THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND INVESTMENT DECISIONS BY COMMERCIAL BANKS IN KENYA

BY:

NJUGUNA JUDY

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DECLARATION

This research project is my original work and has not been submitted in any other University.

Signed: Judy Njuguna

Date: 09-11-2012

D61/71218/2008

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

Signed: 

Date: 09-11-2012

Supervisor: Mr. Herick Ondigo
Lecturer
Department of Finance and Accounting
School of Business, University of Nairobi
DEDICATION

I dedicate this research project to my parents who instilled a lot of discipline and culture of hard work in me.

I hereby wish to express my sincere gratitude to my project supervisor, Mr. Ondigo, Lecturer, Department of Finance and Accounting, for his timeless guidance, selfless dedication and encouragement. In making this project a reality, I also wish to acknowledge the cooperation of the rest of the University of Nairobi fraternity especially the library staff, MBA coordinators, offline and moderators in the success of this project.

Most important of all I extend my gratitude to the Almighty God for providing me with strength, good health, knowledge and vitality that helped make this project a reality.

To all, I remain forever grateful.
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This Research Project would not have been possible without the cooperation and support of a number of people, who in one way or the other steered me towards my ultimate goal. I would like to express my appreciation to them and especially to the following:-

I hereby wish to express my sincere gratitude to my project supervisor, Mr. Ondigo, Lecturer, Department of Finance and Accounting for his tireless guidance, selfless dedication and encouragement in making this project a reality. I also wish to acknowledge the contribution of the rest of University of Nairobi fraternity especially the library staff, MBA coordination office and moderators to the success of this project.

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ABSTRACT

Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies. Commercial banks and other financial institutions hold their investments in several forms including local and foreign. As profit seekers, commercial banks are inclined to formulate policies that aim at diversifying their portfolio and thus guaranteeing some minimum rate of return. This study sought to investigate the relationship between corporate governance practices and investment decisions of commercial banks in Kenya.

The study made use of a descriptive survey design. The population comprised of all commercial banks operating in Kenya as at December, 2011. This study used simple random sampling to select 30 commercial banks for the study. Two sources of data were used, primary data and secondary data. The data sought was on board dimensions such as board size, CEO duality and diversity which are the focus of corporate governance.

The main findings of the study were that the five independent variables in the study namely contribution by board of directors, contribution by management, shareholders’ protection, disclosures and transparency explained only 75.5% of the investments decisions. Other factors not in this study contributed 24.5% of the investment decisions. The study thus establishes that there exists a strong relationship between corporate governance practices adopted and the level of investment undertaken by the commercial banks in Kenya.

The study recommended that corporate governance played an important role in deciding the investment opportunities available to the bank. This study also recommended that commercial banks establish an efficient organizational structure that would promote quality and reliable decision making especially on investment.

The study suggests further research be conducted on the determinants of corporate governance among commercial banks in Kenya. This study will bring to the fore the factors determining corporate governance so that commercial banks can keenly evaluate them when recruiting and dismissing a board member.
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ABBREVIATIONS

OECD Organization for Economic Corporation and Development
UK United Kingdom
ROE Return on Equity
ROA Return on Assets
CAR Capital adequacy ratio
DTMs Deposit-taking Microfinance Institutions
CRBs Credit Reference bureaus
CBK Central Bank of Kenya
CCG Centre for Corporate Governance
AIMA Australian Institutional investors
NAB National Australia Bank
AUD Australian Dollar
BSBS Basel Committee on Banking Supervision
AGM Annual General Meeting
EVA Economic Value Added
CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Corporate governance has become a popular discussion topic in developed and developing countries (Kumudini, 2011). Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation or company is directed, administered or controlled (OECD, 2004). Corporate governance comprises the long-term management and oversight of the company in accordance with the principles of responsibility and transparency. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies (Kumudini, 2011).

Developing countries are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Corporate governance is seen as the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders. Black, Jang and Kim (2003) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders.

Corporate collapses and scandals such as Enron and WorldCom in the US, Parmalat in Italy, Marcos10b & Fortune, Baby doc of Haiti, Oil scandal, are good examples of
the impact of corporate governance on poor decision making. In Kenya the best examples of impact of poor corporate governance include the Uchumi Supermarkets, Kenya-United Insurance, Lakestar Insurance, Goldenberg, Kenren and Anglo leasing (Coleman and Biekpe, 2006). Corporate governance is the set of mechanisms both institutional and market based that induce the self-interested controllers of a company those that make decisions regarding how the company will be operated to make decisions that maximize the value of the company. The set of mechanisms that maintain an appropriate balance between the rights of shareholders and the needs of the board and management to direct and manage the corporation’s affairs. Good corporate governance consists of a set of mechanisms that assure that suppliers of finance get adequate return on their investment (Kumudini, 2011).

1.1.1 Corporate Governance

According to the Cadbury (1992) there are five pillars of corporate governance which include efficiency and effectiveness, integrity and fairness, accountability, responsibility and transparency. Corporate governance has developed dramatically. The pace has been set by the introduction of corporate governance codes, nationally and then internationally. These codes have been drawn up in reaction to events and have been composed by practitioners pressed for time and responding to immediate political and public concerns (Clarke, 2004).

Allen and Gale (2002) in their paper, A Comparative Theory of Corporate Governance, states that corporate governance is used in two distinct ways: In Anglo-Saxon countries like the US and UK good corporate governance involves firms pursuing the interests of shareholders. In other countries like Japan, Germany and France corporate governance involves pursuing the interests of all stakeholders. The
Centre for Corporate Governance in Kenya (2005) broadly defined corporate governance as the process by which corporate entities are directed, controlled and held accountable. Corporate governance is a concept that is currently receiving a great deal of attention worldwide both the private and the public sectors. Defined as the manner in which the power of a corporate entity is exercised in the stewardship of entity total portfolio of assets and resources with the objectives of maintaining and increasing shareholder value within the context of the vision and mission of an enterprise (Cadbury, 1992).

1.1.2 Investments Portfolios for commercial banks

Commercial banks and other financial institutions hold their investments in several forms including local and foreign (Abdulla, 1994). Kenya government securities, Foreign currency treasury bills and bonds, Loans and advances to customers (net), investment in subsidiary companies, associates and joint ventures and investment properties. The banks' larger investments are in loans and advances to customers followed by Kenya government securities.

As profit seekers, commercial banks are inclined to formulate policies that aim at diversifying their portfolio and thus guaranteeing some minimum rate of return. To achieve the objective of profit maximization, banks make decisions to invest excess cash in varying securities, involving not only the amount to invest but also the types of security in which to invest. These decisions are normally based on evaluation of expected net cash flows and the uncertainty associated with the cash flows. The main motive for diversification is to minimize risk of loss. In general, banks consider costs and benefits of the different alternatives available when making investment decisions (Soyibo and Adekaye, 1991).
If commercial banks choose to invest in loans and advances, they risk default associated with these investments. Such investments potentially have negative consequences for bank earnings because some of the loans and advances to customers may end up as bad or doubtful debts. This risk may or may not be covered by collateral securities or high interest rates. If the risk is covered by high lending rates, these compensate for the high risks and the costs incurred in valuing collateral securities, negotiation and debt servicing. A bank may also face the risk of illiquidity if it issues large volumes of loans and advances without attention to the ease of ‘shiftability’ of other asset holdings in its portfolio (Nafula, 2003).

This is because repayment terms and periods for bank loans and advances to customers are defined by fixed contracts that differ from customer to customer, meaning that banks cannot recall the cash in debt at will, at their convenience or when there is need for liquidity. This situation can lead to a run on the bank if customers suspect that it does not have sufficient resources to meet their cash needs (Soyibo and Adekaye, 1991). A bank with cash holdings lower than the amounts required for its demand deposits may close down if all of a sudden it is invaded by customers making large withdrawals. Such a run on a bank arises out of customers’ loss of confidence in the bank, a situation that adversely affects its deposits and profitability.

1.1.3 The Banking Industry in Kenya

As at 31st December 2011, the banking sector in Kenya comprised of the Central bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance Company), 4 representative offices of foreign banks, 6 Deposit-taking Microfinance Institutions (DTMs), 118 Forex Bureaus and 2 Credit Reference bureaus (CRBs) (CBK BSD Report, 2011).
According to Matengo (2008), systematic failures of the banking industry in Kenya and other African countries in the 1990s were attributed to moral hazards. Adverse incentives on banks to adopt imprudent lending strategies for instance, when banks lend to projects that are connected to its own directors and managers. In particular, insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets.

1.1.4 Commercial Banks in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted (CBK BSD Report, 2011).

The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (CBK BSD Report, 2011).

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‘off-the-shelf’ banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (CBK BSD Report, 2011).
1.2 Research problem

Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies (Kumudini, 2011). Implementation and maintenance of good governance facilitates robust decision making and improves Strategy, Performance, Compliance and Accountability, and is characterized by ongoing monitoring and evaluation. Good governance helps provide a framework for establishing responsibility to the people served by the organisation including: members, clients and other stakeholders.

From the above discussions, corporate governance plays a key role in determining the investment decisions in a firm because the decisions made are binding on the Board of Directors regardless of whether the Chief executive officer consulted with them or not during execution. Following the role of the Board of Directors in an organization, corporate governance plays a key role in investment decision and which ultimately influences firm performance. The increasing importance of corporate governance Basel II committee on banking has underscored the need for banks to embrace corporate governance for improvement of their performance (Matengo, 2008).

Several studies have focused on the role of corporate governance in organization. Jensen and Meckling (1976) have proven that better-governed firms might have more efficient operations, resulting in a higher expected future cash-flow stream. Klapper and Love (2003) used return on assets as measure for performance and found evidence that firms with better governance have higher operating performance. According to Cho and Kim (2003), companies would enhance their corporate governance when the companies’ performance is poor because changes in corporate
governance structure are expected to bring out positive result on their performance. A study by Dalton, Daily, Johnson and Ellstrand (1998) showed that board composition had virtually no effect on a firm’s performance and that there was no relationship between leadership structure and a firm’s performance. In as much as there is literature on corporate governance and investment decision making, there is little on impact of it in Kenyan firms. This study therefore sought to fill this research gap by investigating the relationship between corporate governance practices and investment decisions of commercial banks in Kenya.

1.3 Objectives of the Study

To investigate the impact of corporate governance practices on investment decision making by commercial banks in Kenya.

1.4 Value of the Study

As the country’s banking sector regulator and supervisor; the Central Bank would be challenged to critically assess the impact of corporate governance practices on the investment decisions of commercial banks and their performance hence guide the Central Bank in its policy formulation process.

This study would also be of benefit to shareholders and managers/executives of banks who might want to establish the relationship between corporate governance practices and investment decisions among commercial banks and finally its effects of bank performance. This would help both bank shareholders and managers in ensuring that the decisions made maximize shareholders’ value.
The study would stimulate further interest in this area of corporate governance practices, contribute to existing literature and provide a basis for further research in the corporate governance practices and investment decisions in Kenya.

2.1 Introduction

The results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research. The students and academics would use this study as a basis for discussions on the corporate governance practices adopted by the Kenyan commercial banks and how these affect its investment decisions and finally bank performance. The Government of Kenya would benefit from the study in its bid to make policies relating to corporate governance practices. Citizens who might need to know the depth to which corporate governance practices have been entrenched in the firms that manage their very important investment.

