CHALLENGES OF IMPLEMENTING LORD CADBURY'S PRINCIPLES OF CORPORATE GOVERNANCE IN INVESTMENT BANKS IN KENYA

BY:

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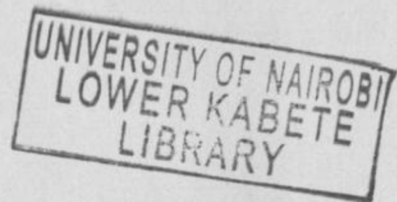


RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTFOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINSTRATION (MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

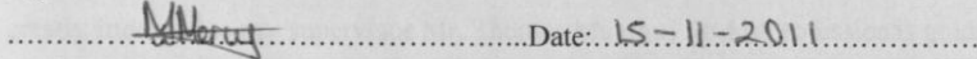
NOVEMBER, 2011

DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

Signature:



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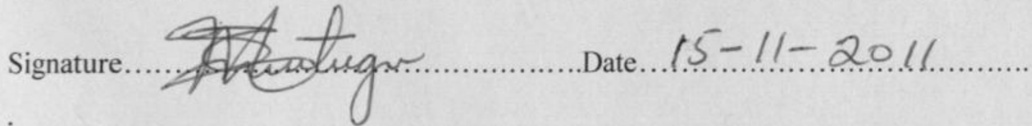
D61/8792/2006

SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University Supervisor.



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I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Mr. Thomas Mutugu, for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to you.

I would also wish to extend my sincere gratitude to all the MBA students, staff, lecturers and the entire University of Nairobi fraternity for changing me from what I was to what I am.

Thank you all. May the Almighty God bless you abundantly.

DEDICATION

I dedicate this work to my beloveth husband Mr. Patrick Njiru and our lovely son James Muriithi and all those who supported me in the completion of this project.

ABSTRACT

The Cadbury report of 1992 outlines the three fundamental principles of corporate governance as: Openness, Integrity and Accountability. These principles are relevant to both public and private entities. This study set out to determine the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

The researcher applied a descriptive and inference research design. The target population of this study consisted of a total of 60 managers working at the twelve Investments Banks in Kenya. The study used Primary data which was obtained through self-administered questionnaires with closed and open-ended questions. A questionnaire was used to collect primary data for this study.

The study established that corporate governance applied to the investment banking sector since the agency problems were likely to arise between the principles who were the shareholders and the managers who was agents. Directors' service contracts did not exceed three years without shareholders' approval and investment banks experienced the challenges of legal systems, Culture of the country, regulatory and supervisory systems , the influence of the stakeholders in the process of implementating the Lord Cardbury's principles, performance standards applied and compensation and remuneration of executives also influenced

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The growing emphasis on corporate governance and its importance to the viability of an organization operating in today's global economy, will be the driving force to effect the necessary changes in how business enterprises respond to the need for greater accountability and transparency in the management of their organizations (Hill, 2001). In the broadest sense, corporate governance can be defined is the stewardship responsibility of corporate directors to provide oversight for the goals and strategies of a company and to foster their implementation. Gourevitch and Shinn (2005) defined it as the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long-term value while taking into account the interest of other stakeholders. Corporate governance may thus be perceived as the set of interlocking rules by which corporations, shareholders and management govern their behavior.

Developing countries are now increasingly embracing the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line. Claessens et al. (2002) maintain that better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favorable treatment of all stakeholders.

1.1.1 The Concept of Corporate Governance

Corporate governance has dominated policy agenda in developed market economies for more than a decade and it is gradually warming its way to the top of the policy agenda on the African continent. The global economic crisis and the relative poor performance of the corporate sector in Sub-Saharan Africa have made corporate governance a catchphrase in the development debate (Brown and Caylor, 2004). Developing countries, of which Kenya is no exception, have increasingly embraced the concept of good corporate governance, because of its ability to impact positively on sustainable growth. It is believed that, good governance generates investor

goodwill and confidence. Firms are now improving their corporate governance practices knowing it increases valuations and boosts the bottom line.

Corporate governance helps in defining the relation between the company and its general environment, the social and political systems in which it operates. Corporate governance is linked to economic performance. The way management and control are organized affects the company's performance and it's long run competitiveness. It determines the conditions for access to capital markets and the degree of investors' confidence (Brownbridge, 2007).

Centre for Corporate Governance (Kenya)

The Centre for Corporate Governance is an independent, not-for-profit, private sector led organization (company limited by guarantee) that serves as the Secretariat to the Pan African Consultative Forum on Corporate Governance. It was established in Kenya in March, 1999, as the Private Sector Corporate Governance Trust by a meeting of stakeholders-made up of representatives from the Private Sector- Trade and Business Associations, Cooperatives, Banks, Insurance Companies, State Owned Enterprises and individual businessmen & women; The Government and Regulatory Authorities Registrar of Companies, Capital Markets Authority, Nairobi Stock Exchange-; and Interested Civil Society Organizations- Trade Unions, Academia, Professional Associations. The Centre seeks to improve the quality of life of the people of Kenya and of the people of Africa generally, by fostering adoption and adaptation, application and implementation of the highest standards of corporate governance in all types of business enterprises that ensure that the business enterprises grow and thrive. It does so through awareness raising, advocating for reform and disseminating information; initiating research, facilitating monitoring and evaluation activities; and supporting training and education programmes that build national institutional and human capacities (www.ccg.or.ke, 2011).

1.1.2 Lord Cadbury's Principles of Corporate Governance

The Cadbury report of 1992 outlines the three fundamental principles of corporate governance as: Openness, Integrity and Accountability. Lord Adrian Cadbury, who chaired the Cadbury Commission that produced the Cadbury Report on Corporate Governance in the UK, claims that "corporate governance is concerned with holding

the balance between economic and social goals and between individual and communal goals ... the aim is to align as nearly as possible the interests of individuals, corporations and society" (IoD, 2002:5).

These principles are relevant to both public and private entities. Public companies however have to satisfy a more complex range of political, economic and social objectives, which subjects them to an additional set of constraints and influences. They are subject to forms of accountability to their stakeholders that are different from those that a private sector company owes its stakeholders. Corporate balance of power is delicate (Montgomery and Kaufman, 2003). The three principle actors in the game are the shareholders, management and board of directors. Shareholders provide the capital to finance the organization so they have an ownership interest. However, they do not engage in the day to day management of the organization and instead elect directors who collectively as a board of directors represent them and oversee the management on their behalf.

Board of directors is the link between the shareholders and the management. Its primary role is to influence the performance of management on behalf of the shareholders in an informed way. The board monitors the management of the company by staying abreast of developments both internal and external, examines management proposals, decisions and actions; agreeing, disagreeing or giving advice, and it must be able to delineate the company mission and specify strategic options to management (Hunger and Wheeler, 2003).

