

**THE RELATIONSHIP BETWEEN COMPLIANCE RISK MANAGEMENT AND
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

CHARLES TUNG'A

D61/72565/2012

**A RESEARCH PROJECT REPORT SUBMITTED TO SCHOOL OF BUSINESS
IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE MASTERS OF BUSINESS ADMINISTRATION DEGREE, UNIVERSITY
OF NAIROBI**

2013

DECLARATION

This is my original work and has not been presented for award of any degree in any University.

Signature: _____ Date: _____

Charles Tung'a

The Research Project has been submitted for examination with my approval as the University Supervisor.

Signature: _____ Date: _____

Mr. Cyrus Iraya

Lecturer, Department of Finance & Accounting

School of Business

ACKNOWLEDGEMENT

I thank God for providing me with an opportunity, strength, health, knowledge and favour to complete this research project. I am heartily thankful and appreciate my supervisor Mr. Cyrus Iraya, without whose guidance and supervision, this project would not have been accomplished. Lastly and not least, am also indebted to my MBA colleagues and friends and all those who assisted me in one way or another throughout this period of study and though I may not name each one of you individually, your contribution is recognized and appreciated immensely. I owe you my gratitude. To you all, God bless.

DEDICATION

This research is dedicated to my parents, who made me be whom I am today and more so, to my late father who never got tired of talking to me on the value of education, sacrificed our family comfort to invest in our education and endured a lot to make me whom I am today.

ABSTRACT

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that a Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities. The objective of this study was to assess the relationship between compliance risk management and financial performance of commercial banks in Kenya. The research adopted a descriptive survey design on a population of the 43 commercial banks in Kenya. The study utilized both primary and secondary sources of data. Data analysis was done using the facilities for descriptive methods on the Statistical Packages for Social sciences (SPSS).

From the findings, it is clear that the banking industry in Kenya is growing a steady rate and consequently the players need to comply with certain regulations in the market. In addition accountability contributes more to financial performance in the commercial banks in Kenya. Further, control environment as compliance risk management practice influences financial performance in Kenyan commercial banks. The findings indicated that banks' audit control environment has a significant positive relationship with financial performance. In addition, control environment and accountability are significantly positively related; hence, they influence the operations of commercial banks.

The study recommended that Commercial banks in Kenya should maintain and strengthen control environment in order to increase their financial performance that enhances better operations in the financial market. The banks also need to improve their liquidity level through increasing their current assets that can easily be converted into cash. This level of assets should be above the liabilities in order to meet the creditors' demands when there is need. Finally, there is a need to consider interviewing customers of the commercial bank in Kenya so that their views are also captured instead of bank staff as in this case.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENT.....	iii
DEDICATION.....	iv
ABSTRACT.....	v
LIST OF TABLES	ix
LIST OF ABBREVIATION/ ACRONYMS.....	x
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background to the Study.....	1
1.1.1 Compliance Risk.....	2
1.1.2 Financial Performance	4
1.1.3 Relationship between Compliance Risk and Financial Performance	5
1.1.4 Commercial banks in Kenya.....	7
1.2 Research Problem	9
1.3 Research Objectives.....	10
1.4 Value of the study.....	10
CHAPTER TWO: LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Theoretical framework.....	12

2.2.1. Compliance and Complexity Theory	12
2.2.2 Organization and System Theory.....	14
2.3 Measures of Compliance Risk and Financial performance	16
2.3.1 Compliance Risk.....	17
2.3.2 Financial performance	21
2.4 Empirical studies.....	22
2.5 Summary of literature review	29
CHAPTER THREE: RESEARCH METHODOLOGY	30
3.1 Introduction.....	30
3.2 Research Design.....	30
3.3 Target Population.....	30
3.4 Data and Data Collection Techniques.....	31
3.5 Data Analysis	31
3.5.2 Conceptual model	32
3.5.3 Empirical model.....	32
3.5.4 Diagnostic tests	33
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS	34
4.0 Introduction.....	34
4.2 Analysis of Background data	34
4.3 Descriptive Statistics.....	36

4.4 Factor Analysis	37
4.5 Correlation analysis.	41
4.5.1 Relationship between control environment and financial Performance	42
4.5.2 Relationship between Accountability and financial Performance	42
4.5.3 Relationship between Monitoring and financial Performance.....	42
4.5.4 Relationship between control environment, monitoring and accountability	42
4.6 Regression Analysis.....	43
4.6.1 Regression equation	44
4.7 Discussion of findings.....	44
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..	47
5.1 Introduction.....	47
5.2 Summary of findings.....	47
5.3 Conclusions of the findings	49
5.4 Recommendations.....	50
5.5 Limitations of the study	51
5.6 Suggestions for Further research	51
References.....	52
Appendix I: Letter of Introduction Appendix II: Questionnaire.....	58
Appendix II: Questionnaire	59
Appendix III: List of Banks	62

LIST OF TABLES

Table 4.1 Distribution of Banks based on the number of branches	35
Table 4.2 : Descriptive Statistics	37
Table 4.3: Rotated Component Matrix for Control environment	38
Table 4.4: Rotated Component Matrix for Accountability.....	39
Table 4.5: Rotated Component Matrix for Monitoring	40
Table 4.6: Pearson's Correlation Coefficient Matrix.....	41
Table 4.7: Regression Analysis of the variables.....	43

LIST OF ABBREVIATION/ ACRONYMS

CBK: Central Bank of Kenya

CRM: Compliance Risk Management

CRO: Chief Risk Officer

IT: Information Technology

MFCs: Mortgage Finance Companies

ROA: Return on asset

ROE: Return on equity

SACCOS: Saving Credit Co-operative Society

SMEs: Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Episodes of financial instability are a well-documented fact of economic history. This, in combination with the numerous systemic and non-systemic banking crises internationally on record, suggests that financial institutions, and especially banks, operate in a high-risk environment. As may be expected, this situation has not escaped industry and regulatory body attention. Banking system connects the fundamental economic units and plays the role of financial intermediation. It helps in the creation of wealth through the establishment of a series of interconnected economic relations. Consequently, any disturbance in the conventional banking sector has significant implications for the overall economy primarily due to the banks' heavy reliance on interest rates which are either market forced or state governed (Callioni, 2008).

The Banking sector has undergone significant transformation and continues to improve with new regulations and guidelines seeking to maintain stability. This has made the sector more efficient, innovative, competitive and profitable. The transformation of the industry has resulted in an emergence of technologically innovative products and services (Anderson, 1999). Banks have employed these innovative products and services in their operations so as to provide customers with easy accessibility. The new capital requirements may lead to an improved buffer for risk absorption in the sector. However, increased competition, growing customer demands, and new regulations are likely to continue to add complexity to business models of banks and information technology

environment. These complexities may not be easily unraveled and can lead to the inability to capture or respond rapidly and successfully to emerging external opportunities (Curtis et al., 1992).

1.1.1 Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that a Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, best business practices, internal policies and procedures and codes of conduct applicable to its banking activities (CBK 2012).

According to Parker and Nielsen (2009), the current global compliance risk regulatory framework can be summarized in one sentence: compliance function must be established to manage compliance risk. It makes sense to assume that appropriately designed and implemented compliance management systems aimed at establishing compliance responsibilities, communicating those responsibilities to employees and stakeholders, ensuring that responsibilities for meeting legal requirements and internal policies are incorporated into business processes, should improve compliance.

Haynes (2005), maintains compliance function as the function that should facilitate the implementation and maintenance of the compliance culture, arrange for or provide compliance framing, advise on regulatory matters, conduct monitoring, maintain line of communication with the regulator, handle regulatory issues, conduct reviews, provide reports and guidance to management, assist in identifying, assessing and managing regulatory risk, manage internal, external and inter-relationships, and turn regulatory

burden into competitive advantage (e.g. such as recommending IT solutions, regulation and guidance).

In general terms, the inter-relationships for the Compliance function are: the Board of Directors has the responsibility for overseeing the management of the compliance function; Senior Management is responsible for establishing a compliance policy and a permanent and effective Compliance function. Some regulators promote two levels of compliance function: 1) operational and 2) oversight that is independent from business. The roles of each of the respective functions along with the Board of Directors, Senior Management, Compliance Staff and Business Unit personnel, all have a part to play in contributing to the overall success of the three internal control functions as they form an effective risk management framework (Basel, 2008).

Compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure. This ensures that compliance measures address non-compliance risks in the most effective manner. Banks conducting compliance work should consider adopting a risk-based approach because benefits are likely to be achieved in all regulatory areas (Leandri, 2005). They should also be aware that while there could initially be some additional costs in carrying out the processes involved, these costs are likely to be outweighed by the efficiencies gained from improved targeting of resources over time.

The following indicators should be used when assessing the quantity of compliance risk.
Low: Violations or noncompliance issues are insignificant, as measured by their number

or seriousness. The institution has a good record of compliance. The Bank has a strong control structure that has proven effective. Compliance management systems are sound and minimize the likelihood of excessive or serious future violations or noncompliance (Kelsey, 2004). From the moderate perspectives, the frequency or severity of violations or noncompliance is reasonable. The institution has a satisfactory record of compliance. Compliance management systems are adequate to avoid significant or frequent violations or noncompliance (Haynes, 2005). Finally on basis of high measures, violations or noncompliance expose the company to significant impairment of reputation, value, earnings, or business opportunity. The institution has an unsatisfactory record of compliance. Compliance management systems are deficient, reflecting an inadequate commitment to risk management.

