

**THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CUSTOMER  
SATISFACTION AMONG COMMERCIAL BANKS IN KENYA**

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**DECLARATION**

This research project is my original work and has not been presented for a degree in any other Institution.

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## **DEDICATION**

To my dear wife Jerusah Nyasani for your support made it possible for me to complete this course,

My lovely son Adrian Nyairo, for his everlasting love, patience and comprehension during my school life, may you excel beyond this level of education

and

To my dear parents for your prayers and interest in my education, to all my siblings for your various contributions to my achievements

May God bless you abundantly

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## **ABBREVIATIONS**

BIS	Bank of International Settlement
CBD	Central Business District
CG	Corporate Governance
CRM	Customer Relationship Management
NSE	Nairobi Securities Exchange
OECD	Organization of Economic Cooperation and Development

## ABSTRACT

Corporate Governance is all about making sure that decisions are made effectively. This impetus towards corporate governance has been due to many factors. For instance, it matters for shareholders as it is a shield against abuse of directors while improving access to capital for the company itself and instilling financial stability in the market. The intent of the research was to assess the relationship between corporate governance and customer satisfaction. The research highlights the corporate governance practices in banks and how that affects customer satisfaction with the operations of Banks in Kenya.

There are a total of 44 banks in Kenya. Out of the 44 banks, the researcher targeted the most commonly used banks in Kenya. A total of 7 banks including National bank, Equity Bank, Family Bank, Barclays Bank, StanChart Bank, Cooperative bank and Kenya Commercial Bank. One branch of each of the seven banks was chosen and included in the targeted branch population. The study specifically targeted branch managers of the different bank branches and customers in the different branches. Systematic sampling was used in identifying customers to include in the sample. The researcher administered a structured questionnaire to 10 customers in each of the banks.

The findings have revealed that the corporate structures and practices in Kenyan banks are well constituted and professional. The constituting of corporate boards is done through the involvement of all stakeholders or at least the key stakeholders. Moreover, academic standards are applied leading to the constitution of a qualified and gender sensitive board. The boards of governors in the banks are responsive because they are involved in every major decision-making process and are expected to provide leadership to the bank towards achieving strategic objectives. The boards exercised pragmatic transparency leading to information being released in a way that generates customer trust and safeguards the bank's image. The study established that the banks demonstrate physically that they offer quality services. However, there is a problem when it comes to sitting and waiting arrangements in the banks. The sitting arrangement and waiting arrangement in most banks in Kenya is not conducive. The banks perform poorly on reliability because a majority of the customers feel the banks do not provide their services in a

timely manner. The customers have trust in the problem solving practices in banks. However, the customers believe the process takes long and employees in their banks did not prevent long waiting.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Major notorious accounting failures the world over have dented investor confidence and have raised several questions on the effectiveness of a firm's internal control system and governance structures. Indeed, the theme making the headlines for the past years is corporate governance. Broadly speaking, CG is all about making sure that decisions are made effectively. This impetus towards corporate governance has been due to many factors. For instance, it matters for shareholders as it is a shield against abuse of directors while improving access to capital for the company itself and instilling financial stability in the market. The broad aim of the study is to tap the actual compliance with the CG provisions by commercial banks in Kenya, and more importantly to probe into the relationship between CG practice and customer satisfaction.

#### **1.1.1 Corporate Governance**

Solomon (2007) defines corporate governance as a process of supervision and control intended to ensure that the company's management acts in accordance with the interest of shareholders. This definition is somehow very limited in that it caters only for the interest of shareholders. Corporate governance accrues benefits to multiple stakeholders. The King Report (2002) further makes an elaboration on its definition of corporate governance by describing corporate governance as a system that is concerned with holding the balance between economic and social goals and between individual and communal goals, the aim being to align as nearly as possible the interests of individuals, corporations and society. The King Report's definition of corporate governance is widely encompassing. In the ultimate, the corporate governance framework is meant to encourage the efficient use of resources and equally to report accountability for the stewardship of those resources.

The King Committee on Corporate Governance (2002) points to several characteristics and elements of good corporate governance which are core determinants of corporate governance, with a profound impact on corporate performance of any enterprise. These are: Discipline, Transparency, Independence, Accountability, Responsibility, and Social responsibility

According to Echanis (2002) corporate governance refers to both the structure and process by which the public corporations control agency problems. The exercise of this control entails addressing issues such as how suppliers of finance assure themselves of getting a return on their investment (Shleifer and Vishny, 1997); how to determine the various uses of organizational resources; and how to resolve conflicts among participants in organisations (Daily and Cannella, 2003). Another issue of importance is what mechanisms can be instated through which outside investors protect themselves against expropriation by the insiders (La Porta, 2000)

### **1.1.2 Customer satisfaction**

The banking industry like many other financial service industries is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers and the changing climate has presented an unprecedented set of challenges. Banking is a customer oriented service industry, therefore, the customer is the focus and customer service is the differentiating factor. The business depends up on client services and the satisfaction of the customer and this is compelling them to improve customer services and build up relationship with customers.

The main driver of this change is changing customer needs and expectations. Customers no longer want to wait in long queues and spend hours in banking transactions. This change in customer attitude has gone hand in hand with the development of ATMs, phone and net banking along with availability of service right at the customer's doorstep. With the emergence of universal banking, banks aim to provide all banking product and service offering less than one roof and their endeavor is to be customer centric. With the emergence of economic reforms in the world in general, today's banks have come up in a big way with prime emphasis on technical and customer focused issues.

Customer satisfaction, a business term, is a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Customer satisfaction is an ambiguous and abstract concept and the actual manifestation of the state of satisfaction varies from person to person and service to service. The state of satisfaction depends on a number of both psychological and physical variables.

An organization's survival depends largely on harmonious relationships with its stakeholders in the market. Customers provide the 'life-blood' to the organization in terms of competitive advantage, revenue and profits. Managing relationships with customers is imperative for all types and size of service organizations. A sound base of satisfied customers allows the organization to move on the path of growth, enhanced profitability, fight out competition and carve a niche in the market place. Bennett (1996) described that CRM seeks to establish long term, committed, trusting and cooperative relationship with customers, characterized by openness, genuine concern for the delivery of high quality services, responsiveness to customer suggestions, fair dealings and willingness to sacrifice short term advantage for long term gains. Schneider and Bowen (1999) advocated that service business can retain customers and achieve profitability by building reciprocal relationships founded on safeguarding and affirming customer security, fairness and self esteem. It requires that companies view customers as people first and consumers second. Trust, commitment, ethical practices, fulfillment of promises, mutual exchange, emotional bonding, personalization and customer orientation have been reported to be the key elements in the relationship building process (Levitt,1986; Gronroos, 1994; Morgan,1994; Gummesson,1994; Bejou et al,1998 ).

### **1.1.3 Effects of Corporate Governance on Customer Satisfaction**

Due to the separation of principal and agent, the primary function of a board is to ensure the decisions and behaviors of top executives serve the best interests of shareholders (Finkelstein & D'Aveni, 1994). Over the past two decades, corporate governance research has steadily become one of the mainstream research themes in strategic management.

Extant research has examined a variety of associations of corporate governance practices to financial performance (Peng, 2004; Rechner & Dalton, 1991), R&D investments (Baysinger, Kosnik, & Turk, 1991), corporate fraud (Dunn, 2004), and corporate entrepreneurship (Zahra, 1996; Zahra, Neubaum, & Huse, 2000). Customer satisfaction is an important organizational outcome.

The success of a business depends on whether it creates a satisfied customer (Drucker, 1974). A great deal of marketing research has found positive effects of customer satisfaction. Satisfied customers tend to repurchase more (Brady & Cronin 2001), spread positive words about the focal firm (Swanson, 2003) and financial performance (Fornell, Mithas, Morgeson, & Krishnan, 2006; Luo, 2007). For example, Luo and Homburg (2007) suggest that due to the increasing availability of customer service information, not only customers but also job seekers are able to learn more about a firm's customer service, from which they make inferences about the firm's management and corporate cultures. Based on such inferences, job candidates make their employment decisions.

They also find that a high level of customer satisfaction helps save investments in advertising and promotion. Related empirical evidence suggests that customer dissatisfaction hurts firm performance. Luo (2007) finds that in the U.S. airline industry, when dissatisfied customers complain to Department of Transportation against an airline, the stock price of that airline declines dramatically. He finds Southwest Airlines would suffer a loss of \$262 million from stock market if it experiences a 1% increase in DOT complaints. Despite the importance of customer satisfaction, no research has investigated its association with corporate governance. The purpose of this paper is to fill this knowledge void by examining the effects of outside directors and CEO duality on customer satisfaction.



## 1.2 Statement of the Problem

What is customer satisfaction in the banking industry? What are the specific factors that influence the satisfaction level of the customers in the banking industry in Kenya that relate to corporate governance? Banking operations are becoming increasingly customer oriented. The demand for 'banking supermalls' offering one-stop integrated financial services is well on the rise. The ability of banks to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Convergence in the industry to cater to the changing demographic expectations is now more than evident. Bank assurance and other forms of cross selling and strategic alliances are altering the business dynamics of banks and fuelling the process of consolidation for increased scope of business and revenue. The thrust on farm sector, health sector and services offers several investment linkages. In short, the domestic economy is an increasing pie which offers extensive economies of scale that only large bank was in a position to tap.

With the phenomenal increase in the country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of retail banking, which in turn may help them take positive steps to maintain a competitive edge.

Even though corporate governance principles have always been important for getting good rating scores for large and publicly-held companies, they are also becoming much more important for customers, investors, potential investors, creditors and governments (Gompers *et al.*, 2001 ). Corporate governance therefore, receives high priority on the agenda of policymakers, financial institutions, investors, companies and academics (Heracleous, 2001). A number of studies have sought to investigate the relation between corporate governance mechanisms and financial performance (e.g. Berglof, von Thadden, 1999) Most of the studies have shown mixed results without a clear-cut relationship. E.g. a study by Becht *et al.*, (2002) show that corporate governance practices positively influences the profitability of the organization while MacAvoy and Millstein (2003) found that board composition does not have any effect on financial performance.

Further, the limited studies in the area have focused mainly on developed economies (Becht et al., 2002). It is crucial to examine the relationship in the context of a developing economy. This study therefore, aims to explore the relationship between corporate governance and customer's satisfaction among listed commercial banks in Kenya.

### **1.3 Objectives of the study**

The intent of the research was to assess the relationship between corporate governance and customer satisfaction.

### **1.4 Significance of the Study**

The study would be valuable to the various stakeholders in the Banking industry in Kenya and beyond. The management would identify how various aspects of corporate governance practices affect the operations of Banks in Kenya. They would also identify the impediments that face banking industry in approaching various corporate governance practices that affect their financial performance.

