CORPORATE GOVERNANCE PRACTICES AT EQUITY BANK KENYA

By

JAMES OMINGO MAGARA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

December, 2012
DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature: ___________________________ Date: ____________

JAMES OMINGO MAGARA D61/P/8059/1999

SUPERVISOR'S DECLARATION

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

Signature: ___________________________ Date: ____________

PROF. EVANS AOSA

LECTURER: UNIVERSITY OF NAIROBI
DEDICATION

I dedicate this work to my wife Agnes N. Omingo, children: Steve, Stella, Shirley Silvia, and all those who supported me in the completion of this project.
ACKNOWLEDGEMENTS

I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Prof. Aosa for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to you.

The staff of Equity Bank Kenya Limited cannot pass without my special acknowledgement for taking time off their busy schedule to provide me with all the information I needed in the course of the research. Without their immense cooperation I would not have reached this far.

I would also wish to extend my sincere gratitude to all the MBA students, staff, lecturers and the entire University of Nairobi fraternity for changing me from what I was to what I am.

Thank you all. May the Almighty God bless you abundantly.
ABSTRACT

Corporate governance being a management structure of a firm endeavors to bring out the strategy by which companies are directed and controlled. It involves a set of relationships between the company’s management and the Board of Directors and other stakeholders. The objective of this study was to establish the corporate governance practices at Equity Bank. The study used a case study of Equity Bank Kenya Ltd. The study collected primary data from the management team and board members through personal interviews. Twelve managers responded to the study. Content analysis was used to analyze the data collected. The respondents joined the Bank either as a manager or a board member within the last four years followed by those who had joined they joined the Bank as a manager or Board member in more than last five years. The Board of Directors met as need arose to discuss on ways of improving the performance of the Bank. At the Board meetings, the directors discussed the need for the new appointment of the Bank ensured it collected enough information about the job applicants by arranging several interview sessions before making an employment offer to the best qualified candidate. Corporate governance began with engaged, capable, and experienced directors and senior management, a coherent strategy and business plan, and clear lines of responsibility and accountability. For the customers, the board considered their banking and general financial conditions and needs in its decision making while for suppliers, the customer considered them by seeking to provide a better position and environment where it creates strong link with suppliers for future benefits. The study concluded that the process of decision making in the Bank was inclusive where all employees were offered a chance to participate in the decision making through departmental meeting before escalating the resolutions to senior management and finally to the board for ratification. The study further concluded that the appointment of senior management and board members was done systematically at the Bank after an evaluation of skills gap where the Bank evaluated the skills available in comparison to the skills required before starting the recruitment process.
# TABLE OF CONTENTS

**DECLARATION** ............................................................................................................. ii  
**DEDICATION** ................................................................................................................ iii  
**ACKNOWLEDGEMENTS** ........................................................................................... iv  
**ABSTRACT** ..................................................................................................................... v

**CHAPTER ONE: INTRODUCTION** ................................................................................... 1  
1.1 Background of the Study ............................................................................................ 1  
1.1.1 Concept of Corporate Governance ....................................................................... 2  
1.1.2 Corporate Governance Practices ......................................................................... 4  
1.1.3 Commercial Banks in Kenya ................................................................................. 7  
1.1.4 Equity Bank .......................................................................................................... 9  
1.2 Research Problem .................................................................................................... 10  
1.3 Research Objective .................................................................................................. 12  
1.4 Value the Study ....................................................................................................... 12

**CHAPTER TWO: LITERATURE REVIEW** .................................................................... 14  
2.1 Introduction .............................................................................................................. 14  
2.2 Corporate Governance ........................................................................................... 14  
2.3 Pillars of corporate Governance .............................................................................. 18  
2.4 Corporate Governance Practices ........................................................................... 19  
2.5 Corporate Governance and Firm Success ................................................................ 20

**CHAPTER THREE- RESEARCH METHODOLOGY** ..................................................... 22  
3.1 Introduction .............................................................................................................. 22  
3.2 Research Design ..................................................................................................... 22  
3.3 Data Collection ....................................................................................................... 23  
3.4 Data Analysis .......................................................................................................... 23
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance is the system by which companies are directed and controlled. It is simply a system of government of a company. In this era of globalization of the world economy, environmental turbulences in the business arena has become intense to the point that businesses are struggling to meet their corporate objectives. The predominant view of the corporate world's key objective is wealth maximization through good corporate governance (Brown, Beekes and Verhoeven, 2011). However, global and local financial scandals have posed serious challenges to firm performance. The failure of local companies Multinational Corporations and their accompanying scandals call for an urgent need to refocus on corporate governance. Multinational Corporations such as Enron and World Com in the United States of America are good examples of the failure in Corporate Governance. Our own Banks folded in the early 1990's and this had serious economic ramifications (Wilmshurst and Frost, 2000).

Diminishing confidence in financial reporting among the investors, creditors and the general public has therefore called for a critical examination on the relationship between corporate governance and firm performance. Window dressing of financial information and reports with the knowledge of stewards of the firm so as to cover their dismal performance gives the motivation to critically evaluate corporate governance as relates to actual performance (Beasley, 1996).
The banking sector in Kenya did experience turbulences in the 1990’s brought about by the structural adjustment programs. Since inception the Equity Bank, it has registered impressive growth from a family outfit to a fully fledged bank that is quoted at the Nairobi Stock Exchange. Some banks in Kenya have equally performed well but others have had to close their operations. Comparatively equity has done better than most banks operating in the same environment. This is arguably associated to the good corporate governance practices at the bank.

1.1.1 Concept of Corporate Governance

Corporate governance deals with the value creation of the shareholders by effectively utilising the assets of a firm (Cadbury Report, 1992). Monks and Minow (2001) defined corporate governance as the mechanism by which the board of directors improve the value of the shareholders by controlling the actions of managers, CEO and other stakeholders in a firm. Corporate governance is a management structure of a firm that endeavors to bring out the strategy by which companies are directed and controlled. It involves a set of relationships between the company’s management and the Board of Directors and other stakeholders. It is also the structure through which objectives of the company are set, the means of attaining those objectives laid down and the system of measuring performance determined so as to maximize the shareholders wealth (OECD, 2004).

Corporate governance is concerned with the institutions that influence how business corporations allocate resources and returns (O’Sullivan, 2001). In other words corporate governance shapes who makes investment decisions in corporations, what types of
investment decisions they make and how returns from investments are distributed. Corporate governance constitutes firm’s management issues and the mechanism by which the company’s top echelons could be put under supervision and be made accountable to one another, the rest of the employees, the community and creditors. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as: boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs (Qadir, Ramiz, and Awais, 2010).

Corporate governance is about management consistency and policy cohesiveness for improved company image, efficiency, effectiveness and corporate social responsibility. It is the framework within which management decisions are taken. The benchmarks of good corporate governance include; ethical conduct, managerial discipline, independence of thought and protection of the shareholders rights, fairness and transparency. This is in addition to a clear definition of Board of Directors responsibilities and accountability to the firm. It is neither in the long-term interest of the enterprise nor society to short-change customers, exploit labour, pollute the environment nor engage in corrupt practices (Lehmann and Weigand, 2000).

