INFLUENCE OF CORPORATE GOVERNANCE PRACTICE ON FINANCIAL DISTRESS AMONG COMMERCIAL BANKS IN KENYA

BY,

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DECLARATION

This project is my original work and has not been presented for a degree in any other University. No part of this project should be reproduced without authority from the author or/ University of Nairobi.

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I confirm that the work in this project was done by the candidate under my supervision as the appointed University Supervisor

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DEDICATION

I dedicate this research project to my Almighty God for his protection, direction and guidance through the course. Many thanks to my family for their selfless support, bearing with my perpetual absence and for the understanding all through the period I have been pursuing this course.

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ABBREVIATIONS AND ACRONYMS

CG: Corporate Governance

CBK: Central Bank of Kenya

NSE: Nairobi Stock Exchange

NPLs Non-Performing Loans

UK: United States

SPSS: Statistical Package of Social Sciences

ABSTRACT

Over the past decade, banks have experienced financial distress challenges due to internal and external forces. Corporate governance aspects, competition, globalization and influence of information technology have contributed to deteriorating financial performance among commercial banks in Kenya. This study aimed at establishing the influence of corporate governance on financial distress among commercial banks in Kenya. The objective of the study was to establish the influence corporate governance practice on financial distress among Commercial Banks in Kenya. The study adopted a causal research designs to establish the variation between variables of the study. The study adopted a census approach where information was collected from all the 43 Commercial Banks operating in Kenya. The study used both primary and secondary data sources. The primary data was collected using a structured questionnaire consisting of close-ended and open-ended questions. Secondary data on indicators of financial distress was collected using Audited and Published Accounts. Quantitative data was collected from audited and published accounts to calculate Working Capital Ratio, Earnings before Interest Tax (EBIT), Prepaid Earnings, Market Value of Shares and Volume of Sales. A pilot test was conducted to determine the reliability and the validity of the data collection instrument. Data was analyzed using descriptive statistics and t-test was used in testing the significance of the effect between dependent variables and independent variables at 5% level of significance. In addition, Altman Z-score model was used to analyze information collected form the financial statements of commercial banks for the period between 2011-2015. The analysis was done using Statistical Packages for Social Sciences (SPSS Version21). The analyzed data was presented in tables. Multiple regression analysis was used to determine the cause effect relationship between variables. It was established that Commercial Banks experienced a drastic decline in profits generated for the period between 2011-2015 due to corporate governance issues. After conducting multiple regression, it was established that a unit increase in independent variables (Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems) resulted to a decrease in financial distress among commercial banks in Kenya. The study concluded that there was a statistical significance between the independent variables and dependent variable. The study recommended that commercial banks should be formed of boards that comprise members with relevant knowledge to develop policies that will address needs of various stakeholders, disclose their financial statement annually to enhance investor confidence and reflect the accurate financial state of the firm and should integrate modern technologies to minimize fraudulent financial cases through internal and external transaction.

CHAPTER ONE: INTRODUCTION

1.1Background of the Study

Corporate governance is one of the practices that has revolutionized performance of firms in both developed and developing economies (Altman, 2000). Good performing firms in multiple sectors around the globe are characterized by good corporate governance. Multiple sectors ranging from manufacturing and the banking sector in developing and developed countries of the world are experiencing challenges of corporate governance due to external developments like International Monetary Fund and World Bank policies (Ewa, & Udoayang, 2012). In the recent decade, banks operating in developing economies are equally experiencing financial distress challenges due to internal and external influences. Activities of financial institutions in any country are statistically correlated to economic developments. Performance of firms is in any sector has been positively correlated with good corporate governance despite internal challenges. Well managed firms are likely to manage financial distress and meet their obligations (Whittington & Pany, 2001).

According to Capital Market Authority (2015), corporate governance outlines the morphology through which organizations achieve their financial goals. It comprises systems, processes, procedures and structures that enrich organizational decisions from the financial perspective for the benefit of key stakeholder that may include shareholders, employees and customers. Perspective of corporate governance this study will focus ranges from; board characteristics, stakeholder rights, transparency and disclosure,

internal control systems. Diamond and Verrecchia (1991) suggest that corporate governance system can help firms to enhance investor confidence and maximize profits due to good stakeholder relationship.

Barr (2004) argue that, financially distressed firms can be associated with poor corporate goverance in the changing business environment. Firms that are poorly managed are likely to experience financial distress and vice versa. Adeyemi (2011) suggest financial distress can contribute to poor operational and managerial performance of an enterprise. Sarens and Beelde (2006) also argue that a company under financial distress always experiences high costs of operation and vice versa.

1.1.1 Corporate Governance

Altman (2000) suggest that corporate governance in organizations involve systems, processes and policies that influence organizational performance. According to Abdullahi (2000) corporate governance involves principles and processes which provide a strategic direction on how the business enterprise will be operated. To achieve desired ends. Corporate governance guidelines spell out on how the organization will be managed to address the needs of various stakeholders (CMA, 2002).

Barr (2004) postulates that corporate governance can generate investor confidence and promote organizational profitability. In addition, lack of proper management policies among firms can lead to reduced productivity among competitive firms. Corporate governance frameworks adopted by competitive firms can promote a several benefits ranging from; accessibility to financing reduced cost of capital and enhanced stakeholder

relationships. Therefore, good corporate governance has been associated with improvement of liquidity, customer satisfaction, employee motivation and adaptability to changes (Becks et al., 2010).

1.1.2 Financial Distress

Labie and Périlleux (2008) assert that financial distress is a situation where a company finds it difficulty in paying off its financial obligations. It is a state that is experienced by firms due to internal and external challenges thus leading to bankruptcy and even liquidation. Outecheva (2007) argue that indicators of financial distress among firms can be; declined profits, declined market share, poor service delivery, demotivated employees and inability to adapt to changes. He also notes that, a company can be distressed without defaulting due to internal issues of management and policies of operation.

According to Kinyua (2006) majority of the financial institutions both in developed and developing countries can experience financial distress due to poor managerial policies, inefficient and ineffective internal control systems, non-disclosure of financial information and inability to recognize stakeholder rights. Poor risk management strategies and lack of trainings among firms employees can result to financial distress. Adeyemi (2011) suggest that financial distress among firms can take different forms that range from; high default cases on corporate loans, inability to pay dividends to shareholders and management wrangles. Andrade and Kaplan (1998) also regard financial distress as an occurrence that can be termed as the difference between the company's financial health and illness at a particular point in time. In addition, firms may

restructure, downsize, partner and rebrand to enhance their financial position in the changing business environment.

1.1.3 Corporate Governance Practice and Financial Distress

Labie and Périlleux (2008) assert that firms are likely to achieve their financial objectives if appropriate leadership policies are in place. Firms are likely to be financially distressed due to corporate governance issues. Education level of board members can influence financial decisions of competitive firms. Well educated members of the board are likely to make informed decisions on how firms will meet financial obligations and vice versa. Organizations that have policies that promote social corporate responsibilities by meeting obligations of key stakeholders are likely to be competitive in the changing business environments and vice versa (Ngige, 2011).

Abdullahi (2000) argues that a business is an integral part of the society that needs good business policies to achieve its goals in a more profitable manner. Transparency and disclosure is also one of the corporate governance practices that promote investor confidence thus organizational competitiveness. Firms that do not publish their financial statements are likely to experience a decline in profits due to lack of investor assurance. Internal control systems are likely to enhance organizational efficiency and effectiveness through financial reporting, auditing and communication. On the other hand, firms without effective internal control systems are likely to be financially distressed due to fraud related cases (Tan, 2012).

