

**IMPACT OF CORPORATE GOVERNANCE PRACTICE ON FINANCIAL  
PERFORMANCE OF THE BANKING INDUSTRY IN KENYA**

**BY**

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## DECLARATION

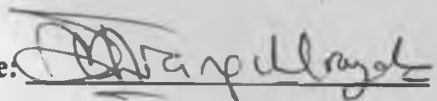
declare that this is my own original work and has not been presented for a degree in any other university.

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

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## **DEDICATION**

**This research is dedicated to my parents and my siblings.**

## **ACKNOWLEDGEMENT**

My gratitude goes to my supervisor Mr. Cyrus Iraya for his efficient guidance throughout the research work.

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## ABSTRACT

Due to the increased interest in corporate governance adherence by stakeholders and regulatory bodies of corporations in Kenya, the area has been of keen interest to scholars also. This study aimed at establishing the influence of various corporate governance aspects especially the role of the board on the financial performance of the banking industry in Kenya. The objectives of this study were to determine whether corporate governance practice had any effect on the financial performance of Kenyan commercial banks. The study focused on the role and attributes of the board of directors.

The study was based on a five year period between the years 2006 to 2010 and was a census of all the banks in Kenya. Secondary data was collected from the Central Bank of Kenya and annual reports of the banks. Descriptive statistics, Pearson correlation and linear multiple regression were used as the underlying tests for empirical analysis, and to test existing relationships between independent and dependent variables.

The findings from the data analysis show that there is a positive relationship between corporate governance and financial performance in the banking industry in Kenya. Based on the findings, it is concluded that the composition of the board of directors is positively correlated to the financial performance of the Kenyan commercial banks. It is also concluded that board size is correlated to the financial performance of the banks. The results from the regression analysis show that both board size and board composition are predictors of financial performance. Correlation between ROA and board composition is positive while board size and ROA also has a positive relationship showing that they are predictors of financial performance. There was separation of the role of CEO and chairman of the board in all the banks except one thus CEO duality and board monitoring are constant in the entire study period and thus have no influence on the financial performance of the banking industry.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background

O'Donovan (2006) defines corporate governance as an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity. Corporate governance views the corporation as a system of mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. They include as stakeholders not just shareholders, but also debt holders and even non-financial stakeholders such as employees, suppliers, customers, and other interested parties. Zingales (1998) expresses the view that allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition and organizational structure, can all be thought of as institutions that affect the process through which quasi-rents are distributed.

Hart (1995) suggests that corporate governance issues arise in an organization whenever there is an agency problem and when transaction costs are such that this agency problem cannot be dealt with through a contract. A degree of consensus also exists regarding an acknowledgement that such corporate governance problems cannot be satisfactorily resolved by complete contracting because of significant uncertainty, information asymmetries and contracting costs in the relationship between capital providers and insiders. When such a corporate governance problem exists, some mechanisms are needed to control the resulting conflicts. The precise way in which those monitoring devices are set up and fulfill their role in a particular firm defines the nature and characteristics of that firm's corporate governance.

### 1.1.1 Corporate governance practice

Characteristics of the board of directors determine how an organization adheres to the practice of corporate governance. The board of directors is a key party to corporate governance and this study aimed at ascertaining the influence of the board's role and

characteristics on financial performance. The main role of non-executive directors is to ensure that the executive directors are pursuing policies consistent with shareholders' interests (Fama, 1980). Non-executive directors possess certain characteristics that enable them to fulfill their monitoring and control function.

Despite the fact that non-executive directors may possess certain characteristics such as independence and experience, the evidence relating to their impact on performance tends not to support this positive perspective. Yermack (1996) as well as, Agrawal and Knoeber (1998) find a negative relationship between the proportion of independent directors and performance.

On the contrary Baysinger and Hoskisson (1990) and Hermalin and Weisbach (1991) find no relationship between board composition and performance when both relate to the same year. Rosenstein and Wyatt (1990) show that the stock market reacts favourably to the appointment of additional outside directors. Shivdasani (1993) and Yermack (1996) report a positive market reaction to the appointment of non-executive directors if the CEO had not been involved in the appointment and a negative reaction if the CEO had been.

Duality arises when the same person undertakes both the roles of chief executive officer and chairman. The advantage of having the same person fill both posts is that they should exhibit a greater understanding and knowledge of the company's operating environment. In contrast Fama and Jensen (1983) argue that boards dominated by inside directors are more difficult to control, a situation that would clearly apply to duality. There is however, little evidence to support this claim because most studies find no adverse relationship between duality and performance. Baliga *et al.* (1996) along the same line of thought with Brickley *et al.* (1997) and Dalton *et al.* (1998) all found that duality had no effect on performance.

Vafeas and Theodorou (1998) and Weir (1997) also found that duality did not harm performance. Boyd (1995) found that duality led to better performance. On the contrary

in a study Dahya *et al.* (1996) find, using a small sample of companies, that the stock market reacted favourably to the separation of the two posts and negatively if they were actually combined. Dahya *et al.* (1996) studied during a period when the British economy was in recession and it may be that cyclical factors influenced the performance outcomes. Relatively little has been reported about the impact of audit committees on financial performance. Wild (1994) found that the market reacted more favourably to earnings reports after an audit committee had been established. Klein (1998) found that the presence of an audit committee had no effect on a range of accounting and market performance measures. She also found that changes to the composition of the audit committee did not generate abnormal returns. This held for market and accounting performance measures. In another study Klein (1998) found no relationship between the proportion of directors with additional directorships again for accounting and market measures.

One possible solution to the agency problem is to provide senior management with incentives to pursue wealth maximizing policies. These incentives may take the form of shares in the company. The greater the financial stake, the greater the costs incurred by not maximizing shareholder wealth (Jensen and Meckling, 1976). This convergence of interest model argues that there is a linear relationship between director shareholding and performance. In contrast it is possible that beyond a certain shareholding, directors will prefer to pursue non-wealth maximizing goals. This leads to managerial entrenchment whereby other shareholders are unable to influence the actions of the directors (Morck *et al.*, 1988). Empirically this would mean a non-linear relationship between director shareholding and performance.

Morck *et al.* (1988) and Servaes (1996) in agreement with Mudambi and Nicosia (1998) and Griffith (1999) as well as Short *et al.* (1999) all find a relationship which is consistent both with Jensen and Meckling (1976) alignment theory as well as the entrenchment model. However the point at which shareholdings switch from alignment to entrenchment differs across the studies.

In relation to governance characteristics O'Sullivan and Wong (1999) find that mechanisms such as the percentage of non-executive directors, duality and external shareholdings do not affect the probability of acquisition by means of a hostile bid. However, there is evidence that the quality of non-executive directors significantly affects the likelihood of acquisition (Shivdasani, 1993; O'Sullivan and Wong, 1999; Weir, 1997). The board attributes researched on are derived from this role of the board and the study examined how the following attributes affect performance; - Size of the board, Composition of the board that is executive and non executive members, duality, Monitoring and control.

### **1.1.2 Financial performance**

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Fama and Jensen, 1983). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Financial ratios are an important tool to help investors measure the financial performance of their investments. When calculated accurately and timely, financial ratios can provide critical information to management and investors and enable them make better decisions. Identifying the four to six key ratios for a business, in addition to any lender required financial ratios, is the first step in measuring financial performance (Alvarado, 2011).

At a minimum, investors should calculate these key financial ratios monthly and track them over time in order to reveal trends or patterns. In addition to a historical analysis, current performance can be compared to budgeted performance to identify how and why operations differed from what was expected. Another way to measure financial

performance is to compare a company's current performance to the industry, to determine status in the market and potential areas for improvement. Financial ratios are grouped into five categories: Liquidity, solvency, profitability, repayment capacity, and financial efficiency (Bernhart *et al.*, 1990).

Liquidity measures a company's ability to pay its bills as they come due, without disrupting operations. Businesses often run into problems with liquidity when they use current assets or liabilities, such as cash or operating lines of credit, to purchase long-term assets, such as land or equipment (Alvarado, 2011). Equity is the most basic measure of solvency as it measures the extent to which a company is leveraged (Anderson and Reeb, 2004).

