

**ROLE OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF  
LISTED BANKS IN KENYA**

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## DECLARATION

This research project is my original work and has not been submitted as a degree requirement in any other university.

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## **DEDICATION**

I dedicate this research paper to my parents, Mr. Abel Okemwa and Mrs Joyce Onkendi for the unconditional love and the support they gave me as I did my research by offering their advice and feedback.

To my siblings for their support through this journey. I am very thankful to my friends who assisted and supported me through this project by giving insight.

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## ABSTRACT

The study sought to analyze the impact of corporate governance on performance of listed banks. This study employed a descriptive design. Google doc questionnaires were used to collect data from respondents. Data was analyzed using Microsoft Excel along the research questions. Descriptive statistics was used to analyze quantitative data and findings presented using charts and percentages tables using. The study didn't have a sampling method as the population was small. The respondents were mostly from the employees drawn from the various departments of the banks.

On the effect of board composition on performance, majority of the respondents agreed that board composition increases efficiency of the banks. However most of the respondents disagreed that large board of directors are prone to more conflicts among board members which makes it difficult to reach agreements. This finding were in line with the several studies which established that board composition influences firm performance. About CEO duality effect on performance of listed banks, most respondents strongly agreed that the roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as this affects financial performance. A huge portion of the respondents disagreed that CEO duality creates conflict of interest and it's not good for financial performance of the banks. However, existing literature on CEO duality offers differing perspectives in this regard. Lastly, about audit committee composition on financial performance, the respondents noted that Audit committee independence has an effect of financial performance. If the audit committee is independent, and work of the committee fair, then frauds occurring in firms could be curbed and this will impact positively on the financial performance.

The study recommends that banks should ensure that there are two separate people in the CEO and Chairman of the Board of Directors positions to ensure that the decision-making aspects of the Board are fairly handled. The audit committee's scope should be stressed as a means of providing a deep understanding of the issues and an impartial view of the operating aspects of the company. The board committees should however have enough leaders, experienced members with skills to make a positive approach to the recommendations that have been given to them.

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## CHAPTER ONE

### INTRODUCTION TO THE STUDY

#### 1.1. Background of the study.

Corporate governance is the application of the set of rules, controls, policies and resolutions put in place to direct and manage the company, so as to achieve the objectives of the company, enhance shareholder value and discharge social responsibility. The factors of corporate governance include the corporate governance code, behavior and culture, skills, experience, integrity and a reminder of the directors' statutory duties. Before investing in countries, international capital considers good corporate governance in those nations (Yilmaz and Buyuklu, 2016).

Corporate governance has been associated with the issue of "principal agent" or "agency." A connection of "agency" occurs if the individual who owns a business is not the same individual who manages or regulates the business (Vagneur, 2004).

This separation of ownership from control is the main reason why agency issues affecting the company arise (Berle & Means 1932; Jensen & Meckling 1976). Companies that have implemented the corporate governance legislation and guidelines, that have been issued by the international and government bodies are more likely to attract foreign investment. Moreover, the corporate governance codes ensure investors safety, hence protecting them from corporate scandals.

However according to Dalwai *et al* (2015) corporate governance is different for financial and non-financial firms. This study will focus on corporate governance and how it affects the performance of financial firms. Because of the characteristics of banks, such as tradeable assets and changing risk profiles, they face corporate governance difficulties (McColgan, 2001). This is because banks must retain a scheme of deposit insurance to safeguard depositors due to the tendency of ongoing loans. Second, banks face multiple risks, including credit risk, operational risk and market risk.

In Kenya, based on recommendations and reports from the Organization for Economic Cooperation and Development (OECD), the Commonwealth Association for Corporate Governance and the Private Sector Corporate Governance Trust, Kenya, the Capital Markets Act Cap 485A (2002) sets out guidelines for corporate governance in public companies. The recommended measures include: separation of CEO and Chairperson, board of directors of not

more than 14 and not less than 5 members in number, composition of boards comprising at least one-third of independent and non-executive directors of diverse gender, skills and expertise, setting up an audit committee of at least three independent and non-executive directors reporting to the board, setting up an internal audit function that should be independent of the activities they audit, meeting the board on a quarterly basis at least if the frequency can be increased according to the company's needs and meeting dates in the calendar year agreed in advance. (CMA Act, 2002).

In most cases, firms' performance is perceived to be mainly its profitability and the much that can get distributed to the shareholders. However, other factors can be considered when evaluating the performance of a company. These, according to Adegbite, (2015) include the internal efficiencies, the returns on assets and equity, company general profitability and response to the external and to the social environment. Most components of corporate governance do not consider members outside the board but revolve around the board. When the board is involved decisions such as how to follow procedures, adhering to statutory requirements and to what level, disclosure of important aspects to the public are made. These will determine whether or not the firm will have proper processes. When the framework set to achieve profitability and internal efficiency is followed, the set goals of the organization are achieved (Okok, 2017).

This study discusses three variables, board composition, CEO duality and audit committee. The composition of the board of directors in terms of size, diversity (such as age, gender, skills, experience) can help to enhance the corporate governance standards and improve the firm performance (Adams & Ferreira, 2009; Carter et al., 2003, 2010; Ntim, 2015; Ullah et al., 2018) hence the use of this variable. The audit committee is considered an important element of corporate governance because independent audit committee managers can keep managers' misconduct in check through various monitoring processes, thus keeping the company's financial performance checked. The research aims to determine whether CEO duality impacts the company's financial performance when the same individual is the CEO and Chairman of the board. Existing literature looks at this in different perspectives. Bliss (2011) indicated that CEO duality is a barrier to the board's independence. Researchers such as (Brickley, 1997; Dahya, 1996) claimed that a dual CEO function was essential as it lowered the likelihood of perspective conflicts and allowed timely decision-making.

