

**CORPORATE GOVERNANCE PRACTICES ADOPTED BY KENYA  
COMMERCIAL BANK LIMITED**

**BY**

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**DECLARATION**

This research project is the result of my independent study and has not been submitted for examination in this University or any other Institution of higher learning.

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**D61/83914/2016**

This research project has been submitted for examination with my approval as the University supervisor.

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## **DEDICATION**

This project is dedicated to the Almighty God for giving me the grace to undertake it, to my family: my parents Paul Wainaina Kahuki, and Grace Wainaina for all their sacrifices to enable me achieve my academic goals, my siblings Waringi Wainaina and Brian Wainaina for their encouragement and moral support and my fiancée, Kariuki Gitau, for being an inspiration to me, for his encouragement and for his vote of confidence.

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## **LIST OF ABBREVIATIONS**

AGM	Annual General Meeting
CEO	Chief Executive Officer
CBK	Central Bank of Kenya
KDIC	Kenya Deposit Insurance Corporation
OECD	Organization for Economic Co-operation and Development
CMA	Capital Market Authority
NSE	Nairobi Stock Exchange
BOD	Board of Directors
KCB	Kenya Commercial Bank
SBMH	State Bank of Mauritius Holdings

## ABSTRACT

In the recent past, the banking industry has faced increased competition and tremendous challenges globalization, privatization of government owned banks, adverse changes in economic and political patterns and narrowing of profit margins. This has prompted the industry players to take competition to a higher level. Increased competition is critical advancing economy growth in banking industry. This study sought to identify and assess the corporate governance practices adopted by KCB in Kenya. The research design applied in the study was a case study. The primary data was collected using interview guide done on five interviewees who are senior managers and heads of departments at the KCB head office. The descriptive analysis was done using content analysis. The results indicated that KCB has had adopted corporate governance practices which led to their consistent profitability reports despite stringent measures that have been introduced in the banking industry in the past. The company's ability to adopt and implement the practices progressively was a success because there was employees inclusivity as well as proper communication of the practices, training on the same throughout the organization. The other responses are on the prudent practices which are: qualification and competence of the board, defining roles and responsibilities, ethical dealing and integrity, compensation decisions as well as effective risk management. It emerged from the study that over half of the respondents were of the view that board characteristics had the greatest influence on corporate governance quality. The conclusion drawn was that the research was a success having shown that good corporate governance practices were indeed more influential to the general performance of the firm. Recommendations arising from the study were that it is important for organizations to embrace the importance of good governance hence the need to sensitive and create a culture of good corporate governance practices by incorporating the office of governance in the structure of the organization to spearhead. Also the organization should have clear policy on corporate governance and the organization should incorporate effective systems to protect and encourage whistle blowers.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background to the Study**

Corporate governance is a vital component for increase of competitiveness, upgrading of investors' confidence, and constant improvement of cost-effective development. Corporate governance is one of the most considered agenda for global development that the governance of the corporation is important in the world economy as well as the governments of most countries (Wolfensohn, 1998). There is enough evidence from several studies that decent corporate governance produces several economic benefits to the company, assuring better profitability and sustainable competitive advantage. Corporate governance is being discussed widely in developed and developing countries. The popular view that corporate governance regulates firm success and shields the welfares of shareholders has led to increasing universal comprehensive attention (Mayer, 1997).

This study is anchored on three theories which are resource dependency theory, stewardship theory and agency theory. Agency theory applied because shareholders had delegated most duties to the directors and managers who are anticipated to work with utmost good faith and make the firm profitable. Stewardship theory assisted the study in understanding how the management is motivated by achieving the firm's set objectives and not their selfish interests. Additionally, resource dependency theory aimed at reducing dependence between the board of directors who provided strategic control and the management who were in control of operations.

The 2007-2008 Great Recession is beheld as the vilest economic crisis among the major financial crisis. It threatened the collapse of large financial institutions, for example, Lehman Brothers and Goldman Sachs, in most cases it was prevented by bailout by national governments (Erkens et al., 2012). Collapse of financial institutions was connected to dramatic failures in corporate governance. The idea of corporate governance has increasingly become a subject of topical interest especially when there is split-up of ownership from control. This has been contributed by increased dispersion of share ownership across many shareholders. Corporate governance is a collection of relations between a company's shareholders, its management, its board and several other

stakeholders. It offers the structures that outline the aims and ways of attaining them while monitoring performance (OECD, 1999). Profitability is considered to be an indicator of performance shareholders invest in profitable firms to get returns from their investments. Profitable firms generate capital gains as well as higher dividends.

Kenya Commercial Bank (KCB) Limited is a monetary services provider whose main offices are in Nairobi, Kenya. It is approved to operate as a commercial bank, by the Central Bank of Kenya (CBK), the national banking regulator. The bank provides retail and corporate banking and Banc assurance services in most parts of the country.

### **1.1.1 Corporate Governance Practices**

Corporate governance refers to a set of practices, processes and rules by which an institution is directed (Mayer, 1997). Proper governance practices impacts positively on longstanding corporate success but firms must plan and apply those that both obey legal requirements and solve their exact issues and that will be an advantage to every company. The practices that every Board of Directors should engage are building a qualified, strong board of directors and evaluate performance, ethical dealing and emphasizing integrity and defining roles and responsibilities, evaluating performance along with making principled compensation decisions and engaging in operative risk management (Cooper, 2014).

A Gazette Notice no. 3302 of 2002 guided the adoption of corporate governance practices applicable to listed companies in Kenya. The adoption of these guidelines is voluntary and firms are not legally bound. Firms are required to comply or explain the extent of non-compliance (Capital Markets Authority, 2002). Corporate governance outlines the structures for setting and achieving the goals of a company. Objectives are attained by adhering to corporate accounting catering for shareholders and other stakeholders (Capital Markets Authority, 2002).

Good corporate governance should set corporate objectives, running of day-to-day business considering the interest of all stakeholders. Sound corporate governance principles include for example, ethical leadership and integrity, responsibility to

shareholders, responsibility of the board, role and competence of board members and corporate governance in a group structure (CBK Act, 2015).

The Central Bank of Kenya (CBK) specifies the practices that are applicable to banks in operation in Kenya and well outlined in the prudential guidelines. This study adopted Cooper (2014) indicators of corporate governance which are integrity and ethical dealing, board competence, principled compensation decisions, emphasis on integrity and ethical dealing and effective risk management. These practices have been notably misused by management of most firms leading to poor performance if. Further, the same created agency conflicts between the shareholders and management.

Corporate governance is noted to have extensive consequences for the development forecasts of an economy. Good corporate governance practices are viewed as vital in attracting prospective capital and refining the profitability of companies. In this study, the relationship between corporate governance practices, showed its various effects to the success of a firm through Kenya Commercial Kenya Commercial Bank. Corporate governance practices clearly have great impact to maximization of stakeholder wealth and to the growth prospects of an economy. This study supported the agency theory propositions which noted that good corporate governance practices enhanced boards' liability to shareholders and improved an organization's profitability.

