ASSESSMENT OF CORPORATE GOVERNANCE AND RETURN ON ASSETS OF COMMERCIAL BANKS IN KENYA.

BY

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REG NO: D61/P/7108/04

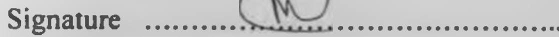
A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

OCTOBER 2012

DECLARATION

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



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ACKNOWLEDGEMENT

This study would not have been completed without the valuable support of my family and friends. Please accept my heartfelt gratitude for your help and support.

More specifically, I would like to acknowledge the valuable guidance of my supervisor throughout the study duration.

I would also like to thank the staff members of the various banking institutions, who wholeheartedly provided the data both in hard copies, softcopies, email and those who gave the reports in CD form at no charge.

Last but not least, I would like to thank my friend Ezekiel for the encouragement and support during the study.

DEDICATION

I sincerely dedicate this paper to my parents, brother and sister for their love, encouragement and support all through my life and study period. Your faith in me helped carry me through all the difficult moments of my study.

ABSTRACT

The study as emphasized in the problem statement was to assess the implementation of the corporate governance mechanisms as per the requirements of the prudential guidelines issued by the Central Bank of Kenya in 2006. Following the financial crisis witnessed in the 1990's that witnessed the collapse of various banks in Kenya, as well as privatization of banks and reduction of government control of banks calling for amendments in the banking supervision regulations. The study relied on the provisions of the prudential guidelines on corporate governance as well as the requirements of the CMA for the listed banks and the Sharia banking requirements for the Islamic banks.

The data collection was done on the basis of five mechanisms of governance being shareholder's rights, management and supervisory board, commitment to corporate governance, transparency and auditing for the independent variables, and return on assets for the dependent variable and was done from the annual reports and the websites of the various banks as well as data as provided by the various banks on request.

The outcome of the study as concluded in the findings reveals that banks have greatly improved on the implementation as majority have almost fully complied with a few areas still lacking like the shareholding disclosure of the privately owned banks and board of director's composition on the local committees which in some do not meet the 3/5th required. Significant areas as per the analysis were the bank ownership whether foreign owned or local, the financial analysis capability of the board and the commitment in terms of ethics. In majority of the banks, the return on assets time series analysis indicated an increase over the five year period reviewed compared to before 2006 when there were no corporate governance guidelines.

In conclusion, it is not conclusive to say that governance mechanisms are directly related to the improvement in the performance of banks as some have declining ROA over the period despite compliance to the requirements.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK	:	Central Bank of Kenya
CCG	:	Centre for Corporate Governance
CGRs	:	Corporate Governance Ratings
CMA	:	Capital Markets Authority
EPA	:	Environmental Protection Agency (in United States)
GLM	:	Generalized Linear Model
IMF	:	International Monetary Fund
NYSE	:	New York Stock Exchange
OECD	:	Organization for Economic Co-operation and Development
OLS	:	Ordinary Least Squares
R&D	:	Research and Development
RoA	:	Return on Assets
SPSS	:	Statistical Package for Social Sciences

CHAPTER ONE

INTRODUCTION

This chapter introduces the general overview of corporate and the various definitions from different authors. It further analyses the problem statement and the objectives of the study, before concluding on the importance of the study to the various stakeholders.

1.1 Background to the Study

From the year 1980 to late 1990s, over 130 countries, comprising almost three fourths of the member countries of the International Monetary Fund (IMF) experienced significant problems with their banks (Lindgren et al, 1996). In a systemic banking crisis, a country's corporate and financial sectors experience a large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. As a result, non-performing loans increase sharply and all or most of the aggregate banking system capital is exhausted. This situation may be accompanied by depressed asset prices (such as equity and real estate prices) on the heels of run-ups before the crisis, sharp increases in real interest rates, and a slowdown or reversal in capital flows. In some cases, the crisis is triggered by depositor runs on banks, though in most cases it is a general realization that systemically important financial institutions are in distress. The fact that these systemic crises occurred after implementation of far reaching reforms of the financial system revived long standing debates in Economics and Finance on role of bank regulation. (Mishkin, 1992; McKinnon, 1993).

In Kenya the 1980s and 1990s, many banks collapsed due to weak internal controls and bad governance and management practices. The first casualty was the Rural Urban Credit Finance Company Limited which was placed in interim liquidation in 1984. The Continental Bank of Kenya and Continental Credit Finance Limited collapsed in 1986, Capital Finance Limited collapsed in 1987, seven banks which had collapsed were merged in to Consolidated Bank of Kenya Limited in 1989, 13 banks collapsed in 1993 and five banks collapsed between 1996 and 1999. In 1999 Trust Bank, the then sixth largest bank in Kenya in terms of deposits collapsed due mainly to insider lending to directors and shareholders. More recent cases have been Delphis Bank Limited placed under receivership in 2001 and Euro bank in 2003.

Regulation of banks in Kenya is carried out by the Central bank of Kenya through policies presented in the form of The Prudential guidelines in line with the Basel Committee on banking supervision. The prudential guidelines have a full chapter on corporate governance. This Guideline is issued under Section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system. This Guideline is intended to provide the minimum standards required from directors, chief executive officers and management of an institution so as to promote proper standards of conduct and sound banking practices, as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness. This Guideline should not restrict or replace the proper judgment of the management and employees in conducting day-to-day business. Each institution is therefore required to formulate its own special policies (taking into account the institution's special needs and circumstances) on the duties, responsibilities and conduct of its directors, chief executive officers and management.

Corporate governance is concerned with the processes, systems, practices and procedures as well as the formal and informal rules that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships that these rules and regulations determine or create, and the nature of those relationships. It also addresses the leadership role in the institutional framework (Okeahalam and Oludele, 2003). According to Gerson and Barr (1996), good corporate governance seeks to promote efficient, effective and sustainable corporations that contribute to the welfare of society by creating wealth, employment and solutions to emerging challenges; responsive and accountable corporations: corporations which are managed with integrity, probity and transparency; and recognition and protection of stakeholder rights: under an inclusive approach based on democratic ideals, legitimate representation and participation.

La Porta et al (2000) defines corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by the insider. These definitions, clearly indicates the need for corporate governance which arises because of the separation of management and ownership in the modern corporation. In practice, the interest of those who have effective control over a firm can differ from the interests of those who supply the firm with external finance. The 'principal-agent' problem is reflected in management pursuing activities which may be detrimental to the interest of the shareholders of the firm.

According to Central Bank of Kenya (2002) and the Centre of Corporate Governance (CCG) [2004], corporate governance in the Kenyan banking sector largely relates to the responsibility conferred to and discharged by the various entities and persons

responsible for and concerned with the prudent management of the financial sector. The corporate governance stakeholders in the banking sector include the following: The board of directors; the management; the shareholders; Central Bank of Kenya (CBK); external auditors; and Capital Markets Authority (CMA). The Central Bank of Kenya (2001) observed that the ever changing business environment characterized by globalization and deregulation had presented the banking sector with great challenges, which called for sound management systems capable of early identification, measuring, monitoring and controlling the various banking risks which include credit, currency, liquidity, interest rate and operational risks. In January 2002 the Capital Markets Authority while responding the growing importance of corporate governance, issued a Gazette Notice spelling out the guidelines, adherence to which is mandatory to all public listed banks. Among the CMA requirements is inclusion of a statement on corporate governance in the annual accounts.