## **1.2 Problem Statement**

Corporate governance and the efficiency of boards, inner controls, audit committees and the independence of managers and auditors have received increasing attention. Good corporate governance enhances effective surveillance. Corporate governance is also needed to ensure a sound financial system and the economic development of a country (Nyamongo and Kegede, 2013).

In Kenya, Nakumatt Supermarkets, once considered the biggest retailer with 62 branches throughout the area (45 in Kenya, 9 in Uganda, 5 in Tanzania and 3 in Rwanda) and a total turnover of 52.2 billion kshs. What fuelled Nakumatt's rapid expansion, however, was debt financing that included short-term borrowing, bank loans, and credit letters to its numerous suppliers. However, Nakumatt began experiencing severe cash-flow problems in 2016 for a number of reasons. Consequently, the retailer was unable to fulfill its financial commitments towards landlords, distributors and staff. Much of this was linked to misguided approaches as a consequence of bad corporate governance that had a major impact on its economic results.

The former president of Chase Bank was charged with robbing the bank of Ksh 1.0 billion. Prosecution said he faces further charges and could be prosecuted at the end of investigations for stealing more than Ksh 4.0 billion. He was charged between January 2015 and March 2016 with stealing the cash. He was charged with laundering money as well. This led in the bank's bad economic results, resulting in it being put under receivership. Other businesses such as Mumias sugar also failed in the past owing to bad corporate governance (Cytonn report, 2018).

It is anticipated that an efficient board of directors will facilitate the setting up of important bodies such as audit, finance, marketing and staff committees with sufficient members to undertake multiple duties of supervision and monitoring. This contributes to enhanced risk mitigation and fraud cases avoidance, particularly when the board is independent. In addition, a board composed of members with adequate skills, knowledge, and experience in that particular field can improve a company's financial performance by advising the management on the best strategies to employ to overcome competition or expand a business. Directors with useful connections can enhance access to external capital and business opportunities, which will lead to improved profits and market share. Nevertheless, a large board often suffers from a free rider problem and increases the cost of monitoring managers' professional conduct (Owino and Kivoi, 2016).

Prior studies conducted in the area of corporate governance in Kenya are very general, and none of the existing prior studies such as (Owino and Kivoi, 2016) and Nyamongo and Kegede, 2016 analyzed the effect of corporate governance on insurance companies. This study therefore will bridge this gap by focusing on the listed banks in Kenya.

### **1.3 Research objectives**

#### **1.3.1 General Objective**

The main objective of this study will be to analyze the impact of corporate governance on performance of listed banks

#### **1.3.2 Specific objectives**

1. To establish the impact of board composition on financial performance of listed banks in Kenya
2. To determine the impact of CEO duality on financial performance of listed banks in Kenya
3. To determine the impact of audit committee composition on financial performance of listed banks in Kenya

### **1.4 Research questions**

1. What is the impact of board composition on the financial performance of listed banks in Kenya?
2. What is the impact of CEO duality on the financial performance of listed banks in Kenya?
3. What is the impact of audit committee composition on the financial performance of listed banks in Kenya?

### **1.5 Value of the study**

This study through its findings and recommendations will provide the financial organization with information on how various elements of corporate governance have had financial performance of the bank in the past and the impacts they are likely to have in the future for:

#### **1.5.1 Policy makers/regulators.**

The study will enable policy makers in the financial sector to realize the important role of corporate governance plays for the overall success of the sector as a whole.

### **1.5.2 Practitioners.**

This study, through its findings and recommendations will provide the financial organization with information on how various elements of corporate governance have affected financial performance of the banks in the past and the impacts they are likely to have in the future. therefore, the study will provide a framework through which strategies will be implemented by the banks to address the risks and challenges faced by banks due to issues of corporate governance.

### **1.5.3 Researchers.**

This study will contribute to the existing knowledge in the same field and also provide additional data and information for future research in the same field.

### **1.6 Scope of the study**

The study will focus on effects of corporate governance on performance of listed banks in Kenya. Currently, there are about forty-six financial institutions under the Kenya Bankers Association and are regulated by the Central Bank of Kenya. (Kenya Bankers Association, 2017). According to NSE, eleven local banks and one foreign bank are currently listed in the Nairobi Security Exchange. Therefore, data will be collected from banks listed in the Nairobi Securities Exchange currently.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter deals with the relevant literature that is already in existence in this area of study. The literature, can be divided into either theoretical or empirical literature. Theoretical literature focuses on theories that have been developed previously and already tested. Empirical literature on the other hand pays attention to studies that have already been done in the area of research, including findings and recommendations. Part 2.2 discusses the theoretical review where the agency theory and the stakeholder theory are explained under section 2.2.1 and 2.2.2 respectively. Part 2.3 discusses the empirical review which is divided into three sections where 2.3.1 explains the influence of board composition on performance of banks, section 2.3.2 explains the influence of CEO duality on performance of banks and section 2.3.3 explains the influence of audit committee on performance of banks. Part 2.4 discusses the research gap and part 2.5 lays out the conceptual framework.

#### **2.2 Theoretical review**

In this section, the research study will focus on the theories that have been developed by various scholars, which relate to the topic at hand. The theories that will be discussed are the agency theory and the stakeholder theory.

##### **2.2.1 Agency theory**

The agency model is regarded as one of the oldest governance and economic theories in the literature (Daily, Dalton, & Rajagopalan, 2003; Wasserman, 2006). The agency theory describes the issues that occur in the companies as a result of separating owners and executives and emphasizes the decrease of this issue. Agency issues occur when distinct parties have distinct interests in a company relationship, such as executives of organizations and shareholders, or directors and agents. Principals employ agents to represent their interests and therefore agents who operate as staff are expected to serve the best interests of the principal. Problems occur when the agents begin serving their personal interests. This theory is important for corporate governance

when deciding which model of governance, putting into consideration the freedom and limitations given to the agents by the principals.