### **1.1.2 Banking Industry in Kenya.**

The Central Bank of Kenya (CBK) Act assists in governing and regulating the banking sector in Kenya with regular reference and aid from the Banking Act. The CBK ensures proper liquidity in the county, the solvency of the Kenya shilling and the proper functioning of the Kenyan financial system. In the third quarter of 2016, the Banking (Amendment) Act was signed into law, bringing in an era of interest rate controls.

Under this regime, banking institutions were required to set their lending rates only four percentage points above the central bank's benchmark rate and pay interest earning deposits at 70% of the benchmark rate. The year ended with some activity in the mergers & acquisitions (M&A) arena. State Bank of Mauritius Holdings Limited entered the Kenyan banking arena with the acquisition of Fidelity Bank, and I&M Holdings bought

out Giro Commercial Bank in June 2016. At present, the number of licensed commercial banks stands at 43 while that of representative offices of foreign banks is 6. Most local banks are largely family owned while the government has a significant stake in three of Kenya's commercial banks .In Kenya, banks collect deposits from clients and make profits by using the deposits to give loans to businesses with a relatively high interest rate.

### **1.1.3 Kenya Commercial Bank Limited**

The Banking Act, the Central Bank of Kenya, the Companies Act and the various prudential guidelines issued by CBK govern the banking sector in Kenya. A bank is a licensed company which carries out or has a proposal to carry on banking business in Kenya excluding the Central Bank (Banking Act of Kenya, 2015). This is both in Kenya and elsewhere. Banking business involves accepting money whether on deposit or current account from the public. This money is repaid when demanded, expiry of fixed period by customer or on notice. The banks use this money to lend to public or investing. The banks bear the risk on the use of the money from the members of the public (Banking Act of Kenya, 2015).

Kenya Commercial Bank Limited, commonly known as KCB is a commercial bank in Kenya, licensed by the Central Bank of Kenya, national banking regulator and the central bank. The started in Zanzibar and extended its operation to Nairobi, which had become the headquarters of the expanding railway line to the neighboring country Uganda. The Kenyan government acquired majority shareholding of the bank and then changed its name to Kenya Commercial Bank. Over the years, Kenya Commercial Bank has gradually improved its bottom line by growing its market share and increasing its profitability with interesting and well-tailored products such as Islamic, retail, corporate, youth banking, mobile and online banking products.

KCB posted a record KES 15.1 Billion profit on its 115<sup>th</sup> anniversary making it the best performing bank in East Africa. The bank has ventured and extended its operations into Uganda, Rwanda, Burundi, Tanzania and Southern Sudan. Presence of strong corporate governance practices on liquidity and portfolio risk management influence the bank's

profitability. It was discovered that the management of the organization accessed credit facilities with proper perfection of securities. Consequently the bank was incapable of meeting its financial obligations on April 6<sup>th</sup> 2016(CBK 2016).

Preference to conduct a study on corporate governance practices of this institution was majorly because the bank has invested heavily on differentiating its brand, products, and service levels from those of their competitors. Their growth and expansion strategies were also well calculated noting the increased profitability over the years. Efficiency is a key concept for financial institutions (Cinca et al, 2002). Therefore, efficiency can be seen to have a direct relationship with the performance. Measurement of profitability of banking institutions serves important purpose as it helps to bench mark the relative performance of an individual bank against the industry as the” best practice” bank(s) and evaluate the impact on these institutions.

## **1.2 Research Problem**

Corporate governance system in Kenya was influenced by the privatization and financial liberalization in the 1990s. Financial liberalization opened up the banking industry leading to increase in the number of banks. According to Bank Supervision Annual Report, 1994 by CBK banks grew from 10 as at 1969 to 36 in 1994, over 70% in growth. This led to competition which may have contributed to weak performance and collapse of some banks (Mwangi, 2002). To reduce chances of banks collapse due to governance problems the CBK issued prudential guidelines on bank corporate governance. Corporate governance practices can affect profitability of a firm positively or negatively. Positive attributes on corporate governance indicate that good corporate governance has great influence in enhancing competence of companies, integrity, as well as financial institutions and markets in which the company operates.

Recent research in corporate governance practices show that investors have an inclination to invest more in firms which have enhanced governance systems. Bris (2010) conducted a study dubbed a corporate governance failure, not a failure in the financial markets with reference to the Lehman’s brothers’ case. Bris’ study revealed that the firm had questionable practices. Berg(2010) did a study on bank governance in relation to the

volatile market conditions in 2007-2008. He concluded that several of the issues experienced recently can be traced to inconsistent implementation of properly formulated policies and to behavior prompted by increasingly short-term performance horizons.

There have been various local studies conducted on areas covering corporate governance in several sectors; studies by Kimsop (2011); Mbaabu (2010) focused on corporate governance and performance in the insurance sector. Kimeiri (2011) focused on corporate governance and performance of small scale tea processing companies in Kenya. Oketch (2011) did a study on corporate governance structures and management in HIV/AIDS NGOs. Keitany (2009) did a survey study on corporate governance structures and practices in occupational retirement benefit schemes and found the boards to comprise of 6-12 members. Few studies have touched on some aspects like corporate governance challenges, Muriuki (2011) did a study on challenges of implementing Lord Cadbury's principles of corporate governance in investment banks and established that the organizations in the sector faced legal and regulatory systems challenges, culture and supervisory challenges, while Musikali (2008) reviewed corporate governance and law and noted inadequate training of directors and poor shareholder activism as some of the factors holding back development of corporate governance.

More studies in the local industry on corporate governance are seen in the works of Gacharia, (2015) that focused on leadership styles and corporate governance in Chase Bank. The research concluded that the management ought to be competent to guarantee good strategy objective setting. According to Wabufwa (2013) whose study focused on factors influencing performance, corporate governance was established to be a key factor and more importantly the study established that banks will formulate their policies bearing in mind the need to increase revenue to their institutions. A study by Ngeche (2016) sought to find out how corporate governance practices affected strategy implementation in Chase Bank. The study recommended that institutions needed to embrace competence evaluation and where there is a need ensure that training programs are put in place to enhance strategy implementation. In this case, the researcher was not

aware of any study that has been done on corporate governance practices adopted in Kenya Commercial Bank, Kenya.

Kenya Commercial Bank has been keen on the implementation of several strategies in the last ten years which were believed to see its growth in terms of market share as well as attain sustainable competitive advantage. Pioneering studies done on KCB touched on other topics. A study done by Chari (2010) analyzed on growth strategies by the Kenya Commercial Bank Ltd and made findings that the bank had several other factors that contributed to its rampant growth and expansion of service provision. The said factors were favorable political environment, ego and presence of virgin markets. This study sought to address the following research question; what are the corporate governance practices adopted by Kenya Commercial Bank in Kenya?

### **1.3 Research Objective**

The main objective of this study was to determine the corporate governance practices adopted by Kenya Commercial Bank.

### **1.4 Value of the Study**

Considering KCB has been an important financial intermediary in the economy, it is important to understand their governance practices. Banks are heavily regulated and are supposed to disclose financial information uniformly. The banking system is composed of shareholders, management, customers and the regulator. Kenya Commercial Bank having been recognized and awarded several years in a row for being one of the fastest growing banks, is well suited to understand the corporate governance practices. KCB was entrusted by Central Bank of Kenya and Kenya Deposits and Insurance Corporation (KDIC) to manage Chase Bank in 2016 noting its unfortunate state of being placed under receivership.