Tamer (2015) assert that performance of firms in the changing business environment is influenced by the level of corporate governance. Outecheva (2007) argue that it is common practice for companies operating in the changing business environment to experience financial distress if top leadership is inappropriate. However, it is argued that financially distressed companies are more likely to experience high costs of operation. Direct and indirect costs can contribute to financial distress among competitive firms

1.1.4 Commercial Banks in Kenya

Central Bank of Kenya (2015) suggests that, Commercial Banks in Kenya have continued to contribute in economic developments. The banking industry has experienced a significant improvement of growth in the past decade despite external challenges. Currently, the Kenyan banking sector comprises of 44 registered Commercial Banks. Activities of the banks are regulated by the banking laws that are formulated by the CBK. The laws clearly spell out the manner in which banks are formed, operated and managed to achieve the intended goals. Laws that control the operation of the banks in the banking industry in Kenya are spelt out in various banking Acts that range from appropriation, banking, bankruptcy; capital markets (CBS, 2015).

According to Central Bank of Kenya (2015), Commercial Banks are seen to be that the foundation of social-economic developments among countries of the world. It is argued that banks always act as the intermediaries between savers and borrowers in any country. It is evident that profits of commercial banks in Kenya rose by a fifth in 2012 and non-performing loans (NPLs) increasing by 13.33 per cent to 61.6 billion shillings. Kinyua (2006) posits that Commercial banks in Kenya have recorded a decline in profitability by

36% due to dynamic external business environment, internal policies of management, stiff competition, globalization, changing consumer demands, influence of technology and high costs of operation. Costs arising from financial distress can be devastating to the economy. Despite the profits reported by some Kenyan banks, majority (62%) of them are finically distressed.

Central Bureau of Statistics (2015) established that commercial banks in Kenya have continued to play major role economic developments. They have been facilitating investment projects initiated by individuals and corporate institutions thus sustainability of business practices. According to the Central Bank of Kenya statistics between 2009 and 2013, it was observed that commercial banks' NPL has been rising from Ksh 60.74billion to Ksh 81.86 billion in 2013. The gross NPL% reduced to 4.4% in 2011 down from 9.2% in 2008 but the trend has not been sustainable as reflected by gradual rise to 5.3% in 2013.This can be attributed to various internal and external challenges. Despite the effort of banks in Kenya, financial distress is one of the challenges that has become an uphill task.

Commercial Banks in Kenya have been experiencing financial distress despite their efforts of maximizing profits. Njeri (2013) indicated that banks that were not listed in the stock exchange were more financial distressed compared to listed banks. Banks listed in the stock exchange were likely to generate more profits from the sell and buying of shares compared to banks that were not listed. Banks participated in the stock exchange market were likely to be less distressed financially.

1.2 Research Problem

Kalani and Waweru (2007) postulates that good governance is directly correlated with firm profitability, corporate image and organizational adaptability to changes. (Abdullahi, 2000). Kenya's financial sector has continuously faced challenges of financial distress due to internal and external issues. Internal issues range from management policies, structure and culture while external issues range from competition influence of technology, changes and compliance to regulation (CBK, 2015).

Global and local studies which have been conducted clearly indicate that financial institutions in developing countries are experiencing financial distress. Martin Brownbridge (1998) observed that banks were more likely to fail to meet their financial obligations due to poor corporate governance policies. Poorly managed banks were likely to experience high costs of operation compared to well manage banks. However, it is observed that the study focused on Nigeria, Uganda, Zambia and Kenya but did not address corporate governance on financial distress among commercial banks in Kenya.

Olubukunola (2011) revealed that good corporate governance was directly correlated to bank profitability. However, the study focused on different variables like board size and composition but not variables of this study. Kariuki and Wanjiri (1994) revealed that financial institutions in Kenya have been experiencing challenges of meeting their debt obligations resulting to collapse of some banks. Despite the benefit of Commercial Banks in economic developments, financial risks are evident. Majority (61%) of the banks were unable to meet their financial obligations.

Otieno, Mugo, Njeje and Kimathi (2015) noted that poor financial performance of the firms was associated with non-compliance with industry regulations, leadership challenges, stiff competition, and monetary regulations. Inability of the banks to manage customer changing demands, adopt appropriate technology, diversify and manage non-performing loans was key challenges. Kuchio (2010) suggest that deteriorating performance among financial institutions was due to poor management policies.

However, from the findings of previous studies carried out, it was identified that little has been done concerning the influence of corporate governance on performance of commercial banks in Kenya. Therefore, it was for this reason this study sought to answer the question; what was the influence of corporate governance on performance of Commercial Banks in Kenya?

1.3 Objectives of the Study

To determine the influence corporate governance practices on financial distress among Commercial Banks in Kenya.

1.4 Value of the Study

The findings of the study would be valuable to the various stakeholders ranging from; regulators, management, policy makers, researchers and scholars. The Central Bank of Kenya as a regulator of the banking sector would find this study to be of value since policies formulated would be implemented based on good corporate governance practices among Commercial Banks.

The management of Commercial Banks in Kenya would be in position to identify how various aspects of corporate governance practices affect operations of their banks, as well as to determine the extent to which this and other factors affect financial distress. They would also identify the impediments that face their banks in approaching various financial distress challenges.

The findings of this study would help policy makers to obtain relevant knowledge of the banking sector and formulate relevant policies that would minimize challenges experienced by industry players. Finally, the study would add new knowledge to the body of existing literature on corporate governance and financial distress of firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter outlines theoretical foundation of the study, financial distress, empirical studies conceptual framework and summary of knowledge gaps.

2.2 Theoretical Foundation of the Study

The theories that were adopted to inform the study were Agency Theory, Stewardship Theory and Stakeholder Theory as discussed:

2.2.1 Agency Theory

Agency Theory was established by Ross and Stephen (1973). The theory argues that there must be two parties for any contract to be successful. In their case, the employer and employee are the two parties who represent an organization to achieve its long term goals. The relationship between the principal and agent always determines the performance of any organization in the dynamic business environment. Good relations between the employer and employee enhance organizational productivity (Carell, 2006).

In modern competitive firms, good management practices ranging from management styles, policies, culture, structure, board of directors and technology can enhance employee motive to work towards organizational goals. Employees are likely to work towards organizational goals if their organizations have visionary leaders whom can develop structures that enhance communication and coordination of activities among workers (Cole, 2000). Chen and Pan (2012) also suggest that the relationship between

shareholders and managers can promote team spirit among workers hence increased profitability.

This theory is applicable in this study based on the notion that commercial banks are likely to maintain long term relations with their customers if they provide accurate market information to customers, have customer centric policies, have good leadership and brand image. Therefore, characteristics of board members will enhance decisions formulated by the shareholders and promote customer relations in the long term period.

2.2.2 Stewardship Theory

The theory was established by Davis in (1997). The theory argues that representatives of the organization or stewards should always protect and maximize shareholders wealth through firm performance. The ability of managers to have multiple skills like entrepreneurship, innovative and risk management will help firms to maximize profits for the benefit of shareholders. Shareholders always expect employees to acquire relevant skills and knowledge to utilize scarce resources of the firm to achieve long term goals more efficiently and effectively (Davis et al., 1997). Organizational managers or stewards are likely to be motivated if there is good corporate governance and vice versa.

