EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This research project is my original work and has not been submitted or presented to any other institution of learning for any academic award

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I thank Almighty God for uncountable blessings and also for making my dreams come true. I also thank my project supervisors Dr. Ronald Chogii and Dr. Winnie Nyamute for their promptness, guidance and encouragement during every stage of this project preparation.

DEDICATION

I dedicate this work to my dad Roy Oliver Mwangolo, my mum Dorah Mwaka Mwangolo, my sister and brothers for prayers and moral support.

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ABBREVIATIONS AND ACRONYMS

CBK - Central Bank of Kenya

CEO - Chief Executive Officer

CG - Corporate Governance

EVA - Economic Value Added

MENA - Middle Eastern and North African

NIM - Net Interest Margin

ROA - Return on Assets

ROE - Return on Equity

SACCOs - Savings and Credit Cooperative Organization

SPSS - Statistical Package for Social Science

TSR - Total Shareholders Return

ABSTRACT

The basic role of corporate governance entails regulating the activities of the board. It also controls and oversights the actions of executives to enhance shareholder wealth. However, the weak corporate governance system has led to the collapse of the organizations that have survived to this day. Further, recently, there has been concerns on governance and firm's performance interrelationship, largely because of increase in corporate scandals which results to a declining shareholder value, bank failures and dimmed investor confidence. In Kenya, the banking industry undertakes an important role in growth and the sector delivers higher savings levels with funding investment requirements. However, the performance of the sector has been dropping even since collapsed the collapse of three banks in less than 12 months in the 2015/2016 financial year. Regardless of the efforts put in place to streamline the financial sector, some banks are still under statutory management while others have been liquidated. This study sought to determine the effect of corporate governance on financial performance of commercial banks in Kenya. This research reviewed key theories to explain CG as, the agency theory, the stakeholder, stewardship and the shareholder theories. This study employed a descriptive research design and the population of the research consisted 39 commercial banks in Kenya as at 31st December 2021. This study used secondary data source and was sourced from the audited financials and yearly reports of the various Kenyan banking entities for five years from 2017 to 2021. Descriptive and inferential statistical tools were used for data analysis using the SPSS statistical software. Correlation and regression analysis were used to determine whether a relationship exists between independent and the dependent variable. The study finding revealed a positive and significant relationship between board size and financial performance. The findings indicated that board independence had a positive but insignificant relationship with financial performance while audit committee size had a negative and insignificant effect on financial performance. The study further established that bank size had a positive and significant effect on financial performance while liquidity had a positive but insignificant effect on bank performance. Finally, capital adequacy had a positive and significant effect on financial performance. The study concluded that board size, bank size and capital adequacy significantly affects Kenyan banking institutions financial performance. The study also concluded that board independence, audit committee size and bank liquidity had an insignificant effect on Kenyan banking institutions financial performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Corporate governance (CG) is a significant management planning and control approach that increases confidence in the company's policies and activities in line with shareholders' interests (Taherian & Karampour, 2017). Corporate governance is a variable that significantly influences economic growth prospects as good practices of governance decrease risks for investors, enhances financial performance, and help to attract investors (Goel, 2018). Implementing corporate governance structures' improves a company's financial performance and positively affects its operational performance. An effective CG system enables long-term business sustainability and creates greater shareholders wealth (Ausat, 2018). The application of best CG principles not only helps to better monitor and control business operations, but also ensures long-term improvement of the company's operational sustainability and performance (Owiredu & Kwakye, 2020).

The agency, stewardship, stakeholder and shareholder theories will guide this study. The agency theory indicates that corporate governance aims at monitoring and creating mechanisms put in place by shareholders to make sure that executives maximize shareholder wealth through reduction of agency costs (El-Chaarani, Abraham & Skaf, 2022). The stewardship theory holds that corporate governance emanates from the idea that executives work diligently to ensure shareholders get maximum returns by properly managing the company's assets (Zelalem et al., 2022). The stakeholder theory suggests the representation of different interest groups on the corporation's board reduces agency conflicts through consensus building hence the board acts as an arbiter of the differing interests of various stakeholders (Tshipa, 2017). The shareholder theory suggests that

shareholders use a number of corporate governance mechanisms, such as directors, contingent reward systems, and the market for corporate control, to motivate managers to maximize their interests (Owino & Kivoi, 2016).

Banks play a vital role in an economy since they attract individual's funds through deposit, provides an avenue for goods and services payment, and financing business growth (Obanda & Odollo, 2019). In recent years, three commercial banks in the Kenyan banking sector were placed under statutory management. These include Chase Bank in April 2016, Dubai Bank on August 2015 and Imperial Bank on October 2015 (CBK, 2020). Largely, the crisis in this very crucial industry was attributed to poor corporate governance and management (Mwanzia & Ochanda, 2017). Despite efforts to strengthen corporate governance supervision and regulation to safeguard and improve corporate value, a number of commercial banks are still posting minimal corporate value (Ochego, Omagwa & Muathe, 2019).

1.1.1 Corporate Governance

Corporate governance (CG) denotes an arrangement of policies, laws, processes, customs and guidelines that influences an entity's leadership and control (Taherian & Karampour, 2017). CG also describes interrelationship among a corporation's board of directors, stakeholders and stockholders (Goel, 2018). CG therefore guarantees transparency, accountability, credibility and maintaining an effective and efficient communication channel and disclosure to all stakeholders (Onakoya, Ofoegbu & Fasanya, 2012). Corporate governance is predominantly concerned with structures and procedures through which company's stakeholders take active measures to protect the interests of stakeholders

(Kyere & Ausloos, 2021). Good corporate governance is therefore a key factor to the recovery of poorly performing entities (Taherian & Karampour, 2017).