1.1.2 Financial Performance

Financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Mills, 2008). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The performance measurement concept indicates that employees can increase the value of the firm by; increasing the size of a firm's future cash flows, by accelerating the receipt of those cash flows, or by making them more certain or less risky (Cadbury, 1992).

There are many different ways to measure financial, but all measures should be taken in aggregation. Some of the indicators of financial performance are return on equity,

liquidity ratios, asset management ratios, profitability ratios, leverage ratios and market value ratios.

Carreta and Farina (2010), argue that use of financial performance could still be justified on the grounds that it reflects what managers actually consider to be financial performance and, even if this is a mixture of various indicators like accounting profits, productivity, and cash flow. Financial performance is determined by the following indicators; profit or value added; sales, fees, budget; costs or expenditure and stock market indicators (e.g. share price) and autonomy. Proxies for the financial performance of the banks also include the accounting measure of performance; return on equity (ROE) and return on asset (ROA) as identified by First Rand Banking Group (2006).

1.1.3 Relationship between Compliance Risk and Financial Performance

Companies around the world have made substantial investments in personnel, processes and technology to help control business risk (Mills, 2008). Historically, these risk investments have focused primarily on financial controls and regulatory compliance. Too many financial institutions took on excessive risk with too little regard for reasonable, realistic long-term performance expectations. The debacle is focusing minds on more robust approaches to risk management, with a new imperative to keep pace with financial innovation, performance incentives, and business goals. Reforms will stretch risk management across the organization and involve systematically linking risk and corporate performance management, leading to an informed view of reward (Parker and Nielsen, 2009).

According to Verrecchia (2001), Companies that keep their proverbial eyes on the ball on improving performance, both financially and operationally will emerge from these trying times better positioned to take advantage of opportunities. However, conducting business as usual is in itself a risky proposition. Compliance-driven approaches to managing risk no longer suffice in an increasingly volatile, interconnected business environment. Approaches to risk management need to provide business leaders and their boards of directors with an integrated view of risk and performance that defines how rapidly emerging events will impact operations, quality, and, ultimately, shareholder value.

Recent research shows that many companies fail to connect risk and performance in the course of basic performance management (Basel, 2008; Carreta and Farina, 2010). External stakeholders are already motivating companies to take a fresh approach to aligning their risk appetites and performance objectives in a smarter, more systematic way. Company directors, credit rating agencies, and institutional investors alike are scrutinizing the risk-reward relationship and formalizing their own linkages between risk and performance, creating new expectations and market demands for businesses.

It should be understood at the start that this is not merely a defensive response to greater uncertainty in the business environment and, for some, to pending regulation (Mills, 2008). According to Tse and Yaansah (1999), banks are recognizing that the same drivers of increased volatility capital mobility, rapid innovation, and the development of new business models also offer opportunities that they must exploit to increase revenue, improve shareholder value, and satisfy evolving customer demands. With an integrated,

principled approach to managing risk and business performance, companies can seize with greater confidence the opportunities that an interconnected economy presents.

The process of connecting risk and reward starts at strategy setting. When company leaders understand the greatest sources of value creation and destruction across their organizations, when they assign clear accountability for risk management and performance management, and when they systematically quantify the rewards associated with the risks, they change the decision-making game for their managers (Sobel, and Reding, 2004).

1.1.4 Commercial banks in Kenya

The banking sector in Kenya comprises of, the Central Bank of Kenya, as the regulatory authority, Commercial Banks, Non-Bank Financial Institutions, Forex Bureaus and Deposit Taking Microfinance Institutions as the regulated entities. As at 31st December 2012, the banking sector was composed of 46 institutions, 44 of which were commercial banks and 2 mortgage finance companies. Commercial Banks and Mortgage Finance Companies are licensed and regulated under the Banking Act, Cap 488 and Prudential Guidelines issued there under. Deposit Taking Microfinance Institutions on the other hand are licensed and regulated under the Microfinance Act and Regulations issued there under. Foreign Exchange Bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491 and Foreign Exchange Bureau Guidelines issued there under.

Out of the 46 institutions, 33 were locally owned and 13 were foreign owned. The locally owned financial institutions comprised 3 banks with public shareholding, 28 privately owned commercial banks and 2 mortgage finance companies (MFCs). The commercial

banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade. Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed interest rates. Loans are based on the credit policy of the bank that is tightly coupled with the central bank interest rate policy. These in effect determine the level of financial risk in a particular bank. According to an Annual Bank Supervision report (2005), the Kenyan economy recovered to expand with a GDP growth of 5.2% in 2005 compared to overall 4.3% in 2004.

As a compliance measure, CBK carries out both on-site surveillance and off-site surveillance. On-site surveillance involves routine inspections conducted by CBK officers (inspectors) at the institution's place of business to examine business records to confirm the institution's state of compliance with the legal and regulatory requirements. Off-site surveillance entails the review of the periodic returns submitted to the CBK by the institutions. Both on-site and off-site surveillance are based on predetermined inspection programmes and ratings criteria and any non-compliance noted necessitates appropriate enforcement action as stipulated in the relevant legislation.

1.2 Research Problem

Banks today operate in an environment marked by growing consolidation, rising customer expectations, increasing regulatory requirements, technological innovation and mounting competition. Compliance risk is thus seen as a major challenge today and is described as "life threatening" in the banking industry. Compliance risk losses have often led to the down fall of many financial institutions (Mills, 2008).

According to Kiymaz (2006), the regulators of financial companies and directors of banks are demanding a far greater level of insight and awareness on the risks they manage, and the effectiveness of the controls they have in place to reduce or mitigate these risks. Further, compliance regulations, like Basel II mandates a focus on operational risks, forcing financial organizations to identify, measure, evaluate, control and manage this ubiquitous risk. This has led to an increased emphasis on the importance of having a sound compliance Risk Management practice in place.

Looking at what transpired in the global financial system, there is no doubt that the banking industry is crucial to the economy; hence instability within the industry would have negative consequences on the Kenyan economy. This serves as the basis for safeguarding the sector to ensure equitable, fair and strong business practices and not giving room for complacency. Poor performance or non-compliance with regulations by individual banks can introduce systemic risks and jeopardize the entire banking industry.

There is a growing acknowledgement from banks that a consistent and effective compliance risk management framework can help them achieve organizational objectives and superior performance as well as be competitive on the Kenyan market.

Several studies on risk management have been done in Kenya. Yusuf (2005) conducted a survey of operational risk management practices by banks in Kenya; Songole (2011) did a study on the relationship between credit risk management practices and return on investment of Saccos in Kenya, Kabiru (2002) did a study on the relationship between credit risk assessment practice and the level of non-performing loans of Kenyan banks. Ongechi (2009) also analysed the risk management strategies used by Fina Bank Limited in lending to SMEs. Based on this review, none has focused specifically on relationship a between compliance risk management and performance of commercial banks in Kenya. Thus the study, therefore sought to fill the gap in knowledge by answering the question: is there a relationship between compliance risk management and performance of commercial banks in Kenya?

1.3 Research Objectives

The objective of this study was to assess the relationship between compliance risk management and financial performance of commercial banks in Kenya.

1.4 Value of the study

The significance of the study is to reveal the extent to which compliance risk management affects performance of banks in Kenya, the need for banks to effectively

manage their compliance risk to minimize its effect on their operations and how banks could gain competitive advantage through the management of their compliance risk.

The results serve as a guide for the banking industry and the business community on how underdeveloped their current compliance risk management practices are and the course of action to take in order to effectively utilize their compliance risk management policies and strategies to enhance their performance

To the researchers and academicians, the study adds to the existing body of knowledge on compliance risk management to benefit academicians and aid further research on risk compliance risk management. Thus acting as a source for further researches into the field of risk management in financial institutions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature review including theoretical and empirical review. Section 2.2 provides the theoretical review, section 2.3, Measures of Compliance Risk and Financial performance, section 2.4; Empirical studies while 2.5 presents the Summary of literature review.

2.2 Theoretical framework

There is a need to review some basic theories covering corporate (organizational) governance, before to offer compliance management system as an oversight model. Theories broaden appreciation of organization and the world in general and open mind to new ideas and possibilities for change and transformation.

2.2.1. Compliance and Complexity Theory

Compliance and complexity theory has been used extensively in the field of strategic management and organizational studies. The theory treats organizations as collections of strategies and structures. Anderson (1999) in his extensive literature review found that since the open-systems view of organizations began to diffuse in the 1960s, complexity has been a central construct in the vocabulary of organization scientists. This theory has treated organizations as an enormously complex (Daft and Lewin) and defined complexity as a structural variable that characterizes both organizations and their

environments. With respect to organizations, Daft (1992) equates complexity with number of activities or subsystems within organization, noting that it can be measured along three dimensions. Vertical complexity is the number of levels in organizational hierarchy, horizontal complexity is number of job titles or departments across organization, and spatial complexity is the number of geographical locations.

Organization design tries to match the complexity of organization's structure with the complexity of its environment and technology (Galbraith, 1982). Anderson (199) noted that both social scientists and people in organizations reduce a complex description of an organization to simpler one by abstracting out what is unnecessary or minor. To build model is to encode a natural system into a formal system, compressing a longer description into a shorter one that is easier to grasp.

"The world is getting more complex" (Miledova, and Nemcova, 2009). Globalization and technology developments are mentioned as main drivers for the high level of complexity. De Andres and Valledo (2008)) analyzed studies of Furfine, Levine, and Morgan and concluded that complexity of the banking business increases the asymmetry of information and diminishes stakeholder's capacity to monitor bank manager's decisions. Complexity greatly aggravates the governance problem and requires a board not only to monitor managers efficiently, but also to give them access to independent and valuable advice to run the bank.

