

**INFLUENCE OF CORPORATE GOVERNANCE ON BANK'S  
PERFOMANCE IN KENYA: A CASE STUDY OF KENYA  
COMMERCIAL BANK, KISUMU CENTRAL DISTRICT.**

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### **DECLARATION**

This research project report is my original work and has not been presented for any examination or award in any university.

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## **DEDICATION**

I dedicate this study to my late parents, Phares Onyango and Jane Ayugi, who sadly departed too soon and to my lovely daughter Leila Kaylie Pendo.

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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>APRM</b>	African Peer Review Mechanism
<b>CBK</b>	Central Bank of Kenya
<b>CBN</b>	Central Bank of Nigeria
<b>CCG</b>	Centre for Corporate Governance
<b>CMA</b>	Capital Markets Authority
<b>IMF</b>	International Monetary Fund
<b>KCB</b>	Kenya Commercial Bank
<b>NDIC</b>	Nigeria Deposit Insurance Corporation
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>ROSC</b>	Reports on Observance of Standards and Codes
<b>UAE</b>	United Arab Emirates

## ABSTRACT

Corporate governance plays a very crucial role on firms performance. Lack of proper corporate governance systems can lead to corporate failures and declining firm performance. The study examined the influence of corporate governance on banks performance taking a case study of KCB, Kisumu Central District. The study sought to find out the influence of corporate governance on banks performance by determining the level at which internal control procedures influence banks performance, by establishing how social and environmental responsibility influence banks performance, by examining the extent to which corporate compliance influence banks performance and by assessing the influence of corporate culture on banks performance. The study was based on four assumptions that internal control procedures, social and environmental responsibility, corporate compliance and corporate culture influence banks performance. Important literature by other scholars on the same field on aspects pertaining to the influence of corporate governance and banks performance was looked at. The study was based on agency theory that stipulates that the separation of control of ownership facilitates the smooth running of the organization. Descriptive study design and purposive sampling was employed. Data was collected through primary resources by the use of self administered questionnaires. Data was analyzed quantitatively and qualitatively. Data presentation was done by the use of tables. The study achieved a response rate of 100%. Findings of the study revealed that majority of respondents 77 (77%) were male as compared to 23 (23%) of respondents who were female. Majority of respondents fell within the age brackets of 26-30 and 31-35 years at 28(27%) and 33(33%) respectively. The study reveals that majority of respondents were university graduates at 50(50%).Results from the study showed that 70 (70%) of employees in top management positions had worked in the Bank for more than ten years, Majority 90 (90%) of respondents who participated in the study acknowledged that Banks internal control procedures had a positive impact on customer base. This is justified by the fact that 32 (32%) of respondents said that Banks internal control procedures had highly increased the customer base. 68 (68%) of the respondents said that Banks internal controls procedures had fairly impacted on the customer base of the Bank. Out of 100 respondents who participated in the study, majority of respondents 90 (90%) acknowledged that social and environmental responsibilities carried out by Banks employees manifested into increase in customer satisfaction. Out of 100 respondents who participated in the study, 90 (90%) asserted that social and environmental responsibilities played by the Bank led to an increase in their customer base and by extension, increase in profit margins. A majority of respondents 60 (60%) consented that accountability of Banks employees on daily business transactions of the Bank positively satisfied customers of the Bank with varying degrees of effectiveness. On the contrary, 40 (40%) of respondents did not notice the manifestation of any impact on customer satisfaction as a result of accountability of Banks employees on daily business transactions of the Bank. Out of 100 respondents who participated in the study, majority 90(90%) acknowledged that organization culture and work ethics impacted on customer loyalty. Customer satisfaction, customer loyalty and a large customer base are all indicators of banks performance. Based on the study findings, recommendations are made: There are certain areas the study did not explore that were equally important but were left out because of the scope of the study. The study concludes by establishing a positive correlation between corporate governance practices and banks performance.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Corporations have been the preferred way of organizing productive activities in most countries. However, one feature of corporations is both its strength and its weaknesses at the same time. This is the divorce of control from ownership. In a corporation the separation facilitates the activities to be run professionally. Yet this separation is the genesis of the agency conflicts that affects the corporate form. Proper corporate governance has been touted as the reason that mitigates the agency conflicts, achieving a level of convergence in the inherently divergent interests of management and shareholders (Black, 1994). In view of the need to enhance the good governance of corporation, a number of global initiatives have been suggested to provide governance principles for the effective management and control of these organizations.

According to Ferrell (2009), integrity is highly emphasized in good corporate governance. It creates a compliance and ethics culture so that employees feel that integrity is at the core of competitiveness while providing mechanisms for identifying risks and planning for recovery when mistakes or problems occur. The inability of corporations to meet the requirements of good corporate governance results in corporate governance irregularities. Good corporate governance seeks to promote responsive and accountable corporations, legitimate corporations that are managed with integrity, probity, transparency, the recognition and protection of stakeholder rights.

Mayer (2007), summarized the principles of good corporate governance as: authority and duties of members [or shareholders], leadership, appointments to the board, strategy and values,

structure and organization, corporate performance, viability and financial sustainability, corporate compliance, corporate communication, accountability to members, responsibility to stakeholders, balance of powers, internal control procedures, assessment of performance of the board of directors, induction, development and strengthening of skills of board members, appointment and development of executive management, adoption of technology and skills, management of corporate risk, corporate culture, social and environmental responsibility, recognition and utilization of professional skills and competencies, recognition and protection of members' rights and obligations. The attention of the boards of directors is increasingly being drawn to the need to ensure that the governance framework takes account of gender and children's rights and the special needs of disabled and/or handicapped citizens, promotion of the interests, rights and welfare of host communities and protection and preservation of the environment (Peters, 1982).

Sound corporate governance, therefore, enhances corporate performance value as well as providing meaningful and reliable financial report on firms operations. The globalizations of banks have raised important issues regarding corporate governance regulation and banking institutions (CBK, 2006).

In the United States of America, corporate governance for banking institutions is regulated by federal and state regulations (James, 1998). Federal regulation provide prescriptive framework for directors and senior management in exercising their management responsibilities. United States banking regulation also addresses governance problems in banks and financial holding companies. The United States regulatory approach being limited by court decisions that restrict the role that the regulator can playing in imposing prudential directives and bank holding companies. Bank regulators place additional responsibilities on bank boards that often result in

detailed regulations regarding their decision making practices and strategic aims. According to the view, the regulator represents the public interest, including stakeholders and can act more efficiently than most stakeholder groups in ensuring that the bank adheres to its regulatory and legal responsibilities.

According to John (2010), In the United Kingdom, the financial regulatory framework under the United Kingdom Financial Services and Markets Act 2000 (FSMA) require banks and other financial firms to establish internal system of control, compliance and reporting for senior management and other key personnel. Under FSMA, the Financial Services Authority (FSA) has the power to review and sanction banks and financial firms regarding the types of internal controls and compliance systems they adopt. These systems must be based on recognized principles and standards of good governance in the financial sector. These regulator standards place responsibility on the senior management of firms to establish and to maintain proper systems and controls to oversee effectively the different aspects of the business and to show that they have done so. The FSA will take disciplinary action if an approved person, director, senior manager or key personnel deliberately violates regulatory standards or her behavior falls below a standard that FSA could reasonably expect to be observed. The broader aspect of the FSA regulatory approach is to balance the competing interests of shareholders wealth maximization and the interest of other stakeholders. The FSAs balancing exercise relies less on the strict application of statutory codes and regulatory standards and more on the design of flexible, internal compliance programs that fit the particular risk level and nature of banks business. To accomplish this, the FSA plays an active role in bank management in designing internal control systems and risk management practices that seek to achieve an optimal level of protection for shareholders, creditors, customers and the broader economy.

In France they tend to use the OECD policies since they are a member country. The OECD principles of corporate governance have provided specific guidance which is reflected in legislative and regulatory initiatives or in national principles and codes. The OECD principles underpin the corporate governance component of the World Bank and IMF Reports on observance of standards and codes. Policy concern with corporate governance issues has been driven in recent years primarily by a series of corporate scandals and failures in a number of countries. According to the OECD policy interest in corporate governance needs to be seen in a forward looking manner and not just as an enforcement exercise to deal with past misdeeds.

In Egypt, the awareness of corporate governance has increased due to a number of banking scandals and the role of the press in uncovering scandals. They use the OECD principles. They also use guidelines from the Bassel Committee on enhancing corporate governance in banking organizations (Forserg, 1989). In Egypt bank loans constitute the most important form of external financing. Egypt is experiencing growth owing to the development of financial infrastructure and financial intermediation associated with higher economic growth. Further accentuating this is the fact a number of countries in the Gulf Region are seeking to position themselves as financial centers. The OECD together with Institute for Corporate governance and the union of Arab Banks established a task force in early 2007 with a mandate to develop a policy brief on corporate governance of banks in the Gulf Region in a bid not to be in a crisis like other parts of the world.

In Nigeria, the NDIC and CBN carried out the examination of banks. An examination of Nigerian Banks in 2011 by regulatory agencies showed that they had extreme weaknesses in corporate governance and weak credit administration (NDIC, 2011). According to the report some banks engaged in poor corporate governance practices, poor risk management arising from



inadequate manpower and poor training of risk management personnel. 87% of bank frauds in 2011 occurred in top ten banks said NDIC which can be attributed to poor corporate governance. According to the report, the concept of corporate governance has been neglected in Nigeria. The issue of corporate governance on banking industry has been a major factor that has led to a reduction in capital flows and subsequent slow economic growth in the country. The issue of weak corporate governance and institutional capacity needed to be addressed if the banking consolidation that took place in 2005 was to be successful. This in turn saw the Apex Bank, Central Bank of Nigeria, coming up with a corporate governance code for Nigerian Banks which was to be effective from 3<sup>rd</sup> April 2006.

Tanzania is amongst African countries that endorsed the APRM( Mulusa, 1990). Countries that endorsed APRM must conform to agreed values in four areas including: democracy and political governance, economic governance, corporate governance and socioeconomic development. Operations of one of the largest banks in Tanzania NBC Ltd have been placed directly under the Bank of Tanzania following reports of multiple allegations of wrong doing and bad corporate governance. Central Bank of Tanzania had taken charge of the bank's operations following the suspension of its chief executive officer. While this was happening, Tanzania is now ensnared in multiple investigations of wrong doing which seem to be dragging along with new scandals arising with the passage of time.

In Uganda, corporate governance has been an often ignored concept. 1998-2000 was a dark period for the banking industry as several banks in Uganda collapsed( Nambiro, 2007). Many labored under governance failures and some were controlled like family empires with no clear distinction between management and ownership. Depositors' funds were lost. Government responded by introducing Financial Institutional Act 2001 and governance regulations to

augment the Act. The Institute of Corporate Governance of Uganda remains a private sector initiative and carries no enforcement powers with it.

The IMF and other international and local lending institutions require an established track record of corporate behavior before funds are made available to companies. According to Kibirango (1991), the factors that are responsible for poor corporate governance performance especially in banks emanate from lack of transparency accountability and poor ethical conduct. Commercial banks failures have been linked to self inflicted course resulting from bank owners. International Credit Bank, Greenland Bank and Cooperative Bank in Uganda were afflicted with the one man management syndrome of corporate governance.

