

**CORPORATE GOVERNANCE AT EQUITY BANK LTD,
KENYA**

BY

EMILY WANGARI WANGECHI

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FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF
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DECLARATION

This Research Project is my original work and has not been presented for examination to any other university.

Sign.....

Date.....09/10/2015

EMILY WANGARI WANGECHI

D61/67958/2013

This Research Project has been submitted for examination with my approval as University supervisor.

Sign.....

Date.....10-10-2015

DR. JOHN YABS

LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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God bless you all.

DEDICATION

This research project is dedicated to my mother Nancy Wangechi, for her awesome encouragement and support that have nurtured me to realize the importance of hard work and commitment in all spheres of life.

ABSTRACT

The purpose of this study is primarily based on establishing the nature of corporate governance at equity Bank Ltd. The overriding philosophy which agitates the study on this particular organization is because the company in question invariably one of the well performing banks in the region. Additionally, Equity Bank Limited just like other companies have been constraint with corporate governance issues arising from shareholders, customers complaint of exploitations of workers by using contract staff as against direct engagement of workers that would be remunerated according to their condition of service. Previous researches into the subject have brought to light the poor governance of so many banks having indebted accounts in banking industry. Their accounting systems do not reflect the company's financial status. The objective of this study was to determine the corporate governance at Equity Bank Ltd and how they influenced its performance. This study was anchored on four theories; agency theory, stewardship theory, stakeholder's theory and resource dependency theory. The research study design was conducted using a case study. The study used both primary and secondary data. The primary data was collected through conducting of face to face interviews with the top level management Secondary data was obtained from relevant literature review from dissertations, corporate governance journals, magazines and the any other previous research. Data analysis was conducted using content analysis, however in this study; all the disclosure matters were given same weightiness which helped to lessen partiality. Additionally, authority placed a higher importance on certain pillars and practices of corporate governance. From the study it is clear that corporate governance practices have substantial effect on performance. This study recommends exploring the influence of external governance practices on performance. Based on the findings of this research, we therefore present the following recommendations which will be useful to stakeholders. Efforts to improve corporate governance should focus on board size, composition and independence, Board structure, audit committees, Shareholders and internal control, since it is positively related to both future operating performance and to the probability of disciplinary management turnover in poorly performing banks. Steps should also be taken for obligatory passivity with the code of corporate governance. Additionally there is the need to set up an incorporate corporate body encumbered with the responsibility of collecting and organizing corporate governance related data and creating the relevant indices to enable corporate governance research in the banking sector. In conclusion, corporate governance plays a vital role in the success and prosperity of the banks and other business firms. The interview results show further that the direction and the extent of firm's performance is dependent on the predictors being examined. Results show that large corporate practices, policies and rights of shareholders enhance corporate performance and that when such factors are exploited, it improves firm value. The results of the study may be taken as a indication that good governance structure is vital in the young and not fully formed financial institutions as it has an influence on the institution performance. The opinions of the study do not only aim at perfecting governance at equity bank in terms of policy direction, but equally important to ensure collapse of Commercial banks as a result of governance is forestalled so as not to dent the critical process of poverty reduction and development.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate governance concept was first considered in the early 1930's where scholars describe the evolution of corporate governance in terms of changes in the relationship between ownership and control (Fligstein, 1990). Corporate governance has advanced in our more recent history, in the wake of a few of corporate scandals in the 1990s where there was financial crisis in Asia, Russia, and Latin America. The collapse of Enron of U.S.A put forward that even the highly industrialized countries are not immune to the devastating effects of bad corporate governance. Various management scholars have defined the concept of corporate governance in different ways. Fourier (2006), states that corporate governance is the tendency of leaders to conduct business within acceptable ethical standards. Abu-Tapanje (2005) clarifies that corporate governance encourages fair, efficient and transparent management of institutions to meet well-defined objectives through effective practices and structures.

The adoption of the corporate governance attitude does not necessarily prevent corporate failures and scandals. Consequently there has been discussion about what needs to be included in a broad corporate governance framework. Some scholars argue that a all-inclusive corporate governance framework should include greater use of independent directors, access to outside advice for boards, review of board and executive remuneration and limitations on the power of CEOs (Cutting & Kouzim, 2002).

Corporate governance is now a universal topic due to globalization of businesses. It is recognised to play a major role in the management of organizations in both developed

and developing countries. However, Davies and Schlitzer (2008) note that corporate governance practices are not uniform across nations. In fact, the Organisation for Economic Cooperation and Development (1998) acknowledges the lack of a single model of corporate governance practice that is applicable to all organizations even within one country. Consequently, every country adopts an exclusive set of corporate governance procedures that are based on issues such as the country's legal and financial system, corporate ownership structures, culture and economic circumstances.

1.1.1 Concept of strategy

Corporate governance, in strategic management, refers to the set of internal rules and policies that determine how a company is directed. Corporate governance decides which strategic decisions can be decided by managers and which decisions must be decided by the board of directors or shareholders.

Tandelilin (2007) emphasizes that the central focus in most literature around, corporate governance has been the role of ownership structure as a corporate governance mechanism. Whether the kind of ownership structure matters and what are its implications for corporate governance are areas that raise some concern. A lot of attention has focused on the relationship between ownership structure and corporation performance for instance a rich research agenda on the implications of ownership structure on corporate governance by La Porta et al. (2000) affirm that when the legal structure does not offer sufficient protection for outside investors and entrepreneurs, original owners are forced to maintain large positions in their companies which result in a concentrated form of ownership thus having implications on ownership structure.

According to Shirley and Walsh (2001) indicates that privately held firms are more efficient and more profitable than publicly held ones although the evidence differs on the relative merit of the identity of each private owner. In 1976, Jensen and Meckling provided results of their researches on ownership structure and firm performance by dividing shareholders into internal investors with management right and external shareholders who are investors without ballot right. The conclusion of their research was that value of the firm depends on the internal shareholder's share, which is called ownership structure.

