CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

This project is my original work and has not been presented for a degree in any other University or any other award**.**

Signature ………………….. **Date ………………..**

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

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DEDICATION

To my lovely wife, Evelyn Atieno Malesi and our children Shawn and Natalie for their understanding while absent from the dining table as I went through the evening classes; my dad Peter Lavoisier Alusa for funding my education religiously without tiring, to my mother Florence Kavosa for being a staunch believer in the transformational power of education, my late grandmother Loyce Kasudi who always advocated for sterling performance in my formative years as I embarked on my academic journey and friends who dared me to revisit the lecture halls after a decade’s absence.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank Of Kenya
CBN	Central Bank Of Nigeria
CEO	Chief Executive Officer
CFC	Credit Finance Corporation
CFO	Chief Financial Officer
CMA	Capital Markets Authority
I&M	Investments & Mortgages
I-CVI	Item Level Content Validity Index
KCB	Kenya Commercial Bank
NIC	National Industrial Corporation
NPLs	Non-Performing Loans
NSE	Nairobi Securities Exchange
S-CVI	Scale-Level Content Validity Index

ABSTRACT

This study assessed the role of corporate governance on performance of commercial banks through posing a question; what is the effect of corporate governance on the performance of listed commercial banks in Kenya? The study was based on the stakeholder, shareholder and agency theories. The descriptive cross sectional research design was used for this study. The descriptive cross sectional research design examines the phenomenon at a specific point in time. The target population of this study was eleven listed commercial banks at the Nairobi Securities Exchange (NSE). The study utilized a census sampling method to get three respondents per commercial bank. These respondents were drawn from the operations and finances departments of the bank. The study used two sets of statistics that is the descriptive statistics and inferential statistics. Using regression analysis, the study found that a unit increase in the independence of the board would lead to an increase in the organizational performance of the listed firms with other independent variables kept constant. Similarly, a unit increase in audit committee characteristics would lead to an increase in the organizational performance of the listed firms with the other independent variables kept constant. However, it was concluded that a unit increase in the board size would lead to a decrease in organizational performance of the listed firms with the other variables kept constant. The study concluded that the independence of the board of directors, audit committee characteristics and board size did not have significant influence on the performance of commercial banks listed at the NSE. The study recommends that the banks maintain the practice of having the CEO and Chairman of board of directors being two different people to ensure that there is objectivity in decision-making aspects within the board of directors. This will enhance the ability of the board in monitoring the performance of the management by eliminating the conflict of interest factor. Additionally, the size of the audit committee should be emphasized to include members who display a depth of grasp of the issues and will give an impartial view on the operational aspects of the organization. This in turn will give assurance to the board on the viability of the strategies and adherence to its directives and good governance practices. Similarly, the sizes of different board committees should be moderated to limit the number of members to those that can reach a consensus. However, the sizes of these board committees should include sufficient members with expertise, experience and sufficient skills which will allow them to constructively contribute to the proposals kept before them.The study suggests that researchers examine the influence of professional experience of audit committee members and ratio of non-executive/executive directors on the performance of listed firms in future studies.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate governance ensures that organizations are operated in an ethical manner through ensuring shareholders get value for their investments (Crittenden & Crittenden, 2014). The corporate governance in an organization also inspires confidence amongst its customers and general public. The customers therefore continue giving business to the corporation while the shareholders continue investing in the organization due to the confidence of the safety of their investments. While corporate governance has numerous positive uses in the organizations, sometimes organizations face diverse challenges leading to lack of proper utilization of the governance practices.

This study was anchored on agency, stewardship and stakeholder theories. The agency theory examines competing interests between business owners and managers with delegated authority to run the business (Góis, 2014). The premise of stewardship theory is that stewards seek to give maximum returns to the firm's shareholders and additionally seek to protect this optimal performance with a view of them being more valuable to the organization (Hong, 2015).The stakeholder theory attributed to Freeman in 1984 who conceptualizes a firm as an interrelationship of diverse stakeholders whose influence to the firm's activities is influenced by diverse environmental aspects. For optimal operation of the firm, it must be conscious of its deliverables to the stakeholders and work to actualize those deliverables (Hong, 2015).

The commercial banks play a critical and significant role in the economic prosperity of the county and its citizens. The commercial banks act as important sources of credit for undertaking businesses and personal development that lead to the economic prosperity of Kenyans (Mathu, 2013). The commercial banks also finance the operating and working capital requirements of industries and businesses that lead to job creation, and provision of essential goods and services.

Commercial banks in Kenya have over the years been faced with corporate governance challenges especially as relates to its treatment of the Non-Performing Loans as well as insider loans (Mathu, 2013). The 1980s and 1990s was associated with the collapse of diverse banks in Kenya’s financial sector. The collapse of these banks was attributed to major factors including deregulation of the banking sector in 1982 and the privatization process of the commercial banks that began in the 1980s (Otwori, 2013). These two critical events were associated with the rapid growth in the banking sector in Kenya leading to poor governance structures. The placement of commercial banks under statutory receivership in the 2015/2016 financial years continue to raise concerns on the practice of corporate governance in the banking sectors as well as the efficiency of diverse stakeholders who are meant to supervise best practices in corporate governance. These stakeholders include the Central Bank of Kenya and various professional auditors contracted to audit the firms.

1.1.1 Corporate Governance

According to Khodadadi, Khazami, and Aflatooni (2010), corporate governance has been defined as an interrelationships between firms' management, shareholders and stakeholders to eliminate competing interests amongst these groups that may undermine the wellbeing of the firm. On the other hand, Alnaser, Shaban, and Al-Zubi, (2014) corporate governance has been defined as diverse processes and mechanisms that are put in place to ensure operational success of the organization.

Corporate governance has also been perceived as the set of diverse frameworks that dictate the way that the corporation is managed (Armstrong, Guay, & Weber, 2010). Within the context of the banking sector, corporate governance has been taken to include an examination of diverse aspects of the board including independence of board of directors, audit committee characteristics, and board size. The independence of the board of directors refers to the number of non-executive directors within the composition of the board. The independence of the board is critical in ensuring that there is objectivity in decision making aspects within the board of directors (Armstrong et al., 2010). The audit committee is a sub set of the board of directors that seek to ensure that diverse internal and regulator policies are adhered to. Its characteristics therefore impacts on its effectiveness (Khodadadi *et al*., 2010). Finally, the board size refers to the number of the members of the board of directors.

1.1.2 Corporate Governance Practices

Corporate governance practices institutions can pursue include absence of CEO duality, board of directors' independence, presence of audit committee, and CEO tenure amongst other aspects. The CEO duality is the aspect of a single individual holding both the offices of the CEO and board of directors' chairmanship.

This has the effect of exerting CEO's dominance over the board leading to poor corporate governance and conflict of interest (Abdul, Ibrahim, & Aharonson, 2014). The board's independence relates to the number of non-executive or independent directors within a board relative to executive directors. These directors are considered independent since they do not have managerial roles in the day to day operational aspects of the organization. The non-executive directors in this context are therefore seen as outsiders and have the ability to present an objective examination on the affairs of the organization (Mcdermott, 2011). Finally, the audit committee under instructions of the board gives an impartial view on the operational aspects of the organization and as such provides an assurance to the board on the adherence to its directives and good governance practices.