Compliance complexity arises from several factors. As human society becomes more complex, the complexity of regulation also increases. Compliance as an element of order follows the same development as regulation (Callioni, 2008). Compliance organizational

complexity is related to the fact that regardless of the compliance functions origin and make-up, regulators are demanding that compliance is built into the business process. From the risk management this requires to organize in bank three lines of defense where compliance risk taking is business unit's responsibility.

2.2.2 Organization and System Theory

Systems theory was proposed in the 1940's by the biologist Ludwig von Bertalanffy (Pascale, 1990). Systems theory is trans disciplinary study of the abstract organization of phenomena, independent of their substance, type, or spatial or temporal scale of existence. It investigates both the principles common to all complex entities, and the models which can be used to describe them. As proposed by Barnard (1968), Organizational theory is the sociological study of formal social organizations, such as businesses and bureaucracies, and their interrelationship with the environment in which they operate. It complements the studies of organizational behaviour and human resource studies.

Organization theory addresses the problems regarding complexity and organizational reactions to the complexity. Organizations cope with complexity through various modes of structure and adaptation, including departmentalization, specialization, strategic planning, etc. Ascher (2000) argues that organizations need to cope with complexity through coordination. Organization theory not only supports the technical aspects of operations, but explains their socio-cultural aspects as well. In the early of sixties practitioners were able to translate the general systems theory of Boulding and Bertalanffy into meaningful business theory that could be applied to business-world problem solving. In 1967,

Johnson, Kast and Rosenzweig (1967) defined business organization as a man-made system which has a dynamic interplay with its environment – customers, competitors, labor organizations, suppliers, government and many other agencies.

Each of these concepts applies to the industrial company [bank] as well as. Beyond the vocabulary, the analogies, and the metaphors there appears to exist a common approach that makes it possible to understand better and describe better the organized complexity. This approach is called the systemic approach, and this is the approach that presented as the concept of the macroscope. The systemic approach rests on the conception of system. It is not to be considered a “science”, a “theory”, or a “discipline”, but a new methodology that makes possible the collection and organization of accumulated knowledge in order to increase the efficiency of our actions.

The concept of system appears in two complementary aspects: it enables the organization of knowledge and it renders action more efficient. The most complete definition: a system is a set of elements in dynamic interaction, organized for a goal. The exact definition of system depends on the users, environment, and ultimate goal. J. de Rosnay (1979) defines complexity by using two important factors: the variety of elements and the interaction between elements. Application of the system theory to business created a management technique that is able to cut across many organizational disciplines – finance, marketing and so on – while still carrying out the functions of management. This technique is called systems management, project management or matrix management.

Regulators are demanding that compliance is built into the business process. Shaw et al. (2007) define a business process as a socio-technical system, executed by humans and

machines. Compliance management systems are widely used term by technology providers several scholars (Parker and Nielsen 2009)) analyzed the automation of compliance with laws mandating risk management. Compliance technology products – known generally as “governance, risk, and compliance” (GRC) software grew tremendously.

The main conclusions by Bamberger (2010): “While these technology systems offer powerful compliance tools, they also pose real perils. They permit computer programmers to interpret legal requirements; they skew decision making through an automation bias that privileges personal self-interest over sound judgment; and their lack of transparency thwarts oversight and accountability. These phenomena played a critical role in the recent financial crisis. In authors view such systems are an expensive and not efficient for a small and medium size banks. Compliance is complex because involves behavioral business processes – fundamentally different than more transactional and structured processes within organizations (Atkinson and Leandri, 2005). The role of human system is more important in compliance risk management. The use of systemic approach is not a new in Latvian banking. Bauer (2007) performed analyses of Latvian compliance regulatory framework and found that term system is used mainly in context of internal control system.

2.3 Measures of Compliance Risk and Financial performance

An argument growing throughout the existing literature in accounting and financial management is that the implementation of compliance risk management system will improve firm performance (e.g COSO, 2004; Hoyt et al, 2006). There is, however, very

limited empirical evidence confirming this relation between compliance risk management and firm performance. Furthermore, the empirical evidence that does exist suggests that the appropriate compliance risk management system may vary across firms (e.g., PwC, 2004; Beasley et al. 2005; Hoyt et al, 2006). In other words, the relation between ERM and firm performance is most likely contingent upon several firm-related factors.

2.3.1 Compliance Risk

Compliance risk management focuses on adopting a systematic and consistent approach to managing all of legal risks confronting an organization. Indeed, CRM is considered by many as the fundamental paradigm for managing the portfolio of risks confronting organizations (Beasley et al, 2005; O'Donnell, 2005).

Compliance measures that can address the priority compliance risks should be identified and the most suitable compliance measures selected based on an assessment of the costs and benefits of each measure. Control environment is one of the key measures of an entity's compliance control; it sets the tone of an entity, influences the control consciousness of all people within the organization and is the foundation for all other components of internal control system (Ramos, 2004). Some of the components of control environment for this study are; corporate culture, Competence levels, Quality of audit committees and Integrity and ethics (D'Aquila, 1998 & Ramos, 2004). According to Rae & Subramaniam (2006), the core of any organization is its people and they are the engine that drives the organization.

Accountability measures entail a situation where the subordinates' manager has the right to expect the subordinate to perform the jobs, and the right to take corrective action in the

event that the subordinate fails to do so (Ramos, 2004). Verrecchia (2001) distinguishes between accountability and responsibility in the manner where, one is liable to render an account when one is accountable, and be called to account when one is responsible. Under this component Transparency, Disclosures, are the main indicators.

Monitoring is one of the most important aspects of compliance in any banking institution, used internally, while externally central banks use regulatory and supervisory measures. Monitoring is an ongoing activity which involves performing procedures periodically and reviewing banks documentation to confirm that all procedures have been performed as required (Muhota, 2005). The tools used in many organizations are reconciliations, internal checks and audits to ensure the accuracy of transactions being reported in financial statements in monitoring loans (Diamond, 1984).

Gordon and Loeb (2006) compliance risk management as the overall process of managing an organization's exposure to uncertainty with particular emphasis on identifying and managing the events that could potentially prevent the organization from achieving its objective. It is an organizational concept that applies to all levels of the organization. Compliance risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The importance of considering the environmental uncertainty (EU) confronting an organization when designing management control systems (which include a compliance

risk management system) is well established in the accounting literature (Gordon and Miller, 1976; Chenhall, 2003). Environmental uncertainty creates difficulties in management control systems due to the fact that it creates increases in the unpredictability of future events. Thus, the risks confronting a firm and the appropriate response to such risks will vary depending on the environmental challenges confronting the firm.

Industry competition is another factor that seems critical when considering the relation between a firm's performance and its compliance risk management system. Khandwalla (1972), for example, found that the sophistication of a firm's control (i.e., monitoring) system is highly correlated with the intensity of competition. It seems reasonable to assume that the proper match between industry competition and a firm's compliance risk management system will have an effect on the relation between a firm's compliance risk management system and performance. The evidence provided by the PwC (2004) Survey supports this assumption.

The relation between firm size and organizational structure has been a primary consideration in the organization theory literature for some time (see Lawrence and Lorsch, 1967). In addition, accounting researches have also found firm size an important factor when considering the design and use of management control system. Shields (1995), for example, finds large firms may have greater access to the resources needed to implement more complex systems. Hoyt et al (2006) find firm size to be positively related to the adoption of ERM. Beasley et al (2005) show that organizational size is positively related to the stage of compliance risk management implementation. Merchant

(1984) argues that organizational growth poses increased communication and control problems.

Furthermore, as the size of a firm increases, the difficulty in implementing information and communication activities, as well as control activities, would also likely increase. Thus, the cost effectiveness of a compliance risk management system is likely to vary with variations in firm size. Firm complexity, refer to the numbers of line-of-businesses and geographical locations associated with a firm. As pointed out by Merchant (1981), highly diversified and decentralized firms require more administrative controls than their less diversified and decentralized counterparts. Hoyt et al (2006) find that complexity (measured by industrial and international diversification) is positively related to the use of compliance risk management.

Greater firm complexity will, however, cause less integration of information and more difficulties in management control within the organization. Doyle et al (2005) find material weaknesses in internal control is more likely for firms that are more complex. Thus, the proper match between a firm's complexity and its compliance risk management system is likely to be another key concern in assessing the relation between a firm's compliance risk management and its performance.

Kleffner et al. (2003) found that many Canadian companies adopting a CRM strategy cited encouragement from the board of directors as the main factor underlying such adoption. COSO (2004) also argues that the board of directors plays an important role in a firm's CRM strategy. Beasley et al (2005) find the proportion of independent directors in the board is positively related to the stage of CRM deployment.

2.3.2 Financial performance

In order to be able to assess the effects compliance risk has on the performance of banks it is important to define performance in relation to banks. Two starting points to this could be taken. Either bank performance could be looked upon from a market perspective, by looking at stock returns and interpreting changes in these as the market's opinion of the performance and future prospects of the banks, or alternatively the starting point can be taken in accounting figures and using accounting returns as indicators of bank performance (Krishnan, 2005).