Corporate Governance is therefore highly essential from the point of view of the shareholders, customers, employees and company and society at large for the survival and sustainable growth of the company. Strategy integrates internal environment including corporate governance and external environment. The corporate governance meets the interests all the stakeholders including the long-run interest of the company itself in a more balanced way, by regulating and controlling the misleading, immoral and unethical ideas and acts of CEO, Board of Directors and other strategists. Thus strategic management should be under the preview, control of and the provisions of corporate governance provisions and practices of a company Mugenyi (2010).

1.1.2 Corporate governance practices

Jensen and Meckling (1976) in his early research identify two types of conflicts: One from managerial moral hazard that is, in not having full ownership; hence managers are unable to capture the full benefits of their efforts. The conflict has been described as "managerialism" or "managerial agency." In addition, the complexity of the harmonizing task in the modern firm, inadequate information, and limited rationality all combine to necessitate the vesting of managers with discretion. Such decision, however, creates opportunities for interested behaviour by the managers. This

temptation is protected by having different sets of information available to agents and principals. This information asymmetry can mean that those who in practice discipline the managers may not be able to monitor cheaply the performance of the managers. Disciplining badly behaved managers can also be a difficult problem when there are missing markets, for instance the market for corporate control. Another school of thought believes that large board sizes pose more harm than good for the corporate institution. There is the opinion that the larger the board size, the harder it becomes to control and hence achieve results. Also, large boards are more prone to formation of factions, thereby delaying decision making processes (Ogbechie&Koufopoulos, 2009).

According to Yermack (1996), large boardrooms take time before making any decision and can be a hindrance to change as opposed to small board size. Yermack (1996) observed that a board created by less than five members, may find it hard to effectively represent its various member body, just as a board founded by more than nine members may make any negotiation very difficult to achieve and may escalate logistical problems. It retains that the board may be composed of an odd number of members, no less than five and no greater than nine. The purpose of this structure is to prevent tied votes.

There are various different models of corporate governance around the world and they differ according to the variety of capitalism in which they are rooted. The Anglo-American model emphasizes on the interests of shareholders. The Multi-stakeholder Model associated with Continental Europe and Japan recognizes the interests of workers, managers, suppliers, customers, and the community. A related difference is between market-orientated and network-orientated models of corporate governance (Douma and shreuda, 2013)

The Africa Capital Markets Forum undertook a study on the state of Corporate Governance in Africa. The King's Committee Report and Code of Practice for Corporate Governance in South Africa published in 1994 continue to motivate corporate governance in Africa. Regional conferences were held in Uganda, in June 1998 September 1999 to create Research Journal of Finance. It was determined that each member state be encouraged to develop both a framework and a code of best practice, so as to encourage national corporate governance, and that efforts be made to complement corporate governance in the East African region under the support of the East African Cooperation, and through the formation of a regional apex body to support corporate governance.

1.1.3 The Banking Industry

As at 31st December 2014, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company), and 8 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs) and 87 Foreign Exchange (forex) Bureaus. Out of the 44 banking institutions, 30 were locally owned banks comprised 3 with public shareholding and 27 privately owned while 14 were foreign owned. Of the 14 foreign owned banking institutions, 10 are locally incorporated subsidiaries of foreign banks and 4 are branches of foreign incorporated banks (CBK, 2014).

In the banking industry, corporate governance involves the way banking institutions' business and affairs are managed by the board of administration and the top management, which affects how the bank works out the bank's objectives, plans and policies, taking into consideration making appropriate economic returns for founders and other shareholders, day-to-day work management, protection of the rights and

interests of recognized stakeholders (shareholders and depositors), companies commitment to sound and safe professional behaviours and practices which are in conformity with regulations and legislations, (Linyiru, 2006)

The Kenyan banking system is well regulated with the CBK conducting off-site and on-site surveillance. Over the last few years, the Banking sector in Kenya has continued to grow in assets, profitability, products offering and deposits. The progress has been mainly reinforced by; an industry wide branch network expansion strategy both in Kenya and in the East African community region; and mechanization of a large number of services and a move towards importance on the complex customer needs rather than traditional off-the-shelf banking products. Players in this sector have experienced increased competition over the last few years (CBK, 2014).

In Kenya, Central Bank of Kenya (CBK) is tasked with formulating and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other banks. The CBK ensures the proper running of the Kenyan financial system, the liquidity in the country and the creditworthiness of the Kenya shilling. The Central Bank of Kenya Act, the Banking Act, and the Companies Act are the main regulators and governors of banking Industry in Kenya. To address issues like corporate governance that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association.

1.1.4 Equity Bank Ltd

Equity Bank Limited is incorporated, registered under the Kenyan Companies Act Cap 486 and domiciled in Kenya. The Bank is licensed under the Kenya Banking Act (Chapter 488), and continues to offer retail banking, microfinance and related

services. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity Bank was established as Equity Building Society in October 1984 and was initially a provider of mortgage financing for the majority of customers who fell into the low income population. The society's logo, a modest house with a brown roof, resonates with its target market and their determination to make small but steady gains toward a better life, seeking security and advancement of their dreams. The vast majority of Africans have historically been excluded from access to financial resources.

Having been declared technically insolvent in 1993, Equity's transformation into a rapidly growing microfinance and then a commercial bank is widely considered to be an inspirational success story. Currently, Equity Bank has more than 8 million customers making it the largest bank in terms of customer base in Africa and having nearly half of bank accounts in Kenya. The company's vision is "to be the champion of the socio-economic prosperity of the people of Africa".

Equity Bank retains a passionate commitment to empowering its clients to transform their lives and livelihoods. Through a business model that is attached on flexibility, access and convenience, the Bank has advanced to become an all-inclusive financial services provider with a growing pan African footprint.