Corporate governance refers to the manner in which the power of corporation is exercised in the stewardship of the firm’s total portfolio of the assets and resources with the main objective of maintaining and increasing shareholders value and satisfaction of other stakeholders in line with the firm’s corporate mission (Kabura, 2006). It is the creation of a balance of economic and social goals on the one hand and individual and communal
goals on the other, in the efficient utilization of resources, accountable application of power, authority and leadership so as to satisfy the interest of the firm's individuals and society Kenya Private Sector Initiative in Corporate Governance (Kanongo, 2007).

1.1.2 Corporate Governance Practices

Corporate governance is the system by which companies are directed and controlled. It is concerned with the duties and responsibilities of a company’s board of directors to successfully lead the company, and their relationship with its shareholders and other stakeholder groups (Cadbury Report, 1992). It is also defined as a “process through which shareholders induce management to act in their interests, providing a degree of investor confidence that is necessary for the capital markets to function effectively (Lehmann and Weigand, 2000).

In general, corporate governance is considered as having significant implications for the growth prospects of an economy, because proper corporate governance practices reduce risk for investors, attract investment capital and improve performance of companies (Spanos, 2005). In Sri Lanka, effective corporate governance is considered as ensuring corporate accountability, enhancing the reliability and quality of public financial information, therefore enhancing the integrity and efficiency of capital markets, which in turn will improve investor confidence (Lehmann and Weigand, 2000).

Barrett (2003) points out that, effective public sector governance requires leadership from the governing board and or executive management of organizations. An effective framework requires clear identification and articulation of responsibility and a real
understanding and appreciation of the various relationships between the organization's stakeholders and those who are entrusted to manage resources and deliver required outcomes. In the public sector, this necessitates lucid and unambiguous communication with the minister and clearly stated government priorities.

The CEO's role in governance is fundamental. An indication of an agency's effectiveness is the way in which the organization as a whole works together under the CEO's leadership. Executive management must also have a collective ability to provide leadership (OECD, 2004). Transparency is essential for sound and effective corporate governance. As set out it is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors and senior management when there is a lack of transparency. This happens in situations where the shareholders, other stakeholders and market participants do not receive sufficient information on the ownership structure and objectives of the organization with which to judge the effectiveness of the board and senior management in governing the organization (Mostoovicz, Kakabdie and Kakabadse, 2001).

Integrity is based on honesty and objectivity, as well as on high standards of propriety and probity in the stewardship of public funds and the management of an agency's affairs. It is dependent on the effectiveness of control framework and on the personal standards and professionalism of the individuals within the agency. Integrity is reflected in the agency's decision-making practices and procedures and in the quality and credibility of its performance reporting (OECD, 2004).
Corporate governance practices vary significantly among commercial banks and organizations over the world. These practices are a reflection of many factors, including: differences in the stage of development of the organization, including the relative importance placed on various values; differences in the investor base for different types of companies; differences in expectations of board members and advisors to companies and their boards, which can vary by size, age of company, stage of development, geography, industry and other factors; and the reality that corporate governance practices that are appropriate for large, long-established organizations can be meaningfully different from those for newer, smaller companies (OECD, 1999).

Best corporate governance practice is not simply about a battle between distant, disloyal institutional shareholders and greedy directors but about the ethos of the organisation and fulfilling its clearly agreed goals. Corporate governance practices include: ethical approach including culture, society, organizational paradigm; balanced objectives that ensure congruence of goals of all interested parties in the organization, each party plays his/her part and roles for owners, directors, staff, decision-making process be put in place reflecting the first three principles and giving due weight to all stakeholders; equal concern for all stakeholders albeit some have greater weight than others; accountability and transparency to all stakeholders (Mostovicz, Kakabadse and Kakabadse, 2001). The principle of corporate governance requires one to identify who is responsible for what, to whom and by when. This relationship with the stakeholders and those that are entrusted with these responsibilities result into required outcomes. It provides a way forward to those, whether in public or private sectors who find themselves in somewhat different relationships than perhaps they have previously experienced (OECD, 1999).
1.1.3 Commercial Banks in Kenya

There are forty two (42) commercial banks licensed and operating in Kenya (Kenya Finance Directory website). Economic growth cannot be achieved if savings are not efficiently channeled into investment through money and money markets. This is where the banks play a significant role. Banks provide the financial intermediation function and provide the financial infrastructure for payment of claims and receipt of revenue inflows.

Commercial banks mobilize savings from the savers of capital and channel the same to users to finance more investments activities. This is the function they play through the application of corporate governance and the prudent management of: liquidity, credit, and interest rate risk.

Banks through their governance structure must ensure that depositors are safe and are not exposed to financial risks. Any risk exposure of these deposits may lead to depositor’s panicky withdrawals from the banks due to anxiety. This may lead to a strain on the financial liquidity of the banks thereby leading to their collapse. They need therefore to prudently balance the amount of cash held and the nature and value of investments made.

Management of financial institutions must ensure that customers are safe and are not exposed to risks of losing their investments. This is evidenced from the case of BCCI Bank and Trade Bank in the 1990s, Trust Bank in 2001 and Euro Bank in 2003 among others. Good governance in banks therefore is likely to ensure effective management, control and service delivery.
To avoid the risks of collapse in the banking sector, various countries have come up with acts and legislation to this effect. For example the USA issued the Sarbanes -Oxley Act July 2002 and the UK published its banking Higgs and Smith guidelines in Savinary 2003. Back in Kenya the banking Act 2004 gives the specific guidelines on corporate governance guidelines to help forestall the collapse of commercial banks. Commercial banks in Kenya are required to make returns to capital Markets Authority which is the regulatory authority on their investments and risk management practices (CMA Act 2004)

In the last two or so decades of the 20th century one hundred and thirty countries were affected by the IMF and World Bank conditions that lead to most of their banks experiencing significant problems which resulted in their closure. The debate that then ensued in the financial sector was basically on the role of Bank regulation so that they could withstand the pressure. What lacked in this debate was the corporate governance of banks. Liberalization of economies posed challenges and opportunities for companies and there is a need therefore to strengthen corporate governance. This has become critical for promotion of sustainable development and self dependence of the African continent Mugambi (2006). This phenomenon of failing banks did not spare the Kenyan banking institutions. The structural adjustment program that swept across African had a toll on Kenya as well.

In early 90's Kenya experienced the folding of several banking and non banking institutions. Basel committee on banking supervision 1999 states that from a banking industry perspective corporate governance involves the manner in which the business and
affairs of individual institutions are governed by the board of directors and senior management affecting how banks set corporate objectives, run the day to day operations, and consider interests of stakeholders.

1.1.4 Equity Bank

The Bank started as a small family outfit that was meant to address the basic needs of the time. The need in the community then was that tea and coffee farmers were getting their payment by cheque and there were no banking facility nearby. The Building society then provided an all important function of paying cash for cheques at a minimal fee. (Cheque Discounting services) (Equity Bank Website, 2012). The ownership was basically family members originating from the same neighborhood. This business grew stage after stage into microfinance and now a fully fledged bank. This tends to confirm the hypothesis by a study by Credit Suisse which established that where founding families retain a stake of more than 10% of company's capital enjoyed a superior performance over their respective sectoral peers (Equity Bank Website, 2012).