1.1.3 Challenges in Implementing Lord Cadbury's Principles

There is a need for good governance, especially in Africa. Corporate frauds have continued to feature as a result of inadequate system of corporate governance. As institutions increase in financial sophistication and reaches vast numbers of clients where they manage very large sums of money, engage highly professional staff, tap financial markets more aggressively and earn profits, corporate governance becomes far more complicated. Transformation into self- sustaining organizations will mean the introduction of investors as major stakeholders in the industry which will increase the need for control and accountability (Wainaina, 2003). If a company does not have a reputation for strong corporate governance practices, capital will flow elsewhere, if investors are not confident with the level of disclosure, capital will flow elsewhere,

and if a company opts for lax accounting and reporting standards capital will flow elsewhere.

The big debate is that if managers are left on their own, they may want to pursue their own goals thereby hurting the owners they were meant to protect in the first place. The latter may on the other hand wish to maximize return on their investments at the expense of other stakeholders who have their respective congruent goals. If let alone there's likelihood of conflict as the individual stakeholder preferences are different. The governance debate has gained prominence in various forums including boardrooms, associations and media houses across the world with various writers documenting it (Donaldson, 2003). It has therefore become clear that developing countries should not lag behind in discussing and documenting corporate governance matters. The debate is gaining popularity albeit at a worrying slow pace. Hill (2001) cites the worrying recurrence of misallocation of corporate resources and the eventual collapse of corporations in developing nations as a pointer to failure in governance in these countries.

1.1.4 Investment Banks

Investment banking is part of the financial services industry and offers an increasingly important range of services to corporations throughout the world. The range of products and services is increasing rapidly and it is difficult to distinguish the most important services because investment banks offer their services in different ways and forms. However, Chu (1980) identifies two basic functions: raising capital and giving advice on mergers and acquisitions (M&A). All other services are largely supportive of or developed from these two functions; examples include corporate securities for fund-raising and handling mergers and acquisitions. Hayes et al. (1983), however, define three investment banking services: origination and management of new financial issues; underwriting of issued securities and distribution, involving selling securities to ultimate holders (CMA, 2011).

Kenya has witnessed a steady growth of investment banks in Kenya. We now boasts of 12 Investment banks, 19 Investment advisors and 7 stockbrokers. Investment bankers and brokerage firms play a critical role in contributing to the efficient functioning of securities and equities markets in the economy. With the deluge of information available to market participants today, the value of investment analysts'

opinions – both to investors and issuers – is greater than ever before. If we aspire to be the financial hub of the Region more investment banks and other intermediary financial institutions (like discount houses) must take firm root under the close supervision of the regulatory body (CMA, 2011).

1.2 Research Problem

In recent years corporate development has been driven by the need to restore investors' confidence in capital markets (Campbell, 2000). Investors and government alike have been proactive in seeking reforms that will ensure corporate boards are more accountable, qualified and independent non-executive directors can play a key role.

The focus on corporate governance is particularly crucial in financial services and, most of all, in the banking sector since this sector has lately become highly exposed to public scrutiny and has learned, in a costly manner, the risk of attracting adverse publicity through failings in governance and stakeholder relationships. For example the case of the Euro Bank, Daima Bank, Trust Bank where the banks collapsed due to poor governance.

Various local studies have been done on corporate governance. Jebet (2001) conducted a study of corporate governances the case of quoted companies in Kenya, Muriithi (2005) did a study on the relationship between corporate governance mechanisms & performance of firms quoted on the NSE, Manyuru (2005) researched on corporate governance and organizational performance the case of companies quoted at the NSE while Matengo (2008) did a study on the relationship between corporate governance practices and performance: the case of banking industries in Kenya. None of these studies have focused on the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya. This study aims to explore the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

1.3 Objectives of the Study

The objective of this study was to determine the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

1.4 Value of the Study

The study would be helpful to the following stakeholders

To the investment banks, the management of the investment banks would find the study invaluable in making decisions regarding corporate governance. The management would be able to know for certain the challenges of implementing Lord Cadbury's Principles of corporate governance that can play a bigger role in shaping their operations.

The corporate governance practitioners would also get an insight on the challenges of implementing Lord Cadbury's Principles of Corporate Governance. This would help them in developing policies on how to mitigate the challenges.

The researchers and academic community could use this study as a stepping stone for further studies on investment banks. The students and academics would use this study as a basis for discussions on the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

The centre for corporate governance would find the study useful as a basis of formulating policies, which can be effectively implemented for better and easier regulation of institutions in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review of the study. The purpose of literature review is to explore on the existing and available information covered by different researchers on a given topic. The literature was reviewed from journals, reference books, working papers, periodicals and reports. The specific areas covered here include theoretical review, corporate governance, Lord Cadbury principles and challenges of implementing Lord Cadbury's principles of corporate governance.

2.2 Corporate Governance

Abor (2007) defines corporate governance as the system by which companies are directed and controlled. It also refers to as the way in which corporations are handled by corporate boards and officers. Corporate governance has, in more recent years, become one of the most commonly used terms in the modern corporation. The empirical research and literature has burgeoned and the field is highly interdisciplinary. Stakeholders in the corporate governance arena are many and wide-ranging and their participation in this field has spawned a rich and varied range of information resources pertaining to distinct disciplinary fields and practitioner interests. The corporate governance researcher thus needs to have an in-depth understanding of the diverse roles various stakeholders play and how they "fit" together in the complex arena of corporate governance as it exists today.

Corporate governance has come to underpin systematically the work of many business academics and practitioners alike, and their information and research needs present challenges not only for them, but also for the information professionals who assist them. Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). According to McCord corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan

of an institution. In today's world governance has assumed critical importance in the socio-economic and political systems.

To explain primary impediments of good governance, the International Swaps and Derivatives Association (ISDA) (2002) reminds us that modern economic theory has established an approach to the construct of corporate governance through the separation of two main functions in firms, which are: principals, the owners of the companies who hold claims over the net income of the company's business no matter it is positive or negative, who then appoint; and agents, who execute duties and responsibilities in the companies on behalf of the principals.

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. The transparency, accountability and probity of organizations make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation (Ledgerwoods, 1981).

2.2.1 Basis for an Effective Corporate Governance Framework

In a Role Culture, people have clearly delegated authorities within a highly defined structure. Typically, these organizations form hierarchical bureaucracies. Power derives from a person's position and little scope exists for expert power. By contrast, in a Task Culture, teams are formed to solve particular problems. Power derives from expertise as long as a team requires expertise. These cultures often feature the multiple reporting lines of a matrix structure. A Person Culture exists where all individuals believe themselves superior to the organization. Survival can become difficult for such organizations, since the concept of an organization suggests that a group of like-minded individuals pursue the organizational goals. Some professional partnerships can operate as person cultures, because each partner brings a particular expertise and clientele to the firm (Hill, 2001).

McCord (2002) defines organizational culture as the residue of success within an organization. He further adds that culture is the most difficult organizational attribute to change, outlasting organizational products, services, founders and leadership and all other physical attributes of the organization. His organizational model illuminates culture from the standpoint of the observer, described by three cognitive levels of organizational culture.