1.2 Research Problem

Global proceedings concerning high-profile corporate failures have put back on the policy agenda and deepened debate on the usefulness of corporate governance mechanisms as a means of increasing firm performance (Sanda et al., 2005). Since the beginning of the 21st century, serious financial scandals and many cases of corporate

mismanagement brought about an increasing attention to corporate governance, in a close relation with business ethics issues.

In academic literature, as well as in public policy debates, corporate governance is nowadays acknowledged as a critical factor in economic development and financial markets stability the researchers affirm (Sanda et al., 2005). Despite tight regulatory framework, corporate governance continues to weaken in Kenya. Much needs to be done to sort out this mess otherwise we are likely to see more corporate failures and malfunctions in the region.

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 consistently led to limitations in the depth of our understanding of corporate governance issues. Performance of firms in the recent past has witnessed relatively poor results for example, financial results falling below desired targets. Besides that, corporate governance has been characterized by highly concentrated ownership, low ownership share of foreign owners, high ownership and decision making power in the hands of the state owned and relatively low ownership shares in the hands of insiders.

In the banking sector there have been unethical practices, which put the credibility of their corporate image doubt. As such Equity Bank Limited just like other companies have been constraint with issues arising from customers complaint of exploitations of workers by using contract staff as against direct engagement of workers that would be remunerated according to their condition of service. Previous researches into the subject have brought to light the poor governance of so many companies having indebted accounts in banking industry. Their accounting systems do not reflect the company's financial status.

From various studies carried out, getting the right balance of expertise and independence of the board of directors has been seen as a big challenge. Boards of directors clearly need individuals with a broad range of expertise. But as business problems advance and in large multinational corporations business inevitably changes the range of expertise needed. Developing a well-versed, appropriately balanced board of directors is a hard assignment. Additional to these challenges is the difficulty of finding competent directors who have the time to contribute to the affairs of the company and who are willing to face the risk of shareholder grievances. Some qualified directors may be unwilling to serve for fear that the potential bad performance of the firm will damage their reputations (Mcdough, 2002).

The concept of corporate governance in Kenya progressively being incorporated knowing that it leads to sustainable growth and more so, since Kenya has had a history of poor governance system in the banking industry attributed to weak corporate governance practices, lack of internal controls, weaknesses in regulatory and supervisory systems, insider lending and conflict of interest which led to the collapse of many financial institutions with others going under receivership (Centre for Corporate Governance (CCG), 2004). Measures have been put in place by institutions such as Central Bank of Kenya, Capital Markets Authority and Centre for Corporate Governance to champion the cause of good corporate governance. Nevertheless, notwithstanding all these measures, the problem of corporate governance still remains unresolved. It is on this note that this study therefore sought to study the nature of corporate governance at equity bank ltd.

1.3 Research Objective

The research objective for this study was to establish the nature of corporate governance at Equity bank ltd.

1.4 Value of the Study

Corporate governance is an area which has increased awareness of the public towards the firms in a country hence this study might help policy makers to set new policies on corporate governance practices in relation to banks.

The study will be an important source of information to corporate analysts who provide advisory services to investors as firms that generally provide more information are considered better investments.

This study will also 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.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature related to and consistent with the objectives of the study will be reviewed. The discussion was presented as per themes of the research objectives.

2.2. Theoretical Foundation

This study was anchored on four theories; agency theory, stewardship theory, stakeholder's theory and resource dependency theory.

2.2.1 Stewardship Theory

A steward is defined by Schoorman & Donaldson (1997) as one who protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. This theory demands that a manager's objective is first to maximize the firm's performance because a manager's need of achievement and success are met when the firm is doing well (Coleman, 2008). The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently.

2.2.2 Agency Theory

Jensen & Meckling (1976) defined an agency relationship as "a contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". The theory models the relationship between the principal and the agent. In the context of the firm, the agent (manager) acts on behalf of the principal (shareholder). A bank, being an artificial person, interacts and enters into

contracts with other entities. The entities could be: suppliers, creditors, employees and the government among others. This brings about an agency relationship between the bank and the entities.

Agency theory proposes that employees or managers in organizations can be self-interested. The agency theory shareholders trust the agents to act and make decisions in the principal's interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2000).

The agents are controlled by principal-made rules, with the aim of maximizing shareholders value hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. Equally, where there is a separation, the agency model can be applied to bring into line the goals of the management with that of the owners. The model of an employee depicted in the agency theory is more of a self-interested, individualistic and are restricted rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976).

Corporate governance is a mechanism through which shareholders are assured that managers will act in their best interests and it limits agency problems. Agency theory suggests that there are a number of mechanisms to reduce the agency problem in the company such as choosing appropriate board composition (in terms of size, gender, experience and competence), effective audit committee, and the threat of firing (Tandelilin et al., 2007). From agency theory view point, corporate governance improves corporate performance by resolving agency problems through monitoring management activities, controlling self-centred behaviours of management and inspecting the financial reporting process (Habbash, 2010).

This study will be based on the agency theory and the study variables will be identified with the aim of examining the relationships between corporate governance mechanisms and financial performance. Board structure has relied heavily on the concepts of agency theory, focusing on the controlling function of the board (Habbash, 2010). The corporate governance mechanisms considered in this research include board size, board gender diversity, educational qualification of board members, general and industry specific experience of board members and audit committee size.

2.2.3. Stakeholders Theory

Habbash (2010) asserts that stakeholder refers to any one (external or internal) whose objectives have direct or indirect connections with the firm and influenced by a firm or who exert influence on the firms goal achievement. These include local community, employees, clients, suppliers, government, political parties and management.

The stakeholders in corporate governance can create a favourable external environment which is conducive to the realization of corporate social responsibility. In addition, the stakeholders in corporate governance will enable the company to be considerate about the customers, the community and social organizations and can create a stable environment for long term development. The benefit of the stakeholder model emphasis on overcoming problems of underinvestment associated with opportunistic behaviour and in encouraging active co-operation amongst stakeholders to ensure the long-term profitability of the business firm (Maher and Andersson, 1999).