The purpose of this study is to find out whether board composition, CEO duality and audit committee have an impact on the financial performance of listed banks. Since the shareholders have given their decision making authority to the board and CEOs, these shareholders can be considered as the principals and the board of members and the CEOs the agents. The board has a duty to disclose relevant information to shareholders and also be open about their operations. The application of this theory is justified since the study focuses on the shareholders as principals, the board and the CEOs as the agents.

The theory assumes contracting can eliminate the issue of the agency, but it faces many setbacks such as information asymmetry, rationality and fraud. The theory regards managers as opportunistic and disregards managers' expertise Eisenhardt (1989), Shleifer and Vishny (1997) and Daily, (2003).

### **2.2.2 Stakeholder theory**

The Stakeholder Theory originated from Edward Freeman back in 1984. Edward Freeman described Stakeholders as "Any group or person influenced or capable of affecting the accomplishment of the goals of an organization." Argandoña, (1998) argues that the theory of the social responsibility of the firm revolves around two perspectives; firstly, the perspective which reduces the firm's responsibility to obtaining solely profits to its shareholders at whatever cost and secondly the firm's responsibility should extend to other participants who enable the being and survival of the firm such as managers, workers, suppliers, customers etcetera. Freeman and Mcvea (2001) are in agreement with this statement by stating that the theory is based on satisfaction to everyone who takes part in the firm's activities and therefore a firm should create value for not only shareholders but the stakeholders as well.

This theory states the importance of the stakeholder involvement in the process of governance and explains how this relationship affects the decisions that influence the financial performance of the listed banks in Kenya. Stakeholders interests, such as those of customers, suppliers, and employees should be taken into consideration while making decisions. The application of this theory is justified because the study seeks to find out if the board members of the listed banks involve their

stakeholders in making decisions that affect the firms and if this reflects in the financial performance of the firms.

### **2.3 Empirical review.**

Corporate governance is described as the mechanism that directs and controls business corporations. One of the significant variables in enhancing the company's economic performance is good corporate governance. Klapper and Love (2015) Gompers (2016), Beiner and Dchmid (2017) also argue that corporate governance plays a key role in enhancing the company's financial performance. Financial scandals in Kenya (e.g. Chase bank, Uchumi and Mumias sugar) and the latest crash of significant corporate organizations in the US, South East Asia, Europe and Nigeria such as Adelphia, Enron, World Com, Commerce Bank and XL Holidays have shaken investors ' confidence in capital markets and the efficiency of current corporate governance procedures in encouraging transparency and accountability. (Cytonn report, 2018).

#### **2.3.1 Board composition and firm performance.**

In most organizations, the one of the top decision-making subgroups is the Board of Directors. (Dale-Olsen et al., 2013; Luckerath-Rovers, 2013; Mahadeo et al., 2012; Ntim, 2015; Roberson & Park, 2007; Yamori et al., 2017). The board of directors have the duty to make strategic decisions regarding, hiring, firing, promotions and compensating employees among others (Abdullah, 2014; Jensen, 1993; Ntim et al., 2017). Moreover, board members can assist companies connect to the external setting that provides access to resources, such as finance and company contracts (Estélyi & Nisar, 2016; Wellalage & Locke, 2013).

The board of directors ' structure in terms of size, diversity (such as age, gender, expertise, experience) can assist improve corporate governance norms and improve corporate efficiency. (Adams & Ferreira, 2009; Carter et al., 2003, 2010; Ntim, 2015; Ullah et al., 2018)

Several studies have shown that the size of the board influences organizational efficiency. De Oliveira Gondrige (2012); Fauzi, and Locke (2012); Saibaba and Ansari (2012); and Ujunwa (2012) He indicated that a big board size would bring more understanding, visions, views and suggestions for investment that would eventually benefit stakeholders. Hambrick. (2008) supports this by stating that because of their inefficiency, smaller boards were unable to make strategic adjustments in putting onto consideration the alternatives the firm has for it to grow. On the other

hand, other studies show that smaller boards are better because large boards contribute to non-cooperation and a waste of time in decision-making because they suffer from social loafing or bad communication. thus, their knowledge and skills remain unutilized (Dharmadasa, 2014; Drakos, & Bekiris, 2010; Jensen, 1993; Lin, 2011)

By incorporating different thoughts, experiences, abilities, backgrounds, views and company expertise, board diversity enhances the decision making process (Baranchuk & Dybvig, 2009; Luckerath-Rovers, 2013), thus increase the capacity of the board to address various possibilities and difficulties in the external setting of organizations (Ntim, 2015). Board diversity also enhances the links between the organization and its stakeholders, such as clients and distributors, and can enhance the organization's reputation and value (Mahadeo et al., 2012; Wellalage & Locke, 2013)

### **2.3.2 CEO Duality and financial performance.**

A major research question is whether CEO duality impacts the company's economic performance when the same individual is the CEO and Chairman of the board. Existing literature looks at this in different perspectives. Bliss (2011) indicated that the duality of CEO is a barrier to the board's independence. Researchers such as Brickley. (1997); Dahya. (1996) He claimed that a dual CEO function was crucial as it decreased likelihood of outlook conflicts and allowed timely decision-making.

Some studies (Kaymak & Bektas, 2008; Lin, 2011; Ujunwa, 2012) argue that the dual function of the CEO, the complete decision-making power with one individual may not be in stakeholders ' best interests. This is because the main role of the CEO is to initiate and implement the company's plans, goals and strategies to achieve the goals. On the other hand, the role of the board of directors is to carry out the organizations activities in a such a way that would benefit the stakeholders in the long term. An example of one such role is to audit the present and future administrative activities of the CEO. Since the chairperson of the board should carry out the audits, it is suggested that the CEO and the chairperson be different persons (Aygün and İc, 2010).

If the board's director is CEO, the company's performance increases. Improving firm performance contributes to improving financial performance. Although, it has been found that the CEO duality improves the firm performance, Kajola (2016) argues that the concentration of decision-making

and decision-making control in the hands of one individual has an adverse effect on the efficiency of the board. This is because on behalf of the shareholders, the board of directors is set up to monitor executives such as the CEO. If the CEO and the board chairman are the same person, there would be no other person to monitor the CEO's actions and then the CEO would be very powerful and would be able to maximize their own interests at the shareholders' expense. (Florackis, 2004; Nor Hashimah, Norman, Jaffar and Mohamat, 2007).