What ails Kenya's financial sector is poor corporate governance resulting in weaknesses that make pensioners, creditors, employees and depositors extremely vulnerable. These weaknesses include ineffective laws, poor financial oversight, a base sector culture and overbearing and executive corruption (Global Corruption Report, 2009). Following the 1992 general elections at least six banks mainly associated with Asian business people, were put under statutory management, with disastrous consequences for their largely poor depositors and creditors. After the 1997 general elections one of the country's largest bank, National Bank of Kenya teetered on the brink of liquidation before National Social Security Fund and the government injected capital. Had the largest bank in the country KCB not been better capitalized than National Bank of Kenya it would have suffered a similar fate. The Companies Act, CBK, and the Banking Act are the main regulators and governors of the banking industry in Kenya.

Given this background, this study examines the influence of corporate governance on banks' performance in Kenya with a special focus on KCB, Kisumu Central District and provides measures to enhance corporate financial performance and sound business practices.

## 1.2 Statement of the Problem

Organizational issues hinge around governance in situations of success or failure, successful organizations are seen to be well governed whereas organizations at the brink of collapse or those that have failed are seen to be poorly governed. According to Becht *et al.* (2002), good corporate governance seeks to promote efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges, responsive and accountable corporations, legitimate corporations that are managed with integrity, probity and transparency, recognition and protection of stakeholder rights, an inclusive approach based on democratic ideals, legitimate representation and participation. Governance is concerned with the processes, systems, practices and procedures- the formal and informal rules-that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. Essentially, governance addresses the leadership role in the institutional framework.

Weak governance of banks reverberates throughout the economy (CBK, 2006). Interest on loans will be high thus making credit expensive as has been witnessed in a better part 2012 in Kenya. Banking crises have destabilized governments, crippled economy and intensified poverty in the country. Charterhouse Bank was put under statutory management in 2006 and has not been reopened ever since then (CBK, 2006) due to alleged money laundering activities at the bank. The Finance Bill 2011/2013 was put in place because some banks were accused of hoarding dollars and other currencies a situation that is blamed for the depreciation of the shilling during the last months of 2011.

Despite tight regulatory framework, corporate governance continues to weaken in Kenya. There has been renewed interest concerning issues of corporate governance in Kenya, however,

relevant data from empirical studies are still few and far between. This has been invariably led to limitations in the depth of our understanding of corporate governance issues. It is on this basis that the study sought to establish the influence of corporate governance on banks performance.

### **1.3 Purpose of the Study**

The purpose of the study was to look at the influence of corporate governance on banks performance: case study of Kenya Commercial Bank, (KCB) Kisumu Central District.

### **1.4 Objectives of the Study**

The study was guided by the following objectives:

1. To determine the level at which internal control procedures influence bank's performance.
2. To establish how social and environmental responsibility influence bank's performance.
3. To examine the extent to which corporate compliance influence bank's performance.
4. To assess the influence of corporate culture on bank's performance.

### **1.5 Research Questions**

The study sought to answer the following research questions:

1. To what level do internal control procedures influence bank's performance?
2. How does social and environmental responsibility influence bank's performance?
3. To what extent does corporate compliance influence bank's performance?
4. How does corporate culture influence bank's performance?

## **1.6 Significance of the Study**

This study may be used by investors both local and foreign to gauge whether their investments will be secure and efficiently managed, and in a transparent and accountable manner.

This study may be used by managers and other professionals in the banking industry so as to improve and promote efficient and effective corporate governance systems in their places of work to create competitive and efficient companies so as to enhance accountability, promote efficient and effective use of limited resources.

This study may be used by students and other professionals, where the information of the study and the literature can be used for further research on the effects of corporate governance on performance of banks and other sectors.

This study may also be used to encourage practices which can strengthen corporate governance under diverse structures by different people be they employers, employees, shareholders and other stakeholders.

## **1.7 Limitations of the Study**

The challenge experienced by the researcher was the reluctance by the respondents to give information due to fear of victimization. Many of the respondents feared that they might be exposed and be reprimanded for giving out information about the Bank. To overcome this challenge, the researcher convinced respondents that the study was strictly for academic purposes and that any information from them would be considered confidential.

The researcher also had a difficulty in obtaining some of the required information due to lack of adequate knowledge on the topic of study. The study topic was technical; requiring the

respondents to have adequate knowledge on accounting, management and finance hence some respondent could not be able to answer some of the questions.

### **1.8 Delimitation of the Study**

The study was delimited to KCB, Kisumu Central branches as they are easily accessible and are more in number as compared to other commercial banks. The study focused on getting information on influence of corporate compliance, internal control procedures, corporate culture and social and environmental responsibility as principles of corporate governance and bank's performance in Kenya. The study sought to understand influence of the four different principles of corporate governance on banks performance.

### **1.9 Basic Assumptions of the Study**

The study was conducted based on the following assumptions; corporate compliance influence bank's performance, internal control procedures influence bank's performance, social and environmental responsibility influence bank's performance and corporate culture influence bank's performance.

### **1.10 Definition of Significant terms used in the study**

**Corporate governance:** According to the African Development Bank, corporate governance refers to the mechanism that frames the duties and powers of corporations to deliver benefits to investors and those directly impacted by the corporation's activities. It therefore refers to the manner in which the corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission.

**Performance:** This can be defined as the accomplishment of a given task, goal or objective measured against preset known standards of accuracy, completeness, cost and speed. It is the fulfillment of an obligation and the achievement of a company's mission or vision. Performance of a bank can be seen by customer base, customer satisfaction and customer loyalty.

**Bank:** This referred to a commercial bank that provides services such as accepting deposits, giving loans and basic investment products. They tend to be different from microfinance institutions due to the variety and nature of products and services that they provide and tend to cover a wider geographical space.

### 1.11 Organization of the Study

The study was organized into five chapters: Chapter one is the introduction. In the introductory chapter a background to the study is discussed followed by statement of the problem, purpose of the study, objectives of the study, research questions, significance of the study, basic assumptions of the study, limitations of the study, delimitation of the study, definition of operational terms used the used in the study and organization of the study.

Chapter two includes literature review. The literature is presented in themes as per the research objectives. The themes include: corporate governance systems of banks in Kenya, internal control procedures and bank performance, social and environmental responsibility and bank performance, corporate compliance and bank performance and corporate culture and bank performance. Theoretical and conceptual frameworks as well as gaps identified in the literature reviewed are also discussed. Chapter three focuses on the research methodology discussed under the following sub-headings; research design, target population, sample size, sample selection, research instrument, pilot testing of instrument, validity of research instrument, reliability of

research instrument, data collection procedures, data analysis techniques and ethical issues in research.

Chapter four presents data analysis, presentation and interpretation of the study as per data collection. Lastly, Chapter five contains summary of findings, discussion, contribution to the body of knowledge, conclusions, recommendations and offers suggestions for further studies.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this chapter, literature which is related to and consistent with the objectives of the study was reviewed. The discussion is presented per themes as per the research objectives. Practical problems that have been looked at by other scholars are brought out. Theoretical and conceptual framework and gaps identified in the literature is also discussed.

#### **2.2 Corporate Governance System of Banks in Kenya**

Kenya's corporate governance system was highly impacted by two factors: after the government relaxed rules that governed issuance of licenses to banks in 1982 and by the privatization process that began in the 1980s and gained momentum in the 1990s. This subsequently led to the growth of many banks that did not put into practice proper corporate governance structures resulting into poor governance and management culture in the industry (CCG, 2004) as in the case of Rural Urban Credit Finance which was placed in interim liquidation in the year 1984.

The Government of Kenya through the Central Bank made changes in the Central Bank Act and the banking act to curb instability in the banking industry. This was through raising the capital requirements and the creation of the Depositors Protection Fund. Regardless of efforts made to streamline the banking sector, many banks have been liquidated or put under receivership. The collapse was due to weak internal controls, poor governance and management practices. For example, Continental Bank of Kenya and Continental Credit collapsed in 1986. In

1987 Capital Finance went under. The government then formed Consolidated Bank by merging seven banks that had collapsed (Nambiro, 2007).

Various reasons have been given that may have contributed to the collapse of banking institutions in Kenya. CCG, (2004) outlined the following reasons as being major contributors to this phenomenon; insider lending and conflict of interest, weaknesses in regulatory and supervisory systems, poor risk management strategies, lack of internal controls and weak corporate governance practices. This followed by the CBK to outline more bold and elaborate measures to curb these problems and also to strengthen its arm of supervisory role it plays in the industry. Corporate governance in the banking sector in Kenya largely relates to the responsibility conferred to and discharged by the various entities and persons responsible for and concerned with the prudent management of the financial sector (CBK, 2006). The corporate governance stakeholders in the banking sector include the board of directors, management, shareholders, CBK, External auditors and CMA (CCG, 2004).

### **2.3 Internal Control Procedures and Banks Performance**

All companies have certain laws and regulations they are required to follow regardless of their size whether small, medium enterprise or well established companies. Accounting standards and internal controls are an essential part of this fulfillment to aid in the integrity of financial data, reliability of day-to-day operations, and compliance with rules and standards. Public companies especially need to be aware of the standards and controls they have in place due to the responsibility they hold of safeguarding the public interest. Internal controls are an integral part of statutory compliance. The specific policies and procedures that create the internal control policy aids management in achieving its objectives.

According to Bivins (1989), the forces that can encourage fraud in organizations, starting with the most common one would be money and the threat of losing one's job is often enough to push people to their limits and exceed them. There can also be more simple matters that encourage this type of practice, such as disconnect from the purpose and the people served. In the economic times that we are in today some organizations having a hard time staying afloat, it is probable that someone could cook the books just to keep the business afloat for a bit longer. Efforts for change and prevention have to come from outside the organization as well as inside. To prevent this type of behavior, organizations need to hire reputable accountants, monitor staff, and have people in management that know what to look for in terms of ethical and unethical behavior.

According to Black (1994), internal controls for a business are similar to checks and balances in the government. They are processes put in place to make sure things stay on the right track. Internal controls are useful for every business but are critical for companies with employees who handle valuable assets. Retail businesses in which customers have direct access to small products can also benefit enormously from internal control procedures. While internal controls are crucial for helping you detect dishonesty, they can also help to reduce the risk that simple mistakes will keep the organization from seeing their company's true financial picture. Although internal controls can uncover wrongdoing, they're usually set up with the assumption of honesty in the background. To that end, most standard internal control procedures concentrate on preventing and detecting inadvertent errors. Also, when employees know these controls exist, they're less likely to act dishonestly.

There are various types of internal control systems. Manasseh (2004), identifies the following types of internal controls systems:

**Segregation of duties:** employees should be assigned responsibility for separate components of related tasks, especially those involving recordkeeping, custody, or authorization. For example, the employee who administers the physical control of an asset should not be responsible for that asset's recordkeeping. An employee who possesses two or more of these functions has what is commonly called incompatible responsibilities or inadequate segregation of duties. Such a situation can provide employees with the opportunity to commit fraud.

**Proper authorization:** by requiring proper authorization of activities and transactions, management can ensure that these activities adhere to established guidelines. To deviate from policy and pursue an alternate course of action would require further authorization from a responsible manager. For example, a company might implement a fixed price list to serve as the official authorization for a large sales staff. If employees wish to deviate from the price list, they must obtain authorization from a sales manager.