Profitability ratios measure the relationships between revenues and expenses. Although the ability to generate a positive cash flow is critical for the short-term sustainability of a company, the long term financial success of a business depends on its profitability. Some frequently used profitability ratios include the rate of return ratios based upon assets or equity, operating profit margin, and net income ratios (Porter, 1997).

The dividend yield or the dividend-price ratio on a company stock is the company's total annual dividend payments divided by its market capitalization, or the dividend per share, divided by the price per share (Cohen, 2002). Earnings yield is the quotient of earnings per share divided by the share price (Cohen, 2002). The earnings yield is used by many investment managers to determine optimal asset allocations (Holland, 1995).

### **1.1.3 Relationship between corporate governance and financial performance**

The focus on corporate governance is based on the belief that if better corporate governance is related to better firm performance, firms that are governed in a better manner should perform better than firms that are worse-governed. Managers have incentives to preempt a firm's assets by undertaking projects that benefit themselves personally but that impact negatively on the shareholder wealth (Fama and Jensen, 1983;

Jensen and Meckling, 1976). Effective corporate governance reduces the control that is given to managers by stockholders and creditors thus increasing the probability that managers invest in positive net present value projects (Morck *et al.*, 1988). This implies that better governed organizations exhibit better financial performance.

Advocates of corporate governance and regulators argue that the stock price collapse of such former corporate stalwarts as Adelphia, Enron, Parmalat, Tyco, and WorldCom was largely caused by poor governance. If these arguments are valid a market premium should exist for relatively well governed firms. Gompers *et al.* (2003) and Cohen (2002) show that firms with stronger rights have higher firm value, suggesting that better governed firms are more valuable.

The free cash flow hypothesis as shown by Jensen and Meckling (1976) maintains that the shareholders of a firm where control lies mostly with managers are less likely to receive free cash flow through cash dividend payouts. Increased free cash flow payouts reduce managers' abilities to invest in value destroying projects, such as capital expenditures and acquisitions possessing negative net present values. In agreement with the notion that earnings are retained for empire building rather than for engaging in positive net value projects, Gompers *et al.* (2003) find that firms with relatively smaller dividend payouts have relatively lower earnings growth suggesting that better governed firms pay out more cash to shareholders.

#### **1.1.4 The banking industry in Kenya**

There was stringent government control of the banking industry after independence but the government reduced the controls in 1982 and issued licenses to operate non-bank financial institutions. A low capital requirement of five million Kenya shillings was required to operate these non-bank financial institutions. So many of these institutions were opened and this led to poor governance and management culture in the industry (Matengo, 2008).

Several banking institutions collapsed in the 1980s for example the Rural Urban Credit Finance Company Ltd. In 1984 a study on the development of money and capital markets in Kenya by the Central Bank and the International finance Corporation led the government to implement structural reforms. The study made recommendations on measures that would enhance active development and strengthening of the financial sector. Nambiro (2008) identify several factors representing good governance that are related to good performance e.g., independent nominating committee and governance committee meets annually, providing new focal points for those seeking to link good governance to good performance in the Kenyan firms.

In the 1990s there was continued collapse of banks. Trust Bank collapsed mostly due to insider lending to directors and shareholders. Delphis Bank was put under receivership in 2001, Euro Bank collapsed in 2002, and Daima Bank was put under statutory management in 2003 followed by Charterhouse Bank in 2006 (Matengo, 2008). Most of these banks collapsed due to weak corporate governance practices, Poor risk management strategies, Lack of internal controls, Weakness in regulatory and supervisory systems, Insider lending and conflict of interest. There is a widely held view that better corporate governance is associated with better firm performance as evidenced in the Kenyan industry, but the evidence differs at times (Gikunda, 2008).

## **1.2 Statement of the problem**

Corporate governance mechanisms cannot be implemented without costs. To have large boards and more non executive directors means increasing the remuneration expense. Therefore the benefits of implementing corporate governance should exceed the costs of implementation. The efficiency of the prevailing corporate governance mechanisms has been questioned in several studies (Jensen and Meckling 1976; Klein, 1998; and Porter, 1997). High-profile financial scandals like Goldenberg and Anglo Leasing, as well as media allegations of excessive executive pay in some Kenyan organizations for example, Safaricom, Equity Bank, East African Breweries, Bamburi Cement and business failures like the collapse of several banks in Kenya have all led to renewed interest in corporate governance (Kibet, 2008).



From a shareholders perspective, success of an organization is seen in its financial performance. There have been agency problems arising because contracts are not costlessly written and enforced (Ngumi, 2008). The allegations of malpractices in Charter House Bank which led the Central Bank of Kenya to suspend its operations to allow for investigations led the public to question the prudence and integrity of the banking industry.

There are several Kenyan studies done on corporate governance but they have not tackled all aspects of corporate governance. Mukoba (2004) carried out a research to establish if corporate governance was practised in firms quoted at the Nairobi Stock Exchange. He did not relate corporate governance to any form of organizational performance. Matengo (2008) did a study on corporate governance as a whole and did not study the role of any party of corporate governance separately. None of the Kenyan studies reviewed looked into the relationship between corporate governance solely from the perspective of the role and characteristics of the board of directors and performance. This study therefore examined how the board of directors in its role and characteristics influences financial performance.

There was the need to examine if by adhering to corporate governance practices and more so the role of the board of directors a bank will be managed more efficiently and portray better financial performance than a bank that is not adhering to corporate governance practices. This leads to the following questions: Does the role of the board of directors in corporate governance practice have any influence on the financial performance in the banking industry in Kenya?

### **1.3 Objectives of the study**

The general objective of the study is to establish whether corporate governance practice has an impact on the financial performance in the banking industry in Kenya.

The specific objectives are to:

- i. Ascertain the influence of the composition of board members on Kenyan banks performance.

- ii. Investigate the relationship between board size and performance of banks in Kenya.
- iii. Examine whether or not the separation of the posts of CEO and Chair of the board is of any significance in the promotion of performance.
- iv. Examine if the existence or absence of an audit committee influences the performance in the banking industry.

#### **1.4 Value of the study**

The study is useful to various groups some who are parties to corporate governance practice. The board of directors of commercial banks in Kenya with the help of this study can evaluate their role in the implementation of corporate governance. The findings of the study give insights on how to embrace corporate governance so as to improve performance. The government can use the findings of the study to help them draw up or enforce existing legislation that will ensure compliance of corporate governance in its institutions. Members of the public who are shareholders in various banks will be helped by this study to examine if the board of directors they have elected is efficient in its roles and use the wealth of knowledge created to make informed decisions in annual general meetings.

This study contributes to the theory by providing statistical evidence that even just one aspect of corporate governance alone that is the role of the board of directors and its characteristics can influence performance. Scholars and academicians can use the findings of this research as a base to carry out further research by identifying information gaps in this study.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discusses the various theories that seek to explain the importance of corporate governance in an organization. The chapter also covers a review of empirical studies that have been done on corporate governance. There has been considerable research in corporate governance structures, especially in the US, Germany and Japan as shown in the models formulated (Shleifer and Vishny, 1997). A number of initiatives have been taken by stock market and other authorities with recommendations and disclosure requirements on corporate governance issues.

### **2.2 Theories of corporate governance**

There has been a lot of debate on corporate governance due to the complex nature of the subject. The study of corporate governance is complicated by the fact that the structure, role and impact of boards have been studied from a variety of theoretical perspectives. Corporate governance has been studied from various perspectives for instance, from the disciplines of law, from economics (Jensen and Meckling, 1976) from finance (Fama, 1980) from strategic management (Boyd, 1995). It is also studied in organization theory (Black, 2001). From these disciplines there are several governance theories which include agency theory, stewardship theory, resource dependence theory, institutional theory and stakeholder theory, which are said to be some of the more dominant theoretical perspectives.