### **2.3.3 Audit Committee and financial performance.**

The audit committee is seen as a significant component of corporate governance because independent audit committee executives can maintain managers' misconduct in check through multiple surveillance procedures. Cohen (2011) claimed that the audit committee's independence was a significant component of the efficiency of the audit committee. By maintaining a check on managers' manipulative, self-centered operations, an autonomous audit committee can assist ensure the accuracy of the financial reporting process. Worldwide, governance codes require companies to set up audit committees and guarantee independence. Companies with more independent employees in their audit boards are less likely to be victims of fraud (Beasley, 1996). Bukit and Iskandar (2009) It proposed that the earnings management should be toned down by independent audit committees.

If the audit committee is autonomous and the committee's job is honest, then company fraud may be decreased (Yunos, 2014). The Committee's independent members could examine the financial statements fairly and observe elements such as equity, net income, total assets and revenues that reflect the company's performance and financial situation (Subrata Sarkar, 2013). DeZoort. (2002) Suggested that an organization where the audit committee met more often would be more cautious to safeguard its investors' interest

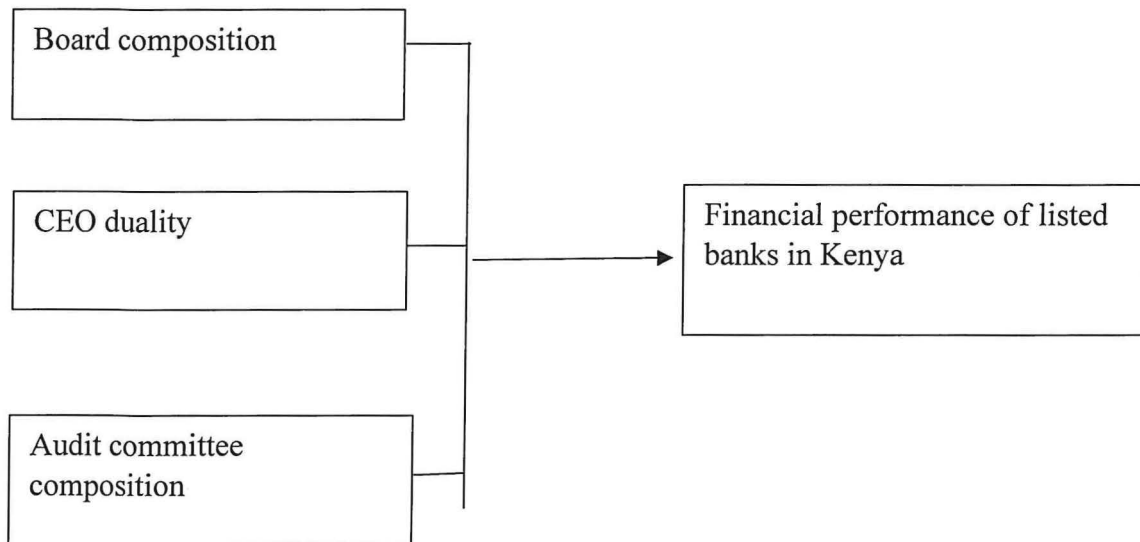
Abdul and Haneem (2006) and Mohd Saleh. (2007) noted that fewer audit committee meetings enhanced the company's economic performance by reducing the extra costs incurred at each conference, but Kyereboah-Coleman (2008) established favorable results of frequent audit committee meetings on strong performance of market measures. Abbott (2002) also found out that there was an inverse relationship between the independence of the audit committee and the earnings management. Arslan. (2014); Bouaziz and Triki (2012); Nuryanah and Islam (2011);

Yasser (2011) Reported that independent audit committees improved the quality of audit reports and improved company efficiency.

**2.4 Research gap**

A couple of studies have been carried out on the role of corporate governance and the performance of firms. However, there are number of things that are yet to be looked into in this area. A number of institutions are collapsing at an alarming rate and the number of court cases on abuse of office by the CEO are pending and are alarming as well. This therefore is an indication that that there is need for more research on corporate governance and how it affects the performance of firms to be conducted. Therefore, this study aims to utilize this gap.

## 2.5 Conceptual framework



(Nyatuka, 2019)

Independent variables

Dependent variable

In this framework, corporate governance is broadly divided into three parts: 1) board composition (including board size, age, gender and experience), 2) audit committee and 3) CEO duality. It is through these three dimensions that corporate governance affects firm performance. The board of directors' structure in terms of size, diversity (such as age, gender, abilities, experience) can also assist improve corporate governance norms and improve corporate efficiency. (Adams & Ferreira, 2009; Carter et al., 2003, 2010; Ntim, 2015; Ullah et al., 2018) It is the audit committee that is responsible for revealing true financial information. The presence of an independent audit committee might keep a check on financial frauds, thereby reducing misappropriation of funds and losses to the company. This study considers only the financial aspects of firm performance and the influence that board composition, audit committee and CEO has on such aspects.