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. The corporate governance framework should be developed with a view to its impact on overall economic performance, market integrity and the incentives it creates for market participants and the promotion of transparent and efficient markets. The legal and regulatory requirements that affect corporate governance practices in a jurisdiction should be consistent with the rule of law, transparent and enforceable. The division of responsibilities among different authorities in a jurisdiction should be clearly articulated and ensure that the public interest is served. Supervisory, regulatory and enforcement authorities should have the authority, integrity and resources to fulfill their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.

Internal control refers to the actions taken to achieve a specific objective like how to ensure the organization's payments to third parties are for valid services rendered. Internal control procedures reduce process variation, leading to more predictable outcomes. Internal control is a key element of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act of 2002, which required improvements in internal control in United States public corporations. There are a variety of definitions of internal control, as it affects the various constituencies, stakeholders of an organization in various ways and at different levels of aggregation (Anderson, 2003).

Under the COSO Internal Control-Integrated Framework, a widely-used framework in the United States, internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following

categories: Effectiveness and efficiency of operations; Reliability of financial reporting; and Compliance with laws and regulations (Leblanc and Gillies, 2005).

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company. Disclosure should include, but not be limited to, material information on: The financial and operating results of the company; Company objectives; Major share ownership and voting rights; Remuneration policy for members of the board and key executives, and information about board members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board; Related party transactions; Foreseeable risk factors; Issues regarding employees and other stakeholders; Governance structures and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented (Solomon and Solomon, 2004).

Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure. An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects. External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit. Channels for disseminating information should provide for equal, timely and cost efficient access to relevant information by users. The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analysts, brokers, rating agencies and others that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice (Parker, 2007a).

2.3 Theoretical Review

2.3.1 Agency Theory

Agency theory identifies the relationship where one party, the principle, delegates work to another, the agent (Mallin, 2010). The principal-agent model regards the central problem of corporate governance as self-interested managerial behaviour in a universal principal-agent relationship. Agency problems arise when the agent does not share the principal's objectives. Furthermore, the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders (Berle and Means, 1932).

This separation is however, linked and governed through proper "agency relationship" at various levels, among others "between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management" (Hayes and Abernathy, 1980). In such a principal-agent relationship, there is always "inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals. According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them.

2.3.2 Stakeholders Theories

There are two main theories of stakeholder governance: the abuse of executive power model and the stakeholder model. Current Anglo-American corporate governance arrangements vest excessive power in the hands of management who may abuse it to serve their own interest at the expense of shareholders and society as a whole (Hutton, 1995). Supporters of such a view argue that the current institutional restraints on managerial behaviour, such as non-executive directors, the audit process, the threat of takeover, are simply inadequate to prevent managers abusing corporate power. Shareholders protected by liquid asset markets are uninterested in all but the most substantial of abuses. Perhaps the most fundamental challenge to the orthodoxy is the stakeholder model, with its central proposition is that a wider objective function of the firm is more equitable and more socially efficient than one confined to shareholder wealth.

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2.3.3 Stewardship Theory of Management

Davis, Schoorman and Donaldson (1997) developed the stewardship theory of management as a counter strategy to agency theory. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owner's of an organization. It grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals. The model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options. This type of person is motivated by doing what's right for the organization, because she believes that she will ultimately benefit when the organization thrives. The steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization (Mallin, 2010).

2.3.4 Transaction Cost Economics

According to Mallin (2010), Transaction Cost economics (TCE), as expounded by the work of Williamson (1975, 1984), is often viewed as closely related to agency theory. TCE views the firm as a governance structure. Mallin (2010) states that as a firm becomes larger, the larger the transactions it undertakes and will expand up to the point where it becomes cheaper or more efficient for the transactions to be undertaken externally. From Mallin (2010), Coase (1937), posits that firms may become less efficient as they become large. Further, he says that all changes which improve managerial techniques will tend to increase the size of the firm.

Hart (1995) states that there are a number of costs to writing a contract between principal and agent, which include the cost of thinking about and providing for all the different eventualities that may occur during the course of the contract, the cost of negotiating with others, and the cost of writing the contract in an appropriate way so that it is legally enforceable.

2.4 Lord Cadbury Principles

The Cadbury Report recommended a code of Best practice with which the boards of all listed companies registered should comply, and utilized 'company or explain' mechanism, the committee also exhorted other companies to try to meet its requirement .The recommendations were as follows.

2.4.1 The Board Directors

The Board should meet regularly, retain full and effective control over the company, and monitor the executive management. There should be a clearly accepted division or responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered power of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member. The board should include non-executive directors of sufficient caliber and number for their views to carry significant weight in the board's decision (Gourevitch and Shinn 2005).

2.4.2 Non-executive Directors

Non-executive directors should bring an independent judgment to bear on issues of strategy, performance, resource, including key appointment s and standards of conduct. The majority should be independent of management and free form any business or other relationship which could materially interfere with the exercise of their independent judgments, apart from their fees and shareholding. Their fees should reflect the time which they commit to the company (Hambrick and Jackson, 2000). Non-executive directors should be appointed for specified terms and reappointment should not be automatic. Non- executive directors should be selected through a formal process and both this process and their appointment should be a matter for the board as a whole.

2.4.3 Executive Directors

Directors' service contacts should not exceed three years without shareholders' approval. There should be full and clear disclosure of director's total emoluments and those of the chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance – related elements and the basis on which performance is measured should be

explained. Executive directors pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors (Huson, 2001).

2.4.4 Reporting and Controls

It is the board's duty to present balance and understandable assessment of the company's position. The board should ensure that an objective and professional relationship is maintained with the auditors. The board should establish an adult committee of at least three non-executive directors with written terms of reference which deal clearly with its authority and duties. The directors should explain their responsibilities for preparing the accounts next to a statement by the auditors about reporting responsibilities.

2.4.5 Audit Committee

Independent audit committees reduce the likelihood of earnings management, thus improving transparency. Audited financial statements frequently fail to include enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio. To help remedy this problem, (Hambrick and Jackson, 2000) strongly recommends that the Audit Committee should annually assess its own performance, considering responsiveness to the Audit Committee Charter, effectiveness of relationships and communications with management, internal and external auditors, and the Board of Directors. According to (Monks and Minow, 2001) to maintain the credibility of its financial statements, an organization must adhere to a recognized, comprehensive set of accounting standards.

2.5 Challenges of Implementing Lord Cadbury's Principles of Corporate Governance

2.5.1 Compensation Structures

Achieving complete compliance with the disclosure mandates would be a Herculean task (Hambrick and Jackson, 2000). Corporations that are typical of the path dependent structures might not be motivated to disclose their financial data as per the recommended norms for fear of both external and internal reprisals. If their accounting data is not in concomitance with the market expectations then the markets might punish them through depreciating their market value. On the other hand, if honest reporting of owner compensation and remuneration of executives were done,

then employees might retaliate if a huge disparity in compensation structures is found. No family-controlled or even otherwise, closely-held businesses would thus be interested to disclose compensation related information openly (Monks and Minow, 2004). In such situations where market-oriented models of governance call for open disclosures and insider models do not compel for such disclosures, convergence in Lord Cadbury's Principles of corporate governance mechanisms seem to be too far to achieve.