#### **2.2.1 Agency theory**

Agency theory by Jensen and Meckling (1976) and Farinha (2003) has been a dominant approach in the economics and finance literatures. Agency theory is concerned with aligning the interests of owners and managers (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983). The theory is based on the belief that there is an inherent conflict between the interests of a firm's owners and its management (Fama and Jensen, 1983). The argument for corporate governance from an agency theory perspective is that

adequate monitoring or control mechanisms need to be established to protect shareholders from management's conflict of interest (Fama and Jensen, 1983).

Proponents of agency theory are in favor of more non executive directors and oppose duality. Agency theory leads to normative recommendations that boards should have a majority of outside and, ideally, independent directors and that the position of chairman and CEO should be held by different persons (Hermalin and Weisbach, 1991).

### **2.2.2 Stewardship theory**

Stewardship theory contrasts agency theory. It is based on the premise that managers are essentially trustworthy people and are therefore good stewards of the resources entrusted to them (Dalton *et al.*, 1998). Proponents of stewardship theory contend that good performance is associated with majority of inside directors as they work to maximize profit for shareholders. This is because inside directors understand all the aspects of the business they govern better than outside directors and are therefore able to make superior business decisions.

This rationale is based on the assertion that since managers are naturally trustworthy there will be no major agency costs (Core *et al.*, 1999). Stewardship theorists also argue that senior executives will not act against the wishes of shareholders for fear of jeopardizing their reputation. Stewardship theory argues for a board with a significant proportion of inside directors to ensure more effective and efficient decision making. This theory also advocates for duality. CEO duality is seen as a positive force leading to better corporate performance, because there is clear leadership and centre of power for the company (Brown and Caylor, 2004).

### **2.2.3 Resource dependence theory**

This theory has focused on the study of interlocking directorates and their implication for institutional and societal power (Powell, 1997). Network analysis has been used to research on the social networks in which enterprises are embedded and the importance of these networks for power within society (Ryngaert, 1988). Such studies form the basis of

resource dependence theory which maintains that the board is an essential link between the firm and the external resources that a firm needs to maximize its performance (Porter, 1997).

#### **2.2.4 Stakeholders theory**

Agrawal and Chadha (2005) define stakeholders as any group or individual who can affect or is affected by the achievement of the organizations objectives. This theory is concerned with how managers and stakeholders actually behave and how they view their actions and roles. The instrumental stakeholder theory deals with how managers should act if they want to favour and work for their own interests. In some literature the own interest is conceived as the interests of the organization, which is usually to maximize profit or to maximize shareholder value. This means if managers treat stakeholders in line with the stakeholder concept the organization will be more successful in the long run.

For supporters of the stakeholder theory of the firm, shareholders are but one of a number of important stakeholder groups. Like customers, suppliers, employees, and local communities, shareholders have a stake in, and are affected by, the firm's success or failure. According to one typical formulation of the claim, in the same way that a business owes special and particular duties to its investors, it also has different duties to the various stakeholder groups. The firm and its managers have special obligations to ensure that the shareholders receive a fair return on their investment; but the firm also has special obligations to other stakeholders, which go above and beyond those required by law. In cases where these interests conflict, the demands and interests of some stakeholders, including shareholders, must be moderated or sacrificed in order to fulfill basic obligations to other stakeholders (Botosan and Plumlee, 2001).

#### **2.2.5 Institutional theory**

In this changing environment strategic decision makers have seen the emergence of a stakeholder group the institutional investors which include pension and union funds, mutual funds, investment bankers, insurance companies and private firms (Dann and DeAngelo, 1988). The investments made by institutional investors are so large thus they

can't move stocks in and out of firms with much ease like individual investors without affecting share price (Bhagat *et al.*, 1990). As a result institutional shareholders have much interest not only on the financial performance of the firms they invest in but also in the activities, strategies and other stakeholders of those firms (Fish and Shivdasani, 2004).

Institutional investors thus see the long term benefits of these firms maintaining product quality, being responsive to the natural environment, the communities in which they operate and the people they employ. Institutional responsiveness has also been linked to increased involvement of boards of directors as well as increased scrutiny in top management incentives and investment behaviour (Holland, 1995). Proponents of this theory argue that the relationships between different institutional investors, the board of directors and top management equity influence the corporate governance mechanisms adapted by a firm.

The theories have been subject to criticism because empirical findings can be interpreted according to the paradigm of the researcher. Powell (1997) noted that the empirical findings could be used to offer two different theoretical interpretations depending upon whether the study was based on resource dependence theory or class based theory.

While isolated studies can be found to support the predictions of both agency theory and stewardship theory concerning the relationship between for example, the proportion of outside directors or CEO duality and corporate performance, a meta-analysis based on 159 samples of board composition and 69 samples of board leadership structure and their relationships with corporate performance found that there is no substantive relationship between board composition and firm performance (Dalton, Daily, Ellstrand and Johnson, 1998). Overall there is a general lack of consistent evidence of any significant relationship between the composition of boards of directors and corporate performance (Anderson *et al.* 2004; Ashbaugh *et al.* 2003; Bernhart, Marr and Rosenstein, 1994; Dalton *et al.* 1998).

Agency, dependence and stewardship theories, all concentrate only on links to the external environment. All these theories ignore the alternative activities of the board such as providing advice Baysinger and Butler (1985) and Berger *et al.* (1997) monitoring and strategizing Fama (1980) all of which are crucial for the survival of the organization.

## **2.3 Empirical studies on the theories**

Extensive research has been done on corporate governance both globally and locally. The studies have been reviewed separately as global studies and Kenyan studies.

### **2.3.1 Global overview of effects of corporate governance on performance**

Following the renewed media interest in corporate governance after major accounting scandals and large-scale corporate failures, there has been a growing interest in implementing corporate governance and finding an empirical link between these and firm value. On this issue Gompers, Ichii and Metrick (2003) using a causal study sought to find if there was any relationship between corporate governance and equity prices. They found a significant association between a corporate governance index built from 24 provisions and stock returns.

La Porta *et al.* (2002) carried out a survey on corporate ownership on a global view and concluded that countries with laws providing better protection to shareholders enjoy greater stock market valuation and can raise equity financing more easily. Along the same lines Black (2001) using a small sample of Russian firms, did a causal study to establish the relationship between corporate governance and market value. He found a similar relation as he observes that a change in corporate governance scores from the lowest to the highest rank significantly increases firm market value.

Often it's alleged that boards of directors become more independent as the proportion of their outsider directors increases as shown in John and Senbet, (1998) in their survey of aimed at establishing the link between corporate governance and board effectiveness. On the contrary Fosberg (1989) in his case study sought to establish the role of outside

directors and managerial monitoring. He found no relation between the proportion of outside directors and various performance measures like sales, number of employees, and return on equity. In contrast Baysinger and Butler (1985) and Rosenstein and Wyatt (1990) in their causal studies aimed at establishing the relationship between corporate governance and board of directors. Their results show that the market rewards firms for appointing outside directors. The cost of debt, as shown by bond yield spreads, is inversely related to board independence as shown by Anderson, Mansi and Reeb, (2004) in their survey aimed at finding out the relationship between cost of debt, board characteristics and accounting report integrity.

Limiting board size is believed to improve firm performance because the benefits brought by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups Lipton and Lorsch, (1992) in their case study being a quest for improved corporate governance. Consistent with this notion, Yermack (1996) documents an inverse relation between board size, profitability and asset utilization in his survey of the link between higher firm value of companies with small boards. Anderson *et al.* (2004) show that the cost of debt is lower for larger boards, presumably because creditors view these firms as having more effective monitors of their financial accounting processes.

Klein (1998) shows a negative relation between earnings management and audit committee independence, and Anderson *et al.* (2004) find that entirely independent audit committees have lower debt financing costs. Frankel, Johnson and Nelson (2002) show a negative relation between earnings management and auditor independence based on audit versus non-audit fees, while Ashbaugh, Lafond and Mayhew (2003) and Larcker and Richardson (2004) dispute this evidence all in their causal studies in establishing the relationship between corporate governance and firm performance.