**Sufficient documentation:** with proper documents and records, a company can readily provide evidence that its financial statements are complete and accurate. Internal controls related to sufficient documentation include the creation of invoices, the use of consecutively pre-numbered documents, and deadlines to ensure that documents are prepared in a timely manner. Business management includes three activities: planning, implementation and control. Entity managers cannot plan an efficient operation nor can they determine if their decision were appropriate and successful unless a good set of records are kept.

**Physical control:** these internal controls are in place to protect the company's assets. Mechanical measures (such as locks, fences, employee ID cards, safes, or fireproof file cabinets)

can protect the assets from physical theft or damage. Computer security measures (such as network access privileges or backup/recovery schedules) can protect electronic data from tampering, theft, or accidental deletion. Banks should protect physical assets and accounting records by limiting access by unauthorized personnel.

Independent verification/checks: to ensure the reliability of accounting information and the efficiency of operations, an employee's duties should be verified by others who did not do the work themselves. For example, a supervisor verifies the accuracy of a cashier's drawer at the end of each work day, while internal auditors may verify that the supervisor's count is accurate. When combined with segregation of duties, independent verification creates a system of checks and balances within the internal controls.

Manasseh (2004), also highlighted the general benefits of effective internal control system as: increased effectiveness and efficiency of operations, increased reliability of management, financial and taxation reporting, appropriate management and control of risk and compliance with applicable legislation, sub-ordinate legislation and other financial management policies of the State.

According to Pike (2003), there are four major limitations of Internal Controls. These include:

**Judgment:** The effectiveness of controls will be limited by decisions made with human judgment under pressures to conduct business based on the information at hand.

**Breakdowns:** Even well designed internal controls can break down. Employees sometimes misunderstand instructions or simply make mistakes. Errors may also result from new technology and the complexity of computerized information systems.

Management Override: High level personnel may be able to override prescribed policies and procedures for personal gain or advantage. This should not be confused with management intervention, which represents management actions to depart from prescribed policies and procedures for legitimate purposes.

Collusion: Control systems can be circumvented by employee collusion. Individuals acting collectively can alter financial data or other management information in a manner that cannot be identified by control systems.

The board should regularly review systems, processes and procedures to ensure the effectiveness of its internal systems of control so that its decision making capability and the accuracy of its reporting and financial results are maintained at the highest level at all times.

## **2.4 Social and Environmental Responsibility and Banks Performance**

Most companies take part in corporate social responsibility in order to give back to the society and also for philanthropic purposes. The motivation behind such activities differs from one organization to another. The organization should also ensure that whatever they do are environmentally sound so as not to jeopardize future generations.

Akanbi (1999), conducted a study on the effect of corporate social responsibility on organizational performance in the banking industry with a particular reference to United Bank for Africa, Lagos, Nigeria. The objective of his research work was to determine the relationship between the dimensions of corporate social responsibility and organizational performance. The findings of the study revealed that the dimensions of corporate responsibility have a positive effect on organizational performance.

According to Manasseh (2004), key performance indicators provide businesses with a means of measuring progress toward achieving objectives. They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. The approach is no different when managing environmental, social and governance issues. Increasingly, previously assumed externalities such as environmental, social and governance matters are affecting business performance. For example, poor stewardship and management of natural resources can increase costs and reduce efficiency, impacting on operational performance.

Henderson (2001), argues that neglecting to incorporate socio-environmental considerations into decision-making can curtail business opportunities, and jeopardize a company's license to operate. Failing to plan for a future in which socio-environmental issues are considered is likely to be a significant source of risk that may undermine the long-term value of a business, for example, the mitigation and adaptation requirements of climate change.

According to Imran Ali et. al. (2010), in the current business environment, corporations must try to find ways of optimization to triple bottom line concept of sustainability management.

Bivins (1989), says that obstacles to a more active participation in external and environmental CSR practices are concentrated on lack of knowledge and resources. Lack of knowledge is cited by about 30 percent of the firms in each category of responsibility, while lack of resources is cited mostly as an obstacle to external responsibility. This is consistent with other results that show this activity as mostly altruistic, philanthropic and unrelated to the business itself, reflecting a lack of knowledge of the potential impact on the welfare of the firm. Additionally, an obstacle to involvement in environmental responsibility is the perceived lack of

impact. This perception may also be a reflection of the lack of knowledge, because while it may be true that some firms may not have a direct measurable impact on the environment, all firms could optimize their resource use and handling of waste.

## **2.5 Corporate Compliance and Banks Performance**

Corporate compliance is concerned with how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports. According to Manasseh (2004), commonly accepted principles of corporate governance include:

Shareholder Rights and equitable treatment of shareholders: Organization should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

Interests of other stakeholders: Organizations should recognize that they have legal and other obligations to all legitimate stakeholders. The board should ensure that the corporation complies with all relevant laws regulating governance practices, accounting and auditing standards.

Role and responsibilities of the board: The board needs a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. It needs to be of sufficient size and have an appropriate level of commitment to fulfill its responsibilities and duties. There are issues about the appropriate mix



of executive and non-executive directors. The key roles of chairperson and CEO should not be held by the same person.

**Integrity and ethical behavior:** Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

**Disclosure and transparency:** Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

It is often alleged that boards of directors are more independent as proportion of outside directors increases (John and Senbet, 1998). However, Foserg (1989), found no relation between the proportion of outside directors and various performance measures that is sales, return on equity and expenses. Bhagat and Black (2002), found no linkage between the proportion of outside directors and return on assets, asset turnover and stock returns. On the contrary, Baysinger and Butler (1985), and Rosenstein and Wyatt (1990), show that market reward firms for appointing outside directors. Brickley, Coles and Terry (1994), found a positive relation between proportion of outside directors and stock market reaction to poison pills adoption. Anderson, Mansi and Reeb (2004), show that the cost of debt as proxy by bond yield spreads is inversely related to board independence.

Shauki (1995), did a study to investigate the UAE national banks' practices of corporate governance and the perception of the UAE national banks of the effects of corporate governance on performance and financial distress. Respondents indicated that banks of best corporate

governance practices would have positive impacts on compliance. The results indicated that UAE banks are aware of the importance of disclosure transparency, executive compensation, the relationship with shareholders and stakeholders, and the role of the board of directors. The results also indicated that the corporate governance practices of UAE national banks are acceptable. In addition, the results reveal that there is a significant positive relationship between corporate governance practices of UAE national banks and disclosure and transparency, shareholders' interests, stakeholders' interests, and the role of the board of directors. Furthermore, the results indicated that there is insignificant positive relationship between corporate governance practices of UAE national banks and performance level, and that there is a significant positive relationship between financial distress and corporate governance practices of UAE national banks. Finally, the study found that there is no significant difference in the level of corporate governance practices between the UAE's national conventional banks and its Islamic banks.

Surendra (1996), did a study on corporate governance issues from a compliance viewpoint among Jordanian banks. He found out that there was a distinction between legal and ethical compliance mechanisms and showed that the former had clearly proven to be inadequate as it lacked the moral firepower to restore confidence and the ability to build trust. According to him, the concepts of freedom of indifference and freedom for excellence provide a theoretical basis for explaining why legal compliance mechanisms are insufficient in dealing with fraudulent practices and may not be addressing the real and fundamental issues that inspire ethical behavior. He concludes that ethical compliance mechanisms are addressed from a virtue ethics perspective.

James (1998), did a study on corporate compliance in the banking industry in Nigeria and sought to obtain shareholders opinion on compliance with regulatory financial reporting

requirements and corporate governance practices cum performance in selected banking institutions. The operators rated compliance to be very high while at the other extreme customers and members of the public rated compliance to be very slow.

In a study conducted in Tanzania by John (2010), to examine the effectiveness of internal audit function in Tanzanian commercial banks since the function is now a mandatory requirement as per the Banking and Financial Institutions Act 2006. Results of the study deliberate that, the risks management and corporate governance related activities of internal auditors are incorporated merely as statutory obligations and do not provide additional value to the stakeholders. He concluded that internal auditing in Tanzania commercial banks was still embracing the conservative approach which is primarily concerned with compliance and monitoring rather than adopting value added approach. The inference of the study is more crucial to the agency theory whereby public funds are being spent on activities which do not add value to the stakeholders. This could in turn dilute the principal agent relationship, which is already a tenacious issue due to the corporate collapses witnessed over the last decade.

The various principles identified and implemented by various organizations differ from one organization to another. When the principles are adhered to and followed by various employees in an organization, constitutes corporate compliance. This is to say that the employees follow the accepted ways of doing things which in turn influences banks performance.

## **2.6 Corporate Culture and Bank Performance**

According to Bonyop (2009), behaviors and artifacts are the most manifest level of culture consisting of the constructed physical and social environment of an organization for instance physical space, mottos, artistic productions and overt behaviors of members. Values are less visible than behaviors or artifacts. The constituents of this level of culture provide the underlying

meanings and interrelations by which the patterns of behaviors and artifacts may be deciphered. Basic assumptions represent the unconscious level of culture at which the underlying values have over a period been transformed and are taken for granted as an organizations acceptable way of perceiving the world. By this definition, basic assumptions are the most difficult to understand and change. The board should define, promote and protect the corporate ethos, ethics and beliefs on which the corporation premises its policies, actions and behavior in its relationship with all who deal with it.

Several researches on how to optimize performance have taken place in the past two decades. It has been argued that strategic group membership and associated collective behaviors are the primary sources of durable differences in firm profitability and organization effectiveness (Caves and Porter, 1977). This implies that the collective behavior of organization members which culture helps to control is important to its effectiveness. In relation to this argument, Glasister and Buckley (1998), identified corporate culture as one of the factors responsible for organizational effectiveness. A strong corporate culture (that is, one in which everyone understands and believe in the firm's goal, priorities and practices) that encourages the participation and improvement of all organization's members has been identified to be one of its most important assets (Denison, 1985).

Corporate culture has been cited as an explanation for the differences in productivity among American and Japanese companies (Peters and Waterman, 1982; Denison, 1985). Superior Japanese productivity has been consistently attributed in part, to better organization of work, consensus decision making, and an elusive quality called the effective management of `human resources (Denison, 1985). The hypothesis that strong cultures enhance firm performance is based on the intuitively powerful idea that organizations benefit from highly motivated

employees dedicated to common goals (Peters and Waterman, 1982; Denison 1990; Denison & Mishra 1995). In support of this argument, quantitative analysis has shown that firms with strong culture outperform firms with weak culture (Gordon and DiTomaso, 1992, Denison, 2007).

Sorensen (2002), showed that the relationship between cultural strength and performance reliability depends on how strong culture firms learn from and respond to their own experiences and changes in their environment. The result shows that in relatively stable environments, strong-culture firms have more reliable performance. However in volatile environments, the reliability benefits disappear.

## **2.7 Theoretical Framework**

The study was based on agency theory so as to be able to explain how the various principles of corporate governance affect banks performance.

### **2.7.1 Agency Theory**

It is an acknowledged fact that the principal-agent theory is generally considered the starting point for any debate on the issue of corporate governance emanating from the classical thesis on The Modern Corporation and Private Property (Berle and Means, 1967). According to this theory, the fundamental agency problem in modern firms is primarily due to the separation between finance and management. Modern firms are seen to suffer from separation of ownership and control and therefore are run by professional managers (agents) who cannot be held accountable by dispersed shareholders.