## 2.6 Operationalization of the study variables

Variable	Definition	Measure	Source
Board composition	Evaluating board composition means thinking about what the board has, and what it needs. What skills and attributes are critical to provide effective oversight of the company? As the policies of firms change and their business models develop, the composition of boards must be continuously assessed. This guarantees that there is the correct combination of abilities to satisfy the requirements of the company. The board of directors ' structure in terms of size, diversity (such as age, gender, abilities, experience) can also assist improve corporate governance norms and improve corporate efficiency. (Adams & Ferreira, 2009; Carter et al., 2003, 2010; Ntim, 2015; Ullah et al., 2018)	Likert scale data	Bradshaw et al. (1992)
CEO Duality	CEO duality occurs when the CEO is also president of the board. The board of directors is set up on behalf of the shareholders to monitor executives such as the CEO. If the CEO and the board	Likert scale data	Svetina and Prodan (2009)

	chairman are the same person, there would be no other person to monitor the CEO's actions and then the CEO would be very powerful and at the shareholders' expense could maximize his or her own interests. (Florackis, 2004; Nor Hashimah, Norman, Jaffar and Mohamat, 2007).		
Audit committee	An audit committee is the board of directors segment of an organization that oversees the financial reporting of an organization and authenticates its precision. Cohen (2011) established favorable results of frequent audit committee meetings on strong performance of market measures. By maintaining a check on managers' manipulative, self-centered operations, an autonomous audit committee can assist ensure the accuracy of the financial reporting process.	Likert scale data	Sutton (1993)

(Nyatuka, 2019)

## 2.7 Chapter Summary

In conclusion, literature have indicated that corporate governance affects firm performance. Literature further discusses two theories that have been formulated to explain the perception of corporate governance and firm performance. The theories are agency theory and stakeholder theory. Literature also indicates three main variables of the study which are Board composition, CEO duality and Audit Committee.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction.**

This chapter focuses on the research methodology that will to be used to conduct the research. It describes the research design, target population, data collection procedures, data analysis, and ethical considerations.

#### **3.2 Research Design**

A research design is the arrangement of conditions for collection and analysis of data in a way that aims to combine relevance to the research purpose (Kothari, 2009). Creswell (2014), agrees to this statement by defining research design as a composition of qualitative, quantitative and mixed methods which help the researcher to conduct a research using particular methodology. The research will use a descriptive research design. This method involves the collection and analysis of quantitative data in order to describe a scientific phenomenon in its current condition or status (Orodho, 2014), similarly (Kothari, 2009) notes descriptive research studies are those studies that describe the features of a specific person or group.

This design method is suitable to be used for the study because it allows for critical analysis of the variables that will to be studied. In a descriptive research the data is collected using structured questionnaires, structured interviews and observation methods, mainly designed to provide quantitative data. For this study, the researcher will use questionnaires to collect data.

#### **3.3 The Population of Study**

Cooper and Schindler (2014) argue that a target population is comprised of the people, events and records that contain the required information which can answer the measurement questions whereas a sample is a portion of the target population. Currently, there are forty-six financial institutions under the Kenya Bankers Association and are regulated by the Central Bank of Kenya (Kenya Bankers Association, 2017). According to NSE, eleven local banks and one foreign bank are currently listed in the Nairobi Security Exchange.

This Research Study is not going to use any sampling methods because the target population is too small for sampling methods to be used, less than two hundred. The target respondents are the finance managers, senior accountants, administrators and employees in general because the deal

with day to day financial activities of the firm hence are well versed in this area. One respondent will be given the questionnaire in each company.

### **3.4 Data Collection**

There are two main types of data collection methods which are Primary Data Collection and Secondary data collection. Primary data is based on first-hand information whereas secondary data is based on data obtained from past studies, events, books, journals etcetera. This process will involve primary sources of data.

Primary data will be obtained from questionnaires which will be given to respondents. The questionnaires will be distributed in person and also online via emails and WhatsApp as links to increase the response rate since it will give the respondent enough and ample time to complete filling the questionnaire. The questionnaire will be divided into four parts where part A will constitute the instructions for filling, opening remarks and explanation of its purpose. Parts B, C and D have research objectives that is, the board composition, CEO duality and audit committee. Attached to each questionnaire will be a consent form from the school to ensure that the respondents participation is voluntary.

The questionnaires will comprise of relevant questions of the study to be taken which mainly included close ended questions with a few open ended questions. Close ended questions will provide a number of alternative answers to be chosen by respondent. Responses from close ended questions are easier to compare and analyze. The researcher will target all listed banks.

### **3.5 Data Analysis.**

Data analysis involves reducing the collected data to a manageable size, developing summaries, searching for patterns and applying statistical techniques (Cooper and Schindler, 2014). According to Kothari (2004) there are two types of data analysis namely descriptive analysis and inferential (statistical) analysis. Data analysis will start by going through the filled questionnaires to ensure they are filled correctly and completely. Descriptive statistics will be used to analyse the data which will be collected and will generate the means and standard deviations. The data analysis results will then be presented using tables and pie charts. Data will be analyzed using excel.

### **3.6 Ethical Considerations.**

Ethics are norms of behaviour which guide the moral choices that one makes which can affect one's behaviour as well as the relationships with others, therefore, the goal of ethics in research is to make sure that no one whatsoever gets affected by the activities conducted by the researcher during the research period (Cooper & Schindler, 2014). There are several ways which a researcher can use to ensure ethics during research as depicted by Cooper and Schindler.

#### **3.6.1 Rights to Privacy**

Everyone has the right to privacy and researchers should take this into consideration. It is important because it ensures both protection of participants' information and also helps the research to maintain validity. There are several ways in which a researcher can guarantee confidentiality to participants which are obtaining signed non-disclosure forms, restriction of access to participant identification and revealing information only with a written consent from participants.

#### **3.6.2 Debriefing Participants**

Debriefing is comprised of various activities which include explanation of any form of deception, description of the hypothesis, and purpose of the study, post study sharing of results and post study follow-up. It is basically letting the respondents know why the research is being undertaken and giving them a brief overview of what is going to happen during data collection.

#### **3.6.3 Informed Consent**

This is whereby the researcher discloses procedures of the proposed research design before requesting permission to continue with the study. The researcher should get permission from the respondents before proceeding with data collection and the respondents should feel free to either accept or reject in participating in the research.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction.

This chapter presents data analysis and presentation of the study. The data was obtained by use of a Google form questionnaires which was issued to mostly bank employees and is presented in pie charts, tables and percentages which will be used to arrive at the conclusive opinions. The first section 4.2 shows the background information and it has the response rate on the questionnaire. From section 4.3. the table show the responses by the respondents.