Corporate governance focuses on facilitating effective business monitoring and control. Its importance lies in its transparency and fairness in processes and increased information disclosure to protect the interests of various stakeholders (Goel, 2018). Good corporate governance advances economic growth and efficiency while also increasing shareholder confidence. It also increases firm's access to external finance, reduces capital costs and advances operational efficiency (Fanta, Kemal & Waka, 2013). Good corporate governance largely leads to expansion and better capital accessibility by encouraging new investment, promoting economic growth, and providing new opportunities for employment (Ma'aji, Anderson & Colon, 2021). Poor corporate governance structure has a long-term impact on reducing public confidence in organizational systems (Owiredu & Kwakye, 2020).

Corporate governance is proxied using various metrics such as CEO duality, executive compensation, board tasks, size, independence, committee, percentage of non-executive directors among other factors. The size, independence and the committees of the board are among the board structures that are deemed to play a substantial impact on corporate governance (Ausat, 2018). The size of the board is proxied by how many the directors are where a larger board ensures that more non-executive directors can better supervise managers. The critical aspect of board committees is monitoring and decision-making. Board independence acts as a balancing force between the board and management as self-governing directors could actively participate in board discussions and share their own

views (Goel, 2018). This study focused on audit committee size, board size and its independence as its key CG indicators.

1.1.2 Financial Performance

Financial performance indicates the extent to which an entity's financial goals are attained or have been accomplished (Muslih & Marbun, 2020). It is an intuitive indicator of how efficiently an entity can earn income from its core business operations and denotes the process of evaluating the performance of corporate plans and actions in fiscal terms (Wijayanti, 2021). Performance is further interpreted as a net outcome of various management decisions and policies, and reflects the net performance resulting from the combined effects of liquidity, debt and assets management (Ausat, 2018). It is also defined as a subjective indicator of the manner a corporation can use its resources from its core activities to create revenue. Company performance is one of the benchmarks that companies use in making decisions and achieving the goals of an entity (Vo & Nguyen, 2014).

Financial performance of banking entities is crucial for the functioning of the economy, as banking entities are the main suppliers of cash to institutions and individuals (Islami, Setiawan & Mai, 2020). Financial performance reflects the level of success that the bank has achieved in its operations (Wijayanti, 2021). A company requires a financial design in identifying and evaluating the company's level of achievement centered on its financial operations. Banks performance significantly affects the financial sector and the country in general (Chen, You & Chang, 2021). Good financial results reward stockholders for their investments. This in turn inspires extra investment and promotes growth of the economy.

Conversely, poor bank performance leads to crisis of bank failures that negatively affect economic growth (Ausat, 2018).

An entity's financial performance over a period is measured using financial ratios that are used to compare comparable entities in the same industry or sectors (Chen, You & Chang, 2021). The return on assets (ROA) ratio, return on equity (ROE) ratio and net interest margin (NIM) are the key metrics employed to assess bank performance (Owiredu & Kwakye, 2020). ROA is used to measure the profitability of banking sector by evaluating the effective use of the bank's assets to generate profits. ROE evaluates how much an entity has earned relative to the entire amount of authorized capital invested or shown in the balance sheet, and NIM measures the variance between the incomes from the banking entity assets less the costs for meeting it liabilities (Vo & Nguyen, 2014). Bank financial performance in this study was assessed using the ROA ratio.

1.1.3 Corporate Governance and Financial Performance

Corporate performance and its effect on bank performance has been explained both empirically and theoretically. The agency theory declares that the dominant role of CG is to make sure that the monetary, human and the entity resources have been directed towards the attainment of the corporation's objectives and missions to the satisfaction of its shareholders. (Tshipa, 2017).The stewardship theory advocates that better financial performance can be tied to a company's internal governance practices that provide managers with greater autonomy and power (El-Chaarani, Abraham) & Skaf, 2022). Stakeholder theory advocates that performance as measured by a broader group is related to market share, employment and the growth of business relationships with customers and suppliers, as well as financial performance (Basuony & Ehab, 2015).

Empirically, Vo and Nguyen (2014) examined corporate governance metrics and profitability and documented an insignificant relation between board size and performance. Ma'aji, Anderson and Colon (2021) examined corporate governance and enterprise value in Cambodia and found that size of the board significantly affects bank profitability. Further, Basuony and Ehab (2015) examined corporate governance and Islamic banks performance and documented a significant relation between board size, board activism, independent directors and profitability. Fanta, Waka and Kemal (2013) also examined corporate governance and bank productivity and established that board size and audit committees negatively affect bank performance. Onakoya, Ofoegbu and Fasanya (2012) studied CG practices and Nigerian banks productivity and found that corporate governance negatively affects bank performance.

1.1.4 Commercial Banks in Kenya

The Kenyan financial segment is dominated by banks and thus financial intermediation in the country relies heavily on banking institutions (Maina & Mungai, 2019). Kenya's banking system consists of 39 licensed commercial banks, a mortgage financing entity, nine foreign bank representations and 13 microfinance banks (Obanda & Odollo, 2019). The Banking Act as well as the Kenya Central Bank (CBK) Act governs the industry and the CBK acts as the controller of the Kenyan commercial banks. The Kenyan banks also work under the Kenyan Bankers' Association that provides a lobby-body for the members' interests (Owino & Kivoi, 2016).

The banking industry in Kenya is like a bond that connects the country's economy. The survival and development of agriculture and industrial sector largely depends on the financial segment (Mwanzia & Ochanda, 2017). At the intermediary level, commercial

banks attract savers and give them the opportunity to choose the optimum portfolio of assets according to their preferences from a variety of financial instruments with different risk-return and liquidity configurations (Owino & Kivoi, 2016). Commercial banks in Kenya have contribute to the growth of economy by creating jobs and paying taxes. It also acts as a growth engine for other sectors of the economy by giving them access to credit facilities in the form of loans (Maina & Mungai, 2019).