However, the literature has not adequately addressed corporate governance of banks and the role it might play in systemic crisis. Consideration of corporate governance in banks has very little done concerning the behaviour of owners and managers of banks. In addition, there is no clear theoretical path between governance as a microeconomic concept and regulation as a macroeconomic concept. There is, therefore, little guidance as to the conceptual framework that is suitable to understanding governance in banks. From a theoretical perspective, previous research is even more limited.

1.2 Problem Statement

Though there are empirical studies on corporate governance of banks in Kenya, little has been done especially in assessment of implementation of the corporate governance mechanisms as per the CBK prudential guidelines. Linyiru (2006)

conducted a survey on corporate governance practices of banks in Kenya. Centre for Corporate Governance (2004) also looked at the corporate governance practices that were prevalent in commercialized banks in Kenya focusing on only 10 banks.

In relation to corporate governance and performance in banking, only one study by Metango (2008) looked at the relationship between corporate governance and performance. Whereas there are many corporate governance mechanisms this study used only three tenets of Transparency, Disclosure and Trust and performance in terms of capital adequacy, asset quality, efficiency, Profitability and liquidity under Basel II requirements.

1.3 Objectives of the Study

The study seeks to assess the corporate governance mechanisms and performance of commercial banks in Kenya.

Specific objectives are:

a) Assess the level of implementation of corporate governance mechanisms as per the prudential guidelines by commercial banks.

b) Analyze banks performance in terms of return on assets in relation to corporate governance.

1.4 Importance of the Study

Regulators

This study proposes policies on corporate governance mechanisms based on the best practices that can be replicated to improve performance in commercial banks in Kenya.

The findings stand to benefit regulators of financial markets in identifying the crucial aspects of corporate governance mechanisms that should be emphasized in the governance matrices for commercial banks.

Banking Industry

The study is of benefit to the management boards of commercial banks by giving guidelines on the key value-adding aspects of corporate governance mechanisms.

Academicians

The results of the study will also serve as a point of departure for further research in governance mechanisms by academicians and researchers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the corporate governance mechanisms from banking and non-banking perspective. It further brings out the various studies that have been carried out on the relevance of corporate governance on performance. The chapter also highlights the various measures of governance and performance.

2.2 The Concept of Corporate Governance

Corporate governance is the set of systems, policies and procedures by which corporate organizations are directed and controlled. As such, corporate governance provides the organizational framework through which organizational objectives are set, monitored and achieved. It also defines the relationship between the organization's various stakeholders – but importantly, the shareholders, the board of directors and the management. According to the OECD (2004), good corporate governance is an important step in building more confidence and encouraging more stable and long-term international investment flows. The purpose of corporate governance is to achieve a responsible, value-oriented management and control of companies. Corporate governance rules promote and reinforce the confidence of current and future shareholders, lenders, employees, business partners and the general public in national and international markets (Wolfgang, 2003).

According to La Porta et al. (2000), corporate governance is to a certain extent a set of mechanisms through which outside investors protect themselves against expropriation

by the insiders. They define the insider as both managers and controlling shareholders. A corporate governance system is comprised of a wide range of practices and institutions, from accounting standards and laws concerning financial disclosure, to executive compensation, to size and composition of corporate boards. A corporate governance system defines who owns the firm, and dictates the rules by which economic returns are distributed among shareholders, employees, managers, and other stakeholders.

Corporate governance deals with the agency problem which arises due to the separation of management and source of finance. This basic agency problem suggests a possible definition of corporate governance as addressing both an adverse selection and a moral hazard problem. The traditional definition of corporate governance was such a narrow view as Shleifer and Vishny (1997) mentioned that the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment. Recent trend, however, express doubts on the definition that solely focuses on shareholder value (Hirotsugu and Hitoshi, 2003). Tirole (2001) showed that shareholder value approach is too narrow a view for an economic analysis of corporate governance, once incentive considerations have been made. It emphasizes the need for any design of governance structures that depart from shareholder value to be in accordance with the lessons of the new economics of incentives and control. And one possibility is the concept of the "stakeholder society" value approach.

Corporate governance system is mainly divided into two systems, insider type governance and open type governance (Environmental Protection Agency [EPA – US], 1998). The characteristics of an insider type of corporate governance system

include the following: it is based on a long-term relation and mutual reliance; it does not take opportunity principle mutually; the bearer of corporate governance is limited; monitoring is taken on by a main regulator; and there is insufficient disclosure. An insider type of corporate governance system is built on the following strengths: it is stable in management and employment; has little monitoring cost; and it internalizes adjustment cost. The limitation of this governance system is that the system is uncertain and it becomes invalid when the management is unstable.

In an open system of governance, there are a lot of bearers of corporate governance; there are various kinds of monitors; it assumes the existence of the market, with free entry and free withdrawal; there is sufficient disclosure; and price mechanism works. The main strength of this system of governance is that it is easy to promote business restructuring. However, it is limited to burgeoning of monitoring cost, generation of free riders of monitoring, and promotion of rent-seeking activities.

2.3 Corporate Governance and Performance of Firms

Bhagat and Bolton (2006) explored how corporate governance is measured and the relation between corporate governance and performance. He sheds light on these questions, taking into account the endogeneity of the relations among corporate governance mechanisms such as management turnover, corporate performance, corporate capital structure, and corporate ownership structure, and proposes corporate board ownership as a new measure of corporate governance, and finds the measure more appropriate than measures used in the extant literature. For performance the study uses Return on Assets (ROA) and Tobin's Q.

Black et al (2006) explored the corporate governance indices and firm's market values using time series evidence from Russia. He observed a statistically strong correlation between governance and market values both in OLS and in fixed effects regressions with firm-index fixed effects. He deviated from cross sectional data used in previous studies and found significant differences in the predictive power of different indices, and in the components of these indices indicating that how one measures governance matters.

Biswas and Bhuiyan (2006) attempted to give a short description of the theoretical literature focusing on different conceptual models of corporate governance and empirical studies relating to whether good corporate governance leads to better firm performance. Majority of the literature has been found to focus on the relationship between shareholders, directors, and management. The findings of these empirical studies are mixed and as a result, it is often difficult for users to draw any firm conclusion on the relationship. On the other hand, studies undertaken considering the overall corporate governance mostly provide evidence of significant relationship between corporate governance and firm performance. However, whether better corporate governance causes higher firm performance is still remains a valid research question for reasons like ambiguity regarding the direction of causality.

Gompers et al (2001), constructed a "Governance Index" for U.S. firms based on takeover measures that are related to stock returns, firm value, profits, sales growth, capital expenditure, and corporate acquisitions. They found that firms with weak shareholder rights are less profitable and have lower sales growth than their peers with strong shareholder rights. In addition, firms with weak shareholder rights have

higher capital expenditures and more acquisitions than firms with strong shareholder rights.

Drobetz et al (2002) explored the link for a broad sample of German firms. This study was the first of its kind that constructed a corporate governance rating for German firms, based on a large survey among all segments of the German stock market. The rating included a wide range of firm-specific and, to a large extent, voluntary governance proxies related to different control mechanisms. It acted as a proxy for the quality of firm-specific corporate governance in different categories, such as general corporate governance commitment, shareholders' rights, transparency, management and supervisory board matters, and auditing. The sample covered 63 firms from all segments of the German stock market as of March 2002. The governance score ranged from 0 to 30; the maximum score of 30 indicating an outstanding standard of firm-specific corporate governance. To explore the relationship between firm-specific corporate governance and firm valuation, the resulting governance rating was cross-sectionally related to fundamental valuation measures, such as dividend yields, price-earnings ratios, and market-to-book ratios. Their findings revealed that both price-earnings ratios and market-to-book ratios are positively related to the quality of firm-specific corporate governance. They interpreted their findings to imply that 'Good' corporate governance (high governance rating) leads to lower cost of capital, and 'bad' corporate governance (low governance rating) to higher hurdle rates.