The policy makers would obtain knowledge of the Banking industry dynamics and the responses that are appropriate; they may therefore obtain guidance from this study in designing appropriate practices that would regulate the shareholders participation in affecting the financial performance of the Banks in Kenya.

The study would provide information to potential and current scholars with regards to assessing the impact of corporate governance practices on customers' satisfaction and whether the customers' satisfaction impact on the performance level of banking industry in Kenya. In addition, researchers would be able to gain additional knowledge from the study given that it is focusing on several banks that involve in deposit taking.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter gives an overview of literature and models that are related to the research problem presented in the previous chapter. It also introduces the concepts of corporate governance and the concepts of customer satisfaction, in order to give a clear idea about the research area.

#### **2.2 Theoretical literature review**

It is a fact that the objectives pursued by shareholders and corporate managers tend to be differing and contradictory with regards to their own interests. Consequently, this has nurtured the conception of a wide spectrum of approaches and processes ensuring that conflicting interest spill-over are minimized. One of the compromises that have been given birth to address this divergence is corporate governance. At its very root, according to some researchers (Harris and Raviv, 2008, Lacker, Richardson and tuna 2007) the theoretical platform on which foundations of corporate governance is built is weak and as such finds itself deprived of any theoretical base. Tricker (2000) and Parum (2005) also have the same line of reasoning and conclude that studies carried out on corporate governance have not been consistent whether empirically, methodologically, or even theoretically.

As such, a vast number of theoretical frameworks have seen the day, stemming from the fields of economics, finance, management or even sociology, so as to serve as a basis for researchers in their analysis of CG. Though to some (for instance Stiles and Taylor 2002), these piecemeal attempts to understanding CG leaves them skeptic about the actual function of the BOD in a company, others like Solomon and Solomon (2004) have adopted an optimistic position and consider that these differing frameworks share commonalities on a theoretical base. The well known and widely discussed theories are the Agency cost theory, the Stakeholder theory, the stewardship theory and the resource dependency

### **2.2.1 Agency Theory**

Agency theory is based on the principle of contract which exists between the principal and the agent. The theory was expounded by Alchian and Demsetz and further refined by Jensen and Meckling as postulated by (Abdullah and Valentine 2009). The agency theory is defined as the relationship under which one or more person (the principal) and another person the agent to perform some service on their behalf and delegate some decision making authority to the agent. Within the framework of a corporation, agency relationship exists between the share holders (principal) and the company executives and managers (agents). The agent is expected to act in the best interest of the principal, but on the contrary the agent may not make decision on the principal interest (Padilla 2000). This problem was highlighted by (Ross 1973) and further presented by (Jensen and Meckling 1976). In essence, the problem of agency theory arises from the separation of ownership and management and employee and managers in a corporation could be self-interested. The agency theory can be explored to explain the relationship between the ownership and management structure and where there is separation the agency model can be refined to include the goals of the management with that of the owners.

Agency theory has a number of manifestations. Jensen and Meckling's (1972) innovation was to insist that organisations should be seen as no more than a set of implicit and explicit contracts with associated rights. Alchian and Demsetz (1972) by contrast focused on the 'team production processes' and the problem of free riding and monitoring within this. Fama (1980) looked to the potential of the managerial labour market to constrain and channel individual executive opportunism. These varied models of the nature of organizational relationships are constructed around a few simple assumptions that Donaldson (1990) characterizes as a 'theory of interest, motivation and compliance'. As with neoclassical economics more generally the basic unit of analysis is taken as the 'individual' who is preoccupied with maximizing or at least satisfying their utility; conceived typically in terms of a trade-off between work and leisure. It is this combination of assumed autonomy and self-interested motivation that creates the problems within agency relationships; the relationship between a principal and those employed as 'agents' to serve their interests.

### **2.2.2 Stewardship Theory**

Stewardship theory emerged from psychology and sociology field of study. The theory argues against managerial opportunity and emphasizes on trust and achievement on the part of managers as both managers and owners have similar objectives. The Board is expected to take an active part in the strategy formulation process, senior management and Board members work as a team not merely to ensure compliance but also to enhance organizational performance through collaborative efforts (Donaldson and Davis, 1991).

Thus the governance process is seen to promote trust as a means of motivating employees to achieve organization objectives. From the above discussion, steward comprises the top management particularly the company executive and managers which protects and maximizes shareholders wealth through firm's performance so that steward utility functions are maximized (Davis, Schoorman and Donaldson 1997). Unlike agency theory, stewardship theory stressed not on the perspective of self interest and individualism but rather on the role of top management team being as stewards and integrating their goal as part of the organization (Donaldson and Davis 1991). (Agyris, 1973) posited that agency theory consider individuals as economic being but suppresses its own aspirations while stewardship theory recognizes the importance of structures that empower the stewards and officers to maximum autonomy built on trust. (Davis, Schoorman and Donaldson 1997) further stressed on the need of employee or executive to be independent so that shareholder returns are maximized and monitoring and controlling behaviors cost is minimized. (Daily, Dalton and Cancellla, 2003) added that for the top management to protect their reputation, executive and directors are inclined to operate the firm profitably. (Fama, 1980) contended that executives and directors are also managing their careers in order to seen as effective steward of their organization.

The shareholders also provide some intrinsic and extrinsic motivation in form of managerial perks to avoid the steward from succumb to self interest opportunity behaviors which could fall short of congruence between the aspirations of the shareholders.

### **2.2.3 Stakeholder Theory**

The stakeholder theory focuses on variety of different group or individual whose interests are directly affected by the activities of a firm. These groups or individuals are referred to as stakeholders in the organization. Some of the stakeholders are the shareholders who provide the risk capital of the firm and their goal is to maximize their wealth; trade creditors supplied goods or services to the firm and have the objective of being paid the full amount for the goods and services supplied. The financial institutions provided both the short term and long term credit facilities and have the objective of receiving payment of the principal as well as interest. Employees, provided their skills in form of labour to the firm and expect a reward inform of salaries and other benefits; the government provides the enable environment for business to operate but expect reward inform of taxation; the customers interest is to get quality products of the firm at avoidable price and must be available at the right time and place; the communities are also interested in the positive contribution of the firm to the environment in which it is located. The importance of the stakeholder theory is that managers in a corporation have net work of relationship which is critical other than owners, managers and employees' relationship as in the case of agency theory (Freeman, 1999). In essence the stakeholders deserved and required management attention since all groups or individuals participate in a business to obtain benefits (Donaldson and Preston 1995).

### **2.2.4. Assimilation Theory**

Assimilation theory is based on Festinger's (1957) dissonance theory. Dissonance theory posits that consumers make some kind of cognitive comparison between expectations about the product and the perceived product performance. This view of the consumer post-usage evaluation was introduced into the satisfaction literature in the form of assimilation theory. According to Anderson (1973), consumers seek to avoid dissonance by adjusting perceptions about a given product to bring it more in line with expectations. Consumers can also reduce the tension resulting from a discrepancy between expectations and product performance either by distorting expectations so that they coincide with perceived product performance or by raising the level of satisfaction by minimizing the relative importance of the disconfirmation experienced.

### **2.2.5 Contrast Theory**

Contrast theory was first introduced by Hovland, Harvey and Sherif (1987). Dawes et al (1972) define contrast theory as the tendency to magnify the discrepancy between one's own attitudes and the attitudes represented by opinion statements. Contrast theory presents an alternative view of the consumer post-usage evaluation process than was presented in assimilation theory in that post-usage evaluations lead to results in opposite predictions for the effects of expectations on satisfaction. While assimilation theory posits that consumers seek to minimize the discrepancy between expectation and performance, contrast theory holds that a surprise effect occurs leading to the discrepancy being magnified or exaggerated. According to the contrast theory, any discrepancy of experience from expectations was exaggerated in the direction of discrepancy. If the firm raises expectations in his advertising, and then a customer's experience is only slightly less than that promised, the product/service would be rejected as totally un-satisfactory.

### **2.2.6. Assimilation-Contrast Theory**

Assimilation-contrast theory was introduced by Anderson (1973) in the context of post-exposure product performance based on Sherif and Hovland's (1961) of assimilation and contrast effect. Assimilation-contrast theory suggests that if performance is within a customer's latitude (range) of acceptance, even though it may fall short of expectation, the discrepancy was disregarded – assimilation operated and the performance was deemed as acceptable. If performance falls within the latitude of rejection, contrast will prevail and the difference was exaggerated, the produce/service deemed unacceptable.

The assimilation-contrast theory has been proposed as yet another way to explain the relationships among the variables in the disconfirmation model. This theory is a combination of both the assimilation and the contrast theories. "This paradigm posits that satisfaction is a function of the magnitude of the discrepancy between expected and perceived performance. As with assimilation theory, the consumers tend to assimilate or adjust differences in perceptions about product performance to bring it in line with prior expectations but only if the discrepancy is relatively small.

Assimilation-contrast theory attempts to illustrate that both the assimilation and the contrast theory paradigms have applicability in the study of customer satisfaction. Assimilation-Contrast theory suggests that if performance is within a customer's latitude (range) of acceptance, even though it may fall short of expectation the discrepancy was disregarded –assimilation operated and the performance was deemed as acceptable. If performance falls within the latitude of rejection (no matter how close to expectation), contrast prevails and the difference is exaggerated, the product deemed unacceptable.

### **2.2.7. Negativity Theory**

This theory developed by Carl Smith and Aronson (1963) suggests that any discrepancy of performance from expectations disrupts the individual, producing 'negative energy'.

Negativity theory has its foundations in the disconfirmation process. Negativity theory states that when expectations are strongly held, consumers respond negatively to any disconfirmation. "Accordingly dissatisfaction will occur if perceived performance is less than expectations or if perceived performance exceeds expectations, this theory developed by Carl Smith and Aronson (1963) suggests that any discrepancy of performance from expectations disrupts the individual, producing "negative energy." Affective feelings toward a product or service were inversely related to the magnitude of the discrepancy

## **2.3 Principles and Pillars of Corporate Governance**

The Organization of Economic Cooperation and Development (OECD) put forward a set of international principles of corporate governance. These principles were developed both in response to growing recognition of the importance of governance to enterprise performance. The OECD principles are organized into five headlines namely: the rights of the shareholders which deal with the protection of the shareholders' rights and the ability of the shareholder to influence the behavior of the corporation; The right to secure method of ownership registration; convey or transfer shares; obtain relevant information on the corporation on a timely and regular basis; participate and vote in general shareholder meetings; elect members of the board; and share in the profits of the corporation.



