THE EFFECT OF CHIEF EXECUTIVE OFFICER TURNOVER ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

DOREEN K. ALUSA

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DECLARATION

This research project is my original work, and has not been presented for the award of a degree in any other university.

Signed Date

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Doreen Alusa

This research project has been submitted for examination with my approval as the university supervisor.

Signed Date

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Dr. Florence Muindi

Lecturer,

School of Business,

University of Nairobi.

DEDICATION

To my daughter Sheryl for the will power she provided immediately after her birth. To my husband Nebert Mandala and daughter Leila Mandala for constantly reminding me that I needed to finish this research project.

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LIST OF ABBREVIATIONS

CBK : Central Bank of Kenya

CEO : Chief Executive Officer

ABSTRACT

Employee turnover is the movement of people into and out of the organization. CEO turnover is the frequency with which CEOs are replaced over a given time period. Recently engaged employees are more likely to leave than long serving employees. Separations and their consequent replacement can be surprisingly expensive. Studies conclude that turnovers are often treated as dependent variables and the level of turnovers are higher in companies with low corporate performance. Longer CEO tenure may be associated with more control of the firm and greater influence on the board, thereby reducing the likelihood of forced CEO turnover. CEO entrenchment makes him dominate the board and consequently pursue costly pet projects and demand compensation packages that benefit them at the expense of shareholders. The objective of this study was to find out whether CEO turnover affects the performance of Commercial Banks in Kenya. The study adopted a descriptive cross-sectional research design. The population of the study was all the 43 Commercial Banks in Kenya and a census was carried out. Both primary and secondary data was collected and analysed using descriptive statistics and regression analysis. The results indicate that the relationship between CEO tenure and organizational performance is positive though the relationship is not very strong and not significant since the P value is greater than 0.05. R square, the Coefficient of Determination is 0.06 indicating that only 6% of turnover falls on the regression line. The overall F test for the null hypothesis is 1.9 indicating that there is evidence to reject the null hypothesis thus increased CEO turnover does not impact on Commercial Bank's performance. The findings of the study indicate that CEO turnover in commercial banks does not impact on the overall performance of the same institution. These results are inconsistent with other studies that document an inverse relation between the likelihood of Chief Executive Officer (CEO) turnover and firm performance. Other studies have concluded that this relationship is equivocal. The study concludes that performance of the firm reveals information about a CEOøs ability to create value for shareholders. The researcher recommends that Commercial banks should review their policies on CEO tenure and turnover and align them to the interests of the shareholders.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Bebchuk, Cohen and Ferrell, (2009) paradigm of CEO turnover seasons, the temporal characteristics associated with CEO turnover can affect firm performance. Fundamentally, the paradigm posits that ÷there are discernible phases, or seasons, within an executiveøs turnover in a position, and those seasons give rise to distinct patterns of executive attention, behavior, and ultimately, organizational performance. In particular, depending on the CEOøs life cycle seasons, CEO turnover can have both positive and negative effects on firm performance (Brickley, Coles and Jarrell, 1997).

Studies document an inverse relation between the likelihood of Chief Executive Officer (CEO) turnover and firm performance (Murphy and Zimmerman 1993; Weisbach 1988). They conclude that performance of the firm reveals information about a CEOøs ability to create value for shareholders. When firm performance is poor (e.g. negative stock returns, earnings decreases, and negative earnings surprises) a CEO is replaced because the firmøs owners infer that he is ineffective in formulating and implementing the appropriate strategies and policies that create shareholder value. Since ownersø beliefs about their CEOøs ability are revised over time based on periodic performance, their beliefs of CEO ability become increasingly precise over the employment relationship. Hermalin and Weisbach (1998) theoretically show how

this increasing precision reduces both the emphasis placed on firm performance in affecting CEO dismissal and ownersø demand for monitoring their CEO.

CEOs, during their early tenure seasons, tend to learn rapidly and are willing to take risks. As their tenure progresses, they espouse new initiatives and expand their knowledge and skill repertoires (Wu, Levitas, and Priem, 2005), thus improving firm performance. In their later seasons, however, CEOs myopically commit to obsolete paradigms, become risk averse and stale in the saddle, and tend to adapt less to the external environment, thus hurting firm performance. In summary, the relationship between CEO tenure and firm performance over the CEOøs life cycle can be visualized as an ÷inverted Uø (Brickley, Coles and Jarrell, 1997).
However, recent research suggests that the impact of CEO turnover on firm performance is a complex phenomenon which goes beyond the simple, direct effects (Simsek, 2007). To get a holistic view of the causal linkages between CEO turnover and firm performance, it is important to explore the underlying mechanisms that explain how CEO turnover matters (Simsek, 2007). Nevertheless, even after several calls (e.g., Wu et al., 2005; Simsek, 2007), our knowledge of the intermediate factors that channel the impact of CEO tenure on performance is surprisingly limited.

DeFond and Park, (1999), writers on business strategy, argue that competitive advantage stems from core competences, which are superior to those of rivals. To them core competence is about harnessing of technology, the organization of work, employee retention and turnover and delivery of value. Many organizations, having

realized that only employees with key competence gained over time are able to give superior performances, are now compelled to invest in developing human capital.

This study will adopt agency theory in describing CEO turnover and performance. The theory is concerned with a aligning the interest of the owner and the manager (Fama and MacBeth, 1973) and this is based on the premise that there is inherent conflicts between the interest of the firmøs owners and its management. CEO turnover is affected by this relationship as the shareholders try to align the interest of the CEO to that of shareholders. This study will focus on commercial Banks in Kenya.

1.1.1 CEO Turnover

Employee turnover is the movement of people into and out of the organization. CEO turnover is the frequency with which CEOs are replaced over a given time period. Recently engaged employees are more likely to leave than long serving employees. Separations and their consequent replacement can be surprisingly expensive. The cost of labor turnover increases when employees are more specialized because they are more difficult to find and require more training (CIPD 2002). A study by Goyal and Park, (2002) concluded that turnovers are often treated as dependent variables and the level of turnovers are higher in companies with low corporate performance.

Murphy and Zimmerman (1993) suggest that longer CEO tenure may be associated with more control of the firm and greater influence on the board, thereby reducing the likelihood of forced CEO turnover. CEO entrenchment makes him dominate the board and consequently pursue costly pet projects and demand compensation packages that benefit them at the expense of shareholders. Tenure provides a CEO time to

circumvent monitoring and incentive alignment mechanisms. Morck, et. al. (1988) argue that some managers can be entrenched with relatively low levels of ownership simply by virtue of their tenure with the firm, status as founder, or their personality.

When firm performance is poor, a CEO is replaced because the firmøs owners infer that the CEO is ineffective in formulating and implementing the appropriate strategies and policies that create shareholder value. Since ownersø beliefs about their CEOøs ability are revised over time based on periodic performance, their beliefs of CEO ability become increasingly precise over the employment relationship. The relations between CEO tenure and performance-turnover sensitivity represent an efficient response by owners to the costs and benefits of monitoring (Murphy and Zimmerman, 1993). This is because the CEOøs tenure proxies for entrenched power over the firmøs board and owners rather than his revealed ability. The upshot being that the firm performance-CEO turnover relation decreases in tenure, not because the owners choose to monitor less intensively, but because a powerful CEO prevents the owners from acting on performance that would otherwise terminate his employment.