Equity Bank is one of the licensed banks operating in Kenya. The Bank commenced business on registration in 1984. It has evolved from a Building Society, a Microfinance Institution, to now the all inclusive banking institution listed in the Nairobi Stock Exchange and Uganda Securities Exchange public among other listed Commercial Banks. With over 6.3 million accounts, accounting for over 57% of all bank accounts in Kenya. Equity Bank is the largest bank in the region in terms of customer base and operates in Uganda and South Sudan and Rwanda (Equity Bank Website, 2012).
Equity Bank continues to receive both local and global accolades for its unique and transformational business model. The Bank is visible physically as branches are spread therefore taking banking services nearer to the people through its accessible, affordable and flexible service provision. Multinationals had folded their operations in most parts of the country for reasons that the business was not viable. The countrywide presence of Equity Bank forced same Banks to rethink their approach and got back in the same regions that they had abandoned (Equity Bank Website. 2012).

Equity Bank concentrated on the small unbanked population who also proved to be credit worth as the Bank offered customer friendly products. With relaxed borrowing conditions many people accessed credit and promptly serviced them with minimal default rate. Tremendous growth of the Bank calls for understanding of what they did differently from other institutions. This forms the purpose of the study and seeks to answer the research questions* (Equity Bank Website. 2012). The Equity Bank has been identified as study to try and understand the way they have conducted the banking businesses in Kenya consequently posting impressive results. Without regard to the age of the bank in business the success result posted has made the firm a household name in the banking sector.

1.2 Research Problem

The public image of a corporation will quite accurately reflect the culture of that body. It follows, then, that good corporate governance has to be in the bones and bloodstream of the organisation since this in turn will be reflected in the culture. The system as put in place and executed determines the success or otherwise of the firm attaining its overall
objectives. Studies have been done on corporate governance in a bid to understand its impact on overall wellbeing of the firm. Many such research link the success of the firm to good corporate governance. Other studies have associated performance to blood lineage just beyond the monetary reward. The management style and personality skills have been said to have a bearing on growth or otherwise of the firm. In all the studies conducted none has come up with a strategy that can fit every situation and can be applies across all sectors of the economy to give similar results.

Commercial banks play crucial role in the economic development of any nation. It is therefore important that the growth strategy and performance of banking institutions is understood and monitored since their collapse present far reaching implications. The folding up of many Banks in Kenya in early 90’s created panic in the banking industry, scared investors and challenged the savers confidence in banks. Equity Bank which is a key player in Kenya banking sector has posted good results over time. It is one of the local banks that have shown significant growth over a short time span.

Several studies have been conducted on the subject of corporate governance. Among them Ngumi (2008) studied the corporate governance practices in the insurance sector in Kenya where it was established that insurance companies had tightened their corporate governance practices especially following the increased rate of insurance companies collapsing. Kabura (2006) did study Corporate Governance Practices at the Kenya Roads Board and concluded that the Kenya Roads Board put in place several corporate governance practices to ensure accountability and promote transparency in its operations. Gitari (2008) did study corporate governance and financial performance of state
corporations using a case of Kenya Cooperative Creameries Ltd and Kanango (2007) studied corporate governance practices among shipping companies in Kenya. In most of these studies it has been established that the subject of cooperate governance has not been given serious thought in the developing economies and in particular the banking industry. This study therefore sought to fill this research gap by investigating on the corporate governance practices at Equity bank Limited. What are the corporate governance practices at Equity Bank Limited?

1.3 Research Objective

The objective of the study was to establish the corporate governance practices at Equity Bank.

1.4 Value the Study

The study when successfully undertaken would go a long way in assisting various stakeholders in making informed decisions. Key among the stakeholders to benefit from this study include the policy makers, practitioners and researchers.

The government at policy level would benefit from the stability of banks which would in turn have an impact on the overall financial sector development. Central bank would benefit when conducting oversight functions by using a well managed bank as a benchmark to assess the Banks that are risky in the industry. This would save time and money when conducting the compliance audits by Central Bank.
Banks themselves would get value of the study by investing in good management styles that will assist in reducing agency costs. Growing firm which have challenges of creating and maintaining customer confidence may apply the Equity Bank model so as to remain relevant in the competitive financial market arena. Investors would find value as to which bank is well managed so that they can borrow or deposit their money on short medium and long term fixed deposits.

The study would add knowledge to the existing scholarly findings on the agency conflict and overall performance of firms. Corporate failure that was experienced in the 1990's was as a result of poor corporate governance. It calls for researchers to focus on issues relating to such failures as this has far reaching implications on the economy.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter evaluates and relates other work previously done by other researchers on the impact of corporate governance on firm performance. It seeks to bring out the firm governance structure and whether it has any impact on its overall performance. It seeks to bring out the understanding and meaning of corporate governance, identify the pillars of corporate governance and the link between corporate governance and firm success.

2.2 Corporate Governance

According to Cadbury (1992), corporate governance is the mechanism used to discipline organisations. Morin and Jarrell (2001) argue that corporate governance is a framework that controls and safeguards the interest of the relevant players in the market. The players of the corporate governance mechanism include managers, employees, customers, shareholders, executive management, suppliers and the board of directors. Corporate governance is about management consistency and policy cohesiveness for improved company image, efficiency, effectiveness and corporate social responsibility. It is the framework within which management decisions are taken. The framework within which decision are made are based on four pillars. They are accountability, fairness, transparency and independence.

The role of different instruments in implementing corporate governance is important (Bhagat and Black, 2002). These instruments include board of directors, independent directors, board size, CEO, managers, efficient market, political regime, government,
regulatory authority and judiciary. The independent directors, CEO, board of directors and managers can improve the value a firm by performance of their fiduciaries. The role of the regulatory authority, government and judiciary is important to improve the value of a firm as these authorities can protect the rights of the shareholders and implement corporate governance in developing and developed financial markets.

The benchmarks of good corporate governance include: ethical conduct, managerial discipline, independence of thought and protection of the shareholders rights, fairness and transparency. This is in addition to a clear definition of Board of Directors responsibilities and accountability to the firm.

Corporate governance refers to the manner in which the power of corporation is exercised in the stewardship of the firm's total portfolio of the assets and resources with the main objective of maintaining and increasing shareholders value and satisfaction of other stakeholders in line with the firm's corporate mission. It is the creation of a balance of economic and social goals on the one hand and individual and communal goals on the other, in the efficient utilization of resources, accountable application of power, authority and leadership so as to satisfy the interest of the firm's individuals and society. According to Welch, (2009) poor corporate governance has given rise to serious challenges of the fiduciary relationship that exists between the managers and the owners. The agency conflict galore falls in the domain of corporate governance: which concerns itself with the conflict of interest between those who control the corporation and those who provide capital and thus own it.
President James Madison pointed out very clearly that governance is a difficult problem when he wrote the following as part of the Federalist Papers in 1788. “If men were angels no government would be necessary. If angels were to govern men, neither external nor internal controls would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in thus: you must first enable the government to control the governed, and in the next place oblige it to control itself.” These findings are as applicable to firms today as they were to governments in the 18th Century.

Stanley, Geoffrey, and Bartley (2009) described corporate governance as where a corporation is governed by the Board of Directors led by the Chairman of the Board. Fraudulent financial Statements brought in the need of corporate accountability and ethics reform. The issues of corporate Governance are really agency problem hence examines the relationship between the owners and managers of the firm. Management operates the firm to satisfy its own goals, needs and financial requirements. This places management in the Agency position of making decisions that will be in the best interest of all shareholders.