In Kenya, corporate governance regulations guiding banking entities are enshrined in the Kenyan Capital Markets Act of 2002 that reinforces the significance of CG guidelines and principles (Ochego, Omagwa & Muathe, 2019). However, Kenyan banks have witness several bank failures in past few years, which is largely attributed to the present CG structures (Obanda & Odollo, 2019). The collapse of Imperial bank, a lender that is currently under receivership, and the fall of Chase in the year 2016 are a sign that the sector still faces governance concerns and mismanagement (Kimeu, 2017). Concerning the Kenyan banking sector financial performance, the sectors before tax increased by 14.64% from Ksh.133.2billion in 2019 to Ksh.152.7billion in 2020. On assets, total net assets grew by 10.14% from 4.0 trillion in 2018 to Ksh.4.41trillion in 2019 (CBK, 2021).

1.2 Research Problem

The basic role of corporate governance entails regulating the activities of the board. It also controls and oversights the actions of executives to enhance shareholder wealth (El-Chaarani, Abraham & Skaf, 2022). However, the weak corporate governance system has led to the collapse of the organizations that have survived to this day (Onakoya, Ofoegbu & Fasanya, 2012). Further, recently, there has been concerns on governance and firm's performance interrelationship, largely because of increase in corporate scandals which

results to a declining shareholder value, bank failures and dimmed investor confidence (Owiredu & Kwakye, 2020). Despite the significant growth of corporate disciplines since 1978 and the empirical findings of a correspondingly deep research, good performance has failed to prevent global financial crisis (Tshipa, 2017).

In Kenya, the banking industry undertakes an important role in growth and the sector delivers higher savings levels with funding investment requirements (Owino & Kivoi, 2016). The sector has experienced a robust and rapid growth over the years; the industry has been steadily growing in terms of assets, profitability, product offering and deposits (Kimeu, 2017). However, this achievement have not been sustained since recent developments in the industry shows that the performance of the sector has been dropping even since collapsed the collapse of three banks in less than 12 months in the 2015/2016 financial year (Ochego, Omagwa & Muathe, 2019). Regardless of the efforts put in place to streamline the financial sector, some banks are still under statutory management while others have been liquidated (CBK, 2021). Despite the adoption of corporate governance practices by Kenyan banks, the overall banking sector performance has been declining (Maina & Mungai, 2019).

Various authors have also explored the link between corporate and banking entities performance. At the global level, El-Chaarani, Abraham and Skaf (2022) in the MENA region examined whether corporate governance affects bank performance had documented that corporate governance positively affected bank performance though the study was cross-country in nature. Taherian and Karampour (2017) studied CG principles and its effects on profitability of petroleum corporations in Pakistan and documented that CG indicators (board size, independence and compensation) positively affected performance

but the study context was not financial entities. Al-ahdal et al (2020) in India explored corporate governance and non-financial companies' performance and documented an insignificant and negative interrelationship though the study concentered on non-financial firms.

Different authors have also examined the relationship between the variables in Kenya. For instance, Abang'a et al. (2021) documented that board skills, meetings and gender diversity positively affect performance though the study focused on state enterprises. Wako (2020) documented a significant interrelationship between CG indicators and SACCOs profitability though the study used primary data. Although there exists a growing interest on CG and firm performance interrelationship there have been conflicting results. Divergent results have emerged with one group documenting a positive impact while a different group of studies supports the contrary. These inconsistencies in the existing studies relate to different theoretical perspectives, research methodologies and different variables measurement. In addition, most CG studies are marred by various limitations, including differing governance standards worldwide and different contextual environmental factors. This study thus sought to examine, does corporate governance affect Kenyan banks financial performance?

1.3 Research Objective

To determine the effect of corporate governance on financial performance of commercial banks in Kenya.

1.4 Value of the Study

The research results may be valuable to the agencies of the government, which regulates Commercial Banks in making related corporate governance strategies and procedures, which would track fast the implementation of corporate governance in Kenya. Government agencies like CBK and the Kenya Deposit Insurance Corporation may gain useful information in the making of new policies of corporate performance to take the commercial banking sector to the next level.

The study results may be of significance to the banking entities management to find out if the corporate strategies implemented improved their profitability and, if so, to understand to which extent. Board members and/or senior managers of commercial banks interested in implementing corporate governance practices may find the results of this study useful as they may provide useful information on best implementation for improving financial performance.

The study findings may form basis for future research by challenging or proving the existing hypothesis and or theories. The scholars and researchers may gain insights on corporate performance and its influence on financial performance. These findings will enable financial consultants to offer efficient services. This relates to optimal corporate governance policy where the financial performance would be enhanced

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section entails the theoretical review, the financial performance determinants and the review of empirical studies. The chapter also portrays the conceptual model and a summarized literature review.

2.2 Theoretical Review

This research reviewed key theories to explain CG as, the agency theory, the stakeholder, stewardship and the shareholder theories.

2.2.1 Agency Theory

Jensen and Meckling (1976) conceptualize the agency theory based on control and ownership separation in large companies. In larger companies, executives (agents) are employed to make decisions and work for the owners with the goal of maximizing profits for shareholders (Fanta, Kemal & Waka, 2013). This theory is derived from the property rights approach that views an entity as a contract package. Executives are representatives of stockholders (the owners) and are anticipated to undertake decision that maximize stockholders interests. However, most executives usually advance their personal interests and ignore stockholders interests (El-Chaarani, Abraham & Skaf, 2022). The issue of conflicts of interest can arise due to the nature of the information, which is asymmetric, resulting from faulty contractual agreement between shareholders and mangers (Kyere & Ausloos, 2021).

The agency theory is based on the fact that, in practice, a large number of company managers are not owners, but owners' agents, who are entrusted with the management of

the company. companies on behalf of managers (Owiredu & Kwakye, 2020). Supporters of the theory argue that the CEO and chairperson roles ought to be undertaken by separate persons as that would make sure an appropriate balance and check exists between the chairperson and CEO (Zelalem et al., 2022). However, the major critique of the theory arises from the theory's assumption about self-interest motives that lead to the division of principal and agent interests may not apply to all managers; and therefore a complete reliance on agency theory is undesirable because it ignores the complexity of organizational life (Fanta, Kemal & Waka, 2013).