It has been pointed out that separation of control of ownership implies that professional managers manage a firm on behalf of the firm's owners (Kiel and Nicholson, 2003). Conflicts arise when firm's owners perceive the professional managers not to be managing the firm in the best interests of the owners. According to Eisenhardt (1984), the agency theory is concerned with

analyzing and resolving problems that occur in the relationship between principals (owners or shareholders) and their agents or top management. The theory rests on the assumption that the role of organizations is to maximize the wealth of their owners or shareholders (Blair, 1998).

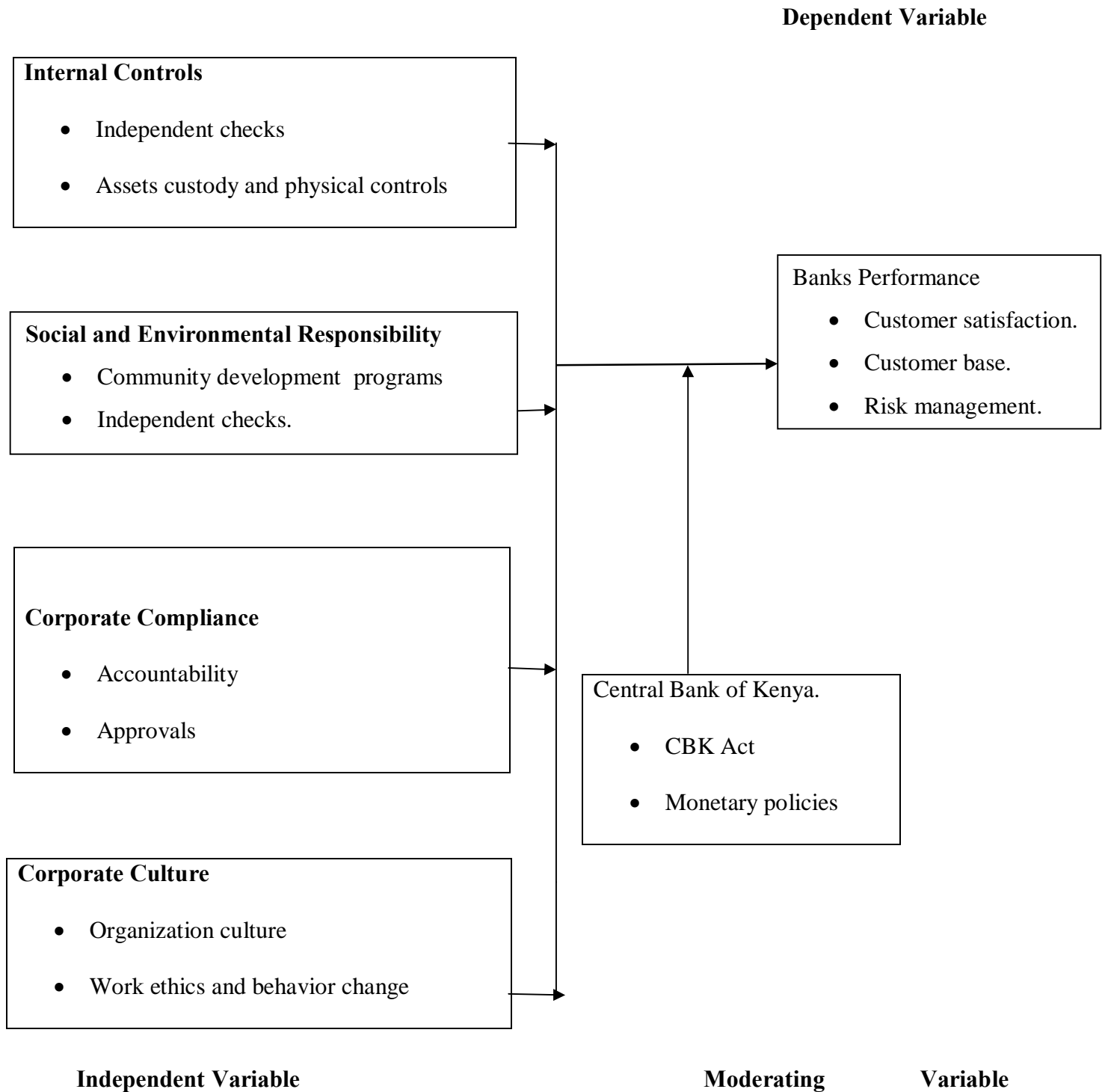
The theory stipulates that most businesses operate under conditions of incomplete information and uncertainty. Such conditions expose businesses to two agency problems namely: adverse selection and moral hazard. Adverse selection occurs when a principal cannot ascertain whether an agent accurately represents his or her ability to the work for which he or she is paid to do. Moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort ( Eisenhardt, 1989).

According to the agency theory, superior information that is available to professional managers allow them to gain advantage over owners of the firms. The reasoning is that firms' top managers may be more interested in their personal welfare than in the welfare of the firms' shareholders (Berle and Means, 1967). Donaldson and Davis (1991), argue that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguarding the interests of shareholders. Therefore, the agency theory advocates that the purpose of corporate governance is to minimize the potential for managers to act in a manner contrary to the interests of shareholders. The theory suggests that a firms top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by top management(Mailin, 2004).

Whenever and Hunger (2002), argue that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a

substantial amount of stock in the corporation. The agency theory also advocates for the setting up of rules and incentives to align the behavior of managers to the desires of owners.

**Figure 2.1 Conceptual Framework**



*Source: Author (2014)*



## **2.9 Knowledge Gap**

Many other researchers have examined the relationship between a variety of governance principles and performance. However, the results are mixed. Some examine only the impact of a few governance mechanisms on performance, while others investigate the influence of several mechanisms together on performance. There is a yawning gap that exists since none of them covers influence of corporate governance and performance specifically in the commercial Banking sector in Kenya. The only study done in Kenya by the centre of corporate governance focused on governance practices in the banking sector in Kenya. More so, the many unpublished work done in Kenya followed suit by focusing in corporate governance in general with only one study among them focusing on the relationship between implementation level of Capital Markets Authority guidelines on corporate governance and profitability of companies listed at Nairobi Stock Exchange(NSE).It is against this background that I found it necessary to carry out a study on the influence of corporate governance on Banks performance in Kenya, taking a case study of KCB Kisumu Central, to bridge the gap that exist.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND DESIGN**

#### **3.1 Introduction**

This chapter describes the research methodology that was employed in carrying out the study. It also contains the target population, and the sampling design, test of reliability and validity, data collection procedures, data analysis techniques and ethical considerations.

#### **3.2 Research Design**

According to Mugenda (1999), a research design is a master plan, framework or blue print specifying the methods and procedures for collecting and analyzing the needed information. The study adopted descriptive research design. This type of research design reports things the way they are and attempts to describe such things as possible behavior, attitudes, values and characteristics. This research design was also suitable because it was concerned with describing the characteristics of particular individual or group of individuals. The study aimed at describing the state of affairs as it was and therefore considered the descriptive research design to be the most appropriate for this study. As asserted by Mugenda (1999), a descriptive study tries to discover answers to who, what, when, where, and sometimes how questions. This design was suitable for this research since it provides qualitative and quantitative data collection methods of selecting samples to analyze and discover occurrences (Oso and Onen, 2009). According to Kothari (2004), descriptive survey design yields maximum information and provide an opportunity for considering different aspects of the problems.

### **3.3 Target Population**

Target population is that population to which the researcher wants to generalize the results of the study. Target population is also defined by Walter (1998), as a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The target population of the study was employees in management position from KCB, Kisumu Central District. These employees include board of directors, regional managers, branch managers and business level managers. There were 100 employees in the said categories according to KCB Personnel Records, 2013.

#### **3.4.0 Sampling Design**

According to Walter (1998), a sampling design is a definitive plan for obtaining a sample from a given population. It refers to the technique or procedure the researcher would adopt in selecting items for study. He described sampling as the process by which a relatively small number of individual, object or event is selected and analyzed in order to find out something about the entire population from which it was selected. Data was gathered from every member in the said capacities. Census as a method of data collection is also known as complete enumeration technique (Mugenda and Mugenda, 1999). Under this technique each and every item or unit constituting the population is selected for data collection. In the study census was used since the target population was small, to ensure complete representation and could be well covered so as to yield maximum information. The advantage of using census was that the result of the enquiry would be exact and accurate because the information is collected from each and every unit of the population and thus an extensive and detailed study was made possible.

**Table 3.1: Sampling Design**

<b>Population Category</b>	<b>Population Frequency</b>	<b>Percentage (%)</b>
Board of Directors	5	5
Regional Managers	20	20
Branch Managers	5	5
Business Level Managers	70	70
<b>Total</b>	<b>100</b>	<b>100</b>

#### **3.4.1 Sampling Technique**

In selection of the respondents to be used in the study, the purposive sampling technique was adopted. This is because the researcher used cases that required information with regards to the objectives of study. Kerlinger (1986), explained purposive sampling as another type of non probability sampling, which is characterized by the use of judgment and a deliberate effort to obtain representative samples by including typical areas or groups in the sample. The researcher was convinced that the employees of Kenya Commercial Bank (KCB) in the categories stated were in a position to give the required information. The sample size for this study was 100 employees from KCB in Kisumu Central District who work in the following capacities: board of directors, regional managers, branch managers and business level managers.

### **3.5 Research Instruments**

According to Oso and Onen (2009), research instruments are the tools used to collect data. Self administered questionnaires were given to all the respondents. The questionnaire was divided into five sections starting with personal details followed by questions on internal controls, social and environmental responsibility, corporate compliance and finally corporate culture so as to be able to answer the research questions. The questionnaires contained both open-ended and closed-ended items. The questionnaires were hand delivered to the respondents and later picked when the respondents had filled them. The justification for the use of questionnaires was that they are economical to use in terms of time and money. They also permit a greater depth of response. Each respondent in the same group received the same set of questions phrased in exactly the same way.

#### **3.5.1 Pilot Testing**

Mugenda and Mugenda (1999), says that pilot testing is very crucial in any study as it helps in refining research instruments so that they can capture the intended information. Piloting of the instrument involves pre-testing the research instrument on a small sample of respondents which can be done on a sample of at least ten respondents who have the same characteristic as the sample to be taken (Mulusa, 1990). In sampling of the research instrument, ten questionnaires were administered to employees of neighboring KCB branches namely, Sondu Branch, Mbale Branch, Muhoroni Branch and Luanda Branch. During pilot testing attention was focused on questions that would make respondents uncomfortable and also to see the flow of the questionnaire.

### 3.5.2 Validity of Research Instruments

Mugenda and Mugenda (2008), defines validity as the degree to which an instrument measures what it is supposed to measure. To ensure the validity of the research instrument, a pre-test was undertaken. According to Mugenda and Mugenda (1999), the number of cases in the pre-test should be 10% for small samples and 1% for large samples. Four questionnaires were administered to the respondents for the pre-test. They were edited to ensure that the questionnaires administered for the final study were capable of eliciting the kind of information that was required (validity).