Donaldson and Davis (1991) argue that competitive firms should have governance structures that promote organizational development and appreciate diversity of workers in terms of skills and culture. To minimize the costs of operation and maximize profits, managers should create an environment that promotes creativity and innovation, change management and technological integration in the system (Davis et al., 1997). Daily et al.

(2003) assert that in order to protect corporate image, managers should develop policies that promote the welfare of workers without discrimination

This theory is applicable to this study based on the notion that it is the responsibility of managers and directors of commercial banks to develop strategies that will enhance shareholder value. Policies of diversification, new product development and operational efficiency are internal initiatives implemented by shareholder representatives to maximize shareholder value through dividends. Therefore, policies formulated by commercial banks will enhance shareholder value based on profits and dividends. Flexibility of the policies will enable the firms to align their practices to the changing business environment for the benefit of the shareholder.

2.2.3 Stakeholder Theory

According to Edward Freeman (1984), stakeholder theory argues that organizational management is founded principles of business ethics that addresses issues of various stakeholders in the changing business environment (Ongore & Kusa, 2013). A Stakeholder Approach identifies models which should guide the behavior of employees to work towards organizational goals. Business codes of ethics are developed by firms to guide and give employees the expected code of conduct at the work place. The stakeholder expectation is that agents of the firm should have moral integrity to make decisions that will enable the firm to maximize profits with minimal harm to the society.

Irungu (2013) views an organization as an integral part of the society that should work towards attainment of stakeholder goals in the long-rung. Friedman (2006) assert that

open systems are likely to achieve goals through recognition of stakeholder's interests and needs in the competitive business environment. Managers should always formulate decisions that do not conflict with stakeholder expectations. Competitive firms should make decisions that represent all stakeholders because of social corporate responsibility of business enterprises in the changing business environment.

This theory underpins this study by describing that commercial banks are likely to remain competitive if they have decentralized structures that enhance stakeholder information. Internal and external stakeholders are more likely to feel recognized by their firms through open channels of communication. Bottom up and top down communication structures in an organization are likely to enhance organizational productivity. Teamwork and employee dedication is based on the organizational communication culture.

2.3 Determinants of Financial Distress

Sarens and Beelde (2006) argue that financial distress is a process characterized by failure and restructuring. Corporations experience financial distress when they fail to meet their financial obligations. Denis and Denis (1990) postulates companies cannot achieve their financial goals if stakeholder needs are not addresses. Financial distress among commercial banks in Kenya can be determined by a number of factors that range from board characteristics, stakeholder rights, transparency and disclosure and Internal control systems as discussed:

Board Characteristics is regarded as a combination of features that members of a formal group can possess to determine decisions of an enterprise. They may range from age,

gender, education, experience, diversity among others (Visser, Matten & Pohl, 2010). Aziz and Dar (2004) assert that the managers or an organization can play a critical role in improving corporate governance and determining the strategic direction of the firms. The ability of board members to analyze the business environment, solve conflicts and enhance accountability to shareholders can promote organizational profitability.

Stakeholder rights entail legal, social and ethical principles that provide fundamental normative rules about what is expected of employees by their employers (Donaldson & Davis, 1991). Davis *et al.,* (1997) argue that internal stakeholders comprise of employees of the organization or shareholders who have direct relationship with the company in form of employment and ownership while external stakeholders are those people who do not directly relationship with the company but indirectly affect the outcome of the enterprise through transactions

Bushman and Smith (2001) regard transparency involves the ability of the company to inform the members of the public or stakeholders on the state of the company at a particular point in time in terms of profits. Transparency of an enterprise can be enhances through publication of financial statements in the print and electronic media to promote investor confidence (Piotroski & Smith, 2001). Investors are more willing to associate with companies that perform well financially and vice versa (Bushman, Piotroski & Smith, 2001).

Transparency and disclosure can be can be seen as mechanisms used by firms to facilitate communication and coordination of activities among its stakeholders in the changing business environment (Kantarelis, 2007).The quality of information provided by firms should be based on market facts (Bushman, Piotroski & Smith, 2001). Internal control systems is regarded as mechanisms put in place by an organization to monitor the progress of events during implementation of projects to ensure that organizations achieve short term and long term objectives more efficiently and effectively (Sarens & Beelde, 2006). Internal controls can be regarded as systems that enable firms to mitigate financial risks and enhance internal efficiency and effectiveness.

2.4 Empirical Studies

Otieno, Mugo, Njeje and Kimathi (2015) assert that financial reporting practices like internal auditing and communication can contribute to financial performance in the changing business environment. Kinyua (2006) also established that firms were likely to experience financial distress if information collected on changing market trends is not properly analyzed by managers. Shareholders of well managed banks were likely to experience high dividends and vice versa. Majority (71%) of the Commercial Banks have been recording a decline in profitability by 46% due to corporate governance issues. Non-compliance of firms with Basel III reforms introduced by the Central Bank of Kenya to enhance financial stability among firms is determined by corporate governance. However, the study focused on policy issues but not financial distress in Kenya.

Kalani and Waweru (2007) studied on Commercial Banking Crises in Kenya reveled that costs arising from financial distress can be huge and devastating to banks and the

economy. Poor performance of firms in Kenya has been associated with poor corporate governance and dynamic business environment characterized by stiff competition, influence of technology and monetary policies formulated by Central Banks of Kenya. Al-Saleh and Al-Kandari (2012) postulate that the knowledge and experience of board members can lead to firm performance. However, the study focused on financial distress in Kuwait but not commercial banks in Kenya. The knowledge, experience and qualifications of the members indirectly influenced financial performance of firms.

Wambua (2011) revealed that board composition, directors and leadership styles were corporate governance practices that contributed to financial performance of firms. Enobakhare (2010) studied on corporate governance and firm performance in Nigeria' and indicated that institutional ownership, foreign ownership, board ownership and government ownership had an influence on firm performance. However, the study was conducted in Nigeria but not in Kenya.

Rogers (2006) postulates that corporate governance can be attributed with 34.5 % financial performance of any firms operating in developed or developing countries. The study further established that internal policies like investment and lending policies contributed positively to financial performance of firms. Otieno, Mugo, Njeje and Kimathi (2015) in their study established that deteriorating performance of Saccos was associated with non-compliance with industry regulations, leadership challenges, stiff competition, and monetary regulations. Inability of the firms to manage customer changing demands, adopt appropriate technology, diversify and manage non-performing

loans are some of the problems experienced by firms in Kenya. However, the study focused on performance of Saccos but not Commercial banks.

Yusuf (2015) argue that the Kenyan banking sector has continued to record significant improvements despite the challenges of corporate governance. Commercial Banks are seen to be the drivers of economic developments in developing and developed countries despite legal, economic, political and technological challenges. Thus it is very important that this industry is carefully watched to ensure such occurrences are dealt with immediately to avoid negative consequences.