This theory supports that effective control of corporate governance mechanisms must encourage executives to work towards shareholders primary interests. Thus, effective CG framework minimizes agency problems and costs arising from separating control and ownership (Kyere & Ausloos, 2021). Good corporate governance practices are mainly aimed at minimizing potential losses for shareholders due to conflicts of interest between shareholders and management (Fanta, Kemal & Waka, 2013). In this study, agency theory supports that CG is key as it aids to manage conflicts between principal and agent. Good corporate governance is thus coupled with strong internal mechanisms helps manage different interest groups, reducing high agency costs and thus increasing the bank's operational efficiency.

2.2.2 Stakeholder Theory

Freeman (1984) proposed this theory which indicates that goes beyond the stockholders interest maximization goal. According to the model, a corporation is publicly liable to various parties that can influence or be influenced by its actions (El-Chaarani, Abraham & Skaf, 2022). Under the theory, a business enterprise is accountable to other stakeholders in

addition to its owners. Such stakeholders include suppliers, contractual partners, customers, employees, creditors and other actors in which an entity is located, ecological interests, national and local government and the general public at large (Basuony & Ehab, 2015). In the theory, decisions made about the company affect various parties other than shareholders of the company (Fanta, Kemal & Waka, 2013).

The main basic assumption of the stakeholder corporate governance (CG) model is that the aim of the company is to maximize the welfare of many stakeholders rather than just shareholders (Tshipa, 2017). Therefore, CG is not only the responsibility of board of directors, but also considers aspects of social and environmental responsibility (Goel, 2018). Although well intentioned, the theory has been criticized as burdensome for managers because it exposes them to too many stakeholders. In addition, the theory does not provide clear direction to assist directors and managers develop priorities and select between publicly valuable uses of company assets. Further, under the theory directors of executives may use stakeholder reasoning to rationalize underperformance of the enterprise (Zelalem et al., 2022).

Under the theory, CG defines the roles of directors with respect to stockholders and various stakeholders. In this theory, CG explains the informal and formal network of relationships associated with a corporation (Basuony & Ehab, 2015). In this study, this theory emphasizes stakeholder consideration that contributes to a company's long-term profitability and stockholders value. In addition, investors' interests in the banking sector exceed the interests of shareholders because creditors, depositor and banking regulators also have shares in the bank. In addition to shareholders and regulators, depositors and regulators have a direct role in the bank's operations.

2.2.3 Stewardship Theory

Davis, Schoorman and Donaldson (1997) conceptualized this theory, which is based on the premise that managers are stewards rather than opportunists who are interested in pursuing self-interests. As stewards, managers are expected to derive high utility/ satisfaction by pursuing shareholders and organization's interests (Owiredu & Kwakye, 2020). Unlike the agency theory, this model assumes that the boards of directors and executives ensures that their interests are in tandem with the owners' interest (stockholders). Therefore, executives make decisions that are consistent with shareholders interests in order to maximize profitability. The theory suggests that a manager is considered as the person who manages and works to achieve the goals of the organization (Fanta, Kemal & Waka, 2013).

This theory posits that managers are motivated and satisfied if the entity achieves its goals even at the expense of the manager's personal goals. Stewardship performance requires a transparent and honest exchange between the manager and the owner (Vo & Nguyen, 2014). The theory holds that the interests of the owners match the interests of the managers because the manager is the person who manages the company. Executives are thus expected to enhance productivity to ensure greater profits because they want to protect the stockholders interests and ensure the corporation's continued prosperity (El-Chaarani, Abraham & Skaf, 2022). The weakness of this theory arises from the assumption that managers are stewards often fails to hold since CEOs as rational beings have the incentive to pursue personal rather than shareholder interest (Zelalem et al., 2022).

This theory holds that directors can achieve the organizational goals of shareholders by maximizing their own interests rather than being self-serving. The theory emphasizes that managers' concern for their career advancement and advancement forces them to act in the

of shareholders' interests; therefore, agency costs will be reduced (Owiredu & Kwakye, 2020). The theory asserts that a board of directors controlled by insiders is more effective in achieving organizational goals due to the availability of better information and technology. Finally, management theory holds that the CEO essentially wants to do better than to abuse the system opportunistically. The theory in this study explains that a manager from a management perspective realizes that personal gain can be achieved by working for the high performance of the organization.

2.2.4 Shareholder Theory

Friedman (1970) conceptualizes this theory, which explains that the main goal of executives is to maximize owners' interests. This approach holds that stockholders remain the crucial owners of the corporation's assets; therefore, the role of the board and executives is largely to safeguard and develop the corporations' assets for shareholders benefits. This model puts the interests of the owners before the company's suppliers, customers, employees and society (O'Connell & Ward, 2020). Shareholder theory considers management's sole goal to be to maximize shareholder value, as managers are hired by shareholders as agents to manage the company to protect owners' interests therefore, they have the legal and moral duty to serve stockholders (Bello & Abu, 2021).

Based on the model, shareholder interests prevail; however, promoting their owners interests does not mean they should ignore the interests of various groups considered important to the society's interest (Tshipa, 2017). The major critique of the theory is that it only considers the owners interests over other stakeholders' interests in the business operations, which has led to a number of corporate scandals and financial manipulation, due to overwhelming pressure to maximize shareholder value (Bello & Abu, 2021). The

theory analytical emphasis on the manner to handle CG is also narrow, as the theory does not take into account that owners and firms may have other objectives part from profit maximization (O'Connell & Ward, 2020).

This theory is largely concerned with bringing into line owners interests with those of the executives (Tshipa, 2017). The central element of the shareholder model in corporate governance is the theory of shareholder values and preferences. The approach supports that a company should be managed primarily promote the owners interests (Ntim, 2018). Therefore, corporate governance should focus on finding ways to align investors' interest with those of managers, to ensure external funds flows and ensuring that investors receive benefits from their investment. Hence, the aim of the company is to maximize investors' wealth through dynamic allocation, productivity and efficiency.