Equitable treatment of shareholders emphasized that all shareholders including foreign shareholders should be treated fairly by controlling shareholders. In essence, this principles call for transparency with respect to the distribution of voting rights and the ways in which the voting rights are exercised. The high point of the principle include: shareholders of the same class should be treated equally; insider trading and abusive self-trading are prohibited; board members and management are required to disclose any material interest in any transaction affecting the corporation. The principle also recognized the rights of the stakeholders as established by law which encourage active cooperation between the corporation and the stakeholders in creating wealth and sustainability of such enterprise.

There rights includes: opportunity to redress any violation of their right; provide stakeholders with relevant information to enable them participate actively and permit performance enhancing mechanism for stakeholder participation. Other principles of OECD include disclosure and transparency of information. It stipulated that all the material matter regarding the governance and performance of the corporation should be disclosed. It also underscore the importance of applying high quality standards of accounting disclosure and auditing: disclosure should include the financial and operating results; company objectives; major share ownership and voting rights; members of the board and key executives and their remuneration; governance structure and policies information should be prepared, audited and disclosed in accordance with quality standards, while the channels for disseminating information should be fair timely and cost-effective.

The principle also recognize the responsibilities of the board, thus the board has a definite function to perform to ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the corporation and shareholders. In doing this, board member should direct and control the affairs of the company; ensure the independence of the board; act on a fully informed basis and in good-faith with due diligence and care, and in the best interest of all stakeholders; treat all shareholders fairly, particularly in decision that affect different shareholders groups; and ensure compliance with applicable laws between management, shareholders and stakeholders.

## **2.4 Rationale for Bank Corporate Governance**

Given the important nature of financial intermediaries, particularly the banking sector, in the economy and the high degree of sensitivity to potential difficulties arising from ineffective corporate governance coupled with the need to safeguard depositor's funds, corporate governance becomes a critical issue for sound financial system. Effective corporate governance practices are essential to achieve and maintain public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole particularly, at a time when banks are now global in term of size of shareholders funds, foreign investment inflow and lending activities. Poor corporate governance may contribute to bank failures and lose of confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis.

From a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how they: Set corporate objectives; Operate the bank's business on a day-to-day basis; Meet the obligation of accountability to their shareholders and take into account the interests of other stakeholders; Align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and Protect the interests of depositors. In view of the important attached to the institution of effective corporate governance. The Federal Government of Nigeria through her various agencies have come up with various institutional arrangements to protect the investor of their hard earned investment from unscrupulous management/director of listed firms in Nigeria. These institutional arrangement, provide in the "code of corporate governance best practices" issued in November 2003, and assigned roles for the board and the management, specified Shareholders right and privileges and ensured that various stakeholders are fairly treated.

## **2.5 Measures of Corporate Governance**

Corporate governance is about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance. It is also about how to build trust and sustain confidence among the various interest groups that make up an organization. Indeed the outcome of a survey by McKinney in collaboration with the World Bank in June 2000 attested to the strong link between corporate governance and stakeholder confidence (Mark, 2000) Kerich (2006), in his MBA project carried a similar study on corporate governance structures and performance of the firms in the Nairobi stock exchange. The study analyzed factors relating to board size, composition, insider ownership and executive composition, and the manner in which they have influenced performance of firms in the stock exchange.

### **2.5.1 outside Director**

Outside directors refer to the board members that are not employed by the firm. Agency theory suggests that board's effectiveness in monitoring managers is influenced by a board's independence (Dalton et al, 2007). Boards dominated by outside directors are believed to be more independent than boards dominated by inside directors, thus more effective.

A stream of empirical research has investigated the effects of outside directors. Yet, the findings are mixed and inconsistent. Chen, et al, (2006) found that in China, outside directors are more effective in preventing corporate frauds than inside directors. But, in a recent meta-analysis, Deutsch (2005) finds that the outsider director ratio is positively related to debt intensity, takeover defenses and CEO turnover, but negatively related to R&D expenditure. Such mixed findings suggest previous studies need to examine the intermediate links between outside directors the effects of outside directors on firm performance. In the context of this study, we explore the relationships between outside directors and customer satisfaction.

Provision of quality service to create and retain satisfied customer involves substantial organizational commitments that are associated with strategic controls from the board instead of short term financial controls. Baysinger et al. (1991) and Zahra (1996) find that outside directors have a negative impact on R&D investments and corporate entrepreneurship, because outside directors tend to focus less on strategic measures of firm performance than inside directors.

### **2.5.2 CEO Duality**

Another aspect of corporate governance board mechanisms that can affect performance is duality of the role of the chairman and chief executive officer (thereafter CEO). This is known as CEO duality. CEO duality is a corporate governance mechanism that can affect performance. The previous research into this area looked whether CEO duality will lead to better or worse performance. There are three views concerning CEO duality. The first view supports that of non-CEO duality and the agency theory. Those who support non-CEO duality believe the best option is for the roles of chairman and CEO to be separated since it will help the board to be in a better position to monitor management opportunism. Evidence on this area tends to be in line with the prediction that CEO duality is harmful for firm performance. Yermack (1996) found that non-CEO duality could have a positive effect on stock returns. Sanda et al. (2003) also found a positive relationship between firm performance and non-CEO duality. Further to this Lam and Lee (2008) found non-CEO duality is good for family controlled firms. CEO duality occurs when a CEO is also the chairperson of the board. Since one of a board's primary functions is to monitor the top executives, CEO duality may lessen its monitoring effectiveness. Scholars have investigated the effects of CEO duality on different aspects of organizational performance.

### **2.5.3 Board size**

There has been a lot of research asserting that the board of directors is one of the most important corporate governance mechanisms in controlling and supervising managers. Relating to the effectiveness of the board, there is long debate of whether the size of the board can affect performance. Lipton and Lorsch (1992) and Jensen (1993) support the view that large boards are ineffective while small boards are more effective and easier for the managing director to control. Jensen (1993) argues that when the board size is more than 7-8 individuals this creates an ineffective management of the board. He points out that the reasons for the ineffective management may be due to board culture (that is the inability of the board to confront-disagree with other members) and the lack of board member's equity ownership. Yermack (1996) found that smaller boards are correlated with higher firm value. He provides empirical evidence using US data that firms with larger boards tend to correlate with lower Tobin Q values. Vafeas (1999) also reports a negative relation between board size and firm value as measured by market to book ratio.

Other researchers have different views on the matter. Cowen and Osborne (1993) found that performance of small businesses would improve when board size is increased and this increase is due to the introduction of non-executive directors. Their study focuses on family businesses alone. Coles et al. (2008) found that very small or very large boards are optimal and dispute the findings of Yermack (1996) since they found that complex firms need large boards with external directors. Cheng (2008) found that firms with larger boards have lower variability of financial performance due to the fact that large boards tend to make less extreme decisions through consensus and this leads to less variation in performance. Larmou and Vafeas (2010) using US data found that increases in board sizes for smaller firms with a history of poor operating performance was associated with better market performance. Hence it would appear from the above that the board size may show evidence of complex behavior and its effect on performance should probably be seen in connection with other variables like the skills of the board, the percentage of non-executives in the firm and firm size and board meetings.

#### **2.5.4 Board composition**

Another corporate governance mechanism that is anticipated to affect corporate governance is board composition. The board may be composed of executive and non-executive directors. Executive directors are full time employees of the firm and have managerial duties whereas non-executive director's primary employment is outside the firm and are expected to provide advice on the firm's future strategy. Non-executive directors can be either independent of the firm and other management members or they may have some dependence either through connected business activities, or other relationships.

Non-executive directors that are independent are meant to monitor the management. Non-executive members that are dependent are meant to provide specialized knowledge, long experience and useful business links that can facilitate business activities. Yoo (2005) also concludes that the link between financial performance and non-executive directors can only be supported if the non-executive directors are independent from the executive directors. This shows that the positive relationship between non-executives and good performance would appear to depend on the factors of the level of independence and expertise of non-executives.

However, Bhagat and Black (1999) and Bhagat and Black (2002) found no significant relationship between board composition and performance using Tobin's Q value as a measure of performance. Bhagat and Black (1999) gave a number of explanations as to why independent non-executive directors do not have a positive effect on performance. One of the reasons is that the monetary rewards from the firms to non-executive directors are minimal giving them little motivation to be seriously involved in a firm's strategy. Another reason is that they believe that the extent of the knowledge of the business by the non-executive director is of higher importance to the success of the business than whether they are independent from the executive directors.

The previous literature suggests an ambiguous effect of the percentage of non-executives and performance. Some authors argue that independence may be important but the majority of evidence suggests that more important is their level of skills. The analysis thus will include the percentage of non-executives while controlling for other factors and especially the board skill levels. In the project, it was very difficult to establish whether a non-executive member was independent from the board. It was anticipated in the research that non-executive board members in Cypriot firms are appointed either because of specialized knowledge or because of good business links that can facilitate business transactions.

### **2.5.5 Management turnover**

Another link that could be considered is that between top management turnover and corporate performance and whether the recruitment and dismissal of top-level management will have an effect on performance. Dahya et al. (2002) found that there was a negative relationship between corporate performance and top management turnover both before and after the implementation of the UK CGC. They assert that the increase in outside board members after the implementation of the CGC explained this phenomenon. This is in contrast to the argument that an increase in outside directors will have a positive effect on corporate performance. The variable of management turnover and performance has not been considered due to the small size of the population of management turnovers. The population of CSE firms at 31 December 2007 is 141 and the bulk of firms have not changed their management during the period 2002-2007. Hence it was found that any analysis of this variable might lead to misleading results due to insufficiency of the data.

### **2.5.6 Board and Management Expertise**

Other corporate governance mechanisms concerning the board are board and management skills. Although skills may have broader meaning, in this study we measure skills by the educational background of the manager or board, a definition that was applied by Abor and Biekpe (2007) and Ehikioya (2008). Both these studies examined the relationship between corporate governance and performance in developing stock exchanges like the CSE.

However the Security and Exchange Commission in the USA defined expertise with respect to relative financial experience. This definition was not applied to the CSE due to the unavailability of this data that could be obtained via interviews of senior officials of CSE firms. Due to time and cost constraints of the project it was decided not to pursue this definition and to apply the definition by Abor and Biekpe (2007) and Ehikioya (2008) that have been used in studies for developing markets such as the CSE. Concerning the relationship between skills and performance, Lybaert (1998) using data from small and medium size enterprises (thereafter SMEs) from Belgium found that there is a positive relationship between higher levels of education and firm performance. These however were conflicted by Lawrie (1998) who found that management expertise is not such an important factor affecting performance when specialist staff skills are accounted for. Abor and Biekpe (2007) who used data from Ghanaian SMEs found a positive relationship between management skills and performance but found a negative relationship between board skills and performance. The reason cited for the difference in the results is that a management skill is a more important variable in influencing performance than board skills.