#### 4.2 Background information.

##### 4.2.1 Response rate.

This is the number of the respondents who engaged in the study. A population of 21 employees were considered in the study. According to the findings 81% of the respondents responded while 19% of the respondents did not respond. The researcher is not quite sure why the 19% didn't respond but the reason could be because they questionnaire was sent via email and whatsapp and thus some respondents maybe, receive lots of email and messages and they don't respond to all of them. The researcher however can reduce this by taking the questionnaire physically to the respondents.

*Table 4.1. Response rate.*

	Frequency	Percentage
Responded	17	81%
Didn't respond	4	19%
Total	21	100%

Source: Primary data, 2019

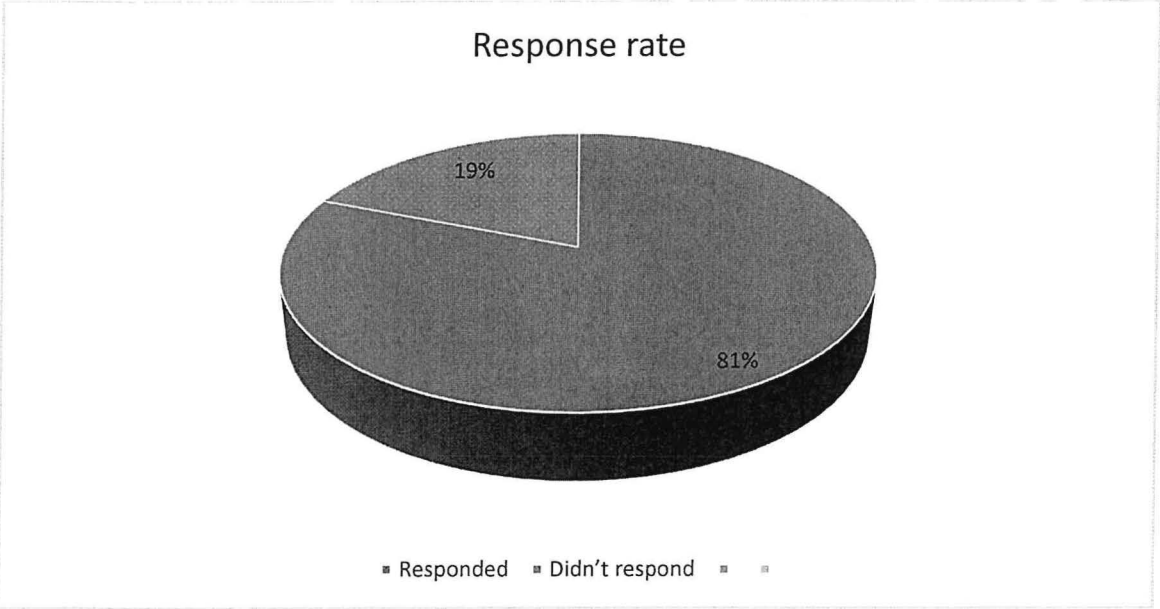


Figure 4.1: The response rate.

According to the findings 81% of the respondents responded while 19% of the respondents did not respond.

**4.3 Board composition on performance.**

The table below shows the respondents responses towards the board composition on performance. From the sampled population, most respondents noted that board composition increases efficiency of the banks (Mean 4.11) (SD 0.61). More so a majority of the population noted that outside directors are better to challenge and discipline the CEO and management which affects financial decision and profitability (Mean 3.941) (SD 0.17). However most of the respondents disagreed that large board of directors are prone to more conflicts among board members which makes it difficult to reach agreements (Mean 3.176) (SD 1.17).

*Table 4.2: Board composition on performance*

Statement	Mean	SD
a) Board composition increases efficiency of the banks	4.11	0.61
b) Outside directors are better to challenge and discipline the CEO and management which affects financial decision and profitability	3.941	0.17
c) Big size of board increases diversity of opinions which affects financial performance	3.588	0.42
d) An expatriate CEO has superior knowledge and is likely to improve the performance of the banks	3.470	0.91
e) Large board of directors are prone to more conflicts among board members which makes it difficult to reach agreements	3.176	1.17
f) A larger board will bring more expertise and experience to the board	3.235	0.125
g) A large size of the board enhances problem solving which affects financial performance	3.411	0.087

*Source:* (Nyatuka, 2019)

#### **4.4 CEO duality effect on performance of listed banks**

From the data collected, it has been established that most respondents strongly agreed that the roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as

this affects financial performance (Mean 4.294) (SD 0.615). More so most of the respondent's noted that professional expertise of the board members improves performance of the organization (Mean 3.765) (SD 1.16). However, a huge portion of the respondents disagreed that CEO duality creates conflict of interest and it's not good for financial performance of the banks. (Mean 2.588) (SD 1.83).

*Table 4.3: CEO duality*

Statement	Mean	SD
a) Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as this affects financial performance.	4.294	0.615
b) The monitoring role of board is weaker when the CEO is also Chair and affects financial performance of banks.	3.471	0.58
c) Professional expertise of the board members improves performance of the organization.	3.765	1.16
d) CEO duality creates conflict of interest and it's not good for financial performance of the banks.	2.588	1.83
e) Executive directors are better placed in handling the affairs of the organization since they have a deeper understanding of the organizations Operations this improves performance of the organization.	3.647	0.083
f) The board is more independent when the proportion of outside director's increases and it improves performance.	3.294	0.667

*Source:* (Nyatuka, 2019)

#### 4.5 Audit committee composition on performance

The table below shows the respondents responses towards Audit committee composition on performance. From the sampled population, most respondents strongly agreed that Audit committee independence has an effect of financial performance. (Mean 4.00) (SD 0.584). More so a majority of the population also agreed Audit committee members have professional experience (Mean 3.765) (SD 1.28). However, most respondents were uncertain that the size of audit committee has an influence on financial performance (Mean 3.059) (SD 1.12).

