (K) Ltd the bank offered competitive basic salaries and fringe benefits especially to top management. The bank even awarded the former chairman Zafrullah Khan with a $10 million bonus for his long service, an amount the bank’s former auditors Deloitte questioned and subsequently classified as insider lending. The amount was to be paid over the years’, but the Chairman awarded the entire bonus to himself on the first year. Even then the directors pursued their own interests instead of the interests of bank.

Respondents lowly ranked non-chase employees on the board, indicating that it did not affect the performance of the board of directors. Non-executive directors (NEDs) are not employees of the company and are not involved in its day-to-day running. They usually have full-time jobs elsewhere or may sometimes be prominent individuals from public life. The non-executive directors usually receive a flat fee for their services and are engaged under a contract for service (civil contract, like that used to hire a consultant). NEDs should provide a balancing influence and help to minimise conflicts of interest. The Higgs Report, published in 2003, summarised their role as: to contribute to the strategic plan, to scrutinise the performance of the executive directors, to provide an external perspective on risk.
management and to deal with people issues, such as the future shape of the board and resolution of conflicts (ACCA, 2012).

5.3.2 Effect of risk management on receivership
The study sought to establish whether the organization has effective risk management procedures and policies and it was established that majority of the respondents felt that the banks risk management procedures and policies were not effective. Better risk management especially credit risk presents an opportunity to greatly improve overall performance and secure a competitive advantage to manage and assess the risks faced by banks, it is important to make certain estimates, conduct monitoring, and perform reviews of the performance of the bank. However, because banks are into lending and investing practices, it is relevant to make reviews on loans and to scrutinize and analyze portfolios (Miller, 2008). Chase Bank (Kenya) Ltd non-performing loans increased from 2014 to 2015 indicating its weak lending policies and management failures and self-interests.

The findings established that respondents strongly agreed that employees at the bank have the necessary skills to perform work effectively. Wheelen et al (2015) confirms that it is vital during recruitment and selection process to acquire employees with necessary skills and knowledge ample for organization competitiveness. Even though employees have the necessary skills to perform work effectively, professionalism lacked at Chase Bank (K) Ltd as most employees and top management were out to fill their own pockets with increased insider lending and expenses that were geared towards personal benefit.

The study also established that changes and restrictions in the regulatory environment have a significant impact on the bank. Banks play a vital role in the economic system, implying that banks need to be regulated and supervised not only to protect investors and consumers but also to ensure systemic stability. More specifically, bank regulations exist for safeguarding the industry against systemic risk, protecting consumers from excessive prices or opportunistic behaviour and finally to achieve some social objectives, including stability (Liewellyn, 1999). With changes in the regulatory environment, banks will need to review their business plans and adopt to the new environment which can have a positive or a negative impact. Negative impacts to the monetary policy can prove detrimental to the economy. Chase Bank (K) Ltd found ways to circumvent some of those restrictions misrepresenting financials for a long time hence affecting its longevity and weakening the institution through liquidity problems and finally being put into receivership. Kenya has done well in enacting laws, but little has been done in terms of enforcement. Both Imperial
and Chase Bank (K) Ltd were cleared by the Capital Markets Authority (CMA) to issue corporate bonds and yet both banks had liquidity and regulatory issues with the CBK.

Respondents agreed that the bank has no clear policies of accountability or responsibility for business processes. Business processes, procedures and standards are vital for training staff and induction programs, as well as formal processes like staff performance reviews. Having formalized processes and procedures for your business can save you time and money by increasing efficiency. Staff can get more done in less time by following set processes and procedures, and you can spend less time overseeing the day-to-day running of the business. Processes and procedures can also improve the consistency of product and service delivery by your staff. By creating standards and policies for your business, you set benchmarks that your staff must meet (Queensland, 2018). Though the bank had laid out procedures and processes titles such as CEO or Chairman make it difficult to question such titleholders due to culturally based fear of authority. In the case of the bank the Chairman who was the founder of the bank had an overbearing control and was involved with the day to day running of the bank which affected the independence and many of the policies and processes breached through his authority.