Gregg *et al.* (1993) find no relation between earnings restatements and fees paid for financial information systems design and implementation or internal audit services in their causal study aimed at finding out the relationship between directors pay and



corporate performance. Agrawal and Chadha (2005) find no relation between either audit committee independence or the extent auditors provide non-audit services with the probability a firm restates its earnings in their survey research of linking corporate governance and accounting scandals. Brown and Caylor (2004) in their causal study, give evidence on the association between audit related governance factors and firm performance by showing that: solely independent audit committees are positively related to dividend yield, but not to operating performance or firm valuation.

Separation of CEO and chairman has been examined in several studies positing that agency problems are higher when the same person holds both positions. Yermack (1996) in his causal research shows that firms are more valuable when the CEO and board chair positions are separate. Core, Holthausen and Larcker (1999) in their survey find that CEO compensation is lower when the CEO and board chair positions are separate. Consistent with Yermack (1996) Brown and Caylor (2004) in their causal study show that firms are more valuable when the CEO and board chair positions are separate.

Botosan and Plumlee (2001) in their case study on stock options, find a material effect of expensing stock options on return on assets. In contrast Brown and Caylor (2004) find no evidence that operating performance or firm valuation is positively related either to stock option expensing or to directors receiving some or all of their fees in stock. Gompers, Ishii and Metrick (2003) find that firms with fewer shareholder rights have lower firm valuations and lower stock returns.

Jensen and Meckling (1976) argued that poor practice of corporate governance led to excessive perquisite consumption and is one of the classic examples of conflicts of interest between managers and the company's owners. Shleifer and Vishny (1997) in their causal research view however, this consumption as one of the least costly manifestations of such agency problems, as compared to the problems arising from empire-building and the pursuit of negative net present-value projects. Holland (1995) in his survey argues that one of the reasons for this more thrifty behaviour by managers is increased shareholder activism.

Although there are theoretical arguments suggesting that diversification has both benefits and costs for shareholders, existing evidence usually favours the costs outweighing the benefits (Williamson, 1970). Consistent with the assertion that, on average, the costs of diversification are larger than the benefits Morck, Shleifer and Vishny (1990) together with Bhagat, Shleifer and Vishny (1990) along the same line with Lang and Stulz (1994) in agreement with Berger and Ofek (1995) summed up by Servaes (1996) all find results in accordance with corporate diversification being associated with significant value losses.

### **2.3.2 Kenyan studies on corporate governance**

Mukoba (2004) carried out a census on corporate governance in Kenya for firms listed on the Nairobi stock exchange to find out if corporate governance was practiced. He found that the corporate governance was well practiced. Nambiro (2008) did a causal study to find out the relationship between level of implementation of capital markets authority guidelines on corporate governance and profitability of companies listed on the NSE and found that all companies studied had implemented the CMA guidelines.

Matengo (2008) researched using a causal study on the relationship between corporate governance practices and performance in the banking industry in Kenya and concluded that transparency was practiced widely and that not all corporate governance practices influenced performance if studied individually.

Gatauwa (2008) did a causal aimed at establishing the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi stock exchange and concluded that there was no significant relationship. Gikunda (2008) did a survey of corporate governance disclosures among Kenyan firms quoted at the Nairobi stock exchange and found that disclosure was significantly influenced by the type of organization that is, if financial or non financial, and that NSE listed companies follow CMA guidelines.

Kibet (2008) surveyed on the role of internal audit in promoting good corporate governance in state owned enterprises and concluded that internal audit contribute to the promotion of good corporate governance. Ngumi (2008) did a case study aimed at finding out corporate governance practices in housing finance company of Kenya and found that the board of directors was responsible for the overall management of the bank and ensures practice of corporate governance in its operations.

Different models have been used to test relationships, correlations and impact on the dependent and independent variables in various studies. Weir (1997) used four regression models in his study to test the hypotheses of the research carried. The following models were used and all the models were significant at the 1% level.

$$QRATIO_i = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_6X_6 + e_i \quad (1)$$

$$QRATIO_i = b_0 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e_i \quad (2)$$

$$Pr(DECILE) = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_6X_6 \quad (3)$$

$$Pr(DECILE) = b_0 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 \quad (4)$$

Where;-

QRATIO - is a proxy for Tobin's Q which measures performance in terms of company valuation. It is defined as market capitalization plus total debt divided by total assets.

Pr(DECILE) - is the probability of being in either the top or bottom performance decile as measured by the Q ratio.

X1 - represents the board structure variables:

X2 - is the incentive shareholding variables:

X3 - measures take-over intensity by sector:

X4- is a measure an audit committee quality:

X5- measures audit committee structure:

X6 - represents the control variables:

For the purpose of this study the following model was used to test the relationship between attributes of the board of directors and financial performance.

$$COPERF = \beta_0 + \beta_1 BSIZE + \beta_2 BCOMP + \beta_3 DUALITY + \beta_4 MONITORING + e$$

Where:

The proxy for COPERF is ROA.

$\beta_0$  = intercept coefficient

$\beta_1, \beta_2, \beta_3, \beta_4$  = coefficients for each of the independent variables

BFSIZE = Total number of directors in the board

BCOMP = Proportion of non executive directors on the board

DUALITY = Value (1) if board chair and CEO are different people and (0) if both posts are occupied by the same person

BMONITORING = Value (1) if there is an audit committee and (0) in absence of an audit committee

Measures of significance i.e t-test and chi square test were used to test the significance of the model and the model was found to be significant at 1% level.

## 2.4 Measures of financial performance

There are several measures of performance and only those deemed to be more applicable to the banking industry have been discussed.

### 2.4.1 Profitability

Measures the extent to which a business generates a profit. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Based on Fortune 1000 firms during 1997-1999, Fich and Shivdasani (2004) find that firms with director stock option plans have higher market to book ratios, higher profitability as represented by operating return on assets, return on sales, asset turnover and they document a positive stock market reaction when firms announce stock option plans for their directors. Some measures of profitability are described below. The rate of return on assets (ROA) measures the return to all assets and

is often used as an overall index of profitability, and the higher the value, the more profitable the business.

The ROE measures the rate of return on the owner's equity employed in the business. It is useful to consider the ROE in relation to ROA to determine if the organization is making a profitable return on their borrowed money. This study focused on accounting measure ROA as the measure of financial performance because market measures could not be used due to the reason that not all Kenyan banks are quoted at the Nairobi stock exchange.

#### **2.4.2 Loans to deposits ratio**

The loans to deposits ratio (LTD) ratio refers to the amount of a bank's loans divided by the amount of its deposits at any given time. The higher the ratio, the more the bank is relying on borrowed funds. This number, also known as the LTD ratio, is expressed as a percentage. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be from lending (Ngumi, 2008). These ratios are used to determine whether a bank will be allowed to open or acquire a branch, and this ratio is often used by policy makers to determine the lending practices of financial institutions.

Zingales (1998) expresses the view that the corporate governance mechanisms affect the process through which quasi-rents are distributed. If these mechanisms are not checked managers in banks may result to insider lending which distorts the LTD ratio.

#### **2.4.3 Rate of non-performing loans**

The rate of non-performing loans (NPL) ratio refers to the ratio of non-performing loans (NPL) to total loans (gross of allowance for probable losses), inclusive of interbank loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans (Matengo, 2008).

The central bank of Kenya defines NPLs as those loans that are not being serviced as per loan contracts and expose the financial institutions to potential losses. It is important to note that non-performing loans refer to accounts whose principal or interest remains unpaid 90 days or more after due date. This high level of non-performing loans continues to be an issue of major supervisory concern in Kenya. Most of the bank failures are caused by non-performing loans (Matengo, 2008).

## **2.5 Summary of literature review**

The findings of all the studies reviewed are mixed (Garvey and Hanka, 1999). There are studies showing that corporate governance has a positive effect on financial performance and also there are those studies showing that corporate governance has a negative influence on performance (Jarrell *et al.*, 1988). Gompers, Ichii and Metrick (2003) and Black (2001) also Brown and Caylor (2004) and Botosan and Plumlee (2001) as well as Kibet (2008) all agree that corporate governance has a positive influence on performance. On the other hand, Fosberg (1989) and Klein (1998) found that corporate governance has a negative influence on performance. From all the literature reviewed majority of the studies concluded that corporate governance had a positive influence on performance. In conclusion, from the findings of both global and Kenyan studies it's evident that good practice of corporate governance positively influences the performance of an organization.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter discusses the process of data collection and analysis. Details of the design adopted for the study, target population, sample population and data analysis techniques have been elaborated.