Nickell et al (1997) estimated the effect of product market competition, shareholder control, and debt levels on firm-level productivity growth in 580 UK manufacturing

firms between 1985 and 1994, and showed a positive influence of ownership control, along with market competition and financial pressure, on productivity growth. Whether shareholder control is effective or not depends also on the economic systems, economic conditions, legal systems, and so on.

Demsetz and Lehn (1985) conducted a study on 511 large US firms, including financials for the period between 1976 and 1980. Their dependent variables included Return on Equity (RoE) and Standard error of market model regressing firm return on market return. The independent variables included firm size; standard deviation of stock return; standard deviation of accounting return on equity; industry dummies for utilities, financials and media; ratio of capital expenditure to total sales; ratio of advertising to total sales; and the ratio of Research & development (R&D) to total sales. After applying Ordinary Least Squares (OLS) regression, their findings established that performance by accounting return was insignificantly decreasing with ownership by large shareholders while ownership by large shareholders increased significantly by standard error of market return.

2.4 Corporate Governance and Performance of firms in Kenya

Empirical studies on corporate governance in Kenya (Kerich, 2006; Jebet, 2001; Kitonga, 2002; Mwangi, 2002; and Mwangi, 2003; Mucuvi (2002); Wainaina (2002); and Gakuo (2003) have examined the efficacy of structures of ownership, the directorship, and various other governance structures but only Linyiru (2006), Metango (2008) and the Centre for Corporate Governance (2004) looked at corporate governance in commercial banks. Kerich (2006) sought to establish the relationship between corporate governance structures and performance in firms quoted in the Nairobi Stock Exchange. The findings established that there are positive relationships

between listed firms' performance and frequency of board meetings, the ratio of outside directors to total directors, percentage of insider share ownership, and executive compensation. The study concluded that the way forward in examining corporate governance structures for Kenyan firms, perhaps, might be increasing the focus on shareholder interest and concerns, and identification of some widely accepted guiding principles, rather than trying to find some specific structures which are universally applicable, for effective corporate governance.

Jebet (2001) documented findings on the corporate governance structures in listed companies; Kitonga (2002) sought the opinions of management and external auditors of publicly quoted companies on the need for corporate governance in Kenya. His objective was whether there was need for corporate governance and who was to carry out the audit of corporate governance. His findings were that there was need and that external auditors have been largely suggested as the most preferred candidates to carry out the audit over private sector corporate governance trust, internal auditors, audit committees and independent management consultant firms. Mwangi (2002) surveyed on corporate governance practices among insurance companies in Kenya. His objective was to identify the level of governance practices and the relationship between governance practices and ownership and financial performance. His findings were that the practices included business strategy, budgets and management performance review and that there is a positive relationship between governance practices and performance as well as ownership; and Mwangi (2003) investigated the determinants of corporate board composition in Kenya using an agency perspective; Mululu (2005) established that boards increase the frequency of their meetings following poor performance and as consequence of such increase the performance of firms improve as captured by the increase in firm value. Linyiru (2006) conducted a

survey of corporate governance practices of banks in Kenya. His objective was to determine the corporate governance procedures and systems applied in the banking sector as well as to what extent and prevalent in the use of selected governance practices in Kenyan commercial banks. His findings were that the central system of corporate governance responsibility in banks lies with the BOD and involves the BOD setting up strategies, values and procedures and ensuring there are measures to guide implementation. Mulinge (2007) investigated the corporate governance structures in NHIF. His findings were the presence of fundamental structures in place including the BOD, Audit committees, Tendering committees and a code of conduct giving clear lines of responsibility and accountability but lack of succession planning; Maina (2007) conducted a survey of corporate governance practices in the insurance industry. His objective was looking at the factors that influence corporate governance within the insurance industry in Kenya. His findings were that there were weaknesses in operationalizing the principles of good corporate governance and ensuring that they are practiced and upheld; Mwakanongo (2007) did a survey to determine and document corporate governance practices in the shipping companies. His findings were that there existed well designed practices of corporate governance existed.

2.5 Corporate Governance in Banking

2.5.1 Empirical Evidence on Corporate Governance in Banking

The narrow approach to corporate governance views the subject as; the mechanism through which shareholders are assured that managers will act in their interests. Indeed, as far back as Adam Smith, it has been recognized that managers do not always act in the best interests of shareholders (Henderson, 1986). This problem has been especially exacerbated in the Anglo-Saxon economies by the evolution of the

modern firm characterized by a large number of atomized shareholders, leading to a separation of ownership and control. The separation of ownership and control has given rise to an agency problem where by management operate the firm in their own interests, not those of shareholders (Jensen and Meckling, 1976; Fama and Jensen, 1983). This creates opportunities for managerial shirking or empire building and, in the extreme, outright expropriation. However, there is a broader view of corporate governance, which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment (Shleifer and Vishny, 1997; Vives, 2000; Oman, 2001).

Macey and O'Hara (2001) argued that a broader view of corporate governance should be adopted in the case of banking institutions, arguing that because of the peculiar contractual form of banking, corporate governance mechanisms for banks should encapsulate depositors as well as shareholders. In many developing economies, the issue of bank corporate governance is complicated by extensive political intervention in the operation of the banking system (Arun and Turner, 2003).

Government ownership of banks is a common feature in many developing economies (La Porta et al, 2002). The reasons for such ownership may include solving the severe informational problems inherent in developing financial systems, aiding the development process or supporting vested interests and distributional cartels (Arun and Turner, 2002). With a government-owned bank, the severity of the conflict between depositors and managers very much depends upon the credibility of the government. The inefficiencies associated with government-owned banks, especially

those emanating from a lack of adequate managerial incentives have led developing economy governments (under some pressure from international agencies) to begin divesting their ownership stakes (Arun and Turner, 2002).

A further issue, which complicates the corporate governance of banks in developing economies, is the activities of 'distributional cartels' (Oman, 2001). These cartels consist of corporate insiders who have very close links with or partially constitute the governing elite. The existence of such cartels will undermine the credibility of investor legal protection and may also prevent reform of the banking system. Good political governance can be considered as a prerequisite for good corporate governance (Oman, 2001).

Claessens et al (2000) suggested that the entrance of foreign banks actually increases the efficiency of the developing economy banking sectors. One possible rationalization of this finding is that foreign banks bring with them new management techniques, corporate governance mechanisms and information technologies which domestic banks have to adopt in order to effectively compete with their foreign rivals (Peek and Rosengren, 2000). A further benefit from permitting foreign bank entry is that it may result in a more stable banking system. Notably, empirical studies by Demirguc-Kunt (1998) and Levine (1999) suggest that the presence of foreign banks reduces the likelihood of banking crises and may result in banks becoming more prudentially sound.