2.2 Theoretical Review

2.2.1 Stewardship Theory of Management

David Schwenk and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owners of an organization. It grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principal.

The model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collective interests above self-serving interests. This type of person is motivated by doing what’s right for the organization because she believes that she will ultimately...
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter discusses past studies that have been done on corporate governance, theories advanced on the need for corporate governance in optimising firm value and the different forms of governance that can be adopted by the organisation.

2.2 Theoretical Review
This section discusses theories on which the study is build. It discusses the stewardship theory of management, shareholders’ theory and agency theory. It provides the foundations of the study.

2.2.1 Stewardship Theory of Management
Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owner’s of an organization. It grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals.

The model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options. This type of person is motivated by doing what’s right for the organization, because she believes that she will ultimately
benefit when the organization thrives. The steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization (Mallin, 2010).

According to Donaldson and Davis (1994), managers are good stewards of the corporations and diligently work to attain high levels of corporate profit and shareholders returns. Those managers are principally motivated by achievement and responsibility needs. The Council of Institutional Investors in the US, Cadbury (1992) in the UK, Australian Institutional investors (AIMA, 1995), and other professional directors recommend the need for independent non-executive directors. Hawley and Williams (1996) state that the logical extension is either towards an executive-dominated Board or towards no Board at all. Donaldson and Davis point out that the non-executive Board of directors is, by its design, an ineffective control device and cite evidence to support the view that the whole rationale for having a Board becomes suspect.

Boards can become redundant when there is a dominant active shareholder, especially when the major shareholder is a family or government. One could speculate that some Boards are established from cultural habit, blind faith in their efficacy, or to make government or family firms look 'more business like'.

2.2.2 Shareholders Theory

There are two main theories of shareholder-oriented governance: the principal-agent or finance model and the myopic market model. The principal-agent model starts from an assumption that the social purpose of corporations is to maximize shareholders' wealth (Claessens, Fan and Wong, 2002). The principal-agent model regards the central problem of corporate governance as self-interested managerial
behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives.

Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Berle and Means, 1932). There are two problems occurring in the agency relationship with which agency theory is concerned. The first is that because it is difficult or expensive for the principal to verify what the agent is actually doing, the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk (Eisenberg, 1998).

Those two problems bring about a particular type of management cost incurred as principals attempt to ensure that agents act in principals' interests: "agency cost" (Jensen and Mechling, 1976). To solve those problems, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behavior of the managers with the interest of owners.

While the principal-agent model agrees upon the failure of corporate internal control, it denies the inherent failure of market mechanisms, insisting that markets are the most effective regulators of managerial discretion, the so-called "efficient market model" (Blair, 1999).

In defining 'Stakeholder Theory' Clarkson (1994) states that the firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. Blair (1995) stated that the goal of directors and management
should be maximizing total wealth creation by the firm. That, the key to achieving this is to enhance the voice of and provide ownership-like incentives to the participants in the firm who contribute or control critical, specialized inputs and to align the interests of these critical stakeholders with the interests of outside, passive shareholders. Porter (1992) also recommended that corporations should seek long-term owners and give them a direct voice in Governance and to nominate significant owners, customers, suppliers, employees, and community representatives to the Board of directors. All these recommendations would help establish the sort of business alliances, trade related networks and strategic associations. In other words, Porter is suggesting that competitiveness can be improved by using all four institutional modes for governing transactions rather than just markets and hierarchy.

2.2.3 Agency Theory

Broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community.

Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars (Carter and Lorsch, 2004) also argue that at the heart of good corporate governance is not
board structure (which receives a lot of attention in the current regulations), but instead board process.

One of the most widely-cited papers on agency theory is published by Jensen and Meckling (1976). Jensen and Meckling (1976) suggest that the firm can be viewed as a nexus or network of contracts, implicit and explicit, among various parties or stakeholders, such as shareholders, bondholders, employees, and society at large. The interests of stakeholders are not always aligned leading to agency problems which occur when the interests of agents are not aligned with those of principals. Depending on the parties involved in conflicts, agency problems can be categorized as: Managerial Agency or Managerialism (between stockholders and management); debt agency (between stockholders and bondholders); social agency (between private and public sectors); and political agency (between agents of the public sector and the rest of society or taxpayers). Firms have to incur agency costs in a bid to reduce or eliminate the agency problems. Jensen and Meckling (1976) defined agency costs as being the sum of the cost of monitoring management (the agent) and bonding the agent to the principal (shareholders) and residual losses.

Corporate Governance can be viewed as a set of mechanisms to reduce agency costs in order to assure suppliers of finance returns on their investments. The objective of Corporate Governance is to encourage the management to make the same decisions that owners would have made themselves, such as investment in positive net present value (NPV) projects. The sources of conflicts are many and diverse following the separation of ownership and control, the actual operations of the firm are conducted by Managers whose interests are not fully aligned with its owners (Jensen and
Meckling, 1976). There are four basic sources of conflicts: moral hazard, earnings retention, time horizon and, risk aversion.

Jensen and Meckling (1976) showed that a manager's incentive to consume private perquisites increases as his ownership in the company declines. Moral hazard is also represented by the lack of effort in management (Jensen, 1986). If free cash flow is paid out as dividends, managers are less likely to invest in projects with negative values. As regards the timing of cash flows, shareholders concern themselves with future cash flows over a long-time horizon whereas managers may be concerned with cash flows within their employment terms only, leading to bias in favour of short-term high performance projects, at the expense of long-term positive NPV projects. Another problem of agency relationship is the managerial Risk Aversion. Since their human capital is tied to the firm, managers cannot diversify their investments at a low cost. Therefore, according to Jensen (1986), managers may prefer diversifying higher-risk investments. Jensen (1986) suggests debt as a mechanism to reduce agency conflicts. However, Brennan (1995) finds that risk-averse managers would prefer equity financing over debt to reduce the risk of bankruptcy and default.

2.3 Commercial Banks Investment Decisions

Investment is the current commitment of money for a period of time in order to derive future payments that will compensate the investor for the time the funds are committed, the expected rate of inflation, and the uncertainty of the future payments (Levy, Haim, and Thierry Post, 2005). Jensen (2003) thinks investment incentives take a variety of forms which may be treated differently by different organizations and industries.
Investment involves making of a sacrifice in the present with the hope of deriving future benefits. Two most important features of an investment are current sacrifice and future benefit. Investment is the sacrifice of certain present values for the uncertain future reward. It involves commitment of funds in various investment avenues. It involves numerous decisions such as type, mix, amount, timing, grade etc, of investment the decision making has to be continues (Levy, Haim, and Thierry Post, 2005). Investment is concerned with the management of an investor’s wealth which is the sum of current income and the present value of all future incomes.

Investment policy includes setting of investment objectives in addition to specific objectives regarding the investment return requirement and risk tolerance of the bank. For example, the investment policy may define that the target of the investment average return should be 15% and should avoid more than 10% losses. Identifying investor’s tolerance for risk is the most important objective, because it is obvious that every investor would like to earn the highest return possible (Jones, 2010).

The returns on investment play a key role in guiding the investment behaviour of commercial banks. The return that banks earn on total resources invested in equity fund may be too small to attract or hold equity funds. The investment decisions will be guided by the prevailing market returns on various investment opportunities available. A satisfactory return can only be achieved by the sizable financial advantage that banks obtain on the use of deposit funds. The importance of this advantage depends on the cost of these funds and the proportion of total resources obtained from non-equity sources (Fabozzi, 1999).

Provisions for income taxes also affect the investment decisions of commercial banks because it has a direct bearing on the profits before taxes. Banks invest in a wide
range of loans and investments. Some of these investments may produce a higher net operating income than consumer credit, others a smaller income. The relatively low return on some of their non consumer credit activities is related to the deposit function of banks. They are required to seek investment outlets that are liquid and of good quality to protect their depositors and provide the liquidity needed to service demand deposits. The low yield on such investments reduces their earning capacity and is a cost of accepting deposits. In most cases the loan and investment decisions of commercial banks are not influenced directly by their consumer credit policies (Jones, 2010). However, some banks find it desirable to finance the inventory of the dealers from which they obtain retail paper or in other ways provide services related to consumer lending. In some states banks are permitted to handle insurance operations or to accept fees as agents for writing insurance. In such cases, the insurance that arises from consumer credit operations may add to or supplement the bank's income. Most of their earnings on other earning assets, however, have no relation to their consumer credit activities (Levy, Haim and Thierry Post, 2005).

2.4 Indicators of Good Corporate Governance

2.4.1 Independent Directors

The focus on board independence is grounded in agency theory (Fama and Jensen, 1983). In fact, it has long been argued in the finance literature that boards with a majority of independent directors are more effective in monitoring management (Bhagat and Black, 2002) and are more likely to replace poorly performing CEOs (Weisbach, 1988). More independent boards are also more likely to opt for a clean slate when company performance deteriorates significantly, and to hire a replacement
CEO from outside the company rather than promote an internal candidate (Borokhovich et al., 1996; Huson, 2001).

2.4.2 Independence of Committees

Similarly, independence is also considered important for a board committee to be an effective monitor (Klein, 1998). John and Senbet (1998) report empirical evidence showing that the presence of monitoring committees (audit, nomination, and compensation committees) is positively related to factors associated with the benefits of monitoring. However, the presence of insiders in the compensation committees increases the probability of making decisions in favor of the CEO's interests (Newman and Mozes, 1999).

Moreover, when the CEO sits on the nominating committee or when no nominating committee exists, firms appoint fewer independent outside directors and more gray outsiders with conflicts of interest (Shivdasani and Yermack, 1999). In addition, the stock market's reaction to appointments of independent outside directors is more positive when the director's selection process is viewed as relatively independent of CEO involvement (Shivdasani and Yermack, 1999). Klein (2002) shows that independent audit committees reduce the likelihood of earnings management, thus improving transparency. Finally, when the CEO serves on the nominating committee, the audit one is less likely to have a majority of independent directors (Klein, 2002).

2.4.3 Board Size

The size of the board has been shown to have a material impact on the quality of corporate governance. Several studies support the idea that large boards can be dysfunctional. Hermelin and Weisbach (2003) believe that board size proxies for the
board's activity, explaining why smaller board sizes are better than larger ones that may be plagued with free rider and monitoring problems. For example, Yermack (1996) and Eisenberg et al. (1998) find a negative relation between board size and company value, indicating that smaller boards are more effective since they experience fewer communication and coordination problems.

2.4.4 Split Chairman/CEO Roles

The question of whether the chairman and CEO positions should be separate has been controversial. The advantages and the drawbacks of separating the chairman and CEO positions have been studied extensively. Jensen (1993) argues that separating CEO and chairman roles is in the shareholders' interest. Similarly, large firms that separate the two functions trade at higher price-to-book multiples (Yermack, 1996) and have higher return on assets and cost efficiency ratios than firms where the same person holds both titles.