Theoretical arguments are in favor of a positive relationship between board or management skills and firm performance. However, some prior studies have produced mixed results. Our goal is to investigate the association of board skills with performance measures (ROA and Tobin's Q value) for CSE firms. Due to the strong correlation shown between board and management skills, it was decided that in order for the regression model to be more robust that the management skills variable would be excluded.

### **2.5.7. The Frequency of Board Meetings**

There are two schools of thought concerning the frequency of board meetings to performance. One view is that a higher meeting frequency can increase performance. Conger et al. (1998) found that board meetings can be used to make the firm more effective. However, this is under the condition that the board is committed to managing and is not distracted by other issues. This will enable the board to monitor the management in an effective manner.

The second school of thought is that meetings are not useful and do not assist in enhancing performance. One reason is that the agenda for meetings are not set by the non-executive directors hence they may not be in a position to raise issues that they view are important in improving the performance of the firm.

Vafeas (1999) looks deeper into the factors affecting the frequency of board meetings. He found that there is a negative relationship between the number of board meetings and firm value as measured by market to book ratio. He found evidence to suggest that boards that have a higher number of board meetings are usually associated with firm poor performance and a board effort to improve firm operating performance. He found that share price declines follow higher board meeting frequency but he also finds that board frequency can subsequently increase operating performance.

## **2.6 Customer Satisfaction**

Companies now recognize that the new global economy has changed things forever. Increased competition crowded markets with little product differentiation and years of continual sales growth followed by two decades of flattened sales curves have indicated to today's sharp competitors that their focus must change (Cacippio, 2000). Customer satisfaction programs are considered to be weapons that many companies use in fighting the battles in today's marketplace (Lenz, 1999). Organizations usually invest in customer satisfaction measured because they assume that satisfied customers will engage in a number of behaviors beneficial to the company and demonstrate a long-term commitment to their brand. These behaviors and actions include but are not limited to, continuation of the customer relationship, deepening of the customer relationship through cross-selling, and referrals to new customers (Murphy, 2001).



Effective usage of customer measurement and management system can build organizational value (Johnson et al., 2000). Researches have recognized significant relationships between customer satisfaction and profitability and other economic effects. One of which relationship is the customer satisfactions influence and tantamount to success with profitability which was discussed further in the following sections:

### **2.6.1 Customer Satisfaction and High Profitability**

Researches suggest and point toward the significant relationship between customer satisfaction and economic performance in general (Fornell et al., 2006). The assumption of a customer-profit link is the heart of the service profit chain (Heskett et al., 1997). The long-term success of any business depends on providing customers with value band satisfaction that will influence them to repurchase and grow together (Lee et al., 2004).

By providing the linkage between customer satisfaction and profitability, it also provides the ultimate justification for measuring customer satisfaction (Murphy, 2001). Research has demonstrated that a highly satisfied customer is six times more likely to re-purchase than a customer who is merely satisfied (Jones and Sasser, 1995). Both marketing and neoclassical economics view consumer utility or satisfaction, as the real standard for economic growth. The extent to which buyers financially reward sellers that satisfy them and punish those that do not and the degree to which investment capital reinforces the power of the consumer are fundamental to how markets function (Fornell et al., 2006).

By building strong relationships with customers, it can help reduce customer turnover rates, and thereby increasing profitability (Reicheld and Sasser, 1990) due, in part, to the fact that retaining customers is significantly less costly than acquiring new customers (Liswood, 1992). Customer satisfaction, as suggested by empirical evidences, tends to improve repeat business, usage levels, future revenues, positive word of mouth, reservation prices, market share, productivity, cross-buying, cost competitiveness, and long-term growth and if it tends to reduce customer complaints, transaction costs, defective goods, price elasticity, warranty costs, field service costs, customer defection, and employee turnover, it seems logical to expect that these effects will eventually affect stock prices and company valuations (Fornell et al., 20006).

Companies and firms have recognized that through exceeding customer expectations is a worthy goal, exceeding those expectations profitability is necessary for long-term corporate viability. In order to understand corporate profitability, there is also a need to understand what drives shareholder value in organizations. In the current trends, companies are focusing on the relationships between employee satisfaction, customer satisfaction and corporate profitability (Epstein and Jones, 2000). A strong relationship and tie should be established and maintained in the process of achieving high customer satisfaction. Each single conflict within an organization can have far-reaching consequences in long-term customer satisfaction, and that the human element- the way an employee interacts with a customer – plays the dominant role. The mentioned factors and practices strongly support that service recovery skills and procedures are critical in maintaining customer satisfaction (Belding, 2004).

The challenge therefore for companies is to provide customers to have smart, appropriate interactions regardless of which channels they use. The focus of bottom line growth will never relent. Firms also need to secure loyalty and increase the profitability of those clients aside from retaining their customers (Winters, 2008). Recent researches have confirmed that customer satisfaction and customer loyalty are related to key measures of financial performance, including but not limited to retention. Companies with loyal clients or customers tend to register higher customer satisfaction, increased sales, lower costs, and more predictable profit streams (Grossman, 1998).

### **2.6.2 Measuring Customer satisfaction**

Customer satisfaction is the state of mind that customers have about a company when their expectations have been met or exceed over the lifetime of the product or service. The achievement of which indicates and leads to company loyalty and product repurchase (Cacioppo, 2000). Because the nature of customer satisfaction is more of a function of the psychological state or behavior, much care should be taken into consideration in measuring it quantitatively and also in the processing of the data. A number of benefits can be derived from customer satisfaction measurements.

Customer satisfaction can change overtime. The changes in the level of customer satisfaction could be a result of greater experience with the program components; or the changes may be associated with a reevaluation of the original experiences and the context of those experiences. Changes in the level reasons or explanation of such changes suggest that the timing of measurement is important and measuring and interpreting customer satisfaction can be challenging (Hillabrant, 2003). Measuring customer satisfaction is a relatively new concept to many companies that have been focused exclusively on income statements and balance sheets.

## **2.7 Empirical Literature Review**

Emmon and Schmid (1999) cited Shleifer and Vishny (1997) they postulated that corporate governance ensured investors in corporation received adequate return on their investment otherwise; outside investors would not lend to the firm or purchase their equity securities. Consequently, firm would be forced to rely on internally generated funds. They added that legal and political environment are critical influence on the nature of corporate governance and there by improve corporate performance in every country. Hence investor protection and stronger rule of law are related to corporate governance and organization performance.

Mehar (2003) examine corporate governance and dividend policy .He noted that payment of dividend is extremely important and in some economies firms are even forced to pay dividend through external finance. In Pakistan he observed that payment of dividend correlate with the type of governance. The study utilized a pooled data of annual audited accounts of 180 listed firms of the Karachi Stock Exchange. A model was formulated using variables such as dividend, net current assets, profit after taxes, number of shares held by the management, corporate taxes and bonus shares issued. The estimated results reveal that corporate governance has significant relationship with dividend policy but negatively related with liquidity position of the firm.

Abdullah and Valentine (2009) postulated that the fundamental theories of corporate governance started with the discussion of agency theory expended to stewardship theory, stakeholder theory and evolved to resource dependency, transaction cost, political and ethical related theories like business and virtue ethics.

However, these theories address the cause and effect of variable such as the configuration of board members, audit committee, independent director and top management and their social relationships rather than its regulatory framework. They concluded that combination of various theories would be the best approach to describe good governance practice rather than focusing on single theory. Similarly, (Kajola,2008) examined the nexus between corporate governance mechanisms and firm performance using panel method and ordinary least square as a method of estimation, his findings revealed evidence of positive significant relationship between corporate governance mechanism and measure of organization performance.

It is certain that, corporations have become powerful and dominant institutions which have extended to every corner of the globe in various sizes, capabilities and influences. Their Governance has tremendously influenced on the economies as well as various aspect of social landscape. However, shareholders are seen to be losing trust and market value has been affected. More so, with the emergence of globalization, there is greater de-territorialization and less of government control which results in a greater need for transparency and accountability (Abdullah and Valentine 2009) cited (Crane and Matten 2007). Hence, corporate governance has become one of the critical issues in the business world today.

A number of definitions exist for the subject, put simply corporate governance is the system of internal controls and procedures by which individual companies are managed. It provides a framework that specifies the rights, roles and responsibilities of different groups, management, the board and shareholders within an organization (Imala, 2007). The organization of economic cooperation and development (OECD 1999 and 2004) thus defined, corporate governance as a set of relationships between a business's management and its board of directors, its shareholders and lenders, and other stakeholders such as employees, customers, suppliers, and the community of which it is a part. The subject thus concerns the framework through which business objectives are set and the means of attaining them and otherwise monitoring performance are determined. In essence, corporate governance should promote transparency, consistent with the rule of law and articulate the division of responsibilities among regulating and enforcement authorities.

Since the publication of OECD document, issues related to corporate governance attract considerable national and international attention. The Basel Committee on banking supervision made up of supervisory authority, which was established by the Central Bank governors of the group of ten countries in 1975, usually met at the Bank for International Settlement (BIS) and endorsed the concept of corporate governance to safe guard depositors' funds. To this effect, the Basel Committee on banking supervision published evidence in 1999 to assist banking supervisors in promoting the adoption of sound corporate governance practices. In February 2006, the Basel Committee on banking supervision issue a revised version of the 1999 paper titled enhancing corporate governance for banking organizations which details some considerations for corporate governance related activities of the banking organization that are conducted through structure that lack transparency or in jurisdiction that pose impediments to information flows.

In essence, from the above discussion, corporate governance could be conceptualized as the manner in which power is exercised in the management of economic and social resources for sustainable human development. It is predicted on the leadership activities framework. (Oladimeji 2007) cited (McRitchie, 2001) viewed corporate governance as principle that focus on transparency, accountability, boards disclosure, investors involvement and related issues.

He added that firms with stronger shareholder rights would have higher firm value, higher profits, higher sale growth, lower capital expenditure and few corporate acquisitions. Effectively, corporate governance reduces control right. Shareholders and creditors confer on management who invest on project with positive net present value (Shleifer and Vishny, 1997).

## **2.8 Summary**

In short, good corporate governance is very important for sustainable development, not only for the individual company, but also for the economy as a whole. Therefore, the quality of governance should be continuously improved and good governance should be promoted. However, what is not measured cannot be improved. Hence, there is a need for a model to measure the quality of corporate governance.