Macey and O'Hara (2003) argued that commercial banks pose unique corporate governance problems for managers and regulators, as well as investors and depositors. They observed that the intellectual debate in corporate governance has focused on two

very different issues: first, whether corporate governance should focus exclusively on protecting the interests of equity claimants in the corporation or whether corporate governance should instead expand its focus to deal with problems of other groups (stakeholders or non-stakeholder constituencies); and secondly, that corporate governance should concern itself exclusively with the challenge of protecting equity claimants and attempts to specify ways in which the corporation can better safeguard those interests. In addition, they state that the dominant model of corporate governance in law and economics is that the corporation is a "complex set of explicit and implicit contracts" meaning one should view the corporation as nothing than a set of contractual arrangements among the various claimants to the products and earnings generated by the business. The group of claimants includes not only shareholders, but also creditors, employee-managers, the local communities in which the firm operates; suppliers and customers. They contend that in the case of banks, these claimants also include the regulators in their role as insurers of deposits and lenders of last resort and in their capacity as agents of other claimants.

2.5.2 Corporate Governance in Kenya's Banking Sector

According to Central Bank of Kenya (2002), corporate governance in the banking sector largely relates to the responsibility conferred to and discharged by the various entities and persons responsible for and concerned with the prudent management of the financial sector. The corporate governance stakeholders in the banking sector include the following: the board of directors, the management, the shareholders, CBK, external auditors, and the CMA.

The customers and the general public also play a critical role in fostering corporate governance in the financial sector. In the late 1980s and early 1990s, corporate

governance issues were low priority in the Kenya's banking sector. Directors were never vetted, shareholders could start banks almost at will, the role of the external auditors was not well defined, the prudential regulations were scanty and at some stage banks supervision was not playing a major role in ensuring prudence in the financial sector. The effect was imprudent lending practices, excessive investment in fixed assets, inadequate systems to measure, identify and control risks.

Subsequently, the Central Bank undertook several measures to enhance corporate governance in the sector. The following measures were undertaken: introduction of an effective legal and regulatory framework; development of prudential regulations; increased interaction with other regulatory authorities, directors and external auditors; and amendment of the Banking Act. Section 24 (5) of the Banking Act was amended to give the Central Bank mandate to arrange trilateral meetings with an institution and its auditors; Section 31(3) was amended to allow the sharing of information between institutions; Section 11 was amended to state that facilities to a director must be approved by the full board of directors and further empowered the Central Bank to remove directors from office if their loans are non-performing. The amendments also saw the inclusion of banking regulations that empower the Minister of Finance and the Central Bank to levy penalties for non-compliance with corporate governance principles and other violations of the Banking Act. All prudential regulations were also reviewed in the year 2006 to ensure enhanced corporate governance in the Banking Sector (CBK, 2002; Republic of Kenya, 2002).

The central bank under the banking act has issued revised prudential guidelines that all banks should follow. This Guideline is issued under Section 33(4) of the Banking

Act, which empowers the CBK to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient banking and financial system. This Guideline is intended to provide the minimum standards required from directors, chief executive officers and management of an institution so as to promote proper standards of conduct and sound banking practices, as well as ensure that they exercise their duties and responsibilities with clarity, assurance and effectiveness. This Guideline should not restrict or replace the proper judgment of the management and employees in conducting day-to-day business. Each institution is therefore required to formulate its own special policies (taking into account the institution's special needs and circumstances) on the duties, responsibilities and conduct of its directors, chief executive officers and management. This Guideline applies to the duties, responsibilities and code of conduct for shareholders, directors, chief executive officers and management of an institution. (Prudential Guidelines, 2006)
The Central bank observes that many of the requirements are already taken care of either in the Banking Act or in prudential regulations. The banking sector has since adopted some of the issues stipulated in the gazette notice. They include disclosure of the ten major shareholders of the company; requirement that no person should hold more than five directorship in any public listed companies at any one time; executive directors to have affixed service contact not exceeding five years with a provision for renewal; no person to hold more than two chairmanships in any public listed company at any one time, and; inclusion of a statement on corporate governance in the annual accounts (CBK, 2003).

Other issues that touch on governance issues in banking include risk management (CBK, 2001). The bank observed that the ever changing business environment

characterized by globalization and deregulation had presented the banking sector with great challenges, which call for sound management systems capable of early identification, measuring, monitoring and controlling the various banking risks which include credit, currency, liquidity, interest rate and operational risks. The Bank observed that effective management of risks in banks requires risk management processes that cover management oversight; policies and procedures; risk measurements and; internal controls.

Several challenges to sound risk management in the banking sector in Kenya have been observed to include lack of appropriate systems that can monitor compliance with internal control policies and limits on timely basis; risk control functions and business operations are not well segregated, leading to conflict of interest in risk management; the presence of Board members who do not posses sufficient skills and knowledge to understand banking risks, renders the Board less effective in risk management; limited source of good information on credit; and customers who at times give dishonest and inaccurate financial information (CBK, 2001, 2002).

In January 2002 the CMA while responding the growing importance of corporate governance, issued a Gazette Notice spelling out the guidelines, adherence to which is mandatory to all public listed banks. In exercise of the powers conferred by sections 11(3) (v) and 12 of the Capital Markets Act CAP 485A, the CMA issues the Guidelines set out in the Schedule hereto, for observance by public listed companies in Kenya, in order to enhance corporate governance practices by such companies (CMA corporate governance guidelines, 2002).

The CMA has developed these guidelines for good corporate governance practices by public listed companies in Kenya in response to the growing importance of

governance issues both in emerging and developing economies and for promoting growth in domestic and regional capital markets. It is also in recognition of the role of good governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors' rights.

These guidelines have been developed taking into account the work which has been undertaken extensively by several jurisdictions through many task forces and committees including but not limited to the United Kingdom, Malaysia, South Africa, Organization for Economic Cooperation and Development (OECD) and the Commonwealth Association for Corporate Governance.

The Authority has also supported development of a code of best practice for corporate governance in Kenya issued by the Private Sector Corporate Governance Trust, Kenya, whose efforts have also been useful in the development of these guidelines and are supplementary thereto.

2.6 Measures of Financial Performance

There are different measures of firm performance. They are categorized into accounting-based and capital markets-based measures. The return on assets (ROA) is a purely accounting-based measure and is computed from company financial statement data. Each firm's annual earnings before interest, taxes and depreciation are divided by the average of the book value of total assets at the beginning and ending of the year. Accounting performance measures (like Returns on Assets- RoA) have an advantage because they are backward looking.

Another measure of performance is the Tobin's Q-ratio (Q). The original Tobin's Q, named after James Tobin, is defined as the ratio of market value of debt and equity of the firm to the replacement cost of the firm (Nor et al., 1999).Tobin's Q compares the

market value of the firm with the replacement cost of the assets implying that the greater the real return on investments the greater the value of Q. In contrast to the Book-to-Market (B/M) ratio, the impact of inflation is mitigated in the Q calculation by the use of the replacement cost of assets measured in constant shillings to measure the value created by the firm. The attractiveness of the Q ratio results from its ability to provide the estimate of a firm's intangible assets such as goodwill, future investment opportunities, market power and quality of management. Ranking firms on their Q values is similar to ranking them on the basis of changes in expected future cash flows (Kerich, 2006). Tobin's Q is the indicator of the causes of the future environment. Because Tobin's Q reflects the present value of firms, it indicates how much the firms grow up in the future.