2.5 Conceptual Framework

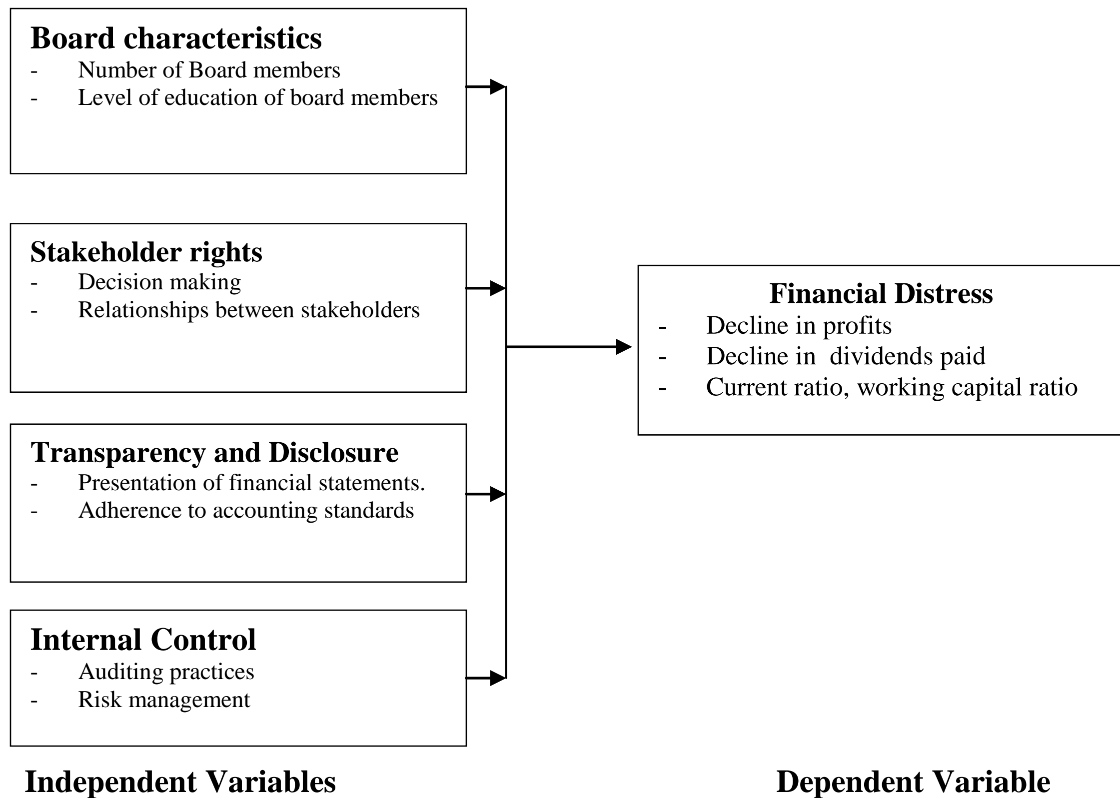

Figure 2.1: Conceptual Framework

(Author, 2016)

As shown in figure 2.1, it was established that board characteristics like the number of board members and their education level influenced decisions of commercial banks positively. Low level of education and large number of board members contributed to financial distress among banks in Kenya. Formulation of decisions based on the rights of stakeholder influenced financial performance of banks. Formulation of decisions that did not address the affairs of key stakeholders like shareholders, employees, government among others, banks experienced financial distress. Transparency and disclosure of financial information through the print media and adherence to accounting standards enhanced financial performance of the banks and vice versa. Internal control practices among banks like auditing and risk management influenced financial performance of banks positively.

2.6 Summary of Literature Review

Previous research done internationally by and locally by (Kalani & Waweru, 2007; (Abdullahi, 2000; Kariuki & Wanjiri, 1994; Otieno, Mugo, Njeje and Kimathi, 2015; Kuchio, 2010; Kinyua, 2006, Irungu, 2013; Al-Saleh and Al-Kandari, 2012; Wambua, 2011; Enobakhare, 2010, Rogers, 2006) among others proved that researchers focused on different variables, countries and sectors. Therefore, little has been done with regard issues of corporate governance and their effect on financial distress among commercial banks in Kenya. Therefore, it is on this background the study is geared towards this problem to fill the information gaps in this area.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses; the research design, target population, data collection instruments, data collection, validity and reliability of the instrument, data analysis and presentation.

3.2 Research Design

The study adopted causal research design to establish the relationship between corporate governance on financial distress among commercial banks in Kenya for the period between 2011-2015. In order to determine causality, the study observed the variation between independent variables and dependent variables and measured the effect of each variables on the dependent variable (Krishnaswami, 2003). Cooper and Schindler (2006) regard a research design as an overall methodology of collecting, analysing and interpreting information for strategic decision making. A research design was appropriate in research because it provided an opportunity to the researcher to hypothetically relate variables of the study with existing theories to make deductive reasoning concerning the problem under investigation.

3.3 Target Population

The study adopted a census approach. Information was collected from all the 43 commercial banks in Kenya as shown in appendix (ii). However, the study focused on financially distressed banks only as per 2015 financial statements (CBK, 2015). This will form the population of the study. According to Kothari (2006), a census involves a structured way of collecting, analyzing and interpreting data from each member of the

target population. A census approach was preferred because commercial banks in operating in Kenya and regulated by Central Banks of Kenya were limited in number obtaining data from each bank was not a complex exercise.

3.4 Data Collection

The study relied mostly on secondary data to determine the influence of corporate governance practices on financial distress among commercial banks in Kenya for the period between 2011-2015. Information concerning financially distressed of banks was obtained from financial statements that included; Audited and Published Accounts. Quantitative data was collected from audited and published accounts to calculate Working Capital Ratio, Earnings before Interest Tax (EBIT), Prepaid Earnings, Market Value of Shares and Volume of Sales. The ratios obtained was used to determine financially distressed banks. In addition, primary data was collected concerning the influence of board characteristics, stakeholder right, transparency and disclosure and internal control systems on financial distress of banks in order to get opinions and views of respondents concerning the problem.

3.5 Validity and Reliability of the Instruments

3.5.1 Validity Test

Validity was regarded as the fitness, meaningfulness and usefulness of inferences a researcher made based on the data collected (Cooper & Schindler, 2006). Content, criterion, and construct related validity was measured. Content validity was measured using opinions of financial experts. Criterion validity was measured using employees of commercial banks and construct validity was measured using theories and variables of

the study. Therefore, validity of the instrument that was used in this study was determined by seeking opinions of the supervisor and industry auditors and consultants.

3.5.2 Reliabi1ity Test

Reliability involved the extent to which a measuring device was consistent in measuring whatever it measured (Saunders, Lewis & Thornhill, 2012).In addition, reliability can be defined as the extent to which the research instrument could yield consistent information after repeated trials. Black (2010) internal consistency of the instrument was measured using Cronbach's Alpha coefficients. As proposed by Kothari (2006),the reliability coefficient of 0.7 was a justifiable threshold of this study.

Table 3.1: Reliability Coefficients

Scale	Cronbach's Alpha	Number of Items
Board Characteristics	0.842	11
Stakeholder Rights	0.835	9
Transparency and Disclosure	0.795	7
Internal Control Systems	0.783	6

As shown in Table 3.1, All the four variables were established to be reliable since Cronbach Alpha coefficients of the four variables were greater than 0.7 as recommended by Cooper and Schindler (2004).