### 2.2.1 Governance Systems

In designing a corporate governance system, it is important to include all the stakeholders. It should involve the company and all interested parties. The system of governance could thus help or hinder internal corporate ventures. It is in the best interests of owners to resort to control mechanisms that move the operations of the firm to full efficiency by aligning the interest of managers and all stakeholders. The stakeholder
theory argues about the importance of a firm paying special attention to the various stakeholder groups in addition to the traditional attention given to investors (Gibson, 2000). These various groups of stakeholders which include customers, suppliers, employees, the local community and shareholders are deemed to also have a stake in the business of a firm.

Proponents of stakeholder theory thus argue for representation of all stakeholder groups on boards for effective corporate governance. The stakeholder theory also emphasizes the role of non-market mechanism, such as the need to determine an optimal board size, the need to design a committee structure that allows for the setting up of specialised committees. Such a structure would allow, for example, the setting up of productivity-oriented committees and monitoring-oriented ones (John and Senbet, 1998).

There is recognition of the issue of multiplicity of stakeholders under the stakeholder theory. John and Senbet (1998) argue that certain actions of management might have conflicting effects on various classes of stakeholders. This implies that managers have a multiplicity of objective functions to optimise. Jensen (1993) sees this as an important weakness of the stakeholder theory because it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behaviour by any organisation. He suggests a refinement of the stakeholder theory - the enlightened stakeholder theory. The modified form of the stakeholder theory proposes one objective that managers should pursue: the maximization of long-run value of the firm. If the interest of any major stakeholder were not protected, the long-run value maximization would not be achieved.
2.3 Pillars of corporate Governance

In all fields of human Endeavour, good governance is founded upon the attitudes, ethics, practices and values of the society regarding: accountability of power based on the fundamental belief that power should be exercised to promote human well-being (Democratic values in respect of the sharing of power, representation and participation and the sense of right and wrong, what is fair and just, work ethics, technology and continuing corporate social responsibility (John, and Senbet, 1998). Efficient and effective use of resources for the production of goods and services. Protection of human rights and freedoms and the maintenance of essential order and security for the person and his/her property. Recognition of the government as the only entity to which the society gives authority to use coercive power to maintain public order and national security, collect taxes, reallocate society’s resources to meet public needs and to use that coercive power to confiscate assets, deprive a person of liberty or life; but provided always that such power and authority are not used to suppress, oppress and deny basic human rights and freedoms (Jensen, 1993). Attitudes towards the generation and accumulation of wealth through hard work and personal effort.

The Cadbury Code (1992) emerged as a result of the corporate failures of the 1980s. It recommended changes to the board structures and procedures to make the firm more accountable to the shareholders, suggesting an increase in the number of independent directors on the board, separation of the chairman and CFO, and introduction of board committees (Chowdary. 2002).

OECD principles of corporate governance (1999) revised in 2004 were intended to assist governments in their effort to evaluate and improve legal, institutional and regulatory
framework for corporate governance in their countries. The principles also provide
guidance in developing good corporate governance for those interested. Even though
cultural and institutional differences exist between countries, the underlying principles
may allow a more fundamental compatibility. The OECD principles relate to equitable
treatment, responsibility and transparency (Chowdary, 2002).

2.4 Corporate Governance Practices

Agency theory argues that shareholder interests require protection by separation of
incumbency of roles of board chair and CEO. Stewardship theory argues shareholder
interests are maximized by shared incumbency of these roles. Results of an empirical test
fail to support agency theory and provide some support for stewardship theory (Davis and
Cobb, 2009).

Various scholars have created serious interest in understanding corporate governance
because it is relatively a new topic. Recent studies have tried to solve the agency
problem between the owners of the firms and managers entrusted to run the day to day
affairs of the firms. In the last two decades many giant Corporations folded due to poor
Governance. There is increased need for accountability to the wider stakeholders’ to curb
corporate failure (Donaldson and Davis, 1991).

Corporate governance is the system by which companies are directed and controlled
(Cadbury Report, 1992). It involves a set of relationships between the company’s
management and the Board of Directors and other stakeholders. It is also the structure
through which objectives of the company are set, the means of attaining those objectives
laid down and the system of measuring performance determined so as to maximize the shareholders wealth (OECD, 2004).

Corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in the organization. (Johnson, Scholes and Whittington, 2008). Corporate governance is concerned with the institutions that influence how business corporations allocate resources and returns (O’Sullivan, 2001). In other words corporate governance shapes who makes investment decisions in corporations, what types of investment decisions they make and how returns from investments are distributed.

Corporate governance constitutes firm’s management issues and the mechanism by which the company’s top echelons could be put under supervision and be made accountable to one another, the rest of the employees, the community and creditors. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as: boards, managers, shareholders and other stakeholders and spells out the rules and procedures and also decision making assistance on corporate affairs (Qadir, Ramiz and Awais, 2010).

2.5 Corporate Governance and Firm Success

Studies conducted by the Research Foundation of the Association for Investment and Research (2000) sort to answer this question. Does corporate Governance structure of a firm influence its financial performance? It was generally noted that on average a firms stock price decreases when its corporate governance structures become more restrictive.
The conclusion was that restrictive governance structure decreases manager’s accountability to shareholders which is expected to harm the firm’s long term financial performance.

A study conducted in Russia to establish whether introduction of corporate governance measures such as transparency and disclosure (T&D) boost performance. It is argued that success of corporate governance reforms not depends on resolving conflict of interest of interest between controlling and minority owners but also on whether the reforms initiate a conflict of interest between the state and controlling owner. It was concluded that corporate governance rules boost performance but introduction of transparency and disclosure triggers a conflict of interest between state and controlling owners (Mahails, and Sarmisha, 2011)

Study done by Gompers, Ishii and Metrick (2003) and Bebchuk, Cohen and Ferrel (2004) sort to establish whether one, governance change leads to performance change and two, what causes firms to change their governance. It was argued that performance will cause governance to be changed. However Core, Guay, and Rusticus (2006) argue that there is no causal direction from shareholders rights to stock return. The hypothesis is that worse governance causes large agency costs and investors underestimate these costs. They established that returns from firms with good governance are not significantly higher than returns for firms with poor governance. Bebchuk and Cohen (2004) established that firms with poor governance may cause greater takeover protection and low takeover premium leading to lower stock return.
CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Introduction

The research methodology is a blueprint for fulfilling the research objective and master plan that sets the stage to address and answer critical research question. It involves the research design, data collection techniques and the system of analyzing the data so collected.

3.2 Research Design

Research design is the ultimate blueprint for the collection, measurement and analysis of data (Kothari, 2004). The study used a case study of Equity Bank Kenya Ltd. According to Yin (2003) a case study design should be considered when: the focus of the study is to answer "how" and "why" questions; you cannot manipulate the behavior of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and context. Equity Bank was selected so that the research may give the insight on how the corporate governance practices have influenced its success.

The research design appropriate to this study is that which is categorized in terms of controlling method. Observations have been made on the growth trend of the Bank hence the past trend needs to be studied to understand how the Bank made it to where it is. Non experimental or observational design that is retrospective in nature was used. The history and growth trend helped do a detailed study and understanding of the banks' corporate governance.
3.3 Data Collection

The type of data collected was primary data that was qualitative obtained from the management team through personal interviews notes. The personal interview notes brought out details of the corporate governance strategy and structure in place at the bank that had influence on its success. The researcher was able to reach out personally to the respondents and extract in-depth information that was relevant in answering the research question. Through personal interactions there was a likelihood of obtaining more information from clarifications sort to answers given. The operating environment was analyzed to bring out conditions of work and role of information flow and how technology was utilized and embraced.