2.7 Conclusion on Literature review

Empirical work in the area of corporate governance has undergone a remarkable growth, founded mostly on the basis of management–shareholder conflict and to a lesser but increasing extent on the stakeholder theory. Despite the volume of empirical evidence on corporate governance in the banking sectors, there has been no consensus in the literature on how to resolve the problem. The lack of consensus has produced a variety of ideas (or mechanisms) on how to deal with the problem of agency and declining performance of firms. The mechanisms identified in the literature included board composition, shareholding structures, ownership structures, frequency of board meetings, and executive compensation. Unlike empirical studies that have applied financial ratios to measure the relationship between corporate governance and firm performance, this study has developed a broad corporate governance rating as a proxy for firm-level governance quality. The mechanisms to be

covered include corporate governance commitment, shareholder rights, transparency, management and supervisory board matters, and auditing.

2.8 Theoretical Statement

This study is based on Agency theory. Agency theory is directed at the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that work. Agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing. The problem here is that the principal cannot verify that the agent has behaved appropriately. The second is the problem of risk sharing that arises when the principal and agent have different attitudes towards risk. The problem here is that the principle and the agent may prefer different actions because of the different risk preferences. Eisenhardt, M, K. (1989)

Conceptual Framework

Fig 2.1

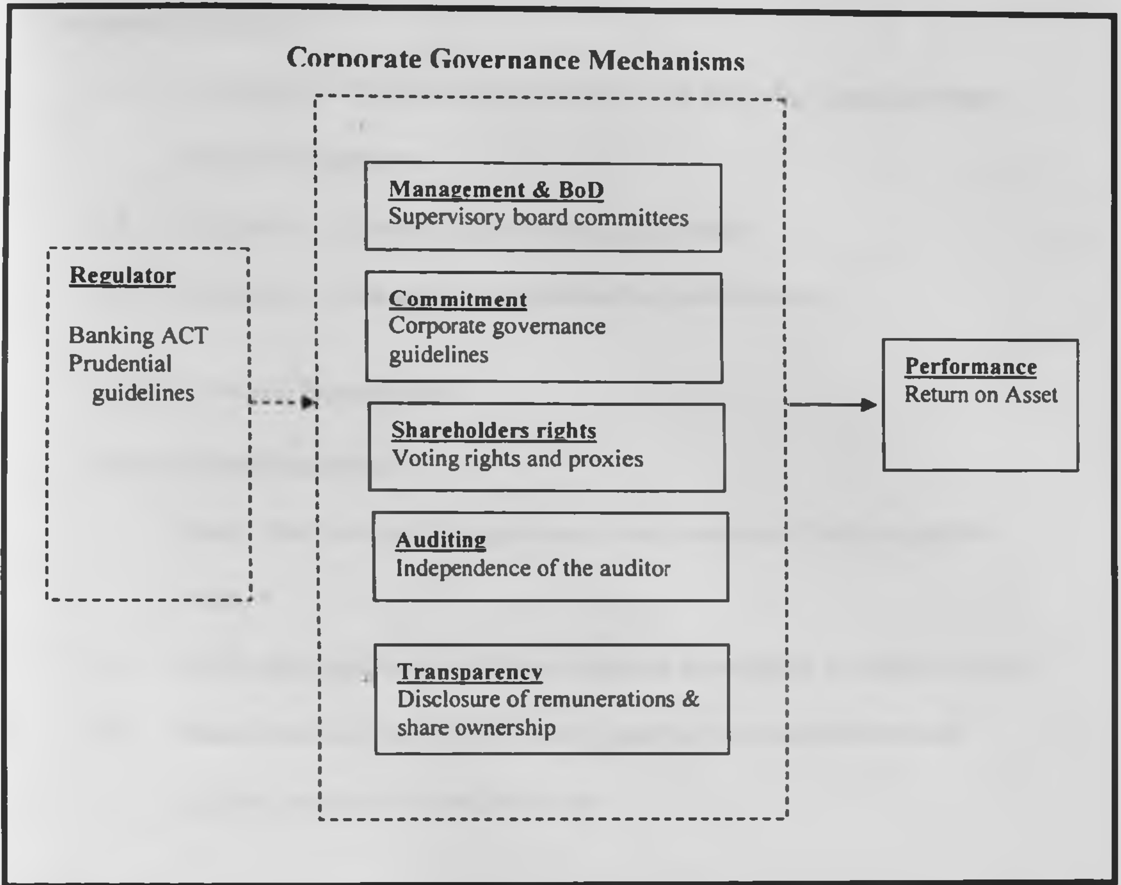


Figure 2.1 illustrates the relationship between the prudential guidelines from the CBK or the regulator and how they translate from mechanisms to policies that are used to run the bank to give the output measured by performance measure Return on assets. The prudential guidelines are issued by the CBK under the banking Act detailing the composition and duties of the management and the BOD, the conduct of shareholders, appointment of auditors and their duties and all the disclosure requirements. The management is given the mandate to implement the corporate governance mechanisms and ensure that the guidelines are followed to the letter as they work towards building the shareholders wealth. The performance is measured in this case

using return on assets a measure that indicates how well and efficiently the banks are being run.

Conceptual Hypothesis

i. Availability of supervisory boards that can deal with complex matters affects performance.

ii. Availability of auditors affects the performance

iii. Availability of shareholders rights affect performance

2.9 Operational Framework

Operational Hypothesis

i. Banks that have active supervisory boards are more likely to perform better.

ii. Banks that have independent auditors are more likely to perform better.

iii. Banks that have convenient voting practices for shareholders and proxies are likely to perform better

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter details out the methodology used in the study. The sections presented here include population, description of the sample, data collection and analysis.

3.2 Research Design

The study was a census. A census is a complete count of the population and provides detailed bench-mark data on the size of the population.

3.3 Target Population

The study will use data from all the 43 commercial banks in Kenya. A list of commercial banks is provided in Appendix II.

3.4 Data Collection

The study used primary and secondary data. The target respondent will be the finance managers. Information on the corporate governance mechanisms was collected from the annual reports of the banks and any information lacking was requested for through email or telephone calls.

Secondary data was restricted to audited financial statements for each bank for the years 2006 to 2010. The data will comprise of each bank's annual earnings (before interest, taxes and depreciation) the book value of total assets at the beginning, and the book value of total assets at the end of the year. A form (Appendix III) was used to mine the required data from these statements.

3.5 Analytical Framework

The data was analyzed in three stages. First, all the data was adequately checked for reliability and verification. The information will be coded and entered into the computer using SPSS (Statistical Package for Social Sciences) software. Data cleaning was done using Frequency distribution, chi-square and correlation to check on the variable relationship. The data was analyzed using SPSS. Exploratory analysis was first performed to ensure that the output was free from outliers and the effect of missing responses minimized. Secondly the data was analyzed to generate mean scores on various governance practices. These scores were then used as Governance rating. ROA statistics was be computed from the data obtained from the annual financial publications. Thirdly, the Ordinary Linear regression was be used to establish the effect of governance on Bank performance.

3.5.1 Definition of variables

The following variables were used to collect the required information.

Dependent variable

Return on Asset: this was computed by dividing the bank's annual earnings (before interest, taxes and depreciation) by the average of the book value of total assets at the beginning and end of the year.

Independent variables

A. Management and Board of Directors

i. **Supervisory Board Committees:** Measured the presence, composition in terms of executive to non-executive members, and

frequency of meetings of Board Committees as per the prudential guidelines. The following measures were used.