KCB would also have the option to take a majority stake in the financier that specialized in servicing small and medium-sized enterprises after conducting a detailed due diligence to determine the details. This shows that the regulating body of financial institution had faith in the stability of KCB which came about from implementation of proper operational strategies as well as good corporate governance practices. This study was



significant mainly to banks on additional variables to establish the effect of various corporate governance practices. This aided in implementing and monitoring corporate governance principles in the banking industry. This study added to existing wealth of corporate governance literature by studying a specific sector because previous studies had concentrated on firms in different sectors. This study also examined if corporate governance had a role in the re-emergence of banks collapse in Kenya. The study findings were termed to be useful for future and further research on this subject.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discusses the theoretical foundation, empirical literature and an overview of the literature of the study.

### **2.2 Theoretical Literature Review**

The theoretical literature review examined the theories that have been used to explain corporate governance. The theories are; Resource dependency theory, Agency theory and Stewardship theory.

#### **2.2.1 Agency Theory**

According to Berle and Means (1932) the idea of agency relationship was between shareholders and management. In their study they found existence of conflicting interests between the management and shareholders. They observed that the relationship was brought about by dispersed ownership of shares among many shareholders. The dispersed ownership had replaced the sole ownership of corporations which was in existence in most firms. They further extended the agency relationship from management and shareholders to bondholders and creditors. Berle and Means did not address the results of separation of management and shareholders. They further did not address the need for efficient monitoring upon separation of ownership from control.

Alchian and Demsetz (1972) observed the agency relationship as set of contracts in a firm. These contracts were made between the firm and other parties, for example, suppliers, creditors, debtors, management and shareholders. These parties formed contracts with the firm hence they were agents to the firm. The shareholders had the right to sell their shareholding at free will. They argued that the management had to be separated from shareholders hence supported agency relationships.

Jensen and Meckling (1976) extended the principal-agent relationship in terms of utility maximization. They held the view that managers who are the agents of shareholders may act against the shareholders' interests. This is by attaining self-utility instead of achieving the shareholders goals. They regarded this as the agency problem. To solve this problem

the shareholders had to incur agency costs. The agency costs were in form of costs incurred during the monitoring process, hiring of directors and auditors. They argued that to align the management interest to shareholders' interests the management was offered incentives. The incentives were in form of compensation packages and share options. These propositions by Jensen and Meckling in terms of share options have not been widely applied by modern corporations.

Fama and Jensen (1983) extended the agency problem in terms of costs involved in monitoring of management by shareholders. They went further to distinguish the agency relationships between private partnerships, financial and non-financial corporations and donor agency relationships. They also suggested that to monitor management, a larger proportion of outside directors would be important.

Agency theory is not normative theory. Agency theory's analytical strength lies in description of the circumstances where parties act rationally, concentrating on their own individual interests, with risk aversion. It was relevant for this study because it involved the challenge of directors controlling a company whereas shareholders owned the company. In the past, a difficulty was identified whereby the directors may not have acted in the shareholders (or other stakeholders) preferred interests and this is not an infrequent case.

### **2.2.2 Stewardship Theory**

This theory aims at reducing the heights of conflict between shareholders and managers as suggested by agency theory. Donaldson and Davis (1991) argued that a highly ranked representative of a firm would want to perform a task and provide good stewardship of the firm's assets. They also recommend that for better performance a larger part of inside directors is ideal. For competence in decision making this theory proposes the position CEO and board's chairman be filled by different individuals. Davis, Schoorman and Donaldson (1997) viewed stewardship relationship when management is not determined by own benefits but motivated by achieving the company's proposed objectives.

It was argued that the management earned further satisfaction attaining company's objectives than their own interests and this is not true in most cases. Muth and Donaldson

(1998) claimed that the manager acts as a captain and considers non-monetary motives for managerial behavior. The manager is driven by pursuing satisfaction in successful achievement, appreciation and integrity of authority. They propositioned that a board made of more internal directors awards the company an edge in terms of proficiency, access to information and pledge to meet organizations proposed objectives. The stewardship theory however has limitations of reinforcing the egos of senior managers as well as lacking empirical evidence. This study was guided by this theory because company executives are expected to guard the interests of the shareholders and make informed verdicts on their behalf. Their solitary goal is to create and preserve a successful organization so the shareholders prosper.

### **2.2.3 Resource Dependency Theory**

This theory aims to reduce dependence between management who are in operational control and the board of directors who provide strategic control. (Pfeffer and Salancik 1978) posit that interdependence is important for an organization to achieve its desired outcomes which depend on the availability of resources. They further argued that resource availability reduces the dependence between the different parties in need of them and to reduce the problem of resource uncertainty is by increased coordination. According to (Hillman and Thomas 2003), resource dependence examined how board capital which included legitimacy, advisory and linking the firm to other organizations leads to provision of resources to the firm. (Josiah et al., 2013) focused on how organizations try to control their locality by utilizing the resources for survival. They argued that the board of directors provided means through which resources were available in an organization and also offered linkages to the external environment.

In the recent past, this philosophy has been under examination in several investigative studies: Hillman et al. (2009); Davis and Cobb (2010); Drees & Heugens (2013); Sharif & Yeoh (2014) explain the actions of organizations by incorporating the importance of the theory. Joint venture, mergers and acquisitions and mergers and interlocks are formed, in attempting to avoid dependencies and improve an organizational legitimacy and independence. Resource dependence theory forecasts are alike to those of transaction cost economics. The resource dependency theory equally offers little understanding into

the motivation of an individual to provide a company with the benefits of his or her skills, competencies, and know-how as an employee, with often poorly compensated cases, and is increasingly exposing him or her to detrimental liability claims. This theory was relevant because organizations depend on multidimensional resources: labor, capital, raw material, etc.

## **2.3 Corporate Governance Practices**

This refers to a set of rules, practices and procedures that govern an institution. Basically corporate governance involves matching the securities of all stakeholders, such as the community, customers, management, suppliers, government, shareholders and the financiers. Corporate governance also provides the basis for accomplishing a company's goals hence it covers every aspect of management, from internal controls and plans of action to performance evaluation and corporate revelation (McInnes, 2014). The application of these philosophies is supposed to be commensurate with the risk profile, business model, size, economic significance, complexity and structure of the bank and the group (if any) to which it belongs. This undeniably leads to making reasonable modifications where suitable for banks with lower risk outlines, and being attentive to the higher risks that could accompany more intricate and publicly listed institutions

### **2.3.1 Board Competence**

Firms should build a qualified and strong board of directors and evaluate their performance often enough. This will shed light on the rot and incompetent member who do not add value to the firm and its profitability. (Adams and Mehran 2005) found a progressive relationship between board competence and performance (measured by Tobin's Q) in the U.S banking sector. Boards therefore should include directors who are conversant to the business and are well aligned to their duties. Their competence, skill set, diverse backgrounds, skill sets, and ethics and integrity should not be in question. All are a must have to guarantee good performance of the organization.