In addition, bestowing the CEO and chairman duties on one individual makes it harder for a board to replace a poorly performing CEO (Shivdasani and Zenner, 2004), which can reduce the flexibility of a board to address sizable declines in performance (Goyal and Park, 2002). On the other hand, Brickley et al. (1997) find no evidence that separating these roles improve company performance. More precisely, combining the positions of chairman and CEO confers greater power to the CEO, who gains the title of chairman after having outperformed his/her peers (Brickley et al., 1997). So the chairman title serves as a reward to a new CEO who has demonstrated superior performance and represents an implicit vote of confidence by outside directors. Then, requiring firms to separate the positions of CEO and chairman would
deprive boards of an important tool to motivate and reward new CEOs (Brickley et al., 1997).

2.4.5 Board Meetings

Boards should be ready to increase meetings frequency if the situation requires a high supervision and control (Shivdasani and Zenner, 2004). Other studies suggest that boards should balance the costs and benefits of frequency. For example, if the board increases the frequency of its meetings, the recovery from poor performance is faster (Vafeas, 1999).

2.5 Importance of Corporate Governance in banking

The economy health of a government is closely related to the soundness of its banking system. Banks are essential for each country’s economy, since no growth can be achieved unless savings are efficiently channelled into investment. Banks contribute to the operation and growth of the economy through various roles, including that of intermediary and provider of payment settlement facilities. Mobilize savings from savers to borrowers in order to finance productive activities Heffernan (1996). This can be done successfully with the careful management of credit, liquidity and interest rate risk.

Essentially, a bank is funded primarily by depositors; it thus has an obligation to ensure that the risk which depositors' funds are exposed to is minimized. Bank failures expose the banking system to systemic risk, the risk that all depositors panic and attempt to withdraw their funds. The strain on liquidity would lead to a collapse of the entire system. There is a strong need to ensure good Governance of these institutions for effective management and control, and efficient service delivery.
Alexander (2006) observed that mismanagement in the banking institutions can lead to a general loss of confidence in the banking system which can quickly spill over to other sectors of the economy.

Recent examples of massive corporate collapses of some outstanding corporations like Enron, WorldCom, Global Crossing and National Australia Bank (NAB), among others, have highlighted the need to improve and reform Corporate Governance. Enron Boosted profits and had hidden debts totalling over $1 billion, manipulation of the markets, and bribing foreign governments to win contracts abroad. While WorldCom engaged in overstatement of cash flow by booking $3.8 billion in operating expenses as capital expenses and gave founder Bernard Edders $400 million in off the books loans. Global Crossing engaged in network capacity swaps with other carriers to inflate revenue and shredded documents related to accounting practices.

In January 2004 NAB disclosed to the public that it had identified losses relating to unauthorized trading in foreign currency options amounting to AUD 360 million. The NAB's forex scandal highlighted an operating environment characterized by lax and unquestionable oversight by managers, poor adherence to risk management systems and controls and weaknesses in internal Governance procedures.

Various countries have instituted guidelines and regulations to circumvent the occurrence of such scams in future. The United States of America issued the Sarbanes-Oxley Act in July 2002 and the Higgs and Smith reports published in UK in January 2003. The Basel II, issued by the Basel Committee on Banking Supervision (BSBS) provides guidelines for banking institutions to maintain enough cash reserves to cover risks incurred by operations. The accord mandates that banks holding riskier assets should be required to have more capital on hand than those maintaining safer
portfolios. Basel II also requires companies to publish both the details of risky investments and risk management practices.

A survey of Corporate Governance Developments in OECD countries (2004) upheld that greater emphasis and attention be put on Corporate Governance issues, especially transparency and disclosure, control and accountability, and to the most appropriate form of Board structure that may be capable of preventing such scandals occurring in future. Effective Corporate Governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and the economy as a whole. A key element for well functioning of financial system is trust. Corporate scandals and diminishing confidence in financial reporting among investors and creditors have renewed Corporate Governance as a top of mind priority for Boards of Directors, Management, auditors and other stakeholders.

Banks are in the risk business. In process of providing financial services, they assume various kinds of financial risks. In all such circumstances, risk needs to be monitored and managed efficiently by the institutions. To be effective, the concern and tone for risk management must start at the top. The overall responsibility of risk management rests with the Board. The Board should approve those policies that are consistent with the risk tolerances of shareholders. The duty of management is to transform the strategic directions set by the Board in the form of policies and procedures and to institute an effective hierarchy to execute and implement those policies. Corporate Governance is thus seen as an essential element of effective risk-management. Governance failings are significant where Boards fail to understand and manage risk and tolerate perverse incentives. Anderson (2009) recommends that as a matter of
policy, Boards should be encouraged to take a broad based view of Corporate Governance which encompasses the totality of their role.

Banks should uphold strong Corporate Governance practices because of their peculiar nature of business. Banks have a fiduciary relationship with their customers. Basel Committee on banking supervision (1999) upheld that banking supervision cannot function well, if sound Corporate Governance practices are lacking. It held that sound Corporate Governance practices makes the work of supervisors easier and underscores the necessity of having appropriate levels of accountability checks and balances within each bank. Basel II (1999) observed that from a banking industry perspective, Corporate Governance involves the manner in which the business and affairs of a banking institution are governed by the Board of Directors and senior management in: setting the corporate objectives, running the day to day operations of the business, to consider interest of the shareholders, aligning corporate activities and behavior with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations, and protecting interest of depositors.

The rapid developments in the financial markets and the globalization of financial inflows, technological progress, competitiveness among banks and non-banks have necessitated a change in managing risk and change to the laws and surveillance systems so as to maintain the integrity and strength of the banking system. The application of Corporate Governance is more pronounced with a requirement to have a Corporate Governance statement in the annual financial reports.

Gopalaasmy (2006) had the argument that banks should uphold Corporate Governance due to the following: Banks exhibit strong linkages with the real sector of the economy and they are a major source of funding for all types of economic activities.
They are the backbone of the national payment system. Given the importance to the economy, banks and other intermediaries are under the regulatory purview of the central bank. Unlike in the case of other companies, banks have a fiduciary relationship with their customers. This creates additional principal relationship with banks that do not exist with other non-banking institutions.

2.5.1 Corporate Governance in Banking

Corporate Governance is generally seen as the systems or processes by which entities are managed and controlled. From a Banking industry perspective Corporate Governance relates to the manner in which the business of the bank is governed. It is defined by a set of relationships between the bank's management, its Board, its shareholders, and other stakeholders. This includes setting corporate objectives and a bank’s risk profiles, aligning corporate behaviour with the expectation that management will operate in a safe and sound manner, running day-to-day operations within established risk profile and in compliance with applicable laws and regulations, while protecting the interests of depositors and other stakeholders.

Commercial banking operation is not as transparent as other firms. The bank balance sheets and income statement are generally opaque; a bank cannot show a list of major debtors (borrowers) and creditors (depositors) for the shareholders to use in judging the performance of Board and management (Gemmill and Thomas, 2004). By regulation commercial banks are suppose to publish their audited accounts in the local press before they convene their annual general meeting (AGM) in the course of the year.

While banking legislation has traditionally been used as a way to force disclosure of information, this process has historically involved the compilation of statistics for monetary policy purposes rather than the provision of information necessary to
evaluate financial risks. Financial disclosure requirements normally focus on the publication of qualitative and quantitative information in a bank's annual financial report. The format of disclosure typically mandates a complete audited set of financial statements, as well as qualitative information such as a discussion of management issues and general strategy and, a Corporate Governance statement.

The Liberalization of banking and capital markets has substantially increased the level of information required to achieve financial stability while the provision of useful, adequate information on participants and their transactions has become essential for maintaining orderly and effective markets.

One of the methods in enhancing Corporate Governance in the banking sector is through risk management. Risk management establishes a process of identifying; analyzing and mitigating risk that could assist the bank achieve its objectives. It includes making links between risks and returns and resource priorities, and putting control mechanisms in place to manage risk throughout the bank by developing fraud-prevention and risk management plans.

Thus the key elements of a sound Corporate Governance framework in a bank can be summarized to include the following: firstly a well articulated corporate strategy against which the overall success and the contribution of individuals can be measured. Secondly, setting and enforcing clear assignment of responsibilities, decision-making authority, and accountabilities appropriate for the bank's selected risk profile. Thirdly, strong financial risk management function (independent of business lines), adequate internal control systems (including internal and external audit functions), and functional process design with the necessary checks and balances should be in place.
Fourthly adequate corporate values, codes of conduct, and other standards of appropriate behaviour and effective systems used to ensure compliance. This includes special monitoring of the bank’s risk exposures where conflicts of interest are expected to appear. Fifthly financial and management incentives to act in an appropriate manner offered to the Board, management, and employees, including compensation, promotion, and penalties (compensation should be consistent with the bank’s objectives, performance, and ethical values) and lastly transparency and appropriate information flows internally and to the public.

Corporate Governance affects banking institutions by ensuring that strategic goals and corporate values are in place and communicated throughout the bank. These goals must be transparent with the objective of ensuring proper lines of accountable responsibility, appropriate oversight by senior management, segregation of audit and control functions, effective risk management procedures are in place and Board members are properly qualified and do not place undue influence upon management.

Effective Governance practices are one of the key prerequisites to achieve and maintain public trust and, in a broader sense, confidence in the banking system. Poor Governance increases the likelihood of bank failures. Bank failures may impose significant public cost, affect deposit insurance schemes, and increase contagion risks.

Sound Corporate Governance can create an enabling environment that rewards banking efficiency, mitigates financial risks, and increases systematic stability.

Rather than depending on regulatory action, banking authorities can also increase their reliance on market discipline to oversee banks. Market discipline can be beneficial in that, the type of discipline may reduce the moral hazard incentives, and may also, improve the efficiency of banks by pressuring some of the relatively
inefficient banks to improve or exit the industry. The social cost of supervising banks may be lowered if regulators cede greater control to market forces that can distinguish between good and bad banks. If depositors have an indication that their funds are safe and liquid, they will not have an incentive to withdraw their deposits from their banks. Evidence indicates that depositors discipline banks for risky behaviour, both by withdrawing their deposits and by requiring higher interest rates.

2.5.2 Corporate Governance and Banking Institutions

Banking institutions is the bank profitability and productivity in banking (Jeon and Miller, 2006). In addition, performance may also refer to the development of the share prices, profitability or the present valuation of a company (Melvin and Hart, 2005).

Intuitively there appears to be a positive correlation between good Corporate Governance practice and corporate performance. A good working relationship between the Board of directors, management and other stakeholders in a given bank would result in increased efficiency, throughput and profits. Analysts and markets would view these results favourably with reluctant higher stock prices. Conversely, in times of Corporate Governance crisis, this relationship would be affected and would be reflected and would be reflected in falling stock prices and other measures of corporate performance.

According to earlier research done on Corporate Governance, well governed companies shares attract premiums in the markets. Well governed firms in Korea for example traded at a premium of 160% to poorly governed firms (Black and Jang et al, 2004). In Brazil research shows that firms with the best Corporate Governance ratings earned P/E ratios that were 20% higher than firms with worst Governance ratings (Bruno, 2005). A study of 100 largest emerging companies in Asia showed that
companies with the best Corporate Governance in each of a large number of emerging markets countries had 18% points higher measures of EVA (Economic Value Added) than firms in their country average (CLSA, 2001). A Harvard Wharton team also found that US based firms with better Governance have faster sales growth and more profitable than their peers. ABN/AMRO study done in Brazil showed that Brazilian firms with above average Corporate Governance had ROEs (Return on Equity) that were 45% higher and net margins that were 76% higher than those with average Governance practices. A study of S & P 500 firms by deutsche bank showed that companies with strong or improving Corporate Governance outperformed those with poor or deteriorating Governance practices by about 19% over a two-year period (Grandmont and Gant et al, 2004). In a 2002 Mckinsey survey, institutional investors said they would pay premiums to own well governed companies; premiums average 30% in Eastern Europe and Africa and 22% in Asia and Latin America (Mckinsey, 2002).