Presence - Yes or No

Composition - Proportion

Frequency - Monthly, Quarterly, half yearly and annually

ii. **Financial and Accounting Competence:** Measures the ability of the BOD members to make sound financial decisions. The proportion of BOD members with financial and accounting background and have qualified in CPA, Bachelor of Commerce or MBA were used.

iii. **Separation of chairmanship and CEO and Membership of the CEO to restricted committee:** Checked whether the CEO is a member of restricted committees like Board Audit Committee.

B. Commitment

i. **Corporate governance guidelines:** Measured presence or the absence of corporate governance guidelines or ethics code.

ii. **Reminders and retraining on the corporate governance guidelines.** Measured how the employees are reminded on compliance of code of conduct.

iii. **Disciplinary action for non-conformity of the corporate governance guidelines.** Measured the penalty for non-conformity.

C. Shareholders rights:

i. **Voting rights:** Indicates how the shareholders exercise their rights, whether by Show of hands, Via Internet or by proxy.

ii. **Directorship and shareholding:** Checked the shareholding restriction of 5% to be a director.

D. Auditing

i. **Formal audits:** Checked the independence of the auditor and whether or not the there are other consultancies done by the auditor.

E. Transparency

i. **Remuneration:** Checked the disclosure of management remuneration.

ii. **Bonus:** Measures disclosure of cash and share bonuses.

iii. **Share Ownership:** Measures disclosure of share ownership.

3.5.2 Computation of Bank's Level Performance

The study applied an accounting-based measure of firm level performance. The market-based measures were considered inappropriate because only 9 out of the 43 banks are listed at the Nairobi Stock Exchange. The Return on Assets (ROA) technique was used. This is a purely accounting-based measure and is computed from company financial statement data. Each bank's annual earnings (before interest, taxes and depreciation) was divided by the average of the book value of total assets at the beginning and ending of the year. According to Igor (2005), accounting performance measures (like Returns on Assets- RoA) have an advantage over market-based measures such as Tobin's Q and P/E ratios because they are backward looking. ROA was computed using the formulae below:

$$RoA_i = \frac{Earnings_i}{\left(\frac{Assets_{begin} + Assets_{end}}{2}\right)_i} \quad \text{.......... (1)}$$

Where: RoA_i = Return on Assets of the ith bank; $i = 1, 2..., 43$.

$Assets_{begin}$ = Total book value of Assets at the beginning of the year

$Assets_{end}$ = Total book value of Assets at the end of the year

3.5.3 Linear Regression

To establish the relationship between CGRs and performance of banks, the findings of steps I and II were regressed using the linear regression model of equation (2) below.

$$RoA_i = \alpha_0 + \beta_i (CGR)_i + \varepsilon_i \quad \text{.......................................} (2)$$

Where: RoA_i = Return on Assets of the ith bank; $i = 1, 2..., 43$.

CGR_i = Corporate governance rating score from the ith bank

α & β are regression coefficients

ε = Error terms

CHAPTER FOUR

DATA ANALYSIS AND RESULTS

4.1 Introduction

This chapter represents data analysis and findings of the research. The research findings are in three sections on implementation of the governance mechanisms, relationship between governance and application of corporate governance on performance among the banking institutions.

The response rate was 72% of the total banking population implying a total of 31 banks out of 43 banks. The rest could not give their reports within the stipulated time while 6 banks declined to be included in the study.

4.2 Corporate Governance Mechanisms Implementation

The study analyzed five mechanisms being Board and supervisory management, shareholding, commitment, transparency and disclosures, auditing. The findings were as follows:

Board and Supervisory Management

i) The Board was constituted into the various required committees and for some banks there were additional committees to deal in the various other specific issues arising as follows: Audit, Credit, Executive, Assets and Liabilities and Risk being the compulsory ones. Other committees included remunerations and promotions or human resources, brand and reputation, operations and marketing, IT steering or automation, new markets, procurement, capital

structure, ethics, business strategy, investment, business support, debt collection and corporate social responsibility or foundations.

ii) The frequency of the Board meetings was quarterly as per the prudential guidelines with some banks having additional adhoc meetings when required. The attendance of the meetings was above the required 75% for all the banks and only three banks had instances of one member attending less than 75% but with apologies.

iii) The board in all cases was correctly constituted with all having a ratio of more than $3/5^{th}$ executive to non executive members. This was only noted not to apply to the foreign branches of foreign banks which are only required to have a local committee.

iv) In all cases there was a clear separation between the chairman and the CEO and the CEO was not a member of the Board audit committee ensuring independence of the opinions.

v) The Board was found to have a varied mix of qualifications and experiences being comprised of lawyers, accountants, economists, engineers, businessmen and in all cases over 80% had qualifications in CPA, ACCA, MBA, Economics and financial analysis.

vi) All the banks reviewed had director evaluation and had training for their directors including effective directors course, global trends and market best practices, treasury risk management products, transfer pricing, the Board oversight responsibility for financial regulatory reporting, best practice HR standards for talent

management and employee engagement and the selection of triggers and recovery measures in the event of systemic stresses.

vii) Except for one bank the directors held less than 5% shareholding as required by the guideline. The highest shareholding on the director was 7%.

Shareholders rights

The findings were that all the banks had shareholding rights observed with the options of voting varying from show of hands, to the use of proxy and even use of the internet. All the listed banks had a copy of the proxy form in the annual report.

Commitment

The study showed that all banks had a code of conduct followed by the Board and all the employees but only one bank had an ethics committee.

Transparency and disclosures

The study showed that all banks had observed the requirements to disclose the related party transactions. There was disclosure of the shareholders, director's remunerations, director's loans and a statement of how the conflict of interest was dealt with.

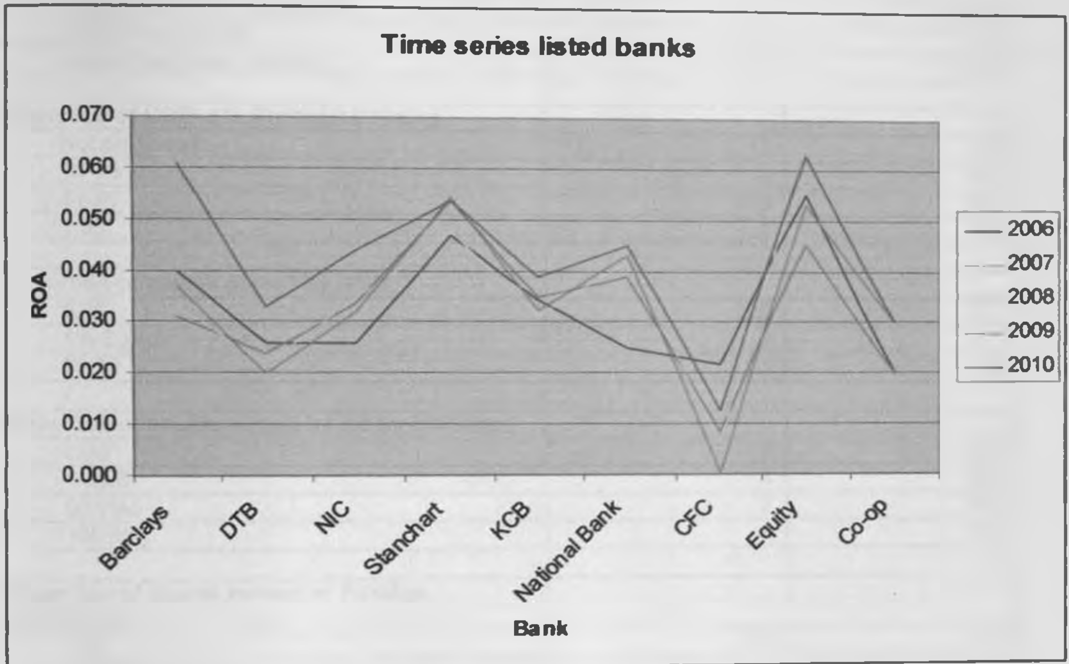
Auditing

The study found that all the banks complied and had an independent audit company and none of the companies had any consultancy work with the banks.