For the purposes of addressing the research objective and answer the research question, personal interviews were conducted with the management team. The specific officers targeted for this study were the Chief Executive Officer Chairman and 11 members of the board and 8 top management staff. These target respondents have been selected upon because of their key role in corporate governance practices in the Bank.

3.4 Data Analysis

Content analysis was the mode of data analysis since the data collected was of qualitative nature. Rather than being a single method, current applications of content analysis show three distinct approaches: conventional, directed, or summative. All three approaches were used to interpret meaning from the content of text data and, hence, adhere to the naturalistic paradigm. The major differences among the approaches were coding
schemes, origins of codes, and threats to trustworthiness. In conventional content analysis, coding categories are derived directly from the text data. With a directed approach, analysis starts with a theory or relevant research findings as guidance for initial codes.

A summative content analysis involved counting and comparisons, usually of keywords or content, followed by the interpretation of the underlying context. Content analysis has successfully been used to conduct qualitative studies in the past.
4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on corporate governance practices at Equity Bank. The data was gathered exclusively from the interview guides as the research instrument. The interview guide was designed in line with the objectives of the study. The study interviewed 4 members of the board and 6 top management staff as the rest were too busy to secure an appointment.

4.2 Demographic Information

The research sought to find out the demographic information about the respondents. The information included position of the respondents in the study, departments they worked in and the length of service with the organization in order to ascertain the appropriateness of the respondents in providing the study data.

On the position of the respondents, the study established that the respondents served in various capacities in the bank including: the board level as directors and managers in different departments. For the departments that the respondents worked in, the study established that the respondents worked in the office of the Chief Executive Officer and Managing Director, Company Secretary and director of corporate affairs, mobile banking and payment innovations, information technology and innovations centre, treasury, trade finance and marketing, operations, finance, credit, corporate banking and internal audit. The respondents served in different capacities in these departments.
For the number of years that the respondents had served in the Bank, the study established that a majority (58%) of the respondents had served in the Bank for between 5 to 10 years followed by 37% who had worked with the Bank for a period of over 10 years and finally 5% of the respondents had served for less than 5 years.

4.3 Corporate Governance Practices at Equity Bank

The study sought to establish the corporate governance practices at Equity Bank. From the respondents’ views, the bank exercised diverse corporate governance practices in an effort to strengthen procedures for risk management and disclosure in the bank. The Bank drew supervisory experience with corporate governance problems from which it then suggested different types of practices that could help it avoid such problem. These practices included: establishing strategic objectives and a set of corporate values that were communicated throughout the banking institution for the purpose of consolidating and directing the activities of every employee in the Bank. Through this setting of strategic objectives, the Bank was able to provide a strategic focus and direction for all employees’ activities as this provided a clear direction of where the Bank was headed and how it was to get there. This in turn guided the activities of all employees in the Bank and made sure that they worked together as a team to ensure attainment of these strategic objectives.

The other practice noted from the respondents included setting and enforcing clear lines of responsibility and accountability throughout the banking institution. This eliminated responsibility overlaps where every staff had clearly mapped out job descriptions which
were geared towards the strategic objectives of the Bank. This eliminated role duplication hence maximum output from every employee.

The study also noted that another corporate governance practice at the Bank included ensuring that board members were qualified for their positions, had a clear understanding of their role in corporate governance and were not subjected to undue influence from management or outside stakeholders. By recruiting board members who were qualified and with different skills to the board, the Bank ensured that its board was well equipped and enabled in the formulation of strategic objectives for the attainment of competitive advantage in the banking industry. This was ensured through skills analysis where the gaps among the board members in terms of skills was done to ensure that there was no duplication of skills at the board level.

The Bank also ensured that there was appropriate oversight by senior management in their respective areas of operation. This was done with the aim of increasing the levels of accountability among the managers. The managers were given freedom to exercise their best management styles but within the set framework for the optimum attainment of the Bank's strategic objectives and goals. This in turn ensured that managers acted responsibly in delegating their authority to their subordinates.

Another corporate governance practice at the Bank included effectively utilising the output of internal and external auditors in recognition of the important control function they provided in the operational functions of the Bank. The managers together with the board members greatly utilized the auditing reports in improving the activities at the
Bank. This in return led to reduced losses and increased risk management levels at the Bank.

The Bank also ensured that compensation approaches were consistent with the Bank's ethical values, objectives, strategy and control environment. To ensure consistency with the employment Act in Kenya, the Bank ensured that its compensation approaches were in line with the rules governing employment relationships of the country. This in turn reduced the level of conflict with the regulators hence smooth operations for the Bank. In addition, the Bank ensured that its remuneration system was aligned to their banking model and the changes occurring in its operating environment.

The Bank also conducted corporate governance in a transparent manner so as to promote team work and credibility of its operations. This ensured that the issues concerning corporate governance practices in the Bank were discussed openly and every member of staff clearly informed of the consequences of not abiding by the laid down code of practice. The employees were informed in advance their responsibilities and how their duties tied in the Bank's strategic objective.

4.3.1 Corporate governance structure

The study sought to establish the time the respondents had joined the Bank as a manager or a member of the Board. The findings indicated that 43% of the respondents joined the Bank either as a manager or a board member within the last four years followed by 39% who indicated that they joined the Bank as a manager or Board member in more than last five years.
The study also sought to establish how the respondents were appointed into the management and director positions in the Bank. From the responses, the interviewees indicated that the Bank made use of several strategies in promoting in-house employees into management positions and the external human resources too involved head hunting where the Bank identified key resource in the industry and outside the industry to fill up the existing positions. The first directors of the Bank were appointed at the time of registration of the Bank.

The respondents indicated that it was a primary duty of the board of directors of the Bank to ensure that the chief executive officer (CEO) and other members of senior management have the necessary skills, knowledge, and experience to manage the Bank’s affairs in a sound and responsible manner. For managers, the respondents indicated that the Bank applied the Human resource management policies and procedures. In the first instance, the Bank assessed its human resources to establish the suitability of internal skills before seeking to recruit from outside the Bank. However, where the Bank was specifically looking to build new skills profile not existing in the Bank, it advertised the positions in the local daily newspapers and the Bank’s website for any qualified person to apply. The recruitment of managers was done openly and with dignity.

For the appointment of board members, the study established that the board needed to have a broad mix of skills and experience in order to be effective. The board first evaluated the skills in its already existing board members and then establishes the skills gap before making a decision on the skills set of the director to be appointed. The key goal in selecting directors was to build a mix that could work as a well-rounded team in fulfilling its duties and responsibilities in enabling the Bank deliver on its mission and
vision. The respondents indicated that a formal and transparent procedure for the selection, appointment and re-appointment of directors to the board helps promote investor understanding and confidence in that process.

The study further set to establish the involvement of the respondents in the decision making to recruit a manager or appoint a director on the Board of Directors. From the responses, the respondents indicated that the managers participated in establishing the necessity of the role and in the drafting of jobs description so as to avoid overlapping of roles and duplication of resources. This will also ensure that the management clearly understood their roles together with those of their colleagues to facilitate smooth operations in the Bank. This also ensured higher levels of efficiency and effectiveness in the Bank’s operations.