The firm ought to detect gaps in the existing directors and the ultimate abilities and characteristics, and preserve a list ready of appropriate candidates who can fill board vacancies when need arises. Further, companies should form an engaged board where

directors pose questions to challenge management and their endorsements (Hérouxa,2013). Review of the mandates of the board regularly to gauge if the said directors are carrying out responsibilities, and take on meaningful examinations of their performance would be great too.

### **2.3.2 Roles and Responsibilities.**

A firm should establish clear lines of answerability among the management, Board, Chair, Executive Officers and CEO by creating written directives for the Board and every committee defining their responsibilities and duties. This would be done by separating the roles of the Chair of the board and the chief executive officer (CEO). The board is led by the chair and makes sure that it is acting in the company's long-term preferred interests while the CEO develops and rolls out business strategy, leads management, and presents to the board (Manitoba Family Services and Housing, 2002).

Firms through their human resource and talent organization and development delegate all responsibilities according to adequate qualifications, skills and experience. All departments should have well defined descriptions of their duties, activities and recommended service level agreements which also interlink with other relating departments. The success of organizations is highly dependent on the transparency emulated throughout the recruitment processes every time a position falls vacant. The strategic leadership team emphasizes on the importance of frequent trainings on new services and products as they keep being developed to meet the various emerging needs by clients. This also ensures that the firm achieves a superior fit between the company and its environment, so as to meet set company objectives.

### **2.3.3 Emphasis on Integrity and Ethical Dealing**

Ethics generally deal with the behavior of morals of human beings and character. It deals with all types of behavior, assesses conduct against some obvious principles and puts negative or positive values on it (Hanekom, 1984). In the same way, Chapman (1993) describes ethics as the elementary principles of the right action and rules of conduct. Integrity on the other hand is one of the most vital and often cited of virtue terms. The perception of integrity has to do with seeming steadiness of actions, values, methods,

measures, principles, expectations and outcome. Halfon (1989) offers a dissimilar way of crucial integrity in terms of moral purpose. Halfon defines integrity in terms of a person's devotion to the quest of a moral life and their knowledgeable duty in seeking to comprehend the demands of such life.

The directors must assume a code of business conduct setting out the company's desires and channel to report, a conflict of interest policy, deal with non-compliance, and a whistleblower policy (Watson Wyatt's Human Capital Index 2004). Further, they must make someone accountable for oversight and control of these policies and procedures. To form and cultivate this culture, firms should have someone answerable for errors and management of these policies and procedures.

#### **2.3.4 Principled Compensation Decisions**

As we pursue our capital-efficient business and client-focused model, compensation is essential to our ability to attract, retain, reward, recognize and motivate the endowed individuals needed for our perpetual business success. By the same demonstration, there has been significant regulatory and political focus on payment at financial establishments over the past few years, with thorough regulation and guidance issued in several authorities (Nadel, 2002).

The board should come up with measurable performance objectives for executive officers and regularly gauge their performance against them and link payment to achievements. Pay-for-performance approach goes beyond pure financial performance to a collective extent, compensation decisions have to take into consideration non-financial objectives and values echoed (Credit Suisse Group Ag 2016). Compensation decisions are an important part of running a company and they need to be done well. Keeping a salary chart clear could be a lot of work but open salaries are recommended to avoid discrepancies (Sink, 2015)

#### **2.3.5 Effective Risk Management.**

This refers to the process of detecting, gauging and analyzing predictable and probable damage in this context, to heritage sites and of developing modification policies in order to reduce the risk of damage. In many fields, decision makers use this tactic in order to

decrease losses. Another way of saying this is that risk management is the policymaking process following a risk assessment (Ball and Watt, 2001).

Organizations therefore are expected to frequently distinguish and evaluate the risks they are likely to face, including financial, operational, reputational, environmental, industry-related, and legal risks (Cooper, 2014). It is the responsibility of the directors to understand the current and emerging risks the company faces and the implications that would have on the company's performance.

#### **2.4 Empirical Literature Review of Corporate Governance Practices**

This segment will discuss the empirical studies carried out, estimation techniques and findings on corporate governance and firm profitability. To examine if corporate governance has influence on firm performance Olawumi et al., 2015 studied companies listed in Nigeria Stock Exchange. The study adopted random effects regression model. Indicators of performance were Return on Equities (ROE) and Return on Assets (ROA) and the proxies for corporate governance were board size, board independence, gender diversity and ownership structure. Findings of the study findings were that board size affects profitability negatively. Board independence, gender diversity and ownership structure does not influence profitability. However, the results could have been different when analysis is done for a specific sector in the economy.

Linner (2009) conducted a research on corporate governance practices and challenges for international non-governmental organizations in Kenya. He found out that with the exception of one, the organizations had a governing body (under different names) in place that is different from the management and whose roles and responsibilities are also distinct from those of the management. He further found that the boards chair is not is not the CEO, a fact crucial for the independence of the board (Rosenstein & Wyah, 1990). The importance of the independence of the board is the separation of the chair from the CEO and this was proposed by Adrian Cadbury's report of 1992 (Tricker, 2000). The implementation of good corporate governance is determined by the existence of a board. Governance body going by different names exists and it consists of external directors who are separate from the management and the CEO is not the chair of the board. The



roles of the board and that of the management are separate, defined and distinct and each group understands their roles well and this research is to establish if this can result to increase in firm value for insurance firms in Kenya. Kiel and Nicholson (2003) investigated

Washe (2010) conducted a research on the connection between corporate governance practices and financial services of teachers' Sacco in Coast province of Kenya and concluded that there is need to create an independent body responsible for overseeing corporate governance practices separate from management due to problems like fraud and misappropriation of funds they face. Odera (2010) study on the relationship between corporate governance practices and client base in investment banks in Kenya established that there has not been a clear correlation between corporate governance practices and the number of clients served by these firms. Adams and Mehran (2003) did a comparative study on corporate governance between bank holding companies and manufacturing firms over 1986-1996 period. Using descriptive statistics, they found out that the number of outside directors is higher, board size larger in bank holding companies than in manufacturing firms. They further established the boards of bank holding companies meet more frequently and this was anchored on subsidiaries of bank holding companies resulting on a wider scope.

To determine if corporate governance practices influence firm financial performance Kyereboah (2007), studied firms in four African countries. The period examined was from 1997 to 2001. Performance was estimated by ROA and Tobin's Q. Board size, independence, board activity intensity, CEO being the board's chairman, tenure of CEO, audit committee and degree of institutional ownership as proxies for corporate governance. The empirical results were that; board size, independence, CEO tenure, audit committee and how frequently they held meetings significantly influenced performance positively. Institutional ownership influenced market valuation of firms while CEO duality and board activity intensity influenced performance negatively. This study eliminated banking and finance sector creating a gap in the study.