*Table 4.4: Audit committee composition on performance*

Statement	Mean	SD
a) Size of audit committee has an influence on financial performance	3.059	1.12
b) Audit committee independence has an effect of financial performance.	4.00	0.584
c) The expertise of the audit committee has an effect on financial performance	3.705	1.165
d) Audit committee members have professional experience	3.765	1.28
e) Audit committee enhances financial performance of the organization	3.294	0.667
f) Audit committee focuses on improving the company competitiveness and financial performance	3.352	1.167
g) The existence of independent committees enhances financial performance of the organization	3.647	1.833

*Source:* (Nyatuka, 2019)

#### 4.6 Corporate governance effect on the Organizational performance

The table below shows the corporate governance effect on the organizational financial performance. From the sampled population, most respondents noted that corporate governance has led to good cooperation between the supervisory and management boards (Mean 4.176) (SD 0.863). Most respondents also noted that corporate governance has led to improvement of return on assets in the last three years (Mean 4.058) (SD 0.125). However, the respondents were not certain if customer Retention Levels were high due to good corporate governance (Mean 3.176) (SD 0.675).

*Table 4.5: Corporate governance effect on the Organizational performance*

Statement	Mean	SD
a) Due to corporate governance the bank has good improvement of return on equity in the last three years	4.00	0.584
b) Corporate governance has led to improvement of return on assets in the last three years	4.058	0.125
c) Customer Retention Levels are high due to good corporate governance	3.176	0.675
d) Due to corporate governance profitability increased	3.823	0.775
e) Corporate governance has led to high Staff Retention level	3.352	1.325
f) Corporate governance has led to good cooperation between the supervisory and management boards	4.176	0.863

*Source:* (Nyatuka, 2019)

#### **4.7 Discussion of Findings**

The study relied on primary data to determine the impact of corporate governance on financial performance of listed banks. The study used descriptive statistics. The results from responses towards the board composition on performance showed that board composition increases efficiency of the banks. From the data collected on CEO duality, it was established that most respondents strongly agreed that the roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as this affects financial performance. The results on the audit committee composition on performance showed that respondents strongly agreed that Audit committee independence has an effect of financial performance. Lastly, the results on corporate governance effect on the organizational financial performance, showed that corporate governance has led to good cooperation between the supervisory and management boards.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This is the final chapter in this study which gives the summary of the findings, the discussion, conclusions and the recommendations of the study based on the objectives of the study; it further gives suggestions for further findings. The study sought to analyze the impact of corporate governance on the financial performance of listed banks in Kenya. The data collection instruments used for the study was a structured questionnaire which was divided into sections based on the research question. Descriptive study was used in the study and Microsoft excel was used in the analysis of data.

#### **5.2 Summary of research findings**

The population of this study comprised of banks in Kenya. A total of 21 questionnaires were completed. Descriptive research design was utilized. Descriptive statistics like mean and standard deviation were used to analyze data. Data was presented in form of tables and charts to clarify and enable easy understanding.

#### **5.3 Determinants of banks performance**

##### **5.3.1 Board composition effect on financial performance of listed banks in Kenya.**

According to the respondents who filled out the questionnaires, the study concluded that majority of the persons agreed that board composition increases efficiency of the banks. However most of the respondents disagreed that large board of directors are prone to more conflicts among board members which makes it difficult to reach agreements. The agency theory advocates of large boards, as large boards are supposed to reduce the ability of managers to dominate the board and provide a wider view into the company's management issues. Large boards are frequently thought to be more able to monitor the actions of the top management team as larger boards are harder to control by the CEOs. This will then provide a source of more information, diversity and external connections that businesses cannot find themselves internally. This finding were in line with the several studies which established that board composition influences organizational performance. De Oliveira Gondrige (2012); Fauzi, and Locke (2012); Saibaba and Ansari (2012); and Ujunwa

(2012) who all argued that a large board size would bring more knowledge, visions, opinions and investment proposals that would ultimately benefit stakeholders. Hambrick. (2008) asserted that smaller boards were incapable of making strategic changes due to their inefficiency in considering various alternatives for firm growth. On the other hand, numerous researchers favor smaller boards and are of the view that large boards lead to non-cooperation and waste of time in decision making as they suffer from social loafing thus, their knowledge and skills remain unutilized (Dharmadasa, 2014; Drakos, & Bekiris, 2010; Jensen, 1993; Lin, 2011).

### **5.3.2 CEO duality effect on financial performance of listed banks in Kenya.**

The study findings established that most respondents strongly agreed that the roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as this affects financial performance. Combining the titles of CEO and Chairman of the Board compromises and weakens the distinction between ownership and control, that the reliance on both practices lies. That can turn the CEO and the shareholders in a conflict of interests. This might lead to the CEO's working for himself at the shareholders ' expense. A huge portion of the respondents disagreed that CEO duality creates conflict of interest and it's not good for financial performance of the banks. This Existing literature on CEO duality offers differing perspectives in this regard. Some studies (Kaymak & Bektas, 2008; Lin, 2011; Ujunwa, 2012) criticize the dual role of the CEO, as almost absolute decision making authority with one person might not be in the best interest of stakeholders. Bliss (2011) stated that CEO duality is an obstacle for the independence of the board. Researchers such as Brickley. (1997); Dahya. (1996) argued that a dual CEO role was important as it reduced chances of clashes on viewpoint and enabled timely decision making. Several other studies (De Oliveira Gondrige, 2012; Dharmadasa, 2014; Schmid & Zimmermann, 2008) found no correlation between dual CEO role and performance of firm. These findings are also in line with agency theory as the theory discusses the problems that surface in the firms due to the separation of owners and managers and emphasizes on the reduction of this problem. This theory helps in implementing the various governance mechanisms to control the agents' action in the jointly held corporations. Berle and Means (1932).