Most attempts to measure the quality of corporate governance focus on compliance-related issues. Numerous rating models also seem to focus on the inputs of governance, such as the composition of boards and the separation of the CEO and chairman roles. However, they do not pay sufficient attention to the quality of information, decision-making processes, nor link the effectiveness of governance to output measures such as the brand image, employee and customer satisfaction indices, or profitability and value creation. Also, most measures fail to deal with learning and development in governance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains the research methodology that was used in the research. Research methodology, according to Kothari (2004), refers to the logical sequence of the research, the research methods and instruments used. As explained by Kinoti, (1998), the research methodology informs the choice of the research design, the study site, the research population, the sample size and sampling design to be used, the choice of data collection methods and the research tools to be used and finally the data analysis procedures and methods used.

#### **3.2 Research design**

This research problem employed a descriptive research design. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive survey designs was used in preliminary and exploratory studies to allow the researcher (me) gather information, summarize, present and interpret for the purpose of clarification. The choice of the descriptive survey research design is based on the fact that in the study, the research is interested on the state of affairs already existing in the field and no variable would be manipulated. This study therefore was able to generalize the findings to a larger population. The main focus of this study was quantitative. However some qualitative approach was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study. This research employed a mixed orientation whereby both quantitative and qualitative research methods were employed.

#### **3.2. Target population**

Target population is defined as a complete set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. The population of interest of this study was commercial banks that are operating in Nairobi, as they represent the unit of analysis but out of them the unit of observation who are the respondents was picked. The respondents were bank managers of the respective branches and customer.

There are 44 banks that are operating within Nairobi and all of them have branches. Due to finance and time factors, the study considered those banks that operate within the central business district. Commercial banks have branches all over Nairobi. However, the branches in the CBD were chosen on the basis of centrality, financial constraints, time factor and accessibility due to distance consideration.

### **3.3 Sampling procedure and sample size**

A sample is a small selection from a larger whole; it is a fraction that is representative of the whole population. Mugenda and Mugenda (2003) define sampling as a process of selecting a number of individuals for a study, in such a way that the selected individuals represent the large group. The researcher used purposeful sampling to identify banks to include in the sample of banks. There are a total of 44 banks in Kenya. Out of the 44 banks, the researcher targeted the most commonly used banks in Kenya. A total of 7 banks including National bank, Equity Bank, Family Bank, Barclays Bank, Stanchart Bank, Cooperative bank and Kenya Commercial Bank. One branch of each of the seven banks was chosen and included in the targeted branch population. There are two categories of respondents targeted in each of the branches. The researcher specifically targeted branch managers of the different bank branches and customers in the different branches. Systematic sampling was used in identifying customers to include in the sample. The researcher targeted to administer questionnaires to 10 customers in each of the banks. Systematic sampling is where the researcher picks the  $n^{\text{th}}$  member of the research population (Kothari, 2004). Each  $N^{\text{th}}$  member of the research population is included in the sample population. On an appointed day, when the researcher visited the different bank Branches, the first ten customers who entered the bank was included in the sample population.

### **3.4 Data collection methods**

Research methods are the general approaches used in collecting information while research tools are the different instruments a researcher employs while collecting data (Bryman, 1993). The choice of research instrument as discussed by Crotty (1998) is dependent on type of data to be collected and data collection method adopted. This study triangulated different methods in data collection. Triangulation of methods means using a mixture of methods to facilitate collection of different types of data (Bryman, 1993).



Triangulation of methods enabled the researcher to collect quantitative and qualitative data pertaining to the research questions. The primary data was collected from the field through questionnaires.

### **3.4 Validity and Reliability**

Research reliability and validity highly depends on correctness and trustworthiness of research instruments i.e. to what extent research instruments measure what they are meant to measure (Bryman, 2003). Research instruments are reliable to the extent they provide same results when repeatedly used. Research instrument validity and reliability is enhanced through ensuring proper wording, sequencing and formatting of questions (Crotty, 1998).

The researcher thoroughly checked the research instruments to ensure they do not have ambiguous words, double barrelled questions, leading questions, insensitive or unreasonable questions and biased questions e.g. gender biased questions. Such questions reduce research validity because the research instruments yield different results when administered to different research respondents. To ensure the research instruments deliver on desired information, the researcher with do a pilot study. As discussed by Mugenda and Mugenda (2003), a pilot study helps the researcher to evaluate the kind of information the research instruments draw and other challenges related to research methods adopted.

### **3.6 Data Processing and Analysis Technique**

Data processing involves looking through collected data and editing it for errors (Kinoti, 1998). Errors in data occur due to failing to record, wrong entry, ineligibility of words or numbers in recordings, jammed recording instruments, outliers and miscalculations (Gay, 1992). Once the data is edited for completeness, the researcher tabulated the data and input it into relevant statistical package for analysis. Data collected was analyzed using both qualitative and quantitative techniques.

For the quantitative data, the Statistical Package for Social Science (SPSS) was used. The data was interpreted using frequency distribution and presented using pie charts and graphs. Central measure of tendency and variance helped in analyzing quantitative data to shed light on project progress. Further measures like chi square tests were used to show the relationship between

corporate governance and customer satisfaction. To measure the strength of the correlation relationships, the researcher relied on the chi-square tests and cross tabulations that were easily done once the data is input into software like SPSS. Thematic analysis was used for qualitative data by grouping them into various themes. The study also used cross tabulation to establish relationships between variables.

A customer can be more or less satisfied with the quality of a service. Satisfaction should be seen as a continuous variable rating from not satisfied at all to completely satisfied as last option. To measure satisfaction scales with fixed endpoints was used. The lowest point on the scale represents the situation when a customer is not satisfied at all and the highest point the situation when a customer is completely satisfied. A value in between represents the degree of satisfaction perceived by the customer. Because of the fact that it can be difficult to obtain an exact agreement between the customer's opinion and the numerical value stated using a limited scale it seems feasible to allow for a small approximation error.

Measuring customer satisfaction can be done by simply asking a series of questions. Satisfaction is best measured on a continuous scale. The scale should be such that it allows the customer enough flexibility to express his opinion and yet be limited. For example, the customer can be asked to indicate the item that best represents his or her view from a set of five alternatives: 1 Very unsatisfied, 2 moderately unsatisfied, 3 Neutral, 4 moderately satisfied, 5 Very satisfied. Questions that were presented in this way were easily scored on a 5-point scale. To each component at least 3 questions should be attached. The questions are the manifest variables. These should be formulated in such a way that they relate to aspects of the components that are easy to recognize in reality. Overall the questionnaire contained some 16 questions about the customer's satisfaction with different aspects of the service. There were also some background variables that made it possible to do a more detailed analysis regarding segmentation

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

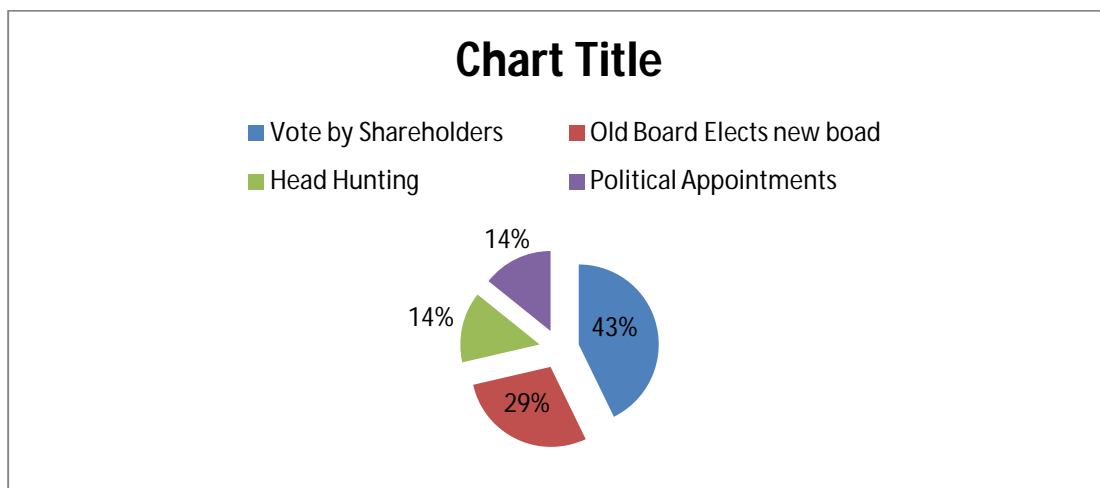
#### 4.1. Introduction

This research intended to assess the relationship between corporate governance structures and customer satisfaction. There are various areas of corporate governance but this research focused on internal corporate structures or decision making channels and how that affects customer satisfaction. Customer satisfaction in this research is looked at in terms of the extent to which customers agree with or do not agree with organizational processes. There are various factors that determine customer satisfaction. In this research, the various issues were split into tangibles, reliability, responsiveness, assurance and empathy. This chapter presents findings on customer appreciation of bank processes and how corporate governance influences the same.

#### 4.2. Corporate Governance in Kenyan Banks

This study targeted branch managers from 7 different banks. The branch managers were asked to describe how the board of directors is constituted. The responses are as given in figure 1.

**Figure 1: Methods of Constituting Bank Management Boards**



Source: Field Data (2013)

As figure 1 above shows, most banks get their board of directors through voting by shareholders or delegates. All Board members are vetted before appointment to take into account professional qualifications, integrity and track record. Across the banks, all bank directors were individuals with at least an undergraduate degree and relevant experience of over 10 years. This means that board of directors in the Kenyan banking industry has qualified individuals that spearhead or facilitate bank's development. All the banks ensure that all or a number of the directors work as fulltime employees of the bank. This ensures that the directors are available to actively participate in guiding the banks. For all the banks included in the sample, the boards are gender sensitive with the one third of either gender being respected across all banks.

#### **4.2.1. Corporate Governance Practices**

The seven branch managers were asked several questions regarding whether they trusted the corporate governance practices in their organization. On a scale of 1-5 where one stood for strongly agree and 5 for strongly disagree, they were supposed to rate the corporate practices in their bank. Their responses are tabulated in table 1.

**Table 4.1: Corporate Governance Practices**

<b>Corporate Governance Practices</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>	<b>Total</b>
Client corporate governance evaluated				100%	100%
Governance impacts on credit decision making				100%	100%
Board Oversees Large exposures			25%	75%	100%
Board oversees special functions related to credit, market and risk management				100%	100%
Board oversees stakeholder management			75%	25%	100%
Policies guide governance		25%	40%	35%	100%
Financial information released in a timely manner	25%	35%	40%	0%	100%
Bank Keeps Customer Documents well				100%	100%
Effective Internal Auditing Processes				100%	100%
There is an annual calendar of events				100%	100%
Statements from bank provide relevant information			60%	40%	100%

Source: Field Data (2013)

As shown in table 4.1, the boards are involved in every major decision making process and are expected to provide leadership to the bank towards achieving strategic objectives. For most banks, the boards exist to provide leadership towards making the banks products more accessible and while growing shareholder value. Across all the banks, there are established committees on which the board of directors seat. Such committees include Audit Committee, Credit Committee, Risk management Committee, Governance Committee, Staff Management committee, the tendering & Procurement Committee and Strategy & Investment Committees among others. Across all the seven banks included in the sample, the board of directors is very responsive to daily on-goings within the bank.