2.2.4 Resource Dependency Theory

The resource dependency theory stresses on the role of board directors in providing access to resources desired by the firm (Abdullah and Valentine, 2009). According to this theory the principal function of the board of directors is to provide resources to the firm. Directors are viewed as a key resource to the firm. Therefore, when directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like.

Abdullah and Valentine (2009), states that directors bring resources to the firm, such as business expertise ,information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Boards of directors also provide expertise, skills, information and potential linkage with environment for firms (Ayuso and Argandona, 2007). The resource based approach states that the board of directors could maintain the management in areas where in-firm knowledge is limited. The resource dependence model advocates that the board of directors could be used as a device to form associations with the external environment in order to support the board in the achievement of administrative goals (Wang, 2009).

Within a corporate governance framework, the composition of corporate boards is crucial to aligning the interest of management and shareholders, to providing information for monitoring and counselling, and to ensuring effective decision-making (Marinova et al., 2010). The dual role of boards is recognized. However, board structure has relied heavily on agency theory concepts, focusing on the control function of the board (Habbash, 2010).

Habbash (2010), states that the influence of agency theory has been influential in the development of corporate governance standards, principles and codes. An all-

inclusive discussion of corporate governance theories and argues that the agency approach is the most suitable because it provides a better justification for corporate governance roles (Habash, 2010). This study will be based on agency theory to test the hypothesized relationships between corporate governance mechanisms and firms' financial performance. The agency theory framework has the ability to explain corporate governance practices and the expected association between corporate governance practices and financial performance.

2.3 Corporate Governance Dynamics

2.3.1 Pillars of Corporate Governance

Perceptions of the basics that constitute good corporate governance vary from country to country since the business environment is not uniform in all countries. Nevertheless, some insights of pillars of good corporate governance are provided by the Australian Stock Exchange Corporate Governance Council (2003). According to the ASX Corporate Governance Council (2003), good corporate governance can be achieved on the basis of ten essential values which are: Lay solid foundations for management oversight; structure a board to add value; promote ethical and responsible decision-making; safeguard integrity in financial reporting; Make timely and balanced disclosure; respect the rights of shareholders Recognise and manage risks; encourage enhanced performance; remunerate fairly and responsibly and recognise the legitimate interests of stakeholders

2.3.2 Ownership Structure

Ownership structure is one of the most important factors in shaping the corporate governance system of any country Zhuang (1999). This is because it governs the nature of the agency problem. That is, whether the leading conflict is between

managers and shareholders, or between controlling and minority shareholders. Zhuang (1999) identified two important aspects of corporate ownership structure as concentration and composition. According to him, the degree of ownership concentration in a firm determines how power is distributed between its shareholders and managers.

When ownership is isolated, shareholding control tends to be weak because of poor shareholder monitoring the author upholds. For instance, a small shareholder is unlikely to be interested in monitoring because he/she would bear all the costs of monitoring hence share a small proportion of the benefits Zhuang (1999). This raises the question, what if all small shareholders behave this way. Then no monitoring of managerial efforts would take place. Zhuang further argues that when ownership of a company is concentrated, large shareholders would play an important role to monitor the management. However, he says that the only problem with this form of ownership is how minority shareholders would be protected from exploitation by controlling shareholders who may act in their own interests at their expense.

Secondly, ownership composition tries to define who the shareholders are and who among them belongs to the controlling groups. It can be assumed that better overlap between ownership and control should indeed lead to a reduction in conflicts of interest therefore higher firm value (Holderness, 2009). He further states that it can be complicated when looking at how ownership, control and firm value are related. For example, management owning a company can serve to better put in line managers' interests with those of the shareholders of the company.

2.3.3 Principles of Good Corporate Governance

The Basel Committee on Banking Supervision published initial guidance on corporate guidance in 1999, with revised principles in 2006. The Committee's principles address fundamental deficiencies in bank corporate governance that became apparent during the financial crisis. These principles cover the role of the board, which includes approving and overseeing the implementation of the bank's risk strategy taking account of the bank's long-term financial interests and safety. Holderness, (2009).

The second principle discourses the board's qualifications. The board should have adequate knowledge and experience appropriate to each of the material financial activities the bank proposes to pursue to enable effective governance and inaccuracy of the bank. The committee also focuses on the importance of an independent risk management function, including a chief risk officer or equivalent with sufficient authority, stature, independence, resources and access to the board. There is also the need to identify, monitor and manage risks on an on-going firm-wide and individual entity basis. This should be based on risk management systems and internal control infrastructures that are appropriate for the external risk landscape and the bank's risk profile; and Banks should also focus on the boards compensation system's design and operation, including careful alignment of employee compensation with prudent risk-taking, consistent with the Financial Stability Board's principles.

The key areas within the banks where the above principles have been strengthened include the role of the board, the qualifications and composition of the board, the importance of an independent risk management function, including a chief risk officer or equivalent, the importance of monitoring risks on an on-going firm-wide and individual entity basis, the board's oversight of the compensation systems; and the board and senior management's understanding of the bank's operational structure and

risks. The principles also emphasize the importance of supervisors regularly evaluating the bank's corporate governance policies and practices as well as its implementation of the Committee's principles.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

A methodological research approach and design is a framework that binds research together so that the research questions can be analysed effectively (Edmunson & McManus, 2007). This chapter describes the research methodology that was employed in carrying out the study.