Respondents disagreed that the bank had procedures to monitor the position of resultant risk and the bank has sound risk governance in which it can identify, measure and mitigate operational risk. Losses from operational risk have been quite significant, stemming from a wide range of breaches in controls, conduct and security. Investors and supervisors are increasingly questioning whether banks will be able to retain all the earnings they initially report, or whether they will have to pay back a significant portion in fines and restitutions. Banks’ reputations have suffered perhaps even more than their finances. Sound risk governance provides the framework in which banks can identify, measure and mitigate operational risk. This defines the bank’s risk appetite, assigns responsibilities and develops specific plans (Huertas, 2016). The bank had weak policies and procedures in particular weak lending policies which jeopardized the bank. Directors have a fiduciary responsibility and legal obligation to ensure that depositors’ funds are safe and banks’ risk management oversight ensures customer confidence and contributes to the growth and stability of the banking industry. Reputation risk should be placed high to ensure client loyalty and obligation. Risk management policies should be up-to-date with internal controls as well.
as anti-money laundering practices that insulate the bank against possible frauds or collusions.

Respondents also strongly disagreed that employees at the bank possessed ethical behaviors necessary to mitigate the bank against people risk. Ethical people are those who recognize the difference between right and wrong and consistently strive to set an example of good conduct. In a business setting, being ethical means applying principles of honesty and fairness to relationships with co-workers and customers. Ethical individuals try to treat everyone with whom they come in contact as they would want to be treated themselves (Hill, 2018). A major downfall of the bank was on ethical issues with management and directors having fraudulent activities against the regulatory framework. Unfortunately, in the case of Chase Bank (Kenya) ltd the board did not raise questions on emoluments, expenditures and many other governance issues. Unfortunately, the absence of ethics and morality is based on this infamous get rich quick attitude with top management having to sustain exotic lifestyles. Auditors and regulators are equally to blame as they are easily compromised by bank executives for example Deloitte had over the years audited the bank but never raised the issue of secret insider loans or uncollateralized credit in their audit reports also how beyond reproach was the immediate former Central Bank governor, if three banks would crumble soon after his exit.

5.3.3 Effects of Monitoring and Compliance on Receivership
The study established that the compliance department was not effective at the bank. Compliance department acts as a bank's internal police force. It is the unit that ensures that a financial institution complies with applicable laws, regulations and rules, and it plays an essential role in helping to preserve the integrity and reputation of the bank (Dye, 2015). Laws, regulations and rules were not followed, and governance was a major issue at the bank. Despite the bank having competent compliance officers their independence was compromised as top management had control over them and made most of the decisions. There was no moral obligation by the top management who were out to cater for their personal needs.

The study established that the audit committee’s expertise and experience influence on the performance of the bank. Underlying this is a belief that greater expertise enhances the effectiveness of audit committees and, by extension, the quality of the external audit (Ghafran et al, 2017). Effective assurance concludes whether the audit evidence provided is enough to assess the effectiveness and efficiency of an organization’s risk, management
and control processes (ACCA, 2009). Lack of independence and irregular internal audits meant that controls fell through the cracks.

Respondents also agreed internal auditors provide value to the bank. A strong internal control system, including an independent and effective internal audit function, is part of sound corporate governance. Banking supervisors must be satisfied as to the effectiveness of a bank’s internal audit function that policies and practices are followed, and that management takes appropriate and timely corrective action in response to internal control weaknesses identified by internal auditors. An internal audit function provides vital assurance to a bank’s board of directors and senior management (and bank supervisors) as to the quality of the bank’s internal control system. In doing so, the function helps reduce the risk of loss and reputational damage to the bank (BIS, 2012). The internal control system was lacking at the bank with internal and compliance audits not carried out on a regular basis despite the bank having a fully-fledged internal audit and compliance department. Unfortunately, the independence of the department was also compromised as the chairman made most of the decisions and it was his way or the highway in some of the matters of governance.

However, respondents disagreed that the bank has an active monitoring and risk management system. Better risk management especially credit risk presents an opportunity to greatly improve overall performance and secure a competitive advantage. Credit risk is an expensive risk for banks in Kenya and should be managed. To manage and assess the risks faced by banks, it is important to make certain estimates, conduct monitoring, and perform reviews of the performance of the bank. However, because banks are into lending and investing practices, it is relevant to make reviews on loans and to scrutinize and analyze portfolios (Miller, 2008). Credit risk was the cause of liquidity issues at the bank with high amounts of money lent to directors above thresholds. The lender’s auditors also failed to detect and prevent massive irregularities touching on insider lending. The bank had weak policies and procedures with performance reviews carried out irregularly.