The boards conduct a self evaluation exercise in keeping with highest international standards. The evaluation focuses on the role and responsibility of the Board, structure, composition, functions and processes, information, meetings among other critical areas. The All the committees are governed by charters setting out their mandates and authority.

### 4.3. Corporate Governance and Provision of Tangibles

Services are intangible goods and thus it is difficult to know service quality upfront. Tangibles refer to the physical tools and equipments used to make service delivery optimal. In enhancing the quality of a service, provision of physical evidence is critical. In the banking industry, physical evidence of quality is generated around use of modern looking equipment, online banking capacity that facilitates easy access, well maintained ATMs, provision of internet banking, well maintaining credit service systems. Customers across 7 banks in the Kenyan market were asked to rate whether their banks have modern equipment such as ATM machines and online platforms. Their responses are as given in table 4.2.

**Table 4.2: Banks have Modern Equipments**

Response	Frequency	Percent
Strongly Disagree	2	2.9
Disagree	9	12.9
Agree	34	48.6
Strongly Agree	25	35.7
Total	70	100.0

Source: Field Data (2013).

The results in table 4.2 show that 85% of the sampled customers believe their banks have modern equipment. This goes to explain that the banking industry in Kenya has invested enough in good tangibles than enhance service quality. To determine distribution across banks to understand whether the 15% who are not happy with equipment are from one or across the banks, a chi square test was done. The results of the chi square test are as shown in table 4.3.

**Table 4.3: Showing Correlation between Banks and Satisfaction with Equipments**

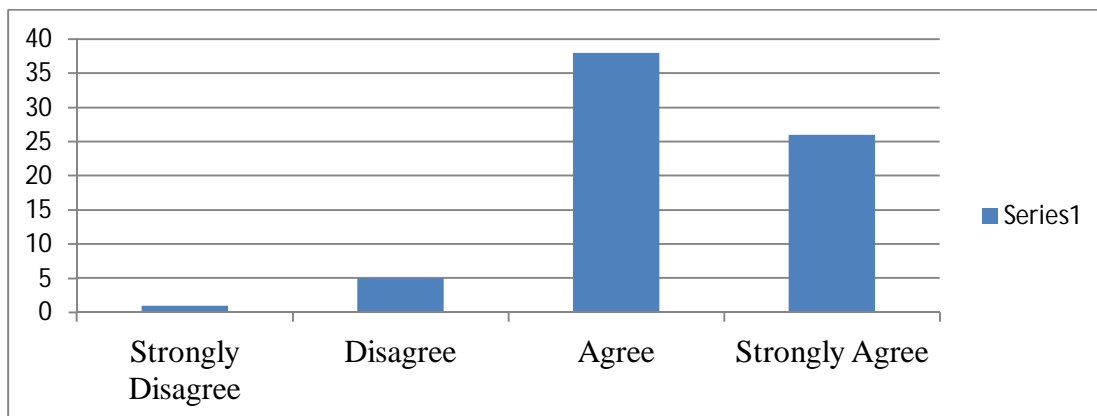
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	56.703 <sup>a</sup>	18	0.000
Likelihood Ratio	51.023	18	0.000
N of Valid Cases	70		

a. 28 cells (100.0%) have expected count less than 5. The minimum expected count is .29.

Source: Field Data (2013)

Table 4.2 shows that there is a positive condition between banks and customer satisfaction with equipments and other tangibles within the banks. The Pearson Chi-square coefficient of 0.00 is an indicator of a strong relationship between bank and customer satisfaction with tangible offered by that bank. This result implies that the 15% who were not satisfied with bank tangibles are likely to have been from a certain bank or small number of banks. Apart from equipments, employees also offer physical evidence of service quality. To determine the contribution of banking employees to sense of customer quality, the employees were asked whether they consider the bank employees to be neat. The views of the respondents are shown in table figure 4.1

**Figure 4.1: Respondents Views on Whether Bank Employees are neat**



Source: Field Data (2013)

Figure 4.1 show that 90% of employees agree that bank employees are generally neat individuals. Neat employees portray an image of efficiency and professionalism. Customers are more likely to trust individuals who are smartly dressed and well groomed than otherwise. To determine whether the neatness was experienced across the banking industry, a chi square test was conducted. The results of the chi square test are shown in table 4.3.

**Table 4.4: Correlation between Banks and Employee Neatness**

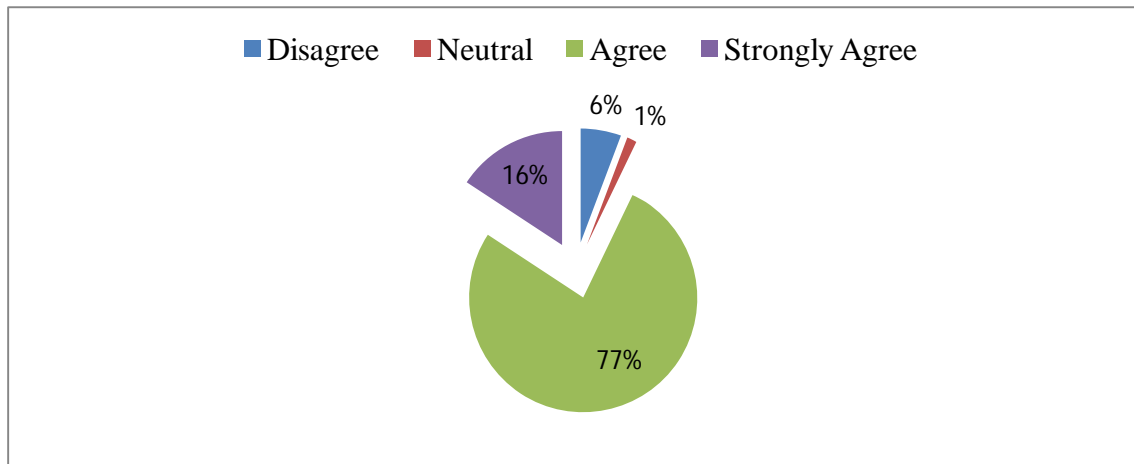
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.735 <sup>a</sup>	18	0.132
Likelihood Ratio	23.931	18	0.157
N of Valid Cases	70		
a. 21 cells (75.0%) have expected count less than 5. The minimum expected count is .14.			

Source: Field Data (2013)

The chi square test presented in table 4.4 illustrates that there is no relationship between bank and customer views on employee neatness. This implies that the finding applies across all the banks and is not biased to a particular bank. Therefore, employee neatness is a contributory factor to customer satisfaction across the banking sector. Clear documentation is important in enhancing customer confidence. This is because; accuracy and transparency are major concerns when it comes to money matters. The respondents were also asked whether the bank provides clear, attractive and well explained pamphlets and statements. Their responses are given in figure 4.2.



**Figure 4.2: Respondents View on Whether Bank Documents are Well Prepared**



**Source: Field Data (2013)**

Figure 4.2 show that 93% of the respondents agree that bank documents are prepared properly. When the bank pamphlets and statements are clear, attractive and well explained, customers get information and can trust the bank and its operations.

**Table 4.5: Chi Square Test on Views on Bank Documents across Banks**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	24.995 <sup>a</sup>	18	0.125
Likelihood Ratio	24.185	18	0.149
N of Valid Cases	70		

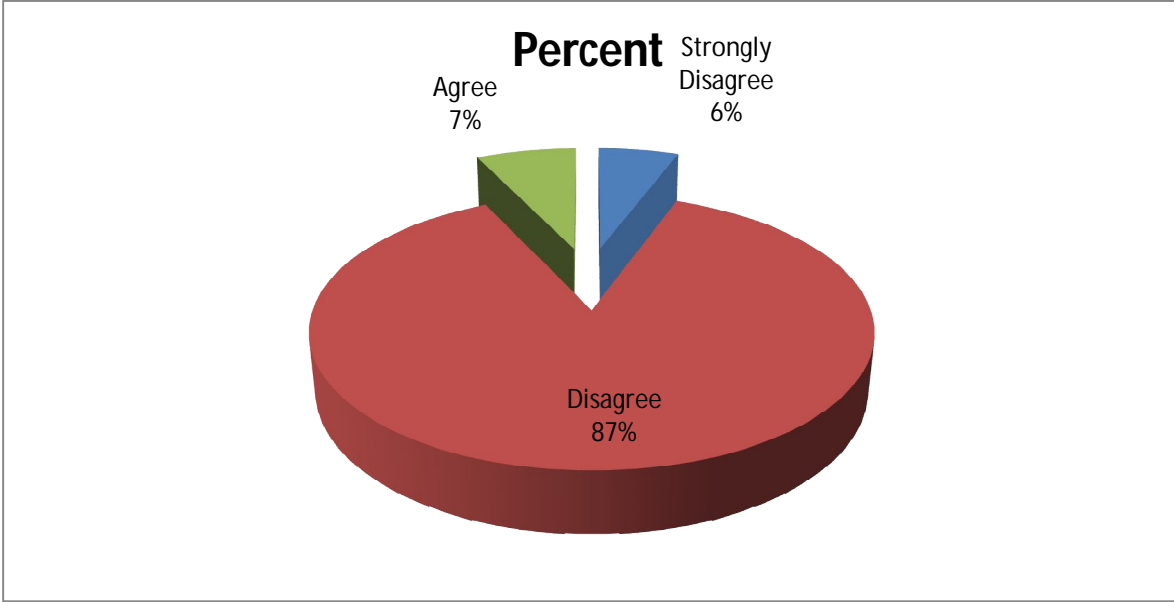
a. 21 cells (75.0%) have expected count less than 5. The minimum expected count is .14.

Source: Field Data (2013)

The Chi Square test as presented in table 4.4 shows that there is no correlation between customer views and banks. This means that the sentiments are representative of situation across the banks. The three measures on tangibility that had been done only show differentials in terms of equipment across the banks. this means that the only difference in terms of physical evidence of service quality across the players in the banking industry are equipments e.g. modern ATM technology and internet technology employed for online banking platforms.