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 research design used for this study was a case study at equity bank ltd. Case studies are widely used in organizational studies and across the social sciences, and there is some suggestion that the case study method is increasingly being used and with a growing confidence in the case study as a rigorous research strategy in its own right

3.3 Data Collection

According to Cooper & Schindler (2011) there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results; this is because each tool and instrument collects specific data. Primary data on the corporate governance was collected using an interview guide. Secondary data was obtained from relevant literature review from dissertations, corporate governance journals, magazines and the any other previous research. The interview guide was used as a

collection tool to collect views from the respondent's corporate governance at equity bank. The interview guide was structured in a way that all relevant information was obtained. The interview guide consisted of two sections; where the first part was mainly demographic information to enable the researcher know the nature of the departments, while the second part focused on corporate governance and its impact on equity bank Ltd.

3.4 Data Analysis

Data analysis is a body of methods that help to describe facts, detect patterns, develop explanations, and test hypotheses. It is used in all of the sciences, in business, in administration, in policy and all for the basic need in research. Data analysis was conducted using content analysis, as most of the data to be collected was qualitative which is based on meanings. Content analysis is a research technique for the objective, systematic, and quantitative description of the manifest content of communication Bersons (1971).

According to Titscher et al. (2000), content analysis is the longest recognized method of text analysis among the set of empirical methods of social investigation. However, there does not seem to exist a similar understanding of this method at present, but originally the term referred only to those methods that concentrate on directly and clearly measurable aspects of text content, and as a rule on absolute and relative frequencies of words per text or surface unit.

The researcher wrote a letter to top management notifying them of the purpose of the study and request for meeting to interview the management and discuss the content of the interview guide. Being a former employee of the organization the researcher had an upper hand in obtaining information from management due to the familiarity and

interaction she had with top management in the past. Some of the challenges which were faced include getting top management to avail themselves for the interview due to their busy schedule as well as interpretation of findings as most of the data collected required clarification.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and the results of the study. The analysis was based on the data collected by use of interview guide administered to the top management at equity bank ltd and review of financial reports. The results were used to determine the nature of corporate governance at Equity Bank and how it influenced the performance.

4.2 Corporate Governance Practices at Equity Bank Ltd

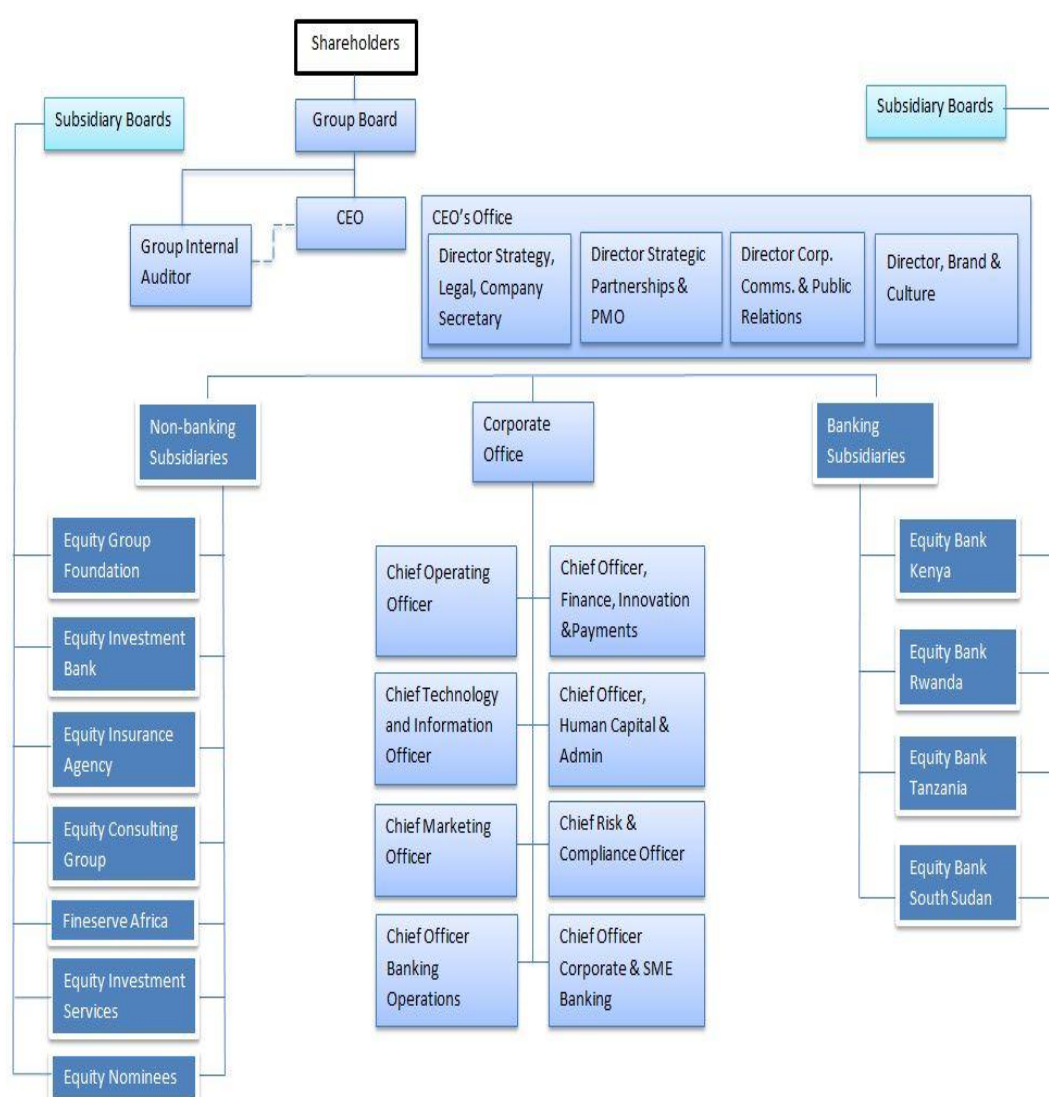
The Board's most weighty responsibilities include guiding the Group with a view to ensuring long-term, sustainable returns for shareholders whereas delivering excellent services to customers and having regard to the interests of all other stakeholders, including staff, regulators and the communities in which the Group operates.