One of the main and most widely used accounting indicators of firm performance is return on equity (ROE), which measures the percentage aggregate return to shareholders before dividends on each shilling of shareholder's equity (Bauer, 2007). As ROE, ROA is a widely used measure when stating bank performance and it shows the percentage return on the banks average asset. It is connected with ROE through the equity multiplier, which portrays the levering up of ROE that is due to the bank having debt. A high equity multiplier is attained through a high asset to equity ratio and has a twofold effect. In periods of positive ROA it enhances the ROE, but in periods of negative ROA it further deteriorates ROE. The equity multiplier hence measures financial leverage and is both a measure of risk and profit, and high EM values indicate both high capital- and solvency risk (MacDonald & Koch 2006).

According to Krishnan (2005), the ROA signifies managerial efficiency in other words it depicts how effective and efficient the management of banks has been as they seek to transform assets into earnings. And the higher ratio indicates the higher performance of

the banks. It is a useful tool for comparing profitability of one bank with other or the whole commercial banking system. Moreover, the ROE is said to measure the rate of return on the bank's shareholders equity and it is calculated by dividing banks net income after taxes by total equity capital which includes common and preferred stock, surplus, undivided profits, and capital reserves (Daft, 1992, de Andres, and Valledado, 2008).

This measure of profitability gives an indication of what the banks earns on the shareholders' investment; Devinaga Rasiah (2010). According to Anthony Karkrah and Ameyaw (2010) many researchers have presented ROA as an appropriate measure of bank profitability. Among them are Rivard and Thomas (1997) who argued that bank profitability is best measured by ROA in the sense that, ROA cannot be distorted by high equity multiplier. However, Hassan and Bashir (2003) also claims that as ROA tend to be lower for financial intermediaries, most banks heavily utilized financial leverage to increase their ROE to competitive levels.

2.4 Empirical studies

Several authors have empirically tested this relation for financial companies. They used different proxies for compliance adoption and implementation, and firm performance and value.

Based on the modern portfolio theory from Markowitz (1952), risk management is not valuable for shareholders. This is because shareholders can easily diversify their own risk, and therefore only the systematic risk is important. In that case, every risk management practice is a negative net present value project and should not be

undertaken. This argument is agreed by Aebi *et al.* (2010), who argue that risk management could lower the risk, but that this is paid for with lower returns for shareholders.

Beasley *et al.* (2008) empirically investigated this argument. They related compliance risk management implementation and share prices during the announcement period for both financial and non-financial firms. Compliance risk management implementation is measured as the appointment of a Chief Risk Officer (CRO), and the market reaction to it as the accumulative abnormal return. The authors only find an insignificant negative relation between the accumulative abnormal returns and the appointment of a CRO. Therefore, it could be concluded that the implementation of compliance risk management is not valued by shareholders, which supports the argument of the modern portfolio theory.

Further, Pagach & Warr (2010) measured the effect of compliance risk management implementation on different firm factors which are argued to be affected by compliance risk management implementation. These factors are risk, financial, asset and market characteristics of the firm. It is argued that compliance risk management implementation, measured as the appointment of a CRO, should lower the risk. For financial characteristics, leverage, cash availability and profitability are taken into account, whereas asset characteristics should tell something about the firm's assets are likely to be impaired in financial distress.

However, there are findings that suggest that compliance risk management implementation enhances firm performance of financial companies in general. An

example is the paper by Liebenberg & Hoyt (2011), who investigate the relation between compliance risk management adoption and firm value at insurance companies. The authors also find a difference in Tobin's Q for firms that have implemented compliance risk management and those who have not, and also this relationship is significant. This indicates that compliance risk management does enhance firm value in general.

When using another measure for compliance risk management implementation, namely the Standard & Poor's risk management rating, as was done by McShane, Nair & Rustambekov (2011), a more accurate answer could be given to the question whether CRM leads to better firm value for banks. The S&P's rating does not only indicate if compliance risk management is adopted, but also to what extent. It could therefore be derived if more sophisticated compliance risk management leads to even higher firm value. In this research, firm value is measured by Tobin's Q. The results show that ERM is significantly positively related to firm value, controlled for other factors.

Baxter, Bedard, Hoitash & Yezegel (2011) further extend this relation by relating high quality compliance risk management programs, firm performance and market reactions towards revisions of compliance risk management quality by the rating agency. They find, contradicting to McShane *et al.* (2011) that high compliance risk management program quality is positively associated with firm performance and value. For value, they also use Tobin's Q, whereas performance is measured by return on assets (ROA). These authors also examine whether ERM quality ratings lead to market reactions. This suggests that markets do value compliance risk management quality, but that this is

already incorporated in the share price. However, market reactions are positively associated with compliance risk management quality rating revisions.

Since compliance risk management should not only deliver value to shareholders, also value and performance in general need to be discussed, so that the added value for other stakeholders could be described. Aebi *et al.* (2011), Beltratti & Stulz (2010) and Minton *et al.*, (2010) focus on the effect of risk management structure, when measuring the effect on bank performance during a financial crisis. The results they find are mixed. For example, Beltratti & Stulz (2010) focus on excessive risk taking and share-holder friendliness of the bank's board. They did not find any significant results.

Minton *et al.* (2010) focus on board independence and financial expertise, since these factors are usually mentioned when improvements of risk regulations are discussed. It is argued that independent board members are less likely to engage in excessive risk taking, since they do not have incentives to do so. Minton *et al.* (2010) find that board independence does not influence stock performance during the crisis. Board independence was also measured by Aebi *et al.* (2011), and they find a significant negative association with performance, which is different from Minton *et al.* (2010). Minton *et al.* (2010) found a significant negative association between financial expertise and firm value, which suggests that financial experts tend to take more risk which leads to lower firm value.

Songole (2011) examined the relationship between credit risk management practices and return on investment of Saccos in Kenya. The sample size of the study was 36 respondents drawn from 36 SACCOs. Data was analysed through descriptive and

inferential statistics. The study established that SACCOs needs to ensure credit risk management is effective to prevent it from failing in its obligation and meeting its objective. The R^2 of 48.1% indicated that financial performance varied with variation in credit risk management practices which includes portfolio asset quality /portfolio management, SACCOs loan policy procedure, risk identification , risk analysis and assessment, credit scoring mechanism and Diversification of Assets at a confidence level of 95%.

In addition, Return on Investment for SACCOS varies directly varied with variation of the credit risk management practices adopted by the organizations, Credit screening mechanism, Credit scoring mechanism, Risk monitoring, Diversification of risk and clearly indicates that adoption of credit risk management practices in management of credit risks that faces SACCOs has positive effects on financial performance.

Mugambi (2010) did credit risk management practices and non-performing loans in Kenyan financial institutions taking a case of Equity Bank. The study used simple random sampling technique in coming up with a sample size of 60 employees from credit risk management department. The Researcher developed the instruments with which to collect the necessary information. Descriptive statistics was used mainly to summarize the data. This included percentages and frequencies. The study found that credit risk management practices affect the non-performing loans in banks as it lays the foundations upon which loan recoveries are made and loans and other credit facilities advanced. The study also concludes that credit risk management technique remotely affects the value of

a bank's interest rates spread as interest rates are benchmarked against the associated non-performing loans.

Kamau (2010) studied the risks encountered by commercial banks and the risk management practices adopted by commercial banks to mitigate against these risks. Further the study wanted to establish the challenges faced by commercial banks in successful implementation of risk management. A census survey was conducted for all the licensed banks operating in Kenya. The study revealed that credit, operation, reputation and compliance risks as critical and commonly encountered. Majority of the banks have risk management structures in place. However the quality of the same could not be ascertained. Majority of the banks were found to use both qualitative and quantitative methods to measure risk. Scenario analysis was found to be the most common used technique to measure risk.

Talel (2010) conducted a survey of risk management practices adopted by commercial banks in Kenya, to identify the types of risks faced and establish the various tools applied by institutions to identify and mitigate against business risks. The population comprised of all the 45 commercial banks operating in Kenya as at 31 st December 2009 and the study was based on descriptive research design where a combination of quantitative and qualitative data was obtained using self-administered questionnaires. The study revealed that risk management in Kenya is considered a vital factor for organizations to meet their desired goals and objectives. Many of the institutions sampled strongly agreed that effective risk management could improve achievement of organizational goals and mirrors the Central Bank of Kenya (CBK) Annual report (2008) which observed that risk

management had taken an increasingly pivotal role in the banking sector in view of enhanced customer expectations, technological advancements, improved regulatory framework and regional expansion by banks.

Ngare (2008) studied credit risk management models by commercial banks in Nairobi Kenya. The research used a descriptive survey of the commercial banks in Kenya with a population of 48 commercial banks that were registered by CBK in 2007. Primary data was collected using a questionnaire from senior managers who have been in the industry for at least five years. The study found that most banks are foreign and they have a credit policy that is reviewed frequently. Although the credit management is technical and consumes a lot of time the employees are trained regularly and manual used to create awareness. Different measures or models are employed in credit risk management like the quantitative method to checks the client's ability to repay the loan as well as credit worthiness, terms of payment and interest to be charged, consequences in case of default, customers character, deposit and collateral.

Njiru (2003) studied credit risk management by coffee co-operatives in Embu District. Where he found out that due to deterioration in the financial condition of an entity to which credit is provided. In particular, the risk that a financial institution will incur losses with regard to credit provided to an overseas customer due to changes in the foreign currency situation or the political and economic conditions of the country to which the customer belongs is called country risk which contradicts with Morris, J. (2001) on Diversification in the Credit financial performance.