1.1.3 Organizational Performance

There are different conceptualizations of organizational performance. The organizational performance has been defined as the final achievement of an organization and comprises the existence of certain specified targets, a time period for achieving those specified targets and realization of efficiency and effectiveness (Khan & Choudhary, 2015). Onut, Erdem, and Hosver (2008) in the examination of organizational performance within the context of banking sector indicated that performance included diverse metrics. These metrics included profitability levels, customer deposit levels, amount of credit facilities disbursed to customers, level of Non-Performing Loans (NPLs), customer retention levels and market share amongst other factors (Onut et al., 2008).

Armstrong, Guay, & Weber (2010) indicated that organizational performance comprises of the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

There are different aspects that can be used for the measurement of the organizational performance including financial performance (profits, return on assets, return on investment, sales growth, profit rate, return on investment, return on sales, return on equity, and earnings per share), product market performance (sales, market share) and Shareholder return (total shareholder return, economic value added) (Kaplan & Norton, 1996).

1.1.4 Commercial Banks Listed at the Nairobi Securities Exchange

Kenya has a robust banking services sector composed of Central Bank of Kenya and forty four banks. Out of the 44 commercial banks in Kenya, eleven commercial banks are listed at the NSE as at 2015. These commercial banks include Barclays Bank, Cooperative Bank, KCB group, Standard Chartered Bank, CFC Stanbic Holding, I&M Holding, and Diamond Trust Bank. Other listed commercial banks include HF Group, National Bank of Kenya, NIC Bank, and Equity Group.

Kenya is considered to be over banked due to the high number of commercial banks compared to the population. This is because the country has 45 banks serving 33 million people (Kithaka, 2014). On the other hand, countries like Nigeria have their banks serving a larger population as it has 30 megabanks that serve a population of over 100 million people (Ndukhu, 2014). In the context of profitability, Central Bank of Kenya (2016) the five most profitable banks for the 2015 financial year were Kenya Commercial Bank with a profit before tax of Ksh 23.445 billions. Equity bank had a profit before tax of 22.388 billion while cooperative bank had a profit before tax of 14.073 billions. Other most profitable banks were Barclays Bank, and Standard Chartered Bank with 12.074, and 8.974 billions in profit before tax.

1.2 Research Problem

There are diverse ways in which corporate governance enhances organizational performance in any given firm. Corporate governance enhances sound management, accountability and transparency in a firm's management, and efficiency in the running of the organization (Ping, 2015). The accountability and transparency in the running of the organization reduces the incidences of corruption and frauds that negatively impact on the organization's performance. Good corporate governance is also associated with high quality services, prudent capital usage, strong organizational brand, public trust, and good labour practices. On the other hand, Nulawadin (2008) indicated that corporate governance leads to enhanced efficiency, reduction of incidences of related parties' transactions as they are mostly sub optimal and the streamlining of operations hence better performance.

There are several corporate governance challenges across the globe that have impacted significantly on the organizational performance of diverse firms. These firms include Enron, WorldCom, Imclone Systems, Tyco, Aldelphia, and Parmalat scandals (Cohen et al., 2004). Some of these firms such as Enron and WorldCom eventually collapsed. In Africa, cases of corporate governance challenges have been documented across the continent. For example in Nigeria, the Cadbury company had falsified their accounting records for three periods preceding 2006. The company had for three consecutive years overstated its profitability. This state of affairs was blamed on an ineffective corporate governance mechanism in its board, audit committee, auditors and management. In 2009, five bank CEOs were sacked by the Central Bank of Nigeria (CBN) for improper provisions for non-performing loans in their accounting books (Imeokparia, 2013).

Three banks collapsed in Kenya during 2015/2016 financial years due to corporate governance failures in diverse aspects including the treatment of insider loans, treatment of the sharia compliant loan products, and compromised board of directors. Sensitivity of bank's operations makes corporate governance a critical component of banking operations. The bank customers want to feel that their money is safe. In this context, the reputation and the public trust of the bank is very important.

Diverse scholars examined aspects of corporate governance in firms. Alnaser, Shaban, & Al-Zubi,(2014) examined corporate governance structure and public financial information. The study found that there was a correlation between corporate governance structure and the investors' confidence in public financial information. This study contextually examined the corporate governance structure and investors's confidence in public financial information. This was conceptually different from the current study that examined corporate governance and organizational performance.

Armstrong, Guay, & Weber,(2010) examined corporate governance and debt contracting. The study found that credible financial reporting was associated with high corporate governance standards. This study was different from the current study in the context that the current study did not seek to examine the role of financial reporting on corporate governance standards but rather examined corporate governance against organizational performance. Finally, Barako, Hancock, & Izan, (2015) examined attributes of corporate governance and disclosures in annual reports. The disclosures examined were of voluntary nature. The study indicated that voluntary disclosures in annual reports are often associated with higher credibility and corporate governance structures in financial reporting.

Conceptually, the studies did not focus on corporate governance and performance of listed banks. This study explored this gap by assessing the role of corporate governance on performance of commercial banks through posing a question; what is the effect of corporate governance on the performance of listed commercial banks in Kenya?

1.3 Research Objectives

The objective of the study was to assess corporate governance practices and performance of commercial banks listed in the Nairobi Securities Exchange.

1.4 Value of the Study

The value of this study is in three dimensions that is theory, practice and policy dimensions. In the context of theory, the study expands the existing repository on knowledge on corporate governance aspects in listed banks in Kenya. This information is useful for corporate governance researchers especially those with interests on how it imparts on banking sector performance.

The study is also critical in the practice of corporate governance amongst commercial banks. In this context, the study establishes best practices in relation to corporate governance and thus helps commercial banks in benchmarking their corporate governance practices. The study also expands on the challenges faced by the commercial banks in corporate governance which ensures that the commercial banks avoid those areas in their corporate governance practices.

In respect to policy aspects, listed commercial banks at the Nairobi Securities Exchange must adhere to both policy directives from NSE and CMA guidelines on aspects of corporate governance. The CMA benefits from this study in understanding corporate governance as practiced in the listed banks and how it impacts on organizational performance. This thus assists the CMA in the formulation of the relevant policies where there exist loopholes. Similarly, the CBK as the industry regulatory of the commercial banks utilizes the study findings in determination of possible breaches of the corporate governance guidelines and the policy rectification thereafter. Therefore, this study helps CBK gain insights into corporate governance practices for policy intervention.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two of the study examined the literature review of the study. The literature review of the study was presented in diverse subsections. These subsections included theoretical framework, empirical review and research gap.

2.2 Theoretical Foundation

The theoretical framework examines the theories which are the foundation of the study. These theories seek to examine the rationale behind the corporate governance and organizational performance. This study was based on agency theory. Others are stewardship and stakeholder theories.

2.2.1 Agency Theory

This theory was developed by Berle and Means (1932) and expounded by Jensen and Meckling in 1976 (Góis, 2014). The foundation of this theory is the notion of a large business enterprise having the owners and management of a firm being two distinct groups. The owners of an organization (principals) therefore delegate tasks and authority to the management of the firm (agents) for the purposes of the day to day running of the organization (Abdul et al., 2014). The delegation of the authority and tasks from the principal to the agent occurs due to principal's lack of time, broad scope of activities undertaken by the firm and sometimes principal's lack of expertise to undertake the core functions of the organization (Andersen & Svorst, 2013).