The concrete point and comfort of the financial system is essential to economic and social development and financial regulators around the world have taken measures to ensure that the failures experienced in the recent past do not recur. The Equity Bank Ltd regulators, the central Bank of Kenya (CBK) have heightened the procedures and enhanced risk management plans so that banks can effectively ease the innumerable risks to which they are wide-open to. The Group has fully incorporated these changes and is adopting best practices in corporate governance and risk management in the rapidly growing financial setting.

The board also conducts an annual self-evaluation exercise in keeping with the highest international standards. The assessment focuses on the role and responsibility of the Board, structure, composition, functions and processes, information and

meetings- amongst other critical areas. The results of this assessment are submitted to the Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act. The remuneration of the directors is an item on the agenda at every Annual General Meeting of the members of the Bank. The Board is devoted to certifying that the business is run in a professional, transparent, just and unbiased manner so as to protect and improve stakeholder's value and satisfy their interests. Equity Bank Ltd governance structure is summarized in the figure below.

Figure 1:Equity Bank Ltd organization structure



Source: Company Annual Report 2014

4.2.1: Board Size,

In the year 2014, ten directors served on the board with two alternates and seven full board meetings were held. The Board provides strategic direction with a focus on consistent business performance in an atmosphere of transparency and accountability and also reviewing and monitoring proper corporate governance throughout the Group. The Board has attracted outstanding directors who have shown great commitment and enthusiasm in discharging their duties and obligations to the Bank while also demonstrating the spirit and beliefs of the organization.

The directors subscribe to the Code of Corporate Practices which is constantly reviewed and which guides them in the fulfilment of their duties and responsibilities to shareholders, customers, employees and respective communities. The code of corporate practices provides for the selection criteria and processes for the board selection. The Board of Directors has continued to supervise the delivery of strong business growth coupled with continued delivery of very strong financial performance their role is to advise, constructively challenge and monitor the success of Management in delivering the agreed strategy within the risk appetite and control framework that is set by the Board.

The Board is well composed in terms of the range and diversity of skills, background and experience of directors, and has an appropriate balance of executive, non-executive and independent directors. In recognition that there are other skills, backgrounds and professions that will be useful to the Group, particularly as the business expands into new sectors and territories, the company's Articles of Association were amended during the last Annual General Meeting to increase the maximum number of directors from ten to thirteen persons. The year ended 2014, two directors were subject to retirement by rotation and they sought re-election by

shareholders during the annual general meeting in accordance with the Articles of Association.

4.2.2 Board Committee

The Board operates under all-inclusive structure made up of committees established to assist it in discharging its responsibilities and obligations. The Board has established seven board committees governed by charters and aligned to the Bank's delivery of its vision and mission.

The secretary to each board committee is the head of the relevant function within the Group and the Bank. The Board has determined the purpose and number of committees required to support it in carrying out its duties and responsibilities and in guiding management. These committees have been established with sets of specific terms of reference, which are continuously reviewed and up-dated. The appointment of the members to these committees draws on the skills and experience of individual directors. The role played by the Board committees has become increasingly important over the years and forms a principal point of

4.2.2.1 Governance, Board Nominations and Staff Remuneration Committee

This committee ensures implementation and compliance with Human Resource Policies, makes recommendations to the board for policy on executive and senior management remuneration so as to attract and retain high calibre staff and motivate them to implement the Group strategy. The committee also ensures the Board appointments maintain a good mix of skills, experience and competence in various fields of expertise.

4.2.2.2 Audit Committee

The committee provides independent oversight of the Group's financial reporting and internal control system ensures that checks and balances are in place and the Group has and adheres to sound policies, processes and procedures that deliver business strategic plans effectively. The committee receives and reviews findings of internal and external audits and actions taken to address them. It is comprised of three non-executive directors.

The committee meets quarterly and the external auditors are requested to attend whenever necessary but at least once in a year. The committee analyses and approves the overall scope and plans for external audit activities, including fees which have to be endorsed by the shareholders.

4.2.2.3 Risk Management and ALCO Committee

The committee ensures quality, integrity and reliability of the Group risk management. The Committee also discharges duties relating to corporate accountability and associated risks in terms of management assurance and reporting. It is also responsible for ensuring that there are updated documented policies, procedures and processes for risk management and monitors compliance with them and regularly reviews the adequacy of the Risk Management framework in relation to the risks faced by the Group.

4.2.2.4 Credit Committee

The committee reviews and oversees the overall lending policy of the group and its subsidiaries ensures lending systems and procedures are adequate and adhered to and also ensures full compliance with Central Bank of Kenya prudential guidelines, Bank of Uganda guidelines, Bank of South Sudan guidelines (Sudan), National Bank of

Rwanda (BNR), Bank of Tanzania guidelines, Banking Act and International Financial Reporting Standards to guarantee high quality asset portfolio.

4.2.2.5 Tendering and Procurement Committee

The committee oversees and appraises issues pertaining to the tendering and procurement of goods and services including regularly reviewing the tendering and procurement procedures.

4.2.2.6 Strategy and Investment Committee

The committee supervises the development of corporate strategy and monitors implementation of strategy. It manages the process of resource allocation to increase shareholder value in pursuit of the vision of the Bank and Group. It also reviews and considers the proposed strategic investments and makes recommendations to the Board and advises the management accordingly.

4.2.2.7 Executive Committee

The committee provides coaching and mentoring for the Chief Executive and provides the link between the Board and the management. The committee provides a first line of support and response to management. Board members have open access to management through the Chairman, Group Chief Executive Officer or Group Company Secretary. Regular presentations are made by management to Board and Board Committee meetings and directors may seek briefings from management on specific matters. The Board seeks additional information, where appropriate. In accordance with the Companies Act Cap 486 the Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK).