2.5 Summary of literature review

From the literature, Compliance risk management focuses on adopting a systematic and consistent approach to managing all of legal risks confronting an organization. From a managerial accounting perspective, Compliance risk management can be thought of as falling under the umbrella of the value-based management approach that provides an integrated framework for measuring and managing an organization, with the explicit objective of creating long-term value for the organization. Thus, ROA which signifies managerial efficiency is related to efficient compliance risk management of banks. The higher ratio indicates the higher performance of the banks.

Looking at what transpired in the global financial system, there is no doubt that the banking industry is crucial to the economy; hence instability within the industry would have negative consequences on the Kenyan economy. Based on the review, none has focused specifically on relationship a between compliance risk management and performance of commercial banks in Kenya. Thus the study, therefore, will seek to fill the gap in knowledge by examining the relationship between compliance risk management and performance of commercial banks in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter is to provide an understanding of the research methodology applied in the study. This chapter concerns the various steps that facilitated the execution of the study to satisfy the objectives of this study. These steps included the research design, population of interest, data collection instruments and procedures and data analysis.

3.2 Research Design

The research adopted a descriptive survey design, which according to Mugenda and Mugenda (2003) is a study undertaken in order to ascertain and be able to describe the characteristics of the variables of an interest in a situation. It aimed to establish the relationship between compliance risk management and performance of commercial banks in Kenya.

3.3 Target Population

The population is an aggregate of all that conform to a given characteristic (Mugenda and Mugenda, 2003). The population of interest for this study was all the 43 commercial banks in Kenya, thus it was a census survey.

3.4 Data and Data Collection Techniques

The study utilized both primary and secondary sources of data. The primary sources were obtained from the banks. The study focused more on a section and particularly on the top, middle and lower level management staff who are directly dealing with the day to day management of the bank since they are the ones conversant with compliance risk management. In order to situate the study theoretically and generate the conceptual framework with which to work on the primary source secondary sources was obtained from, financial statements of the companies of 5 years (2008-2012) and publications were also used. The financial data was collected from the annual reports.

3.5 Data Analysis

This involves examining what had been collected and making deductions and inferences, Kombo and Tromp (2006). Qualitative data was analyzed using content analysis techniques, for quantitative, descriptive statistics percentages and frequencies were derived and used. Data analysis was done using Statistical Packages for Social sciences (SPSS). In addition, mean and standard deviation was used alongside the frequencies for Likert items. A 5 point Likert scale was used because by using it, coding and analysis of the data collected is easy since it has predetermined categories; also, under the Likert scale, the assigned numerical values can easily be reversed if the statement is worded negatively, this kind of flexibility is not possible with the other scales.

Factor analysis was also applied. This is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables (factors). Factor analysis attempts to bring inter-correlated variables

together under more general, underlying variables. More specifically, the goal of factor analysis is to reduce “the dimensionality of the original space and to give an interpretation to the new space, spanned by a reduced number of new dimensions which are supposed to underlie the old ones. Thus, factor analysis offers not only the possibility of gaining a clear view of the data, but also the possibility of using the output in subsequent analyses (Field, 2000).

3.5.2 Conceptual model

This study sought to examine how compliance risk management relates to financial performance of commercial banks. The aspects of compliance risk management are control environment (corporate culture, competence levels, quality of audit committee and management integrity and ethics), accountability (transparency and disclosures) and monitoring (reconciliations, internal checks and audits) as depicted by D’Aquila 1998; and Robert & Abbie 2003) . The relationship among the variables was estimated using a function:

$$F_p = f(\text{CRM}) \dots\dots\dots(1)$$

Where

F_p = Financial Performance as measured by RoA

E = compliance risk management

e = error term

3.5.3 Empirical model

Simple regression was used in the study. It offered the value of R², which was used to indicate how well the model was performed. In this study, the independent variable was

evaluated in terms of its predictive power. The main goal of study was to explore if compliance risk management strategies have impact on the bank's financial performance.

The equation is as follows:

$$Fp = B_0 + B_1C + B_2A + b_3M + e \dots\dots\dots 2$$

Where Fp = financial performance

B₀ is a constant; B₁, B₂ and B₃ are coefficients

C= Control environment

A=Accountability

M= Monitoring practices

3.5.4 Diagnostic tests

F-test was tested for joint significance of all coefficients and t-test for significance of individual coefficients. Measures of central tendency (mean) and a measure of dispersion/variation (standard deviation) were used to analyze the data. T-test was interpreted base on p significance value. A value greater than .05 means that the variability in the two conditions is about the same. It means that the variability in the two conditions is not significantly different, while a value less than 0.05 mean that there is significance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

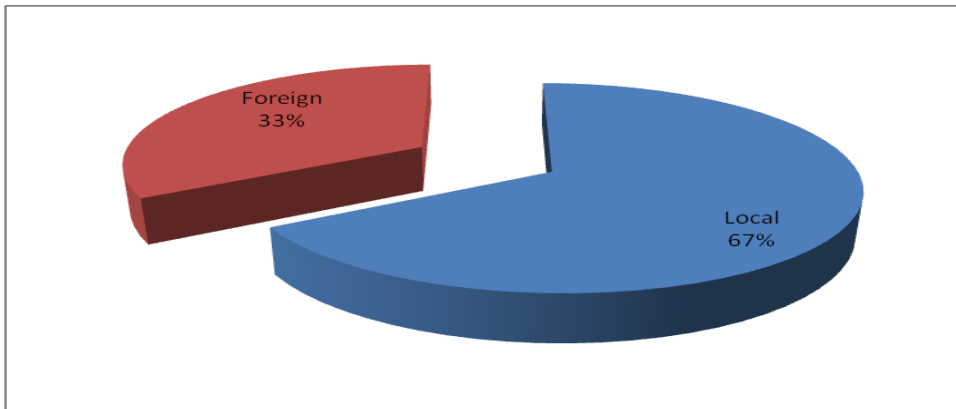
4.0 Introduction

This chapter presents results of the study and interpretation of the findings. It gives the sample characteristics which include ownership status, number of branches and the banks' length of operation. It also presents inferential statistical results of the study variables according to the variables studied. The variables analyzed include; Control Environment, Accountability, and Monitoring. Out of the 43 targeted banks, comprehensive financial and primary data was obtained from 30 banks, contributing to 69.8% response rate. The presentation of findings is done in accordance with the research objectives as re-stated, to assess the relationship between compliance risk management and financial performance of commercial banks in Kenya.

4.2 Analysis of Background data

The study found it crucial to ascertain the background information about the responding banks in regard to ownership status, number of branches and the banks' length of operation.

Figure 4.1: Bank ownership



From the findings, 67% of the responding banks are locally owned while 33% are foreign owned. Therefore, it can be deduced that data on the relationship between compliance risk management and financial performance of commercial banks in Kenya was obtained from credible representatives of the banking industry in Kenya.

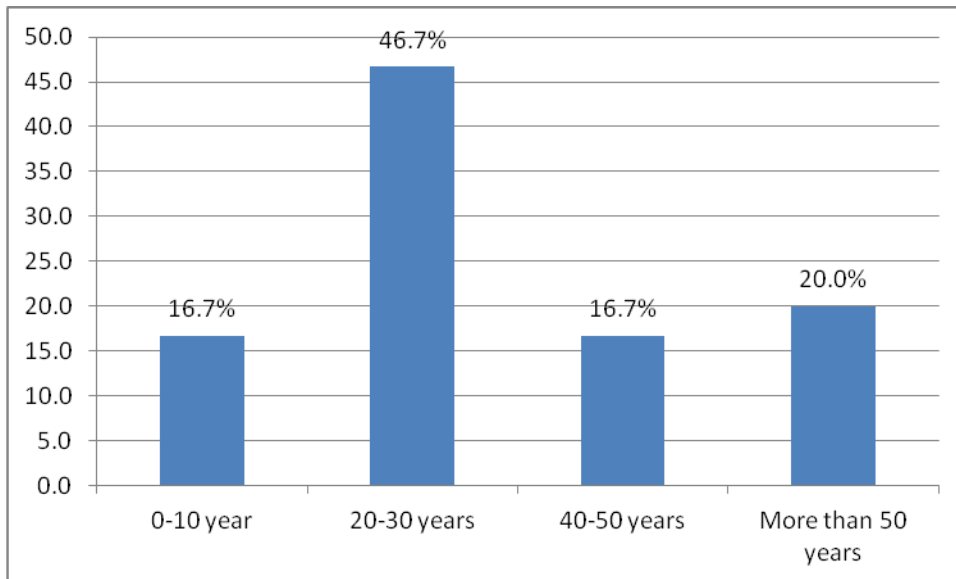
Table 4.1 Distribution of Banks based on the number of branches

Branches	Frequency	Percentage
0-40	5	16.7
41-80	5	16.7
81-120	6	20.0
121 -160	12	40.0
161 or more	2	6.7
Total	30	100.0

From the findings, 40% of the sampled banks have 121 -160 branches, 20% have between 81 and 120 branches, while few have below 40 branches. It is evident that, the

banking industry in Kenya is growing a steady rate and consequently the players need to comply with certain regulations in the market.

Figure 4.2 Banks' operations' period



From the findings, 46.7% of the sampled banks had been in operation for 20 to 30 years, 20% had operated for more than 50 years, while 16.7% had been in operation for about 10 years and for 40 to 50 years. These findings indicate that in the last 20 years, there has been growth in financial industry in Kenya, explained by conducive business growth and economic growth in Kenya.