### **3.2 Research design**

This is a causal study. This research design was chosen because it of its simplicity and easily showed the impact in a cause effect study. The design has been used in several other studies of a similar nature including Matengo (2008), Ngumi (2008) and Gompers, Ichii and Metrick (2003).

### **3.3 Population**

All the forty four commercial banks in Kenya as at December 2010 comprised of the population for this study. A list of all the banks in Kenya was sourced from the Central Bank of Kenya website as shown in appendix I. The Central Bank of Kenya categorizes commercial banks as large, medium or small based on the value of their assets. A population census has been done for all the banks for data analysis. The study is based on a five year period from 2006 to 2010.

### **3.4 Data collection techniques**

The study used secondary data. Annual reports for the years 2006 to 2010 were used as the source for financial data. The annual reports were obtained from the banks archives. The data available on the banks' websites was also used. Data on corporate governance board attributes was sourced from the director profiles given in the banks' websites, annual reports and other bank publications.

### **3.5 Data analysis techniques**

Descriptive statistics, Pearson correlation and linear multiple regression were used as the underlying tests for empirical analysis for data to test any existing relationships between

independent and dependent variables. The independent variables comprised of the board characteristics to be studied which are size of the board, board composition, duality and monitoring. The dependent variable used for data analysis is accounting corporate performance measure of ROA. This measure was chosen due to its easy interpretation, popularity and relevance in the banking industry as it's used to show profitability and return on investments. Market measures were not used in the data analysis because not all banks are listed in the Nairobi stock exchange.

$$\text{ROA} = \frac{\text{NET PROFIT AFTER TAX}}{\text{TOTAL ASSETS}}$$

The following model was used to test the relationship between attributes of the board of directors and financial performance. The model is similar to the ones used by Weir (1997) to test relationships and correlations in his study.

$$\text{COPERF} = \beta_0 + \beta_1 \text{BSIZE} + \beta_2 \text{BCOMP} + \beta_3 \text{DUALITY} + \beta_4 \text{MONITORING} + e$$

Where:

The proxy for COPERF is ROA.

$\beta_0$  = intercept coefficient

$\beta_1, \beta_2, \beta_3, \beta_4$  = coefficients for each of the independent variables

BSIZE = Total number of directors in the board

BCOMP = Proportion of non executive directors on the board

DUALITY = Value (1) if board chair and CEO are different people and (0) if both posts are occupied by the same person

BMONITORING = Value (1) if there is an audit committee and (0) in absence of an audit committee

Measures of significance i.e t-test and chi square test were used to test the significance of the model the model was found to significant at the 1% level.



## **CHAPTER FOUR: DATA ANALYSIS AND FINDINGS**

### **4.1. Introduction**

This chapter analyses the data collected based on the research objectives. The first objective of this study was to ascertain the influence of the composition of board members on Kenyan banks performance as measured by ROA. The second objective was to investigate the relationship between board size and performance of banks in Kenya. The third objective was to examine whether or not the separation of the posts of CEO and Chair of the board is of any significance in the promotion of performance. The fourth and final objective was to examine if the existence or absence of an audit committee influences performance in the banking industry.

The analysis was based on secondary data obtained from annual reports for the years 2006 to 2010. The annual reports were obtained from the banks archives. The data available on the banks' websites comprised of secondary data that has been used. Data on corporate governance board attributes was sourced from the directors' profiles given in the banks' websites and annual reports.

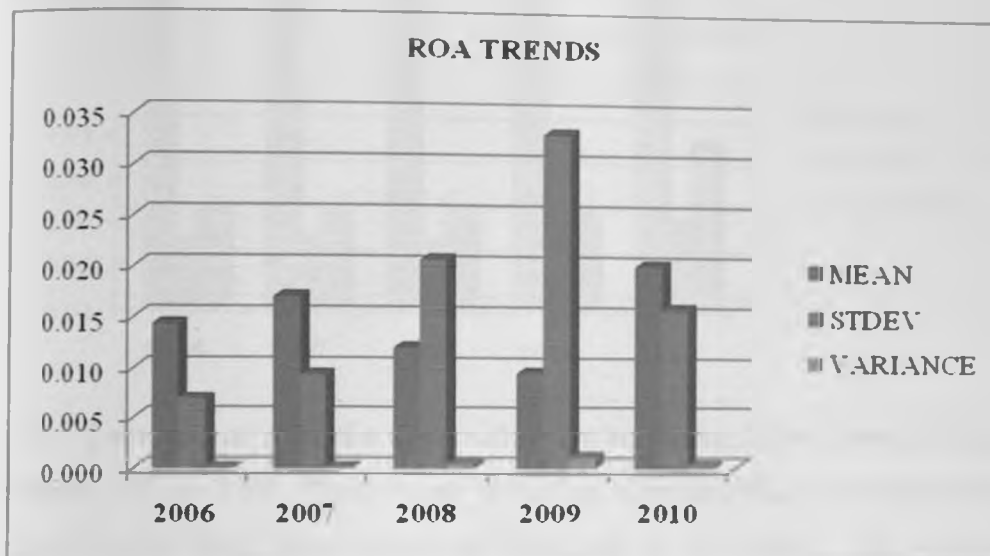
Information collected comprised of board size, board composition, profits after tax and total assets. Data analysis was based on the multiple linear regression with the dependent variable being corporate performance measure ROA. The independent variables were board composition, size of the board, duality and monitoring. The analysis was grouped into three headings according to the research objectives. The ROA was calculated using the net profit after tax and total assets values from the company annual reports. Trend analysis was also conducted for the mean, standard deviation and variance for all the three variables. The calculated values were tabulated and displayed on graphs and interpretation done.

### **4.2. Descriptive statistics**

Descriptive statistics were calculated for ROA, Board Size and Board Composition. These included mean, standard deviation and variance. A standard deviation value and

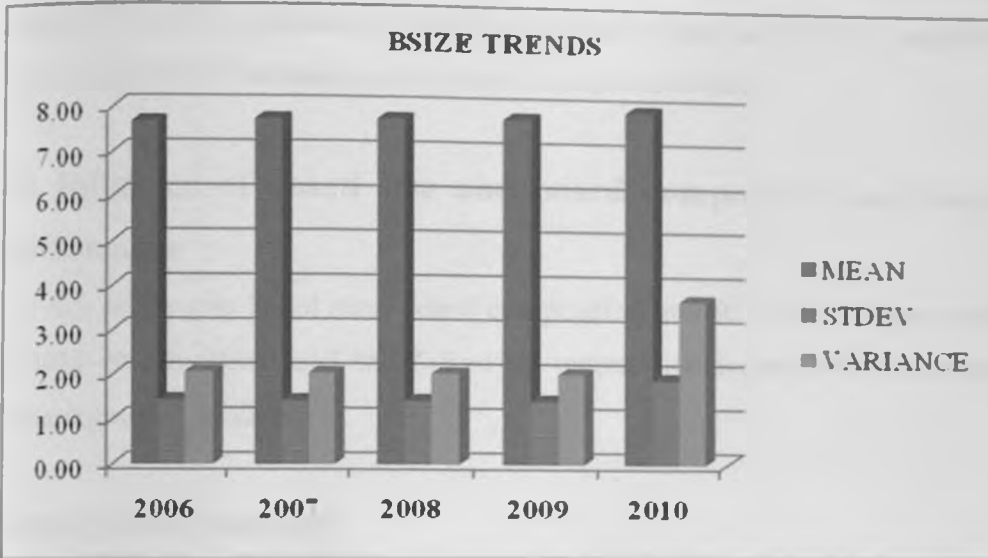
variance of  $> 1$  implies that there are significant variations in the results obtained. The following tables and graphs represent the results obtained.