4.3 Return on assets time series analysis

The study found that the return on assets for majority of the banks increased from 2006 to 2010. Though other factors may have contributed to the change in the return on assets, this period also marks the period of implementation of the corporate governance mechanisms and therefore corporate governance contributed to the

improvement. Below is a line graph representing this using the data for listed banks in Kenya. An exception is noted in the case of CFC bank which was acquired by Stanbic bank in the same period resulting in a decrease and then an increase in the return on assets.



Source: Authors Computation from primary data

4.4 Bank Characteristics

The table shows that, 8.3% of the banks had 0 or less than 0 returns on asset in the year 2010. 41.7% had a return on asset between 0.01 and 0.03 while the rest have return on assets between 0.4 and 0.13. The table also shows that out of the banks considered in the study, 20.8% are of foreign origin but also locally incorporated while 54.2% are fully locally incorporated and 25% are locally incorporated.

Table 1: Distribution of Banks by selected characteristics

	Number	Percent
Return on Asset		
-0.03-0.0	2	8.3
0.01-0.03	10	41.7
0.04-0.05	8	33.3
0.06-0.13	4	16.7
Type of Incorporation		
Foreign-Locally Incorporated	5	20.8
Local Incorporated	13	54.2
Local-Government owned	6	25.0
Proportion of BOD with financial training		
Not disclosed	13	54.2
70-80	4	16.7
81-99	5	20.8
1.00	2	8.3
Proportion of shares owned by GOK		
0.00	20	83.3
1%-23%	3	4.2
79.70	1	4.2
Proportion of shares owned by EA Institutions		
0.00	9	37.5
1-50.0	4	16.7
50-99.5	7	29.2
100.00	4	16.7
Proportion of shares owned by Foreign Institutions		
0.00	16	66.7
1-50.0	3	12.5
50-99.5	2	8.4
100.00	3	12.5
Proportion of shares owned by EA Individuals		
0.00	12	50.0
1-50.0	11	45.8
50-99.5	1	4.2
100.00	0	0.0
Proportion of non-Executive BOD		
0.00	1	4.2
01-74.0	7	29.2
74-99	12	50.0
1.00	4	16.7
Total	**24**	**100.0**

Table 2 :Distribution of banks by existence of Mandatory and Optional committees

Type of Committee	Number	Percent
Mandatory Committee		
Audit committee	24	100.0
Credit committee	21	87.5
Executive committee	14	58.3
ALCO committee	19	79.2
Risk committee	19	79.2
Optional Committee		
External relations Committee	1	4.2
Mgt-Country Mgt Committee	1	4.2
Remunerations & Promotions/Staff/Hr/Governance, Nominations & Staff Remuneration, Mgt Evaluation/Staff Disciplinary	16	66.7
Brand and Reputations	1	4.2
Operating /Operation & Marketing	2	8.3
IT Steering/Automation	4	16.7
Product	1	4.2
Procurement/Expenditure Mgt/ Tender/ tendering & procurement	6	25.0
New markets	1	4.2
Transformation	1	4.2
Capital Structure Strategy/ Strategy & Investment/ Business Strategy Co-ordination	5	20.8
Business Support	1	4.2
Ethics	1	4.2
Corporate Social responsibility	1	4.2
Debt collection	1	4.2
Total	24	100.0
Foundation	1	4.2

Table 3: Distribution of Banks by training offered to their Board of Governors

Type of Training	Number	Percent
Induction	1	4.2
The selection of triggers and recovery measures in the event of systemic stresses	1	4.2
Best practice HR stds for talent mgt and employee engagement	1	4.2
The BODs' oversight responsibility for financial regulatory reporting	1	4.2
Transfer pricing arrangements for services that are consistent with benefit	1	4.2
Treasury risk Mgt products	1	4.2
Corporate Governance for non exec	1	4.2
Global trends and market best practice	1	4.2
Effective Directors' Course	1	4.2

Source: Authors Computation from primary data

4.5 Correlation Analysis

Before the final regression analysis was carried out, bivariate correlation analysis was done. This was to assess the level at which each attribute was related to the Dependent variable, Return on Asset. The other reason was to establish which of the attribute has significant correlation. The attributes that have correlation significant at 90% level will be included in the regression analysis. To carry out the correlation analysis, Pearson correlation method was used. Table 4 show the level of correlation and whether they are significant or not.

The analysis shows that, committee on ethics, committee on operations and marketing, Proportion of shares owned by EA individuals and proportion of shares owned by foreign institutions are significant at 95% while foreign but locally incorporated banks are significant at 90% and proportion of the board of directors with financial training is significant at 99%. All these attributes will be included in the

regression analysis. The rest of the attributes are not significant at 90% and hence will not be included in the regression analysis

Table 4: Pearson's Correlations of various attributes with Return on Assets and their significance level

Variables	Pearson Correlation	Significance Level
Mgt-Country Mgt Committee	0.28	0.11
ALCO committee	-0.12	0.29
Best practice HR stds for talent mgt and employee engagement	0.28	0.11
Brand and Reputations	0.28	0.11
Business Support	-0.02	0.46
Capital Structure Strategy/ Strategy & Investment/ Business Strategy Co-ordination	0.05	0.42
Corporate Governance for non exec	0.18	0.21
Corporate Social responsibility	0.08	0.36
Credit committee	-0.08	0.36
Debt collection	-0.12	0.30
Effective Directors' Course	-0.12	0.30
Ethics	0.38	0.04
Executive committee	-0.18	0.20
External relations Committee	0.28	0.11
Foreign-Locally Incorporated	0.34	0.06
Foundation	0.08	0.36
Global trends and mkt best practice	0.18	0.21
Induction	-0.22	0.16
IT Steering/Automation	0.17	0.22
Local	-0.22	0.17
Local-Govt	-0.08	0.36
New markets	0.08	0.36
Operating /Operation & Marketing	0.33	0.07
Procurement/Expenditure Mgt/ Tender/ tendering & procurement	0.24	0.14
Product	-0.02	0.46
Proportion of nonexecutive BOD	-0.16	0.24
Proportion of shares owned by EA Individuals	0.38	0.04
Proportion of shares owned by EA Institutions	0.26	0.12
Proportion of shares owned by Foreign Institutions	0.35	0.05
Proportion of the BOD with Financial Training	0.49	0.01
Remunerations & Promotions/Staff/Hr/Governance, Nominations & Staff Remuneration, Mgt Evaluation/Staff Disciplinary	0.01	0.48
Risk committee	-0.07	0.37
The BODs' oversight responsibility for financial regulatory reporting	0.28	0.11
The selection of triggers and recovery measures in the event of systemic stresses	0.28	0.11
Transfer pricing arrangements for services that are consistent with benefit	0.28	0.11
Transformation	0.08	0.36
Treasury risk Mgt products	0.28	0.11

Source: Authors Computations from primary data

4.6 Regression Analysis

Due to the nature of the dependent variable, which is in scale form, linear regression was preferred from other regression methods. The variables that were in categorical form were formatted into dichotomous form that is acceptable in the linear regression method. The attributes that had a significant correlation with return on assets were considered in the regression analysis.