2.5.3 Measurement of Bank Performance

Financial performance evaluation is multifaceted involving ratio analysis, financial statements, trend analysis and consideration of additional data not always found in published reports. Integrated models, such as the Return on Equity (ROE) Model DuPont Model disaggregate ROE into several basic components in order to isolate the sources of a bank’s profitability. ROE is decomposed as a function of a bank’s cost management (as measured by its net profit margin), its revenue management (as measured by its assets utilization), and its financial leverage (as measured by its equity multiplier). This assists observers to determine why bank’s performance has deteriorated or improved in comparison to its peers or its own past records. Utilizing trends analysis may assist in revealing long-term patterns in the profitability.
efficiency. ROE is the closest an accounting measure comes to revealing how well managers have done in maximizing shareholder wealth.

Return on Assets (ROA) is a measure of efficiency, indicates management's ability to use financial and real resources to generate net revenue. The return on Assets (ROA) is a function of both its cost management, reflected by the net profit margin and its revenue management captured by its utilization ratio. The net margin calculated by operating income after tax divided by interest income, measures the net profit margin, that is, what is left out of one shilling's revenue after all costs have been taken out.

2.6 Empirical Review

Corporate governance is a necessity in modern business decision making. This is as a result of several highly publicized scandals such as the collapse of Enron, WorldCom and the demise of Arthur Andersen LLP, the Sarbanes-Oxley Act was enacted with aim of restoring public confidence in the United States system of corporate governance and reporting. It is a legal response whose broad intent is to deal with the core issues of transparency, integrity and oversight of financial markets (PriceWaterhouseCoopers, 2003).

Oman (2003) notes that corporate governance has a central role to play in helping to increase the flow and lower the cost of financial capital from international savers, that firms in the developing world need to finance their investment and growth. He states that studies of Brazil, Chile, India and South Africa show that corporate governance has an important role to play in helping both to increase the flow of financial capital to firms in developing countries and to enhance those countries' financial development as a whole. According to Malherbe and Segal (2003), the emerging markets crisis of 1997 — 98 is further proof of the nexus between sound corporate
governance and effectively functioning capital markets. Though the crisis was set off by currency, interest-rate and asset-price volatility it was perpetuated by vulnerable corporate and bank balance sheets that were unable to absorb the volatility. The vulnerable balance sheets in turn raised questions about how corporations were governed.

Risk has been defined in different terms depending on context. Reilly & Brown (2000) define risk as the uncertainty of future outcomes, the probability of an adverse outcome. Risk is an unavoidable element of conducting business and rewards increase with the level of risk that a business bears. However, there are dire consequences if failure results. It is for this reason that a business must seek to have an optimum balance between risk and rewards. The recent corporate failures have convinced an increasing number of once skeptical investors that governance is a separate risk class that certainly requires attention and, in many cases, specialist analysis (Bradley, 2004). In the McKinsey Quarterly report of 2002, it was noted that good governance should increase the market valuation of companies by improving their financial performance, reducing the risk that boards will make self-serving decisions, and generally raising investor confidence.

Indeed, investors are willing to pay as much as 28 per cent more for shares of well-governed companies in emerging markets (Newell & Wilson, 2002). This is confirmed by a Euromoney survey done in 2003 that found a relationship between efforts in corporate governance and market performance. For example, shares of Samsung Electronics of Korea, a company that had set high standards for disclosure and appointed independent directors to key committees, had dramatically outperformed the market for five years (Euro money, 2003). Hoschka et al (2002) in
their study of the 100 largest companies that are listed on the Stock Exchange of Thailand found that those companies with the best overall corporate governance performance had average market valuations that were 45 percent higher than the average for companies in the bottom quartile.

Earle et al (2005) carried out a study of the relationship between ownership on corporate performance across 168 firms in Hungary between 1996 and 2001. They used the return on equity (ROE) and real sales to number of employees' measures concluded that the size of the largest block increases profitability and efficiency.

Holderness et al (1995) studied 3759 firms in the United States and using the market to book measure concluded that the performance-ownership relationship is weak. Black (2001) found out that good governance practises are strongly correlated with higher firm value as measured by the ratio of actual market capitalisation to theoretical market capitalization. Harper and Lowe (2002) show that better corporate governance is highly correlated with better performance and market valuation. Harper and Lowe also found out that corporate governance provisions in the firm level matter more in countries with weak legal environments.

A negative relationship however appears to exist between board size and firm value (Eisenburg et al 2006). Too big a board is likely to be less effective in substantive discussion of major issues and to suffer from free-rider problems among directors in their supervision of management (Mbaabu 2010)

Locally several studies have been done on corporate governance. For example Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE and found that the size and the composition of the board of directors together with the separation of the control and
the management have the greatest effect on the performance. Ngugi (2007) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya and found that inside directors are more familiar with the firm’s activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

Gatauwa (2008) studies the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. The study found that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management teams to increase the level of disclosure also lower the information asymmetry between managers and shareholders and lower the cost of capital. Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya. The study found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholders wealth.

Wandabwa (2010) conducted a study on the relationship between corporate governance and financial performance the case of broadcasting stations in Kenya. The study found that good corporate governance will lead to lower company risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholders wealth. Nyakoe (2010) in her study of corporate governance and its impact on risk management by commercial banks in
Kenya concludes that there was significant influence of corporate governance on risk management practices. This was attributed to the fact that better corporate governance mechanisms lead to better management of risks. The beta values for board size and cognitive diversity suggest that they had a positive influence on risk management. CEO duality had a negative influence on risk management.

Mbaabu (2010) in her study of the relationship between corporate governance ownership structure and financial performance of insurance companies in Kenya finds that there exists significant relationship between size, outside (non-executive) directorship and leverage with both return on asset and return on equity. Ogutu (2010) in his study of corporate governance practices in the water sector in Kenya concludes that there was need for adoption of corporate governance practices to avoid failure in the corporate arena.

Matengo (2008) undertook a study to determine the relationship between corporate governance and performance in the banking industry in Kenya. In his study of the institutions in the banking industry he concludes that corporate governance tenets have been applied by the participants irrespective of their legal status. Although their presence created confidence within its stakeholders their importance could not however be concluded to be influential in determining performance.

2.7 Summary

This chapter covered literature review on the subject of corporate governance and investment decisions among commercial banks. The chapter considered theories related to corporate governance and investment decisions. In particular, the study reviewed stewardship theory of management, shareholders’ theory and agency theory.
The chapter also reviewed commercial banks' investment decisions before reviewing empirical literature in the area of interest.

3.1 Introduction

This chapter discusses the methodology that shall be adopted by the researcher in carrying out the study. The chapter presents the research design, population to be studied, data collection and procedures and data analysis.

3.2 Research design

In this study a descriptive survey was used. Descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amounts of data from a sizable population in a highly economical way. It allows one to collect qualitative data, which can be analyzed quantitatively using descriptive and inferential statistics (Saunders et al., 2007). Therefore, the descriptive survey was deemed the best strategy to fulfill the objectives of this study. Robson (2002) points out that descriptive study portrays an accurate profile of persons, events or situations. Descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Descriptive research design is one of the best methods for conducting research in human contexts because of portraying accurate current facts through data collection for testing hypothesis or answering questions to conclude the study (Robinson 2002; Choudhry, 2004).

3.3 Population of the Study

The population comprised of all commercial banks operating in Kenya as at December, 2014. According to the Bank of Kenya Report (2014), there were 44 commercial banks as at December
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

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3.3 Population of the Study

The population comprised of all commercial banks operating in Kenya as at December, 2011. According to the Bank supervision Report (2011), there were 44 commercial banks as at December, 2011.
3.4 Sample

This study used simple random sampling to select 30 commercial banks for the study. According to Kothari (2004), if well selected, a sample of 10% or 30 members of the population are enough for the generalization of the findings to the whole population.

3.5 Data Collection

Two sources of data were used, primary data and secondary data. Primary data was collected through questionnaires and secondary data from published results and Central Bank of Kenya Supervision Reports. Various pillars/tenets of corporate governance practises as set out by the Basel II committee were set out in the questionnaire. Corporate governance was collected from the annual reports. The data sought was on board dimensions such as board size, CEO duality and diversity which are the focus of corporate governance.

3.5.1 Data Validity

To ascertain the validity of questionnaire, a pilot test was carried out (Cronbach, 1971). This was done by administering the questionnaire onto the pilot group. The content validity of the research instrument was evaluated through the actual administration of the pilot group. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items are sent to the pilot group to obtain suggestions for modification (Lacity and Jansen, 1994). Content validity draws an inference from test scores to a large domain of items similar to those on the test (Polkinghorne, 1988). Content validity is concerned with sample-population representativeness like the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills (Cronbach, 1971).
3.5.2 Data Reliability

Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. A construct composite reliability co-efficient (Cronbach alpha) of 0.6 or above, for all the constructs, is considered adequate. The acceptable reliability coefficient is 0.6 and above (Nunnaly, 1978), if the Cronbach alpha is below 0.6 the reliability of the questionnaire is considered too low and thus the research tool should be amended.

3.6 Data Analysis

Data was analysed using Statistical Package for Social Sciences Version 17. The collected data from the field was inspected for completeness and accuracy, coded and then entered into the system for analysis. The finding of the study was presented in tabular form for ease of interpretation and reporting. According to Mugenda and Mugenda (1999), multiple regression analysis attempts to determine whether a group of variables together predict a given dependent variable.

3.6.1 Analytical Model

The model is as follows:

\[ Y = a + b_1 X_1 + b_2 X_2 + \varepsilon \]

Where \( Y \) = Investment Decisions
\( a \) = constant
\( b_1, b_2, b_3, \) and \( b_4 \) are co-efficient associated with \( X_1, X_2, \) and \( X_3 \) respectively
\( X_1 \) = Contribution by the Board of directors
\( X_2 \) = Contribution by the management
\( X_3 \) = Shareholders' protection
\( X_4 \) = Disclosures
\( X_5 \) = Transparency
\( \varepsilon \) = the error term
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\( X_1 \) = Contribution by the Board of directors

\( X_2 \) = Contribution by the management

\( X_3 \) = Shareholders’ protection

\( X_4 \) = Disclosures

\( X_5 \) = Transparency

\( \varepsilon \) = the error term
To test for the strength of the model and the relationship between corporate governance practices and investment decisions of commercial banks, the researcher conducted an Analysis of Variance (ANOVA). On extracting the ANOVA table, the researcher looked at the significance value. The study was tested at 95% confidence level and 5% significant levels.