For the director appointment, the decision mainly came from the directors. The Board of Directors met as need arose to discuss on ways of improving the performance of the Bank. At the Board meetings, the directors discussed the need for the new appointment of a new director. In the first instance, the directors evaluated the available skills among its members and then established the gap that required to be filled by appointing a new director. The team then proceeded to decide on the key qualifications of the personnel to be appointed with their key role in bank. This ensured that the Bank was not just recruiting board members without focus but focused on it its vision and mission.

The study also sought to establish whether the respondents sought clarification from the interviewees and revisited the areas not addressed well during the interviews. From the responses, the study established that the Bank ensured it collected enough information
about the job applicants by arranging several interview sessions before making an employment offer to the best qualified candidate. The respondents indicated that all these happened in order to collect as much information as possible about the applicant and their suitability for the position they applied for. In addition, the interviewees indicated that the managers engaged themselves in contacting the referees to ascertain the truthfulness of the information provided by the job applicant. This also ensured that the Bank did not employ untrustworthy personnel.

4.3.2 Corporate governance strategy/style

On how often the Bank conducted board/top management meeting, the respondents indicated that the Bank conducted board/top management meetings as and when required. However, the management indicated that they held meetings every two days in a week to discuss the operations of the bank in relation to changes in the external environment and on strategies to align the bank to adapting to these changes. The respondents indicated that this was important because all areas of Equity Bank’s operations, including asset structure, capitalization, earnings, liquidity and internal compliance and control structure were directly influenced by the Bank’s board of directors and senior management. This therefore required that the Bank’s board of directors and senior management have a clear understanding of the interrelationships among the Bank’s activities and how they affect the prudential operation of the Bank and its ability to deliver on its vision and mission. The board of directors and senior management were familiar with the external environment and how factors outside the Bank may affect its operations.
The respondents indicated that corporate governance began with engaged, capable, and experienced directors and senior management, a coherent strategy and business plan, and clear lines of responsibility and accountability. The board of directors oversaw the development of the overall business strategy for the Bank and the decisions made by senior management in the pursuit of strategic objectives. The board of directors then communicated their decisions to management who then cascaded information down to the subordinate employees during implementation. The board of directors assessed both the appropriateness of the strategy and decisions and the success with which they were implemented. Senior management, with input and approval by the board of directors, developed the business strategy, made significant decisions to implement that strategy, and oversaw the day-to-day decisions and actions by subordinate staff, to ensure that these decisions support the long-term objectives and policies as determined by the board of directors.

On whether other stakeholders were involved in the decision making at the bank, the respondents indicated that the Bank considered all stakeholders in its decision making process. For customers, the board considered their banking and general financial conditions and needs in its decision making. This ensured that the Bank builds a strong relationship with its current and potential customers for continued business relationship. This was also the case during product development and improvement where the board considered customer needs in its decisions to undertake some steps in its operations. For suppliers, the customer considered them by seeking to provide a better position and environment where it creates strong link with suppliers for future benefits.
To ensure ownership of decision making between departments and various levels of management, the Bank created an all inclusive environment where all employees of the Bank participated in the decision making processes. At the first stage, the respondents indicated that meetings were held at the department level where all employees were free to contribute to the plans and the future operations of the Bank. Thereafter, the departmental heads met and brought the resolutions of the department to management levels. At the management level, the resolutions were screened and then refined using the appropriate business model. On refining of the decisions at the management level, the management then requested for a board meeting where they aired the decisions and explained to the board the reasons for opting for the said decisions. If satisfied and convinced that the decisions are good for the operations of the Bank, the board of directors then endorsed the decision and the Bank embarked of its implementation. This process ensured that all employees at the bank were involved in the decision making process and reduced the resistance from employees during strategy implementation.

The study further sought to establish how performance was measured and evaluated at the bank. From the respondents' responses, the study established that from the onset of employment contract, the employees were clearly informed of their key responsibilities together with their key deliverables. These were incorporated in the job descriptions with clear performance indicators. The performance was however measured differently at different levels. For some employees, the performance was measured by the quality and accuracy of services offered to clients while at a higher management level, the performance was measured by performance and the level of errors and compliance to both banking rules and regulations and bank policies and procedures. At the Bank level,
performance was measured in terms of financial performance. At the beginning of each year, the board set some targets for the managers in terms of financial performance which were broken down into quarters and months and weeks. This helped keep the managers on their toes to ensure that they delivered on the set targets.

For rewards on performance, the respondents indicated that the Bank offered rewards in several forms. These included offering promotions to managers, bonus payment and salary increments. For managers that underperformed, the board discussed with them the challenges they faced during the year to evaluate ways in which these challenges may be solved in the following years. This ensured that senior management was motivated and inspired to deliver on its mandate.

The study further sought to establish the mode of motivation to management and staff at the Bank. From the interviewees’ responses, the Bank made use of several motivation strategies including offering bonus pay commensurate with employee performance as measured by the performance appraisal grade. During the performance appraisal, employees were awarded a score depending on how they performed in the just ended financial period. To ensure fair appraisal process, the Bank did multi-level appraisals where the employee first appraised themselves then their manager and then their fellow employees within the department.

For the management staff, the Bank motivated them by paying bonus and offering performance based pay where they had a retainer and then a certain percentage for attaining the set organizational targets. This ensured that the management staff worked very hard together with their subordinates to deliver on the Bank’s vision and mission.
The study set to establish whether the strategic leadership at the Bank was collective or unique to one or a few managers. From the responses, the interviewees indicated that the management at the Bank was both collective and unique because different tasks required unique management styles yet at the same time the Bank needed to work together as one organization with one objective hence the need for the several departments and sections to work collectively in the achievement of the Bank’s objectives. This ensured that synergy was promoted and the bank optimized its management operations. In addition, the respondents indicated that some tasks in the Bank required the execution of more than one department hence the need to work collectively with other managers in the Bank for faster and accurate execution of tasks.

The study further sought to establish the sustainability of the management strategy employed at the Bank. From the respondents’ views, it was clear that the management strategy was sustainable because of the well coordinated succession plan which involved great levels of mentorship and training so that in case of one manager leaving, there were enough employees to fill the position and run the operations of the Bank uninterrupted.

4.3.3 Impact of Changing Environment

The study sought to establish the manner in which the changes in the operating environment at the Bank had impacted the Bank’s strategic directions. From the responses, the respondents indicated that the changes in the operating environment had both positive and negative effects on the strategic directions of the Bank. In the first instance, some macroeconomic changes like the high inflation encountered in Kenya during the years 2011 and 2012 had negative effects on the lending position of the Bank...
as it increased the levels of non-performing loans. This was attributed to both inflation and increasing interest rates which made it difficult for the Bank to lend more and recover extended loans on a timely basis.

Another challenge that has impacted the Bank included increased level of competition as more Microfinance were licensed into commercial banks and others offered trading licenses to become deposit-taking microfinance institutions. This increased competition as more of the Bank’s potential customers ended up being taken up by other banks.

The study sought to establish whether the Bank had an employee welfare scheme. From the responses, the study established that the Bank had several employee welfare schemes including pension scheme which was maintained on a contribution from both the employer and the employee. In addition, the Bank had a medical scheme for its employees where they were allowed to access medical benefits of up to varying degrees depending on the employees’ level in the Bank.