This necessitates the hiring of experts knowledgeable in the core business of the firm to run it on behalf of the principal. The expectation of the principal-agent relationship is that the agent will always act in good faith and to the best of their ability with a view of furthering the principal's interests (Gao & Zhang, 2015). The interests of the principal are prudent management of their firms, growth and expansion of the firm and ultimately the profitability of their investment. However, this is not always the case due to agency problems brought about by information asymmetry and moral hazard challenges.

To reduce the agency challenges, the shareholders appoint the board of directors composed of independent and non-independent board members with a view of monitoring the activities of the management team (Peters & Bagshaw, 2014). The board of directors enables delinking the formulation of policies from their execution enabling elimination of competing interests amongst the policy formulating team and the execution team (Armstrong et al., 2010). The corporate governance in the context of the agency theory improves corporate performance through the resolving of agency problem. This is achieved through use of the board to monitor the company executives on behalf of the shareholders. Inefficiency in the board and its audit committee may provide an opportunity for the company's executives to pursue their own interests.

2.2.2 Stewardship Theory

This theory was advanced by Donaldson and Kay in 1976 (Chou & Newman, 2014). The stewardship theory focuses on the management structure of an organization and the extent to which these structures empower and facilitate the management to lead the organization towards superior performance. The stewardship theory indicates that stewards seek to improve the firm's performance with a view of increasing their own worth in the institution (Mitchell & Kohnke, 2014). The theory supports any functions that would lead to faster decision making by the management of the firm such as CEO duality and fewer board members. The stewardship theory has different motives for the stewards of the company compared to the agency theory.

The stewardship theory is premised on the notion that there is no competing interests between the management of the firm and the shareholders and the chief purpose of corporate governance is ensure a smooth coordination amongst the two groups. The stewardship theory argues that the relationship between management and owners of the firm should be that of trust since stewards are satisfied through superior organizational performance, specifically superior financial performance (Ranjbar, 2009). This is because management staff have built their reputations and career over a considerable period of time and through use of a substantial amount of finances. Therefore, to safeguard their reputation and career interests the management must act to further the firm's interests.

2.3 Corporate Governance Practices and Organizational Performance

The board of directors monitors the management activities for the purposes of minimizing or eliminating the agency challenges that might be there (Peters & Bagshaw, 2014). The board of directors examines that the firm is undertaking the right strategies for the purposes of steering the company towards superior financial performance (Oluoch, 2014). In this context, the board of directors must be independent from the management that it seeks to supervise (Kemboi, 2015). The studies by Peters and Bagshaw (2014), Oluoch (2014) and Kemboi (2015) have illustrated the different uses of the board of directors in a company. The studies however fail to illustrate the ways in which the board of directors composition, its efficiency and impact on organizational performance.

Independence of board of directors is measured using diverse proxies. These proxies include the experience and professional expertise of the board of directors, the ratio of independent and non-independent directors, the board members appointment timelines relative to CEO tenure, CEO duality, and the board of directors' tenure (Maranga, 2015). The experience and professional expertise of the board of directors is critical in their independence in operations of a firm. The management will always present critical strategies and policies to the board of directors for the purposes of deliberation and thereafter approval of the same (Josiah & Mauithi, 2014). The board must be in a position to make independent decisions in relations to the viability of the proposed strategies. This includes the evaluation of the viability of the strategies, ability to make constructive feedback, and ability to display a depth of grasp of the issues under deliberations (Kimuyu, 2012).

Therefore, the board composition must have sufficient skills, experience and expertise in order to constructively contribute to the proposals kept before it. In the absence of this skill set, the board of directors is then forced to depend on the management team hence compromising its effectiveness (Ranjbar, 2009). While the studies by Maranga (2015), Josiah and Mauthi (2014), and Kimuyu (2012) illustrate the ways in which board characteristics influences their functionalities, the studies fail to clearly link the functionalities of the board with organizational performance.

The ratio of independent (non-executive) versus non independent (executive) board of directors is also used to examine independence of board of directors. Executive directors also undertake day to day administrative functions of the organization (Nthini, 2013). This may include CEO and Chief Financial Officer (CFO) amongst other management staff dependent on the organization’s policy (Ndung’u, 2015). On the other hand, the non-executive directors refer to independent directors that are not part of the firms’ management. The non-executive directors should outnumber executive directors so as to infuse skills, knowledge and experience into the board’s deliberations including bringing an “outsider” view or perspective into the deliberations (Hong, 2015).

The CEO duality has often been associated with the lack of board independence. The CEO is the head of the management team that executes the strategies and the day to day functions of the organization (Ibadin, 2012). Therefore, in contexts where the CEO also heads the board which is supposed to monitor the performance of the management then conflict of interest is bound to happen. This leads to ineffective monitoring of the management’s functions and performance.

The ability to monitor the CEO's performance who should report to the board is hindered by CEO duality. Therefore, where the CEO's decisions and actions undermines the performance of the firm and mismanages the firm then the board is not in a position to curtail such events.

The independence of the board has also been examined from the context of the tenure of the board members. Longer terms of board members lead to inefficiency in the monitoring functions due to development and growth of personal relationship between board members and management teams. This implies that there must be limitations of the tenures of the board members to enable the board to effective perform its role (Josiah & Mauithi, 2014). The board rotation also enables injection of new ideas with time. Similarly, the board members appointed after the CEO takes offices are seen to be more associated with a particular CEO reign compared to those that were appointed before the CEO reign. The study by Josiah and Mauthi (2014) while illustrating the need for limitation of the tenure of the board, does not empirically illustrate in what ways the lack of limitation of board tenure has impacted on organizational performance.

The 2015 companies act directs that all listed firms should have audit committees which should be proportionate to the size of the company and with the requisite knowledge. There are certain audit committee characteristics that ensures that it discharges its mandates in an effective manner including its composition, size, expertise and independence amongst other aspects (Ibadin, 2012). The recommended number of audit committee members are three independent directors to ensure efficiency and effectiveness in discharge of its functions (Cohen et al., 2004).

These functions include elimination of the agency problems and examination of the integrity of the financial information presented (Cohen et al., 2004). The studies by Ibadin (2012), and Cohen et al (2004) examined ways in which audit committees discharged their mandates and their composition

2.4 Summary of Knowledge Gaps

Kim & Yoon (2008) examined corporate governance and earning quality. The study examined as part of its objectives the usefulness of the independence of the board on the earning quality. The study was based in Iraq using a listed companies at Tehran stock exchange. The study did not find any significant influence on board of directors independence on earning quality of the listed firms. The study was based In Iraq and used earnings as a measure of organizational performance. The study therefore was contextually different from the current study that was based on the corporate governance practices and performance of listed commercial banks.

Mwenda (2012) examined directors attributes and corporate governance. The study was based on tea firms in Kiambu Kenya. The study noted the importance of the board of directors to a firm’s performance and indicated that the independence of the board was critical component of the board being able to play their role. The board of director needs to have sound business judgement and safeguard the interests of the company. The study was based on the small scale tea companies while this study was based on the listed commercial banks in Kenya. Therefore, the scale of operations as well the regulatory oversight of the commercial banks was on a higher scale than the small scale tea companies.