In human resources context, turnover or staff turnover or labour turnover is the rate at which an employer gains and losses employees. Simple ways to describe it are "how long employees tend to stay" or "the rate of traffic through the revolving door". Turnover is measured for individual companies and for their industry as a whole. If an employer is said to have a high turnover relative to its competitors, it means that employees of that company have a shorter average tenure than those of other companies in the same industry (John & Reinier, 2010). High turnover may be

harmful to a company's productivity if skilled workers are often leaving and the worker population contains a high percentage of novice workers.

Employee turnover can be classified as either voluntary or involuntary from the employee's perspective (Holmstrom, 1999). Voluntary turnover is when employees voluntarily make the decision to depart from their position at an organization. Involuntary turnover is when employees are involuntarily forced to leave their position with an organization. Over the years, researchers have studied the relationship among several employee characteristics and both types of turnover.

1.1.2 Organizational Performance

Organizational performance is the most sought outcome by organization. However, it continues to be a contentious subject among organizational researchers (Chakravathy, 1986; Machuki and Aosa, 2011). Various scholars and researchers define performance differently. According to Javier (2002) performance could be defined to be equivalent to 3Es; economy, efficiency, and effectiveness of a certain activity. Conversely, Daft (2000) defines it as the organizationøs ability to attain its goals using its resources in an efficient and effective manner. March and Simon, (1993) posit that it is the ability of an organization to maximize strengths to overcome its weaknesses to neutralize its threats and take advantages of opportunities. Conceptually performance is sometimes confused with productivity where productivity is a ratio depicting the volume of work completed in a given period of time (Matsumoto, 2002). Nevertheless performance is broader, productivity being one of its indicators (March and Simon, 1993).

No single measure of performance can fully explicate all aspects of the term due to organizational objectives as well as contextual factors (Snow and Hambrick, 1980). This may be partly because definition of performance includes both efficiency-related measures, which relate to the input/output models and effectiveness related measures, which deal with issues like business growth, employee satisfaction, commitment, and turnover (Machuki and Aosa, 2011). Measurement of performance has evolved over time from conventional financial measures (March and Sutton, 1997) which focused exclusively on the shareholder to stakeholder based approaches which include the balanced score card. The Balanced Score Card (BSC) gives attention to aspects of organizational effectiveness such as measures of financial performance, customer outcomes, market performance, shareholders returns, innovation and internal processes (Kaplan and Norton, 1992).This study will use the BSC to measure performance in line with the emerging stakeholder based performance measurement approach.

1.1.3 Commercial Banks in Kenya

Commercial banks in Kenya are governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banksø interests and also addresses issues affecting its members.

As of the beginning of 1998, the highly diversified financial sector in Kenya consisted of the Central Bank of Kenya, 53 domestic-and foreign-owned commercial banks, 15 non-bank financial institutions, 2 mortgage finance companies, 4 building societies, and numerous insurance companies and other specialized financial institutions. The banking sector is dominated by 4 large banks, which aggregately control 50 percent of all bank assets and 52 percent of bank deposits. Licensed commercial banks as at December 2014 were 43. The commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

1.2 Research Problem

The modern corporate face a myriad of problems and organizational performance is crucial for their survival. To survive therefore the organization must understand all issues that are likely to affect the performance. The continuous need to improve performance of the institutions remains a major challenge (DPM, 2006). This is in the light of scarce resources, competition, and raising public expectations. The increased pressure for performance driven reforms has been brought about by the need for good governance, public accountability, and to address the varied interests of the public and multiple stakeholders. CEOs, during their early tenure seasons, tend to learn rapidly and are willing to take risks. As their tenure progresses, they espouse new initiatives and expand their knowledge and skill repertoires (Wu et. al., 2005), thus improving firm performance.

In the recent past, Kenyan Banks have been hiring chief executives at the quickest

pace, ushering in new leaders in an industry that has maintained double-digit growth over the past five years. Between August 2012 and May 2013 eight banks unveiled new chief executives, this include Ecobank, Kenya Commercial Bank, National Bank of Kenya, Barclays Bank, NIC, Imperial Bank and Consolidated Bank. Unlike before when most of the CEOs were perceived to have been replaced due to lacklustre performance by their companies, these exits were based on retirement and the individualsøpursuit of other interests.

Several studies have been done on turnover and performance. Evidence from Murphy and Zimmerman (1993); and Fee and Hadlock (2004) show that Market-based measures tend to impound the investors' expectation of CEO's dismissal. Therefore, boards of directors may have to rely on accounting-based measures in making CEO-retention decisions. Fee and Hadlock (2004) examine CEO turnover relative to other executives within the company. Engel et al. (2003) suggest that accounting information is more heavily relied upon by the board of directors in dismissal decisions. Local studies done on CEO turnover includes; Odadi (2012) research on organizational restructuring and employee quit decision process in commercial banks in Kenya concluded that most employees quit for a variety of reasons especially in the first five years of employment. This study however did not focus on employment tenure as part of the organizational policies thus impacting on turnover. Mutuku (2012) studied the influence of involvement culture and diversity management strategies on the relationship between tenure, diversity, quality of decisions and performance of commercial banks in Kenya. The study however did not review the aspects of turnover and how this would impact organizational performance. Ondieki

(2011) did a study on determining the effect of CEO changes on stock returns where he tested statistical difference of the mean daily return of the event period; he found that that CEO change by firms listed at NSE has both positive and negative effects on daily mean returns. Kamau (2009) did a study on the relationship between CEO and stock return where he found that is negative relationship between likelihood of CEO turnover and stock Returns. The study therefore sought solutions to the research question; Does CEO tenure and turnover affect Commercial Bank performance in Kenya? What is the magnitude and direction of this effect?

1.3 Objectives of the Study

The objective of this study was to find out whether CEO turnover affects the performance of Commercial Banks in Kenya.

1.4 Importance of the Study

The finding of this study was to provide useful information to the current and prospective employers, potential, leaders and policy makers on issues relating to employee tenure and turnover. Investors who intend to venture into banking industry in Kenya will benefit from the study by understanding the strategies required for CEO tenure to be competitive in the sector and formulating optimal employment strategies. Banks in Kenya will benefit because the study will be a source of information in identifying their shortcomings in their current strategies.

Researchers will benefit from the study findings and from increased literature on CEO tenure, turnover and firm performance. The study will provide information to

potential and current scholars on competitive strategies with regard to this factors employed by good performing banks in Kenya in order to attain competitive advantage. This will expand their knowledge applied by institutions and also identify areas of further study. Finally, the findings of this research will extend the frontiers of knowledge to scholars and future researchers who will gain familiarity and new insights in these areas of study and can use it as a basis for further research. Other service industries operating in Kenya can use this study as a source of vital information regarding CEO tenure and turnover. Diversified organizations, both public and private, will benefit from the source of information regarding this information. The study has documented the Banking industry experience thus others will not need to ÷re-invent the wheelø

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of theoretical and empirical studies undertaken in the area of study. A theoretical and empirical framework is provided, which includes a review and a critique with the aim of identifying research gaps in the area. The section reviews the arguments put forward and its subsequent investigation on; how feasible the theory is in the face of the empirical evidence; how successful are the theoretical constructs and how much further are we now in understanding the effect of CEO tenure and turnover on firm performance.

2.2 Theoretical Framework

This research will be informed by agency theory and the Upper Echelons Theory.