4.3 Descriptive Statistics

Mean and standard deviation were calculated from quantitative data obtained from the questionnaires to explain the contribution of the independent variables (Control environment, monitoring accountability) in relationship to the dependent variable (financial performance) as shown in table 4.2

Table 4.2 : Descriptive Statistics

Variables	Mean	Standard Deviations
Control environment	3.8976	0.481
Monitoring	4.0011	0.484
Accountability	4.2072	0.4715
ROA	3.4386	0.6556

Results in table 4.2 above indicate that accountability (mean = 4.2072) with the standard deviation of .4715 show the higher contribution in the relationship to financial performance in the commercial banks, followed by monitoring (mean = 4.0011) with standard deviation of .4840 and control environment (mean = 3.8976) with standard deviation of .4810. This implies that accountability contribute more than that of control environment and monitoring in impacting on financial performance.

4.4 Factor Analysis

Factor analysis was used to extract the most important components that measured the study variables. The principal component analysis and varimax rotation methods were used to extract components with the Eigen values > 1 and items with correlation coefficients greater than or equal 0.60 as shown in the following rotated matrix tables.

Table 4.3: Rotated Component Matrix for Control environment

Rotated component factor analysis for control environment	Components			
	Management integrity & ethics	Quality of audit committee	Corporate Culture	Competence levels
The bank management is open to all people	0.772			
The bank makes pronouncements on any changes in the bank to all	0.74			
Information in the bank to and fro is communicated freely to all	0.739			
The audit committee is open to management, staffs and public	0.644			
The assets of the bank are kept safely	0.634			
The management meets employees once a week	0.61			
Audit committee meets internal and external auditors quarterly		0.772		
At least two of the audit committee members are independent directors		0.688		
Two of the audit committee members are professionally qualified people		0.687		
Audit committee allows supervisory authority to inspect bank any time.		0.662		
Management and staff wear banks' uniform			0.76	
The bank issues manual guide to their employees			0.739	
Management and staff work as a team			0.674	
More than 50% of the bank's staffs have qualifications in banking				0.804
More than 70% of the bank's staffs have worked previously with some bank				0.738
The staffs produce work with minimum errors				0.723
Eigen Values	4.388	2.679	2.606	2.572
Variance %	21.938	13.396	13.028	12.859
Cumulative %	21.938	35.334	48.362	61.22

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 8 iterations.

Factor analysis results yielded four components. These were interpreted as Management integrity and ethics (21.938%), Quality of audit committees (13.396), Corporate culture (13.028), Competence levels (12.859) explaining 61.2% of the variance in control Environment.

Eigen values explain the summed contribution of responses to the questionnaire items to each generated component. Since the largest Eigen value of 4.388 corresponds to management integrity and ethics, this is a component that claims most of the responses.

Table 4.4: Rotated Component Matrix for Accountability

Rotated component factor analysis for accountability	Component	
	Disclosure	Transparency
The chairman of the board issues statement of responsibility yearly	0.773	
The management gives employees feedback on their performances	0.747	
Management, staff and customers air their views in the banks bulletin	0.744	
The management takes actions on anomalies reported	0.622	
Bank records are open for inspection by supervisory authorities(CBK)		0.818
Bank follows the regulations put in place by CBK		0.781
Eigen Values	3.125	2.421
Variance %	31.248	24.211
Cumulative %	31.248	55.459

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 3 iterations.

Table 4.4 above presents two components of accountability which were extracted contributing up to 55% of the total variance of accountability. Disclosure component contributing more (31%) while transparency contributing (24%).

Eigen values explain the summed contribution of responses to the questionnaire items to each generated component. Since the largest Eigen value of 3.125 corresponds to disclosure, this is a component that claims most of the responses.

Table 4.5: Rotated Component Matrix for Monitoring

	Component	
	Reconciliation	Internal check & Audit
Rotated Component Factor Analysis For Monitoring		
The queries on reconciliations by bank customers are less than five a week	0.838	
The bank staff check on each other's work	0.731	
Actual expenditures are compared with the budgets monthly	0.704	
Management takes decisions on reliable and accurate information	0.677	
CBK monitors closely the activities of the banks and issue reports		0.723
The bank staff make daily reconciliations on accounts in the bank		0.715
The findings by internal auditor are reported on to the audit committee		0.702
Internal auditor verifies reconciliations made by the bank staff		0.616
Eigen Values	2.693	2.474
Variance %	26.93	24.74
Cumulative %	26.93	51.67

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A rotation converged in 3 iterations

Table 4.5 above presents two components contributing up to 51.67% of the variance to monitoring were extracted with reconciliation contributing more (26.9%) than internal check and audit which had (24.7%)

Eigen values explain the summed contribution of responses to the questionnaire items to each generated component. Since the largest Eigen value of 2.693 corresponds to reconciliation, this is a component that claims most of the responses.

4.5 Correlation analysis.

After generating the principal components of each variable of the study, the researcher came up with the main variables of the study which are control environment, accountability, monitoring and financial performance. After generating these main variables, correlation analysis was conducted to establish the relationships between them. Pearson's Correlation Coefficient was carried out and the results obtained are presented in table 4.6 below.

Table 4.6: Pearson's Correlation Coefficient Matrix

	Control Environment	Accountability	Monitoring	Financial Performance
Control Environment	1			
Accountability	.386**	1		
Monitoring	0.13	.361**	1	
Financial Performance	.293**	.363**	.340**	1

** Correlation is significant at the 0.01 level (2-tailed)

4.5.1 Relationship between control environment and financial Performance

Results from table 4.6 above reveal that there is a significant positive relationship between control environment and financial Performance ($r = .293^{**}$, $P\text{-value} < 0.01$). This implies that control environment as compliance risk management practice influences financial performance in Kenyan commercial banks.

4.5.2 Relationship between Accountability and financial Performance

The findings also disclosed a significant positive relationship between accountability and financial Performance ($r = .363^{**}$, $P\text{-value} < 0.01$). Thus, implying that accountability as compliance risk management practice influences financial performance in Kenyan commercial banks.

4.5.3 Relationship between Monitoring and financial Performance

The findings indicated a significant positive relationship between monitoring and financial Performance ($r = .340^{**}$, $P\text{-value} < 0.01$) thus, depicting that monitoring as compliance risk management practice influences financial performance in Kenyan commercial banks.

4.5.4 Relationship between control environment, monitoring and accountability

The results in table 4.6 above indicate that there was a significant positive relationship between control environment and accountability ($r = .386^{**}$, $P\text{-value} < 0.01$). This means accountability enhances control environment in Kenyan commercial banks. A significant positive relationship was observed between accountability and monitoring ($r = .361^{**}$, $P\text{-value} < 0.01$). This implies that accountability influences monitoring in Kenyan commercial banks.

In addition, there no evidence of multicollinearity among the explanatory variables since the correlations among them are not very strong (are below 0.5) hence all the variables were incorporated into the subsequent regression analysis.

4.6 Regression Analysis

In order to ascertain whether there is a relationship between compliance risk management (control environment, monitoring and accountability) and financial performance of commercial banks in Kenya, A regression analysis was used.

The equation was as follows: $F_p = B_0 + B_1C + B_2A + b_3M + e$. Where F_p denoted financial performance, B_0 a constant; B_1 , B_2 and B_3 indicated coefficients, C represented Control environment, A denoted Accountability, while M denoted Monitoring practices.

Table 4.7: Regression Analysis of the variables

Model		Unstandardized Coefficients		Standardize	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.457	.560		.816	.416
	Control Environment	.179	.089	.182	2.013	.046
	Accountability	.298	.139	.206	2.145	.034
	Monitoring	.281	.104	.243	2.718	.008
		R = .459 R Square = .210 Adjusted R Square = .190 F change 10.124 Sig. 0.01				
Dependent Variable: Financial Performance						

Source: Field Data 2013

4.6.1 Regression equation

Based on regression coefficients results the regression equation can be written as follows;

$$Y = .457 + .179 X_1 + 0.298 X_2 + 0.281 X_3 + e$$

Regression analysis reveals the extent to which control environment, monitoring and accountability significantly predicted the financial performance. Results in Table 15 above indicated that the combination of Control environment, accountability and monitoring significantly predicted or explained up to 19% of the variance in financial performance. In addition, monitoring was a better predictor of financial performance (beta = 0.243) followed by accountability (beta = 0.206) and control environment (beta = 0.182). The above results suggest that if Kenyan commercial banks are to achieve desired financial performance, they need to put more emphasis on monitoring and control environment and accountability as the compliance risk management practices.

4.7 Discussion of findings

Based on the control environment, the results were interpreted as management integrity and ethics (21.938%), quality of audit committees (13.396%), corporate culture (13.028%), and competence levels (12.859%). The results show that the commercial banks in Kenya are doing their best to keep their control environment variance level up to 61.2% in relation to these constructs. This is in line with research undertaken by Ramos (2004) who revealed that control environment is the foundation for all other components of internal control system for compliance. Banks should follow their control environment to develop their corporate culture, competence levels, quality of audit committees and promote integrity and ethical values of their staff in performing their work to win the

confidence that the public needs. This can be achieved when customers truly appreciate the services offered by the bank, as a result of trained and competent staff that completes assignments in time. This may further be supported by easy and regular access to bank audits by the public.