Madawaki (2012) undertook a study on the characteristics of audit committees on financial reporting of listed firms in Nigeria. The study noted that amongst the audit committee characteristics that affected financial reporting included audit committee formation, independence, expertise and number of meetings that it held. The study was based in the Nigerian listed firms while this study focused exclusively on the listed commercial banks in Kenya.

Soliman & Ragab (2013) examined attributes of board of director' and earning management . The study was done in Egypt. The study found that large board sizes provided more expertise and diversity and increased the board's monitoring capacity. The study found a significant influence of board size and earning management. The study was based in Egypt while the current study was based in Kenya using listed commercial banks.

Finally, Kantudu & Samaila (2015) did not find any significant influence of board size on quality of financial reporting of Nigerian oil firms. The study while noting that larger board sizes are associated with increased monitoring noted that the same was not significant.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology describes the organization and systematic inquiry of investigation of the research in search of answers to specific questions. This chapter presents the research design, target population, sampling size and techniques, pilot test, instrumentation, validity and reliability of the research instrument, and data analysis procedures.

This chapter therefore examined the aspects that governed the procedures of undertaking the research on the ground. It provided a framework for the holistic execution of the data collection processes and procedures. This is with a view of enabling the research to address the specific research objectives.

3.2 Research Design

The research design has been defined as the scheme, outline or plan that is used to answer the research problems or arrangement of conditions for collection and analysis of data in a manner to achieve research objective (Kothari, 2004). The descriptive cross sectional research design was used for this study. The descriptive cross sectional research design examines the phenomenon at a specific point in time.

This research design was critical in this study in the context that the corporate governance was being experienced in the banking sector during the period of study and within the context of the prevailing regulatory environment as well as development within the banking sector. This corporate governance may not necessary have been faced in the past or in the future based on the prevailing circumstances at any given time.

3.3 Population of the Study

Population is defined as the total collection of elements in which the researcher wants to make an inference about (Mugenda, 2003). The target population of this study was eleven listed commercial banks at the Nairobi Securities Exchange (NSE) as at December 2015.

These commercial banks included Barclays Bank, Cooperative Bank, KCB group, Standard Chartered Bank, CFC Stanbic Holding, I&M Holding, and Diamond Trust Bank. Other listed commercial banks include HF Group, National Bank of Kenya, NIC Bank, and Equity Group.

3.4 Data Collection

The data collection instrument refers to the item that was used for the purposes of the collecting the data that was used for the analysis of the study. This study used a questionnaire for the purposes of data collection. In particular, the structured (close ended) questions were used for this study. The questionnaire was divided into four sections that is Part A which had background information and parts B, C, D and E which had research variables that is independence of board of directors, audit committee, size of the board, and financial performance respectively. The data was also collected from secondary data sources such as bank's websites and annual reports.

The data was collected using the drop and pick later method. This method was aimed at increasing the response rate since it gave the respondents ample time to complete the questionnaires. Arrangement was made to collect the questionnaire later at pre-agreed time. In this context, the telephone numbers of the respondents were picked with the view of making follow ups and reminders on the questionnaire collection.

3.5 Validity and Reliability Tests

The validity of the questionnaire has been defined as the accuracy and meaningfulness of inferences based on the research results. Validity is the degree to which the measurement process measures the variable it claims to measure. The content validity was used for testing the validity of the questionnaire. This was achieved by the practitioners on the ground indicating that the questions were relevant.

The reliability of questionnaire is the measure of the degree to which an instrument yields consistent results or data after repeated trials. The reliability of the questionnaire has also been examined as the ability of the results to be replicated when repeated under similar circumstances (Kothari, 2004). The reliability of the study was examined using the Cronbach alpha of a threshold of 0.7 and above. The Cronbach alpha coefficient of independence of board of directors, audit committee characteristics, board size, and organizational performance were 0.765, 0.792, 0.867, and 0.787 respectively. These coefficients were above 0.7 which led to an inference that the variables were reliable due to a coefficient of above 0.7.

3.6 Data Analysis

According to Gall, Gall, & Borg (2007), the data processing and analysis follows data collection process. The data processing involves editing, coding, organization and tabulation of the collected data so that it can be analyzed. The study used two sets of statistics that is the descriptive statistics and inferential statistics. The descriptive statistics that were undertaken for this study included the frequency distributions, means, and standard deviation. The inferential statistics that were undertaken for the study included multiple linear regression.

The regression model that was used in the study is shown below:

$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ Where; Y= Organizational Performance; β_0 =constant;

$\beta_1 \ldots \beta_3$ = Coefficients of estimates; X_1 = Independence of Board of Directors;

X_2 = Audit Committee; X_3 = Size of Board; and ε is the estimated error of the model.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter displays the results of the study and provides a discussion of the findings from the data analysis. The objective of the study was to assess the corporate governance practices that influence organizational performance of commercial banks listed in the Nairobi Securities Exchange (NSE).

4.2 Questionnaire Response Rate

The response rate was examined thorough checking on the issued questionnaires, returned questionnaires, and the analyzed questionnaires as illustrated in Table 4.1.

Table 4.1; Questionnaire Response Rate

	Sample Size	Returned Questionnaires	Analyzed Questionnaires	Response Rate
Operations Staff	19	18	17	89.5%
Finance	14	14	13	92.9%
Total	33	32	30	90.9%

Source; Primary Data (2017)

The sample size of this study was thirty three respondents and thus thirty three questionnaires were issued to potential respondents. It was only one questionnaire that was not returned. A further two questionnaires were disqualified for having not been fully filled and thus had missing information. Therefore, the analyzed questionnaires were thirty making a response rate of 90.9%. This was considered sufficient as it exceeds the 80% threshold set by (Mugenda, 2003).

4.3 Background Characteristics of Respondents

The background characteristics of respondents were determined by examining the gender of respondents, position the respondent holds in the commercial bank, and the length of time they have worked in the institution.

4.3.1 Gender of Respondents

The respondents were requested to indicate their gender on the questionnaire and results presented in Table 4.2.

Table 4.2; Distribution by Gender of Respondents

	Frequency	Percentage
Male	17	56.7%
Female	13	43.3%
Total	**30**	**100.0%**

Source; Primary Data (2017)

The results indicated that a majority of the respondents were male at 56.7% compared to female respondents at 43.3%. This was attributed to higher number of male staff in senior management positions compared to female staff.

4.3.2 Position of Respondents

The position the respondents hold in their respective bank was examined as part of the background characteristics. Table 4.3 shows results of this examination.

Table 4.3; Distribution by Position of Respondents

	Frequency	Percentage
Operations Staff	17	56.7%
Finance Staff	13	43.3%
Total	**30**	**100.0%**

Source; Primary Data (2017)

Slightly above half of the respondents were found to be operations staff that is 56.7% of the respondents, while 43.3% of the respondents were finance staff. Both the senior operations and finance staff provided critical information on the corporate governance aspects in relations to organizational performance metrics of the listed banks.

4.3.3 Time Respondents Have Worked in the Institution

The respondents were asked to indicate the number of years they have worked at their respective commercial bank. Results of this examination are as shown is Table 4.4.