2.2.1 Agency Theory

The Agency theory is concerned with a aligning the interest of the owner and the manager (Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983) and this is based on the premise that there is inherent conflicts between the interest of the firmøs owners and its management (Fama & Jensen, 1983). As to the mechanism by which a board is expected to impact on corporate performance, agency theory suggests that a greater proportion of outside/independent directors-recognizing that these two terms are not identical- was able to monitor any self-interested actions by managers. As a

result of the monitoring, there was less opportunity for managers to pursue self-interest at the expense of owners (lower agency costs) and so shareholders will enjoy greater returns (or increased profits).

The relationship between the stakeholders, who are the owners of the company, and the CEO, is a pure agency relationship. The CEO as an agent works to maximize shareholderøs wealth. The problem of inducing an õagentö to behave as if he is maximizing the õprincipaløsö welfare exists in all organizations (Jensen and Meckling, 1976). Thus the existence of agency problems is potentially harmful to the owners of the firm and may lead to inefficiency and wealth destruction in an economy. The existence of agency problems will affect macroeconomic growth and securities market performance in general and valuation of firms at the micro level. It is in the best interest of owners to resort to control mechanisms that move the operation of the firm toward full efficiency of the Fisherian separation principle (Fisher, 1966).

Among various corporate governance mechanisms that ensure managerial discipline, the managerial labour market plays a key role. In particular, performance-based compensation schemes stimulate managers to maximize profit and shareholder value, while the threat of dismissal prevents them from shirking and/or engaging in expropriation of investorsø funds (Muravyev, 2009). Indeed, effective corporate governance system requires that badly performing incumbents are systematically replaced by new, more skilled and better motivated, managers. Agency theory is

therefore relevant to this study as separation of ownership from control creates conflict that can impact on the CEO turnover and ultimately performance.

2.2.2 The Upper Echelons Theory

CEO turnover, which is the independent variables of this study, are anchored on the upper echelons theory. The upper echelons theory was developed by Hambrick and Mason (1984). The theory postulates that organizational outcomes and strategic choices are partially predicted by top management demographics. It suggests that managerial choices are not always following rational motives but are to a large extent influenced by the natural limitations of managers as human beings (Nielsen, 2010).

The theory suggests that top management demographics include age, education, functional background and financial positions. Other researchers have also included tenure (Nielson and Nielsen, 2013) and gender (Marimuthu and Kolandaisamy, 2009) as part of what comprises top management demographics. The study is therefore anchored on the fact that the CEO being part of the upper echelon, his turnover will influence the strategic choices he makes and thus the organizational performance of the Institution. The theory developed the proposition that long tenured CEOøs seemed to bend towards status quo and would be reluctant to implement change strategies (Michael and Hambrick, 1994; Nielsen, 2010; Horwitz, 2005). An organization that has a CEO with diverse tenure, benefits from the different experiences and perspectives brought by the individual CEO and this positively affects performance. The propositions by the upper echelons theory have brought forth significant literature in the research of the role of CEOøs, their turnover and organizational performance.

2.3 Factors Affecting CEO Turnover

While shareholders are the owners in modern firms, they usually delegate the choice of management and the decision to fire managers to a board of directors. In performing their jobs, board members draw on a wide range of cognitions of characteristics of the CEO, the firm and the industry. In addition, the characteristics of the board of directors itself may be a crucial factor in CEO tenure.

2.3.1 Board Characteristics

While additional directors could improve monitoring, they may also slow-down the decision making process. The costs associated with the slow decision making process may be greater than the benefits from increased monitoring once boards reach an optimal size. As the size of the board increases, the board of directors may become less cohesive. Therefore small boards may be more effective in disciplining poorly performing CEOs. This is particularly likely to be true of decisions that require board unanimity, such as CEO replacement. Consequently, it is possible that large boards may lead to protracted battles about issues that adversely affect the CEO, especially if the CEO is responsible for some of the appointments on the board. This implies that larger boards may not remove poorly performing CEOs promptly.

A board memberøs tenure indicates when, and under whose reign, he or she joined the board. Thus, board membersø tenure may be a reliable determinant of their allegiance. For example, Wagner, Pfeffer, and OøReilly reported that individuals who join a group at approximately the same time tended to become socially integrated. Similarly,

we suggest that boards whose members have shared a reasonably long service to the firm are likely to exhibit strong ties. Such boards could be expected to be more cohesive than those in which members vary widely in their tenure, or those in which members have short average tenures. Boards in which members have wide variations or short average tenures are more likely to be diverse and fictionalized and their members will tend to evaluate management on a variety of potentially conflicting criteria. These factors are expected to increase the chances of the CEO turnover

2.3.2 CEO Characteristics

A CEOøs competence can rise as time goes by when he acquires more experience and more wisdom. However, the rise of competence will eventually take a downturn as the CEO ages and the firm will find it beneficial to remove the incumbent CEO if the firm starts to doubt his ability, especially coupled with poor performance. In addition, anticipating the difficulty in replacing aged CEOs, shareholders may put a retirement policy in place in order to remove aged and incompetent CEOs.

Like CEO ownership, CEO turnover may be a proxy for management entrenchment. The board and shareholders of companies with long-serving CEOs may have developed the perception that the CEO is irreplaceable. Hence, their boards may be less likely to discipline the CEO for poor performance. Evidence from the U.S. indicates that CEO tenure is negatively related the probability of CEO turnover. It is therefore expected that longer CEO tenure is not consistent with good corporate governance, and that the relation between CEO tenure and the probability of CEO turnover will be negative.

2.3.3 Push and Pull factors

These relate to situations in which someone leaves for reasons that that largely unrelated to their work. The most common instances involve people moving away when a spouse or partner is relocated (Allgood and Farrell, 2000). It may also include individualøs poor work performance or failure to fit in comfortably with an organizational or department culture.

Push factors are the problems related t dissatisfaction with work or the organization, leading to unwanted turnover. A wide range of issues can be cited to explain such resignation. Insufficient development opportunities, boredom, ineffective supervision, poor levels of employee involvement, and personal clashes are the most common precipitating factors. Organizations can readily address all of these issues. The main reason why so many fail to do this is the absence of mechanisms for picking up sign of dissatisfaction (Bain and Band, 1996). If there is no opportunity to voice concerns, employees who are unhappy will inevitably start looking for jobs elsewhere as they are prone to attractions from rival employers. This is where an employee leaves by being attracted by the rival employers. Further, salary levels are also a major factor in addition to other broader notions of career development and better opportunities elsewhere (Bonnet, 1998).

Taylor and his colleagues (2002) interviewed 200 people who had recently changed employers about why they left their last jobs. They found a mix of factors at work in most cases but concluded that push factors were a great deal more prevalent than pull

factors as causes of voluntary resignations. Interestingly this study found relatively few examples of people leaving for financial reasons. Indeed more of the interviewees took pay cuts in order to move from one job to another than it is commonly said that a pay rise was their principal reason for switching employers. They concluded that other factors played a much bigger role.

2.4 Factors Affecting Employee Turnover

There are several reasons why people quit from one organization to another or why people leave. Typically, a combination of factors influences employees' decisions to stay or leave their current job. These factors can be divided into psychological, economic and demographic factors influencing turnover.

2.4.1 Psychological Factors

Psychological factors refer to the employeeøs mental process and behavior, such as expectations, job satisfaction, organizational commitment and job involvement or affectivity. According to Mueller & Price, (1990) conceptualizing turnover psychologically deals with factors that are influenced by employeeøs emotions, attitudes or perception. The psychological school of turnover may be classed as voluntary, as they emphasize the role of individual choice and often includes only those dimensions related to work issues and thus they neglect non-work factors as reasons for leaving work (Lee et al., 1996). A psychological contract refers to an individualøs beliefs regarding the terms and conditions of a reciprocal exchange agreement between that person and another party (Rousseau, 1989; Farmer & Fedor, 1999). The concept of the psychological contract is based on the insight that the

employeesø motivation and the level of their performance have to be maintained by the organization through incentives and rewards (Brinkmann & Stapf, 2005).