There are five process options of methods one can use in linear regression i.e enter, stepwise, remove, backward and forward methods. This study used the enter method to see the effect of all the attributes have on return on asset when all are regressed together. Table 5 in the appendix shows the result of these analyses. The analysis shows that committee on ethics is the only attribute that is significant while the rest were insignificant. However the model summary statistics shows that the model is significant at 95% level. The other attributes are all insignificant.

In order to establish which combination of attributes have significant effect on return on asset, thereby giving the best model based on the available data, forward method of linear regression was used. Table 6 in the appendix shows the results of these analyses. The analysis shows that, committee on operations and marketing was significant at 97% while committee on ethics, Proportion of shares owned by EA individuals, proportion of shares owned by foreign institutions and proportion of the board of directors with financial training were significant at 99%. All other attributes were not selected in the final model by this method.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter makes conclusion and recommendation to the study with possible areas of interest to be considered for future research.

5.2 Conclusions

In this study three major conclusions were made in addressing the objectives.

5.2.1 Corporate Governance Mechanisms

First, the study noted that all the five corporate governance mechanisms were highly implemented across the Board with the highest results being the listed banks as they had compliance requirements both for CBK and CMA.

Secondly, the study concludes that not all the governance mechanisms were important in influencing performance if analyzed individually. Supervisory board and management were more prominent compared to the other mechanisms. This was attributed to the fact that the other mechanisms depended on the Board to give direction. Thirdly, the study observes that the ownership status determined the governance performance. Foreign owned banks had better implementation mainly because they also had to observe additional requirements from their head office.

5.3 Recommendations

The study makes the following as key recommendations for the various stakeholders in the banking industry.

5.3.1 Banking Institutions

There is need for the banks to fully implement the requirements of the guidelines fully to be able to reap the full benefits of the governance mechanisms and more so for the private banks and those with government participation.

The banks should ensure they disclose all the details including shareholding, qualifications of directors and management, trainings of the board and the meeting schedules for all the meeting.

5.3.2 Regulators

The Central bank of Kenya as the main regulator of commercial banks should take stringent measures for non compliance to ensure that all the banks fully implement the corporate governance mechanisms and especially on the composition of the local committee for foreign incorporated banks to adhere to the 3/5th requirement for board members. Also the share ownership for directors of not more than 5% which in some privately owned banks, some directors own over 7% and one is even the chairman of the board. The regulator should also look at the meeting attendance requirement of 75% as in some banks attendance is as low as 27% for one directors and not in just one year but several years. Multiple directorship of more than the two companies stipulated companies should also be instilled as it is prevalent.

5.4 Further area of Study

The study noted that other measures of performance if used may give different results and it would add further to the findings of this study.

5.5 Study limitations

i) Although there are many measures of performance, this study only uses ROA.

ii) Though the study was a census of the whole population, not all banks were willing to take part in the study. The results therefore are representative as 72% of the population responded.

iii) The study assumed that the population had a normal distribution.

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APPENDICES

Appendix 1: Return of Assets by Bank

Trend Analysis of return on assets for listed banks

Year	Barclays	DTB	NIC	Stanchart	KCB	National Bank	CFC	Equity	Co-op
2006	0.040	0.026	0.026	0.047	0.034	0.025	0.022	0.055	0.020
2007	0.031	0.024	0.034	0.054	0.035	0.039	0.008	0.045	0.020
2008	0.033	0.022	0.035	0.048	0.031	0.042	0.007	0.063	0.030
2009	0.037	0.020	0.032	0.054	0.032	0.043	0.000	0.053	0.030
2010	0.061	0.033	0.044	0.054	0.039	0.045	0.013	0.063	0.030

Appendix 2: Regression Table

Regression results

Linear regression Enter method

Model Summary	
R	0.772
R Square	0.596
Adjusted R Square	0.435
Std. Error of the Estimate	0.017

Model ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.006	6	0.001	3.691	0.019
Residual	0.004	17	0.000		
Total	0.011	23			

Table 5

Model							
						95% Confidence Interval for B	
	B	Std. Error for B	Beta	t	Sig.	Lower Bound	Upper Bound
Constant	0.014	0.006		2.503	0.024	0.002	0.026
Proportion of the BOD with Financial Training	0.006	0.012	0.119	0.490	0.631	-0.020	0.032
Proportion of shares owned by EA Individuals	0.000	0.000	0.395	1.650	0.120	0.000	0.001
Proportion of shares owned by Foreign Institutions	0.000	0.000	0.475	1.634	0.123	0.000	0.001
Operating /Operation & Marketing	0.018	0.013	0.238	1.356	0.195	-0.010	0.047
Ethics	0.051	0.019	0.488	2.644	0.018	0.010	0.093
Foreign-Locally Incorporated	-0.007	0.015	-0.126	-0.428	0.675	-0.039	0.026

Forward linear regression

Model Summary	
R	0.829
R Square	0.688
Adjusted R Square	0.614
Std. Error of the Estimate	0.014

Model ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	0.007	4	0.002	9.356	0.0
Residual	0.003	19	0.000		
Total	0.011	23			

Table 6

Final Model							
	B	Std. Error for B	Beta	T	Sig.	95% Confidence Interval for B	
						Lower Bound	Upper Bound
Constant	0.000	0.006		0.061	0.952	-0.014	0.013
Proportion of the BOD with Financial Training	0.027	0.007	0.540	3.826	0.001	0.012	0.043
Proportion of shares owned by EA Institutions	0.000	0.000	0.611	4.019	0.001	0.000	0.001
Proportion of shares owned by Foreign Institutions	0.000	0.000	0.445	2.922	0.010	0.000	0.001
Operating /Operation & Marketing	0.024	0.010	0.311	2.272	0.036	0.002	0.046

Appendix 3: List of Commercial Banks in Kenya

1. Citibank N.A. Kenya
2. Jamii Bora Bank
3. Commercial Bank of Africa
4. Cooperative Bank of Kenya
5. African Banking Corporation
6. Barclays Bank of Kenya
7. Charterhouse Bank
8. Consolidated Bank of Kenya
9. Credit Bank Ltd
10. CFC Stanbic Bank
11. Development Bank of Kenya
12. Diamond Trust Bank
13. Equatorial Commercial Bank
14. Fidelity Commercial Bank
15. Bank of Baroda
16. Bank of India
17. Fina Bank K. Ltd
18. First Community Bank
19. Giro Commercial Bank Ltd
20. Guardian Bank Ltd
21. Gulf African Bank
22. Habib Bank
23. Habib Bank A.G. Zurich
24. Paramount Universal Bank Ltd
25. Imperial Bank Ltd
26. Kenya Commercial Bank, Nairobi
27. K-Rep Bank(Microfinance)
28. Middle East Bank
29. National Bank of Kenya
30. National Industrial Credit Bank
31. Oriental Commercial Bank Ltd

32. Equity Bank
33. Victoria Commercial Bank
34. Transnational Bank of Kenya
35. Standard Chartered Bank
36. Bank of Africa
37. United Bank of Africa
38. Chase Bank
39. Eco bank
40. Dubai Bank
41. Family Bank
42. Investment & Mortgage bank
43. Prime Bank