2.5.2 Legal systems

Legal systems are sometimes more influenced by corporate lobbying. As mentioned in the path dependent arguments, certain control structures endow the corporations to be in better negotiating positions *vis-à-vis* national regulatory bodies (Monks and Minow, 2004). Through their power to manipulate the legal mandates towards their private benefits, existent corporate structures might create roadblocks to the efforts made for adopting global best practices such as the Lord Cadbury's Principles.

2.5.3 Cultural Differences

Much also depends on the culture that the nations follow. Cultural differences in national ideologies stand to hinder the convergence of corporate governance mechanisms. Where social democracies are characterized by their commitment to ameliorate public welfare, capitalistic economies on the other hand are focused towards enhancing shareholder value. Capitalistic virtues like profit maximization are considered vices in some social democracies. Moreover, countries that are dictated by policies of life-long employment (e.g. Japan) and co-deterministic practices (e.g. Germany) would adopt mechanisms other than market-oriented for the fear of markets influencing and or determining national policies in the long run. Corporate cultures in the transition countries are newly emerging with states relinquishing control of business. The bureaucratic nature of state-led corporations was fatal in attracting investor attention (Vafeas, 1999). Post privatization benefits can, however, be seen now with foreign investment in the transition countries. These countries are in the stage of metamorphosis and most of them are fluctuating between the two extreme governance models. Employees and managers who worked for the state-led corporations have emerged as the neo-owners and given the time they would need to

adapt themselves to the needs of international governance practices, convergence seems to be a distant dream.

2.5.4 Politics and Corporate Governance

The challenges that confront the implementation of Lord Cadbury's Principles of corporate governance process thus differ from country to country. Nations that have rationalized their corporate laws in concordance with international norms still have to search for better systems given the uncertainty in global governance advancements. On the other hand, countries that tend to accommodate paradigmatic governance shifts may even tend to worsen off their performances (Monks and Minow, 2001).

In most developing countries, regulatory and supervisory systems are generally weak (Montgomery and Kaufman, 2003). History and politics have combined to create a privileged few that resist efforts to promote good corporate governance. These peculiarities call for the introduction of the principles of corporate governance in such a manner that they do not disadvantage or be seen to create trade barriers for any class of corporations.

2.5.5 Nature of the Contract s

Even if this power pattern held in reality, it would still be a challenge for the Board to effectively monitor management. The central issue is the nature of the contract between shareholder representatives and managers telling the latter what to do with the funds contributed by the former. The main challenge comes from the fact that such contracts are necessarily "incomplete". It is not possible for the Board to fully instruct management on the desired course of action under every possible business situation.

The concept of corporate governance is currently receiving a lot of attention worldwide due to the increasing seriousness of corporate level fraud and mismanagement. It has been particularly influenced by very costly corporate collapses in different parts of the world. Corporate governance seeks to find the appropriate mechanisms for governing relationships of constituent groups within and around the organization for viability and success of organizations. It is aimed at reducing the conflict of interests among stakeholders and making sure that the right people make decisions, ensuring that corporate power is exercised in the best interest of society and

helping to align responsibility and authority to achieve the optimum conditions for growth and success.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the design and methodology of the research study. This entails the methods and procedures that assist the researcher in identifying the sources of data, the sampling method to be used, the sampling design and sample size. It further shows the data collection methods to be used, techniques, instruments and procedures.

3.2 Research Design

The researcher applied a descriptive and inference research design. Descriptive research involved field survey where the researcher went to the population of interest to ask certain issues about the problem under the study. The design was used to obtain information concerning the current status of the phenomena to describe what existed, with respect to variables or conditions in a situation (Mugenda and Mugenda, 1999).

3.3 Target Population

The target populations of this study consist of a total of 60 managers working at the twelve Investments Banks in Kenya. The study focused more on the section and particularly on the top and middle level management staff who were directly dealing with the day to day management of the company since they were the ones conversant with the subject matter of the study.

3.4 Sample Design

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The study used a census survey sampling since the target population was not large. Statistically, in order for generalization to take place, a sample of at least 30 elements (respondents) must exist (Cooper and Schindler, 2003).

3.5 Data Collection

The study used Primary data which was obtained through self-administered questionnaires with closed and open-ended questions. A 5-point likert scale was used to assess the effects of risk management on performance in the investment banks. The questionnaires included structured and unstructured questions and was administered through drop and pick method to respondents. The closed ended questions enabled the

researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaire was divided into two sections. Section one was concerned with the general information about respondents, while section two dealt with the issues of the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

3.6 Data Analysis

According to Baily (2006), data analysis procedure includes the process of packaging the collected information putting in order and structuring its main components in a way that the findings can be easily and effectively communicated. The researcher perused completed questionnaires and document analysis recording sheets. Quantitative data collected was analyzed using descriptive statistics by the help of SPSS and presented through frequencies, percentages, means and standard deviations. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS to depict variable characteristics. Content analysis was used to test data that was qualitative nature or aspect of the data collected from the open ended questions. The information was displayed by use of bar charts, graphs and pie charts and in prose-form. Pearson's product moment correlation analysis was used to assess the relationship between the variables while multiple regressions was used to determine the predictive power of the challenges of implementing Lord Cadbury's Principles of Corporate Governance in Investment Banks in Kenya.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings and data analysis on the challenges of implementing Lord Cadbury's principles of corporate governance in investment banks in Kenya. The study had targeted 60 managers working at the twelve Investments Banks in Kenya, out of which 46 respondents filled and returned their questionnaire giving a response of 77%. This was considered sufficient for data analysis and generalization of the findings to the population of interest.

Table 4.1: Response Rate

Number of Questionnaires Administered	Number of Questionnaires Filled And Returned	Response Rate
60	46	77%

Source: Research Data, 2011

4.2 Demographic Information

4.2.1 Gender

The study sought to establish the gender distribution of the respondents. From the findings, 59% of the respondents were male while 41% were female as shown in table 4.2 below.