The findings established that the bank does not have an effective and independent internal audit function. Despite the statement the auditor is a watchdog and not a bloodhound from the Kingston Cotton Mill Case the value of auditors has been put to question with all the bank failures. The auditing profession stands at a major crossroad and needs a radical reform if bank failures need to be averted. Deloitte had over the years audited the bank but
never raised the issue of secret insider loans or uncollateralized credit in their audit reports. According to Wafula, (2016) Chase Bank (Kenya) Ltd directors had accused their auditors of professional ignorance that saw the bank pay a heavy price. The bank claimed that its auditors, Deloitte and Touche, who had been with them for 20 years, abandoned them at the hour of need. “All the explanations to the auditors fell on deaf ears, and the Central Bank had no option but to place Chase Bank under receivership,” explained the former directors. The question arises that the auditors had opportunity over the years to question on how the bank treated Islamic products however never did so until the 2015 audit.

The study intended to establish how often internal audits were carried out in branches and departments in the bank and it was established that majority said it was done yearly. There are no laid down rules regarding how often an organization should perform an internal audit. Often, the type of auditing procedures that are performed will have an impact on the frequency of when an internal audit should be done in an organization. (Salomon, 2016). In the case of Chase Bank (Kenya) Ltd internal audits were not carried out regularly with many of the fraudulent activities falling through the cracks. Processes and procedures were never followed and hence inconsistency on operations across the branches.

5.4 Conclusion
5.4.1 Effects of corporate governance on receivership
Corporate governance is vital in ensuring a bank continues as a going concern. Good corporate governance increases stakeholder confidence which facilitates access to capital, increased market share which in turn improves profitability and liquidity. Board expertise and experience will determine the performance of the board which sets direction and achieves a banks objective. In turn a competitive basic salary and fringe benefits attracts the right people and of the right calibre.

5.4.2 Effect of risk management on receivership
The issues that Chase Bank (K) Ltd faces are as a result of both internal and external factors. Issues such as risk management and adherence to regulatory requirements may have been rectified before the events that led to the bank being placed under receivership. Robust Independent Risk Management units are lacking in the banking system that identify, monitor, measure and manage key risks facing the bank by adopting and following policies and procedures that have been extensively deliberated.
5.4.3 Effects of monitoring and compliance on receivership
Auditing provides an independent oversight of the institution’s financial reporting and internal control system, ensure checks and balances within the institution are in place and recommends appropriate remedial action regularly. Questions have been asked about the value of bank audits, since auditing did not provide a forewarning of the banking crisis. The banking crisis has highlighted weaknesses in the monitoring and compliance process.

5.5 Recommendations

5.5.1 Recommendation for improvement

5.5.1.1 Effects of corporate governance on receivership
Corporate Governance requirements need to be enhanced by the supervisor. Thresholds on insider lending need to be reviewed and scrutiny required on a bank’s loan book. The bank should provide access to information to its shareholders providing stakeholder confidence and transparency. Board composition, competency and experience and remuneration and compensation are vital factors that affect board performance and hence factors that should be considered when appointing board members.

5.5.1.2 Effects of risk management on receivership
The bank needs to enhance policies and procedures of risk management to improve performance. Having skilled and ethical workers is vital however accountability or responsibility for business processes is necessary. The bank should also adapt to changing regulatory environment which can be a detriment to performance if not adhered to. It also needs to enhance its procedures of monitoring position of resultant risk and risk governance in which it can identify, measure and mitigate operational risk.

Loan reviews and portfolio analysis are crucial in determining the credit and investment risks. Credit policies in banks need to be reviewed and stronger control should be put in place to avert losses from non-performing loans. Risk committees should be independent from management and report to the board. Strict penalties should be levied for non-compliant banks.

5.5.1.3 Effects of monitoring and compliance on receivership
The bank requires an effective and active monitoring and compliance department. The audit committees experience and expertise are vital in the performance of the bank and internal audit creates value to the bank in terms of sound corporate governance however it needs to be an independent function which carries out audits regularly.
Lack of dialogue between auditors and supervisors is one issue that needs to be addressed. Policies and procedures need to be radically reformed and non-compliant firms should be penalised with suspensions of personnel who were involved in the compliance and monitoring of failed banks.