2.3 Determinants of Financial Performance

The focus of this research was on corporate governance, size, bank liquidity and capital adequacy as the key determinants' of banking institutions financial performance.

2.3.1 Corporate Governance

Corporate performance is important for stockholders as it enhances confidence in the enterprise for increases profitability on investments (Goel, 2018). Effective CG practices like competent management and prudent distribution of firm's resources among others help improve corporate performance (Owiredu & Kwakye, 2020). The resource dependence approach suggests that a large board leads to an effective financial operation while the agency theory predicts a negative link between board size and performance of the company (El-Chaarani, Abraham & Skaf, 2022). Board committees contribute to board effectiveness

by exercising greater control over management decisions. Board independence will promote corporate transparency to all stakeholders by improving performance the company and reducing the risks it faces (Islami, Setiawan & Mai, 2020).

2.3.2 Bank Size

Bank sizes reflects to the institutional strengths and the abilities of coping to problems associated with asymmetry information that could lead to reduced levels of the non-performing loans. This could be an indicator of increasing the diversification of opportunities, which lowers the institutional risk (Nkechi & Oluchi, 2019). Bigger institutions have reduced costs because they enjoy benefits of economies to scale; and they can also acquire finances with reduced costs. A big size will rise the firm's ability to produce and complete several company duties (Ali, 2020). Company size indicators can be translated into various measures such as the assets value and the amount of investment. If the size of the company gets bigger, the company will be increasingly required to be transparent regarding information on the condition of the company, be it financial conditions or other conditions ((Ferrouhi, 2014).).

2.3.3 Liquidity

Bank’s liquidity plays a significant function in the determination of a bank's financial performance (Ali, 2020). Liquidity indicates the bank’s ability to repay its liabilities when necessary in order to hold liquid and near liquid funds that can in particular, settle its financial liabilities in the short term (Nkechi & Oluchi, 2019). Institutions normally produce more money through the mobilization of short-term deposits at low interest rates and making long-term investments or lending money with increased rates hence the need

for good management of this assets/liability creation. Problems associated with liquidity influence the profitability and leads to solvency problems (Ferrouhi, 2014). Liquidity is part of the main indicators of financial stabilities provided that its deficiency in one institution leads to systemic problems in the banking sub-sector because of inter-connectedness (Fatihudin & Mochklas, 2018).

2.3.4 Capital Adequacy

Capital adequacy indicates the ability of existing bank capital to support the growth of the increased assets. The availability and adequacy of capital determines whether banks will accept defaults on their balance sheets (Ali, 2020). Banks with lower capital adequacy are considered to be at high risk, making it difficult to obtain cheaper funds and increasing the cost of capital, which affects their overall performance. Well-capitalized institutions face lower predictable bankruptcy costs, and this benefit translates into improved performance (Nkechi & Oluchi, 2019). The CAR ratio is the key proxy of capital adequacy and a high ratio indicates reduced risk (Ferrouhi, 2014).

2.4 Empirical Review

Kyere and Ausloos (2021) in the United Kingdom studied whether corporate governance affects listed non-financial firms performance. The study focused on various CG mechanisms and their effect on two financial metrics that included the Tobin Q and assets return ratio (ROA). Data was collected from 252 listed nonfinancial firms from 2014 and analysis undertaken through the regression technique. The study indicated that in some years CG had a positive effect while in other years it had a positive. Overall, the study documented an insignificant link between CG practices and firm performance.

Lumbi (2021) in Kenya studied CG compliance and NSE listed entities financial performance. Both secondary and primary data collected through questionnaires from management level staff were used. Secondary data results that were analysed through regression indicated that corporate governance indicators insignificantly affected financial performance. Primary data results indicated that implementation of CMA codes significantly improved the listed entities performance and that transparency and disclosure had the most significant impact on the entities profitability.

Owiredu and Kwakye (2020) in Ghana studied CG guidelines on banking entities financial performance. Data was gathered from the sampled banks financials and yearly financials from 2007-2016. The random effects approach was adopted for analysis. The authors documented that board size had a significant direct impact on the banks ROE and ROA. Further, the study documented that foreign ownership positively and significantly affected the banking entities ROE and ROA. Further, it was documented that institutional ownership and board independence insignificantly affected the banks ROE and ROA.

Omware, Atheru and Jagongo (2020) examined the CG factors and Kenyan listed banks financial performance. A descriptive survey was adopted and primary data was gathered via questionnaires. The questionnaires were administered to the banks management personnel from the 11 listed Kenyan banks. Analysis was undertaken through correlation and OLS model. The outcomes indicated that directors' education levels, board size, board diversity and independence had a direct and significant impact on the banks performance.

Pintea et al. (2020) assessed corporate governance guidelines adoption and listed entities performance. Secondary was gathered for the study and performance of the entities was assessed using total shareholder returns (TSR), ROE, Tobin Q and Economic Value Added

(EVA). Through regression analysis, the findings indicated that corporate governance had an insignificant effect on TSR, ROE and EVA. However, the findings showed that CG had a direct and significant influence on Tobin Q.

Danoshana and Ravivathani (2019) examined corporate governance and listed Sri Lankan financial entities. Data that was secondary in nature was obtained from 25 listed entities for the period between 2008 and 2012 (5 years). The authors documented that CG practice significantly affected the banking entities profitability. Specifically, audit size committee and board size positively affected the entities performance. However, meetings frequency by the board adversely affected the entities profitability.

Ochego, Omagwa and Muathe (2019) investigated the mediating influence of financial performance on CG and corporations value. The authors concentrated on the all the Kenyan banking entities. Data was gathered from the 42 banks from 2009 to 2018 (10 years). Analysis was undertaken through panel regression techniques. The study documented that CG significantly affects the interrelationship between firm value and profitability. The authors concluded that effective CG significantly affects firm performance and value.