Table 4.2: Gender of the Respondents

	Frequency	Percent
Male	27	59%
Female	19	41%
Total	46	100%

Source: Research Data, 2011

4.2.2 Age Bracket of the respondents

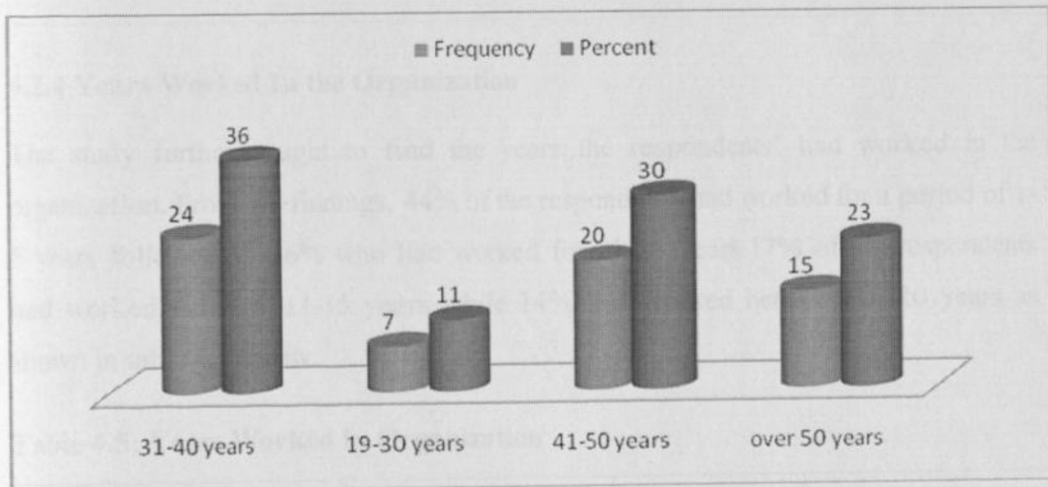
The study sought to establish the age bracket of the respondents. From the findings,36% of the respondents were aged between 31-40 Years followed by those aged between 41-50 Years.23% of the respondents were aged over 50 years while 11% were aged between 19-30 Years as indicated in table 4.3 below.

Table 4.3: Age Bracket of the Respondents

	Frequency	Percent
31-40 Years	24	36
41-50 Years	20	30
Over 50 Years	15	23
19-30 Years	7	11
Total	66	100

Source: Research Data, 2011

Figure 4.1: Age Bracket of the Respondents



4.2.3 Level of Education

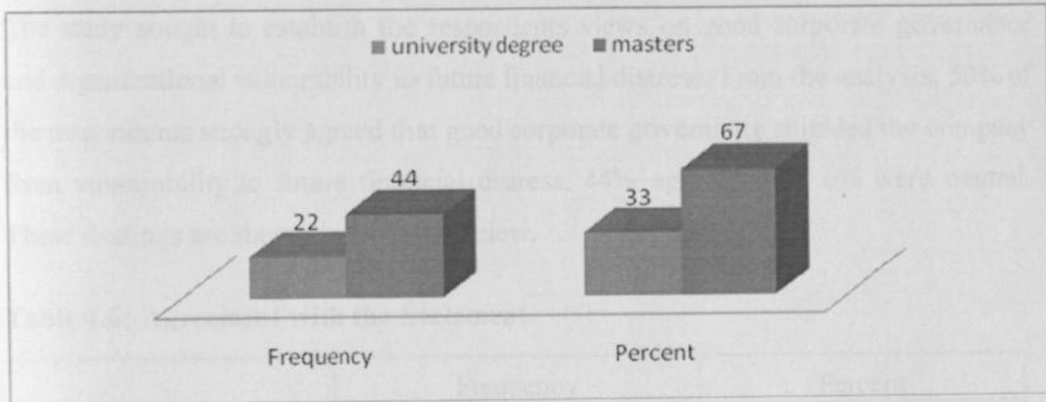
The study also sought to establish the respondents' highest level of education. From the analysis, 67% of the respondents had masters while 33% of the respondents had university degree as shown in table 4.4 below.

Table 4.4: Level of Education

	Frequency	Percent
Masters	44	67
University Degree	22	33
Total	66	100

Source: Research Data, 2011

Figure 4.2: Level of Education



4.2.4 Years Worked In the Organization

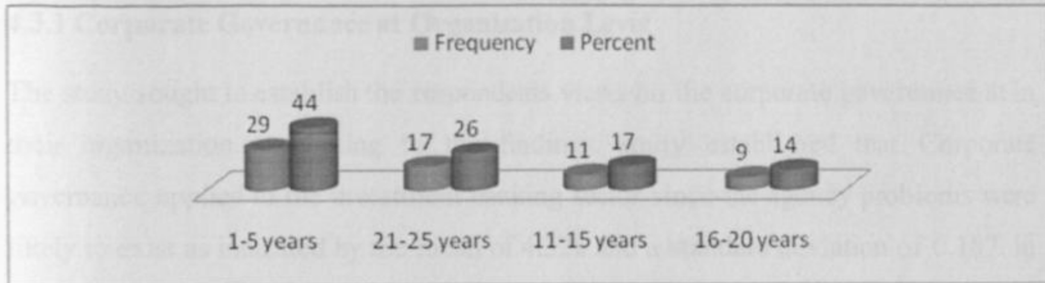
The study further sought to find the years the respondents' had worked in the organization. From the findings, 44% of the respondents had worked for a period of 1-5 years followed by 26% who had worked for 21-25 years.17% of the respondents had worked between 11-15 years while 14% had worked between 16-20 years as shown in table 4.5 below.

Table 4.5: Years Worked In Organization

	Frequency	Percent
1-5 Years	29	44
21-25 Years	17	26
11-15 Years	11	17
16-20 Years	9	14
Total	66	100

Source: Research Data, 2011

Figure 4.3: Years Worked In the Organization



4.2.5 Corporate Governance

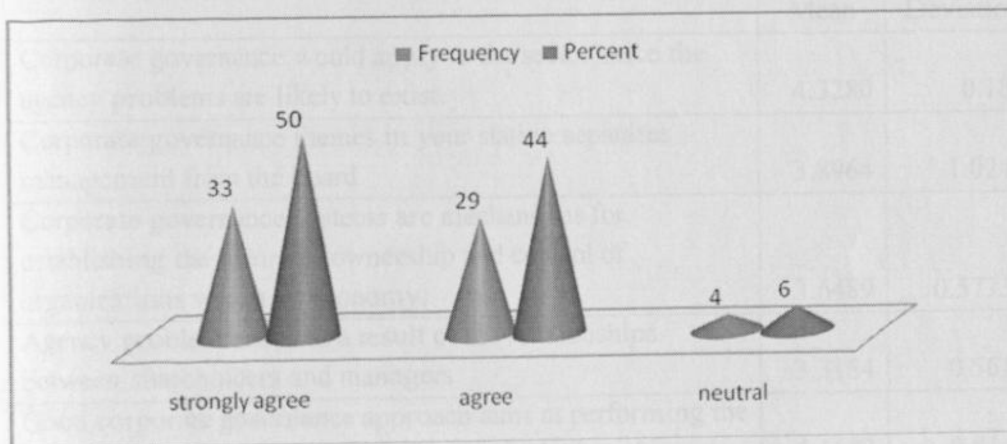
The study sought to establish the respondents views on good corporate governance and organizational vulnerability to future financial distress. From the analysis, 50% of the respondents strongly agreed that good corporate governance shielded the company from vulnerability to future financial distress, 44% agreed while 6% were neutral. These findings are shown in table 4.6 below.