5.5.2 Recommendation for further studies

Preliminary findings of this research require further, detailed study to uncover the causes of receiverships in Kenyan banks and how to avoid going into receivership. As with any research, more interesting and important research questions have been uncovered. These questions include how can banks avoid going into receivership? What other measures can the Government place on banks to avoid receiverships? Can the role of audit be enhanced in banks? Moreover, researchers are encouraged to improve on limitations of the present study. To begin with, a larger number of banks should be included in subsequent studies as a broader range of banks and respondents will provide further insight.
REFERENCES


BDO Corporate Governance Review 2012, 7th Annual Review on HSCI Companies.


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Lannoo, K. & Casey, P. (2005) Capital adequacy vs. liquidity requirements in banking supervision in the EU, Centre for European studies, Policy brief no. 84.


APPENDICES

APPENDIX I: COVER LETTER

Zohreen Abdulla Fidaali,
Email: zohreenx@yahoo.com

To the party concerned:

RE: QUESTIONNAIRE FOR SURVEY

I am a student from the United States International University-Africa nearing completion of my MBA program. I am pursuing an MBA in International Business Administration with a concentration in Strategic Management. I am doing a research project course in fulfilment of the university’s learning process.

My target topic is a study of strategic issues causing receivership of Chase Bank (K) Ltd.

Mine is to ask for your assistance in this research process through filling out a questionnaire. I will appreciate your help and when am done I can avail a copy of my findings to your organization if necessary.

Yours Sincerely

Zohreen Abdulla.
APPENDIX II: QUESTIONNAIRE

This questionnaire has been designed to gather information on the subject the strategic issues causing receivership in commercial banks with reference to Chase Bank (K) Ltd. Please fill the questionnaire as per the instructions. The information provided will be treated with utmost confidence.

SECTION A

GENERAL INFORMATION

1. Please indicate your gender?

Female [ ]

Male [ ]

2. Please indicate the number of years worked at Chase Bank (K) Ltd.

0-5 [ ] 6-10 [ ] 11-15 [ ] 15+ [ ]

3. What is your age bracket?

18-25 [ ] 31-40 [ ] 41-50 [ ] 51+ [ ]

4. Management Level

Head of department [ ] Manager[ ] Assistant Manager[ ]

5. Please indicate your highest level of education?

Diploma [ ] Degree [ ] Master [ ] Other [ ]

6. Please indicate the department you are currently working in.

..........................................................................................................................
SECTION B
CORPORATE GOVERNANCE ISSUES ON RECEIVERSHIP

7. In order of importance, kindly indicate on a scale of 1 (lowest) to 4 (highest), how you rank the quality of corporate governance at Chase Bank (K) Ltd?

<table>
<thead>
<tr>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Quality of Corporate Governance</td>
</tr>
</tbody>
</table>

8. In regard to disclosure policies and practices, does the bank provide access to information to shareholders? In order of importance, kindly indicate on a scale of 1 (lowest) to 5 (highest), whether the bank provides access.

<table>
<thead>
<tr>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td>Bank provides access to information to shareholders</td>
</tr>
</tbody>
</table>

9. Below are some of the factors that affect performance of the Board of Directors. Please rank the effect of each on Chase Bank (K) Ltd from a scale of 1 (lowest) to 4 (highest)

<table>
<thead>
<tr>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
</tr>
<tr>
<td>(Highest)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BOARD OF DIRECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
</tr>
<tr>
<td>Board Composition</td>
</tr>
<tr>
<td>Board Remuneration and Compensation</td>
</tr>
<tr>
<td>Board Expertise and Experience</td>
</tr>
<tr>
<td>Non-Chase Employees on the Board</td>
</tr>
</tbody>
</table>
SECTION C

RISK MANAGEMENT ON RECEIVERSHIP

10. In your opinion, rank on a scale of 1 (lowest) to 4 (highest) on the effectiveness of clearly defined risk management procedures and policies at the bank.

<p>| Kindly tick the weight you attribute to each factor |</p>
<table>
<thead>
<tr>
<th>(Highest)</th>
<th>(Lowest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

11. Please state the extent to which you agree or disagree with each of the following statements relating to operational risk in the bank. Where SD= strongly disagree, D =disagree, A= agree, Strongly Agree- SA.