### 3.5.3 Reliability of Research Instrument

According to Taylor (2008), a measure is reliable to the extent that repeated application of it under the same condition by different researchers gives the same results. A test retest was undertaken to establish reliability. Internal reliability was assessed by using Cronbach's coefficient alpha;

$$\alpha = \frac{N \cdot \bar{r}}{1 + (N - 1) \cdot \bar{r}}$$

Where  $N$  is equal to the number of items and  $\bar{r}$  is the average inter item correlation among the items.  $\alpha$  measure of squared correlation was done between observed and true scores (Mugenda and Mugenda, 2003). A cronbach's co-efficient of 0.70 is considered adequate and a higher alpha signified higher reliability of the instrument.

### 3.6 Data collection procedures

Data was collected through primary resources. This was through the use of self administered questionnaires that were dropped and later picked when the respondents had

completed them. The research assistant kept in contact with the respondents in case they would require any assistance. The questionnaire contained both open ended and closed ended questions. Privacy issues were taken care of under ethical considerations. Data collection took place within one month.

### **3.7 Data Processing and Analysis**

Data collection through questionnaires was edited and coded for analysis. It was analyzed quantitatively and qualitatively. Quantitative data was analyzed through the use of descriptive statistics, charts and tables and percentages for data representation. Qualitative data was analyzed through content analysis.

### **3.8 Research Ethics**

The researcher before going to conduct the research sought permission from University of Nairobi, by requesting for a letter of introduction. A research permit was obtained from the Ministry of Education under department of National Council for Science and Technology which granted approval for the research to be conducted. This enabled the respondents not to treat the researcher with suspicion and therefore the researcher looked more responsible. The researcher obtained informed consent from all respondents before proceeding to leave the self administered questionnaires. The researcher also treated the respondents with respect in that if for whatever reason the respondent was not comfortable in answering a specific question, the researcher respected that decision and did not force his way. Confidentiality and anonymity were also guaranteed as the respondents were not required to indicate their names on the questionnaires.

## **CHAPTER FOUR**

### **DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSIONS**

#### **4.1 Introduction**

This chapter presents findings of the study which have been discussed under thematic sub sections in line with the study objectives. The thematic areas include: Questionnaire return rate; Demographic characteristics of respondents, influence of internal control procedures on banks performance, influence of social and environmental responsibility on banks performance, influence of corporate compliance on banks performance and finally, influence of corporate culture on banks performance.

#### **4.2 Questionnaire Return Rate**

The study targeted 100 respondents working in management position from KCB, Kisumu Central District. A total of 100 questionnaires were administered and all of them were returned giving a response rate of 100%. This response rate was achieved because of proper coordination with the respondents and explaining the importance of the study to the Bank. The high questionnaire return rate could also be attributed to the respondents cooperation, adequate time allowed for the completion of questionnaires and the consistent followups made by the researcher and her assistants. This return rate was acceptable because it was above 60% return rate recommended (Amin, 2005). According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting, while a response rate of 60% is good and that of 70% and above is very good. The response rate of 100% achieved in this study was indeed sufficient for analysis and reporting.



### 4.3 Demographic Characteristics of Respondents

This section presents the demographic characteristics of respondents involved in the study. The demographic characteristics included, Gender (Male or Female), Age (beginning from 18 years), Education level (Primary, secondary, college or university) and finally, length of service of an employee at Kenya Commercial Bank (KCB).

#### 4.3.1 Distribution of Respondents by Gender

Gender refers to socially constructed roles, behavior, activities and attributes that a particular society considers appropriate for men and women. It was necessary to determine the gender balance among employees in management position from KCB, Kisumu Central District in order to appreciate the gender diversity of employees and ascertain whether the employees of KCB in management positions are near gender parity. For this reason, respondents were asked to indicate their gender balance. Findings were as reflected in Table 4.1.

**Table 4.1: Distribution of Respondents by Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	77	77
Female	23	23
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who participated in the study, majority 77 (77%) of the respondents were male as compared to 23(23%) of respondents who were female. It is evident from the results that male employees dominated many of the departments in Kenya Commercial Bank. These results indicate that KCB employees in management positions are not near gender parity.

Thus a multi-prolonged awareness creation campaign should be initiated in order to encourage more female employees to strive towards top management positions in order to make the dream of gender parity a reality.

#### **4.3.2 Distribution of Respondents by Age**

The researcher asked respondents about their ages because this could determine their experience, commitment and level of responsibilities with regard to working in the bank and their performance. It was also important to understand group dynamics of KCB employees and establish the relationship between the age of an employee and his/ her performance in the Bank. The age of the respondent could also influence risk taking on new ideas. In view of this, respondents were asked to state their ages. Their responses were as depicted in Table 4.2.

**Table 4.2: Distribution of Respondents by Age**

<b>Age</b>	<b>Frequency</b>	<b>Percentage</b>
18-25	5	5
26-30	28	27
31-35	33	33
36-40	15	15
41-45	7	7
46-50	7	7
51 and above	5	5
<b>Total</b>	<b>100</b>	<b>100</b>

Table 4.2 shows that 5 (5%) of the respondents were between 18-25years, 28(27%) respondents were between 26-30 years, 33 (33%) respondents were between 31-35 years, 15 (15%) respondents were between 36-40 years, 7 (7%) respondents were between 41-45years, 7 (7%) respondents were between 46-50years and 5 (5%) were above 51years of age. Results of the study indicate that majority of respondents fell within the age brackets of 26-30 and 31-35 years at 28(27%) and 33(33%) respectively. This is a very active and productive age which can positively be tapped to enhance Banksøperformance.

#### 4.3.3: Distribution of Respondents by Level of Education

The study sought to establish the educational level of respondents who participated in the study. This was considered important as it could reveal information on the role of education in facilitating the quality of services provided by employees of KCB in management positions. Respondents were asked to state their highest level of education. Their responses were as tabulated in Table 4.3.

**Table 4.3: Distribution of Respondents by Level of Education**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percentage</b>
Secondary	3	3
College	47	47
University	50	50
<b>Total</b>	<b>100</b>	<b>100</b>

Table 4.3 shows that 3 (3%) of the respondents were secondary school graduate (Oø level), 47 (47%) of respondents were college graduates and 50(50%) of respondents were

university graduates. It is evident from the results that majority of respondents were university graduates at 50(50%). The researcher noticed that all respondents who acknowledged being secondary school graduates were long serving employees and worked as business level managers (sales managers, retail bankers and personal bankers).

#### **4.3.4: Length of Service of Employees at Kenya Commercial Bank (KCB)**

The researcher felt that it was necessary to establish the length of service of KCB employees in management positions. This information made the researcher to be at a vantage point of establishing the link between the length of service of an employee and his/her productivity in the Bank. In order to capture this important information, respondents were asked to indicate their length of stay in the Bank. Their sentiments were as presented in Table 4.4.

**Table 4.4: Length of Service of Employees at Kenya Commercial Bank (KCB)**

<b>Length of Service</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5 years	7	7
5-10 years	23	23
Over 10 years	70	70
<b>Total</b>	<b>100</b>	<b>100</b>

The study results from table 4.4 shows that out of the 100 respondents, majority 70 (70%) of them had served KCB Bank for over 10 years, 23 (23%) of the respondents had served between 5-10 years and 7 (7%) of respondents had served for less than 5 years at Kenya Commercial Bank of Kenya (KCB). These results indicate that, majority 70 (70%) of employees in top management positions had worked in the Bank more than ten years. This implied that,

most of the employees who were in top management positions, may have gained full blown experience in managing the operations of the Bank since experience is gained by consistently doing the same thing repeatedly, an aspect which requires time. This observation may be a positive contribution to the performance of the Bank.

#### **4.4: Influence of Internal Control Procedures on Banks' Performance**

This section sought to present findings of the study in an effort to determine the level at which internal control procedures influence banks' performance under the following two main sub-themes; the first sub-theme covered asset custody and physical controls while the second sub-theme looked at independent checks.

##### **4.4.1 Influence of Asset Custody and Physical Controls on Banks' Performance**

In order to effectively capture the influence of asset custody and physical controls on Banks' performance, the researcher further discussed this sub-theme under various sub-sections including; frequency of reviewing policy overrides and number of cases of stealing by servant or any other forms of assets losses by the employees.

##### **4.4.1.1 Frequency of Reviewing Policy Overrides**

The researcher enquired from respondents whether there existed processes to ensure that policy overrides were minimal and exceptions were reported to management. Respondents gave their opinions as represented in Table 4.5

**Table 4.5: Frequency of Reviewing Policy Overrides**

	<b>Frequency</b>	<b>Percentage</b>
Yes	<b>100</b>	<b>100</b>

Table 4.5 shows that all respondents 100 (100%) acknowledged that there existed processes to ensure that policy overrides were minimal and exceptions were reported to management. This corresponds to Black (1994), who says that internal controls for a business are similar to checks and balances in the government. They are processes put in place to make sure things stay on the right track. Internal controls are useful for every business but are critical for companies with employees who handle valuable assets

#### **4.4.1.2: Number of Cases of Stealing by Servant or any other Forms of Assets Losses by the Employees**

Establishing the number of cases of stealing by servant or any other forms of assets losses by the employees placed the researcher in a better position of gauging the influence of asset custody and physical controls on Banksøperformance. In view of this, respondents were asked to indicate the number of cases of stealing by an employee in the Bank or to state any other form of asset loss for the past one year. Respondents gave various sentiments as represented in Table 4.6.

**Table 4.6: Number of Cases of Stealing by an Employee or any other form of Asset Loss for the Past one year**

<b>Cases of Stealing</b>	<b>Frequency</b>	<b>Percentage</b>
None	70	70
One	30	30
<b>Total</b>	<b>100</b>	<b>100</b>

Results from table 4.6 shows that out of 100 respondents who participated in the study, 30 (30%) of them did mention that they know of one case of stealing by servant for the past one year while 70 (70%) of the respondents said they knew of none. The researcher noticed that most

of the respondents who said they know of one case of stealing by servant or asset losses in the hands of employees came from administration department. Findings of this study implies that there were minimal cases of asset loss or stealing cases, an indication that there existed an elaborate mechanism of asset custody and physical controls. This scenario can boost Banksø performance in terms of reduction in risk management.

#### **4.4.2 Influence of Independent Checks on Banks Performance**

The researcher examined the influence of independent checks on Banksø performance under the following sub-sections; possibility of same individual recording, verifying and authorizing transactions, access to location such as the safe room and existence of policies and procedures.

##### **4.4.2.1 Same Individual Recording, Verifying and Authorizing Transactions**

In order to determine the level at which internal control procedures influence Banks performance, respondents were asked the possibility of the same individual recording, verifying and authorizing transactions. Responses of respondents were as tabulated in Table 4.7.

**Table 4.7: Possibility of Same Individual recording, Verifying and Authorizing Transactions**

<b>Monopoly</b>		
<b>transactions</b>	<b>Frequency</b>	<b>Percentage</b>
No	75	75
Yes	10	10
Sometimes	15	15
<b>Total</b>	<b>100</b>	<b>100</b>

Table 4.7 shows that out of 100 respondents who participated in the study, 75 (75%) of them disagreed on the possibility of the same individual recording, verifying and authorizing transactions, 10 (10%) agreed while 15 (15%) said this can only happen sometimes. The researcher noticed that majority of the respondents who said that the same individuals could not record, verify and authorize transactions were branch managers and comparatively those who said this can happen at times were business level managers. Results of the study insinuate that the Bank had stringent independent checks put in place to minimize loss of money by reducing the possibility of the same person recording, verifying and authorizing transactions. This concurs with studies done by Manaseh (2004), who identified that duty segregation indeed does influence fraud management.