Graham (1982) defined job satisfaction as the measurement of one's total feelings and attitudes towards one's job. Greenberg and Baron (1997) define job satisfaction as an individualøs cognitive, affective, and evaluative reaction towards his or her job. Locke (1976) provides more specific definition on job satisfaction as the state where oneøs needs and oneøs outcomes match well. Cranny et al (1992) concluded that job satisfaction is a contribution of cognitive and affective reactions to the differential perceptions of what an employee wants to receive compared with what he or she actually receives. The relationship between job satisfaction and turnover is one of the most thoroughly investigated topics in the turnover literature. Many studies report a consistent and negative relationship between job satisfaction and turnover (Cotton & Tuttle, 1986; Arnold & Feldman, 1982; Bluedorn, 1982; Mobley, 1982; Price, 1977), as dissatisfied employees are more likely to leave an organization than satisfied ones. According to Cranny, Smith and Stone (1992) job satisfaction is a combination of cognitive and affective reactions to the differential perceptions of what an employee wants to receive compared to what he or she actually receives.

2.4.2 Economic Factors

According to Mueller and Price (1990), pay is considered as a part of the sanctions system used by the organization to motivate employees to be in compliance with its regulations and rules. Pay satisfaction was examined to be negatively correlated with intention to leave, since it was positively correlated with job satisfaction (Lum et al,

1998). Mano et al. (2004) argues that employees quit from an organization due to economic reasons. Even though compensation has ranked among the top contributors to employee job satisfaction, it is unlikely that employees view it in isolation from other factors. Griffeth et al. (2000) noted that pay and pay-related variables have a modest effect on turnover. Their analysis also included studies that examined the relationship between pay, a personøs performance and turnover. They concluded that when high performers are insufficiently rewarded, they quit. If jobs provide adequate financial incentives it is more likely that employees will remain with the organization and vice versa. While pay and benefits alone is not a sufficient condition for a high satisfaction, it is a necessary condition for the same. This is true because employees want pay systems that they perceive as just, unambiguous, and in line with their expectations.

Robbins (1988), Okumbe (2001) and Scheir (1988) assert that in determining compensation levels, organizations must be conscious of the prevailing market rates to ensure fairness and equity in compensation. Okumbe further, asserts that organizational indifference on going rate or going range will affect negatively on efforts meant to attract and retain the required staff. When people are paid well they are able to live well and are able to meet their daily needs, concentrate at their places of work, and accomplish the tasks assigned to them (Lawler, 1981). Perceived going rates will also increase levels of productivity and efficiency. Typically, the more money an employee makes, the more satisfied he will be overall. However, many studies have shown that compensation alone will not guarantee employee satisfaction. Even highly compensated employees may be dissatisfied with their jobs, and

employees with low levels of pay may still be quite satisfied with their jobs for reasons other than compensation.

2.4.3 Demographic Factors

Demographic variables are also known as personal characteristics and are widely used in turnover research (Price, 1995). Despite a wealth of research, there appear to be few characteristics that meaningfully predict turnover, the exceptions being age and tenure which were examined to have a direct impact on intention to leave. Cotton and Tuttle, (1986); Price, (1977); Horn & Griffeth, (1991) included tenure in demographic predictors of turnover. Tenure is negatively related to turnover i.e. the longer a person is with an organization; the more likely they are to stay. The longer that an employer and employee benefit from their relationship, the more costly the ending of it will be. This is why tenure is negatively associated with turnover. In particular, the benefits of long public sector tenure in terms of wages, job security, and pension rights will decrease intention to leave.

Age has been found to be negatively correlated with the probability of job turnover intent (Henneberger & Souza-Poza, 2007). Based on the matching theory, younger people have an experimental stage at the beginning of their professional life. A change is less attractive, since the available time to redeem the costs associated with a job turnover diminishes with age. Emphasizing the turnover rate amongst employees, McGlaham (2006) remarks that the mobility rate is such that a young employee entering the work force after graduation can expect to have an average of twelve different jobs by the time such an employee attains the age of 40 years.

Various studies examined the effect of gender on job mobility .Griffeth et al. (2000) cited evidence that gender moderates the age-turnover relationship. Social-psychological studies e.g. Crosby, (1982); Mueller & Wallance, (1996) show organizational and job satisfaction to be equal between women and men. Economic studies however e.g. Clark, (1997); SouzaPoza, (2007) concluded that due to the lower expectations of women about their careers, they seem to have a higher job satisfaction on identical jobs than men, which generally reduces job turnover inclinations.

2.4.4 External Factors

External factors are those factors that are out of the organizations control and include factors such as external opportunity, macroeconomic environment and globalization. External opportunity refers to the availability, attractiveness and attainability of alternatives in the environment. The interaction of supply and demand forces in the economy must be taken into consideration in measuring external opportunity. The availability is mainly about the number of opportunities outside the organization, attractiveness refers to the pay levels of such opportunities while attainability is the possession of the skills required on the job (Mueller & Price, 1990).It therefore follows that numerous higher paid jobs for which a worker is qualified should produce a greater turnover. Research findings by the Harvard Business School (2000) and cited in Birt et al. (2004) indicate that, despite the high levels of current commitment to both the organization and the job, the phenomenon of market-driven turnover is paramount amongst high performing employees

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Research findings by the Harvard Business School (2000) and cited in Birt et al. (2004) indicate that, despite the high levels of current commitment to both the organization and the job, the phenomenon of market-driven turnover is paramount amongst high performing employees. The research further states that employees base a decision to leave on the availability of better external employment offers. McClelland (2002) asserts that economic growth imposes a lot of challenges on retention practices and turnover management by human resource managers. One of these challenges is the frequency of recruitment and turnover rate of skilled employees within a pool of depleted labour market and the attendant costs. With acute shortage of skilled manpower in a rapidly growing economy, the competition for the few available skilled employees becomes intense among organizations and this provides opportunity for job hopping amongst skilled employees. Worldwide, the search for skilled employees is on because job hopping among skilled employees is inevitable as alternative employment opportunities continue to exist (Czakan 2005).

2.5 CEO Turnover and Performance

Murphy and Zimmerman (1993) researched CEO turnover in the field of accounting. Their study used Agency Theory as the theory underlying the variable relationship of their research, testing, and the documenting and behavior of various financial variables surrounding CEO turnover. While Murphy and Zimmerman's (1993) study found empirical evidence of financial variables (as an antecedent factor) that led to the change of CEOs, they did not separate out whether the CEOs left voluntarily or

were forced to leave. Similarly, in this study, we do not distinguish between voluntary or non-voluntary turnovers.

Research by Smith et al. (2008) used variables which they found to be statistically significant in previous research. The variables offered in their paper included total assets ó as a proxy for company size ó which uses natural log to control the high non-linearity of data; total debt, the variable that showed access to the stock market which uses natural log to mitigate linearity issues; book value of equity, to represent financial investments by stockholders ó this variable is also important in securing the financial strength of the company; and debt to equity, which is the general ratio used in the research as proxy for debt level. Significant results were found with p-value lower than 0.05 for all samples, including total assets, total debt, book value of equity, current assets, and current liabilities for companies that survived. Coefficient estimation for current ratio was negative and statistically significant, a result which, according to Smith et al., corresponded with findings of studies done by Altman et al. (1977) and Hill et al. (1996).