3.6 Data Analysis and Presentation

Statistical Package for Social Sciences, (SPSS version 21) was used to analyze raw data collected. Descriptive and inferential statistics was used to analyze data and explain the

findings quantitatively. To permit quantitative analysis, data was transformed into statistical codes representing attributes of variables. Descriptive statistics such as frequency distributions, percentages and frequency tables were used to summarize and relate variables which were attained from the study. Multiple regression analysis method was adopted to test the statistical association between the four variables on the dependent variable. The regression model adopted was of the form:

$$Y= \beta o+\beta_1 X_1 +\beta_2 X_2 +\beta_3 X_3+\beta_4 X_4+\varepsilon$$

Where;

Y= Financial distress = {profits, dividends paid current and working capital ratios}
β_0= Y intercept

β_1 to β_4 = regression coefficients = {Board Characteristics/Stakeholder rights / Transparency and Disclosure and Internal Control System}

X_1 = Board Characteristics = {number of Board members/Level of education of board members}

X_2 = Stakeholder rights = {decision making/relationships between stakeholders}

X_3 = Transparency and Disclosure = {presentation of financial statements/adherence to accounting standards}

X_4 = Internal Control System = {auditing practices/risk management}

ε = error term β =coefficient α = constant

Altman Z- score = 1.2WCTA+1.4RETA+3.3OPTA+1.0MEL+0.6STA +1.0E

Where WCTA = working capital to Total Asset

RETA = Retained Earnings to Total Asset

OPTA = Earnings before Interest and Tax to Total Asset

MEL = Market Value of Equity to Total Liabilities

STA = Sales to Total Asset

Z-Score model that was adopted to determine financial distress among commercial banks in Kenya using Retained Earnings ratios, Earnings before Interest and Tax ratios, Market Value of Equity ratios and Sales ratios. Unique characteristics of business failures were examined using specific indicators and predictors. The rules for interpreting the Altman Z score were measured on a scale of 1-3 values. For instance when Z was $>= 3.0$, the firm was said to be safe from financial distress while any value less than 3.0, the firm was said to be financially distressed. After conducting SPSS, the equation ($Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$)) became: $Y= 1.139+ 0.887X1+ 0.752X2+ 0.465X3+ 0.539X4$

The multiple linear regression model and t-statistic were used to determine the effect of independent variables on the dependent variable. The results were interpreted to be statistically significant if the value of the four variables was less than 0.05. Pearson Product Moment Correlation Coefficient was used to test the magnitude four independent variables on the dependent variables at 95% confidence level.

Table 3.2: T-Test Analysis

One-Sample Test

	Test Value = 3					
	t	**df**	**P value**	**Mean Difference**	**95% Confidence Interval of the Difference**	
			Sig. (2-tailed)		**Lower**	**Upper**
Board Characteristics	0.288	248	0.012	0.33136	0.2526	0.4101
Stakeholder Rights	0.445	244	0.023	0.02755	0.0943	0.1494
Transparency and Disclosure	0.254	245	0.012	0.25852	0.1842	0.3328
Internal Control Systems	0.036	238	0.001	0.76379	0.7183	0.1093

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses; the research findings of the based on the objectives, Kenya. The research objectives that were addressed by the study and interpreted quantitatively include: board characteristics, stakeholder rights, transparency and disclosure and internal control systems and financial distress among commercial banks in Kenya.

4.2 Response Rate

In After questionnaire administration, qualitative information was collected from respondents of the Commercial banks who were selected from operations managers, credit managers, and accountants. However, after questionnaire administration, only 38 questionnaires were returned duly filled. This contributed to 88% response rate. This response rate was adequate for data analysis and conforms to Kothari (2004) who stipulates that a response rate of 30% and above is adequate for making accurate recommendations in scientific studies. Therefore a rate of 88% response rate was justifiable in this study.

In addition, secondary data was obtained from the financial statements of the 43 Commercial Banks operating in Kenya for the period between 2011-2015 to determine the influence of corporate governance practices on the financial distress among commercial banks in Kenya. Qualitative information from the financial statement was statistically analyzed using Altman Z-score model. The Z-score coefficients generated were used to determine the extent of financial distress among commercial banks,

Working capital ratios, Retained earnings ratios, EBIT ratios, Market Value ratios and Sales ratios were calculated as shown in Table (4.5).

4.3 Respondent Demographics

The respondents of the study were asked to indicate the positions they held in their banks and the following were the findings as shown in Table 4.1:

Table 4.1 Respondent Positions

Position	**Frequency**	**Percentage**
Chief Executive officer	**15**	**25**
Branch Managers	**21**	**35**
Credit Officers	**24**	**40**
Total	**60**	**100**

Source: Research data

As shown in Table 4.1, majorities (40%) of the respondents of the study were credit officers. 35% of them were branch managers and 25% of them were Chief Executive Officers.

4.4 Corporate Governance Practices

4.4.1 Board Characteristics

Table 4.2: Board Characteristics

Items	N	Mean	SD	%
Board members of my firm have a combination of knowledge and experiences to make competitive financial decisions	43	3.78	.884	74%
Board composition affect financial performance of the firm	43	3.61	.664	71%
Board composition influence the way communication takes place with stakeholders	43	3.58	.587	63%
The board comprise of internal and external members who equally challenge the CEO	43	3.47	.673	61%
The board has the capacity to select top management staff	43	3.33	.596	59%
The board is in charge of monitoring internal activities and solve conflicting issues	43	2.10	.498	48%

As shown in Table 4.2, the study sought to determine the extent to which respondents agreed to the above board characteristics on financial distress commercial banks in Kenya. From the findings, the study established that majority agreed to a larger extent that; board members of their firms did not have a combination of knowledge and experiences to make competitive financial decisions that will help the firm to meet its financial obligation with a mean of 3.78. Board composition affected financial performance of the firm by 3.61. Board composition influenced the way communication took place with stakeholders at a small extent by a mean of 3.58. The board did not

comprise of internal and external members who equally challenged the CEO by a mean of 3.47. The board had no capacity to select top management staff by a mean of 3.33.

The boards was not full in charge of monitoring internal activities and solve conflicting issues by a mean of 2.10. These findings implied that majority of the firms in Nairobi Securities Exchange were financially distressed due to lack of appropriate skills and knowledge among board members to develop financial management strategies, the management boards were not sensitive to gender issues, communication was not effective due to lack of familiarity of with the structure from some board members, members of the board did not have equal opportunities to challenge the CEO of their firms, members of the board had minimal power to select top management staff and finally, the board did not have the authority to control all activities of the firm including conflict resolution.

Further, to support the objective, t-test was conducted on the four variables to determine the statistical relationship that existed between independent variables and dependent variable as shown in Table (3.2), it was established that t (248) = 0.288, P = 0.021 which was less than the critical value of 0.05. The mean difference was positive, significantly indicating that the respondents agreed that board characteristics had a positive statistical effect on the dependent variable. Therefore, these findings corresponded with Aziz and Dar (2004) who argue that firm profitability is always associated with good corporate governance. The board of directors can resolve internal conflicts and decrease the agency cost in a firm. Further, Mawanda (2008) support these findings by arguing that accountability of board directors automatically contribute to organizational performance.