<table>
<thead>
<tr>
<th>OPERATIONAL RISK</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees at the bank possess ethical behaviours necessary to mitigate the bank against people risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees at the bank have the necessary skills to perform their work effectively</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has no clear policies of accountability or responsibility for business processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes, Restrictions in the regulatory environment have a significant impact on the bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has procedures to monitor the position of resultant risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has sound risk governance in which it can identify, measure and mitigate operational risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

12. Please state the extent to which you agree or disagree with each of the following statements relating to credit risk in the bank. Where SD= strongly disagree, D =disagree, A= agree, Strongly Agree- SA.

<table>
<thead>
<tr>
<th>CREDIT RISK</th>
<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank carries out portfolio risk management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank pays attention to changes in economic conditions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has robust credit standards for borrowers and counterparties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank has strict policies on insider lending</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. How frequently are Credit Committee meetings held at the bank?

Daily [ ] Weekly [ ] Fortnightly [ ] Monthly [ ]
SECTION D

MONITORING AND COMPLIANCE ISSUES ON RECEIVERSHIP

14. In your opinion, rank on a scale of 1 (lowest) to 4 (highest) on the effectiveness of the compliance department.

<table>
<thead>
<tr>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Highest)</td>
</tr>
<tr>
<td>(Lowest)</td>
</tr>
<tr>
<td>4</td>
</tr>
</tbody>
</table>

Effectiveness of the Compliance Department

15. Please state the extent to which you agree or disagree with each of the following statements relating to audit in the bank. Where SD= strongly disagree, D =disagree, A= agree, Strongly Agree- SA

<table>
<thead>
<tr>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUDIT SD D A SA</td>
</tr>
<tr>
<td>Internal Auditors provide value to the bank</td>
</tr>
<tr>
<td>Audit Committees expertise and experience influences on the performance of the bank</td>
</tr>
<tr>
<td>Non-compliance to regulation introduces systemic risks</td>
</tr>
<tr>
<td>The bank has an active monitoring and risk management system</td>
</tr>
<tr>
<td>The bank has an effective and independent internal audit function</td>
</tr>
</tbody>
</table>

16. How frequently should internal audits be carried out in branches and departments in the bank?

Weekly [ ] Fortnightly [ ] Monthly [ ] Yearly [ ]
SECTION E
RECEIVERSHIP

17. Below are some factors that have led to the downfall of banks. Kindly indicate on a scale of 1 (lowest) to 4 (highest), the extent to which you think each factor has attributed to Banks being placed under receivership.

<table>
<thead>
<tr>
<th>FACTORS OF FAILURE</th>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4 3 2 1</td>
</tr>
<tr>
<td></td>
<td>(Highest) (Lowest)</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>4</td>
</tr>
<tr>
<td>Liquidity</td>
<td>3</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>2</td>
</tr>
<tr>
<td>Frauds</td>
<td>1</td>
</tr>
<tr>
<td>Risk Management</td>
<td></td>
</tr>
<tr>
<td>Audit and Auditors</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td></td>
</tr>
</tbody>
</table>

18. The following have been identified as the general causes of Chase Bank (K) Ltd failure. In order of importance, kindly indicate on a scale of 1 (lowest) to 4 (highest), the extent to which you think each factor has attributed to Chase Bank (K) Ltd being placed under receivership.

<table>
<thead>
<tr>
<th>FACTORS OF FAILURE</th>
<th>Kindly tick the weight you attribute to each factor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4 3 2 1</td>
</tr>
<tr>
<td></td>
<td>(Highest) (Lowest)</td>
</tr>
<tr>
<td>Management incompetence and inexperience</td>
<td>4</td>
</tr>
<tr>
<td>Qualified Opinion by Auditors</td>
<td>3</td>
</tr>
<tr>
<td>Bank Run</td>
<td>2</td>
</tr>
<tr>
<td>Insider Lending</td>
<td>1</td>
</tr>
<tr>
<td>Over Borrowing</td>
<td></td>
</tr>
<tr>
<td>Poor Financial Management</td>
<td></td>
</tr>
<tr>
<td>Fraud</td>
<td></td>
</tr>
<tr>
<td>Excessive Competition</td>
<td></td>
</tr>
<tr>
<td>Poor Economic Growth in the Country</td>
<td></td>
</tr>
</tbody>
</table>
19. Please provide any other factor you think may have contributed to current receivership position of the bank.

THANK YOU