#### **4.4.2.2: Access to Location such as the Safe Room**

The safe is the heartbeat of any Bank. It is the Banksø stronghold because all the valuables of the Bank are kept in the safe room. For this reason, the researcher was interested in ascertaining the frequency of access to the Banksø safe room by unauthorized personsø as way of gauging independent checks put in place by the Bank. In this regard, respondents were asked to provide their opinion on the possibility of unauthorized staff members accessing the safe room of the Bank. Their responses were as shown in Table 4.8.



**Table 4.8: Access to Location such as the Safe Room**

Safe Room		
Access	Frequency	Percentage
Sometimes	20	20
Not at all	80	80
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who participated in the study, 80 (80%) asserted that unauthorized persons cannot access locations such as the safe room while 20 (20%) acknowledged that this can happen at times. The researcher also noticed that none of the respondents ticked the option of "all the time" with those who said sometimes citing special situations like when unauthorized staff is sent by special order during auditing or for independent checks. This finding implies that the safe room of the bank is safeguarded area, an aspect which justifies the fact that the Bank has put in place enough independent checks to enhance its performance. This is in line with studies done by Bivins (1989), who asserts that the love for money would lead to fraud in organizations and Manasseh (2004), who recommends that access by unauthorized personnel, should be limited.

#### **4.4.3 Impact of Banks' Internal Control Procedures on Customer Base**

In order to further justify the influence of internal control procedures on the performance of the Bank, the researcher cross-tabulated banks' internal controls procedures versus impact on

customer base. This information enabled the researcher to ascertain the link between internal controls procedures of the Bank and its impact on customer base as shown in Table 4.9.

**Table 4.9: Cross-Tabulation of Banks' Internal Controls Versus Impact on Customer Base**

Impact on Customer Base	Banks' Internal Controls Procedures		Total
	Yes	No	
Very High	30(30%)	2 (2%)	32(32%)
Medium	60(60%)	8 (8%)	68(68%)
Low	0	0	0
<b>Total</b>	<b>90(90%)</b>	<b>10(10%)</b>	<b>100(100%)</b>

Table 4.9 shows that, majority 90 (90%) of respondents who participated in the study acknowledged that Banks' internal control procedures had a positive impact on customer base. This is justified by the fact that 32 (32%) of respondents echoed their voices that Banks' internal control procedures had highly increased the customer base. According to the respondents 68 (68%) of the respondents said that Banks' internal controls procedures had fairly impacted on the customer base of the Bank. An increase in customer base of the bank has a multiplier effect of increase in profitability of the Bank because the more the number of customers served, the more the money transacted by the Bank and by extension, the more the profit realized. This is in line with Manasseh (2004), who highlighted the general benefits of effective internal control system as: increased effectiveness and efficiency of operations, increased reliability of management, financial and taxation reporting, appropriate management and control of risk and compliance with applicable legislation, sub-ordinate legislation and other financial management policies of the State.

#### 4.5 Influence of Social and Environmental Responsibility on Bank's Performance

This section focused on the objective of assessing how social and environmental responsibilities affected performance in the banking industry. The theme has been discussed under two main sub-themes; community development programs and environmental sensitivity initiative as well as independent checks.

##### 4.5.1 Community Development Programs and Environmental Sensitivity Initiative

In order to ascertain the influence of social and environmental responsibility of employees in management position from KCB, the researcher felt that it was prudent to examine the participation of employees in community development programs and environmental sensitivity. In view of this, respondents were asked whether they were aware of any incentive relating to environmental, health, social trend sensitivity or community development endeavors initiated by the Bank between the years 2008-2013. Their responses were as captured in Table 4.10.

**Table 4.10: Community Development Programs and Environmental Sensitivity Initiative**

Community Programs	Frequency	Percentage
Yes	90	90
No	10	10
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who participated in the study, majority 90 (90%) of the respondents admitted that they were aware of incentives relating to environmental, health, social trend

sensitivity or community development endeavors initiated by the Bank between the years 2008-2013 while 10 (10%) of the respondents held a contrary opinion that they were not aware of incentives relating to environmental, health, social trend sensitivity or community development endeavors initiated by the Bank. Findings of this study concur with that of Akanbi, (1999) study on the effect of corporate social responsibility on organizational performance in the banking industry with a particular reference to United Bank for Africa, Lagos, Nigeria. The objective of his research work was to determine the relationship between the dimensions of corporate social responsibility and organizational performance. The findings of the study revealed that the dimensions of corporate responsibility have a positive effect on organizational performance.

#### **4.5.2 Independent Checks and Banks' Performance**

In order to ascertain the influence of social and environmental responsibilities on Banks performance, the researcher cross tabulated several independent checks viz-a viz social and environmental sensitivity initiative. These independent checks include; customer satisfaction and customer base.

#### **4.5.3 Impact of Social and Environmental Responsibilities on Customer Satisfaction**

The researcher cross-tabulated social and environmental responsibilities with the level of customer satisfaction in order to relate whether social and environmental responsibilities influenced customer satisfaction and by extension, Banks performance. Opinion of respondents was sought on this matter. Their responses were as depicted in Table 4.11.

**Table 4.11: Cross-Tabulation of Social and Environmental Responsibility and Customer Satisfaction**

Impact on customer satisfaction	Social and Environmental Responsibilities		Total
	Yes	No	
Not interested	0	0	0
Somewhat interested	38(38%)	0	38(38%)
Interested	30(30%)	5(5%)	35(35%)
Very Interested	22(22%)	5(5%)	27(27%)
<b>Total</b>	<b>90(90%)</b>	<b>10(10%)</b>	<b>100(100%)</b>

Table 4.11 shows that, out of 100 respondents who participated in the study, majority of respondents 90 (90%) acknowledged that social and environmental responsibilities carried out by Banksøemployees manifested into increase in customer satisfaction. Only 10 (10%) respondents said that social and environmental responsibilities carried out by employees of the Bank had no impact on the customer base of the Bank. According to Manasseh, (2004) key performance indicators provide businesses with a means of measuring progress toward achieving objectives. They provide quantitative or qualitative forms of feedback that reflect performance in the context of their business strategy. The approach is no different when managing environmental, social and governance issues. Increasingly, previously assumed externalities such as environmental, social and governance matters are affecting business performance; for example, poor stewardship and management of natural resources can increase costs and reduce efficiency, impacting on operational performance.

#### 4.5.4 Impact of Social and Environmental Responsibilities on Customer Base

The second independent check the researcher examined was customer base. The researcher was interested in establishing whether social and environmental responsibilities that Banksø perform had any influence on Banksø performance. In order to successfully succeed in relating this, the researcher cross-tabulated social and environmental responsibilities of the Bank with customer base and obtained results as illustrated in Table 4.12.

**Table 4.12: Cross Tabulation of Social and Environmental Responsibilities and Customer Base**

Impact on Customer Base	Social and Environmental Responsibilities		Total
	Yes	No	
Very High	0	0	<b>0</b>
High	30(30%)	2(2%)	<b>32(32%)</b>
Medium	60(60%)	8(8%)	<b>68(68%)</b>
Low	0	0	<b>0</b>
<b>Total</b>	<b>90(90%)</b>	<b>10(10%)</b>	<b>100(100%)</b>

Out of 100 respondents who participated in the study, 90 (90%) asserted that social and environmental responsibilities played by Banks through their employees in management positions enabled the Bank to increase their customer base and by extension, increase their profit margins. Only 10 (10%) respondents did not appreciate the role played by social and environmental responsibilities in enhancing the Banksø customer base. Findings of this study is in agreement with that of Henderson, (2001) who argued that neglecting to incorporate socio-environmental considerations into decision-making can curtail business opportunities and jeopardize a company's license to operate. Failing to plan for a future in which socio-environmental issues are considered is likely to be a significant source of risk that may

undermine the long-term value of a business, for example, the mitigation and adaptation requirements of climate change.

#### 4.6 Influence of Corporate Compliance on Banks' Performance

This section focused on how corporate compliance affected performance in the banking industry. For an in-depth understanding of this theme, the researcher examined how accountability and approvals as components of corporate compliance influenced Banksø performance.

##### 4.6.1 Influence of Accountability on Banks' Performance

Accountability of employees on the day-to-day business transactions of any organization is paramount in enhancing its performance. For this important reason, the researcher enquired from respondents whether there existed an independent internal audit function within the Bank to facilitate accountability. Respondents gave various sentiments as tabulated in Table 4.13.

**Table 4.13: Presence of an Independent Internal Audit Function**

<b>Internal Audit Function</b>	<b>Frequency</b>	<b>Percentage</b>
No	47	48
Yes	53	52
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who participated in the study, majority 53 (52%) acknowledged that there was an independent internal audit function within the Bank while 47 (48%) of the respondents said that there was no independent internal audit function within the Bank. Findings

of the study revealed that the Bank appreciated accountability of employees demonstrated by the Banksø commitment in initiating an independent internal audit within the Bank to enhance their accountability. This finding concurs with that of Sorensen, (2002) which showed that the relationship between corporate compliance and performance reliability depends on how strong corporate firms learn from and respond to their own experiences and changes in their environment. Results indicated that in relatively stable environments, strong-corporate firms had more reliable performance.

#### **4.6.2: Existence of Policies and Procedures governing approvals**

Existence of vibrant policies and procedures to govern approvals needed on day to day operations of the Bank is one way of gauging the level how corporate compliance influence Banksø performance. For this reason, respondents were asked to state if there exists policies and procedures to ensure critical decisions were made with appropriate approval by either committee approval or documented minutes. Results were as illustrated in Table 4. 14.

**Table 4.14: Existence of Policies and Procedures**

<b>Policies existence</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	77	77
No	23	23
<b>Total</b>	<b>100</b>	<b>100</b>



Out of 100 respondents who participated in the study, majority 77 (77%) said that policies and procedures existed to ensure critical decisions were made with appropriate approval, case of committee approval of documented minutes in their departments while 23 (23%) of the respondents said that policies and procedures do not exist to ensure critical decisions were made with appropriate approval. The fact that majority of respondents acknowledged the existence of policies and procedures in the Bank signified that prudent measures were put in place by the Bank to enhance its profitability. This is confirmed by Shauki (1995), who found out that there is a significant positive relationship between corporate governance practices of UAE national banks and disclosure and transparency,

#### **4.6.3 Impact of Accountability on Customer Satisfaction**

In order for the researcher to establish the link between accountability and customer satisfaction, the researcher felt that it was prudent to cross-tabulate the two variables. This was possible because the researcher considered accountability as an aspect of corporate compliance and assumed that customer satisfaction meant customer loyalty to the Bank which by extension translated to more profits by the Bank through numerous business transactions. The results of the cross-tabulation were as reflected in Table 4.15.