Dalton et al., 1998 reviewed studies to determine if board composition influenced the organization's profitability. The proxies for board composition were ratio of outside directors, and proportion of independent directors. They used market measures of firm financial performance and also accounting measures. Results from various studies proved that board composition had no significant influence on performance.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

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

### **3.2 Research Design**

A research design is a comprehensive outline or plan of how a study was conducted. It gives the researcher the ability to evaluate the association between variables without interfering with them (Kothari, 2006). The study is a descriptive case study to find out the nature of the relationship between corporate governance practices and firm profitability of KCB. Mwangi (2014) applied a descriptive research design to establish the relationship between bank size and the profitability of the financial institutions in the country. The study used a descriptive case study because it established the importance of implementing corporate governance practices in a firm. This study obtained the views of the respondents from the top management of KCB which constitutes of senior managers and head of departments in line with establishing the corporate governance practices employed and ultimate performance at KCB. The main purpose of this research was to examine the corporate governance practices adopted by KCB in Kenya.

### **3.3 Data Collection Methods**

The study used primary data which was obtained through use of interview guides from three heads of departments, three relationship managers and four senior managers at KCB head office. These respondents were efficient in providing the required data since they were in a leading role and they are the ones who carry out the managerial functions at the bank. Due to the desire of capturing all the applicable information from the respondents, the study allowed for both closed and open ended questions in our interviews. The latter being an opportunity for the respondent to add on anything that might not been captured in the interview guide.

### **3.4 Data Analysis Methods**

This segment discussed the techniques that were used to analyze data. According to Cooper and Schindler (2006), data analysis begins immediately after data collection and ends at the interpretation and processing of data. Content analysis was used to analyze the respondents' views on corporate governance practices adopted and how they affected the bank's profitability. Content analysis is defined as a method of making inferences by objectively and systematically identifying specific features of messages and using the same to relay to trends (Bryman & Bell, 2007). Content analysis uses pre identified sampling units to produce frequency counts and other perceptions into data patterns. To carry out effective analysis, written or recorded materials will be analyzed step by step, following rules of procedure, devising the material into content analytical units. Content analysis approach ensured that any unanticipated themes were given the opportunity to emerge from the data. The data was then presented in a continuous prose as a qualitative report. The data acquired was compared with current literature in order to institute areas of disagreements and agreements to enable ascertaining of the facts.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter covers the analysis and presentation of the primary qualitative data collected using an interview guide from the KCB respondents. The objective of the study was to establish corporate governance practices adopted at Kenya Commercial Bank Limited. The study was conducted from the top managers involved in implementation of the corporate governance practices.

### **4.2 Response Rate and General Information of Interviewees**

The targeted number of respondents was five. All of them were available for the interview making the response rate 100%. This was a very accurate and considerable response to represent the actual undertakings at Kenya Commercial Bank. The gender of the respondents was 80% male and 20% female from asset finance, risk and compliance, business analytics and Audit, strategy and change management and talent and organization development departments. It was noted that the range of duration the respondents had worked at the organization was between 9 months to 10 years. This gave a wide range of experience from the respondents in regards to the corporate governance practices applied in the organization.

### **4.3 Corporate Governance Practices**

The following resulted from the analysis of both primary data and secondary from information gathered from the respondents of managers at Kenya Commercial Bank Limited who represented the entire organization and the information gathered helped address the study objectives. In order to be able to understand the concept revolving around the corporate governance practices at KCB, respondents were asked to give indications of what they think about board competence, roles and responsibilities, integrity and ethical dealing, principled compensation decisions and effective risk management and dealing with challenges of the said corporate governance practices. Secondary data was also used during analysis.

Content analysis technique was used to assist in making inferences by objectively identifying specific information and relating the same to the objectives. The results have

two parts being qualitatively and secondly quantitatively. According to Stemler (2001), when content analysis is used properly, it is deemed a powerful data reduction technique. Its main advantage comes from the obvious fact that it is a replicable, systematic technique for reducing many words of text into less content categories based on precise rules of coding. Discussion of the findings in view of other studies that have been conducted on similar studies on corporate Governance practices in other organizations forms the last section.

#### **4.3.1 Board Competence**

The respondents were asked to highlight the significance, roles and independence of their board of directors. According to the respondents, the study findings revealed that the board of directors at Kenya commercial Bank Limited was viewed as the visionary leadership that guided the organization and its people towards achieving a common goal. The responsibility of the Board is to supervise the management of the Corporation and to stand for the interests of all the company's stockholders. The board meets in regular sessions and each member is expected to attend the meetings where they are encouraged and expected to ask queries of and raise issues to be addressed with management to ensure the conduct of careful and cautious oversight, which will ensure the organization's future survival.

The interviewees reported that the board is competent when armed with a mission statement and vision, corporate objectives, and an assessment of the external and internal environment. Additionally, the corporate boards have strength to serve protocols that are used when a director is involved in a state that would probably reflect negatively on the bank.

Leadership skills such as administrative ability, persuasiveness, and communication, conceptual skills, social skills, creativity, and knowledge about team dynamics have been found to strongly affect application and adoption of corporate governance practices and ultimately firm performance when applied within Kenya Commercial Bank Limited. At Kenya Commercial Bank directors are said to be independent without relationships that could compromise or interfere with their judgment. All this is achieved when the

directors studying the environment which is one of the most crucial activities of corporate governance in understanding the type of sector and general environment in which the organization operates. This involves being able to identify and interpret emerging trends before they become apparent to everyone else.

The competence of the directors should therefore be evaluated every often to assess whether they are fulfilling their duties as assigned. Evaluation means that set goals have a greater probability of being met and thus the outcome is better firm performance.

#### **4.3.2 Roles and Responsibilities**

The interviewees were asked if roles and responsibilities were well defined in KCB, if job reviews and evaluations were carried out in the institution and how performance assessments were carried out, The respondents advised that at Kenya Commercial Bank roles and responsibilities are well defined, reporting lines and channels are clear. The bank through their human resource and talent organization and development delegates all responsibilities according to adequate qualifications, skills and experience. All departments have well defined descriptions of their duties, activities and recommended service level agreements which also interlink with other relating departments. The success of KCB over the years is highly dependent on the transparency emulated throughout the recruitment processes every time a position falls vacant. The strategic leadership team has emphasized on the importance of frequent trainings on new services and products as they keep being developed to meet the various emerging needs by clients. This also ensures that the firm achieves a superior fit between the company and its environment, so as to meet set company objectives.

The roles of the employees are reviewed to ensure that written out mandates are revised to meet the dynamic and ever evolving needs. KCB as a firm is expected to possess effective performance assessment systems. They have adopted the Balance Score Card (BSC) which requires that they view the organization from four points of view and to develop objectives, measures, targets, and initiatives (actions) relative to certain skills so as enable them to efficiently implement the strategy formulated and hence achieving the

organization's goals. This tool is used to measure yearly performance of the employees quarterly. The tool further highlights individual employee's weaknesses, strengths and also gives them the opportunity to understand areas of personal development.

The interviewees further highlighted leaders at Kenya Commercial Bank Limited have delegated certain responsibilities to subgroups and committees who evaluate proposed transactions and opportunities. They are well knowledgeable at anticipating and predicting events in the external environment that have the capability to impact business performance they observe from the outside in; acquiring and maintaining competitive advantage by adopting core competencies and selecting the right sectors in which to compete. Each approach has advantages and disadvantages to follower motivation and commitment.