4.2 Demographic Statistics

4.2.1 Departments in which the respondents worked

The study sought to establish the demographic statistics of the respondents. The findings were as shown in the table 4.1 below:

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>5</td>
<td>40.0</td>
</tr>
<tr>
<td>Corporate Affairs</td>
<td>4</td>
<td>31.7</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>3</td>
<td>21.4</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td>5.7</td>
</tr>
<tr>
<td>Communications Department</td>
<td>1</td>
<td>5.7</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the research findings above, the study established that the respondents worked in different departments. 40% of the respondents worked in the Human Resources departments followed by 31.7% who worked in the Corporate Affairs Department. 21.4% held their company secretaries' positions while 5.7% each were from Finance and Communications Departments respectively.

4.2.2 Number of Members Serving on the Board of Directors

The study sought to establish the number of members serving on the board of directors. The findings were as shown in the table 4.2 below.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. The study findings are presented on the impact of corporate governance practices on investment decision making by commercial banks in Kenya.

4.2 Demographic Statistics

4.2.1 Departments in which the respondents worked

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<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource</td>
<td>6</td>
<td>40.0</td>
</tr>
<tr>
<td>Corporate Affairs</td>
<td>4</td>
<td>26.7</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>3</td>
<td>20.0</td>
</tr>
<tr>
<td>Finance</td>
<td>1</td>
<td>6.7</td>
</tr>
<tr>
<td>Communications Department</td>
<td>1</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the research findings above, the study established that the respondents worked in different departments. 40% of the respondents worked in the Human Resource departments followed by 26.7% who worked in the Corporate Affairs Department. 20% had their company secretaries respond while 6.7% each were from Finance and Communications Departments respectively.

4.2.2 Number of Members Serving on the Board of Directors

The study sought to establish the number of members serving on the board of directors. The findings were as shown in the table 4.2 below:
Table 4.2: The Number of Members Serving on the Board of Directors

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-15</td>
<td>9</td>
<td>60.0</td>
</tr>
<tr>
<td>5-10</td>
<td>5</td>
<td>33.3</td>
</tr>
<tr>
<td>16 and above</td>
<td>1</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the study findings indicated in the table 4.2 above, majority (60%) of the respondents indicated that their board of directors comprised of between 11-15 members followed by 33.3% of the respondents who indicated that their boards comprised of 5-10 members. 6.7% of the respondents indicated that their boards comprised of 16 and above members.

4.2.3 Frequency of Board Meetings

The study sought to establish the frequency of board meeting among commercial banks. The findings were as indicated below in the table 4.3 below:

Table 4.3: The Number of Times the Board meets in a year

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>As need arises</td>
<td>9</td>
<td>60.0</td>
</tr>
<tr>
<td>Once a month</td>
<td>4</td>
<td>26.7</td>
</tr>
<tr>
<td>Once in a quarter</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the research findings, the study established that 60% of the respondents indicated that their board of directors held meetings as need arose followed by 26.7% of the respondents who indicated that their board members held meetings once every month while 13.3% of the respondents indicated that their board members met once in every three months.
4.3 Board of Directors Contribution

The study sought to establish the contributions of the board of directors to the operations of commercial banks in Kenya. The respondents were required to score the level of their agreement with various statements on the contributions of the boards. The scale ranged from 1 to 5 where 1 = Not at all, 2 = To a little extent, 3 = To a moderate extent, 4 = To a great extent, 5 = To a very great extent. The study computed means and standard deviation to help measure the respondents' feeling about the contribution of the Boards. The findings were as in the table 4.4 below.

Table 4.4: Contributions of the Board of Directors

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board formulates long term strategy of the organization</td>
<td>3.7333</td>
<td>1.03280</td>
</tr>
<tr>
<td>The Board is not involved in day to day running of the organization’s affairs</td>
<td>3.3333</td>
<td>0.72375</td>
</tr>
<tr>
<td>The Board provides the necessary resources for the achievement of the organization’s strategic goals</td>
<td>3.7333</td>
<td>0.45774</td>
</tr>
<tr>
<td>The Board defines and communicate to management their powers, roles and responsibilities</td>
<td>3.4667</td>
<td>1.18723</td>
</tr>
<tr>
<td>The Board approves proposals from the management after thorough scrutiny, debate and analysis</td>
<td>3.0000</td>
<td>1.06904</td>
</tr>
<tr>
<td>The Board consults technocrats on professional matters</td>
<td>3.5333</td>
<td>0.74322</td>
</tr>
<tr>
<td>The Board has got an operating plan that defines its functions, activities and its objectives</td>
<td>4.0000</td>
<td>0.53452</td>
</tr>
<tr>
<td>The organization</td>
<td>3.8000</td>
<td>0.86189</td>
</tr>
<tr>
<td>The shareholders</td>
<td>3.9333</td>
<td>0.79881</td>
</tr>
<tr>
<td>The directors</td>
<td>4.1333</td>
<td>0.63994</td>
</tr>
<tr>
<td>The members and other stakeholders</td>
<td>3.2667</td>
<td>0.70373</td>
</tr>
<tr>
<td>The Board conducts its activities in a free and democratic atmosphere</td>
<td>3.4000</td>
<td>0.50709</td>
</tr>
<tr>
<td>The Board meetings are democratic and open for all members</td>
<td>3.6667</td>
<td>0.72375</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the study findings indicated in the table 4.4 above, the respondents indicated that the boards formulated long term strategy of the organization from moderate to a great extent as supported by a mean of 3.7333. The Boards were not involved in day
to day running of the organization’s affairs as shown by a mean of 3.3333. However, the Boards provided the necessary resources for the achievement of the commercial bank’s strategic goals as indicated by a mean of 3.7333 which lie between moderate to a great extent. The respondents also indicated that their boards approved proposals from the management after thorough scrutiny, debate and analysis as supported by a mean of 3.0000. For professional matters, the respondents indicated their boards consulted technocrats as supported by a mean of 3.5333. The boards of commercial banks also had an operating plan that defined their functions, activities and its objectives as supported by the mean of 4.0000.

The study further sought to establish the board’s first duties which included their organizations, shareholders directors and members and other stakeholders. From the findings the respondents indicated that the boards’ first duties covered all these with each registering a mean of 3.8 and above. In doing these, the respondents indicated that boards conducted their activities in a free and democratic atmosphere to ensure independence as supported by a mean of 3.4000. In addition, the respondents indicated that the board meetings are democratic and open for all members as supported by a mean of 3.6667.

The study further sought to establish how the boards were constituted and all issues concerning board meetings. Asked of their level of agreements on whether minutes of all meetings were securely kept and availed to all members of the Board as need arose, the respondents scored it with a mean of 3.4667. On whether the members received advance written agenda and notices of meetings, the mean was 3.7333 while on absence from the board meetings being by exception not as a rule, the mean was 3.3333. The respondents also indicated that all proceedings and resolutions of the
board were accurately recorded on a timely basis to support decision making process at management levels as supported by a mean of 3.6000. The boards were also involved in the directors and the selection considered present skills and requirements in the board of directors as scored by the respondents with a mean of 3.6000 each. After selection, each selected new board member was inducted well to allow their familiarization with the key operations of the bank as indicated by a mean of 3.6000. On admission, a new board member was given clear information on the role of management and that of the board and the relationship between the two levels of organizational management as indicated by a mean of 3.4667. On whether the board performance was evaluated at least once every year, the mean was 3.3333. The respondents also indicated the banks had a succession plan in place for the Board’s chairperson, Board members, the CEO and the senior management as indicated by the mean of 3.2000. The respondents also indicated that where the conduct of any director becomes questionable, he or she is asked to leave the Board as supported by the mean of 3.6000. The interest and conflicts between Board members were declared and resolved amicably as indicated by the mean of 3.1333. These statistics are well illustrated in table 4.5 below:
Table 4.5: Conduct of the board

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minutes of all meetings are securely kept and are available to all members of the Board</td>
<td>3.4667</td>
<td>.91548</td>
</tr>
<tr>
<td>The members receive advance written agenda and notices of meetings</td>
<td>3.7333</td>
<td>.88372</td>
</tr>
<tr>
<td>Absence from the Board meetings is by exception not as a rule</td>
<td>3.3333</td>
<td>.89974</td>
</tr>
<tr>
<td>All proceedings and resolutions of the Board are accurately recorded on a timely basis</td>
<td>3.6000</td>
<td>.91026</td>
</tr>
<tr>
<td>The Board is involved in the selection of the directors</td>
<td>3.6000</td>
<td>.91026</td>
</tr>
<tr>
<td>The selection considers present skills and requirements in the Board of directors</td>
<td>3.6000</td>
<td>.91026</td>
</tr>
<tr>
<td>The Board is composed of members representing diverse interest groups</td>
<td>3.3333</td>
<td>.72375</td>
</tr>
<tr>
<td>Every new Board member is inducted well after selection.</td>
<td>3.6000</td>
<td>.91026</td>
</tr>
<tr>
<td>A new Board member is given clear information on the role of management and that of the Board and the relationship between the two</td>
<td>3.4667</td>
<td>.91548</td>
</tr>
<tr>
<td>Board performance is evaluated at least once in a year</td>
<td>3.3333</td>
<td>.72375</td>
</tr>
<tr>
<td>A succession plan is in place for the Board’s chairperson, Board members, the CEO and the senior management.</td>
<td>3.2000</td>
<td>.86189</td>
</tr>
<tr>
<td>Where the conduct of any director becomes questionable, he or she is asked to leave the Board.</td>
<td>3.6000</td>
<td>.73679</td>
</tr>
<tr>
<td>Interest and conflicts between Board members are declared and resolved amicably</td>
<td>3.1333</td>
<td>.63994</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

4.4 The structure of the Board

Several statements were fronted on the structure of the board to which the respondents were required to rank their level of agreement with each statement. The level of agreement ranged from 1=Least extent, 2=Extent, 3=moderate, 4 =great extent, 5=very great extent. From the research findings, the respondents indicated that the boards consisted of the executive and non executive members on a fairly balanced proportion as indicated by a mean of 3.533 while the chairperson was not the CEO and their roles were clearly defined and separate as supported by a mean of 3.2254.