Table 4.4; Distribution by Time Respondents Have Worked in the Institution

	Frequency	Percentage
0-5 years	3	10.0%
6-10 years	7	23.3%
11-15 years	9	30.0%
Over 15 years	11	36.7%
Total	**30**	**100.0%**

Source; Primary Data (2017)

A cumulative majority of respondents (66.7%) had worked at their respective commercial bank for 11 years and above. These respondents were 36.7% who had worked in the institution for longer than 15 years, and 30.0% who had worked for 11-15 years. The respondents who had worked at their institution for 6-10 years and 0-5 years were 23.3% and 10.0% respectively. The higher number of respondents that had worked for longer period of time is attributed to the fact to get to senior management staff need to have spent considerable period of time in lower ranks. This is in order to gain the requisite skills and experience for senior positions.

4.4 Descriptive Statistics

4.4.1 Independence of Board of Directors

The independence of the board of directors results were examined in Table 4.5 below;

Table 4.5; Descriptive statistics for Independence of Board of Directors

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Higher number of non-executive directors in the board	8 (26.7%)	15 (50.0%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
CEO and chairman of board being two different people	17 (56.7%)	8 (26.7%)	5 (16.7%	0 (0.0%)	0 (0.0%)
The tenure of the board members	11 (36.7%)	13 (43.3%)	5 (16.7%)	1 (3.3%)	0 (0.0%)
Experience of the board members	14 (46.7%)	8 (26.7%)	8 (26.7%)	0 (0.0%)	0 (0.0%)
Professional expertise of the board members	11 (36.7%)	11 (36.7%)	7 (23.3%)	1 (3.3%)	0 (0.0%)

Source; Primary Data (2017)

The independence of board of directors was examined by determining which of the five aspects used to measure it had an influence on organizational performance of commercial banks listed at the NSE. These aspects included higher number of non-executive directors in the board, CEO and chairman of board being two different people, the tenure of the board members, experience of the board members, and professional expertise of the board members.

Half of the respondents (50.0%) were inclined to agree that a higher number of non-executive directors in the board had an influence on performance of the commercial banks listed at the NSE. Further, 26.7% of the respondents strongly agreed on the same. Slightly more than half of the respondents (56.7%) were in strong agreement that the CEO and Chairman of board being two different people had an influence on performance of the commercial banks listed at the NSE. The tenure of the board members was perceived to have an influence on performance of the commercial banks listed at the NSE by 43.3% of the respondents who chose “Agree” and 36.7% who chose “Strongly Agree”.

Almost half of the respondents (46.7%) were inclined to “Strongly Agree” that experience of the board members had an influence on performance of the commercial banks listed at the NSE. An equal number of respondents (36.7% for each) were inclined to agree and strongly agree that professional expertise of the board members had an influence on performance of the commercial banks listed at the NSE. None of the respondents (0.0%= Strongly Disagree) strongly felt that any of the aspects used to measure independence of the Board did not have an influence on performance of commercial banks listed at the NSE.

However, there were respondents inclined to disagree that professional expertise of the board members and the tenure of the board members (3.3% of respondents each) had an influence on performance of commercial banks listed at the NSE.

Table 4.6; Means and Standard Deviation of Independence of the Board

	Mean	Std. Dev.
Higher number of non-executive directors in the board	4.03	0.72
CEO and chairman of board being two different people	4.40	0.77
The tenure of the board members	4.13	0.82
Experience of the board members	4.20	0.85
Professional expertise of the board members	4.07	0.87
Aggregate	4.16	0.81

Source; Primary Data (2017)

The mean scores for all aspects used to examine the independence of board influence on performance of commercial banks listed at the NSE were between 3.50 and 4.49. This implies that on average, respondents tended to agree that each of these aspects had an influence on performance of commercial banks listed at the NSE. The mean scores were 4.03 for higher number of non-executive directors in the board, 4.40 for CEO and Chairman of board being two different people, 4.13 for the tenure of the board members, 4.20 for experience of the board members, and 4.07 for professional expertise of the board members.

This study's results indicating the importance of a high number of non-executive directors in the board of directors is tandem with the observations of other scholars. In this context, Armstrong et al., (2010) indicated non-executive directors in this context are therefore seen as outsiders and have the ability to present an objective examination on the affairs of the organization (Mcdermott, 2011). The non-executive directors should outnumber executive directors so as to infuse skills, knowledge and experience into the board's deliberations including bringing an "outsider" view or perspective into the deliberations (Hong, 2015).

These study findings of the importance of the CEO and Chairman of board being to different people (mean of 4.40) and the influence of this phenomenon on the organizational performance is consistent with reviewed literature.

According to Ibadin (2012), the CEO duality impacts on the board independence leading to ineffective monitoring of the management's functions and performance. The ability to monitor the CEO's performance who should report to the board is hindered by CEO duality. Therefore, where the CEO's decisions and actions undermines the performance of the firm and mismanages the firm then the board is not in a position to curtail such events.Ranking the means from the highest to the lowest made CEO and Chairman of board being two different people, which had the highest mean the aspect with greater influence on performance of commercial banks listed at the NSE.

On the other hand, there was moderate consensus amongst respondents that each aspect of the independence of board matrix had an influence on performance of commercial banks listed at the NSE. This was due to standard deviations between 0.50 and 0.99 for each of these aspects. The standard deviations were 0.72 for higher number of non-executive directors in the board, 0.77 for CEO and Chairman of board being two different people, 0.82 for the tenure of the board members, 0.85 for experience of the board members, and 0.87 for professional expertise of the board members.

Therefore, there was moderate consensus amongst respondents and on average respondents tended to agree that higher number of non-executive directors in the board had an influence on performance of commercial banks listed at the NSE (mean=4.03; std. dev.=0.72).

Additionally, there was moderate consensus amongst respondents and on average respondents tended to agree that the CEO and Chairman of board being two different people had an influence on performance of commercial banks listed at the NSE (mean=4.40; std. dev.=0.77). Similarly, there was moderate consensus amongst respondents and on average respondents tended to agree that the tenure of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.13; std. dev.=0.82).

There was moderate consensus amongst respondents and on average respondents tended to agree that the experience of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.20; std. dev.=0.85). Finally, there was moderate consensus amongst respondents and on average respondents tended to agree that the professional expertise of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.07; std. dev.=0.87).

4.4.2 Audit Committee Characteristics

The audit committee descriptive statistics were presented in Table 4.7.

Table 4.7; Descriptive Statistics for Audit Committee Characteristics

	SA Freq. (%)	**A Freq. (%)**	**U Freq. (%)**	**D Freq. (%)**	**SD Freq. (%)**
Size of audit committee	14 (46.7%)	9 (30.0%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
Expertise of audit committee	12 (40.0%)	11 (36.7%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
Professional experience of audit committee members	13 (43.3%)	7 (23.3%)	8 (26.7%)	2 (6.7%)	0 (0.0%)
Frequency of audit committee meetings	12 (40.0%)	12 (40.0%)	5 (16.7%)	1 (3.3%)	0 (0.0%)
Independence of audit committee	13 (43.3%)	8 (26.7%)	7 (23.3%)	2 (6.7%)	0 (0.0%)

Source; Primary Data (2017)

The audit committee characteristics were examined by establishing the perception of respondents on the influence of size of audit committee, expertise of audit committee, professional experience of audit committee members, frequency of audit committee meetings, and independence of audit committee on performance of commercial banks listed at the NSE. Almost half of the respondents (46.7%) strongly perceived that size of the audit committee had an influence on performance of their bank. This was supported by 30.0% of the respondents who were in agreement that that size of the audit committee had an influence on performance of their bank.