4.2.3 Shareholders

The Group is committed to relating openly with its shareholders by providing regular information on its performance and addressing any areas of concern. This is achieved through quarterly publication of extracts of its financial performance in the daily newspapers in line with the central Bank of Kenya requirements, publication of annual audited accounts and holding of the Annual General Meeting. The most recently published financial results are also available on the Group's website.

The Group has an interactive website which has all the relevant information relating to the companies. The Group has engaged the services of a registrar, Custody & Registrar Services, who together with the Group Company secretary, regularly address issues raised by the shareholders.

4.2.4: Internal Control

The directors acknowledge their responsibility for the Group's system of internal financial control, including taking reasonable steps to ensure that adequate systems are being maintained. Internal control systems are designed to meet the particular needs of the Group and the risks to which it is exposed with procedures intended to provide effective internal financial control. However, it is to be recognized that such a system can only provide reasonable, but not absolute, assurance against material misstatement. The Board has reviewed the Group's internal control policies and procedures and is satisfied that appropriate controls and procedures are in place.

The Board has put in place a comprehensive risk management framework to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The policies are integrated in the overall management reporting structure. The Head of the Risk Management and compliance Department reports directly to the

Board's Risk Management committee. The Group's performance trend is reported regularly to the Board and includes an analysis of performance against budget and prior periods.

The financial information is prepared using appropriate accounting policies which are applied consistently. The Group has an Internal Audit Department which is an independent function that reports directly to the Board Audit committee and provides independent confirmation that the Group's business standards, policies and procedures are being complied with. Where found necessary, corrective action is recommended. The Group also has a Risk Management and compliance Department which reports to Board Risk committee that develops and implements the compliance framework while ensuring adherence to the company's policy and regulatory requirements

4.3 Risk Management Framework

The Bank's Board of Directors is the primary risk supervisor, exercising its role through various board-approved committees. The Board delegates the day-to-day operations of the group and the bank to management but remains answerable so as to ensuring that operations are carried out in compliance with relevant laws and regulations that they are consistent with safe and sound banking practices.

The Bank has established an end-to-end, forward-looking framework for risk management, in line with the Central Bank regulations and with a view towards ultimate, advanced Basel III compliance. Within this framework all risks linked with the Bank's business and operations, and those specific to the group and the bank, are actively owned and managed by the respective business units supported by a joined risk management hierarchy.

Risk Management function playing a monitoring and supportive role, this hierarchy utilizes, among other tools, all-inclusive risk register that records all extraordinary events occurring across all departments in all subsidiaries. This risk register is then attached with a risk control self-assessment platform that enables area experts across the bank to offer forecasts of risk; to be reconciled statistically with successively registered events, by risk function analysts. The combination of an historical register and a forward-looking assessment system enables the risk function's predictive analytics team to offer strategic guidance to the business function heads that leverages both operations and experience: blending quantitative and qualitative elements.

Predictive risk analytics are moreover driven by the identification of key risk drivers that are considered in the formulation of quarterly and yearly forecasts as well as in the creation of stress tests. The Bank's provisions and capital which is established by Board Risk & ALCO committee are compared against reasonable forecasts as well as stressed scenarios to enable an adequate allocation of financial suppressing in any eventual market circumstance. The sensitivity of the bank's financial position then outlines for the risk management function the bank's risk profile: a key factor used in assessing expansion, investment and operating opportunities and activities.

Risk limits are also assessed to ensure the risk profile's alignment with business objectives and current market conditions. Moreover, the Bank has continued to strengthen the risk management team by creating a more comprehensive structure that now comprises a Head of Risk and a Board Risk Management Committee that works with specialized units as well as the rest of the Senior Management team. The Risk Function's Compliance Assurance docket reviews the compliance framework and specific compliance issues by all business units and supports and follows up on implementation of Internal Audit, External Audit and regulators' recommendations.

In addition, the compliance enforcement team works with businesses so as to close any gaps that are identified through audit and business reviews.

The Bank's Internal Audit department plays a vital role within governance processes by keeping the Board and senior management aware of risk and control issues and by assessing the effectiveness of risk management. Reporting to the Audit Committee of the Board, the department objectively and independently evaluates the existing risk and internal control framework and analyses business processes and associated controls. The Bank has also continued to invest in building its operational resilience by deploying a state of the art technology and has migrated to a tier data centre that will ensure high system availability, security and redundancy capability.

4.4 Financial Reporting and Disclosures.

The performance of the Group and the Bank's businesses is reported by management and the Board who have to maintain proper books and records of the Group's activities and to lay before the Group's annual general meeting, an income statement and a statement of financial position reflecting a true and fair view of the Group's state of affairs. Financial information on the Group's performance is prepared using proper accounting policies and standards, which are applied consistently.

Financial statements are created in agreement with International Financial Reporting Standards (IFRS) and the requirements of all the relevant statutes, rules and regulations. The group also conforms to all relevant requirements by all other regulatory authorities such as the Retirement Benefits Authority, the Nairobi Stock Exchange (NSE), Uganda Securities Exchange and other relevant ones in all countries in which we operate. In accordance with the Banking Act, Capital Markets Authority Act, continuing listing obligations and the Central Bank of Kenya prudential

guidelines, the Bank ensures that shareholders and other stakeholders are provided with full and timely information on performance at least once every quarter. Operational procedures, controls and policies have been recognised to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings to the study, and in the process, draws conclusions based on the finding of the study. The chapter subsequently, makes recommendations arising from the conclusions of the study. Finally the chapter makes suggestions for further research in connection with certain specific areas of this study

5.2 Summary of Findings

This research paper analysed and appraised issues of corporate governance, with a specific reference to equity bank ltd. It also investigated whether internal attributes of corporate governance, such as board size, composition and independence, Board structure, Management committees, Shareholders and internal control affected the performance of NIC Bank. Empirical results indicate that board size, composition and independence are positively related to the firm performance. This finding is congruent with the predictions of resource dependence theory suggesting that a board with high levels of links to the external environment can improve a firm's access to various resources, hence positively affecting firm performance.