### **5.3.3 Audit committee composition on financial performance of listed banks in Kenya.**

The study also found most respondents strongly agreed that audit committee independence has an effect of financial performance. This is because the independence of the audit committee may impact the quality of the financial reports and therefore affect the performance of the financial reporting of the company. Companies with a higher number of independent audit committee members are more likely to provide reliable accounting data. Yunos, (2014) study supports these findings as he argued that if the audit committee is independent, and work of the committee fair, then frauds occurring in firms could be curbed and this will impact positively on the financial performance. Independent members of the committee could fairly look into financial statements and observe components such as equity, net income, total assets and sales, which represent the performance and financial position of the firm (Subrata Sarkar, 2013). DeZoort. (2002) suggested that a company where the audit committee met more frequently was likely to be more careful in safeguarding the interest of its investors. Bryan, (2004) investigated the recommendations of Blue Ribbon Committee (1999) with regard to improvement in the efficiency of corporate audit committees and argued that audit committees would strengthen financial reporting practices, when there were more independent and financially literate members who committed adequate time to the board and met recurrently.

### **5.4 Conclusion**

Corporate governance increases the efficiency of an organization and positively impacts on the level of financial performance. The study examined the impact of corporate governance on financial performance of listed banks. Corporate governance plays an important role in banks ' overall growth and success. The results of the study demonstrate that investors ' rights, accountability, reporting and board procedures improve performance and consequently increase shareholder value. The results of this research strongly support the idea of a good governance framework as it positively influences financial performance. The research will not only help promote good management practices in commercial banks, but will also discourage commercial banks from collapsing due to poor governance. This would contribute to the overall advancement

of a country's economic growth and development, provided that commercial banking plays a major role in the financial sector.

### **5.5 Recommendations**

This study advises the banks to ensure that there are two separate people in the CEO and Chairman of the Board of Directors positions to ensure that the decision-making aspects of the Board are fairly handled. The audit committee's scope should be stressed as a means of providing a deep understanding of the issues and an impartial view of the operating aspects of the company. This will improve the committee's ability to monitor management's performance by addressing the conflicts of interest factor. This in turn will provide the board with guarantees that the policies will be successful and conform with its guidelines. The board committees should however have enough leaders, experienced members with adequate skills to make a positive approach to the recommendations that have been given to them. Similarly, the sizes of the various board committees should be limited to those who can reach a consensus. The study also recommends for more research about corporate governance on other industries like the hotels, manufacturing, insurance, mobile and other industries as the study focused on banks only.

### **5.6 Limitations**

The study relied on primary data for the analysis, quantitative aspects which affects the financial performance of the banks were not captured in the study. By making use of both quantitative and qualitative data, the findings or results could be more conclusive in some studies when all the information is captured.

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## APPENDICES

### Appendix I: Questionnaire

#### Introduction:

My name is Lydiah Nyatuka Okemwa, a student at Strathmore University, undertaking a degree course. I am undertaking a research proposal on the role of corporate governance on the financial performance of listed banks. The questionnaire is purely for academic purposes and will therefore be handled with the highest level of confidentiality.

**Part I: Board composition on performance. This first part of the questionnaire poses questions to find out whether board composition influences the organizational performance.**

To what extent do you agree with the following statements regarding board composition on performance of the organization? Key: 1 = strongly disagree; 2 = disagree; 3 = undecided; 4 = agree; 5 = strongly agree

Statement	1	2	3	4	5
a) Board composition increases efficiency of the banks					
b) Outside directors are better to challenge and discipline the CEO and management which affects financial decision and profitability					
c) Big size of board increases diversity of opinions which affects financial performance					
d) An expatriate CEO has superior knowledge and is likely to improve the performance of the banks					
e) Large board of directors are prone to more conflicts among board members which makes it difficult to reach agreements					

f) A larger board will bring more expertise and experience to the board					
g) A large size of the board enhances problem solving which affects financial performance					

**Part II: This section poses questions on CEO duality effect on performance of listed banks**

Using the below five point Likert scale, kindly tick to indicate your level of agreement with the stated indicators; 1= strongly disagree      2=disagree      3=Uncertain      4=agree      5=strongly

Statement	1	2	3	4	5
a) Roles of Chairman of Board and CEO should be clearly defined and not vested in the same person as this affects financial performance.					
b) The monitoring role of board is weaker when the CEO is also Chair and affects financial performance of banks.					
c) Professional expertise of the board members improves performance of the organization.					
d) CEO duality creates conflict of interest and it's not good for financial performance of the banks.					
e) Executive directors are better placed in handling the affairs of the organization since they have a deeper understanding of the organizations Operations this improves performance of the organization.					

f) The board is more independent when the proportion of outside directors increases and it improves performance.					
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**Part III: This part poses question to find out the effect of Audit committee composition on performance**

To what extent do you agree with the following statements on Audit committee composition on performance? Key: 1 = strongly disagree; 2 = disagree; 3 = uncertain; 4 = agree; 5 = strongly agree

Statement	1	2	3	4	5
a) Size of audit committee has an influence on financial performance					
b) Audit committee independence has an effect of financial performance.					
c) The expertise of the audit committee has an effect on financial performance					
d) Audit committee members have professional experience					
e) Audit committee enhances financial performance of the organization					
f) Audit committee focuses on improving the company competitiveness and financial performance					

g) The existence of independent committees enhances financial performance of the organization					
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**Part VI: This part will pose questions addressing corporate governance effect on the Organizational performance**

To what extent do you agree with the following statements on organizational performance? Key: 1 = strongly disagree; 2 = disagree; 3 = uncertain; 4 = agree; 5 = strongly agree

Statement	1	2	3	4	5
a) Due to corporate governance the bank has good improvement of return on equity in the last three years					
b) Corporate governance has led to improvement of return on assets in the last three years					
c) Customer Retention Levels are high due to good corporate governance					
d) Due to corporate governance profitability increased					
e) Corporate governance has led to high Staff Retention level					
f) Corporate governance has led to good cooperation between the supervisory and management boards					

# ROLE OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF LISTED BANKS IN KENYA.

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