Most of the respondents (40.0%) were inclined to strongly agree, and 36.7% were inclined to agree that expertise of the audit committee had an influence on performance of their bank. While 6.7% of the respondents were inclined to disagree that professional experience of audit committee members had an influence on performance of their bank, most of the respondents (43.3%) were inclined to strongly agree that it had influence. Frequency of audit committee meetings have an influence on performance of commercial banks listed at the NSE as perceived by 40.0% of the respondents who chose “Strongly Agree” and an equal number who chose “Agree”.

Independence of audit committee has an influence on performance of commercial banks listed at the NSE as most of the respondents (43.3%) were inclined to strongly agree that it did in respect to their bank. None of the respondents (0.0%) strongly felt that any of the metrics used to examine the audit committee characteristics did not have an influence on performance of their bank as they did not choose “Strongly Disagreed” on any metric. All metrics of the audit committee characteristics matrix had mean scores between 3.50 and 4.49, which implied that on average, the respondents felt that each of these metrics had an influence on performance of their bank. The standard deviations for size of audit committee, expertise of audit committee, frequency of audit committee meetings, and independence of audit committee were between 0.50 and 0.99, which meant that the responses were moderately distributed around the mean implying moderate consensus amongst respondents that each metric had an influence on performance of their bank.

Table 4.8; Means and Standard Deviations of Audit Committee Characteristics

	Mean	Std. Dev.
Size of audit committee	4.23	0.82
Expertise of audit committee	4.17	0.79
Professional experience of audit committee members	4.03	1.00
Frequency of audit committee meetings	4.17	0.83
Independence of audit committee	4.07	0.98
Aggregate	4.13	0.88

Source; Primary Data (2017)

The respondents on average tended to agree and had moderate consensus amongst themselves that size of the audit committee had an influence on performance of their bank (mean=4.23; std. dev.=0.82). The audit committee size is important to the organizational performance as the 2015 companies act directs that all listed firms should have audit committees, which should be proportionate to the size of the company and with the requisite knowledge. Similarly, respondents on average tended to agree and had moderate consensus amongst themselves that expertise of the audit committee had an influence on performance of their bank (mean=4.17; std. dev.=0.79).

There was moderate consensus amongst respondents and on average they tended to agree that frequency of audit committee meetings had an influence on performance of their bank (mean=4.17; std. dev.=0.83). This was consistent with the findings of Madawaki (2012) on a study on the characteristics of audit committees on financial reporting of listed firms in Nigeria.

The study noted that amongst the audit committee characteristics that affected financial reporting included audit committee formation, independence, expertise and number of meetings that it held.

On average, respondents tended to agree and had moderate consensus that independence of the audit committee had an influence on performance of their bank (mean=4.07; std. dev.=0.98). However, the responses were widely distributed around the mean which implied there was no consensus amongst respondents (std. dev =1.00) that professional experience of audit committee members had an influence on performance of their bank. On average the respondents tended to agree (mean=4.03) that professional experience of audit committee members had an influence on performance of their bank.

4.4.3 Board Size

The board size descriptive statistics were examined through Table 4.9 below;

Table 4.9; Descriptive Statistics for Board Size

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Overall board Size	13 (43.3%)	10 (33.3%)	6 (20.0%)	1 (3.3%)	0 (0.0%)
Ratio of Non-Executive/Executive directors	13 (43.3%)	7 (23.3%)	8 (26.7%)	2 (6.7%)	0 (0.0%)
Ratio of Male/Female directors	14 (46.7%)	7 (23.3%)	7 (23.3%)	2 (6.7%)	0 (0.0%)
Sizes of different board committees	12 (40.0%)	11 (36.7%)	7 (23.3%)	0 (0.0%)	0 (0.0%)

Source; Primary Data (2017)

The study sought to examine the influence of board size on the performance of commercial banks listed at the NSE using various metrics. These included overall board size, ratio of non-executive to executive directors, ratio of male to female directors, and sizes of different board committees.

Majority of the respondents that is 43.3% were inclined to strongly agree that overall board size had an influence on performance of their bank. A sizeable number of respondents (33.3%) also tended to agree that overall board size had an influence on performance of their bank. However, some respondents (20.0%) were uncertain about the influence of overall board size on performance of their bank, while a negligible 3.3% of respondents felt that it did not have an influence on performance of their bank. The ratio of non-executive to executive directors was perceived to have a strong influence on performance of the bank by 43.3% of the respondents who chose “Strongly Agree”. However, 26.7% of the respondents were uncertain as to whether the ratio of non-executive to executive directors influenced performance of their bank.

Similarly almost half of the respondents (46.7%), were inclined to strongly agree that the ratio of male to female directors influenced performance of their bank even though 23.3% of the respondents were uncertain and 6.7% disagreed. Sizes of different board committees have a strong influence on performance of commercial banks listed at the NSE, as was the opinion of most of the respondents (40.0%). This was further supported by 36.7% of the respondents who were in agreement that sizes of different board committees have an influence on performance of their bank. The respondents who were uncertain about the influence of sizes of different board committees on performance of their bank were 23.3%.

On average, the respondents tended to agree (mean score between 3.50 and 4.49) that each metric of the board size matrix had an influence on the performance of commercial banks listed at the NSE. Sizes of different board committees and overall board Size had greater influence on the performance of banks than the other metrics of the board size matrix since they had the highest mean scores (4.17 each). The size of the board relates to its ability to function optimally with small board sizes being inefficient and large board size being difficult to control. The ideal board size must therefore be achieved. The mean scores for ratio of non-executive to executive directors, and ratio of male to female directors were 4.03, and 4.10 respectively.

Table 4.10; Mean and Standard Deviation of Board Size

	Mean	**Std. Dev.**
Overall board Size	4.17	0.87
Ratio of Non-Executive/Executive directors	4.03	1.00
Ratio of Male/Female directors	4.10	0.99
Sizes of different board committees	4.17	0.80
Aggregate	4.11	0.92

Source; Primary Data (2017)

The responses for overall board size, ratio of male to female directors, and sizes of different board committees were moderately distributed around the mean. This implied that there was moderate consensus (std. dev between 0.50 and 0.99) amongst respondents on the influence of each of these metrics on performance of banks. However, responses for ratio of non-executive to executive directors were widely distributed around the mean (std. dev.=1.00) which implied that there was no consensus amongst respondents on the influence of this metric on performance of banks. The respondents on average however tended to agree that the ratio of non-executive to executive directors had an influence on the performance of their bank (mean=4.03).

Therefore, there was moderate consensus and on average respondents tended to agree that overall board size had an influence on the performance of their bank (mean=4.17; std. dev. 0.87). There was also moderate consensus and on average respondents tended to agree that the ratio of male to female directors had an influence on the performance of their bank (mean=4.10; std. dev. 0.99).

Similarly, there was moderate consensus and on average respondents tended to agree that the sizes of different board committees had an influence on the performance of their bank (mean=4.17; std. dev. 0.80).