#### **4.3.3 Integrity and Ethical Dealing**

The interviewees were asked to describe the employees' commitment to the values of KCB, They cited that they were committed to the purpose, mission and values of KCB. Being in the service industry they are required to have excellent customer service internally and to their clients. Relationships within themselves and with the clients are all required to reflect the goodwill of the bank as well as build ethical considerations. The respondents advised that KCB had embedded ethical discussions throughout the organization by relating all the operations to arising ethical issues to imperative business objectives being protecting the firm's reputation, effective recruiting, and meeting and exceeding customer prospects.

The interviewees were asked if the organization made efforts in building ethical concerns into performance reviews by factoring in not only what was accomplished but also how it was achieved. They highlighted that departments that have succeeded in rolling out a product or service and achieved their set objectives both in sales and increasing the organizations market share is required to train the other employees on how to achieve the same for their products. Further they cited that the organization has invested in having an online training platform where employees enroll for courses of their interest. Upon successful completion of each course the employee is issued with a certificate. However,



some courses are compulsory, especially those that have to do with the overall growth and performance of the organization. All integrity and professional ethics courses are compulsory.

The respondent also noted that the top management had been quite supportive to the employees throughout the organization by Adopting and implementing a conflict of interest guiding principle, a code of business conduct setting out the institution's requirements and process to report and deal with whistle blower, non-compliance system where they could report unethical activities anonymously. In line with the Bank's belief and commitment to good governance and transparency, the Bank setup a confidential Whistleblower portal that allows employees to report fraud, corruption and other incidents. They also attested to the fact that they all acted morally and ethically in accordance with the values of KCB to avoid conflict of interests and ensure progressive growth of the organization.

The respondents were asked to identify and explain the rate at which other employees adhere to the set standards of ethics in the organization. The respondents cited the following practices namely; effective communication which they pointed out that it was critical in remaining transparent, an ultimate goal of the excellence of the firm in to convey meaningful integrity mannerisms across the organization to achieve employees' corporate acculturation and employees' commitment. The respondents noted that the top management's support had been overwhelming as issues were addressed in good time as they rose.

#### **4.3.4 Principled Compensation Decisions.**

The respondents cited that KCB had established measurable performance targets that are accessed regularly and their performance evaluated. This was a response to a question they had been asked in regards to KCB's employees' assessment of their duties and remuneration. This information is further used to make compensation decisions. These decisions according to the interviewees are amount of bonus and commissions, salaries and wages, benefits meant to motivate the employees as well as job promotions. The respondent also highlighted that the organization had established a compensation

committee that comprised of independent directors highly knowledgeable and competent on matters in line with compensations as well as oversee compensation plans.

Additionally, the interviewees were asked if the firm compensated employees based on their performance targets tied to their roles. They advised that the tool used to evaluate the employee performance as earlier highlighted (BSC) guides greatly on making compensation decisions. This tool is used extensively in the business industry since it communicates what they are meant to achieve, support the day to day work that all employees are doing with strategy, prioritize projects and products and above all monitor and measure progress towards strategic projects. It is therefore a modern and most transparent remuneration system. The respondents also cited that KCB monitored all pay practices and systems effectiveness, cost containment as well as transparency.

#### **4.3.5 Effective Risk Management**

The respondents were asked to advise if the organization measured progress against and deviation from expected results throughout the organization. Respondents cited that KCB regularly monitored the internal and external environment for appropriateness and excellence of the organization. They further explained that the nature of their business and industry they were in was quite dynamic and they have to keep reviewing processes to attain sustainable competitive advantage from direct and indirect competitors. Noting the definition of risk which is a situation that involves exposure to danger, the organization should identify all risks that they are likely to face. Such risks may compromise the levels of service, quality of services and products offered by the institution and the overall performance of KCB.

It was said that the strategic and change management team carry out market and sector reviews identifying the risks which are then managed proactively or reactively depending on the urgency and impact they are expected to have on the organization. Kenya Commercial Bank was also said to have developed contingency plans to deal with emergencies. The respondent cited that the organization had efficient and reliable processes for reporting of risks and risk management and added that they were accessible to all employees. This information is readily available to all members of staff.

The respondents were asked what they thought of the bank's implemented processes and procedure to make sure that they were fully equipped to deal with any type of potential threats. They alluded to the main points stating that they had a lot of confidence in the organization noting the recent capping of interest rates which caused shockwaves in the industry but the organization still reported profits unlike their competitors. They also advised that KCB had adopted several risk management approaches which were risk reduction, risk sharing, risk avoidance and risk sharing. They had been effective since the respondents pointed out that effective risk management had maintained a culture of openness, accountability and integrity thereby upholding the bank's reputation.

#### **4.4 Role of Corporate Governance Practices in KCB**

The interviewees were asked to give an overview of the general efficiencies that are experienced as a result of adopting the corporate governance practices. The respondents established that corporate governance supports the organization in being able to succeed in the industry over the years in an environment where proper governance is a business imperative. Corporate governance at KCB has promoted strength, viable competitive advantage and better accountability to its stakeholders. Further it is notable that there has been a good record high performance by the board of directors and the organization in general, accountable management and strong internal controls, increased shareholder engagement, effectively measured and monitored performance and better managed risk. The interviewees said that corporate governance is essentially about enhancing transparency and accountability within existing systems.

#### **4.5 Dealing with Challenges of Corporate Governance Practices.**

Noting different outcomes that result from corporate governance the interviewees were asked to highlight challenges experience from adoption of the said corporate governance practices. Analysis found out that corporate governance practices have challenges too within an organization. Challenges identified were: resistance to change by employees and directors, transitioning of the board after one retires and another is to be appointed, weak relations with key stakeholders, ambiguity of governance guidelines, little accountability to the community and irregular evaluation of the board's performance.

Putting skilled, tenured directors and employees in organizations would cause a paradigm shift in the performance. However, not all employees would welcome the idea and changes being implemented. The organization should therefore align their initiatives. This can be done by creating a strategic worth measurement tool for existing and new initiatives. Initiatives should be assessed against their strategic value and their impact to the company. The interviewees stated that resistance to change was dealt with through sensitization programs, demonstrate to staff on the importance of the changes, assuring them about their jobs, some staff assigned new roles, but those who were extreme were retired.

Secondly, the respondents noted that all staff should be engaged throughout the implementation processes of the corporate governance practices as well as strategies. They should be made to understand the importance of supporting these values, processes and procedures. It is important that all employees be aware of expectations. What and how are they expected to deliver? How are they expected to change? Each person should understand their roles within the strategy, the expected rules and how they will be considered. As mentioned above performance measures and incentives should be aligned with performance against key performing indicators.

The respondents cited that to deal with stakeholders and the community, the organization has several corporate social responsibility programs such as the KCB group foundation which is spread across all the countries with a KCB office. This foundation is dedicated to ecological progress, affluence and poverty reduction amongst communities in Eastern Africa.