2.6 CEO Tenure and Performance

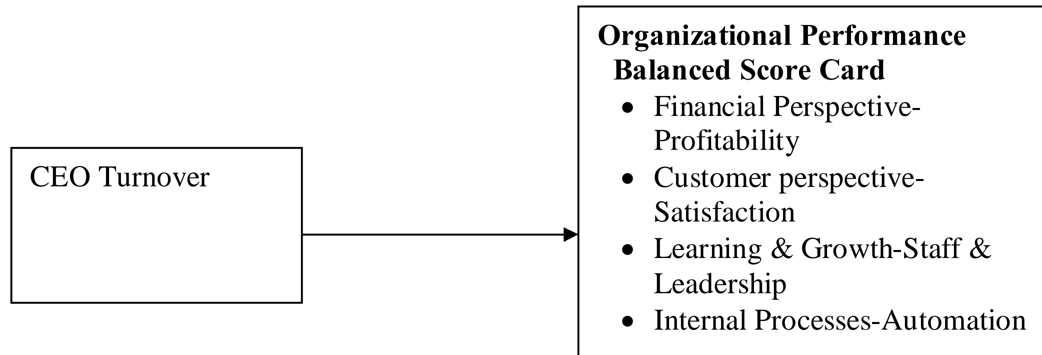
CEO tenure is a construct of fundamental importance to organizations and research on executive leadership. Lying at the core of this interest is the premise that õan executiveøs tenure gives rise to distinct patterns of executive attention, behavior, and, ultimately firm performanceö (Hambrick & Fukutomi, 1991). However, the tenure-performance association remains both theoretically and empirically equivocal, a conclusion that is shared by many (Miller & Shamsie, 2001).

Murphy and Zimmerman (1993) suggest that longer CEO tenure may be associated with more control of the firm and greater influence on the board, thereby reducing the likelihood of forced CEO turnover. CEO entrenchment makes him dominate the board and consequently pursue costly pet projects and demand compensation packages that benefit them at the expense of shareholders. Tenure provides a CEO time to circumvent monitoring and incentive alignment mechanisms. Morck, et. al. (1988) argues that some managers can be entrenched with relatively low levels of ownership simply by virtue of their tenure with the firm, status as founder, or their personality.

When firm performance is poor, a CEO is replaced because the firmøs owners infer that the CEO is ineffective in formulating and implementing the appropriate strategies and policies that create shareholder value. Since ownersø beliefs about their CEOøs ability are revised over time based on periodic performance, their beliefs of CEO ability become increasingly precise over the employment relationship. The relations between CEO tenure and performance-turnover sensitivity represent an efficient response by owners to the costs and benefits of monitoring. This is because the CEOøs tenure proxies for entrenched power over the firmøs board and owners rather than his revealed ability. The upshot being that the firm performance-CEO turnover relation decreases in tenure, not because the owners choose to monitor less intensively, but because a powerful CEO prevents the owners from acting on performance that would otherwise terminate his employment. Studies have yielded inconsistent findings on the relationship between CEO tenure, turnover and performance.

2.7 Conceptual Framework

Figure 2.1: Conceptual Model



CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

The problem of this study was to find out the perceived effect of CEO turnover on firm performance of Commercial Banks in Kenya. This chapter presents the methodology that was used to carry out this study. The chapter presents the research design, the population, sample and sampling technique, data collection method and instruments and data analysis.

3.1 Research Design

The study adopted a descriptive cross-sectional research design, which was used since the problem was defined specifically and the researcher had a certain issue that was described by the respondents about the problem. Creswell (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Dooley (2007) notes that a research design is the structure of the research, it is the ÷glueøø that holds all the elements in a research project together.

3.2 Study Population and Sample

The population of this study was all commercial banks in Kenya. There are 43 commercial banks in Kenya making a target population of 43 commercial banks in Kenya. Since the population is small the study was a census.

3.3 Data Collection.

Primary and secondary data was collected for the purpose of this study. It was collected using the self-administered questionnaire. Secondary data comprised of

CEO turnover and profitability. Primary data focused on performance particularly the non-financial performance measures. The questionnaire was semi-structured, having both open-ended and closed-ended questions. It was divided into three parts with part A covering General information, Part B CEO turnover and Part C covering Organisational Performance. It was administered to the Head of Human Capital at their offices. The administration of the questionnaire was the õdrop & pick laterö method this enabled respondents to dedicate sometime, conveniently to themselves to fill the questionnaire.

3.4 Data Analysis

The data collected was edited for accuracy, uniformity, consistency and completeness and arranged to enable coding and tabulation before final analysis (Cooper and Emory, 1998). It was mainly presented through the use of summarized percentages, proportions and tabulations in all the sections of the questionnaire. Mean scores and standard deviations were evaluated and ranked to give the relative importance of the various risk construction and management practices.

Data was organized through frequency tables. This was to enable the researcher to develop a summary of the data collected and to organize it into meaningful form. Data was then analysed through combination of both descriptive and inferential statistics. Descriptive statistics such as mean scores standard deviation percentages and frequency distribution were used to describe the manifestations of variables in the data collected. To establish the effect of CEO turnover on performance regression analysis was used.

CHAPTER FOUR

DATA ANALYIS AND FINDINGS

4.1 Introduction

This chapter presents data analysis and interpretation of the research findings. The data is summarized and presented in tables in the form of frequencies and percentages. Basic statistical tools like percentages, bar charts, Pie chart have also been used to show the comparison in this analysis. The purpose of this analysis was to simplify, organize, summarize describe and interpret data and communicate the results in a meaningful way.

The presentation of the analysis and interpretations was captured in two parts: the first part capturing the general information in regard to those sampled, while the second part was further subdivided into parts capturing; CEO turnover and organisational performance of Commercial Banks in Kenya.

4.2 Response Rate

The 43 commercial banks that took part in the survey are as documented in appendix III. The questionnaires were delivered to offices of the respective human resource managers and the level of response were as follows; 30 human resource managers completely filled the questionnaires and gave their response back by the same questionnaires being collected from their offices, 13 never returned their questionnaires, attributing their shortcomings as a result of the end-month reporting requirements. This response rate is as shown below:

Table 4.1: Response Rate

	Frequency	Percentage
Returned	30	70
Unreturned	13	30
Total	**43**	**100**

From the table above, 70% of the respondents returned their fully filled questionnaires while 30% did not. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting.

4.3 General Information

This section of the questionnaire sought to establish how long the respondents had been in the Human Capital Department and how long the institution had been in existence.

4.3.1 The Number of Years in HR Department

The study sought to establish the number of years the respondents had been in the HR department. This was important since the length at HR department will give the research a more accurate and precise information needed. The results are presented in table 4.1 below.

Table 4.2: The Length in HR Department

	Frequency	Percentage
Less than 2 years	12	40
Between 3-5 years	13	43
Between 6-10 years	4	13
Above 21 years	1	4
Total	**30**	**100**

From the table above, 43% of the respondents indicated that they have been in the HR department between 3-5 years, 40% Less than 2 years, 13% between 6-10 years while 4% have been in the HR department for Above 21 years.

This indicates that most the respondents have been in the HR department between 3-5 years. This implies that the information obtained may not be fully accurate since the most of the respondents have not been in service for a long period of time.