Njenga (2018) explored whether corporate governance influences listed corporations financial performance. The study was undertaken among quoted commercial and services corporations. The study gathered secondary data from the firms from 2012 to 2016. Analysis was undertaken through multiple regression. The findings documented that board composition positively affected the entities performance. In addition, it was documented that board structure, CEO non-duality and size significantly impacted the entities performance.

Paniagua, Sapena and Rivelles (2018) examined whether ownership structure and corporate governance affects firms financial performance. The non-linear and linear regression models in addition to the using fuzzy-set comparative analysis were adopted for data analysis. Data was collected from 1207 corporation across 19 industrial sectors from 2013 to 2015 (3 years). The results indicated that ownership and CG significantly influenced the entities profitability and productivity.

Kimeu (2017) examined whether corporate governance affects Kenyan listed banks financial performance. A descriptive survey was adopted and data was gathered from the 11 listed banking institutions and covered 5 years period from 2012 to 2016. Through regression analysis, the outcomes showed that number of committees, board independence, board meetings positively impacted the entities performance. Further, the study documented that corporate size and liquidity had direct influence on the entities performance.

2.5 Conceptual Framework

The conceptual framework of this research incorporates corporate governance as the explanatory variable and financial performance as the response variable. Both liquidity and bank size were included as control variables as indicated in figure 2.1.

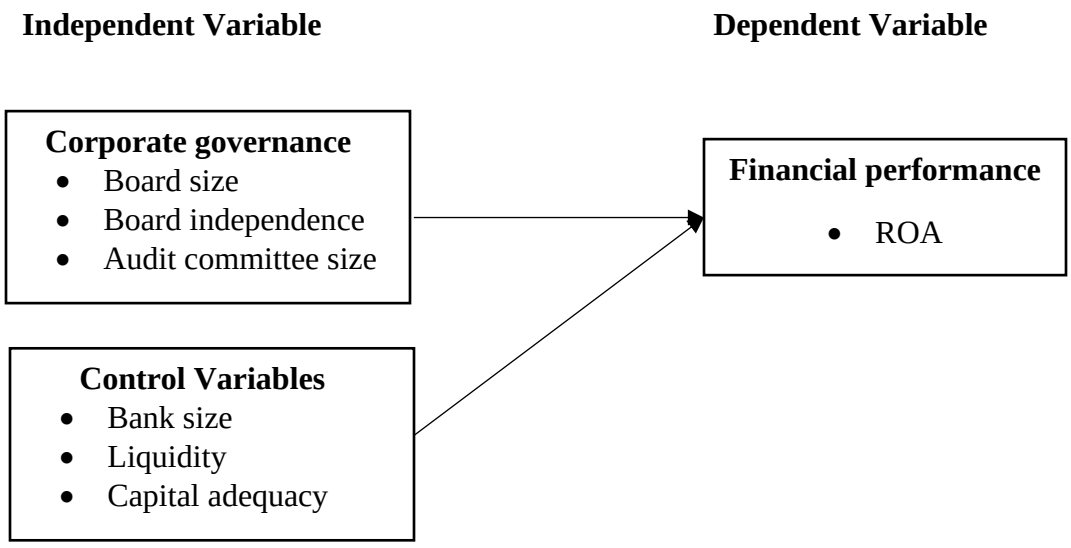

Figure 2.1: Conceptual Framework

Source: Authors (2022)

2.6 Summary of the Literature Review

This study previewed a several empirical studies that have been undertaken on corporate governance-financial performance interrelationship. However, the reviewed studies were undertaken in different context and used different variable measures. For instance, researchers focused on non-financial firms, others concentrated on listed banks. Further, some researchers focused on listed firms whereas others focused on listed financial institutions. In addition, majority of the available literature has been undertaken in the developing world making it difficult to apply the results and outcomes to the Kenyan context. Therefore, a room still exists for a study on corporate governance and Kenyan banking institutions financial performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section highlights the methodology employed to undertake the research. Specifically, the chapter presents the study design, the study's population, data collection and analysis methods.

3.2 Research Design

This study employed a descriptive research design. The descriptive approach describes the data and characteristics of the investigated phenomenon (Kothari, 2012). Descriptive research was used to examine variables without manipulating them and report the various attributes that determine capacity. In addition, descriptive research provides complete information about the situation or event under investigation, whether it is qualitative, quantitative or a combination of methods. A descriptive design allows the relationship between different variables to be explored to determine whether the variables are independent (or not) and if they are, and then to determine the strength or dimension of the relationship (Sekaran & Bougie, 2013).

3.3 Population of the Study

Population can be termed as individuals, entities, objects or events with similar observable attributes (Kothari, 2012). The population of the research consisted 39 commercial banks in Kenya as at 31st December 2021. The research therefore carried out a census of the 39 commercial banks.

3.4 Data Collection

This study used secondary data source and was sourced from the audited financials and yearly reports of the various Kenyan banking entities for five years from 2017 to 2021. The key data that was gathered included board size, board independence, board committees, bank size and liquidity. The data was collected through a data collection sheet.

3.5 Diagnostic Tests

This study undertook a test for normality, test for heteroscedasticity, test for autocorrelation and test for multicollinearity. Normality was assessed through the Shapiro Wilk Test while Homoscedasticity was assessed using the White's test for heteroskedasticity. The Breusch pagan test was used for autocorrelation testing while the variance inflation factors (VIF) were used to tests for multicollinearity.

3.6 Data Analysis

Descriptive and inferential statistical tools were used for data analysis using the SPSS statistical software. Descriptive analysis entailed standard deviation, the mean, maximum and minimum values which were used to organize, describe and summarize the data. Inferential statistics entailed correlation and regression analysis which was used to determine whether a relationship exists between independent and the dependent variable.

3.6.1 Analytical Model

The regression equation was as follows

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where

Y = Financial performance measured using return on assets (ROA) = Net Income/Total assets

β_0 - Intercept (constant)

β_1 - β_6 = Beta coefficients

X_1 = Board size proxied by log of board members.