On whether the boards were formally constituted and recorded committees with
clearly defined terms of reference, composition and reporting mandates, the responses scored a mean of 3.5143. The committees were also established and appointed based on functional needs of the bank as indicated by a mean of 3.1530. The different sub committees were on board and had clearly defined terms of references to as supported by a mean of 3.5010. These findings are well illustrated in the table 4.6 below:

**Table 4.6: Responses on the structure of boards**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board consists of the executive and non executive members on a fairly balanced proportion</td>
<td>3.5333</td>
<td>1.06010</td>
</tr>
<tr>
<td>The chairperson is not the CEO and their roles are clearly defined and separate</td>
<td>3.2254</td>
<td>.91548</td>
</tr>
<tr>
<td>The Board has formally constituted and recorded committees with clearly defined terms of reference, composition and reporting mandates</td>
<td>3.5143</td>
<td>.91548</td>
</tr>
<tr>
<td>The committees have been established and appointed based on functional needs of the bank</td>
<td>3.1530</td>
<td>.73679</td>
</tr>
<tr>
<td>The different sub committees are on Board and have clearly defined terms of references.</td>
<td>3.5010</td>
<td>.91026</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

**4.5 Management Contribution**

The study set to establish the extent to which the respondents could attribute Corporate Governance practices in their organization some factors identified. These included organization culture, strategic direction, organizational policies, shareholders’ interests, board structure and efficiency and effectiveness. The findings were as shown in the table 4.7 below:
### Table 4.7: Management Contribution

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization culture</td>
<td>3.2667</td>
<td>.70373</td>
</tr>
<tr>
<td>Organization's strategic direction</td>
<td>3.4000</td>
<td>.73679</td>
</tr>
<tr>
<td>The policies of the organization</td>
<td>3.5267</td>
<td>1.27218</td>
</tr>
<tr>
<td>The share holders interest</td>
<td>3.6667</td>
<td>.72375</td>
</tr>
<tr>
<td>The existing Board structure</td>
<td>3.7333</td>
<td>.45774</td>
</tr>
<tr>
<td>The efficiency and effectiveness of service delivery</td>
<td>3.5333</td>
<td>.74322</td>
</tr>
<tr>
<td>The Board is involved in the selection and appointment of senior executives.</td>
<td>3.5231</td>
<td>1.06010</td>
</tr>
<tr>
<td>Management provides directors with information they need to meet their responsibilities.</td>
<td>3.6667</td>
<td>.72375</td>
</tr>
<tr>
<td>Are there systems in place for identifying, monitoring and managing the organization’s risk profile</td>
<td>3.6497</td>
<td>.72375</td>
</tr>
<tr>
<td>Are there adequate policies that increase accountability of the managers</td>
<td>3.7160</td>
<td>.86189</td>
</tr>
</tbody>
</table>

**Source: (Research Findings)**

From the findings indicated in the table 4.7 above, management of commercial banks contributed immensely to the organizational culture that prevailed as supported by a mean of 3.2667 and in establishing the strategic direction as supported by a mean of 3.4000. On the policies of the commercial banks, management had a major role to cascade down the resolutions of the board as supported by a mean of 3.5267 thereby safeguarding the interests of shareholders with a mean of 3.6667. Managements' contribution to the existing board structure scored a mean of 3.7333 while on the efficiency and effectiveness of service delivery the mean was 3.5333. On the board being involved in the selection and appointment of senior executives, the mean was 3.5231 while on the question of management providing directors with information they needed to meet their responsibilities the mean was 3.6667. On there being systems in place for identifying, monitoring and managing the organization’s risk profile, the mean was 3.6497 and on there being adequate policies that increase accountability of the managers, the mean was 3.7160.
4.6 Shareholders Protection

The study sought to establish the extent to which the respondents could attribute Corporate Governance practices in their commercial banks to the given factors. These factors were scored as shown in the table 4.8 below:

<table>
<thead>
<tr>
<th>Table 4.8: Role of corporate governance on shareholder protection</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protects and facilitates the exercise of shareholder’s rights</td>
<td>3.7333</td>
<td>.70373</td>
</tr>
<tr>
<td>Ensures shareholders have a freehand in the election, appointment and removable of directors</td>
<td>3.5940</td>
<td>.86189</td>
</tr>
<tr>
<td>Shareholders have the right to participate in and to be sufficiently informed on, decisions concerning fundamental corporate changes.</td>
<td>3.7180</td>
<td>.86189</td>
</tr>
<tr>
<td>Shareholders of the same class are treated equally</td>
<td>3.6667</td>
<td>.72375</td>
</tr>
<tr>
<td>There is a policy in the organization that ensures members of the Board and key executives disclose to the Board whether they directly or indirectly have a material interest in any transaction or matter directly affecting the organization.</td>
<td>3.5531</td>
<td>.74322</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the findings indicated in the table 4.8 above, the respondents indicated that corporate governance practices among commercial banks protected and facilitated the exercise of shareholder’s rights as supported by a mean of 3.7333 while on corporate governance practices ensuring shareholders had a freehand in the election, appointment and removable of directors the mean was 3.5940. The respondents indicated that shareholders had the right to participate in and to be sufficiently informed on, decisions concerning fundamental corporate changes as indicated by a mean of 3.7180. Corporate governance practices also ensured that shareholders of the same class were treated equally as indicated by a mean of 3.6667. The respondents also indicated that there was a policy in the organization that ensured members of the board and key executives disclose to the board whether they directly or indirectly...
have a material interest in any transaction or matter directly affecting the organization as supported by a mean of 3.5531.

4.7 Disclosure

The study sought to establish information flow and communication within the board and the management. Several statements were proposed to which the respondents were to answer yes or no.

Table 4.9: Disclosure

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Every Board member is given the organization’s legal documents; mission and vision, strategy documents on first appointment</td>
<td>1.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Every Board member receives a copy of the Board manual at the time of his or her appointment</td>
<td>1.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>Every Board member has access to organization’s policy documents on personnel, finance as reviewed from time to time</td>
<td>1.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>The Board receives sufficient and timely information from senior management in an agreed upon format</td>
<td>1.9333</td>
<td>2.54858</td>
</tr>
<tr>
<td>The Board’s information requirements are communicated to the management on a regular basis</td>
<td>1.1333</td>
<td>0.35187</td>
</tr>
<tr>
<td>Information is prepared and disclosed at all times in accordance with the governing laws and regulations.</td>
<td>1.0000</td>
<td>0.0000</td>
</tr>
<tr>
<td>The Board’s responsibilities regarding financial communication is properly disclosed</td>
<td>1.8164</td>
<td>0.0000</td>
</tr>
<tr>
<td>The ownership structure is fully disclosed to all interested parties. Changes in the shareholdings of substantial investors are disclosed as soon as the bank becomes aware of them.</td>
<td>1.1333</td>
<td>0.35187</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the study findings, the respondents indicated that every Board member was given the organization’s legal documents; mission and vision, strategy documents on first appointment and every board member received a copy of the Board manual at the time of his or her appointment, and they all had access to organization’s policy documents on personnel, finance as reviewed from time to time. All these scored a
mean score of 1.0000 meaning that all were answered yes. However, the respondents did not feel that the boards received sufficient and timely information from senior management in an agreed upon format as indicated by a mean of 1.933. This shows that in some commercial banks, some management did not disclose all necessary information to the board of directors. All the respondents agreed that information was prepared and disclosed at all times in accordance with the governing laws and regulations as indicated by a mean of 1.0000. Asked whether the Board’s responsibilities regarding financial communication were properly disclosed, the mean was 1.8164 meaning that the boards’ responsibilities regarding financial communication were well disclosed. Asked whether the ownership structure was fully disclosed to all interested parties and changes in the shareholdings of substantial investors were disclosed as soon as the bank became aware of them, the mean was 1.1333 indicating that to a great extent the communication was prompt.

The study further sought to establish the extent the respondents could attribute the timely and accurate disclosure was made on all material matters in their commercial banks. From the research findings, the study established that timeliness and accuracy in financial and operating results with a mean of 3.5333, organizational objectives with a mean of 3.6667, major share ownership and voting rights with a mean of 3.8000 and remuneration policy for members of the Board and key executives 3.9140.

<table>
<thead>
<tr>
<th>Table 4.10: Timeliness and Accuracy in disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and operating results</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Organizational objectives</td>
</tr>
<tr>
<td>Major share ownership and voting rights</td>
</tr>
<tr>
<td>Remuneration policy for members of the Board</td>
</tr>
</tbody>
</table>
4.8 Transparency

The study sought to establish the influence of transparency on the operations of commercial banks. The respondents were asked to rank their level of understanding on a scale of 1-5 where 1= very poor, 2= poor, 3= fair, 4= good, 5= good.

Table 4.11: Transparency

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotes effective participation of all Board members in Board meetings</td>
<td>3.6667</td>
<td>.89974</td>
</tr>
<tr>
<td>Effectively represents the management to the Board</td>
<td>3.4000</td>
<td>.91026</td>
</tr>
<tr>
<td>Is effective in maintaining transparency and accountability</td>
<td>3.6818</td>
<td>.86189</td>
</tr>
<tr>
<td>Ensures succession plans are in place for both the senior management and the directors</td>
<td>3.9162</td>
<td>.75593</td>
</tr>
<tr>
<td>Monitors and evaluates in consultation with other Board members, the CEO’ s performance and that of the senior management</td>
<td>3.9333</td>
<td>.96115</td>
</tr>
<tr>
<td>Clearly articulates the division of responsibilities among different supervisory, regulatory and enforcement authorities</td>
<td>3.7594</td>
<td>.86189</td>
</tr>
<tr>
<td>Channels for disseminating information provide for equal, timely and cost effective access to all relevant information by users</td>
<td>3.7284</td>
<td>.67612</td>
</tr>
<tr>
<td>External auditors are independent, competent and qualified and are accountable to the shareholders.</td>
<td>3.8667</td>
<td>.35187</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

From the study findings shown in the table 4.10, transparency among commercial banks promoted effective participation of all board members in board meetings as supported by a mean of 3.6667. The boards were rated moderately in maintaining transparency and accountability with a mean of 3.6818. The commercial banks ensured succession plans were in place for both the senior management and the directors as supported by a mean of 3.9162. The boards monitored and evaluated the CEO’ s performance and that of the senior management from time to time as supported by a mean of 3.9333. Through transparency, the commercial banks were...
able to clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities as indicated by the mean of 3.7594. The channels for disseminating information provided for equal, timely and cost effective access to all relevant information by users in the commercial banks as indicated by a mean of 3.7284. External auditors were independent, competent and qualified and were accountable to the shareholders among most of the commercial banks as indicated by the mean of 3.8667.

4.9 Effects of Corporate Governance on Investment Decisions

The study sought to establish the extent to which corporate governance affected investment decisions in commercial banks. From the findings, the mean was 3.5333 indicating that corporate governance affected investment decision to a more than moderate extent. The findings were as shown in the table 4.12 below:

Table 4.12: Effect of corporate governance on investment decisions

<table>
<thead>
<tr>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5333</td>
<td>.74322</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

4.10 Challenges in Corporate Governance Practices

The study sought to establish the challenges in corporate governance practices among commercial banks in Kenya. From the research findings, the respondents indicated that investment decisions among their banks were relatively effective as they ranked average. All banks had some form of corporate governance but they were not very effective as some issues went unnoticed.
In terms of efficiency in service delivery, majority of the respondents (62%) indicated that their commercial banks were efficient. The corporate governance emphasized on quality service delivery in order to improve customer satisfaction and retention levels. 27% indicated that very efficient while 8% indicated relatively inefficient. Only 3% indicated that the service delivery was very inefficient.

The respondents were asked to rate their boards of directors in terms of integrity, objectivity, accountability and leadership. On integrity, the mean score was 3.5333, objectivity was 3.6667, and accountability was 3.6841 and leadership scored a mean of 3.2667. This indicated that the boards on average ranked between fair and good. These findings are well illustrated in the table 4.13 below:

Table 4.13: Board of Directors’ ratings

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrity</td>
<td>3.5333</td>
<td>.51640</td>
</tr>
<tr>
<td>Objectivity</td>
<td>3.6667</td>
<td>.89974</td>
</tr>
<tr>
<td>Accountability</td>
<td>3.6841</td>
<td>.74322</td>
</tr>
<tr>
<td>Leadership</td>
<td>3.2667</td>
<td>.45774</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

The study further sought to establish whether there existed a conflict of interest between the Directors and other stakeholders. The respondents were supposed to answer ‘yes’ or ‘no’. From the research findings, 42% of the respondents answered ‘yes’ while 58% answered ‘no’. This indicates that although there existed some level of conflicts between the directors and other stakeholders, they were minimal. The conflicts arose mainly due to management’s short sightedness as compared to the shareholders’ long sightedness. The managers wanted to execute some projects which had short term benefits and with high levels of risks but the shareholders were moderate in their investing. The creditors also imposed some level of constraints on the operations of commercial banks by restricting their operations.
The study also sought to establish the respondents' view on the Corporate Governance guidelines. They were required the extent to which they felt the guidelines achieved their purposes. 17% indicated that the guidelines were very ambiguous, 31% said they were relatively ambiguous while 52% indicated that the guidelines were very clear.