The study sought to establish whether the Bank had a succession plan. From the respondents’ views, there was a strong succession planning process at the Bank where employees were mentored and trained on the management skills. Several managers were trained and equipped with the necessary leadership skills for the purpose of taking up any managerial position in the Bank as and when need arose. To build a strong team, the Bank ensured that it recruited enough managers to foresee its strategic plan implementation.
4.4 Discussion of findings

4.4.1 Link to Theory

At Equity Bank, not all shareholders (owners) are involved in the running of the affairs of the Bank. The board of directors had delegated their powers to the managers for the smooth running of the operations of the Bank. The managers were acting as stewards of the shareholders. Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory where the principals engage agents (managers) to run the affairs of the organization on their behalf. 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 (1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals.

This study also established that the stewardship theory was more applicable in this Bank promoted the relationship between managers and directors through promotion of corporate governance. 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 they believe that they 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 (Albenese, Dacin and Harris, 1997).
4.4.2 Link to other Studies

The study established that the bank exercised transparency in its recruitment and promotion processes. The Bank made use of several strategies in promoting in-house employees into management positions and the external human resources too involved head hunting where the Bank identified key resource in the industry and outside the industry to fill up the existing positions. The first directors of the Bank were appointed at the time of registration of the Bank. The study also established that it was a primary duty of the board of directors of the Bank to ensure that the chief executive officer (CEO) and other members of senior management have the necessary skills, knowledge, and experience to manage the Bank’s affairs in a sound and responsible manner. For managers, the respondents indicated that the Bank applied the Human resource management policies and procedures. In the first instance, the Bank assessed its human resources to establish the suitability of internal skills before seeking to recruit from outside the Bank. These findings are in line with those of Davis and Cobb (2009) who argued that agency theory required that shareholder interests be protected by separation of incumbency of roles of board chair and CEO. In addition, the stewardship theory argues that shareholder interests need to be maximized by shared incumbency of these roles.

The management held meetings every two days in a week to discuss the operations of the bank in relation to changes in the external environment and on strategies to align the bank to adapting to these changes. The Bank’s board of directors and senior management had a clear understanding of the interrelationships among the Bank’s activities and how they affected the prudential operation of the Bank and its ability to deliver on its vision and
mission. These findings are consistent with those of Johnson, Scholes and Whittington (2008) who argued that corporate governance is concerned with the structures and systems of control by which managers are held accountable to those who have a legitimate stake in the organization. Through corporate governance the bank was able to promote accountability among its stakeholders for a mutual benefit of all. In other words corporate governance shaped the making of investment decisions, the types of investment decisions made and how returns from investments were distributed. With high levels of accountability, the performance of the Bank was maintained high with a positive growth rate. These findings agree with those of Gitari (2008) who did study corporate governance and financial performance of state corporations using a case of Kenya Cooperative Creameries Ltd. Gitari (2008) established that high levels of accountability positively affected the financial performance of the Company. These findings are also consistent with those of Ngumi (2008) who studied the corporate governance practices in the insurance sector in Kenya where it was established that insurance companies had tightened their corporate governance practices especially following the increased rate of insurance companies collapsing. In the same way, the Bank tightened its corporate governance measures especially on investment decisions to ensure higher shareholder value.

In the Bank, corporate governance began with engaged, capable, and experienced directors and senior management, a coherent strategy and business plan, and clear lines of responsibility and accountability. The board of directors oversaw the development of the overall business strategy for the Bank and the decisions made by senior management in the pursuit of strategic objectives. For customers, the board considered their banking and
general financial conditions and needs in its decision making. This ensured that the Bank builds a strong relationship with its current and potential customers for continued business relationship. This was also the case during product development and improvement where the board considered customer needs in its decisions to undertake some steps in its operations. For suppliers, the customer considered them by seeking to provide a better position and environment where it creates strong link with suppliers for future benefits. In summary, the corporate governance practices in the bank ensured satisfaction of all stakeholders (Mahails and Sarmisha, 2011). On corporate governance practices, the bank ensured high levels of accountability among all stakeholders. It ensured it build a strong relationship with every stakeholder for continued business support. These findings are also consistent with those of Kanango (2007) who studied corporate governance practices among shipping companies in Kenya and established that the shipping companies cultivated high levels of corporate governance to promote the confidence of their served clients especially considering the levels of trust that their customers had build in them. These findings are also consistent with those of Kabura (2006) who studied corporate governance practices at the Kenya Roads Board and concluded that the Kenya Roads Board put in place several corporate governance practices to ensure accountability and promote transparency in its operations. For an organization to maximize its shareholders’ value, it is important that it cultivates high levels of corporate governance.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four and gives the conclusions and recommendations of the study based on the objectives of the study. The conclusions and recommendations drawn were focused on addressing the objective of this study. The objective of this study was to establish the corporate governance practices at Equity Bank.

5.2 Summary of the Findings

The study established that the respondents served in various capacities in the bank including: the board level as directors and managers in different departments. The respondents worked in the office of the Chief Executive Officer and Managing Director, Company Secretary and director of corporate affairs, mobile banking and payment innovations, information technology and innovations centre, treasury, trade finance and marketing, operations, finance, credit, corporate banking and internal audit. Majority of the respondents had served in the Bank for between 5 to 10 years followed by those who had served for a period of over 10 years.

On corporate governance structures, the study established that the respondents joined the Bank either as a manager or a board member within the last four years followed by those who had joined they joined the Bank as a manager or Board member in more than last five years. The Bank made use of several strategies in promoting in-house employees into
management positions and the external human resources too involved head hunting where the Bank identified key resource in the industry and outside the industry to fill up the existing positions. However, it was a primary duty of the board of directors of the Bank to ensure that the chief executive officer (CEO) and other members of senior management had the necessary skills, knowledge, and experience to manage the Bank's affairs in a sound and responsible manner. For managers, the Bank applied the Human resource management policies and procedures and for the appointment of board members the board needed to have a broad mix of skills and experience in order to be effective. For the director appointment, the decision mainly came from the directors. The Board of Directors met as need arose to discuss on ways of improving the performance of the Bank. At the Board meetings, the directors discussed the need for the new appointment of the Bank ensured it collected enough information about the job applicants by arranging several interview sessions before making an employment offer to the best qualified candidate.

The Bank conducted board top management meetings as and when required. The management held meetings every two days in a week to discuss the operations of the bank in relation to changes in the external environment and on strategies to align the bank to adapting to these changes. Corporate governance began with engaged, capable, and experienced directors and senior management, a coherent strategy and business plan, and clear lines of responsibility and accountability. Senior management, with input and approval by the board of directors, developed the business strategy, made significant decisions to implement that strategy, and oversaw the day-to-day decisions and actions by subordinate staff, to ensure that these decisions support the long-term objectives and
policies as determined by the board of directors. The Bank considered all stakeholders in its decision making process including customers, suppliers and employees. The Bank offered rewards in several forms including offering promotions to managers, bonus payment and salary increments. The management strategy adopted by the Bank was sustainable because of the well coordinated succession plan which involved great levels of mentorship and training so that in case of one manager leaving, there were enough employees to fill the position and run the operations of the Bank uninterrupted.

5.3 Conclusion

From the findings in chapter four and the summary above, the study concludes that the bank exercised diverse corporate governance practices in an effort to strengthen procedures for risk management and disclosure in the bank. This was through establishing strategic objectives and a set of corporate values that were communicated throughout the banking institution for the purpose of consolidating and directing the activities of every employee in the Bank. The Bank also achieved this through the setting and enforcing clear lines of responsibility and accountability throughout the banking institution. The Bank also ensured that there was appropriate oversight by senior management in their respective areas of operation. This was done with the aim of increasing the levels of accountability among the managers. Effectively utilising the output of internal and external auditors in recognition of the important control function they provided in the operational functions of the Bank. Another corporate governance practice included compensation approaches which were consistent with the Bank's ethical values, objectives, strategy and control environment. To ensure consistency with the
employment Act in Kenya, the Bank ensured that its compensation approaches were in line with the rules governing employment relationships of the country.