4.4.4 Organizational Performance

The study sought to examine which aspects of organizational performance had been influenced by corporate governance aspects that is, the independence of the board, audit committee characteristics and the board size of the commercial banks listed at the NSE. These aspects included market share, profitability, staff retention level, and customer retention levels. The results presented in Table 4.11 shows the outcome of this examination.

Table 4.11; Descriptive Statistics for Organizational Performance

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Market share	8 (26.7%)	12 (40.0%)	7 (23.3%)	3 (10.0%)	0 (0.0%)
Profitability	9 (30.0%)	10 (33.3%)	8 (26.7%)	3 (10.0%)	0 (0.0%)
Staff Retention Level	10 (33.3%)	9 (30.0%)	9 (30.0%)	2 (6.7%)	0 (0.0%)
Customer Retention Levels	6 (20.0%)	15 (50.0%)	5 (16.7%)	4 (13.3%)	0 (0.0%)

Source; Primary Data (2017)

Most of the respondents (40.0%) were inclined to agree that the corporate governance aspects had influenced the market share of their bank. In respect to profitability, 33.3% of the respondents were inclined to agree and 30.0% of the respondents were inclined to strongly agree that the corporate governance aspects of their bank had influenced profitability. However, 26.7% of the respondents were uncertain whether the corporate governance aspects had influenced the profitability of their bank.

Respondents who strongly felt that the corporate governance aspects had influenced the staff retention levels were 33.3% while those who felt they had not been influenced were 6.7%. Half of the respondents were inclined to agree that the corporate governance aspects had influenced the customer retention levels of their banks. An additional 20.0% of the respondents were inclined to strongly agree that the corporate governance aspects had influenced the customer retention levels of their banks. Respondents who felt that corporate governance aspects had not influenced the market share, profitability, and customer retention levels ("Disagreed") were 10.0%, 10.0%, and 13.3% respectively. None of the respondents (0.0%) tended to strongly disagree that the corporate governance aspects had influenced the customer retention levels of their banks.

Table 4.12; Means and Standard Deviations for Organizational Performance

	Mean	Std. Dev.
Market share	3.83	0.95
Profitability	3.83	0.99
Staff Retention Level	3.90	0.96
Customer Retention Levels	3.77	0.93
Aggregate	3.83	0.96

Source; Primary Data (2017)

The respondents on average tended to agree (mean scores between 3.50 and 4.49) that the corporate governance aspects of their banks had influenced market share (3.83), profitability (3.83), staff retention level (3.90), and customer retention levels (3.77). Responses were moderately distributed around the mean for all metrics of the organizational performance matrix. This implied that there was moderate consensus (standard deviations between 0.50 and 0.99) amongst respondents of these metrics had been influenced by the corporate governance aspects of their banks.

Therefore, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their banks had influenced the market share of the bank (mean=3.83; std. dev=0.95). Additionally, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their banks had influenced the profitability of the bank (mean=3.83; std. dev=0.99).

On average, respondents tended to agree and had moderate consensus amongst themselves that corporate governance aspects had influenced the staff retention levels at their bank (mean=3.90; std. dev=0.96). Finally, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their bank had influenced the customer retention levels of the bank (mean=3.77; std. dev=0.93).

4.5 Regression Analysis

In order to examine on the influence of the independent variables (board size, independence of the board, and audit committee characteristics) on organizational performance, the multiple linear regression was undertaken. These results are presented in Table 4.13 below.

Table 4.13; Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635[a]	.403	.335	.44914

a. Predictors: (Constant), Board Size, Independence of Board, Audit Committee

Source; Primary Data (2017)

The results revealed a multiple linear correlation coefficient of 0.635 which implied that the three independent variables cumulatively were positively and moderately correlated with organizational performance of the listed firms. This implied that an increase in the independent variables would lead to an increase in the organizational performance.

The results also revealed a coefficient of determination of 0.403 which implied that the three independent variables accounted for 40.3% of the variance in the organizational performance. There was therefore a 59.7% of the variance in the organizational performance that was attributed to other factors not in the model.

The one way ANOVA was utilized for the purposes of determining on whether the regression model was good fit for data. This was tested at 5% level of significance. The test rule was that the regression model was good fit for data if the observed level of significance is less than 5%.

Table 4.14; ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.547	3	1.182	5.861	.003[b]
	Residual	5.245	26	.202		
	Total	8.792	29			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Board Size, Independence of Board, Audit Committee
Source; Primary Data (2017)

The ANOVA results indicated that the regression model was good fit for data since the observed level of significance is 0.003, which is less than the test value of 5% (0.05). Therefore, the regression model being good fit for data led to the regression coefficients being calculated.

The regression coefficients were calculated in order to gain insights into the influence of individual independent variable on the organizational performance and to be able to rank the individual variables based on their predictive power over the dependent variable.

Table 4.15; Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.523	.635		2.398	.024
	Independence of Board	.452	.231	.456	1.959	.061
	Audit Committee	.766	.490	1.072	1.562	.130
	Board Size	-.665	.448	-.951	-1.485	.150

a. Dependent Variable: Organizational Performance

Source; Primary Data (2017)

The regression coefficients of 0.452, 0.766, and -0.665 of the independence of board, audit committees, and board size led to the following regression model;

$Y=1.523 + 0.452\ (x_1) + 0.766\ (x_2) - 0.665\ (x_3)$ where y is organizational performance, and x_1, x_2, and x_3 are independence of board, audit committee and board size respectively.

The regression model revealed that a unit increase in the independence of the board would lead to a 0.452 increase in the organizational performance of the listed firms with other independent variables kept constant. Similarly, a unit increase in audit committee would lead to a 0.766 increase in the organizational performance of the listed firms with the other independent variables kept constant. Finally, a unit increase in the board size would lead to a 0.665 decrease in organizational performance of the listed firms with the other variables kept constant. The study found that the three independent variables did not have statistically significant relationship on the dependent variable.

4.6 Discussion of Findings

The independent of the board had an aggregate mean of 4.16 and a standard deviation of 0.81. This implied that the respondents on average tended to agree that independence of the board played a critical role in the organizational performance of listed commercial banks. These finds are consistent with the reviewed literature. According to Josiah & Mauithi (2014), the management will always present critical strategies and policies to the board of directors for the purposes of deliberation and thereafter approval of the same (Josiah & Mauithi, 2014). The board must be in a position to make independent decisions in relations to the viability of the proposed strategies. This includes the evaluation of the viability of the strategies, ability to make constructive feedback, and ability to display a depth of grasp of the issues under deliberations (Kimuyu, 2012). Therefore, the board composition must have sufficient skills, experience and expertise in order to constructively contribute to the proposals kept before it. In the absence of this skill set, the board of directors is then forced to depend on the management team hence compromising its effectiveness (Ranjbar, 2009).

The audit committee had an aggregate mean of 4.13 and a standard deviation of 0.88 that implied that the respondents on average tended to agree that audit committee characteristics played a critical role on organizational performance. The audit committee characteristics ensure that the organization discharges its duties effectively. There are certain audit committee characteristics that ensures that it discharges its mandates in an effective manner including its composition, size, expertise and independence amongst other aspects (Ibadin, 2012). The recommended number of audit committee members are three independent directors to ensure efficiency and effectiveness in discharge of its functions (Cohen et al., 2004).