Table 4.6: Agreement with the Statement

	Frequency	Percent
Strongly Agree	33	50
Agree	29	44
Neutral	4	6
Total	66	100

Source: Research Data, 2011

Figure 4.4: Agreement with the Statement



4.3 General Issues

4.3.1 Corporate Governance at Organization Level

The study sought to establish the respondents views on the corporate governance at in their organization. According to the findings, study established that Corporate governance applied to the investment banking sector since the agency problems were likely to exist as indicated by the mean of 4.328 and a standard deviation of 0.187. In addition, corporate governance themes separated management from the board as the management was acting on behalf of the BOD who were the principles. This is supported by the mean of 3.8964 with a standard deviation of 1.0248. On whether corporate governance systems were mechanisms for establishing the nature of ownership and control of organizations within an economy, the study established that the respondents considered corporate governance as key to the establishment of the nature of ownership and control in organization in the investment banking sector. This was supported by a mean of 3.648 and a standard deviation of 0.57735. The study further established that agency relationship if not well managed, leads to agency problem which may create disagreements between management and the Board of Directors. This was supported by a mean of 3.3184 and a standard deviation of 0.8146. Good corporate governance aimed at performing the main function of separating the firm's principal and agents as shown the mean of 4.16813 with a standard deviation of 0.8146. This is well indicated in table 4.7 below.

Table 4.7: Corporate Governance at Your Organization

	Mean	Std. Deviation
Corporate governance would apply to the sector since the agency problems are likely to exist.	4.3280	0.187
Corporate governance themes in your station separates management from the board	3.8964	1.0248
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organizations within an economy.	3.6489	0.57735
Agency problem arises as a result of the relationships between shareholders and managers	3.3184	0.5614
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.	4.1682	0.8146

Source: Research Data, 2011

4.3.2 Lord Cadbury's Fundamental Principles of Corporate Governance

The study further sought to establish the application of Lord Cadbury's fundamental principles of corporate governance in the investment Banks. From the analysis, Directors' service contracts did not exceed three years without shareholders' approval as indicated by a strong mean of 3.8164 and a standard deviation of 0.6584. Further there was openness, integrity and accountability of the Boards of investment Banks in Kenya as shown by the mean score of 4.1587 with a standard deviation of 0.6584. The investment Banks' boards meet regularly, retained full and effective control over the company, and monitored the executive management as supported by a mean of 3.9465 and a standard deviation of 0.6554. Non-executive directors brought an independent judgment to bear on issues of strategy, performance, resource, including key appointments and standards of conduct in the investment Banks as supported by a mean of 3.256 with a standard deviation of 0.6814. The boards ensured that an objective and professional relationship was maintained with the external auditors to increase credibility of the audit report and avoid compromise of the auditors by the management. This was shown by the mean 4.1684 and a standard deviation of 0.6523.

Table 4.8: Lord Cadbury's Fundamental Principles of Corporate Governance

	Mean	Std. Deviation
Directors' service contracts do not exceed three years without shareholders' approval.	3.8164	0.1542
There is openness, Integrity and Accountability of the board	4.1587	0.6584
Board meet regularly, retain full and effective control over the company, and monitor the executive management.	3.9465	0.6554
Non-executive directors bring an independent judgment to bear on issues of strategy, performance, resource, including key appointment s and standards of conduct.	3.256	0.6814
The board ensures that an objective and professional relationship is maintained with the external auditors.	4.1684	0.6523

Source: Research Data, 2011

4.3.3 Challenges of Implementing Lord Cadbury's Principles of Corporate Governance

The study sought to establish the extent to which the investment banks experienced challenges of implementing Lord Cadbury's principles of corporate governance. From the findings, it was evident that bank experienced the challenges of legal systems, as indicated by the mean of 3.8461 and a standard deviation of 1.0846. Culture the was followed in the country also influenced the implementation of Lord Cardbury's principles of corporate governance as indicated by a mean of 3.7564 and a standard deviation of 0.9546. Regulatory and supervisory systems was another challenge as indicated by the mean of 3.5647 with a standard deviation of 0.8648. Performance standards applied had a mean score of 3.4581 with a standard deviation of 0.9658. Compensation and Remuneration of Executives also influenced the application of Lord Cardbury's principles as indicated by 3.5628 and a standard deviation of 0.9658. Corporate lobbying challenge had a mean of 3.1258 meaning that it was not of big influence as compared to other challenges. The influence of the stakeholders in the process of implementating the Lord Cardbury's principles was identified as another challenge as supported by a mean of 3.1829 and a standard deviation of 0.8564.

Table 4.9: Challenges of Implementing Lord Cadbury's Principles of Corporate Governance

	Mean	Std. Deviation
Legal Systems	3.8461	1.0846
Culture That The Nations Follow	3.7564	0.9546
Regulatory And Supervisory Systems	3.5647	0.8648
Performance Standards Applied	3.4581	0.9658
Compensation And Remuneration Of Executives	3.5628	0.8645
Corporate Lobbying	3.1258	0.9251
Stakeholders Influence In The Process	3.1829	0.8564

Source: Research Data, 2011

4.4 Lord Cadbury's Principles

4.4.1 The Board of Directors

The study sought to establish the extent to which investment Banks in Kenya experienced challenges in the implementation of the Lord Cadbury Principles of corporate governance under the board of directors. From the findings, it was clear that the Board met regularly as supported by the mean of 4.1876. The Board retained full and effective control over the investment Banks as supported by a mean of 4.6667 and a standard deviation of 0.57735. The investment Banks had clearly accepted division of responsibilities at the head of a company and their subsidiaries as supported by the mean of 4.6681 and a standard deviation of 0.5864. In addition, the investment Banks' boards monitored the executive management as supported by a mean of 4.2541 and a standard deviation of 0.8641.

Table 4.10: The Board of Directors

	Mean	Std. Deviation
The Board does meets regularly	4.1876	0.6158
The Board retain full and effective control over the company	4.1467	0.5773
There is clearly accepted division of responsibilities at the head of a company and its subsidiary	4.6681	0.5864
The Board monitors the executive management	4.2541	0.8641

Source: Research Data, 2011

4.4.2 Non- Executive Directors

The study also sought to establish the extent to which the investment Banks experienced challenges in the implementation of the Lord Cadbury Principles of corporate governance under non- executive directors. From the findings, the board included non-executive directors of sufficient caliber and number as shown by a mean of 3.9468 and a standard deviation of 0.4851. Majority of the non-executive directors were independent of management in the investment banks as shown by the mean of 4.3541 and a standard deviation of 0.5418. On non-executive directors' fees being a reflection of the time which they committed to the company, it was evident that the fees were commensurate with the time the non executive director committed to the

investment bank as supported by a mean of 4.3581 and a standard deviation of 0.4851. Non-executive directors in the investment banks were appointed for specified terms and reappointments were automatic where the non executive directors were ready and willing to serve on the boards as indicated by the mean of 4.1568 and a standard deviation of 0.8648. According to the study findings, Non- executive directors were selected through a formal process as indicated by the mean of 4.5841 and a standard deviation of 0.9458.