4.3.2 Institutional Age

The study sought to establish the number of years the organization had been in existence. This was of importance as it would help the researcher to determine whether the turnover rate that would be established would be long enough to help in the analysis.

From the information collected, it can be conclude that the commercial banks have been in existence for averagely more than 11 years, rendering their output on this project very vital; since most of them having existed between 11 and 20 years. It was observed that none of the banks had been in existence for less than 5 years, 1 bank between 6 and 10 years; 14 banks between 11 and 20 years; and 15 banks above 21 years. This implies that the information obtained will be important to the study, the effect of chief executive officer turnover on performance of commercial banks in Kenya.

Table 4.3: Institutional Age

	Frequency	Percentage
Between 6-10 years	2	8
Between 11-20 years	16	52
Above 21 years	12	40
Total	**30**	**100**

4.4 CEO Turnover

The study sort out to collect information about the CEO turnover. The findings are discussed below as per the questions asked.

4.4.1 Current CEO Tenure

The study sought to establish the number of years of the current CEO since first appointment as the CEO. The results are represented below.

Table 4.4: Current CEO Tenure

	Frequency	**Percentage**
Less than 3 Years	16	52
4 -5 years	11	36
6-7 Years	1	4
Above 11 Years	2	8
Total	**30**	**100**

From the table above, the findings indicates that, 52% of the CEOs have been the in their position for less than 3 years since their first appointment as the CEOs, 36% have been CEOs for 4-5 years, 8% for above 11 years while 4% for 6-7 years. The findings notes that most of the CEOs have been in service for less than 3 years since their first appointment has CEOs of the commercial banks in Kenya. This implies that the CEO turnover must have been very high for most of the banks in Kenya.

4.4.2 Number of CEOs in the Firm in the last 25 years

The researcher sort to find out the number of the CEOs in the respective organizations of the study for the last 25 years. The results are represented below.

Table 4.5: Number of CEOs in the Firm in the last 25 years

	Frequency	Percentage
1-5 CEOs	18	60
6-10 CEOs	9	30
11-15 CEOs	1	4
Above 16 CEOs	2	8
Total	**30**	**100**

From the table above, 60% of the respondents indicated that their organizations have had between 1-5 CEOs for the last 25 years, 30% have had between 6-10 CEOs, 8% above 16 CEOs while 4% have had between 11-15 CEOs. The findings indicates that most of the organizations have had between 1-5 CEOs having scored 60% of the representation. This implies that the CEO turnover has been high for most Commercial Banks.

4.4.3 Policy Turnover

The study wanted to determine whether the organizations have any policy turnover. The findings are represented below.

Table 4.6: Policy Turnover

	Frequency	Percentage
Yes	23	77
No	7	23
Total	**30**	**100**

From the findings, 77% of the respondents indicated that their respective organizations have a policy turnover while 23% indicate that their respective organizations have no policy turnover. The findings indicates that most of the organizations have a policy turnover indicating that there recruitment strategies for the CEO are well guided.

4.4.4 Contract Period for the CEOs

The research was set to find out the contract period of the CEOs in the respective organizations. The results are represented below.

Table 4.7: Contract Period for the CEOS

	Frequency	Percentage
3 years	13	43
5 years	13	43
10 years	3	10
Permanent	1	4
Total	**30**	**100**

From the table above, 43% of the respondents indicated that the CEOs contract runs for a period of 3 years, another 13% also indicated 5 years period while 10% indicated that itøs a 10 years contract job, and 4% indicated permanent job contract period. The findings indicates that most of the CEOs contract period is 3 and 5 years having scored 43% each. This implies that in most banks would have a new CEO after every 3-5 years subject to renewal indicating a high turnover rate.

4.4.5 Renewal of the CEOs Contract

The study sort to find out whether the CEOs contract is renewal or not. The findings are represented below.

Table 4.8: Renewal of the CEOs Contract

	Frequency	Percentage
Yes	26	87
No	4	13
Total	**30**	**100**

From the table above, 87% of the respondents indicated that the CEOs contract is renewable while 13% indicated that itøs not. Findings indicates that of the organizations COEs contracts are renewable. This implies that the CEO turnover will be minimized since most of the CEOs contracts will be renewed time again.

4.4.6 The Persons Responsible in the CEO Contract Renewal

The study sort to find out who is responsible in the CEO contract renewal. The findings are shown below.

Table 4.9: The Persons Responsible in the CEO Contract Renewal

	Frequency	Percentage
The board of directors	29	96
Group of CEOs	1	4
Total	**30**	**100**

From the table above, 96% of the respondents indicated that the CEO contract renewal is determined by the board of directors while 4% indicated that itøs determined by a group of CEOs. The findings notes that most of the organizations, the renewal of the CEOs contract is determined by the board of directors. This implies that the decision to replace or retain a CEO is a collective one and thus not at the whims of one person who may bring in subjectivity in the decision making.

4.5 Organizational Performance

The study sought to determine the organizational performance of commercial banks using the four perspectives of the Balanced Score Card. The results are analysed in the sections below;

4.5.1 Financial Perspective

The study sought to analyse performance of commercial banks in Kenya from a financial perspective using four questions of the questionnaire as shown in table 4.10 below. The results indicate that performance was moderate implying that the Commercial banks put more emphasis on financial performance as this translated directly to shareholder wealth maximization. The respondents agreed less that the profit after tax has been on an upward trend in the last 5 years, the cost incurred in completing business processes has been reduced considerably and return on capital has improved considerably in the last five years, the organizations has expanded considerably in the last five years. The financial perspective was revealed by means of 2.85, 2.95, 2.83 and 2.88 as shown below.

Table 4.10: Organizational Performance-Financial Perspective

	Mean	Std. Deviation
Return on capital has improved considerably in the last five years.	2.85	0.882
The organizations asset base has been on the rise in the last five years.	2.95	0.835
The organizations has expanded considerably in the last five years	2.83	0.919
The profit after tax has been on an upward trend in the last 5 years.	2.88	0.927

4.5.2 Customer Perspective

The study further sought to analyse performance of commercial banks in Kenya from a customer perspective using four questions of the questionnaire as shown in table 4.11 below. Some respondents partially agreed that the organization has a customer loyalty scheme and it takes lesser time to complete basic activities having a mean 2.93 for both. Also the customer satisfaction has been improving. The results indicate that the non-financial performance measures from a customer perspective was better than the financial performance measure implying that banks valued the customer much more and most of the banks activities were geared towards ensuring that there was improvement in customer service.

Table 4.11: Organizational Performance-Customer Perspective

	Mean	Std. Deviation
The organization responds to customer complaints promptly	3.10	0.871
The organization is able to retain its customers as compared to its peers in the industry	2.95	0.893
The organization has a customer loyalty scheme	2.93	0.877
The customer satisfaction has been improving	3.02	0.908

4.5.3 Internal Business Process Perspective

The study further sought to analyse performance of commercial banks in Kenya from an Internal Business Process Perspective using the statements from the questionnaire as shown in table 4.11 below. The results indicate that on average the performance using this perspective is high implying that Commercial Banks in Kenya placed high emphasis on internal processes which can be explained by the nature of operations. The respondents were in agreement that there has been continuous re-engineering of internal processes to meet customer expectations has it is represented by a mean of 3.07. They also indicated that most of the banks had maintained ISO certification standards and there processes were documented with means of 3.17 and 3.29 respectively. Table 4.11 provides the mean and standard deviations of the results as shown below.