These functions include elimination of the agency problems and examination of the integrity of the financial information presented (Cohen et al., 2004). The board size had an aggregate mean of 4.11 and a standard deviation of 0.92 that implied that on average the respondents tended to agree that the board size influenced on the organizational performance of listed commercial bank. Using regression analysis, the study did not find any significant influence of the independent variables on the dependent variable. This was attributed to lack of diversity of practices in relations to board size, audit committee and independence of the board in the listed commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to assess the influence of independence of board of directors, audit committee characteristics, and board size on the performance of commercial banks listed in the Nairobi Securities Exchange.

5.2 Summary of Findings

The summary of the findings was examined using the specific research objectives; The mean scores for all aspects used to examine the independence of board influence on performance of commercial banks listed at the NSE were between 3.50 and 4.49. This implies that on average, respondents tended to agree that each of these aspects had an influence on performance of their bank. Ranking the means from the highest to the lowest made CEO and Chairman of board being two different people, which had the highest mean the aspect with greater influence on performance of their bank. On the other hand, there was moderate consensus amongst respondents that each aspect of the independence of board matrix had an influence on performance of their bank. This was due to standard deviations between 0.50 and 0.99 for each of these aspects.

All metrics of the audit committee characteristics matrix had mean scores between 3.50 and 4.49, which implied that on average, the respondents felt that each of these metrics had an influence on performance of their bank. The standard deviations for size of audit committee, expertise of audit committee, frequency of audit committee meetings, and independence of audit committee were between 0.50 and 0.99, which meant that the responses were moderately distributed around the mean implying moderate consensus amongst respondents that each metric had an influence on performance of their bank.

However, the responses were widely distributed around the mean which implied there was no consensus amongst respondents (std. dev =1.00) that professional experience of audit committee members had an influence on performance of their bank.

On average, the respondents tended to agree (mean score between 3.50 and 4.49) that each metric of the board size matrix had an influence on the performance of commercial banks listed at the NSE. Sizes of different board committees and overall board size had greater influence on the performance of banks than the other metrics of the board size matrix since they had the highest mean scores. The responses for overall board size, ratio of male to female directors, and sizes of different board committees were moderately distributed around the mean. This implied that there was moderate consensus (std. dev between 0.50 and 0.99) amongst respondents on the influence of each of these metrics on performance of banks. However, responses for ratio of non-executive to executive directors were widely distributed around the mean (std. dev.=1.00) which implied that there was no consensus amongst respondents on the influence of this metric on performance of banks.

The respondents on average tended to agree (mean scores between 3.50 and 4.49) that the corporate governance aspects of their banks had influenced market share, profitability, staff retention level, and customer retention levels. Responses were moderately distributed around the mean for all metrics of the organizational performance matrix. This implied that there was moderate consensus (standard deviations between 0.50 and 0.99) amongst respondents of these metrics had been influenced by the corporate governance aspects of their banks.

5.3 Conclusion

The study concluded that the independence of the board of directors, audit committee characteristics and board size did not have significant influence on the performance of commercial banks listed at the NSE. Further, the study concluded that a unit increase in the independence of the board would lead to an increase in the organizational performance of the listed firms with other independent variables kept constant.

Similarly, a unit increase in audit committee characteristics would lead to an increase in the organizational performance of the listed firms with the other independent variables kept constant. However, the study concluded that a unit increase in the board size would lead to a decrease in organizational performance of the listed firms with the other variables kept constant.

5.4 Recommendations

The study recommends that the banks maintain the practice of having the CEO and Chairman of board of directors being two different people to ensure that there is objectivity in decision-making aspects within the board of directors. This will enhance the ability of the board in monitoring the performance of the management by eliminating the conflict of interest factor. Additionally, the size of the audit committee should be emphasized to include members who display a depth of grasp of the issues and will give an impartial view on the operational aspects of the organization. This in turn will give assurance to the board on the viability of the strategies and adherence to its directives and good governance practices.

Similarly, the sizes of different board committees should be moderated to limit the number of members to those that can reach a consensus. However, the sizes of these board committees should include sufficient members with expertise, experience and sufficient skills which will allow them to constructively contribute to the proposals kept before them.

5.5 Suggestions for Further Research

The study recommends for further research an examination on the role of professional experience of the audit committee members and the ratio of Non-Executive/ Executive directors on the organizational performance. The choice of these metrics for further research were informed by the virtue that these metrics showed lack of consensus in relations to the responses as to whether they had an influence on the organizational performance.

The study should also attempt to find the reasons for the lack of consensus in that metric to enable the study to gain a deeper insight into the phenomenon. The studies should thus use a triangulation method of data collection where diverse methods are used to collect data as opposed to a single data collection instrument.

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APPENDIX A

DATA COLLECTION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

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

P.O. Box 30197
Nairobi, Kenya

DATE 11/10/2017

TO WHOM IT MAY CONCERN

The bearer of this letter NICHOLAS MACESI

Registration No. D61/72566/2014

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
11 OCT 2017
P.O. Box 30197-00100 NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX B

CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

QUESTIONNAIRE

Instructions: Kindly do fill in the questionnaire to the best of your ability.

Please tick or answer appropriately for each of the Question provided.

PART A: BACKGROUND INFORMATION

1)	What is your gender?	Male	[ ]
		Female	[ ]
2)	Which of the following best describes your position?	Operations Staff	[ ]
		Finance Staff	[ ]
3)	How long have you worked in the organization?	0-5 years	[ ]
		6-10 years	[ ]
		11-15 years	[ ]
		Over 15 years	[ ]

PART B: INDEPENDENCE OF BOARD OF DIRECTORS

Using the below five point likert scale, kindly do tick to indicate your level of agreement with the stated indicators;

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

The following independence of the board of directors aspects has an influence on financial performance of banks ;		**SA**	**A**	**U**	**D**	**SD**
4)	Higher number of non-executive directors in the board					
5)	CEO and chairman of board being two different people					
6)	The tenure of the board members					
7)	Experience of the board members					
8)	Professional expertise of the board members					

PART C: AUDIT COMMITTEE CHARACTERISTICS

Using the below five point likert scale, kindly do tick to indicate your level of agreement with the stated indicators;

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

The following audit committee characteristics has an influence on financial performance of bank ;		**SA**	**A**	**U**	**D**	**SD**
9)	Size of audit committee					
10)	Expertise of audit committee					
11)	Professional experience of audit committee members					
12)	Frequency of audit committee meetings					
13)	Independence of audit committee					

PART D: BOARD SIZE

Using the below five point likert scale, kindly do tick to indicate your level of agreement with the stated indicators;

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

The following board size aspects has an influence on financial performance of bank ;		**SA**	**A**	**U**	**D**	**SD**
14)	Overall board Size					
15)	Ratio of Non-Executive/Executive directors					
16)	Ratio of Male/Female directors					
17)	Sizes of different board committees					

PART E: ORGANIZATIONAL PERFORMANCE

Using the below five point likert scale, kindly do tick to indicate your level of agreement with the stated indicators;

SA= Strongly Agree A=agree U=Uncertain D=Disagree SD=Strongly

The Corporate Governance Aspects have influenced the following organizational performance metrics ;		**SA**	**A**	**U**	**D**	**SD**
18)	Market share					
19)	Profitability					
20)	Staff Retention Level					
21)	Customer Retention Levels					