4.4.2 Stakeholder Rights

Table 4.2: Stakeholder Rights

Items	N	Mean	SD	%
Investors of firms are separate entities from the firm	43	3.41	.781	98%
The firm recognizes decisions of shareholders	43	3.41	.744	91%
Managers are given freedom to formulate, implement and control strategies	43	2.80	.687	73%
The firm participates in community development projects	43	2.10	.621	72%
The firm ensures that human rights are not violated in carrying out its activities	43	2.10	.574	63%
Employees are treated with dignity by management	43	1.22	.543	53%
Employees are given the opportunity to make independent decisions	43	1.10	.533	49%

As shown in Table 4.2, the study sought to determine the extent to which respondents agreed to the above stakeholder rights on financial distress among commercial banks. From the findings, it was revealed that majority agreed to a larger extent that; investors of firms are were not separate entities from the firm itself and firms recognized decisions of shareholders on a small extent by a mean of 3.41. This was due to changes in the business environment. Managers are given freedom to formulate, implement and control strategies with mean of 2.80. This was due to challenges of influencing employees to implement strategies and structural rigidity. The firm participated in community development projects with a mean of 2.10.

The firm ensured that human rights were not violated when carrying out their activities with a mean of 2.10. This implied that majority of the firms did not observe labour laws to some extent due to stiff competition and influence of technology. Employees were treated with minimal dignity by management with a mean of 1.22. This implied that majority of the firms did not compensate their workers effectively and managers did not use alternative ways of motivation like recognition. Employees were given the opportunity to make independent decisions on a small extent by their firms with a mean of 1.10. This implied that majority of the firms had centralized structures that discouraged creativity and innovation.

Further, to support the objective, t-test was conducted on the four variables to determine the statistical relationship that existed between variables of the study as shown in Table (3.2), it was established that, (244) = 0.445, P= 0.023 was less than the critical value of 0.05 indicating that respondents agreed that stakeholder rights had a statistical positive effect on financial distress among commercial banks in Kenya. Therefore, these findings corresponds with Davis et al., (1997) whom argue that stakeholder's relationship can contribute to increased organizational profitability. Further, Hillman, Canella and Paetzold (2000) concurs that firms should formulate organizational policies that seek to maximize organizational profits without violating stakeholder rights. Good corporate governance can helps to formulate decisions that address the needs of all stakeholders in the changing business environments (Wambua, 2011).

4.4.3 Transparency and Disclosures

Table 4.3: Transparency and Disclosures

Items	N	Mean	SD	%
My firm regularly publish it financial statements	43	3.13	.544	65%
Internal employees understand financial viability of the firm	43	3.13	.487	73%
Firm transparency enhances investor confidence	43	2.28	.421	61%
My firm attracts more investors by disclosing financial information	43	2.21	.374	59%
Information disclosed is accurate and reflect that state of the company	43	2.21	.343	58%
Information disclosed is both audited by internal and external auditors	43	2.11	.261	48%

As shown in Table 4.3, the study sought to determine the extent to which respondents agreed to the above transparency and disclosures practices on financial distress among commercial banks. It was established that majority (70%) of the respondents agreed to a larger extent that; their firms published their financial statements on a small extent with a mean of 3.13. This implied that firms which were not performing well were not willing to disclose their financial status to the members of the public. Internal employees understood financial viability of the firm with a mean of 3.13. This was implied that some employees did not have factual information about profits generated by their firms annually.

Firm transparency enhanced investor confidence at a large extent with a mean of 2.28. This implied that firms were likely to attract more investors by disclosing their financial status in the media. Information disclosed was accurate on a small extent and did not reflect state of the company with a mean of 2.21. This implied that majority of the firms did not want do disclose losses incurred in a given period of time due to investor confidence. Information disclosed was both audited by internal and external auditors on a small extent with a mean of 2.11. This implied that majority of the firms did not disclose all financial information to external auditors due to corporate image from external stakeholders.

Further, to support the objective, t-test was conducted on the four variables to determine the statistical relationship that existed between variables of the study as shown in Table (3.2), it was established that, (245) = 0.254, P = 0.012 was less than the critics value of 0.05 which translated that transparency and disclosure had a positive statistical effect on financial distress among commercial banks in Kenya. Therefore, these findings concurs with Bushman, Piotroski, and Smith (2001) who suggest that organizational transparency can promote financial performance based on investor confidence. Organizational are likely to minimize their costs of operation if they disclose financial information to internal and external stakeholders. Further, Al-Shurfa'a (2008) noted that firms should disclose their financial position through publication of audited accounts in the print and electronic media.

4.4.4 Internal Control Systems

Table 4.4: Internal Control Systems

Items	N	Mean	SD	%
My firm conducts internal audits periodically to determine its financial position	43	3.13	.665	81%
My firm is compliant with Capital market Regulations	43	3.11	.654	80%
My firm has risk management mechanisms	43	2.80	.623	72%
Employees of my firm have adequate skills and knowledge to determine credit risk	43	2.80	.584	67%
My firm generates internal reports to determine financial viability from time to time	43	2.11	.486	61%

As shown in Table 4.4, the study sought to determine the extent to which respondents agreed to the above internal control systems on financial distress among commercial banks. It was established that majority (80%) of the respondents agreed to a larger extent that; their firms conducted internal audits periodically to determine its financial position on a small extent with a mean of 3.13. This implied that majority of the firms listed in Nairobi Securities Exchange did not embrace internal control systems due to internal and external challenges. The firms were compliant with Capital Market Regulations with a mean of 3.11. This implied that majority of the firms were strictly regulated by capital market regulation to enhance their profitability.

The firms had risk management mechanisms with a mean of 2.80. This implied that majority of the firms had risk management mechanisms even though were inefficient and ineffective with the changing market trends. Employees of the firms had inadequate skills and knowledge to determine credit risk with a mean of 2.80. This implied that majority of the firms had not trained their employees on risk management due to financial constraints and changing market trends that were unpredictable. Firms generated internal reports to determine financial viability from time to time by a mean of 2.11. This implied that majority of the firms were determined financial viability through reporting despite internal policies that influenced decisions.

Further, t-test was conducted on the four variables to determine the statistical relationship that existed variables of the study as shown in Table (3.2), it was established that, t (238) = 0.036, P = 0.001 which was less than the critical value of 0.05 indicating that there was a positive statistical effect between internal control systems and financial distress among commercial banks. Therefore, these findings corresponds with Sarens and Beelde (2006) who argue that internal controls are the measures adopted by firms to enhance efficiency and effectiveness of the system. Policies and procedures of an organization can create a significant effect on the financial performance of the firm. Mawanda (2008) also established that internal control can help an entity achieve long term profitability objectives more efficiently.

4.4.5 Altman Z-Score Analysis

Table 4.5: Altman Z-Score Analysis

Input	Financial Ratio	2011	2012	2013	2014	2015	Z-Score Weighting
X1	Working capital/ Total Assets	0.13	0.05	0.02	-0.05	-0.04	1.2
X2	Retained earnings/Total Assets	0.24	-0.17	0.11	-0.04	-0.03	1.4
X3	EBIT/Total Assets	0.07	-0.05	0.00	-0.09	-0.07	3.3
X4	Market Value/Total Liabilities	0.85	0.51	0.19	0.02	-0.06	0.6
X5	Sales/Total Assets	1.59	1.57	1.66	-2.04	1.97	1.0
Z-score		**2.81**	**2.00**	**1.96**	**1.86**	**1.79**	

As shown in Table 4.5, the study sought to establish the extent to which commercial banks were financially distressed using working capital ratios, retained earnings earnings before interest tax ratios, market value ratios and Sales ratios for the period between 2011-2015. After, computation of the Z-scores using annual financial reports for years ending December 31, 2010, 2011,2012,2013,2014 and 2015. Indeed, commercial banks' Z-score suffered a sharp fall. Z-score moved from the gray area into the danger zone from 2011-2015. Generally, it can be concluded that majority (70%) of the commercial banks experienced financial distress over the years due to a steady decline of Z-score values.