Accountability was measured using two components which contributed up to 55% of the total variance of accountability as follows; Disclosure contributing more (31%) than transparency (24%). According to Japheth (2001), accountability and disclosure are at the top of the agenda in commercial banks to restore the public trust. Transparency is key to bank corporate governance. Tadesse (2006) reported that if there are high levels of transparency and disclosures, banks can be able to maintain high financial performance. Furthermore, Cordella and Yeyati (1997), found that public disclosure can indeed serve to reduce bank risk taking, but to the extent that the bank has control over its portfolios.

The tools used in monitoring as stated by Muhota (2005) are reconciliation and internal checks and internal audits. From the findings, two components contributing up to 51.6% to monitoring were extracted with reconciliation contributing more (26.9%) than internal check and audit (24.7%). According to Wells (2002), bank reconciliation, reconciles the difference between what the bank reports and what the financial statements show. At many times the bank reconciliation proves that the financial statements amount is not correct, hence a method of timely monitoring and ensuring financial performance is maintained. Millichamp (1990) reported that internal checks and internal audits help to prevent or help early detection of errors and fraud. The study carried out by Carey, Tanewski and Simnetti (2002) on the relevance of internal checks and internal audits,

revealed that internal checks and internal audits make it possible to monitor financial performance in commercial banks. Monitoring is one of the most important aspects of internal control in any banking institution used internally, while externally central banks regulate and supervise the activities of commercial banks.

In this research, control environment involved corporate culture, competence levels, quality of audit committees and management integrity and ethics. According to results, there was a significant positive relationship between control environment and financial performance ($r = .293^{**}$, $P\text{-value} < 0.01$) in commercial banks of Kenya. This means that control environment in commercial banks is likely to influence financial performance. Kashyap et al (1999), who argue that when control environment is strong, it would be okay to hold sufficient performance. Therefore in relation to the above, understanding the relationship between control environment and financial performance contributes to the sustainability of the banks' business. This is in agreement with Control environment aims at ensuring achievement of adequate financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, discussion, conclusion and recommendation of the main findings of the study are presented. The section is arranged as per the objectives of the study.

In order to achieve the study objectives, a survey was carried out on a sample of 30 commercial banks in Kenya. Secondary data was also obtained from banks' publications. The data was processed and analyzed using Statistical Package for Social Scientists (SPSS) computer soft ware.

5.2 Summary of findings

From the findings, it is clear that the banking industry in Kenya is growing a steady rate and consequently the players need to comply with certain regulations in the market. In addition accountability contributes more to financial performance in the commercial banks in Kenya. Further, control environment as compliance risk management practice influences financial performance in Kenyan commercial banks.

In relationship between control environment, monitoring and accountability, control environment is viewed as independent variable, while monitoring and accountability as intervening variables which enhance control environment in relating to financial performance in commercial banks in Kenya. Therefore the research looks more at the intervening variables as the main focus.

Monitoring as an ongoing activity should involve performing procedures periodically and reviewing banks documentation to confirm that all procedures have been performed as required. One of the most important aspects used in internal control in any banking institution is monitoring, while externally central banks use regulatory and supervisory measures to monitor banks activities. According to results, there was a significant positive relationship between control environment and accountability ($r = .386^{**}$, P-value < 0.01). This is in agreement with Basel Committee of Bank Supervision (2003) and Kimotho (2005) who noted that strong control environment results into self monitoring and transparent accountability disclosure by the bank staff. Weak control environment requires stringent monitoring reconciliations, internal checks and audits, without which the accountability disclosures would not be transparent, hence not reporting the true financial performance.

Wells (2002) reported that many times the bank reconciliation proves that the financial statement amount is not exactly correct and so reconciliations as a form of monitoring, come in to confirm that all deposits recorded were made, all bank fees charged were recorded and that, no funds were disbursed from the accounts without being recorded. A strong control environment sets a tone of an entity that influences the control consciousness of all employees within the entity, makes them feel empowered a condition that promotes transparent disclosures in their accountability, minimum reconciliations, internal checks and audits of transactions and activities.

Lastly, the combination of Control environment accountability and monitoring significantly predicted or explained up to 19% of the variance in financial performance.

5.3 Conclusions of the findings

Findings indicated that control environment has a significant positive relationship with financial performance ($r = .293^{**}$, $P\text{-value} < 0.01$) in commercial banks in Kenya. Banks follow their corporate culture, hold reasonably high competency levels, have quality audits and promote integrity through ethical values in their practices.

Results indicated that control environment and accountability are significantly positively related ($r = .386^{**}$, $P\text{-value} < 0.01$) hence, they influence the operations of commercial banks. Strong control environment influences positively the consciousness of employees through having; competent employees, quality of audit committee and management integrity and ethical values of personnel. These enhance reconciliations and internal checks and audits, which promote transparency and disclosures. This result supports that strong control environment would not require stringent monitoring reconciliations, internal checks and audits for transparent accountability disclosures.

Findings according to ratios from published financial statements showed that financial performance in commercial banks was from 31% to 50% (mean = 3.4386).

In conclusion, accountability in commercial banks in Kenya is well upheld in terms of disclosure and transparency indicating that accountability and disclosure are at the top of the agenda in commercial banks to restore the public trust. Further, monitoring exhibited in terms of reconciliation and internal check and audit is equally maintained in Commercial banks in Kenya. Internal checks and internal audits help to prevent or help early detection of errors and fraud.

In this research, control environment involved corporate culture, competence levels, quality of audit committees and management integrity and ethics. This means that control environment in commercial banks is likely to influence financial performance. Thus in relation to the above, understanding the relationship between control environment and financial performance contributes to the sustainability of the banks' business. This is in agreement with Control environment aims at ensuring achievement of adequate financial performance.

5.4 Recommendations

From the findings, several recommendations are made. First, Commercial banks in Kenya should maintain and strengthen control environment in order to increase their financial performance that enhances better operations in the financial market.

The banks also need to improve their liquidity level through increasing their current assets that can easily be converted into cash. This level of assets should be above the liabilities in order to meet the creditors' demands when there is need.

Local banks should consider Inter-bank lending as a source of financing to boost their liquidity at short notice and control the rate of loaning forms. Furthermore, the study recommends that commercial banks in Kenya should consider transacting at a wide range of maturities. This allows borrowers to obtain the lowest rate of interest appropriate to their risk characteristics.

5.5 Limitations of the study

The study encountered several limitations. First, most of the respondents were unwilling to give information easily because of the suspicion that their information would fall in the hands of their competitors translating to lower response rate from the targeted. In addition, time and resources allocated to this study could not allow the study to be conducted as deeply as possible.

Also, as commercial banks people are always busy, they hardly had time to attend to the questionnaires as quickly as were required and some ended up not returning the questionnaires given to them, thus caused delay. There was also limited availability of local literature with respect to compliance and financial performance in commercial banks in Kenya. However, this was overcome by consultation of foreign literatures and reference to other relevant locally published materials.

5.6 Suggestions for Further research

This research was carried out using cross sectional approach, however longitudinal design can be used on the same topic and variables. In addition, Information and communication can be used as an independent variable to find out if it has any relationship with the financial performance.

In the subsequent research, there is a need to consider interviewing Bank directors, Management and the customers of the bank so that the customers' views are also captured instead of bank staff as in this case.

References

- Anderson, P., (1999). Complexity theory and Organization Science, *Organizational science*,. 10, (3) 216-232.
- Ascher, W., (2000). Applying Classic Organization Theory to Sustainable Resource & Environmental Management. *Journal of Finance* 1 (1) 193-198.
- Atkinson, J., Leandri, S. (2005). Best practices: Organizational structure that supports compliance *Journal of Financial Executive*, 21 (10) 93-8.
- Bamberger, K., (2010). Technologies of compliance: Risk and regulation in Digital Age, *Texas Law Review*, 88, (4) 671-739.
- Barnard, C. I. (1968). *The Functions of the Executive*. Cambridge: Harvard University Press.
- Basel Committee. (2008), Implementation of the compliance principles: A survey, available at: <http://www.bis.org/publ/bcbs>
- Bauer, H-P. (2007), Compliance in the financial industry, *Finanzplatz*,. 4, 10-12.
- Beasley, M.S., R. Clune, and D.R. Hermanson (2005), “Enterprise Risk Management: An Empirical Analysis of Factors Associated with the Extent of Implementation,” *Journal of Accounting and Public Policy*, 24 521-531.
- Boulding, K., (1956), “General systems Theory – The skeleton of Science”, *Management Science*, April, 197-208.
- Cadbury, A., (1992), Report of the Committee on the Financial aspects of Corporate Governance, Gee, London,

- Callioni, P. (2008), Compliance Regulation in the International financial services. Global Professional Publishing. 224.
- Carreta, A., Farina, V., (2010), Assessing effectiveness and compliance of banking boards, *Journal of financial Regulation and compliance*, 18, (4) 356-369.
- CBK (2012) *Bank Supervision Review* 1-16.
- Committee of Sponsoring Organizations (COSO) (2004), *Enterprise Risk Management Integrated Framework Executive Summary*.
- Curtis, B., Kellner, M.I. and Over, J., (1992) Process modeling, *Communications of the ACM*, 35, (9) 78-6.
- D'Aquila, J. M. (1998). Is the control environment related to financial reporting decisions? Hagan School of Business, New York.
- D'Aquila, J. M. (1998). *Is the control environment related to financial reporting decisions?* Hagan School of Business, New York. NY.
- Daft, R.L, (1992), Organization Theory and design. (4th Ed.) West Publishing, St Paul,
- De Andres, P., Vallelado, E., (2008) "Corporate governance in banking: the role of the board of directors, *Journal of Banking and Finance*, 32, 2570-2580.
- Derosnay, J., (1979) *The Macroscope*, New York, Harper& Row publishers.
- Diamond, D. W. (1984). Financial Intermediation and delegated monitoring, *Review of economic Studies* LI, 393-414.