Table 4.11: Organizational Performance- Internal Business Processes

	Mean	Std. Deviation
There has been continuous re-engineering of internal processes to meet customer expectations	3.07	0.877
The cost incurred in completing business processes has been reduced considerably.	2.85	0.937
Its takes lesser time to complete basic activities	2.93	0.985
The corporation has had a proper asset management system	2.98	0.935
The company has maintained ISO certification standards	3.17	0.946
The organization processes are standardized and documented in procedure manuals	3.29	1.078

4.5.4 Learning and Growth Perspective

The study further sought to analyse performance of commercial banks in Kenya from a learning and growth perspective using the statements from the questionnaire as shown in table 4.13 below. From the information results, respondents believe that the organization has set measures to prevent spread of HIV/AIDS among employees, fraud eradication has been mainstreamed in the organizational activities, risk management has been mainstreamed in the organizational activities, the organization has set measures to enhance drug and substance abuse awareness and the corporation has made deliberate efforts to ensure environmental sustainability as the financial and

non-financial measures have been achieved to the greater extent having scored the means of 3.29, 3.23, 3.20, 3.20, 3.17 and 3.17 respectively.

Respondents also agreed to some extent that, the organizational activities have continued to improve for the better there have been deliberate efforts to ensure gender mainstreaming in the organization and all projects launched have been completed with set timelines having scored a mean of 3.10, 3.10 and 3.10 respectively. From the findings itøs noted that, the organization processes are standardized and documented in procedure manuals, the organization has set measures to prevent spread of HIV/AIDS among employees, fraud eradication has been mainstreamed in the organizational activities, risk management has been mainstreamed in the organizational activities, the organization has set measures to enhance drug and substance abuse awareness and the corporation has made deliberate efforts to ensure environmental sustainability as the financial and non-financial measures have been achieved to the greater extent.

Table 4.13: Organizational Performance-Learning and Growth Perspective

	Mean	Std. Deviation
Organization is keen on improving employees have skills and capabilities	3.17	0.998
The organizational activities have continued to improve for the better	3.10	0.970

The organization has set measures to prevent spread of HIV/AIDS among employees	3.23	1.000
The organization has set measures to enhance drug and substance abuse awareness	3.17	0.946
There have been deliberate efforts to ensure gender mainstreaming in the organization.	3.10	0.995
The corporation has made deliberate efforts to ensure environmental sustainability	3.17	0.972
All projects launched have been completed with set timelines	3.10	0.944
Fraud eradication has been mainstreamed in the organizational activities	3.20	0.843
Risk management has been mainstreamed in the organizational activities	3.20	0.928

4.6 CEO Turnover and Organizational Performance

The study sought to determine the effect of CEO turnover on organizational performance using the Balanced Score Card perspectives. This was analysed using regression analysis and the results were as depicted below;

SUMMARY OUTPUT

Regression Statistics

Multiple R	0.256791585
R Square	0.065941918
Adjusted R Square	0.032582701
Standard Error	15.37028069
Observations	30

Anova

	df	**SS**	**MS**	**F**	**Significance F**
Regression	1	466.9919	466.9919	1.976723	0.170737
Residual	28	6614.875	236.2455		
Total	29	7081.867			

	Intercept	CEO Turnover RAte (Years)
Coefficients	50.848	2.767633

Standard Error	9.042256	1.968501
t Stat	5.623376	1.40596
P-value	5.07E-06	0.170737
Lower 95%	32.32578	-1.26466
Upper 95%	69.37023	6.799923
Lower 95.0%	32.32578	-1.26466
Upper 95.0%	69.37023	6.799923

The regression statistic Multiple R. is the Correlation coefficient. It tells you how strong the linear relationship is. For example, a value of 1 means a perfect positive relationship and a value of zero means no relationship at all. The results indicate that the relationship between CEO tenure and organizational performance is positive though the relationship is not very strong and not significant since the P value is greater than 0.05. R square, the Coefficient of Determination is 0.06 indicating that only 6% of turnover falls on the regression line. The results give a regression equation of $y = 2.7676x + 50.84$, where y is the overall rate of performance and x- is the turnover rate as illustrated in the analysis above.

ANOVA was analysed using; Ho: Increased CEO turnover impacts negatively on institution's performance; H1: Increased CEO turnover does not impacts negatively on institution's performance. The overall F test for the null hypothesis is 1.9 indicating

that there is evidence to reject the null hypothesis thus increased CEO turnover does not impact on any institution's performance.

4.7 Discussion of the Findings

The findings of the study indicate that increased CEO turnover in commercial banks does not impact the overall performance of the same institution. These results are inconsistent with other studies that document an inverse relation between the likelihood of Chief Executive Officer (CEO) turnover and firm performance (Murphy and Zimmerman 1993; Weisbach 1988). It is however consistent with other studies that have shown that CEO turnover and tenure do not have an impact on performance due to entrenchment effects of a long serving CEO. They conclude that performance of the firm reveals information about a CEOøs ability to create value for shareholders. When firm performance is poor (e.g. negative stock returns, earnings decreases, and negative earnings surprises) a CEO is replaced because the firmøs owners infer that he is ineffective in formulating and implementing the appropriate strategies and policies that create shareholder value. Since ownersø beliefs about their CEOøs ability are revised over time based on periodic performance, their beliefs of CEO ability become increasingly precise over the employment relationship. Hermalin and Weisbach (1998) theoretically show how this increasing precision reduces both the emphasis placed on firm performance in affecting CEO dismissal and ownersø demand for monitoring their CEO.

The study findings suggest that when firm performance is poor, a CEO may be replaced because the firmøs owners infer that the CEO is ineffective in formulating

and implementing the appropriate strategies and policies that create shareholder value. Since ownersø beliefs about their CEOøs ability are revised over time based on periodic performance, their beliefs of CEO ability become increasingly precise over the employment relationship (Murphy and Zimmerman 1993). This suggests that reduced CEO turnover may be associated with more control of the firm and greater influence on the board, thereby reducing the likelihood of forced CEO turnover. CEO entrenchment makes him dominate the board and consequently pursue costly pet projects and demand compensation packages that benefit them at the expense of shareholders. Time also provides a CEO time to circumvent monitoring and incentive alignment mechanisms.

CHAPTER FIVE

FINDINGS, CONCLUSION S AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study in relation to the objectives of the study. The problem of this study was to find out the effect of CEO turnover on the organizational performance of Commercial Banks in Kenya.

5.2 Summary of Findings

The study found out that most the respondents have been in the HR department between 3-5 years. It found out that the commercial banks have been in existence for averagely more than 11 years, rendering their output on this project very vital; since most of them having existed between 11 and 20 years. The findings indicate that most of the CEOs have been in service for less than 3 years since their first appointment has CEOs of the commercial banks in Kenya. The study found out that most of the organizations have had between 1-5 CEOs. The findings indicate that most of the organizations have a policy turnover. The findings indicate that most of the CEOs contract period is 3 and 5 years. Findings indicate that of the organizations COEs contracts are renewable. The findings note that in most of the organizations, the renewal of the CEOs contract is determined by the board of directors. The study found out that the organization processes are standardized and documented in procedure manuals, the organization has set measures to prevent spread of HIV/AIDS among employees, fraud eradication has been mainstreamed in the organizational activities, risk management has been mainstreamed in the organizational activities, the

organization has set measures to enhance drug and substance abuse awareness and the corporation has made deliberate efforts to ensure environmental sustainability as the financial and non-financial measures have been achieved to the greater extent. The results indicate that the relationship between CEO tenure and organizational performance is positive though the relationship is not very strong and not significant. Therefore increased CEO turnover does not impact on Commercial Bank's performance.