**Graph 1: ROA Trends**



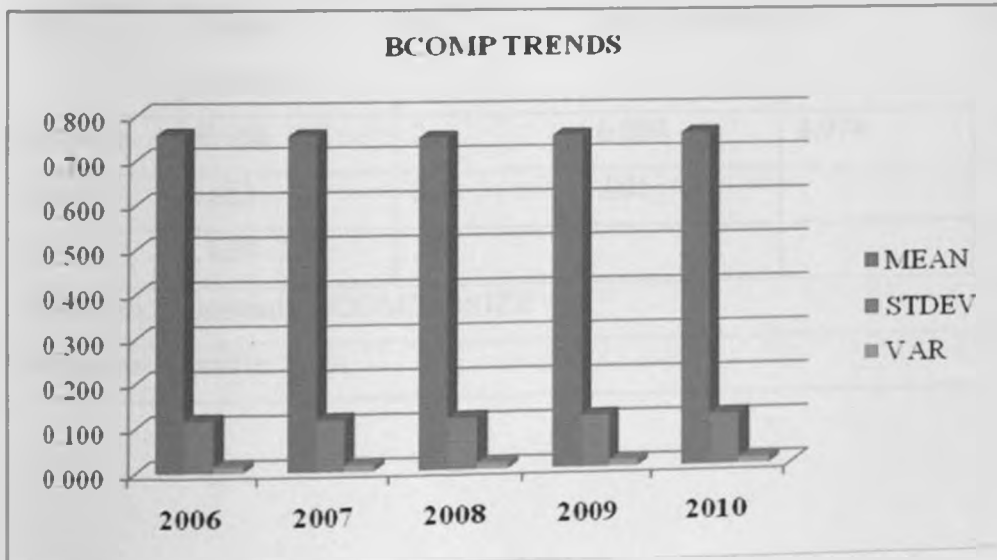
The above values indicate that the mean ROA for the commercial banks over the five-year period has been steady except in 2010 where it was 0.2. The standard deviation has been below 1 indicating that there were no significant variations in the ROA values. This is also in line with the variance which remained very low showing that there were minimal variations in the mean values.

**Graph 2: Board Size Trends**



Graph 2 above shows that the mean values for board size have remained fairly constant at between 7.67 to 7.98. The standard deviation is greater than 1 throughout the five years indicating that there were significant variations in the results. The variance is greater than 1 in all the years indicating that there were significant variations in the data.

**Graph 3: Board Composition Trends**



The above results indicate that the mean values also remained steady throughout the period at 0.75. The standard deviation and variance were all below 1 implying that there were no significant variations in the board composition data.

### 4.3. Influence of board size and board composition on Kenyan banks performance

The data relating to board size, board composition and ROA for all the years from 2006 to 2010 was analysed and the following outputs generated after conducting multiple linear regression analysis.

**Table 1: Model Summary**

Model	R	R Square	Adjusted R square	Std error of the estimate
1	.211	0.44	0.35	0.2395
a. Predictors:(constant), BCOMP, SIZE				

**Table 2: ANOVA**

Model	Sum of squares	df	Mean square	F	Sig.
Regression	0.006	2	0.003	4.974	.008
Residual	.123	214	.001		
Total	.128	216			
a. predictors: (constant), BCOMP, BSIZE					
b. dependent variable: ROA					

**Table 3: Coefficients**

MODEL	Unstandardized coefficients		Standardized coefficients	T sig.	
	B	Beta	Std error		
constant	0.15	0.009		1.650	.100
BSIZE	0.002	0.001	.209	2.991	0.003
BCOMP	-0.022	0.012	-.127	-1.824	.069

a. dependent variable: ROA

The general regression equation used was:

$$COPERF = \beta_0 + \beta_1 BSIZE + \beta_2 BCOMP + \beta_3 DUALITY + \beta_4 MONITORING + e$$

Where:

The proxy for COPERF is ROA.

$\beta_0$  = intercept coefficient

$\beta_1, \beta_2, \beta_3, \beta_4$  = coefficients for each of the independent variables

BSIZE = Total number of directors in the board

BCOMP = Proportion of non executive directors on the board

DUALITY = Value (1) if board chair and CEO are different people and (0) if both posts are occupied by the same person

BMONITORING = Value (1) if there is an audit committee and (0) in absence of an audit committee.

Since the duality and monitoring values were constant, the regression equation was restricted to the first two independent variables of board composition and board size.

The regression equation was:

$$COPERF = \beta_0 + \beta_1 BSIZE + \beta_2 BCOMP + e$$

The values derived from the analysis were as follows:

$$\beta_0 = 0.015; \beta_1 = 0.002; \beta_2 = -0.022 \text{ and } e = 0.0239$$

The linear regression equation was:

$$\text{COPERF (ROA)} = 0.015 + 0.002 \text{ BSIZE} - 0.022 \text{ BCOMP} + 0.0239$$

From table 5 (ANOVA) the p-value is 0.008 which is less than 0.05. This indicates that the independent variables that are board size and board composition are predictors of ROA.

The Pearson correlation coefficient 'r' measures the nature and strength of the relationship between two variables. A value close to 1 indicates a strong relationship whereas a value close to 0 (zero) implies a weak relationship. Correlation can also be either positive or negative.

#### **4.4. Significance of duality on financial performance**

According to the results obtained in each year on duality, most of the banks had the board chairman and the CEO as different persons (value = 1). Only one bank, Bank of Baroda had a value of zero (0) indicating that both posts were occupied by the same person. It was not possible to conduct any test of significance as the data was constant.

#### **4.5 Influence of board monitoring on financial performance**

The significance of board monitoring was measured using two values 1 and 0 (zero). Monitoring value of one (1) was used if there is an audit committee and (0) in absence of an audit committee. The results obtained show that that all the banks studied had an audit committee. Tests of significance could not be performed as the data was constant.

# CHAPTER FIVE: DISCUSSIONS, RECOMMENDATIONS AND CONCLUSIONS

## 5.1 Introduction

The objectives of this study were to determine whether the size and composition of the board of directors affects the performance of Kenyan commercial banks and determine the significance of duality and monitoring on board performance. This chapter gives a summary of the discussions, conclusions and recommendations drawn after analyzing data.

Characteristics of the board of directors as well as the board's roles determine how an organization adheres to the practice of corporate governance. The board of directors is a key party to corporate governance and this study aimed at ascertaining the influence of the board's role and characteristics on performance. The main role of non-executive directors is to ensure that the executive directors are pursuing policies consistent with shareholders' interests (Fama, 1980). Non-executive directors possess certain characteristics that enable them to fulfill their monitoring and control function.

The relationship between corporate governance and performance has captured the attention of many. Upgrading corporate board structure, in terms of both size and composition, has been one of the core issues in all corporate governance initiatives undertaken by concerned stakeholders. Despite the fact that non-executive directors may possess certain characteristics such as independence and experience, the evidence relating to their impact on performance tends not to support this positive perspective. Corporate governance mechanisms cannot be implemented without costs. To have large boards and more non executive directors means increasing the remuneration expense. Therefore the benefits of implementing corporate governance should exceed the costs of implementation.

## 5.2 Discussions

The first two objectives of the study were to ascertain the influence of the board size and composition on Kenyan banks performance. The study revealed that both the board size and composition of the board of directors had influence on the return on assets in all the five years. The p-value of 0.008 was less than 0.05 indicating that the two independent variables were predictors of the return on assets in all the Kenyan commercial banks.

The Pearson correlation coefficient 'r' values for ROA and board size and composition were -0.172 and -0.067 respectively. These values showed that there was a weak correlation between ROA and board size and board composition in all of the years. This implies that board size and composition were not the only predictors of ROA.