X_2 = Board independence proxied by the proportion of non-executive and independent directors in the board.

X_3 = Audit committee size proxied by the number of AC members

X_4 = Bank size proxied by the natural log of total assets

X_5 = Liquidity assessed using the liquidity ratio

X_6 = Capital adequacy measured using the capital adequacy ratio

ε = Error term

3.6.2 Test of Significance

The t-test and the F-test were utilized in testing the statistical significance of the explanatory variables and the response variable respectively. The statistical significance test were undertaken at 5% levels of significance.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The section documents findings for the analyzed data and results explanation. It comprises of the diagnostic test results, descriptive analysis results, correlation results, regression results and an interpretation of the research findings.

4.2 Diagnostic Tests

To assess the applicability of the assumption underlying the classical linear regression model that was used in the analysis this study undertook a test for normality, test for heteroscedasticity, test for autocorrelation and test for multicollinearity which informed the results on regression analysis. The obtained results were as follows.

4.2.1 Normality Test

The classical linear regression model requires that data should be normally distributed. Thus. Normality was assessed through the Shapiro Wilk Test and results are as indicated by table 4.1 below.

Table 4.1: Normality Test

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	df	Sig.	Statistic	df	Sig.
Standardized Residual	.187	170	.071	.704	170	.095
a. Lilliefors Significance Correction						

Source: Study Data (2022)

The assumption of normality is necessary so that a linear regression model can perform general or simple hypothetical tests on model parameters. When the p- value is less than 5 % (significance level), the variable is not normally distributed and vice versa. Under table 4.1 using the Shapiro Wilk test to assess for normality, the findings indicate that the data was distributed normally as indicated by the P-values of 0.071 and 0.095 >0.05 respectively.

4.2.2 Homoscedasticity Test

Homoscedasticity was assessed using the White's test for heteroscedasticity as indicated under table 4.2

Table 4.2: Homoscedasticity Test

White's test for heteroscedasticity
Null hypothesis: heteroscedasticity not present
Test statistic: LM = 1.6437
with p-value = P(Chi-square(27) > 1.6437) = 0.156902

Source: Study Data (2022)

The existence of heteroscedasticity suggests that the error terms variance is not constant over the range of the explanatory variables. The White's test for heteroscedasticity was used to assess for homoscedasticity. When the p- value is greater than 5 % (significance level), the variable is homoscedastic, otherwise it is heteroscedastic. Table 4.2 shows that the homoscedasticity was not violated and the study's data was homoscedastic. This is indicated by the chi square value of 1.6437, P=0.156902>0.05 respectively.

4.2.3 Autocorrelation Test

Autocorrelation arises when the residual terms for any two observations are not independent. The Breusch-Godfrey test was used for autocorrelation testing as indicated under table 4.3.

Table 4.3: Autocorrelation Test

Breusch-Godfrey test for first-order autocorrelation
Test statistic: LMF = 2.911628,
with p-value = P(F(1,162) > 2.91151) = 0.0785

Source: Study Data (2022)

Serial correlation depict that the interrelationships between error terms in different time periods. Autocorrelation in panel data models leads to distortions and reduces the efficiency of the model results. The Breusch-Godfrey test for first-order autocorrelation was used to test for serial correlation. When the p- value is greater than 5 % (significance level), the variable does not exhibit autocorrelation problem, otherwise it is auto correlated. Table 4.3 shows that data did not exhibit autocorrelation problem as indicated by the test statistics value of F(1,162) > 2.91151) P = 0.0785>0.05 respectively.

4.2.4 Multicollinearity Test

The variance inflation factors (VIF) were used to tests for multicollinearity.

Table 4.4: Multicollinearity Test

Variable	**Tolerance**	**VIF**
Board size	.730	1.37
Board independence	.920	1.09

AC size	.740	1.36
Bank size	.900	1.11
Liquidity	.917	1.90
Capital adequacy	.933	1.07

Source: Study Data (2022)

Multicollinearity arises when two or more explanatory variables are strongly correlated. Thus multicollinearity was assessed using variance inflation factors (VIFs). When VIF is less than 10, it confirms no multicollinearity and when VIF is greater than 10 it implies multicollinearity. Table 4.4 shows that the study data did not fail the multicollinearity assumption as the calculated VIF values (1.37, 1.09, 1.36, 1.11, 1.90 and 1.07) did not exceed the recommended threshold value of 10 respectively.

4.3 Descriptive Statistics

The research undertook a census of the 39 commercial banks and managed to collect complete data from 34 commercial banks. The study also used secondary data that was collected for a 5 years period from 2017 to 2021. Descriptive statistics inclusive of the standard deviation, mean, minimum and maximum values were employed in summarizing study data. Table 4.5 depicts the findings.

Table 4.5: Descriptive Statistics

Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**	**Skewness**	**Kurtosis**

ROA	170	-.303	.070	.00295	.043691	-0.4369	25.719
Board size	170	0.700	1.110	0.8975	0.10826	0.029	-1.058
Board independence	170	.400	1.000	.79835	.107468	-1.672	4.106
AC size	170	2.000	5.000	3.37059	.882616	0.400	-0.517
Bank size	170	3.586	8.525	5.18582	1.171587	1.082	0.362
Liquidity	170	-.0254	3.622	.49019	.397017	5.653	43.704
Capital adequacy	170	-.0606	.808	.19824	.128844	-0.632	13.613

Source: Study Data (2022)

Table 4.5 shows that that the average value for ROA was 0.0295(SD=0.043691) whose minimum and maximum values were -0.303 and 0.070 respectively. This indicates that the average performance of the Kenyan banking entities was 0.00295 with the negative minimum value indicating that some banks had recorded losses during the considered study period. Kurtosis and skewness values were confirmed to be 25.719 and -0.4369 respectively. Board size had an average value of 0.8975 (SD=0.10826) with minimum and maximum values of 0.700 and 1.110 respectively. Kurtosis and skewness values were confirmed to be -1.058 and 0.029 respectively. The average value for board independence was 0.79835 (SD=0.107468) with minimum and maximum values of 0.40 and 1.00 respectively. This indicates that in most of the banking institutions boards 79.8% of the

members were independent and non-executive directors. Kurtosis and skewness values were confirmed to be -1.672 and 4.106 respectively. AC size had an average value of 3.37059(SD=0.882616) with minimum and maximum values of 2 and 5 respectively. This indicates that most boards had on average three AC members. Kurtosis and skewness values were confirmed to be -1.517 and 0.400 respectively.