4.5 Inferential Statistics

Pearson's product moment correlation analysis was used to test the predictive power of the corporate governance practices on financial distress among commercial banks as shown in Table 4.6:

Table 4.6: Correlations Analysis

	Board Characteristics	**Stakeholder Rights**	**Transparency and Disclosure**	**Internal Control Systems**
Board Characteristics	1 0.0310			
Stakeholder Rights	0.0293	1 0.027		
Transparency and Disclosure	0.0127	0.016	1 0.041	
Internal Control Systems	0.0237	0.013	0.0270	1 0.016

The data presented before on Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems was calculated into single variables per factor by obtaining the averages of each factor. Pearson's correlation analysis was conducted at 95% confidence interval and 5% confidence level as shown in Table 4.6. It was established that here was positive relationship between financial distress and Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems of magnitude 0.0310, 0.0293, 0.0127 and 0.0237 respectively. The positive relationship indicated that a unit increase in the four independent variables contributed to

a decrease in financial distress among commercial banks in Kenya. Therefore, at 5% level of significance and 95% level of confidence, Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems were obtained to be less 0.05 implying that all the variables were significant in the study where board characteristics was the most significant factor, followed by stakeholder rights then transparency and disclosures and finally internal control systems being the least significant.

4.6 Regression Analysis

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial distress among commercial banks in Kenya) that is explained by all the five independent variables (Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems). After running the regression the expected value of the error term became zero hence the error term was not included in the model.

4.7 Model Summary

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.923	0.852	0.789	0.6273

The four independent factors that were studied, explain only 85.2% of corporate governance and financial distress among commercial banks in Kenya as represented by the R^2. This therefore means that other factors not studied in this research contributed to

14.8% of corporate governance and financial distress financial distress among commercial banks in Kenya. Therefore, further research should be conducted to investigate the other factors (14.8%) that influence financial distress financial distress among commercial banks in Kenya.

Table 4.8: Correlation Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	**(Constant)**	1.219	-1.2235		-0.996	0.0133
	Board Characteristics	0. 147	-0.1032	0.152	-1.424	0.0122
	Stakeholder Rights	0. 132	-0.3425	0.154	-0.385	0.0112
	Transparency and Disclosure	0.121	-0.2178	0.116	-0.555	0.0111
	Internal Control Systems	0.112	-0.1937	0.163	-0.578	0.0554

As shown in Table 4.8, Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables (financial distress among commercial banks in Kenya) that is explained by all the four independent variables (Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems). After conducting Multiple regression analysis using the model in the form of ($Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$)), the results were translated to: $Y= -1.219+ 0.147X1+ 0.132X2+ 0.121X3+ 0.112X4$

Taking the four variables into account (Board Characteristics, Stakeholder Rights, Transparency and Disclosure and Internal Control Systems) constant at zero, sustainable competitiveness was -0.996. Therefore, from the findings, it was established that that taking all other independent variables at zero, a unit increase in board characteristics would lead to -1.424 decrease financial distress among commercial banks in Kenya; a unit decrease in stakeholder rights will lead to -0.385 decrease in financial distress among commercial banks in Kenya, a unit increase in transparency and disclosure would lead to -0.555 decrease in financial distress among commercial banks in Kenya and a unit increase in internal control systems will lead to -0.578 decrease in financial distress among commercial banks in Kenya. At 5% level of significance and 95% level of confidence, it can be concluded that all the four variables were significant since they met the threshold of less than 0.05.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines; summary of research findings, conclusion recommendations, limitations and suggestions for further study.

5.2 Summary of the Findings

From the findings of the study, it was established that majority of the commercial banks experienced financial distress due to corporate governance issues. Board characteristics like education level, composition, involvement in management issues influenced financial distress.

Stakeholders' rights like freedom of making independent decisions, formulating, implementing and controlling strategies also contributed to financial distress. Non-consideration of stakeholder decisions by managers and poor management policies like corporate social responsibility also influenced financial distress of firms. Transparency and disclosure of information by commercial banks had a significant effect of financial distress.

It was revealed that majority of the banks did not publish their financial statements on the media due to losses incurred and internal policies regulating publication of confidential information. It was also noted that firms did not disclose all the essential information that determined financial viability of the banks. In addition, some information was disclosed to internal and auditors but not external auditors.

Internal control systems of the firms were identified to be inefficient and ineffective. Employees of the banks did not have adequate knowledge and skills on risk management despite compliance to capital market regulations. Internal reports that were compiled were inconsistent with accounting standards thus leading to financial distress among firms.

5.3 Conclusions

It was revealed that financial distress was present in commercial banks in Kenya due to corporate governance issues. Almost all the firms at one time or the other had suffered financial distress. For a period of five years (2011-2015) banks were negatively affected by financial distress that was characterized by decline in profits and capital ratios. It is argued that banks should recognize the value of corporate governance for attaining their financial goals. To minimize financial distress, banks should embrace on corporate governance issues ranging from the board characteristics, stakeholder rights, transparency and disclosure and internal control systems.

It is only banks that have good management will remain competitive in the changing business environment in terms of profitability. It is through good corporate governance commercial banks will keep getting lower and lower, there is hope that in few years to come, there will be no financial distress in commercial banks in Kenya. It is also an indication that the banks are taking measures to minimize the financial distress. This will lead to an overall growth of commercial banks and of the economy at large.

5.4 Recommendations

From the finding of the study, most of the commercial banks did suffer financial distress. This led to failure of the commercial banks if it continues on for a long period of time. The banks should ensure they find out the source of the financial distress in their specific banks since each bank is unique in its operations and ensure that measures to combat or reduce financial distress are carried through. Some of the remedies they could pursue include auditing board characteristics, stakeholder rights, transparency and disclosure and internal control systems.

It was established that banks in Kenya did not consider board characteristics as factor influencing financial performance of the bank. Therefore, it is recommended that banks in Kenya should be formed of boards that comprise members with relevant knowledge, appoint members without gender discrimination and external members should be given the opportunity to challenge the CEO‘s of their firms.

The study revealed that stakeholders rights were not were not considered at a larger extent as a practice that influenced financial performance. It is recommended that banks in Kenya should develop policies that include all stakeholders ranging from shareholders, employees, customers, suppliers the government among others. Commercial banks in Kenya should embrace corporate social responsibilities that promote the welfare of the community including employment opportunities and provision of quality goods and services.

It was established that transparency and disclosure of financial information was not practices at a large extent by commercial banks in Kenya. Therefore, it is recommended

that banks should disclose their financial statement annually to enhance investor confidence and reflect the accurate financial state of the banks.

The study identified that internal control systems adopted by commercial banks in Kenya were inefficient and ineffective. Therefore, this study recommends that banks should train employees on risk management and review the existing models to overcome financial distress. Internal control systems should be integrated with modern technologies to minimize fraudulent financial cases through internal and external transaction. Due to the high number of firms experiencing financial distress due to poor corporate governance, this can contribute to loss of stakeholder's confidence in the commercial banks which can lead to other problems all together or even escalation of the financial distress.