The third objective was to examine whether or not the separation of the posts of CEO and Chair of the board is of any significance in the promotion of performance. This was analysed by looking at the existence of duality in the Kenyan banks. Duality arises when the same person undertakes both the roles of chief executive officer and chairman. A value of one (1) was used to indicate the absence of duality whereas zero (0) to indicate its presence. The results of the study showed that majority of the banks had a duality value of 1 implying that there was a separation of the roles of the CEO and the board chairman. Only one bank, the Bank of Baroda had a value of zero (0). Statistical tests of significance could not be performed on the data as the values were constants. This indicated that duality had no significance to the performance of the board.

The fourth and final objective was to examine if the existence or absence of an audit committee influences the performance in the banking industry. This was analysed based on board monitoring. Monitoring value of one (1) was used for presence of an audit committee and a value of zero (0) for the absence. The results revealed that all Kenyan banks had a monitoring value of one (1) implying that there was an audit committee in all of them. The tests of significance could not be performed as the values were constants. The trend analysis revealed that the ROA mean values remained steady over the five years. The findings also indicated that there were no significant variations in the results



obtained. This means that the variations from the mean were not significant. Trends on board size also showed a steady mean value but indicated greater variations from the mean as standard deviation and variance values were greater than 1. Results on board composition showed a constant mean value of 0.75 with no significant variations from the mean.

### **5.3 Conclusions**

Based on the findings, it can be concluded that the corporate governance mechanisms such as the role of the board of directors have effect on the performance of the Kenyan commercial banks. The correlation between ROA and board composition is negative and weak while board size and ROA has a positive weak relationship. Duality and board monitoring have no significance to the performance of the board or improvement in performance. The trends on ROA, board size and board composition showed that the commercial banks have a steady ROA with no significant improvements over the period of study. This was as a result of a constant board size and board composition.

### **5.4 Recommendations**

The study revealed that there were some gaps in the effects of board size and composition on the performance of all the Kenyan commercial banks. There were also no significant effects noted on the performance of these firms as a result of the size and composition of the board of directors. This shows that these were not the only predictors of ROA. There were also other factors other than the board size and composition that contributed more to the performance of the banks. It would be useful to find out what these factors are especially in terms of policies passed by the board and how the policies are actually implemented. The quality of the board members may also contribute to their effectiveness. The board members' experience, expertise and knowledge of the nature of business will also be important considerations. In this era of transparency and accountability, it is important to hold the board members accountable for their actions and only those who improve performance can have their terms renewed. Specific targets could be set for them and performance measured against these targets.

### **5.5 Limitations of the study**

The study was limited to the commercial banks in Kenya over a five-year period. The study only concentrated on the banking industry in Kenya.

### **5.6 Suggestions for further research**

The study was conducted on the Kenyan commercial banks only. The findings can be verified by conducting the same study on other companies in other sectors that are listed on the Nairobi Securities Exchange (NSE). The study findings are according to the annual reports information and data available on the Central Bank of Kenya website. Other studies can be conducted to find out other non quantitative factors that may influence financial performance of Kenyan commercial banks other than board size, composition, duality and board monitoring.

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## APPENDICES

### APPENDIX I

#### LIST OF BANKS IN KENYA AS AT 31<sup>ST</sup> DECEMBER 2010

NAME OF BANK	PEER GROUP CATEGORY
1. African Banking Corporation Ltd	Medium
2. Bank of Africa Kenya Ltd.	Large
3. Bank of Baroda K Ltd.	Large
4. Bank of India	Large
5. Barclays Bank of Kenya Ltd.	Large
6. CFC Stanbic Bank Ltd.	Large
7. Charterhouse Bank Ltd.	Medium
8. Chase Bank k ltd.	Large
9. Citi Bank N.A. Kenya.	Large
10. Commercial Bank Of Africa.	Large
11. Consolidated Bank of Kenya Ltd	Medium
12. Co-operative Bank of Kenya Ltd.	Large
13. Credit Bank Ltd.	Small
14. Development Bank of Kenya ltd.	Medium
15. Diamond Trust Bank Kenya ltd.	Large
16. Dubai Bank Kenya Ltd.	Small
17. Ecobank Kenya Ltd.	Large
18. Equatorial Commercial Bank Ltd.	Medium
19. Equity Bank Ltd.	Large
20. Family Bank Ltd.	Large
21. Fidelity Commercial Bank Ltd.	Medium
22. Fina Bank Ltd.	Large
23. First community Bank limited.	Medium
24. Giro Commercial Bank Ltd.	Medium
25. Guardian Bank Ltd.	Medium
26. Gulf African Bank Limited	Medium

27. Habib Bank A.G Zurich	Medium
28. Habib Bank Ltd.	Medium
29. Imperial Bank Ltd.	Large
30. I & M Bank Ltd.	Large
31. Jamii Bora Bank Limited.	Small
32. Kenya Commercial Bank Ltd.	Large
33. K-Rep Bank Ltd	Medium
34. Middle East Bank (K) Ltd.	Small
35. National Bank of Kenya Ltd.	Large
36. Nic Bank Ltd.	Large
37. Oriental Commercial Bank Ltd.	Small
38. Paramount Universal Bank Ltd.	Small
39. Prime Bank Ltd.	Large
40. Standard Chartered Bank Kenya Ltd.	Large
41. Trans-National Bank Ltd.	Medium
42. UBA Kenya Bank Limited.	Small
43. Victoria Commercial Bank Ltd	Medium
44. Housing Finance Ltd.	Large

Source: Central bank of Kenya website

**APPENDIX II**  
**DATA COLLECTED**

BANK NAME	P.A.T				
	2010	2009	2008	2007	2006
AFRICAN BANKING CORP	480000	257000	224000	185000	140000
BANK OF AFRICA KENYA LTD	484477	182000	65100	110600	42700
BANK OF BARODA K LTD	1393492	524196	443100	347900	261100
BANK OF INDIA	687108	426300	426300	331800	194600
BARCLAYS BANK OF KENYA	10599000	6091000	5558000	4910000	4492000
CFC BANK LTD				644700	475300
CFC STANBIC BANK	1477182	933100	892000		
CHARTER HOUSE BANK					86800
CHASE BANK K LTD	381393	210515	172900	126000	77700
CITIBANK N.A	2015300	2138500	2347100	1247400	1071000
JAMII BORA BANK	-58800	-4900	-2100	-19600	-11900
COMMERCIAL BANK OF AFRICA	2073372	1410772	1353561	1062325	1018817
CONSOLIDATED BANK OF KENYA	180600	81900	59500	18200	11200
CO-OPERATIVE BANK OF KENYA	4580000	2968000	2374000	1550000	867000
CREDIT BANK	33791	57803	54049	91106	63380
DEVELOPMENT BANK OF KENYA	160222	134894	119688	111172	90000
DIAMOND TRUST BANK KENYA	2285	1251	1024	691	488
DUBAI BANK KENYA	2100	6300	3239	5915	14000
ECOBANK LTD	131600	805700	46900		
EABS BANK LTD				81900	32900
EQUATORIAL COMMERCIAL BANK	-68064	-569959	5600	51100	65800
EQUITY BANK	7554376	4563172	3515400	1664600	772100
FAMILY BANK	390999	220895	366741	283500	185010
FIDELITY COMMERCIAL BANK	271779	48148	50820	34300	18200
FINA BANK	105700	16100	63158	113459	105700
FIRST COMMUNITY BANK	-97506	-106400	-214900		
GIRO COMMERCIAL BANK	443800	129500	88200	28700	41300
GUARDIAN BANK	75000	42700	30800	17500	33600
GULF AFRICAN BANK	73894	-123357	-281381		
HABIB AG ZURICH	173600	200200	169400	142800	115500
HABIB BANK LTD	164500	137900	102200	74900	4200
IMPERIAL BANK	896056	555878	465687	376009	272505
I&M BANK	2117401	1208659	1119093	882852	648898