#### **4.6 Discussion**

This section presents the discussion regarding the research findings including comparison with the three theories stated in chapter two guiding the study. They are the agency theory, stewardship theory and the resource based theory.

The resource based theory stress on the organization's resources like the physical resources such as plant and machinery, its people resources such as its leadership and skills (Lynch, 2009). Both the physical and people resources are available in the bank

which if utilized well can enable the bank manage change effectively. From the findings, the banks are able to compete due to the management of resources. Investing and using the development of new technologies gives the organization an upper hand in the change management process. The strong emphasis on training and motivating employees ensures that the people resources such as leadership and skills are enhanced. Most of the employees participate in the in-house trainings organized by the bank. The study found that the full resources of the people were needed within the company to help stay updated on the many implications and events that will change the company

Agency theory explains the connection between agents and principals in business. Agency theory deals with addressing issues that can exist in agency relationships due to conflict in goals or different aversion levels to risk. Further, agency relationship is a set of contracts in a firm (Alchian and Demsetz, 1972). Agency cost will also have to be incurred in an effort to reduce the conflict of interests. From the study, KCB is able to hold on to a sustainable competitive advantage because they have invested in a monitoring tool that maintains checks and balances of all activities being ran in the organization. All other performance monitoring and evaluation tools used seek to advocate for transparency and motivate employees. Their productivity is therefore high and profitable. This view was found to be in line with the organization's strategy where people are encouraged to expand their capacity to create the results they truly desire.

The stewardship theory aims at reducing the level of conflict between shareholder and managers as suggested by the agency theory. Managers act as captains and consider non-monetary objectives for managerial behavior (Muth and Donaldson, 1998). This study revealed that managers at KCB are well remunerated and the motivation methods are well defined that they would hardly focus on achieving their own selfish needs. Further benefits are advanced to them to benefit them and their families. The respondents also cited that the bank recorded a very low turnover amongst managers.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter offers the summary of all the data findings on corporate governance practices adopted by Kenya Commercial Bank. The chapter is therefore designed into summary of findings, conclusions, recommendations, limitations of the study and suggestions for further exploration.

### **5.2 Summary of the Findings**

According to this study it revealed that corporate governance practices applied are responsible for setting the context for stability and performance within an institution. Most of the interviewees acknowledged that the key to successful implementation of strategy and achieving sustainable competitive advantage over competitors in an industry at KCB is driven by competent corporate governance practices. A culture and vision must be cultivated that can support the planned changes, and deal with unexpected change. Corporate governance practices can be supported by rallying envisioning, energizing and enabling strategies. Organizations must be able to advice, evaluate performance, reward employees teach, coach and manage risks. For lasting implementation of strategies and corporate governance practices, an institution should be compatible to the vision, values and mission inherent in the process. Communication in the organization therefore must be open to all employees and they should all be involved in this process. Leaders should communicate to their employees and subordinates by developing and communicating a collective vision and encouraging them to look beyond their own interests for the good of the team and the institution.

The interviewees indicated that, boards with robust financial performance exhibit durable internal behavioral dynamics, including the level of challenge and openness in decision-making, the chairperson's affiliation with the CEO, the interpersonal climate and processes, communication channels between employees and management are employed. In high flying organization, their good performance is attributed to the boards' full

engagement in key governance practices and procedures. Further to that, the prevailing governance culture is more interactive and proactive.

They also have clear procedures and processes in place for the oversight of quality, for example greater proficiency and formal training in quality, more time spent on enhancing quality at board meetings and a quality subcommittee. The interviewees agreed that KCB had attracted and maintained talented and well qualified directors who have overseen the good performance of the institution as well as effective implementation of strategies formulated to ensure the organization's long term survival and profitability. The board in KCB has eventual responsibility for the institution's financial stability and business strategy, internal organizations, governance structure and practices, risk management, key personnel decisions and compliance obligations.

They also keep up with material changes and actively engage in the affairs of the bank in its business and the external environment as well as action within stipulated timelines to protect the long term objectives of KCB. The boards in the organizations approve the approach and manage the enactment of key policies with reference to the bank's internal control system, capital suitability valuation process, compliance procedures and obligations, and capital and liquidity plans the just as KCB has done.

Another key point emergent from the interview is that the interviewees agreed that roles and responsibilities are better off defined tentatively to avoid waste of resources as well as enhance firm performance. The worth of this is that employees will be required to think through the strategies, in terms of training, communication, reinforcement and ascertain if they are appropriate for the different stages of completion of their duties as evaluations fall due and at the same time remain adaptable and reactive to variations as they happen. The organization always ensures that employment contracts to the employees have been implemented personally, justly and in utmost good faith by the employee. The latter performs and carries out the duties required with integrity and honesty by sufficiently assuming deeds expected to avoid negligence. The non-compliance by either party may have serious consequences.

The study reveals that trust and integrity are some of the distinctive features in banking and essential components in an economy that allows a bank to function. They guide and control human behavior not only for providing motivation for right action but also by means of compliance codes and formal programs. KCB has made its employees answerable for errors and adopted a code of business conduct. This is knowledgeable to everyone in the institution and non-compliance is dealt with accordingly. When business is conducted with sincerity, integrity, honesty and highest standards of ethics, customers can trust that they shall be treated with utmost care, honesty and sincerity while employees are rest assured that they will be treated with dignity and respect, Further, employees have always been advised to avoid contests between their personal interests and their employers' or clients' interests, by freely revealing any possible conflicting business association. Any dubious or unlawful transactions are reported immediately to mitigate further risks.

This study also revealed that principled compensation decisions should be made with consistency and transparency. In Kenya Commercial Bank, the compensation committee oversees the bank's method to remuneration, including reviewing and monitoring executive compensation and evaluating if the system is aligned with the bank's risk culture. The interviewees highlighted that the basic payment that an employee gets from their employed is the salary which basically is the compensation their work accomplishments and performance. In that case remuneration reflects the status, the competence, the responsibilities, the experience and the years of the service of the employee. Employers need to give a pay slip to each of their employees at the end of each month. They also cited that compensation is a form of motivation to the employees and if done based on performance most projects will be completed with the desired timelines. If organizations adopt proper compensation models which are highly effective and agreeable to majority of the employees, they will cut on costs and have all their resources adequately utilized. Employees will embrace the model while maintaining their enthusiasm for it and success of the firm at large. Other rewards to the employees for exceeding both internal and external customer expectations as well as innovation rewarding programs were highlighted as other forms of compensation that the bank had adopted.



Getting to understand the general environment and type of industry in which the institution runs is another important factor to be considered while implementing the effective risk management practice. This includes having the ability to interpret emergent tendencies before everyone else knows about them. Companies function in highly indefinite and dynamic settings in which policies speedily become obsolete and ineffectual.

The organization along with the management should establish the institution's risk appetite by taking into account the bank's long-term interests, controlling and modest landscape, the risk exposure and ability to manage risk effectively.