**Table 4.15: Cross Tabulation of Accountability and Customer Satisfaction**

<b>Impact on customer satisfaction</b>		<b>Accountability</b>		<b>Total</b>
		<b>Yes</b>	<b>No</b>	
	Very effective	8(8%)	4(4%)	<b>12(12%)</b>
	Effective	20(20%)	15(15%)	<b>35(35%)</b>
	Fairly effective	32(32%)	21(21%)	<b>53(53%)</b>
	Ineffective	0	0	<b>0</b>
<b>Total</b>		<b>60(60%)</b>	<b>40(40%)</b>	<b>100(100%)</b>

The results of Table 4.15 indicate that majority of respondents 60 (60%) consented that accountability of Banksø employees on daily business transactions of the Bank positively satisfied customers of the Bank with varying degrees of effectiveness. On the contrary, 40 (40%) of respondents did not notice the manifestation of any impact on customer satisfaction as a result of accountability of Banksø employees on daily business transactions of the Bank. Findings of these results showed that corporate compliance (accountability) positively influenced customer satisfaction and by extension the Banksø performance. On the contrary a study done by John (2010), in Tanzania to examine the effectiveness of internal audit function in Tanzanian commercial banks results deliberate that, the risks management and corporate governance related activities of internal auditors were incorporated merely as statutory obligations and do not provide additional value to the stakeholders.

#### **4.7 Influence of Corporate Culture on Banks' Performance**

This segment focused on establishing the influence of corporate culture on Banksø performance under the following sub-themes; organization culture as well as work ethics and behavior change.

##### **4.7.1 Influence of Organization Culture on Banks' Performance**

In order for the researcher to have an in-depth understanding of influence of organization culture on Banksø performance, the researcher discussed this sub-theme into two sub-sections, namely; existence of documented organization culture policies and efficacy of organization culture policies.

###### **4.7.1.1 Existence of Documented Organization Culture Policies**

In order for the researcher to appreciate the influence of organization culture on Banksø performance, the researcher enquired from respondents whether they had written down organization culture policies to act as guidelines in governing the Bankø employees. Responses of respondents were as recorded in Table 4.16.

**Table 4.16: Existence of Organization Culture Policies**

<b>Culture Existence</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Yes</b>	60	60
<b>No</b>	40	40
<b>Total</b>	<b>100</b>	<b>100</b>

Results of the study shows that, out of 100 respondents who participated in the study, 60 (60%) of the respondents acknowledged that indeed there were written down organization cultures policies in the Bank to act as guidelines in managing the day-to-day affairs of the Bank while 40 (40%) of the respondents said that there were no such written organization culture. The fact that majority of respondents alluded to the fact that organization culture policies existed in the Bank clearly implied that Banks appreciated corporate culture. This is in line with Glasister and Buckley (1998), who identified corporate culture as one of the factors responsible for organizational effectiveness. A strong corporate culture (that is, one in which everyone understands and believe in the firm's goal, priorities and practices) that encourages the participation and improvement of all organization's members has been identified to be one of its most important assets (Denison, 1985).

#### **4.7.1.2 Efficacy of Organization Culture Policies**

Efficacy of organization culture policies was looked at by the researcher in order to ascertain the utility of organization culture policies within the Bank. Information on utilization on the Bank's organization culture policies placed the researcher at a better position of gauging the extent to which organization culture policies influence Bank's performance. For this reason, respondents were asked to rate the effectiveness of organization cultures policies with regards to corporate performance. Findings were as illustrated in Table 4.17.

**Table 4.17: Efficacy of Organization Culture Policies**

Culture Policies	Frequency	Percentage
Very effective	12	12
Effective	35	35
Fairly effective	53	53
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who participated in the study, 53 (53%) of the respondents pointed out that written down organization culture policies were fairly effective with regards to corporate performance while 35 (35%) of the respondents asserted that the written down organization culture were effective. Only 12 (12%) of the respondents believed that the written down organization culture policies were very effective. Based on the results of the finding, virtually all the employees in management position at KCB hinted out that they appreciated the role played by organization culture policies with varying degrees in their level of acceptance of effectiveness. Results of this study support the hypothesis that strong cultures enhance a firms performance. This is anchored on the intuitively powerful idea that organizations benefit from highly motivated employees dedicated to common goals (Peters and Waterman, 1982). In support of this argument, quantitative analysis has shown that firms with strong culture outperform firms with weak culture (Gordon and DiTomaso, 1992).

#### 4.7.2. Influence of Work Ethics and Behavior Change on Banks' Performance

Influence of work ethics and behavior change as a sub-theme was further discussed into two sub-sections in order to bring out a deeper understanding of its influence on Banks' performance. These sub-sections include; formal qualifications for company secretary and responsibilities of the company secretary.

##### 4.7.2.1 Formal Qualifications for Company Secretary

In order to determine the influence of work ethics and behavior performance of employees of the Bank and how their work ethics and behavior change influence performance of the Bank, the researcher singled out the secretary and enquired whether the Bank required any formal qualification as a pre-requisite requirement prior to the employment of an individual as a secretary pursuant to the Articles of Association of the Bank. Findings were as reflected in Table 4.18.

**Table 4.18: Formal Qualifications for Company Secretary**

Secretary formal		
Qualification	Frequency	Percentage
Yes	60	60
No	40	40
Total	100	100

Amongst the 100 respondents who participated in the study, majority 60 (60%) agreed that the company secretary is required to have formal qualifications pursuant to the Articles of Association of the Bank, while 40 (40%) disagreed. The researcher noticed that majority of

respondents who consented to the fact that the Bank's secretary must meet stipulated formal requirements before employment were board members and regional managers whose mandate was to screen employees of the Bank prior to their absorption by the Bank as employees. This observation clearly indicate that Bank's emphasis on Work ethics and behavior change of its employees right from employment, an aspect which could impact positively on the profitability of the Bank as a result of enhanced service delivery by employees. This is due to the hypothesis that strong cultures enhance firm performance based on the intuitively powerful idea that organizations benefit from highly motivated employees dedicated to common goals (Peters and Waterman, 1982; Denison 1990; Denison & Mishra 1995).

#### 4.7.2.2 Responsibilities of the Company Secretary

The researcher examined duties performed by the company secretary as a way of validating the significance of corporate culture. This enabled the researcher to obtain a golden opportunity of linking the influence of corporate culture to Bank's performance since secretary's responsibilities fell under work ethics and behavior change. The responses are as shown in Table 4.19.

**Table 4.19: Responsibilities of the Company Secretary**

<b>Responsibilities of Secretary</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	55	55
No	45	45
<b>Total</b>	<b>100</b>	<b>100</b>

Out of 100 respondents who took part in the study, majority 55 (55%) of the respondents acknowledged that there were indeed clearly written down responsibilities for the Bank's secretary while 45 (45%) of the respondents pointed out that there were no clearly written responsibilities for the company secretary. The researcher noticed that majority of respondents who consented that there were laid down responsibilities of the Bank's secretary were board of directors who had veto powers of delegating duties to employees.

#### **4.7.3 Impact of Corporate Culture on Customer Satisfaction**

In order to validate the influence of corporate culture on bank's performance, the researcher cross tabulated organization culture and work ethics with customer loyalty. The researcher believed that impact of organization culture and work ethics on customer loyalty by extension assisted in gauging the influence of corporate culture on Bank's performance since organization culture and work ethics are ingredients of corporate culture and customer satisfaction meant customer readiness to be glued to the Bank i.e to continue being faithful to the Bank since their needs are being met. For this reason, respondents were asked to state whether organization culture and work ethics impacted on customer satisfaction. Their sentiments were as reflected in Table 4.20.



**Table 4.20: Cross Tabulation of Organization Culture and Work Ethics on Customer Satisfaction**

Impact on Customer Satisfaction	Organization Culture and Work Ethics		Total
	Yes	No	
High	25(25%)	0	<b>25(25%)</b>
Medium	64(64%)	4(4%)	<b>68(68%)</b>
Low	1(1%)	6(6%)	<b>7(7%)</b>
<b>Total</b>	<b>90(90%)</b>	<b>10(10%)</b>	<b>100(100%)</b>

Out of 100 respondents who participated in the study, majority 90(90%) acknowledged that organization culture and work ethics impacted on customer satisfaction. Only 10(10%) respondents out of 100 respondents who participated in the study held a contrary opinion that organization culture and work ethics do not impact on customer loyalty. The fact that majority of respondents appreciated that organization culture and work ethics impacted positively on customer satisfaction proved that corporate culture influence Banksø performance. This is because organization culture and work ethics are components of corporate culture and customer satisfaction meant that more and consistent transactions were conducted by the Bank. More transactions translated to more sales and by extension more profits realized by the Bank. In relation to this argument, Glasister and Buckley (1998), identified corporate culture as one of the factors responsible for organizational effectiveness.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter sought to provide detailed summary of findings of the study, conclusion, researcher's recommendations in line with the study objectives and suggestions for further research.

#### 5.2 Summary of Findings

The study sought to determine the influence of corporate governance on Banks' performance in Kenya. Findings of the study revealed that majority of respondents 77 (77%) were male as compared to 23 (23%) of respondents who were female. Looking at the age brackets of respondents, research findings indicated that majority of respondents fell within the age brackets of 26-30 and 31-35 years at 28(27%) and 33(33%) respectively. On level of education, findings of the study revealed that majority of respondents were university graduates at 50(50%). While examining the length of service of employees at KCB, results established that majority 70 (70%) of employees in top management positions had worked in the Bank for over ten years.

The first objective of the study was to establish the level at which internal control procedures influenced Banks' performance. The study revealed that physical controls of assets and records affect banks performance. A physical control denies the perpetrators the opportunity to commit fraud. Evidently, majority of the respondents were aware or rather had the knowledge of incompatible accounting duties that need to be segregated and interestingly the few who did not know were from administration who gave in to the knowledge of at least one case of stealing

by servant in the same department. The study found out that duties segregation in deed affect fraud management since it ensures that a single employee does not authorize record and reconcile transactions. The study found out that indeed authorization of transactions in an organization affects fraud management. In accounts and finance departments where for any authorization to be executed a source document like filling an email for the order is mandatory all respondents in this departments said there was no reported case of stealing by servant as opposed to the administration department where majority of employees said they know of at least one case of asset misappropriation.

The second objective of the study was to establish how social and environmental responsibility influenced Banksø performance. From the study, the respondents were asked the effects of environmental initiatives by the bank on customer retention, customer base, and customer loyalty and employee customer satisfaction. These entire variables when in harmony are indicators of a good springboard to a strong economic performance. The study showed a positive relationship between involvement in environmental responsibility and economic performance of the bank.

The third objective of the study was to examine the extent to which corporate compliance influenced Banksø performance. Corporate governance controls the external stakeholders exercise over the organization. Examples include: competition, debt covenants, demand for and assessment of performance information (especially financial statements), government regulations, managerial labor market, media pressure and takeovers. The study found out those physical corporate compliance measures considered in the study do affects banks performance.

The fourth and last objective of the study was to assess the influence of corporate culture on Banks performance. The study revealed explicitly that there was a significant influence of

corporate culture on banks performance. Respondents were asked about the presence of a written down organization culture, the efficacy of those organization culture and company secretary requirements. It is true that good organization culture and more so if it is adhered to by employees can greatly motivate the employees. From the study, the existence of organization culture was established and its efficacy as well. Majority of the respondents consented that indeed the organization culture in place influenced the performance of the bank.