KENYA COMMERCIAL BANK	8818860	4552679	3811485	270656	247121
K-REP BANK LTD	77700	202300	-330400	133000	106400
MIDDLE EAST BANK K LTD	140709	28928	21100	65800	70000
NATIONAL BANK OF KENYA	2021919	1462955	1240610	1119396	624496
NIC BANK	1863918	1085718	1037681	745687	457974
ORIENTAL COMMERCIAL BANK	155770	38210	47600	146300	-45500
PARAMOUNT UNIVERSAL BANK LTD	196700	29400	35700	30100	21700
PRIME BANK	620000	404078	428461	142989	130000
SOUTHERN CREDIT BANKING CORP LTD		-511000	4200	28700	22400
STANBIC BANK KENYA LTD				835800	641900
STANDARD CHARTERED BANK K	5376191	4732754	3250813	3469877	2634300
TRANSNATIONAL BANK	142342	90156	132413	190492	84102
UBA Kenya Bank Ltd	-96600	-149100			
VICTORIA COMMERCIAL	217700	150469	116815	105396	89600
HOUSING FINANCE LTD	379531	234176	136427	73508	101049

TOTAL ASSETS					ROA				
2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
10350000	8920000	6760000	6140000	5360000	0.05	0.03	0.03	0.03	0.03
26699124	16978000	12823000	8093000	8515000	0.02	0.01	0.01	0.01	0.01
32331505	21939577	18787000	15245000	12809000	0.04	0.02	0.02	0.02	0.02
19671456	15586000	12143000	10610000	9538000	0.03	0.03	0.04	0.03	0.02
172415000	164875000	168512000	157656000	117722000	0.06	0.04	0.03	0.03	0.04
			29467000	31869000	0.00	0.00	0.00	0.02	0.01
107138602	98401000	83166000			0.01	0.01	0.01	0.00	0.00
				4501000	0.00	0.00	0.00	0.00	0.02
21858603	12969711	10477000	5999000	4800000	0.02	0.02	0.02	0.02	0.02
62070000	51581000	47839000	48533000	44831000	0.03	0.04	0.05	0.03	0.02
1723000	519000	587000	920000	731000	0.03	0.01	0.00	0.02	0.02
75459117	65687419	55,201,590	42010559	37437907	0.03	0.02	0.02	0.03	0.02
10479000	6899000	4657000	4109000	3437000	0.02	0.01	0.01	0.00	0.00
154339000	110678000	83486000	65324000	57688000	0.03	0.03	0.03	0.02	0.02
4530094	3664947	3636674	3357535	2609711	0.01	0.02	0.01	0.03	0.02
10649758	8135934	6520202	4707518	3400000	0.02	0.02	0.02	0.02	0.02
83600	66679	56146	35998	21737	0.03	0.02	0.02	0.02	0.02
1874000	2147000	1639146	1543883	1690000	0.00	0.00	0.00	0.00	0.00

26892000	16134000	12589000			0.00	0.05	0.00	0.00	0.00
			11210000	10600000	0.00	0.00	0.00	0.01	0.00
10463479	4491375	4477000	5116000	4145000	-	-	-	-	-
133889997	96511725	78879000	53076000	20024000	0.01	0.13	0.00	0.01	0.02
20200000	13305770	10410389	8700000	5500000	0.06	0.05	0.04	0.03	0.04
8208537	5498596	4300000	3446000	2600000	0.02	0.02	0.04	0.03	0.03
14112000	12836000	14366249	11623247	9400000	0.03	0.01	0.01	0.01	0.01
					0.01	0.00	0.00	0.01	0.01
6380000	4457000	3189000			-	-	-	-	-
					0.02	0.02	0.07	0.00	0.00
10234000	7026000	6154000	5970000	5700000	0.04	0.02	0.01	0.00	0.01
6600000	7316000	6284000	6494000	5712000	0.01	0.01	0.00	0.00	0.01
						-	-	-	-
9594061	6424890	3427813			0.01	0.02	0.08	0.00	0.00
8127000	7438000	6622000	6440000	5900000	0.02	0.03	0.03	0.02	0.02
5426000	4729000	4561000	4022000	3900000	0.03	0.03	0.02	0.02	0.00
19399089	15358108	13431704	11723137	9405838	0.05	0.04	0.03	0.03	0.03
62552113	44009222	36655878	29420098	22348225	0.03	0.03	0.03	0.03	0.03
251356200	194777835	174711564	112210660	93000000	0.04	0.02	0.02	0.00	0.00
						-	-	-	-
7670000	7685000	8431000	7303000	5350000	0.01	0.03	0.04	0.02	0.02
4018428	3141381	3448000	3333000	5159000	0.04	0.01	0.01	0.02	0.01
60026694	51404408	42695700	41414272	36122843	0.03	0.03	0.03	0.03	0.02
59013922	47558241	42619119	31281018	26062413	0.03	0.02	0.02	0.02	0.02
						-	-	-	-
4558349	3052314	2774000	2367000	2124000	0.03	0.01	0.02	0.06	0.02
4420000	3418000	3552000	3371000	3000000	0.04	0.01	0.01	0.01	0.01
33100100	32000000	19900000	14900000	11000000	0.02	0.01	0.02	0.01	0.01
						-	-	-	-
	4964000	5463000	6354000	5404000	0.00	0.10	0.00	0.00	0.00
			35086000	31246000	0.00	0.00	0.00	0.02	0.02
142746249	123778972	99019571	91121942	81014123	0.04	0.04	0.03	0.04	0.03
4761852	3364458	3414489	3220661	2566226	0.03	0.03	0.04	0.06	0.03
						-	-	-	-
2363000	1216000				0.04	0.12	0.00	0.00	0.00
6215384	5130103	4460174	4130763	4698000	0.04	0.03	0.03	0.03	0.02
29278396	18239359	14294368	10369255	9133831	0.01	0.01	0.01	0.01	0.01
						-	-	-	-

BOARD SIZE					BOARD COMPOSITION				
2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
5	5	5	5	5	0.60	0.60	0.60	0.60	0.60
9	9	9	9	9	0.67	0.67	0.67	0.67	0.67
6	6	6	6	6	0.67	0.67	0.67	0.67	0.67
17					0.82				
8	8	8	8	8	0.63	0.63	0.63	0.63	0.63
5	5	5	5	5	0.80	0.80	0.80	0.80	0.80
9		9	9	9	0.67		0.67	0.67	0.67
7	7	7	7	7	0.57	0.57	0.57	0.57	0.57
12	12	12	12	12	0.92	0.92	0.92	0.92	0.92
6	6	6	6	6	0.83	0.83	0.83	0.83	0.83
5	5	5	5	5	0.40	0.40	0.40	0.40	0.40
9	9	9	9	9	0.89	0.89	0.89	0.89	0.89
13	13	13	13	13	0.92	0.92	0.92	0.92	0.92
6	6	6	6	6	0.83	0.83	0.83	0.83	0.83
7	7	7	7	7	0.71	0.71	0.71	0.71	0.71
10	10	10	10	10	0.90	0.90	0.90	0.90	0.90
6	6	6	6	6	0.33	0.33	0.33	0.33	0.33
12	12	12	12	12	0.67	0.67	0.67	0.67	0.67
			9	9				0.89	0.89
5	5	5	5	5	0.80	0.80	0.80	0.80	0.80
11	11	11	11	11	0.91	0.91	0.91	0.91	0.91
10	10	10	10	10	0.70	0.70	0.70	0.70	0.70
4	4	4	4	4	0.50	0.50	0.50	0.50	0.50
8	8	8	8	8	0.88	0.88	0.88	0.88	0.88
8	8	8			0.75	0.75	0.75		
5	5	5	5	5	0.80	0.80	0.80	0.80	0.80
7	7	7	7	7	0.86	0.86	0.86	0.86	0.86
7	7	7			0.71	0.71	0.71		
6	6	6	6	6	0.83	0.83	0.83	0.83	0.83
7	7	7	7	7	0.86	0.86	0.86	0.86	0.86
7	7	7	7	7	0.86	0.86	0.86	0.86	0.86
9	9	9	9	9	0.89	0.89	0.89	0.89	0.89
11	11	11	11	11	0.82	0.82	0.82	0.82	0.82
9	9	9	9	9	0.89	0.89	0.89	0.89	0.89
5	5	5	5	5	0.80	0.80	0.80	0.80	0.80
10	10	10	10	8	0.70	0.70	0.70	0.70	0.88