5.3 Conclusions

From the study I can conclude that most of the CEOs have been in service for less than 3 years since their first appointment as CEOs, indicating that the CEO turnover is high for these institutions. The study further concludes that the Commercial banks performance over the last five years has been good and on an upward trend. The performance especially as measured by the non-financial indicators of the balanced scorecard i.e customer perspectives, learning and growth and internal business processes has been high. This lead to the conclusion that CEO turnover does not affect organisational performance and there could be other factors that come into play.

5.4 Recommendations

Based on the research findings, the researcher has made some recommendations that are aimed at strengthening relationship of the CEO turnover and the performance of commercial banks in Kenya. The researcher recommends that Commercial banks should review their policies on CEO tenure and turnover and align them to the interests of the shareholders. This is because though the CEO is appointed by the

Board of Directors the agency theory requires that the Directors being agents of the shareholders should act in the interest of the shareholders. This is informed by the fact that CEO tenure does not impact on performance. There is need for scholars to undertake further research to review other factors that impact performance.

5.5 Limitations

The study has been limited by the following reasons: First, the available time and resources to conduct a more detailed study were limited. Second, some respondents did not answer some of the questions as they were too conscious of disclosing too much information. From the responses, the effect of this guardedness could not be quantified. In some cases, some information was only disclosed after a lot of verbal persuasion. Third, this research is based on responses from the commercial banks touching on CEO turnover and the performance that is both at the core of management, some of the results may be misleading given the vested interest as it was taken from the face value, moreover, no attempt was made to find out if internal controls led to better performance or not.

5.6 Suggestions for Further Research

The study was limited to Commercial Banks due to time and cost constraints. Replication of this study through comparative study using samples from other institutions is thus recommended. This will provide complete picture of the CEO turnover and organizational performance.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

TO WHOM IT MAY CONCERN

I am a postgraduate student studying at the University of Nairobi, currently undertaking a research on **the effect of CEO Tenure and Turnover on Firm Performance in the Banking Industry in Kenya**

Your organization is part of the study. The choice is based on your strategic importance in the achievement of development goals in the country. I kindly request your assistance by availing time to respond to the questionnaire. Any documentations, strategic plans, reports or journals that you may have that are relevant to this topic of study may be availed to me at your discretion.

A copy of the final report will be made available to you at your request.

Your assistance will be highly appreciated.

Yours Sincerely,

DOREEN ALUSA

STUDENT **SUPERVISOR**

APPENDIX II: QUESTIONNAIRE

The study seeks to find out **the effect of CEO Turnover on Firm Performance of Commercial Banks in Kenya.** Please fill in all parts as sincerely as possible by putting a tick on one of the options given, where applicable. For those that require your opinion, please use the space provided.

Part A: General information

1. What is the Name of your Organization (optional)

____

2. For how long have you been in the HR department?

Less than 2 years ( )

Between 3-5 years ( )

Between 6- 10 years ( )

Above 11 years ( )

3. How long has your organization been in existence?

Less than 5 years ( )

Between 6 and 10 years ( )

Between 11 and 20 years ( )

Above 21 years ( )

PART B: CEO TURNOVER

4. How many years since current CEO first appointment as the CEO?

- Less than 3 years ( )
- 4- 5 years ( )
- 6-7 years ( )
- 8- 10 years ( )
- Above 11 Years ( )

5. How many CEOøs has your firm had in the last 25 years?

Please specify? ....

6. Do you have a policy on turnover? Yes ( ) No ( )

7. What is the contract period for the CEO?

3 Years ( )

5 Years ( )

Other; Please Specify___________________

8. Is the contract renewable? Yes ( ) No ( )

9. Who is responsible for renewing the CEO contract?

The Chairman ( )

The Board of Directors ( )

Others; Specify____________________________

PART C: ORGANIZATIONAL PERFORMANCE

10. Kindly indicate to what extent your organization has achieved the following financial and non-financial performance measures. Give your ratings in the scale of 1-5 (Where 1 = Not at all; 2 = Small extent 3 = Moderate extent 4 = Great extent 5 = Very great extent)

	STATEMENTS	Not at all		Moderate	Great extend	Very Great extend
i.	Return on capital has improved considerably in the last five years.					
ii.	The organizations asset base has been on the rise in the last five years.					
iii.	The organizations has expanded considerably in the last five years					
iv.	The profit after tax has been on an upward trend in the last 5 years.					
v.	The organization responds to customer complaints promptly.					
vi.	The organization is able to retain its customers as compared to its peers in the industry					
vii.	The organization has a customer loyalty scheme					
viii.	The customer satisfaction has been improving					
ix.	There has been continuous re-engineering of internal processes to meet customer expectations					
x.	The cost incurred in completing business processes has been reduced considerably.					
xi.	Its takes lesser time to complete basic activities					
xii.	The corporation has had a proper asset management system					
xiii.	The company has maintained ISO certification standards					
xiv.	Organization is keen on improving employees have skills and capabilities					
xv.	The organizational activities have continued to improve for the better					
xvi.	The organization processes are standardized and documented in procedure manuals					
xvii.	The organization has set measures to prevent spread of HIV/AIDS among employees					
xviii.	The organization has set measures to enhance drug and substance abuse awareness					
xix.	There have been deliberate efforts to ensure gender mainstreaming in the organization.					
xx.	The corporation has made deliberate efforts to ensure environmental sustainability					
xxi.	All projects launched have been completed with set timelines					
xxii.	Fraud eradication has been mainstreamed in the organizational activities					
xxiii.	Risk management has been mainstreamed in the organizational activities					

Kindly put down any other comment with respect to the subject of this study.

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THANK YOU FOR YOUR PARTICIPATION

APPENDIX III: LICENSED COMMERCIAL BANKS IN KENYA AS AT 31ST DECEMBER 2014

1. ABC Bank (Kenya)	23. Guaranty Trust Bank Kenya
2. Bank of Africa	24. Guardian Bank
3. Bank of Baroda	25. Gulf African Bank
4. Bank of India	26. Habib Bank
5. Barclays Bank Kenya	27. Habib Bank AG Zurich
6. CfC Stanbic Holdings	28. Housing Finance Company of Kenya
7. Chase Bank Kenya	29. [&M Bank
8. Citibank	30. Imperial Bank Kenya
9. Commercial Bank of Africa	31. Jamii Bora Bank
10. Consolidated Bank of Kenya	32. Kenya Commercial Bank
11. Cooperative Bank of Kenya	33. K-Rep Bank
12. Credit Bank	34. Middle East Bank Kenya
13. Development Bank of Kenya	35. National Bank of Kenya
14. Diamond Trust Bank	36. N[C Bank
15. Dubai Bank Kenya	37. Oriental Commercial Bank
16. Ecobank Kenya	38. Paramount Universal Bank
17. Equatorial Commercial Bank	39. Prime Bank (Kenya)
18. Equity Bank	40. Standard Chartered Kenya
19. Family Bank	41. Trans National Bank Kenya
20. Fidelity Commercial Bank Limited	42. United Bank for Africa
21. First Community Bank	43. Victoria Commercial Bank
22. Giro Commercial Bank	

Source: Central Bank of Kenya