### **5.3. Conclusions**

The main purpose of the study was to establish the influence of corporate Governance on Banksø performance in Kenya, case study of KCB, Kisumu Central District. In terms of the stated research objectives, the following findings emerged from the study:

The first objective of the study was to establish the level at which internal control procedures influenced Banksø performance. Taking immediate and vigorous action if fraud is detected is not only necessary to prevent future losses but also helps deter other frauds. An exposure of weak internal controls (risk) leads to destruction of an asset, theft of an asset, corruption of information and disruption of the information system while a strong internal control system ensures that, assets of the firm are safeguarded, ensure accuracy and reliability of accounting records and information, promote efficiency of the firmø operations and measure compliance with managementø prescribed policies and procedures. Physical controls denies the perpetrator a chance to steal the companyø assets.

The second objective of the study was to establish how social and environmental responsibility influenced Banksø performance. Failure to take the environment in which the firm operates into consideration can affect business performance in terms of customer base, customer satisfaction and customer loyalty. This then means that the number of customers will be reduced

and so the profits gotten will also be reduced. This in turn will be translated to poor banks performance in terms of profitability. This can also lead to increased operation costs which will eat into the profits made.

The third objective of the study was to examine the extent to which corporate compliance influenced Banksø performance. Effectiveness of corporate compliance can not merely be legislated by law neither can any system of corporate compliance be static. As competition increases, the environment in which firms operate also changes and in such a dynamic environment the systems of corporate compliance also need to evolve. Failure to implement corporate compliance has a cost in terms of a significant risk premium when competing for scarce capital in today's public markets. Corporate compliance also helps a firm to be able to depict their true financial picture.

The fourth objective of the study was to assess the influence of corporate culture on Banks performance. When employees attitudes and behaviors are aligned to the organization needs and goals, it ensures that the employees are highly motivated and this will be depicted in their productivity and thereby increasing the performance of the organization. Corporate culture is portrayed by the actions of the employees. Culture was cultivated starting from when an employee was employed.

#### **5.4 Contribution to the Body of Knowledge**

Table 5.1 shows the contribution of the study to the body of knowledge. It highlights the gains to be realized from the study which will add knowledge to the present situation.

**Table 5.1: Contribution of the Study to the Body of Knowledge**

<b>Objective</b>	<b>Contribution to body of knowledge</b>
To determine the level at which internal control procedures influence banks performance.	Good internal control procedures helps in reducing and mitigating fraud by reducing access to areas such as the safe room and requiring proper authorization.
To establish how social and environmental responsibility influence banks performance.	It influences banks performance by influencing customer loyalty, customer base, customer retention and reduced rates of employee turnover.
To examine the extent to which corporate compliance influence banks performance.	Corporate compliance helps to establish disclosure principles hence facilitating transparency which in turn leads to higher market valuation.
To assess the influence of corporate culture on banks performance.	Acts as a motivation factor and thereby encouraging employees to be at their best behaviors and practice what is expected of them. Lays down the expected form of behavior needed by the organization.

## 5.5 Recommendations

Based on the study findings, the following recommendations were made:

1. In order to mitigate fraud, Banks should enhance restrictions to accessing areas such as the strong room and other areas where valuable assets and records are kept. CCTV Installation (an element of physical controls), independent checks, duties segregation and proper authorization should be initiated by the Bank. A physical control denies the perpetrators the opportunity to commit fraud.
2. Banks should engage in corporate social responsibility as these are seen by their customers as a way of caring for the environment in which they do their businesses. Failure to bear the environment in mind would lead to the environment being misused and this therefore would mean that future generations may not be able to enjoy the benefits of the environment. This in turn would lead to higher operating cost that would have to be met by the bank.
3. Within charters, a well defined plan for dealing with governance issues and resolution of issues should be communicated, an audit committee should monitor public accounting firm audit work, their independence, fees and level of services and scope of both audit and non audit services, a compensation committee should address remuneration levels for executive officers, fringe benefit and incentive plans, the corporate governance committee should make recommendations to the board for new members and monitor the board performance.
4. Employee code of conduct policy should be documented and provided to employees, board code of conduct policy for non-employee directors should be documented and provided to board members, formalize employee performance evaluations and

employee complaint procedures should be made available to all employees. This would ensure that employees would remain motivated translating to higher productivity by employees. This also would help in greater job satisfaction and contentment.

## **5.6 Suggestions for Further Research**

This study did not explore certain areas that were equally important. Such areas were left out because the scope of this study warranted. In view of this, the study suggests the following areas for further research:

- a) The study on corporate governance as the results have shown has significant effects on banks performance. Since this study was focused only on one banking institution the researcher recommends that a further study be carried out to cover a number of banks in different sectors to come up with more findings on corporate governance in different sectors. This will provide the banking industry with adequate information on corporate governance which can be utilized for betterment of bank's performance in the country hence boosting economic development.
- b) Other principles of corporate governance should also be studied since the study only chose four principles to do a study on.
- c) Lastly, it is worth looking at the influence of corporate governance on other sectors not necessarily on banks only.



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## APPENDIX 1: RESEARCH QUESTIONNAIRE

### PART 1: PERSONAL INFORMATION.

#### 1. GENDER (Tick One)

Female ☐

Male ☐

#### 2. Between which age brackets are you? (Tick one)

18-25 ☐

26-30 ☐

31-35 ☐

36-40 ☐

41-45 ☐

46-50 ☐

51 and above ☐

#### 3. What is your highest level of education? (Tick one)

Primary ☐

Secondary ☐

College ☐

University ☐

Any other (specify) ☐ í

#### 4. Which position do you hold in the company?

Board of director ☐

Regional manager ☐

Branch manager ☐

Business level manager ☐

Any other (specify) ☐ í

#### 5. How long have you worked for Kenya Commercial Bank (KCB)?

Less than 5 years ☐

5-10 years ☐

Over 10 years ☐

## PART II: INTERNAL CONTROLS.

**6. a) Do processes exist to ensure that policy overrides are minimal and exceptions are reported to management.**

11

**6. b) How many cases do you know of, stealing by servant or any other forms of assets losses by the employees of this organization for the last one year?**

[illegible]

**6.c) Can the same individual record, verify and authorize transactions?**

If in some cases, please specify

**6.d) In your opinion, can unauthorized staff members access location such as the safe room?**

11

11

11

[illegible]

**6.e) Do policies and procedures exist to ensure critical decisions are made with appropriate approval, case of a committee approval or documented minutes?**

11

11

## PART III: SOCIAL AND ENVIRONMENTAL RESPONSIBILITY.

**7. a) To what extent do members of the board understand their responsibilities?**

--

**7. b) Are you aware of any incentive or circular by the organization in the year 2008-2013 relating to environmental, health, social trend sensitivity or community development endeavors?**

--

11

If yes, kindly highlightí ...

í í

[illegible]

**7. c) On average terms, how would you conclude with regards to customer interest/satisfaction with the organization social and environmental initiatives in the community?**

**(Tick only one box)**

11

11


**7. d) Considering the social and environmental activities of the bank during the past four years 2008-2013, how important were each of the following effects?**

High

Medium

Low

Not relevant

10

10

11

11

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11

11

11

□

11

10

7

7

100

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

## PART IV: CORPORATE COMPLIANCE

**8. a) What is the size of the board?**

11

11

**8. b) What is the composition of the board?**

--


**Others**: í .

**8. c) What is the quorum requirements for board and board committees?**

11

Othersí .

**8.d) Are board members and management staff responsibilities clearly set out in writing?**

**8. e) If no, please state the reasons for omitting to do so.**

[illegible]

**8. f) Is there an external auditor of the company?**

□

11

**8.g) Is there an independent internal audit function within the company?**

**8.h) How often do board and sub committees conduct meetings?**

--


**Others**í .



## PART V: CORPORATE CULTURE

**9. a) Do you have written down organization culture in place in this organization?**

Yes ☐

No ☐

**9.b) How effective are those organization cultures with regards to corporate performance?**

Very effective ☐

Effective ☐

Fairly effective ☐

Ineffective	

**9. c) Is the company secretary required to have formal qualifications pursuant to the Articles of Association of the Company?**

Yes ☐

No ☐

**9.d) What kind of qualifications is required for Company Secretaries by the Articles of Association?**

Degree in business or related area ☐

Degree in law

Degree in accounting ☐

Othersí í

**9.e) Are there clearly written down responsibilities for the company secretary?**

Yes ☐No ☐

**9.f) Does he/she hold any other posts or provide any other services to the company?**

Yes ☐No ☐

**If the answer is yes, please state the posts or services provided by the company secretary**

[illegible]

## APPENDIX II: LETTER OF TRANSMITTAL

MAUREEN A. ONYANGO,  
P.O BOX 47660, NAIROBI  
TEL: 0723109631  
EMAIL: [atieno.maureen70@yahoo.com](mailto:atieno.maureen70@yahoo.com)  
JUNE 2013

DEAR SIR/MADAM,  
**RE: REQUEST FOR YOUR PARTICIPATION.**

I am currently a student at University of Nairobi, Kisumu Town Campus undertaking a degree in Master of Arts in Project Planning and Management. I am required to submit as part of my coursework assessment, a research project on "Influence of Corporate governance on Banks performance: case study of KCB, Kisumu Central District."

It is for this reason therefore that I wish to kindly request for your indulgence to participate in the study by completing the attached questionnaire. Your contribution is crucial in ensuring that the study succeeds. Any information provided will be treated with utmost confidentiality it deserves and will not be used for any other purpose. The information given should be without any biases and should be as true as it will be used for academic purposes only. I look forward to your understanding, cooperation and invaluable participation in this very important exercise. Your assistance will be highly appreciated. Thanking you in advance.

Yours sincerely,

Maureen A. Onyango,  
L50/69436/2011

PAGE 2

**THIS IS TO CERTIFY THAT**

**Prof./Dr./Mr./Mrs./Miss/Institution**

**Maureen Atieno Onyango**

**of (Address) University of Nairobi**

**P O Box 82540100, Kisumu**

**has been permitted to conduct research in**

**Kisumu Central District**

**Kisumu County**

**on the topic: Influence of corporate Governance on bank's performance in Kenya: A case study of Kenya Commercial Bank (KCB), Kisumu Central District.**

**for a period ending: 30<sup>th</sup> September, 2013.**

PAGE 3

**Research Permit No. NCST/RCD/14/013/1336**

**Date of issue 24<sup>th</sup> July, 2013**

**Fee received KSH. 1000**

**Applicant's Signature**

**For Secretary**

**National Council for Science & Technology**



REPUBLIC OF KENYA



## NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY

Telephone: 254-020-2213471, 2241349, 254-020-2673550  
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secretary@ncst.go.ke

P.O. Box 30623-00100  
NAIROBI-KENYA  
Website: www.ncst.go.ke

Our Ref: **NCST/RCD/14/013/1336**

Date: **24<sup>th</sup> July 2013**

Maureen Atieno Onyango  
University of Nairobi  
P.O. Box 825-40100  
Kisumu.

### RE: RESEARCH AUTHORIZATION

Following your application dated **18<sup>th</sup> July, 2013** for authority to carry out research on ***"Influence of corporate Governance on bank's performance in Kenya: A case study of Kenya Commercial Bank (KCB), Kisumu Central District."*** I am pleased to inform you that you have been authorized to undertake research in **Kisumu Central District** for a period ending **30<sup>th</sup> September, 2013**.

You are advised to report to the **Branch Manager of the Selected Kenya Commercial Bank** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

  
**SAID HUSSEIN**  
**FOR: SECRETARY/CEO**

Copy to:

The Manager  
Selected Kenya Commercial Bank.