Table 4.11: Non -Executive Directors

	Mean	Std. Deviation
The board include non-executive directors of sufficient caliber and number	3.9468	0.4851
Majority of the non-executive directors are independent of management	4.3541	0.5418
Non-executive directors' fees reflects the time which they commit to the company	4.3581	0.4851
Non-executive directors are appointed for specified terms and reappointments are automatic	4.1568	0.8648
Non- executive directors are selected through a formal process	4.5841	0.9458

Source: Research Data, 2011

4.4.3 Executive Directors

The study also sought to establish the extent to which the firm experienced challenges in the implementation of the Lord Cadbury Principles of corporate governance under executive directors. From the findings, it was established that directors' service contacts exceeded three years with shareholders' approval as supported by the mean of 4.1846 and a standard deviation of 0.9815. Executive directors pay was subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors as supported by the mean of 4.6581 and a standard deviation of 0.5813. in addition, there was full and clear disclosure of director's total emoluments as supported by a mean of 4.1584 and a standard deviation of 0.6581.

Table 4.12: Executive Directors

	Mean	Std. Deviation

Directors' service contacts exceed three years with shareholders' approval.	4.1846	0.9815
Executive directors pay is subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors	4.6581	0.5813
There is full and clear disclosure of director's total emoluments	4.1584	0.6581

Source: Research Data, 2011

4.4.4 Reporting and Controls

The study further sought to establish the extent to which the firm experienced challenges in the implementation of the Lord Cadbury Principles of corporate governance under reporting and controls. From the findings, the directors explained their responsibilities for preparing the accounts next to a statement by the auditors about reporting responsibilities as shown by the mean of 4.1586 and a standard deviation of 0.7589. The board ensured that an objective and professional relationship was maintained with the auditors of the organization as indicated by the mean of 4.358 and a standard deviation of 0.7681

Table 4.13: Reporting and Controls

	Mean	Std. Deviation
The directors explain their responsibilities for preparing the accounts next to a statement by the auditors about reporting responsibilities.	4.1586	0.7589
The board ensures that an objective and professional relationship is maintained with the auditors.	4.3570	0.7681

Source: Research Data, 2011

4.4.5 Audit Committee

The study also sought to establish the extent to which the firm experienced challenges in the implementation of the Lord Cadbury Principles of corporate governance under audit committee. According to the findings, lack of independent audit committees increased the likelihood of earnings management, thus reducing transparency as indicated by a mean of 3.9456 with a standard deviation of 0.9485. The auditors of the investment banks in Kenya adhered to a recognized, comprehensive set of accounting standards as indicated by the mean 4.1876 and a standard deviation of 0.9485. The

Audit Committee assessed its own performance annually by measuring actual performance versus the set targets as indicated by the mean of 4.1876 and a standard deviation of 0.8156. Audited financial statements frequently included enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio as shown by the mean of 3.6517 and a standard deviation of 0.08970.

Table 4.14: Audit Committee

	Mean	Std. Deviation
Lack of independent audit committees increases the likelihood of earnings management, thus reducing transparency	3.9456	0.9485
The Audit Committee assess its own performance annually	4.1876	0.8156
The auditors adhere to a recognized, comprehensive set of accounting standards.	3.781	0.5894
Audited financial statements frequently fail to include enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio.	3.6517	0.8970

Source: Research Data, 2011

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion drawn from the findings and recommendation made. The conclusions and recommendations drawn focus on the objective of the study.

5.2 Summary of the Findings

The study targeted a total of 60 managers working at the twelve Investments Banks in Kenya, particularly the top and middle level management staff who directly deal with the day to day management of the company. The study established that respondents strongly agreed that good corporate governance shields the company from vulnerability to future financial distress.

59% of the respondents were male while 41% were female, 36% of the respondents were aged between 31-40 Years followed by those aged between 41-50 Years. 67% of the respondents had masters level of educations while 33% of the respondents had university degree. 44% of the respondents had worked for a period of 1-5 years followed by 26% who had worked for 21-25 years. 50% of the respondents strongly agreed that good corporate governance shielded the investment banks from vulnerability to future financial distress, 44% agreed while 6% were neutral.

According to the findings, the study established that Corporate governance applied to the investment banking sector since the agency problems were likely to exist as indicated by the mean of 4.328 and a standard deviation of 0.187. In addition, corporate governance themes separated management from the board as the management was acting on behalf of the BOD who were the principles. This is supported by the mean of 3.8964 with a standard deviation of 1.0248. On whether corporate governance systems were mechanisms for establishing the nature of ownership and control of organizations within an economy, the study established that the respondents considered corporate governance as key to the establishment of the nature of ownership and control in organization in the investment banking sector. This

was supported by a mean of 3.648 and a standard deviation of 0.57735. The study further established that agency relationship if not well managed, leads to agency problem which may create disagreements between management and the Board of Directors. This was supported by a mean of 3.3184 and a standard deviation of 0.8146. Good corporate governance aimed at performing the main function of separating the firm's principal and agents as shown the mean of 4.16813 with a standard deviation of 0.8146. This is well indicated in table 4.7 below

From the analysis, Directors' service contracts did not exceed three years without shareholders' approval as indicated by a strong mean of 3.8164. Further there was openness, integrity and accountability of the Boards of investment Banks in Kenya as shown by the mean score of 4.1587. The investment Banks' boards met regularly, retained full and effective control over the company, and monitored the executive management as supported by a mean of 3.9465. Non-executive directors brought an independent judgment to bear on issues of strategy, performance, resource, including key appointments and standards of conduct in the investment Banks as supported by a mean of 3.256. The boards ensured that an objective and professional relationship was maintained with the external auditors to increase credibility of the audit report and avoid compromise of the auditors by the management.

From the findings, it was evident that bank experienced the challenges of legal systems, as indicated by the mean of 3.8461. Culture was followed in the country also influenced the implementation of Lord Cardbury's principles of corporate governance as indicated by a mean of 3.7564. Regulatory and supervisory systems was another challenge as indicated by the mean of 3.5647. Performance standards applied had a mean score of 3.4581. Compensation and Remuneration of Executives also influenced the application of Lord Cardbury's principles as indicated by 3.5628. Corporate lobbying challenge had a mean of 3.1258 meaning that it was not of big influence as compared to other challenges. The influence of the stakeholders in the process of implementation of the Lord Cardbury's principles was identified as another challenge as supported by a mean of 3.1829.

5.3 Conclusions

From the findings the study concludes that agency problem arises as a result of the relationships between shareholders who are the principles and managers who are agents acting on behalf of the managers. Good corporate governance approach aims at performing the main function of separating the firm's principals and agents and outlining the role of each individual to ensure good working relationship between the shareholders and their managers.

Openness, integrity and accountability of the board promoted better working relationship between management and the shareholders. The Board of the investment banks met regularly, retained full and effective control over the company, and monitored the executive management. They did so through employment of independent auditors who audited and communication their opinion on the operations of the management team.

The challenges of performance standards applied, compensation and remuneration of executives, corporate lobbying and stakeholders influence in the process was experienced to moderate extent. Their power to manipulate the legal mandates towards their private benefits, existent corporate structures might create roadblocks to the efforts made for adopting global best practices such as the Lord Cadbury's Principles. The regulatory and supervisory systems were generally strong following the clear nature of the contract between shareholder representatives and managers telling the latter what to do with the funds contributed by the former.