Many customers have to go to banks and queue to get served. Proper queue management is vital in making the customers feel at home and comfortable as they wait to be served. The respondents were asked whether their bank has convenient sitting and waiting arrangements. Their responses are as shown in Figure 4.3

**Figure 4.3: Respondents View on Whether their Bank has Convenient Waiting Arrangement**



Source: Field Data (2013)

The responses by customers show that sitting arrangement and waiting arrangement in most banks in Kenya is not conducive. This implies that customers have to spend long time in tiring queues and sitting space is not available. The fact that 93% of the respondents think the sitting arrangement in the banks is not convenient is indicative of all banks being affected. Therefore, across the industry, customer handling in terms of being offered proper sitting and waiting space is wanting.

**4.4. Corporate Governance and Reliability of Bank Services**

Reliability refers to the confidence customers have in the services provided by the banks. To measure reliability of bank services, the respondents were asked questions relating to deadlines, safety of transactions, truthfulness in advertisements and level of error in records. Meeting

deadline is an important measure of service reliability. When customers know that an institution delivers services on time, they trust the institution and its processes. Respondents were asked whether their bank delivers services within a promised deadline and their responses are as given in table 4.6.

**Table 4.6: Service Reliability**

<b>Response</b>	<b>Service Is Timely</b>	<b>Transactions Are Safe</b>	<b>Adverts Reflect Reality</b>	<b>Error Free Records</b>
Strongly Disagree	12.9	24.3	2.9	0
Disagree	45.7	41.4	38.5	21.4
Agree	37.1	34.3	34.3	67.1
Strongly Agree	4.3	100.0	24.3	11.4
Total	100.0	24.3	100.0	100.0

Source: Field Data, 2013

The data provided in table 4.6 shows that 60% of the respondents feel the banks do not provide their services in a timely manner. Many banks have strict procedures by which transactions are decided. Consequently, the governance structures of such banks do not support quick decision making to the satisfaction of members. The respondents were asked whether they feel safe in all their transactions at their bank. Banks deal with money and recent reports in the media have shown that electronic fraud is on the rise in the Kenyan market. Moreover, bank robberies are always a possibility thus the need to put in place security measures that reassure the customers.

The feelings of customers on the safety of their transactions at the bank are shown in table 4.6. 76% of customers feel their bank transactions are safe. However, 24% of the respondents indicating they have concerns about the safety of their transactions are something worthy considering. A chi square test was done to determine whether the feelings about safety are homogenous across banks or are bank specific.

**Table 4.7: Correlation between Banks and Transaction Safety**

<b>Chi-Square Tests</b>			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	47.197 <sup>a</sup>	18	0.000
Likelihood Ratio	52.498	18	0.000
N of Valid Cases	70		

a. 28 cells (100.0%) have expected count less than 5. The minimum expected count is .86.

Source: Field Data (2013)

The Pearson coefficients shown in table 4.7 are indicative of a strong relationship existing between bank and customer feelings about safety of their transactions. This just demonstrates that customers of some banks are more concerned about the safety of their transactions than others. Therefore, while the issue might affect some banks more than others, institutions have to reconsider ways of assuring customers about the safety of their transactions. Part of the process of assuring customers is market communication. The information passed to customers through advertising and promotional materials has to communicate stability, security and reliability of the bank and its services. The respondents were asked whether they felt their bank's market communication through adverts and promotional materials reflects the reality of services offered by the banks.

Interestingly, the customers seem to be split half on whether advertisements by the banks reflect reality or not. 59% of the customers agree that the advertisements by banks reflect reality while 41% are have doubts in terms of whether the advertisement reflects reality. A good advertisement ought to contribute to the brand value. This is to mean customers have to identify with the message of the advertisement; the message has to amplify their experience of the banks. To determine whether this is a trend across the banks or some banks are more affected, a chi square test was done.

**Table 4.8: Bank Adverts Reflect Reality**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	61.145 <sup>a</sup>	24	0.000
Likelihood Ratio	68.314	24	0.000
N of Valid Cases	70		
a. 35 cells (100.0%) have expected count less than 5. The minimum expected count is .29.			

Source: Field Data, 2013

The figures in table 4.9 show that there is a correlation between bank and customer's feeling about whether the bank's adverts reflect reality or not. This means that the feeling is not homogenous or does not apply across the industry but rather individual banks have to consider their market communication to re-engineer them towards communicating real value offered by the banks. When bank messages are considered to be phony, customers are likely not to have confidence in bank transactions and processes. Apart from advertisements, customer confidence is enhanced through error free records maintained by the banks. As shown in table 4.5, seventy eight percent (78%) of the respondents agree that their banks keep records that are free of error. 22% of the respondents feel their banks do not keep error free records. Such a percentage is big enough to indicate that some bank records are unreliable. To know whether the trend is a cross the banks or affects some specific banks, a chi- square test was employed.

**Table 4.9: Chi Square Test, Error Free Records across Banks**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	26.496 <sup>a</sup>	12	0.009
Likelihood Ratio	30.102	12	0.003
N of Valid Cases	70		
a. 14 cells (66.7%) have expected count less than 5. The minimum expected count is 1.14.			

Source: Field Data (2013)

The Pearson coefficients reveal that a strong positive relationship exists between banks and what customers think about them in terms of whether they keep error free records. This implies that the problem of poor records affects some banks more than others. Errors in records lead to confusion and mistrust from customers. Errors contribute to poor appraisal of customer financial statements and ultimately poor service to customers thus reducing customer satisfaction.

#### 4.5. Responsiveness of Bank Services

Responsiveness refers to the willingness and readiness of employees to provide services with speed, aptness and flexibility. Responsive employees are sensitive and keen to help customers as best as possible. To measure the level of responsiveness, respondents were asked whether employees prevent long waiting queues, whether employees quickly help in solving customer problems and whether their bank has an effective complain handling process. The responses of customers are provided in table 4.10.

**Table 4.10: Bank Responsiveness**

<b>Customer Response</b>	<b>Problems Solved Promptly (%)</b>	<b>Employees Prevent Long Waiting (%)</b>	<b>Bank Has Good Complaint Process (%)</b>
Strongly Disagree	4.3%	2.9%	0%
Disagree	75.7%	10.0%	2.9%
Agree	20.0%	87.1%	97.1%
Total	100.0%	100.0%	100.0%

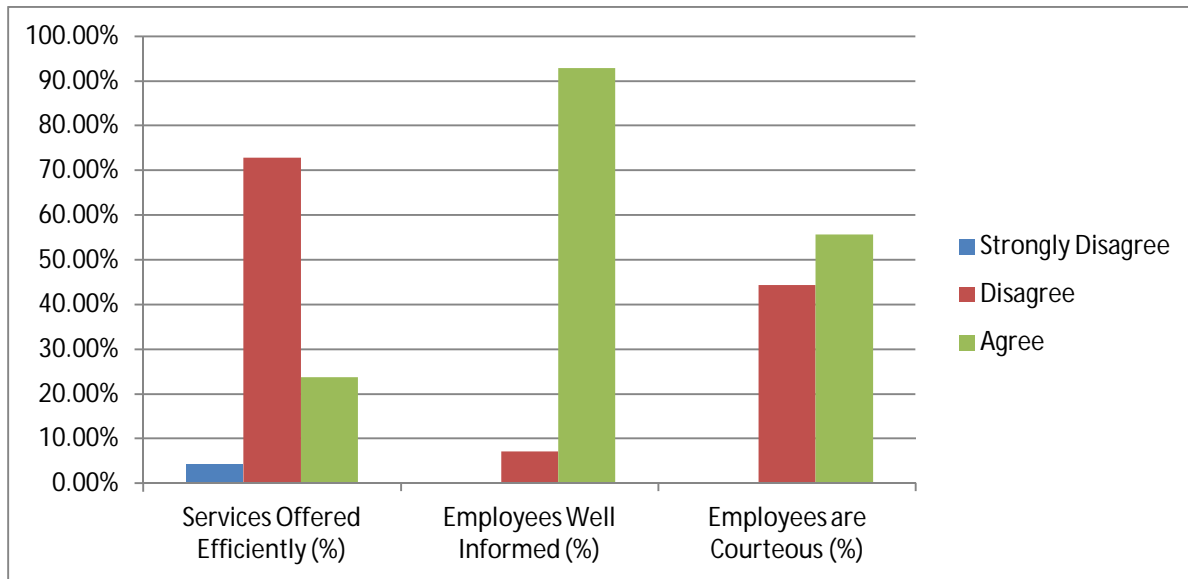
Source: Field Data (2013)

The data presented in table 4.10 reveals that 80% of the respondents believe their bank does address or solve their problems promptly. Interestingly, only 13% of the respondents believed the employees in their banks did not prevent long waiting. 97% of the respondents believed their bank had a good complaint handling process. Therefore, while the banks can be considered to be responsive, they fail in terms of solving problems promptly. This situation could be explained by the fact that scrutiny of bank transactions involves many offices and clearance of bank transactions is a preserve of given officers.

#### 4.6 Bank Service Assurance

Customers are assured of good service depending on how bank employees interact with them. Some of the measures of assurance used in this study were efficiency in service delivery, courtesy from employees and level of expertise exhibited by employees in tackling client issues. The responses of customers are as provided in Figure 4.4.

**Figure 4.4. Levels of Assurance**



Source: Field Data (2013)

As shown in figure 4.4, majority of employees disagree that services are offered quickly and efficiently. This finding confirms the initial finding about timeliness of services. It seems customers feel bank services take longer than necessary. One of the reasons why the services take longer due to the security checks and verifications involved when dealing with bank transactions. In Figure 4.4, nearly all customers agreed that employees in banks are well informed and thus properly answer queries about their offering and operations. This finding is explained by the fact that banks higher highly qualified individuals (degree holders) and trains them in banking procedures. Finally, customers were split half on whether bankers are courteous or not. To understand the distribution in terms of whether the trend is across the banking sector, a chi square test was done.

#### 4.7. The Empathy in Bank Customer Relations

Empathy refers to the connection between bank employees or the bank and its customer. Banks that care about their customers strive to establish strong long term relationships with their customers. Such banks often inform their customers of new and attractive schemes. Moreover, the bank offers suggestions to customers on how to handle and improve their financial standing.

**Table 4.11: Empathy in Banks**

<b>Customer Response</b>	<b>Bank Maintains Strong Customer Relations (%)</b>	<b>Bank Provides Information and Suggestions (%)</b>
Strongly Disagree	4.3%	4.3%
Disagree	72.9%	72.9%
Agree	1.4%	21.4%
Very Strongly Agree	21.4%	0%
Total	100.0%	100.0%

Source: Field Data (2013)

As 4.11 shows, 4.3% of the respondents strongly disagree that their bank maintains strong customer relations and that the banks provide information about new schemes and suggestions on what the best financial decision would be. Over 87% of the respondents believe their banks are not empathic because they do not maintain strong relations nor provide useful suggestions.



## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1. Introduction**

This study was done to assess the relationship between corporate governance structures and customer satisfaction. The focus of the research was on how internal corporate structures or decision making channels affects customer satisfaction. This chapter presents a summary of findings, the conclusions drawn from the findings and the recommendations by the researcher.

#### **5.2. Summary of Findings**

This section summarizes the findings of the research.

##### **5.2.1. Corporate Governance in the Kenyan Industry**

The study looked into corporate governance to determine whether the corporate practices enhance customer satisfaction. According to the field data, 43% of the banks constitute their boards by way of vote of shareholders, 29% get their shareholders through old board appointing or electing new board members, while 14% get their board of directors through political appointments and head hunting. Across the banks, all bank directors were individuals with at least an undergraduate degree and relevant experience of over 10 years.

The sampled bank managers illustrated that the boards are involved in every major decision making process and are expected to provide leadership to the bank towards achieving strategic objectives. For most banks, the boards exist to provide leadership towards making the banks products more accessible and while growing shareholder value. Across all the sampled banks, the board of directors is very responsive to daily on-goings within the bank. The boards conduct a self evaluation exercise in keeping with highest international standards in addition to external audits.

### **5.2.2 Corporate Governance and Provision of Tangibles**

The study aimed at establishing if the banks demonstrate physically that they offer quality services. The results showed that 85% of the sampled customers believe their banks have modern equipment. However the quality of equipment differs across the banks. 15% of the customers who indicated that they were not satisfied with bank tangibles were concentrated in one bank. Concerning the cleanliness of employees, 90% of respondents agreed that bank employees are generally neat individuals. Therefore, employee neatness is a contributory factor to customer satisfaction across the banking sector. Clear documentation is important in enhancing customer confidence. This is because; accuracy and transparency are major concerns when it comes to money matters. The findings show that 93% of the respondents agree that bank documents are prepared properly. On whether the banks have convenient and waiting arrangements, the banks in Kenya perform very poorly. The responses by customers show that sitting arrangement and waiting arrangement in most banks in Kenya is not conducive. This is because 93% of the respondents thought the sitting arrangement in the banks is not convenient.

### **5.2.3. Corporate Governance and Reliability of Bank Services**

Data collected on service reliability shows that 60% of the respondents feel the banks do not provide their services in a timely manner. Many banks have strict procedures by which transactions are decided. Consequently, the governance structures of such banks do not support quick decision making to the satisfaction of members. 76% of customers feel their bank transactions are safe. The confidence level of customers in bank transactions was shown to be dependent on bank. The customers were split half on whether advertisements by the banks reflect reality or not. 59% of the customers agree that the advertisements by banks reflect reality while 41% had doubts in terms of whether the advertisements reflect reality.

The figures in table 4.9 show that there is a correlation between bank and customer's feeling about whether the bank's adverts reflect reality or not. This means that the feeling is not homogenous or does not apply across the industry but rather individual banks have to consider their market communication to re-engineer them towards communicating real value offered by the banks.

When bank messages are considered to be phony, customers are likely not to have confidence in bank transactions and processes. However, the feeling that banks did not portray reality in their adverts was only limited to specific banks.

#### **5.2.4 Responsiveness of Bank Services**

The findings presented reveal that 80% of the customers believe their bank does address or solve their problems promptly. Interestingly, only 13% of the respondents believed the employees in their banks did not prevent long waiting. 97% of the respondents believed their bank had a good complaint handling process. Therefore, while the banks can be considered to be responsive, they fail in terms of solving problems promptly.

#### **5.2.5 Bank Service Assurance and Empathy**

The findings revealed that customers feel bank services take longer than necessary. One of the reasons why the services take longer due to the security checks and verifications involved when dealing with bank transactions. On empathy, 8.6% of the customers strongly disagree that their bank maintains strong customer relations and that the banks provide information about new schemes and suggestions on what the best financial decision would be. Over 87% of the customers feel their banks are not empathic because they do not maintain strong relations nor provide useful suggestions.

### **5.3. Conclusion**

The findings have revealed that the corporate structures and practices in Kenyan banks are well constituted and professional. The constituting of corporate boards is done through the involvement of all stakeholder or at least the key stakeholders. Moreover, academic standard are applied leading to the constitution of a qualified and gender sensitive board. The board of governors in the banks are responsive because they are involved in every major decision making process and are expected to provide leadership to the bank towards achieving strategic objectives. The boards exercised pragmatic transparency leading to information being released in a way that generates customer trust and safeguard the bank's image. Across all the sampled banks, the board of directors is very responsive to daily on-goings within the bank. The banks exercise up to stand monitoring processes.

Towards the goal of continuous monitoring, the boards conduct a self evaluation exercise in keeping with highest international standards in addition to external audits. The study established that the banks demonstrate physically that they offer quality services. The banks achieve to communicate this through providing of modern equipments, ensuring employees are neat and providing attractive pamphlets and information materials. However, there is a problem when it comes to sitting and waiting arrangements in the banks. The sitting arrangement and waiting arrangement in most banks in Kenya is not conducive.

The banks perform poorly on reliability because majority of the customers feel the banks do not provide their services in a timely manner. Many banks have strict procedures by which transactions are decided. Consequently, the governance structures of such banks do not support quick decision making to the satisfaction of members. The customers have above average confidence in the integrity of bank transaction while many have doubts in terms of whether the advertisements reflect reality.

The customers have trust in the problem solving practices in banks. However, they believe the process takes long and employees in their banks did not prevent long waiting. Therefore, while the banks can be considered to be responsive, they fail in terms of solving problems promptly. The findings revealed that customers feel bank services take longer than necessary. Moreover, majority of the customers feel their banks are not empathic because they do not maintain strong relations nor provide useful suggestions. This implies that the bank has a lot to do in enhancing empathy and responsiveness in the service delivery.

#### **5.4 Recommendations**

Based on the foregoing conclusions, the customer recommends that Kenyan bankers work more on enhancing empathy and responsiveness in the services to enhance service quality. Towards this end, the banks have to review their problem handling procedures to reduce the time taken to resolve an issue. Moreover, although bank transactions are sensitive, there is need to reduce the number of checks on transactions to expedite the transaction handling process. Where it is not possible to expedite transactions, the banks through the board of governor have to work on providing enough sitting and convenient waiting space.

### **5.5. Suggestions for Further Study**

The focus of this study was on corporate governance in banks and its impact on customer satisfaction. This study was done across selected banks thus giving a general view of how things are in the banking industry. However, it would be beneficial if different banks were used as case studies to study the phenomena in greater detail.

Additionally, there are differentials in governance practices by international banks and local banks. The sampling frame in this study did not warrant the making of out right generalizations about either local or international organization for comparison purposes. Therefore, another study can be done to study in depth the corporate governance practices in international banks in comparison with local banks.

Finally, the study looked into impact of corporate governance on customer satisfaction in the banking industry. The study did not explore other factors that contribute to customer satisfaction in Kenyan banking industry. This is an area that can be explored in another research.

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## APPENDICES

### Appendix 1: Questionnaire for managers of bank branches

My Name is Samwel Nyairo Omanga; a student at The University of Nairobi, undertaking a course leading to the award of a Masters in Business Management (Finance option). I am doing a study on “*the assessment of the relationship between corporate governance and customer satisfaction in the banking industry*” in partial fulfillment for the requirement for the award of the degree. You have been chosen as a respondent in this study given your special understanding of bank operations in this branch. The information collected through this questionnaire was used for academic purposes only and was held as strictly confidential. Your co-operation on this matter was highly appreciated.

#### A: Management and the Board

i. What is the total number of the Board of Directors [\_\_\_\_\_]

ii. How is the board appointed?

(1) by the vote of majority shareholders

(2) by the vote of all shareholders

(3) by the old board when a new one is coming to office

(3) a head hunt by the chairman

(5) other persons [please state] -----

iii. What is the composition of the board in terms of academic and professional qualification?

(1) -----

(2) -----

(3) Others-----

iv. What is the composition of the board in terms of gender?

Male 1-5       above 5       Female 1-5       above 5

**B. Shareholders right**

i. Does the board undertake formal evaluation of their own performance, and their committees and individual directors?

Yes                      (   )

No                        (   )

ii. Does a by-law exist to govern board meetings?

Yes                      (   )

No                        (   )

iii. Does the bank disclose director candidates to shareholders' in advance of shareholders meeting?

Yes                      (   )

No                        (   )

**C. Board meeting frequency**

i. Does the full board meet in accordance with the stipulation in the company's by-laws and articles?

Yes                      (   )

No ( )

ii. How often do board members conduct meetings?

Every one month ( )

Every quarter ( )

Twice a year ( )

Others.....

iii. How often do the sub-committees conduct meetings?

Every one month ( )

Every quarter ( )

Twice a year ( )

Others.....

**D. Disclosure and audit process**

i. Does audit committee of the board of directors exist?

Yes ( )

No ( )

ii. Are there by-laws governing committee/internal audit?

Yes ( )

No ( )

iii. Do the members of the audit committee have the expertise?

Yes ( )

No ( )

iv. IS the report of the audit committee disclosed at the annual shareholder meeting?

Yes ( )

No ( )

v. Does the audit committee recommend the external auditor at the annual shareholders meeting?

Yes ( )

No ( )

vi. Does the audit committee meet with external auditors to review financial statements?

Yes ( )

No ( )

vii. How can the functions of the bank board of directors be improved?

.....  
.....  
.....  
.....  
.....  
.....  
.....

**THANKS FOR YOUR CO-OPERATION**

## Appendix 2: Questionnaire for Customers

SEVICE QUALITY DIMENSIONS	QUESTIONS	RATING SCALE				
		1	2	3	4	5
<b>TANGIBLES</b>	1. The bank has modern looking equipment(online banking, ATM services, electronic cashing, internet banking , credit card etc)					
	2. Employees are neat appearing					
	3. The pamphlets and statements are clear, attractive and well explained					
	4. The branches have convenient sitting and waiting arrangements					
<b>RELIABILITY</b>	5. The bank delivers all the services within the promised deadline					
	6. You feel safe in all your transactions with the bank					
	7. The advertising and promotional messages of the bank reflect reality					
	8. The bank maintains error free records					
<b>RESPONSIVENESS</b>	9. Employees prevent long waiting ques					
	10. Whenever you face any sort of banking problem employees help you solve the problem					
	11. The bank operates a regular and effective complaint handling process					
<b>ASSURANCE</b>	12. Employees are quick and efficient in service delivery					
	13. Employees are courteous with you					

	14. All the employees have strong knowledge to answer your queries about their offerings and operations					
<b>EMPATHY</b>	15. The bank maintains strong customer relationships					
	16. The bank always informs you about new and attractive schemes and always suggests you on taking the corrective decision					