The board structure is positively related to corporate performance. The positive association may be because of very high representation of board members in equity Bank which might boost managers to be very vigorous hence boosting performance. A positive relationship between management committees and cooperate performance is an ambiguity to the agency justifications suggesting that uniting both roles (the decision management and the decision control) into a single position would weaken board control, and negatively affect firm performance. Shareholders also have a

positive connection with corporate performance since it provides providing consistent information on its performance and addressing any areas of apprehension which is achieved through quarterly publication of extracts of its financial performance in the daily newspapers.

A positive rapport exists between the internal control and performance as the board has put in place a all-inclusive risk management framework to recognize all key risks, measure these risks, manage the risk places and determine wealth allocations.

5.3 Conclusion

The importance of corporate governance cannot be over-emphasized since it builds the organizational climate for the internal activities of a company. Corporate governance brings new outlook and enhances a firm's corporate competitiveness. The study examined the nature of corporate governance at equity bank ltd in Kenya. Indeed, corporate governance plays a vital role in the success and prosperity of the banks and other business firms. The interview results show further that the direction and the extent of firm's performance is dependent on the predictors being examined. Results show that large corporate practices, policies and rights of shareholders enhance corporate performance and that when such factors are exploited, it improves firm value. The results of the study may be taken as a indication that good governance structure is vital in the young and not fully formed financial institutions as it has an influence on the institution performance. The opinions of the study do not only aim at perfecting governance at equity bank in terms of policy direction, but equally important to ensure collapse of Commercial banks as a result of governance is forestalled so as not to dent the critical process of poverty reduction and development.

5.4 Recommendations

The study showed that generally equity bank practiced to reasonable extent good corporation governance. However, the following recommendations are important to enhance good governance of bank.

Firstly, in order to implement good corporate governance, managers need to know that they should be concerned about the interrelationships between corporate governance and firm performance. The study findings strongly confirm that adoption and implementation of good corporate governance have higher advantage of increasing their performance. More so, this will ensure that interests of the firm are served and there is easier access to funding from investors.

Secondly, there is need for the regulatory agency, the Central Bank of Kenya to continue enforcing and encouraging firms to adhere to the guidelines on corporate governance for financial institutions. This can be ensured through enacting more rules and regulations thus ensuring that banks maintain confidence in shareholders and customers and give them safe level of their savings and investments.

Thirdly, evidence from the study that corporate governance has some influence on a firm's performance hence, clear policy implications should not be lost. This study recommends that equity bank should promote corporate governance to send a positive signal to potential investors.

Fourthly, this empirical findings indicate that different types of ownership structure have similar concerns on implementing good corporate governance, the findings can be used to inform the government and other regulatory agencies that they have to be more concerned over corporations with worse corporate governance practices. In addition, the regulatory agencies including the government should promote and

socialise corporate governance and its relationship to firm performance across in the banking sector. Lastly, shareholders need to know that they have an important role in ensuring that the banks management are following and implementing good corporate governance. They can do this through establishing certain control means thus

5.5 Limitation of the study

There was initial reluctance by top management to authorize the study to be carried out at the institution. They feared that findings of the study may be used by their competitors adversely. This caused considerable delay in the process to get the work started.

Some correspondents were not able to immediately understand what the questions were asking for and tended to veer off, in their response which caused the researcher to spend considerable time with them. Banks uphold confidentiality to safeguard client information or any other information whose disclosure may lead to litigation.

The facts may also be used by the competition to gain an unfair advantage. Due to this, accessing information for purposes of the research was quite a challenge. In light of this, findings of this study might be unique to equity bank therefore cannot be universal to other banking institutions in the industry.

5.6 Suggestions for Future Research

The study may have assumed that the efficient performance of banks' relies on corporate governance as mentioned above. However, the study does not openly rule out the fact that some other variables in the environment could be critical for equity bank ltd performance. Hence, future research could usefully focus on the macroeconomic conditions necessary to encourage maximum performance within the

bank or other firms in other industries for instance foundations of performance modifications that are not related to ownership.

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APPENDICES
APPENDIX I
LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 02/09/2015

TO WHOM IT MAY CONCERN

The bearer of this letter EMILY WANGARI WANGICHEI


Registration No. D61/67958/2013

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

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

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

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



APPEDIX II:

INTERVIEW GUIDE

This interview guide consists of twenty questions which will assist in answering research questions of the study.

PART A: GENERAL INFORMATION

1. Please indicate your Gender.
2. Kindly indicate your department.
3. Kindly indicate your current designation in the company.
4. What is your age bracket?
5. What is your highest level of education?
6. How many years have you worked at equity bank ltd?

PART B: CORPORATE GOVERNANCE PRACTICES

7. Has the Company adopted its own Code of Corporate Governance or has it applied another organisation's Code of Corporate Governance?
8. Who incorporates the corporate governance policy in this institution?
9. How has the implementation of the Code of Corporate Governance contributed to any improvement in operational and organizational efficiency?
10. Are you facing any problems in implementing the requirements of the Code of Corporate Governance?
11. How many Directors are presently serving on your board?

12. Are the functions of Chairman/CEO clearly defined by the Board of Directors (BOD)?
13. Are the terms of appointment & remuneration package of the CEO & the Executive-Directors approved by the BOD?
14. Has the Company adopted a transparent and publicly available remunerations policy for the Board of Directors members and is the remuneration amount dependent on their contribution to attaining corporate financial and non-financial results and business goals?
15. Is there adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' meeting?
16. Does the bank provide equal access to information for Shareholders and investment analysts?
17. Does the bank provide equal access to information for Shareholders and investment analysts?
18. Is there an Audit Commission in the company?
19. Do the systems of internal audit include the insider information affairs?
20. Has your company ensured that the statement of compliance with the best practices of corporate governance is reviewed and certified by statutory auditors, where such compliance can be objectively verified, before publication by listed companies?