- Field, A. (2000). *Discovering Statistics using SPSS for Windows*. London – Thousand Oaks –New Delhi: Sage publications.
- Galbraith, J.R., (1982), *Design complex Organizations*. Addison-Wesley, Reading, MA
- Gordon, L.A., and M. P. Loeb (2006), *Managing Cyber security Resources: A Cost-Benefit Analysis* McGraw-Hill, Inc.: New York.
- Habing, B (2003) *Explanatory Research*. NY. Alwright
- Haynes, A. (2005), The effective articulation of risk-based compliance in banks, *Journal of Banking Regulation*, 6, (2) 146-162.
- Hoyt, R.E., D.L. Moore, and A.P. Liebenberg (2006), The Value of Enterprise Risk Management: Evidence from the U.S. Insurance Industry, Working Paper
- Johnson, R.A., Kast, F.E and Rosenzweig, J.A., (1967), *The theory and Management of systems*, 2nd edition, New York: McGraw-Hill.
- Kelsey, M. (2004), Compliance risk: ensuring the risk taken is the risk intended, *ABA Bank Compliance Journal*, 4-9.
- Khandwalla, P. (1972), The Effect of Different Types of Competition on the Use of Management Controls, *Journal of Accounting Research*, 276-285.
- Kiyamaz, H. (2006), The Impact of Announced Motives, Financial Distress, and Industry Affiliation on Shareholders' Wealth: Evidence from Large Sell-offs, *Quarterly Journal of Business & Economics*, 45, (3-4) 69-89.

- Kleffner, A., R. Lee, and B. McGannon (2003), The Effect of Corporate Governance on the Use of Enterprise Risk Management: Evidence from Canada, *Risk Management and Insurance Review*, 6, (1) 53-73.
- Kombo and Tromp (2006). *Research Methodology*. 2nd ed. Wiley Eastern Ltd. New Delhi
- Krishnan, J. (2005), Audit Committee Quality and Internal Control: An Empirical Analysis, *The Accounting Review*, 80, (2) 649-675.
- Matama, R. (2006). Corporate Governance and Financial Performance of Selected Commercial Banks in Uganda *Published Thesis* Makerere University.
- Miledova, S., Nemcova, I. (2009), Building knowledge about strategy for growth: System dynamics approach, *Journal of European integration studies 2009*, 3. 107-110.
- Mills, A. (2008) *Essential Strategies for Financial Services Compliance*. John Wiley & Sons, Ltd.
- Mugenda & Mugenda (2003) *Research methods* Nairobi: Nairobi publishers
- Muhota K. (2005). Check list for an internal Audit. *Giving Hope to World of Need*. USA.
- Ngare, E. M. (2008). A Survey of Credit Risk. Management Practices by Commercial Banks in Kenya. *Unpublished MBA*
- Pagach K, & Warr J. (2010) Theory of the firm Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3, 305-369.

- Parker, C., Nielsen, L.V., (2009), Corporate Compliance systems: Could they make any difference, *Journal of Administration & Society*, 41 (1). 3-37.
- Pascale, R. T. (1990). *Managing on the Edge*. New York: Simon & Schuster.
- PriceWaterHouseCoopers (2004), 7th Annual Global CEO Survey-Managing Risk: An *Assessment of CEO Preparedness*.
- Rae, K. & Subramaniam, N. (2006). The Relationship between Internal Control Procedural Quality, Organizational Justice Perceptions and Employee Fraud.
- Ramos, M. (2004). Evaluate the Control Environment: Documentation Is Only a Start; Now it's All about Asking Questions. *Journal of Accounting* vol. 197, 2004.
- Robert, M. B. & Abbie, J. S. (2003). Transparency, Financial Accounting Information and Corporate Governance: *New York Economic Policy Review* (April) 2003. USA.
- Shaw, D., Holland, C., and Kawalek, P., (2007), Elements of business process management system: theory and practice", *Business Process Management Journal*, 13, (1) 91-97.
- Sobel, P.J., and K.F. Reding (2004), Aligning Corporate Governance with Enterprise Risk Management, *Management Accounting Quarterly*, 5, (2) 29-37.
- Talel L. (2010) A survey of risk management practices adopted by commercial banks in Kenya. *Unpublished University of Nairobi Thesis*

Tse, S., and R. Yaansah (1999), An Analysis of Historical and Future-oriented Information in Accounting-Based Security Valuation Models, *Contemporary Accounting Research*, 16, (2) 347-380.

Verrecchia, R.E. (2001), Essays on disclosure, *Journal of Accounting and Economics*, 32 97-180.

Willmot, H., (1995), what has been happening in organization theory and does it matter? *Personal review*. 24, (8) 33-53.

Appendix I: Letter of Introduction



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE... 30/8/2013

TO WHOM IT MAY CONCERN

The bearer of this letter CHARLES TUNGA

Registration No. D61/72565/2012

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

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

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

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS


UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
30 AUG 2013
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

Appendix II: Questionnaire

Part 1: Background

1. What is the ownership status of your bank

Local

Foreign

Both

2. How many branches does the bank have?

0-40

41-80

81-120

121 -160

161 or more

3. How long has the bank been in operation (In Years):

0-10 year

20-30 years

40-50 years

More than 50 years

CONTROL ENVIRONMENT

1) To what extent does the bank apply the following activities? Use a scale of 1 to 5 where 1 is to a no extent and 5 to great extent

	1	2	3	4	5
The bank issues manuals to guide the employees in their work					
The management meets employees once a week for charting the way forward					
Management and staff work as a team.					
Management and staff wear bank' uniforms with logo on once every week					
Information in the bank to and fro is communicated freely to all					
Customers appreciate the services provided by the bank					
The Staff finish their work assignments within the time frame given them					
The staff produce work with minimum errors					
More than 50% of the banks' staff have qualifications in banking					
More than 70% of the banks' staff have worked previously with some banks					
The audit committee members are professionally qualified people					
Audit Committee meets internal & external auditors quarterly					
At least two of the audit committee members are independent directors					
Audit Committee allows Supervisory Authority to inspect bank any time					
The audit committee is open to management, staffs and public					
The bank management is honest					
The bank management is open to all people					
The management makes pronouncements on any changes in the bank to all					
Employees and management trust each other					
The assets of the bank are kept safely					

2) ACCOUNTABILITY

To what extent does the bank apply the following? Use a scale of 1 to 5 where 1 is to a no extent and 5 to great extent

	1	2	3	4	5
Bank records are open for inspection by supervisory authorities (CBK)					
Bank follows the regulations put in place by CBK					
The audit committee scrutinizes all the accounts produced by the bank					
The management takes actions on anomalies reported					
The management gives employee feedback on their performance.					
The Chairman of the board issues statement of responsibility yearly					
Stakeholders of the bank are allowed to check freely for information they need					
Management, staff and customers air their views in the banks bulletin					
Management is aware of international financial reporting standards (IFRS)					
The bank is responsive to economic changes in the banking sector					

3) MONITORING

To what extent does the bank apply the following? Use a scale of 1 to 5 where 1 is to a no extent and 5 to great extent

	1	2	3	4	5
The bank staff make daily reconciliations on accounts in the bank					
Internal auditor verifies reconciliations made by the bank staff					
The queries on reconciliations by bank customers are less than five a week					
Actual expenditures are compared with the budgets monthly					
Management takes decisions on reliable and accurate information					
The bank staff check on each other's work					
Entered financial transactions are verified by internal auditor before posting					
The findings by internal auditor are reported on to the audit committee					
Management control method is adequate to investigate unusual situations					
CBK monitors closely the activities of the banks and issue reports					

Appendix III: List of Banks

	NAME OF THE BANK
1.	African Banking Corporation
2.	Akiba Bank
3.	Bank of Baroda
4.	Bank of India
5.	Barclays Bank of Kenya
6.	CFC Bank
7.	Chase Bank Ltd
8.	Citibank
9.	City Finance Bank
10.	Commercial Bank of Africa
11.	Consolidated Bank of Kenya Ltd
12.	Co-operative Bank of Kenya
13.	Development Bank of Kenya
14.	Diamond Trust Bank
15.	Dubai Bank Kenya Ltd
16.	Ecobank
17.	Equatorial Commercial Bank Ltd
18.	Equity Bank of Kenya
19.	Fidelity Commercial Bank Ltd
20.	Fina Bank Ltd
21.	First American Bank of Kenya
22.	Giro Commercial Bank Ltd
23.	Guardian Bank
24.	Habib Bank A.G. Zurich
25.	Habib Bank Ltd
26.	Housing Finance Co. Ltd
27.	Imperial Bank
28.	Industrial Development Bank

29.	Investment and Mortgages Bank Ltd
30.	Kenya Commercial Bank
31.	K-Rep Bank Ltd
32.	Middle East Bank
33.	National Bank of Kenya
34.	National Industrial Credit Bank Ltd
35.	Oriental Commercial Bank Ltd
36.	Paramount Universal Bank Ltd
37.	Prime Bank Ltd
38.	Prime Capital and Credit Ltd
39.	Southern Credit Banking Corp. Ltd
40.	Stanbic Bank Kenya Ltd
41.	Standard Chartered Bank
42.	Trans-National Bank Ltd
43.	Victoria Commercial Bank Ltd