Due to unexpected situations such as recession, it may lender the financial ratios redundant temporarily despite good corporate governance. Financial ratios are observed or used by stakeholders to convey vital or important information about a bank under normal operations. It is thus recommended that banks should review their risk management models in order to achieve their long term-goals.

Financial distress could be caused by number of issues but one of the major contributors of financial distress is poor management policies. This is where the management team may not have appropriate management skills and qualities to competent workers and delegate responsibilities. This can lead to management not recognizing internal signs that could lead to distress. This consequently means the appropriate measures will not be

taken on time to avoid distress. The recommendation would be to change the management team and engage more qualified board members with diversity of skills and knowledge to make decisions that will help the banks overcome financial distress challenges in the changing business environment. The banks need to enhance investor confidence through financial transparency and disclosure. In addition, the firms need to develop multiple internal control models that will enable the firm identify appropriate mechanisms of generating profits.

For the commercial banks that fallen in and out of distress, it would be important to have a suitable exiting financial strategies that will lead to better profits. It is also equally important to understand the reasons that led to distress in the first place and develop proactive measures rather than reactive. By identifying these reasons they can be used as a solution to prevent financial distress from happening again based on corporate governance policies.

5.5 Limitations of the Study

Due to time constraints, the study was conducted on a sample of 38 commercial banks in Kenya out of the total population of 43 commercial banks. This may have made it difficult to find significant or meaningful relationship from the data meaning the sample data may have not been representative of the whole population. The results were thus generalized and conclusions could have been different had the whole population been studied.

Another limitation was the fact that this method of trying to establish the effect of corporate governance on financial distress exists depended purely on ratios. These ratios were derived from the financial statements of the various banks under study. There was an assumption that the financial statements or the annual reports given did not portray a true picture of commercial banks due to biasness of the researchers. However this could be misleading because annual accounts are unreliable because banks or companies manipulate their accounts in order to portray a positive image to enhance investor confidence.

Another limitation was that the accounts that were given did not give valid financial ratios. Most of the studies carried out on financial distress dealt with ways of predicting financial distress but not the effect of corporate governance on financial distress. There is lack of research on the effects of corporate governance on financial distress among commercial banks in Kenya. Thus it was difficult to lay out a foundation for understanding the research problem due to lack of an established framework.

Due to the high volume data that needed to be collected for this study, there may have been human errors during entry. This may have occurred due to time limit which could not allow for double checking the entries. This can result in errors that ruin statistical results and conclusions by for example affecting the coefficients incorrectly. Data entered incorrectly can change the interpretations and findings of the study. These errors would have been minimized by having methods for detection and prevention of data errors.

5.6 Suggestion for Further Studies

From the findings of this study, it is suggested that future scholars should seek to establish other variables that may contribute to financial distress of commercial banks regardless of good corporate governance. For example future studies need to investigate the influence of competition, employee behavior and management on financial distress among Commercial Banks.

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APPENDICES

Appendix 1: Questionnaire for Commercial Banks

PART A: DEMOGRAPHIC CHARACTERISTICS

Tick appropriately in the areas required. [X]

Name of your Firm (Optional)..

1. **What Position do you hold in your Banks?**
   a) Chief Executive officer [ ]
   b) Branch Managers [ ]
   c) Credit Officers [ ]

PART B: CORPORATE GOVERNANCE PRACTICES AND FINANCIAL DISTRESS

Please indicate (tick) the following statement on Likert Scale ranging from very large extent to small extent

Where; **5= (Very Large Extent) 4= (Large Extent) 3= (Small Extent) 2= (Very Small Extent) 1= (Not at All)**

2. **The following board characteristics practices may influence financial performance of the firm. Indicate the extent to which do you agree with the following statements?**

	Board Characteristics	**1**	**2**	**3**	**4**	**5**
1.	Board members of my bank have a combination of knowledge and experiences to competitive financial decisions					
2.	My bank has adequate number of members to make investment decisions					
3.	My bank frequently hold meeting to discuss issues relating to financial distress and propose appropriate measures					
4.	Board Member of my bank are creative and innovative					

5.	Board members of my bank always participate in global investment forums					

3. **How else does board characteristics contribute to financial distress in your bank?**
…………………………………………………………………………………………..

4. **The following stakeholder rights may influence financial performance of the firm. Indicate the extent to which do you agree with the following statements**

	Stakeholders' Rights	**1**	**2**	**3**	**4**	**5**
1.	Investors of bank are separate entities from the firm					
2.	The bank recognizes decisions of shareholders					
3.	Managers are given freedom to formulate, implement and control strategies					
4.	The bank participates in community development projects					
5.	The bank ensures that human rights are not violated in carrying out its activities					
6.	Employees are treated with dignity by management					
7.	Employees are given the opportunity to make independent decisions					

5. **How else does shareholder rights contribute to financial distress in your bank?**

…………………………………………………………………………………………..

6. **The following transparency and disclosure practices may influence financial performance of the firm. Indicate the extent to which do you agree with the following statements**

	Transparency and Disclosure	**1**	**2**	**3**	**4**	**5**
1.	My bank regularly publish it financial statements					
2.	Internal employees understand financial viability of the firm					
3.	Bank transparency enhances investor confidence					

4.	My bank attracts more investors by disclosing financial information					
5.	Information disclosed is accurate and reflect that state of the company					
6.	Information disclosed is both audited by internal and external auditors					

7. **How else does transparency and disclosure contribute to financial distress in your bank?**

………………………………………………………………………………………..………..

8. **The following internal control practices may influence financial performance of the firm. Indicate the extent to which do you agree with the following statements?**

	Internal Control	**1**	**2**	**3**	**4**	**5**
1.	My bank conducts internal audits periodically to determine its financial position					
2.	My bank is compliant with Capital market Regulations					
3.	My bank has risk management mechanisms					
4.	Employees of my bank have adequate skills and knowledge to determine credit risk					
5.	My bank generates internal reports to determine financial viability from time to time					

9. **How else does internal control contribute to financial distress in your bank?**

……………………………………………..……………………………………………..

10. **What are other corporate governance practices that influence financial distress of your banks?**

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Appendix 2: List of Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa
3. Bank of Baroda (K) Ltd
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Chase Bank Limited
8. Citibank, N.A.
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Co-op Bank
12. Credit Bank Ltd
13. Development Bank of Kenya
14. Diamond Trust Bank Kenya
15. Dubai Bank Limited
16. Ecobank Kenya Ltd
17. Equatorial Commercial Bank
18. Equity Bank Limited
19. Family Bank
20. Fidelity Commercial Bank
21. First Community Bank
22. Giro Commercial Bank
23. Guaranty Trust Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib AG Zurich
27. Habib Bank Limited
28. Housing Finance
29. I & M Bank
30. Imperial Bank Limited
31. Jamii Bora Bank
32. KCB Bank limited.
33. Sidian Bank Ltd
34. Middle East Bank of Kenya
35. National Bank(NBK)
36. NIC Bank Ltd
37. Oriental Comm. Bank
38. Paramount-Universal Bank
39. Prime Bank Limited
40. Standard Chartered Bank Ltd
41. Transnational Bank Limited
42. UBA BANK
43. Victoria Comm. Bank Ltd

Source: Central Bank of Kenya Report (2015)