In response to the changes in the operating environment, Equity Bank Kenya Limited used several corporate governance practices to keep pace with the changes in the operating environment. First, the process of decision making in the Bank was inclusive where all employees were offered a chance to participate in the decision making through departmental meeting before escalating the resolutions to senior management and finally to the board for ratification. This ensured high level of strategy ownership among employees hence a significant reduction of employee resistance during strategy implementation.

The appointment of senior management and board members was done systematically at the Bank after an evaluation of skills gap where the Bank evaluated the skills available in comparison to the skills required before starting the recruitment process. This ensured that the Bank only maintained relevant individuals on the board and in management positions. This helped reduce role overlaps and duplication of resources.

The study also concludes that the Bank employed several motivational approached to motivate its human capital. For all employees, the Bank conducted performance appraisals which were used in the awarding of bonuses and promotions. The Bank also offered commensurate pay for its employees.
5.4 Implications of the Study

For the management of Equity Bank Kenya Limited and other commercial banks, the findings of this study would be used in understanding the importance of corporate governance practices in working towards organizational objectives and in promoting accountability. They would learn the best corporate governance practices that would inform their decision making on the best corporate governance practices.

The government and policy makers at various levels of management can use the findings of this study to develop policies that would promote corporate governance in commercial banks hence promote financial industry stability. With increased faith in the financial industry, other sectors will grow because of the readily available funding sourced from surplus units and channeled to deficit units.

Researchers and academicians should make use of this study as a basis upon which further studies on corporate governance practices among organizations and their effects of accountability on organizations. The findings should contribute to professional extension of existing knowledge on the corporate governance practices among organizations in Kenya.

5.5 Limitations of the Study

Being that this was a case study on one Institution the data gathered might differ from the corporate governance practices at other commercial banks in Kenya. In addition, the Bank under study is a young bank that has grown from a microfinance status and with different financial intermediation model from the normal commercial bank which may mean that it has a lot of differences in its management from other banks. Different
organizations in a different setting develop different strategies to respond to changes in the operating environment. The study however, constructed an effective research instrument that sought to elicit general and specific information on the corporate governance practices at Equity Bank Kenya Limited.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on corporate governance practices at Equity Bank Kenya Limited. Due to limited time the study could not collect information through observation over a period of time to assess the corporate governance practices in practice at the Bank. The study, however, minimized these by conducting the interview at the Bank's headquarter and with senior managers and Board members who had substantive experience about the organization corporate governance practices.

5.6 Suggestions for Further Research

The study has investigated the corporate governance practices at Equity Bank. The study therefore recommends that further research should be done on the corporate governance practices at other banks in the banking sector to allow for generalization of the corporate governance practices adopted by commercial banks in Kenya.

This study further recommends that another study be done on the challenges facing commercial banks in Kenya in the implementation of corporate governance structures. This will help commercial banks set up optimal corporate governance structure for quality decision making.
REFERENCES


Equity Bank website. [www.equitybank.co.ke](http://www.equitybank.co.ke)


Kenya Finance Directory. [www.financeinkenya.com](http://www.financeinkenya.com)


49


Sarbanes (2002) *Oxley Act USA*


APPENDICES

Appendix 1: Introductory Letter

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, school of business. In order to fulfill the degree requirements, am undertaking a management research project on the CORPORATE GOVERNANCE AT EQUITY BANK.

You have been selected to form part of this study. This is kindly to request you to assist me collect the data by sparing a few minutes to have this personal interview with me.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. A copy of the final paper will be availed to you upon request.

Your co-operation will be highly appreciated and thank you in advance.

Yours faithfully,

James Omingo Magara
MBA STUDENT
UNIVERSITY OF NAIROBI

Prof. Evans Aosa
LECTURER/SUPERVISOR
UNIVERSITY OF NAIROBI
Appendix 2: Interview Guide

Part A: Demographic Information.
1 Name of the interviewee?
2 What is your position in the organization?
3 In what department do you work in the organization?
4 How many years have you served in the organization?

Part B: Corporate governance structure
1 When did you join the organization as manager or board member?
2 How was your appointment made?
3 What are the unique competences that informed your appointment?
4 What is your involvement in decision making direct/indirect?
5 Seek clarifications from interviewee and revisit what area has not been addressed appropriately.

Part C: Corporate governance practices
6 What Corporate governance practices exist at Equity Bank?
7 How effective are these corporate governance practices?

Part D: Corporate governance strategy/style
1 How often do you conduct board/top management meetings?
2 How do you share information that lead to crucial decision making?
3 How is information shared from top management to all the staff?
4 Are other stakeholders involved in decision making? If so how?
5 How is ownership of decision making ensured between departments and various levels of management?
6 How is performance measured and rewarded?
7 What is the mode of motivation to management and staff?
8 Can you say that the strategic leadership direction is collective or unique to one or a few managers?
9 How sustainable is the management strategy employed?

Part E: Other extra information.
1 How does the changing environment impact on your strategic direction of the Bank?
2 Do you have an employee welfare scheme?
3 How do you address yourselves to the competition and changing environment?
4 Do you have succession plan?
5 Any further clarifications that may have come up during the interview
Appendix 3: Questionnaire

Part A: Demographic Information.
5 Please indicate your Name (optional) ............................................
6 What is your position in the Bank .................................................
7 In what department do you work in the organization ....................
8 How many years have you served in the organization ....................

Part B: Corporate governance structure
8 When did you join the organization as manager or board member?
9 How was your appointment made?
10 What are the unique competences that informed your appointment?
11 What is your involvement in decision making direct/indirect?
12 Seek clarifications from interviewee and revisit what area has not been addressed appropriately.
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 How often do you conduct board/top management meetings?</td>
<td></td>
</tr>
<tr>
<td>11 How do you share information that lead to crucial decision making?</td>
<td></td>
</tr>
<tr>
<td>12 How is information shared from top management to all the staff?</td>
<td></td>
</tr>
<tr>
<td>13 Are other stakeholders involved in decision making? If so how?</td>
<td></td>
</tr>
<tr>
<td>14 How is ownership of decision making ensured between departments and</td>
<td></td>
</tr>
<tr>
<td>various levels of management?</td>
<td></td>
</tr>
<tr>
<td>15 How is performance measured and rewarded?</td>
<td></td>
</tr>
<tr>
<td>16 What is the mode of motivation to management and staff?</td>
<td></td>
</tr>
<tr>
<td>17 Can you say that the strategic leadership direction is collective or</td>
<td></td>
</tr>
<tr>
<td>unique to one or a few managers?</td>
<td></td>
</tr>
<tr>
<td>18 How sustainable is the management strategy employed?</td>
<td></td>
</tr>
</tbody>
</table>
19 How does the changing environment impact on your strategic direction of the Bank?

20 Do you have an employee welfare scheme?

21 How do you address yourselves to the competition and changing environment?

22 Do you have succession plan?

23 Any further clarifications that may have come up during the interview

THANK YOU SO MUCH FOR YOUR COOPERATION