These findings are well illustrated in the figure 4.1 below:

**Figure 4.1: Level of ambiguity of Corporate Governance guidelines**

![Pie chart showing levels of ambiguity](source)

Source: (Research Findings)

### 4.11 Regression Analysis

A multiple regression analysis was conducted in this study so as to test relationship between variables (independent) and investment decisions. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (investment decision) that is explained by all the independent variables (Contribution...
by the Board of directors, Contribution by the management, Shareholders’ protection, Disclosures and Transparency).

4.11.1 Model Summary

Table 14: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.8691</td>
<td>0.7553</td>
<td>0.746</td>
<td>1.0021</td>
</tr>
</tbody>
</table>

Source: (Research Findings)

The five independent variables that were studied explain only 75.5% of the investment decisions as represented by the $R^2$. This therefore means that other factors not studied in this research contribute 24.5% of the investment decisions. Therefore, further research should be conducted to investigate the other factors (24.5%) that affect investment decision making by commercial banks in Kenya.

4.11.2 Coefficient of Determination

Table 4.15: Coefficient of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B 2.396 Std. Error .300</td>
<td>Beta 0.390 t 5.264 Sig. .371</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution by the Board of directors</td>
<td>0.557 Std. Error 0.193 Beta 0.390 t 1.331 Sig. 0.041</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution by the management</td>
<td>0.572 Std. Error 0.129 Beta 0.346 t 1.384 Sig. 0.025</td>
<td></td>
<td></td>
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<tr>
<td>Shareholders’ protection</td>
<td>0.569 Std. Error 0.156 Beta 0.205 t 2.752 Sig. 0.035</td>
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<tr>
<td>Disclosures</td>
<td>0.559 Std. Error 0.139 Beta 0.187 t 1.358 Sig. 0.028</td>
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<tr>
<td>Transparency</td>
<td>0.563 Std. Error 0.147 Beta 0.247 t 1.298 Sig. 0.039</td>
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Source: (Research Findings)
As per the SPSS generated table above, the equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon \) becomes:

\[
Y = 2.396 + 0.557X_1 + 0.572X_2 + 0.569X_3 + 0.559X_4 + 0.563X_5
\]

The regression equation above shows that taking all factors into account (Contribution by the Board of directors, Contribution by the management, Shareholders’ protection, Disclosures and Transparency) constant at zero, investment decisions will be 2.396.

The findings presented also shows that taking all other independent variables at zero, a unit increase in contribution by the board of directors will lead to a 0.557 increase in investment decisions; a unit increase in contribution by the management will lead to a 0.572 increase in investment decisions; a unit increase in shareholders’ protection will lead to a 0.569 increase in investment decisions; a unit increase in disclosures will lead to a 0.559 increase in investment decisions; while a unit increase in transparency will lead to a 0.563 increase in investment decisions. This depicts that contribution by the management contribute most to investment decisions followed by Shareholders’ protection.

At 5% level of significance and 95% level of confidence, contribution by the board of directors had a 0.041 level of significance; contribution by the management showed a 0.025 level of significance, shareholders’ protection had a 0.035 level of significance, disclosures had a 0.028 level of significance and transparency showed a 0.039 level of significance; hence the most significant factor is contribution by the management.

4.12 Interpretation of findings

Increased governance quality is associated with greater responsiveness of investment to investment opportunities, better firm performance and higher marginal product of
capital. The findings presented above suggest that better corporate governance drives managers to invest more, and to exert more effort in finding highly productive investment projects and in managing their investment efficiently. The regression analysis indicates the variables discussed above influence investment decisions among commercial banks up to 75.5%. The board composition plays a key role on the investment decision because it determines the speed and the quality of investment decision making. A very large board size may mean a slowed down decision making process while a small board size may mean that the decisions made are not optimal. As Van de Berghe and Levrau (2004) suggests, expanding the board increases the pool of expertise because larger boards are more likely to have more knowledge and skills at their disposal as well as more perspectives to draw on which will improve the quality of strategic decisions. Larger groups, however, can suffer from free rider and higher coordination problems and reduced decision-making capabilities. Hence, the negative effects of group dynamics may hinder the strategic decision making process.

Poorly governed firms invest less, implying that they under invest rather than overinvest. Overall, the evidence presented in the findings above is consistent with governance mechanisms mitigating problems stemming from managers seeking the 'quiet life'. Overall, the results suggest that better governance quality improves the efficiency of capital allocation within commercial banks, and that lax governance produces underinvestment rather than overinvestment. In the management discipline, the board of directors is viewed as a potentially important resource for companies and thus supports the resource dependency paradigm (Nicholson and Kiel, 2007). The ability of the board to tap into significant resources may be dependent on the size of the board.
In so far as better corporate governance has the objective of enhancing shareholder control, it should follow that commercial banks with better corporate governance will attract investors and will reduce their cost of capital. These findings are consistent with those of a global investor opinion survey carried out by McKinsey & Company (2002) that gives some evidence that good governance is linked to investment decisions.

The study findings also confirm one aspect of resource dependency theory which is linked with corporate governance and investment expenditure which is the intensity of board activities. From the study finding, the study established that the board meetings were on overall held as need arisen. The findings are in agreement with the findings of Jackling and Joh (2009) who argue that, taken on face value, there is reason to believe that board meetings may be an important resource because of the various benefits including more time for directors to confer, set strategy, and monitor management. As Vafeas (1999) finds out, the board meeting frequency is related to corporate governance and ownership characteristics.

The board acquires outsiders with relevant knowledge and independence to be involved in the firm’s investment decisions. Outside directors are a source of skill-based diversity, and hence, enhance the knowledge base of the decision making group (Milliken and Martins, 2006). This diverse knowledge base allows outside directors to bring objectivity to the decision making process that can help reduce narrow thinking and weak analysis by the board. Just like Hill and Snell (1988) argue, outsider dominated boards are more aligned with shareholder preferences for long-term wealth maximization and emphasize innovation in long-term strategy than insider dominated firms. Further, as outside board members provide inputs into the investment decision-
making in the form of information and knowledge, they can directly contribute to the success of those projects.

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of the impact of corporate governance practices on investment decision making by commercial banks in Kenya. Based on the findings in chapter four, the study gives a summary, policy recommendations and suggestions for further research. The recommendations are based on the objective of the study.

5.2 Summary

The study targeted 30 commercial banks out of which 15 commercial banks responded giving a response rate of 50%. Majority of the respondents worked in the Human Resource departments followed by those who worked in the Corporate Affairs Department. Some respondents were company secretaries. Most Commercial banks had their board of directors comprise of 11-15 members followed those with boards comprised of 5-10 members.

The boards formulated long term strategy of commercial banks from moderate to a great extent. The Boards were not involved in day to day running of the organization's affairs although they provided the necessary resources for the achievement of the commercial bank's strategic goals. The boards approved proposals from the management after thorough scrutiny, debate and analysis and had an operating plan that defined their functions, activities and its objectives. The boards conducted their activities in a free and democratic atmosphere to ensure independence in their jobs. The board meetings were democratic and open for all members to promote inclusivity. The boards consisted of the executive and non executive members on a fairly balanced proportion. The chairperson in all the commercial banks was not the CEO and their roles were clearly defined and separate to promote...
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accountability. The boards were formally constituted and recorded committees with clearly defined terms of reference, composition and reporting mandates, the responses. The committees were also established and appointed based on functional needs of the bank with different sub committees on board.

Management of commercial banks contributed immensely to the organizational culture and the policies. Management had a major role to cascade down the resolutions of the board thereby safeguarding the interests of shareholders. Managements’ contribution to the existing board structure promoted the efficiency and effectiveness of service delivery at the commercial banks. The boards were involved in the selection and appointment of senior executives to ensure that qualified and experienced individuals were appointed to the boards. Commercial banks’ management provided directors with information they needed to meet their responsibilities besides putting in place systems for identifying, monitoring and managing the banks’ risk profile.

Corporate governance practices among commercial banks protected and facilitated the exercise of shareholder’s rights thereby ensuring shareholders had a freehand in the election, appointment and removal of directors. The shareholders had the right to participate in and to be sufficiently informed on, decisions concerning fundamental corporate changes. Corporate governance practices among commercial banks ensured that shareholders of the same class were treated equally. Commercial banks also had a policy that ensured members of the board and key executives disclosed to the board whether they directly or indirectly had a material interest in any transaction or matter directly affecting the bank.
Every Board member was given the organization's legal documents; mission and vision, strategy documents on first appointment and they all received a copy of the board manual at the time of their appointment. The board members had access to the bank’s policy documents on personnel, finance as reviewed from time to time. Transparency among commercial banks promoted effective participation of all board members in board meetings. The commercial banks ensured succession plans were in place for both the senior management and the directors to ensure continuity of their operations. Through transparency, the commercial banks were able to clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

Investment decisions among commercial banks in Kenya were relatively effective and all banks had some form of corporate governance even though some were not very effective as some issues went unnoticed. In terms of efficiency in service delivery, commercial banks were efficient as corporate governance emphasized on quality service delivery in order to improve customer satisfaction and retention levels.

5.3 Conclusions

From the presentations in chapter four and summary of findings above, the study concludes the following. Commercial banks in Kenya practices different corporate governance practices to a differing degree. Most commercial banks had a well-structured board of directors with clear admission procedures and the boards were independent and reliable. There were clear rules and policies on the admission and removal of directors. To help promote accountability, most commercial banks separated the roles of chairperson and the chief executive officers. This ensured that the CEO who was in charge of the day to day running of the commercial banks was
held accountable to the Boards. This ensured checks and balances to avoid misuse of the banks' resources and promote a sound banking sector.

The study also concludes that the management of commercial banks played a key role in promoting corporate governance. They did this by cascading information and resolutions of the board down the bank and aiding in the implementation stage. The managers were key implementing agents of the resolutions passed at the board level. Corporate governance practices among commercial banks protected and facilitated the exercise of shareholder's rights thereby ensuring shareholders had a freehand in the election, appointment and removal of directors.

The study also concludes that the board members of commercial banks were well informed of their roles in the bank and they were involved in the running of the banks. They provided direction through resolutions passed at the board meeting. To ensure they were available to deal with matters of the banks, the directors were readily available to hold meetings on matters concerning their commercial banks from time to time as need arose.