### **5.3 Conclusion**

Some of the assumptions that can be drawn from the study findings are that corporate governance weaknesses in banks and institutions that have a relatively substantial part in the financial sector can result in the spread of complications and challenges across the banking industry and the economy as a whole. In conformity with public concern on a maintainable basis, corporate governance should be protecting stakeholders' interest. Among stakeholders, mainly with respect to retail and SME banks, shareholders' concern would be subordinate to depositors' interest. Also, they determine the apportionment of responsibilities and authorities by which the operations and affairs of a firm are performed by its senior management and board, comprising how they set the bank's objectives and strategies, run the bank's operations on a day-to-day basis, recruit and oversee personnel, meet shareholder interests and set goals, consider and protect the interests of other recognized stakeholders and protect the interests of depositors, align corporate culture and corporate activities.

Corporate governance practices needs to be understood and managed in a way that people can cope effectively with them. It is also vital to ensure that individuals affected by the alteration at least understand the need or agree for change and have an opportunity to decide how the variation will be managed and to be involved in the adaptation and application of the corporate governance practices.

The study established that tactical leaders launch the firm direction through strategy and vision. Leaders are in charge of examining the institution's environment, noting that it could be different some years later, and putting in place a direction that all employees can believe in and work towards. Excellent leaders must design the organization's mission, which embraces its purpose for existence and core values.

Based on the findings, most banks have made developments in evaluating collective board skills, experience, and credentials, establishing standalone board risk committees, establishing and enriching the role of risk officers. The practices are also about vision setting and sharing the information and details effectively and this makes the employees understand the institute's course and gives them a platform to clearly understand their responsibilities and roles. It also concerns planning, research, strategy formulation and implementation that will most effectively meet the organizational goals and objectives. People are able to, contribute to, identify, understand and achieve well defined objectives when included in the planning process. Also, enthusiasm and commitment that comes with the corporate governance practices provides perfect alignment and shape to the mutual goals of the institute as well as provides motivation and inspiration for people to perform at high productive levels. Successful corporate governance can only be possible in organizations that value each employee involvement and participation.

Successful application of the said sound corporate governance practices need appropriate legal, regulatory and institutional foundations. A variety of factors, including the stock exchange rules accounting standards and system of business laws can affect systemic stability and market integrity. These factors, however, are often beyond the control of banking regulators and supervision. Supervisors are nevertheless advised to be knowledgeable of institutional and legal weaknesses to sound corporate governance, and to take steps ahead to substitute effective foundations for corporate governance.

#### **5.4 Recommendations**

It is important for organizations to embrace the importance of good governance hence the need to sensitive and create a culture of good corporate governance practices by incorporating the office of governance in the structure of the organization to spearhead.

Also the organization should have clear policy on corporate governance and the organization should incorporate effective systems to protect and encourage whistle blowers.

It is clear from the study that the issue of corporate governance practices needs to be understood by management in order to identify the appropriate business practices to be used and in order to relate appropriately with all the players and the stakeholders. Further research could be conducted using a different bank in the developing economies since organizations have different cultures, management and resource capabilities. The respondents used in this study were mainly internal stakeholders whom helped the researcher to understand the corporate governance practices within Kenya Commercial Bank, hence suggest further research to determine the opinion of external stakeholders such as shareholders, government, suppliers, customers on corporate governance in Kenya Commercial Bank and how their interests are safeguarded. Also a survey can be conducted within the banking industry in Kenya to determine the corporate governance practices in the industry and use the findings to rank banks from the best practice bank to the least based on the generally accepted principles of corporate governance.

### **5.5 Limitations of the Study**

This was a case study and therefore may not be used for generalization purposes. The corporate culture of Kenya Commercial Bank may not be the same with other organizations. This is because organizations have different values and resource capabilities. They also have different leadership styles and therefore are likely to respond differently to different aspects of corporate governance practices. The study may also have some weaknesses inherent in using interview guides for data collection purposes. First is the misinterpretation of words by respondents. This results in some answers which reflect an ideal situation rather than the actual occurrence. Some respondents may also withhold some information which is important for the study. There is also likelihood of bias as some respondents may not be willing to disclose information which might give a negative impression of the organization to the public. The respondents were not willing to disclose some of the information which they termed as confidential based on the privacy policy of Kenya Commercial Bank. The researcher had to be cautious not to

appear to be getting information to give to a competitor firm by making the respondents understand that it was an academic research project. Time constraint was also another limitation which resulted in having some managers very busy and not forthcoming with information to give the researcher enough time to probe further in order to get in-depth information. Most of the respondents postponed the researcher till when they were available for the interview to be carried out. The researcher was also limited to the time allocated to complete the study.

The researcher also recommends more research on the corporate governance practices be carried out in other industries such as the telecommunication industry, airline and the hotel industry. This is because corporate governance has a significant impact on the business and financial performance of any organization and it is a very important element of sustaining competitive advantage in organizations.

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**APPENDICES**

**APPENDIX I: INTRODUCTION LETTER**



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE.....6/10/2017.....

**TO WHOM IT MAY CONCERN**

The bearer of this letter ....MARTHA..... WANGUI..... WAINAINA.....

Registration No.....D61/83914/2016.....

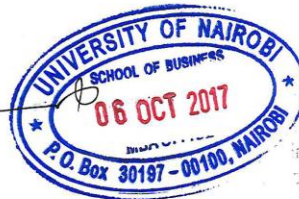
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

**PATRICK NYABUTO**  
**SENIOR ADMINISTRATIVE ASSISTANT**  
**SCHOOL OF BUSINESS**



## **APPENDIX II: INTERVIEW GUIDE**

### **Research topic**

CORPORATE GOVERNANCE PRACTICES ADOPTED BY KENYA  
COMMERCIAL BANK

### **SECTION A**

#### **PART ONE: GENERAL INFORMATION.**

1. What is your highest level of education?
2. What is your title and responsibilities in the company?
3. How many years of experience do you have with KCB

#### **SECTION B: CORPORATE GOVERNANCE PRACTICES**

##### **PART ONE: BOARD COMPETENCE**

4. Highlight the significance of the BOD in KCB?
5. What are their general roles in the organization and are they independent?
6. Does the firm undertake meaningful evaluation on directors regularly to assess whether they are fulfilling their duties?

##### **PART TWO: ROLES AND RESPONSIBILITIES**

7. To what extent do you agree on the bank defining roles and responsibilities?
8. Are all responsibilities delegated according to adequate qualifications and skills (audit, compensation, corporate governance committees etc)?
9. How would you rate your performance assessment system? Does it help you understand your strengths and weaknesses?

##### **PART THREE: INTEGRITY AND ETHICAL DEALING**

10. Are you commitment to the purpose, mission, and values of KCB?
11. Does the organization build ethical considerations into performance reviews by discussing not only what was accomplished but also how it was accomplished?

##### **PART FOUR: PRINCIPLED COMPENSATION DECISIONS.**

12. Has the institution established measurable performance targets and regularly assesses and evaluates their performance against them?
13. Does the firm regularly assesses and evaluate employee performance against performance targets tied to their roles?
14. Does the bank monitors all pay practices and systems for effectiveness cost containment and transparency?

**PART FIVE: EFFECTIVE RISK MANAGEMENT.**

15. Has the organization has developed contingency plans to deal with emergencies?
16. Are there efficient and reliable processes for the reporting of risks and risk management?