Investment banks experienced the challenges of legal systems, management culture in the country also influenced the implementation of Lord Cardbury's principles of corporate governance to a great extent. Regulatory and supervisory systems posted another challenge by dictating the manner in which the conflicts between the principles and the agents may be resolved. Performance standards applied in the contracts and compensation and remuneration of Executives also influenced the application of Lord Cardbury's principles among the Kenyan investment banks. Corporate lobbying and stakeholder influence in the process of implementating the Lord Cardbury's principles also posted other challenges.

5.4 Recommendations

The study found that Good corporate governance shields the company from vulnerability to future financial distress as credit providers will always be willing to extend credit facilities to the organization without fear of loss. Based on this, the study recommends that Lord Cardburys' corporate governance principles be implemented in full among the investment banks so as to ensure better management of investment banks in Kenya and reduce the conflicts between the principles and agents.

The study further recommends that non executive directors be involved more in the affairs of the investment banks so as to keep informed of the changes taking place in the investment banks and offer their advice in good time before things go beyond controllable levels.

5.5 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or if otherwise the response given would have been totally different from what the researcher expected. The main limitations of this study were: Some interviewees were reluctant to safe time for the interviews following their busy schedules in the office. To limit the effects of this limitation, the researcher made frequent calls to remind the supposed respondents of the appointment.

The study was also limited in terms of resources. The resource available to go to the field and ascertain whether the information being provided was the reality of whatever happens in real sense was limited. This forced the researcher to wholesomely rely on the information provided by the respondents during the interviews.

5.6 Areas for Further Studies

This study focused on Lord Cadbury's principles among investment bank in Kenya, The study suggest that another study be carried out covering the banking industry in general to establish the challenges of implementing these principles.

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APPENDICES

Appendix I: Questionnaire

SECTION ONE: DEMOGRAPHIC INFORMATION

1) Please indicate your Gender.

( ) Male ( ) Female

2) What is your age bracket?

19 – 30 Years 31 – 40 Years

41 – 50Years Over 50 years

3) What is your highest level of education?

Secondary ( ) Masters degree ( )

College diploma ( ) Others (please state) ………………….

University degree ( )

4) How many years have you worked in this institution?

1-5 years ( ) 16-20 years ( ) 26-30 years ( )

6-10 years ( ) 21-25 years ( ) Over 30years ( )

11-15years ( )

SECTION TWO: GENERAL ISSUES

5) To what extent do you agree with the following statement: Good corporate governance shields the company from vulnerability to future financial distress?

Strongly agree [ ] Agree [ ]

Neutral [ ] Disagree [ ]

Strongly disagree [ ]

6) What is your level of agreement with the following statements that relate to corporate governance at your organisation? Use a scale of 1 – 5 where 1 = strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Good corporate governance approach aims at performing the main function of separating the firm's principals and agents.					
Corporate governance themes in your station separates management from the board					
Corporate governance systems are mechanisms for establishing the nature of ownership and control of organisations within an economy.					

Agency problem arises as a result of the relationships between shareholders and managers					
Corporate governance would not apply to the sector since the agency problems are less likely to exist.					

7) How would you rate the following Lord Cadbury's fundamental principles of corporate governance at your bank? Use a scale of 1 – 5 where 1 = very effective and 5 = ineffective.

	1	2	3	4	5
There is openness, Integrity and Accountability of the board					
Board meet regularly, retain full and effective control over the company, and monitor the executive management.					
Non-executive directors bring an independent judgment to bear on issues of strategy, performance, resource, including key appointment s and standards of conduct.					
Directors' service contracts do not exceed three years without shareholders' approval.					
The board ensures that an objective and professional relationship is maintained with the auditors.					

8) To what extent do you experience the following challenges of implementing Lord Cadbury's principles of corporate governance at the bank?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Stakeholders influence in the process					
Performance standards applied					
Compensation and remuneration of executives					
Legal systems					
Corporate lobbying					
Culture that the nations follow					

Regulatory and supervisory systems					

9) What is your level of agreement with the following statement on the challenges of implementing Lord Cadbury's principles of corporate governance? Use a scale of 1 – 5 where 1 = strongly agree and 5 = strongly disagree.

	1	2	3	4	5
Public companies however have to satisfy a more complex range of political, economic and social objectives, which subjects them to an additional set of constraints and influences					
Through their power to manipulate the legal mandates towards their private benefits, existent corporate structures might create roadblocks to the efforts made for adopting global best practices such as the Lord Cadbury's Principles.					
Cultural differences in national ideologies stand to hinder the convergence of corporate governance mechanisms.					
In most developing countries, regulatory and supervisory systems are generally weak					
History and politics have combined to create a privileged few that resist efforts to promote good corporate governance.					
The central issue is the nature of the contract between shareholder representatives and managers telling the latter what to do with the funds contributed by the former.					

SECTION THREE: MAIN ISSUES

10) To what extent does your firm experience the following challenges in the implementation of the Lord Cadbury Principles of corporate governance? Use a scale of 1 – 5 where 1 = very great extent and 5 = not at all.

	1	2	3	4	5
The Board Directors					
The Board meet regularly					
The Board retain full and effective control over the company					
There clearly accepted division or responsibilities at the head of a company					
The Board monitors the executive management					

Non-executive Directors					
The board include non-executive directors of sufficient caliber and number					
Majority are nindependent of management					
Non-executive directors' fees reflect the time which they commit to the company					
Non-executive directors are appointed for specified terms and reappointments are automatic					
Non- executive directors are selected through a formal process					
Executive Directors					
Directors' service does not contracts exceed three years without shareholders' approval.					
There is full and clear disclosure of director's total emoluments					
Executive directors pay is subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors					
Reporting and Controls					
The board does ensure that an objective and professional relationship is maintained with the auditors.					
The directors do explain their responsibilities for preparing the accounts next to a statement by the auditors about reporting responsibilities.					
Audit Committee					
Lack of independent audit committees increase the likelihood of earnings management, thus reducing transparency					
Audited financial statements frequently fail to include enough information to allow an analysis of the financial sustainability of an organization, including the condition of its portfolio.					
The Audit Committee does assess its own performance annually					
The auditors do adhere to a recognized, comprehensive set of accounting standards.					

Appendix II: Investment Banks in Kenya

1. African Alliance Kenya Investment Bank Limited
2. Barclays Financial Services Limited
3. CBA Capital Limited
4. CFC Stanbic Financial Services Limited
5. Dyer and Blair Investment Bank Limited
6. Equity Investment Bank Limited
7. Equatorial Capital Services Limited
8. Faida Investment Bank Limited
9. NIC Capital Limited
10. Renaissance Capital (Kenya) Limited
11. Standard Investment Bank Limited
12. Suntra Investment Bank Limited

Source: (Capital Markets Authority, 2011)