5.4 Policy Recommendations

From the above presentations of summary and conclusion, the study makes the following policy recommendations on the impact of corporate governance practices on investment decision making by commercial banks in Kenya. First corporate governance plays an important role in deciding the investment opportunities available to the bank. Through corporate governance practices, the board delegates its investment authority to the CEO who then works closely with other senior managers of the bank to ensure they invest wisely to maximize shareholders' wealth. It is important that commercial banks observe the laid down rules and regulation especially by the regulator (Central Bank of Kenya) to avoid
confrontations which may spoil the relationship. Like in any industry, banking is made of rules and regulations which need to be followed. Corporate governance practices promote safe operations of the banks in their financial intermediation role and ensuring a stable foreign exchange and money supply.

This study also recommends that commercial banks establish an efficient organizational structure that would promote quality and reliable decision making especially on investment. This is because the stability of a banking sector is important in promoting economic growth. Through wise and calculated investment decision, commercial banks will create more money through their money creation process of lending. This will spur economic activities thereby promoting the gross domestic product of the economy.

The study also recommends that commercial banks ensure adherence to the best corporate governance practices. This is because with good corporate governance practices, the bank will avoid unnecessary disagreements with other stakeholders hence reduce legal cases which can spoil the reputation of the bank besides leading to massive losses of resources. Through good corporate governance practices, the commercial banks in Kenya would be able to grow and boost customer loyalty hence increased profitability in the future.

5.5 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were: Some target respondents refused to fill in the questionnaires citing that the information was of a sensitive nature and could be used for other purposes other than the intended one.

The study was also limited in terms of resources. The resource available to go to the field and ascertain whether the information being provided was the reality of whatever
happens in real sense was limited. This forced the researcher to wholesomely rely on the information provided by the respondents.

5.6 Suggestions for Further Studies

The study suggests that further research be conducted on the determinants of corporate governance among commercial banks in Kenya. This study will bring to the fore the factors determining corporate governance so that commercial banks can keenly evaluate them when recruiting and dismissing a board member.

The study further recommends that another study be conducted in Kenya on the relationship between corporate governance practices and financial performance so as to assess the contributions of the corporate governance to the financial performance of an organization. This will help bring out the importance of organizations in promoting corporate governance at all times.
REFERENCES


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Oman, Charles, 2003 “Corporate Governance in Development,” in Charles Oman ed., Corporate Governance in Development: The Experiences of Brazil, Chile, India and South Africa, OECD Development Centre and the Centre for International Private Enterprise, Paris, France, manuscript


APPENDICES

Appendix I: Research Questionnaire

Section A: Organization profile

1. Department ____________________________
2. The number of members serving in the Board of Directors ____________________________
3. The number of times the Board meets in a year (tick as appropriate)
   - Once a year [ ]
   - Twice a year [ ]
   - Once in a quarter [ ]
   - Once a month [ ]
   - As need arises [ ]

Section B: Board of Directors Contribution

1. Use the scale provided for part a) and b) where 1 = Not at all, 2 = To a little extent, 3 = To a moderate extent, 4 = To a great extent, 5 =To a very great extent.

   a) To what extent can you say the following apply to the Board?


   II. The Board is not involved in day to day running of the organization’s affairs [1] [2] [3] [4] [5]

   III. The Board provides the necessary resources for the achievement of the organization’s strat [1] [2] [3] [4] [5]

   IV. The Board defines and communicate to management their powers, roles and responsibilities [1] [2] [3] [4] [5]

   V. The Board approves proposals from the management after thorough scrutiny, debate and a [1] [2] [3] [4] [5]

   VI. The Board consults technocrats on professional matters [1] [2] [3] [4] [5]

   VII. The Board has got an operating plan that defines its functions, activities and its objectives
VIII. The Boards’ first duty is to;

I. The organization 

ii. The shareholders

iii. The directors

iv. The members and other stakeholders

IX. The Board conducts its activities in a free and democratic atmosphere

X. The Board meetings are democratic and open for all members

2. State whether the following applies to the Board by ticking indicating to what strength it relate organization.

1 Least Strong, 2 Strong, 3 Average, 4 Strong, 5 Very Strong

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<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>Minutes of all meetings are securely kept and are available to all members of the Board</td>
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<tr>
<td>The members receive advance written agenda and notices of meetings</td>
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<tr>
<td>Absence from the Board meetings is by exception not as a rule</td>
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<td>All proceedings and resolutions of the Board are accurately recorded on a timely basis</td>
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<tr>
<td>The Board is involved in the selection of the directors</td>
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<tr>
<td>The selection considers present skills and requirements in the Board of directors</td>
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<tr>
<td>The Board is composed of members representing diverse interest groups</td>
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<tr>
<td>Every new Board member is inducted well after selection.</td>
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<tr>
<td>A new Board member is given clear information on the role of management and that of the Board and the relationship between the two</td>
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<tr>
<td>Board performance is evaluated at least once in a year</td>
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A succession plan is in place for the Board’s chairperson, Board members, the CEO and the senior management.

Where the conduct of any director becomes questionable, he or she is asked to leave the Board.

Interest and conflicts between Board members are declared and resolved amicably.

3. This is a question on the structure of the Board. Please tick to what extent it applies to the organization.


| The Board consists of the executive and non-executive members on a fairly balanced proportion | 1 | 2 | 3 | 4 | 5 |
| The chairperson is not the CEO and their roles are clearly defined and separate |  |
| The Board has formally constituted and recorded committees with clearly defined terms of reference, composition and reporting mandates |  |
| The committees have been established and appointed based on |
| i. The need to increase the Board’s effectiveness utilizing the specialized skills of the Board |
| ii. The need to provide support and guidance to the management |
| iii. The need for effective and independent audit and finance reports |
| The different sub-committees are on board and have clearly defined terms of reference |
| i. Executive committee |
| ii. Audit committee |
| iii. Board appointment and remuneration committee |

Section C: Management Contribution

1. To what extent can you attribute Corporate Governance practices in your organization to the given factors?
   i. Organization culture
ii. Organization’s strategic direction

iii. The policies of the organization

iv. The shareholders interest

v. The existing Board structure

x. The efficiency and effectiveness of service delivery

2. The Board is involved in the selection and appointment of senior executives.

3. Management provides directors with information they need to meet their responsibilities.

4. Are there systems in place for identifying, monitoring and managing the organization’s risk profile.

5. Are there adequate policies that increase accountability of the managers.

Section D: Shareholders Protection

1. To what extent can you attribute Corporate Governance practices in your organization to the given factors?
   i. Protects and facilitates the exercise of shareholder’s rights

   ii. Ensures shareholders have a freehand in the election, appointment and removable of directors

   iii. Shareholders have the right to participate in and to be sufficiently informed on, decisions concerning fundamental corporate changes.

   iv. Shareholders of the same class are treated equally
v. There is a policy in the organization that ensures members of the Board and key executives disclose to the Board whether they directly or indirectly have a material interest in any transaction or matter directly affecting the organization.

| Every Board member is given the organization’s legal documents; mission and vision, strategy documents on first appointment | Yes | No |
| Every Board member receives a copy of the Board manual at the time of his or her appointment | |
| Every Board member has access to organization’s policy documents on personnel, finance as reviewed from time to time | |
| The Board receives sufficient and timely information from senior management in an agreed upon format | |
| The Board’s information requirements are communicated to the management on a regular basis | |
| Information is prepared and disclosed at all times in accordance with the governing laws and regulations. | |
| The Board’s responsibilities regarding financial communication is properly disclosed | |
| The ownership structure is fully disclosed to all interested parties. Changes in the shareholdings of substantial investors are disclosed as soon as the bank becomes aware of them. | |

Section E: Disclosure

1. Information flow and communication within the Board and the management

Tick either YES or NO as applicable in your organization

2. To what extent can you attribute the timely and accurate disclosure is made on all material matters in your organization that relate to the given factors?

i. Financial and operating results

| Yes | No |
ii. Organizational objectives


iii. Major share ownership and voting rights


iv. Remuneration policy for members of the Board and key executives


Section F: Transparency

1. Use the provided scale where 1 = [very poor], 2 = [poor], 3 = [fair], 4 = [good], 5 = [good] to evaluate the effectiveness of the organization.

i. Promotes effective participation of all Board members in Board meetings


ii. Effectively represents the management to the Board


iii. Is effective in maintaining transparency and accountability


iv. Ensures succession plans are in place for both the senior management and the directors


v. Monitors and evaluates in consultation with other Board members, the CEO’s performance and that of the senior management


vi. Clearly articulates the division of responsibilities among different supervisory, regulatory and enforcement authorities.


vii. Channels for disseminating information provide for equal, timely and cost effective access to all relevant information by users.


viii. External auditors are independent, competent and qualified and are accountable to the shareholders.

Section G: Challenges in Corporate Governance Practices

To what extent does corporate governance in your bank affect investment decisions?

- Very great extent (  )
- Great extent (  )
- Moderate extent (  )
- Less extent (  )
- No extent (  )

Section H: Challenges in Corporate Governance Practices

1. The following seeks to establish the Corporate Governance Practices and Challenges. Tick against the most appropriate response.

a) How effective are investment decisions in your organization?
   1. Not effective
   2. Relatively effective
   3. Very effective

b) In terms of efficiency in service delivery, this organization is
   1. Very inefficient
   2. Relatively inefficient
   3. Efficient
   4. Very efficient

c) Using the provided scale where 1 = [very poor], 2 = [poor], 3 = [fair], 4 = [good], 5 = [good], how does the Board of directors rate in terms of the following Corporate Governance practices?
   1. Integrity
   2. Objectivity
   3. Accountability
   4. Leadership

d) Is there a conflict of interest between the Directors and other stakeholders?
   1. Yes
   2. No

e) If yes, in which way
f) Do you consider the Corporate Governance guidelines to be ambiguous? How ambiguous are they?
   1. No, they are clear
   2. Relatively ambiguous
   3. Yes, very ambiguous

THANK YOU FOR YOUR RESPONSE
Appendix II: List of Commercial Banks in Kenya as at 2011

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Charterhouse Bank Ltd.
8. Chase Bank (K) Ltd.
9. Citibank N.A.
10. Commercial Bank of Africa Ltd.
11. Consolidated Bank of Kenya Ltd.
13. Credit Bank Ltd.
15. Diamond Trust Bank Kenya Ltd.
16. Dubai Bank Kenya Ltd.
17. Ecobank Kenya Ltd.
18. Equatorial Commercial Bank Ltd.
19. Equity Bank Ltd.
21. Fidelity Commercial Bank Ltd.
22. Fina Bank Ltd.
23. First community Bank Limited.
24. Giro Commercial Bank Ltd.
25. Guardian Bank Ltd.
27. Habib Bank A.G Zurich.
28. Habib Bank Ltd.
29. Housing Finance Ltd.
30. I & M Bank Ltd.
31. Imperial Bank Ltd.
33. Kenya Commercial Bank Ltd
34. K-Rep Bank Ltd
35. Middle East Bank (K) Ltd
36. National Bank of Kenya Ltd
37. NIC Bank Ltd
38. Oriental Commercial Bank Ltd
39. Paramount Universal Bank Ltd
40. Prime Bank Ltd
41. Standard Chartered Bank Kenya Ltd
42. Trans-National Bank Ltd
43. UBA Kenya Bank Limited
44. Victoria Commercial Bank Ltd

Source: Central Bank of Kenya, Bank Supervision Report 2011