Further, bank size had an average value of 5.18582(SD=1.171587) whose minimum and maximum values were 3.586 and 8.525 respectively. Kurtosis and skewness values were confirmed to be 0.362 and 1.082 respectively. The average value for liquidity was 0.49019 (SD=0.397017) with minimum and maximum values of -0.0254 and 3.622 respectively. Kurtosis and skewness values were confirmed to be 43.704 and 5.653 respectively. This indicates that the average liquidity for the banking institutions was 49.019% which above the 20% liquidity threshold. The average value for capital adequacy was 0.19824(SD=0.128844) with minimum and maximum values of -0.0606 and 0.808 indicating that the average capital adequacy of 19.824% exceeded the minimum threshold of 14.5% respectively. Kurtosis and skewness values were confirmed to be 13.613 and -0.632 respectively.

4.4 Correlation Analysis

Correlation was undertaken to determine the strength and the degree of connection between the study variables as documented under table 4.6.

Table 4.6: Correlation Matrix

	ROA	**Board size**	**Board independence**	**AC size**	**Bank size**	**Liquidity**	**Capital adequacy**

ROA	1						
Board size	.203**	1					
Board independence	-.011	.115	1				
AC size	.104**	.465**	.186*	1			
Bank size	.258**	.229**	-.165*	.070	1		
Liquidity	.210**	.023	-.097	-.106	.107	1	
Capital adequacy	.556**	-.040	.036	.082	-.007	.207**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: Study Data (2022)

The correlation matrix shows the correlation values that measure the degree of linear relationship between each pair of variables. Table 4.6 thus indicates that board size had a significant weak and positive (r=0.203) correlation with ROA thus indicating a weak and positive association. Board independence had an insignificant, weak and negative (r-=0.011) correlation with ROA thus indicating a weak and positive correlation. Audit committee size had a significant, weak and positive correlation (r=0.104) this ROA and indication of a positive correlation. Further, bank size had a significant, weak and positive (r=0.258) correlation with ROA indicating a weak and positive association. Liquidity had a weak and positive (r=0.210) correlation with ROA thus indicating a weak association whilst capital adequacy had a significant, strong and positive (r=0.556) correlation with ROA an indicator that capital adequacy had a strong correlation with banks financial performance.

4.5 Regression Analysis

Regression analysis was used to determine if there exist a connection between independent variables (capital adequacy, bank size, AC size, board independence, liquidity, board size) and (financial performance) the dependent variable. The obtained findings were as shown below.

4.5.1 Model Summary

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642[a]	.412	.390	.03411

a. Predictors: (Constant), Capital adequacy, Bank size, AC size, Board independence, Liquidity, Board size

Source: Study Data (2022)

Table 4.7 shows that the coefficient of determination (R squared) value was 0.412, which indicates that 41.2% of the variation in financial performance (ROA) was explained by capital adequacy, bank size, AC size, board independence, liquidity, board size. The R-squared indicator measures the fraction of the variability in the data that is explained by the model thus from the findings the explained variation was 41.2% respectively.

4.5.2 Analysis of Variance

Table 4.8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.133	6	.022	19.046	.000[b]
	Residual	.190	163	.001		
	Total	.323	169			

a. Dependent Variable: ROA

b. Predictors: (Constant), Capital adequacy, Bank size, AC size, Board independence, Liquidity, Board size

Source: Study Data (2022)

The F statistics and ANOVA are normally adopted to show whether the regression model provides a better fit to the data. Table 4.8 show that the F-statistic (6, 163) = 19.046, which is statistically significant as shown by a P-value of 0.000 < 0.05. This shows that the regression model was suitable for the study and was statistically significant.

4.5.3 Regression Coefficients

Table 4.8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	-.141	.030		-4.667	.000
	Board size	.078	.028	.194	2.762	.006
	Board independence	.002	.025	-0.005	0.077	.938
	AC size	-.002	.003	-.040	-0.567	.572
	Bank size	.008	.002	.213	3.368	.001
	Liquidity	.007	.007	.063	0.998	.320
	Capital adequacy	.188	.021	.553	8.936	.000

a. Dependent Variable: ROA

Source: Study Data (2022)

The coefficient results in table 4.8 shows a positive (β = 0.078) and significant (t=2.762, P=0.006<0.05) relationship between board size and financial performance, which indicates that a unit increase in the number of board members increases banking entities financial performance. Board independence had a positive (β =0.002) but insignificant (t=0.077, P=0.938>0.05) relationship with financial performance indicating that a unit increase in

the number of independent directors had no significant effect on banking institutions financial performance. Audit committee size had a negative (β =-0.002) and insignificant (t=-0.567, P=0.572>0.05) effect on financial performance thus indicating a unit reduction in the number of AC members adversely affects banks performance.

The study further indicated that bank size had a positive (β=0.008) and significant (t=3.368, P=0.001<0.05) effect on financial performance an indicator that a unit increase in banks assets significantly enhances their performance. Liquidity had a positive (β =0.007) but insignificant (t=0.998, P=0.320>0.05) effect on bank performance indicating that a unit increase in liquidity levels does not affect banking institutions performance. Capital adequacy had a positive (β =1.888) and significant (t=8.936, P=0.000<0.05) effect on financial performance thus an indicator that a unit increase in bank capital enhances bank performance.

4.6 Interpretation of the Findings

The study findings documented that board size had a positive and significant effect on financial performance. This infers that a large sized board significantly and positively enhances banking institutions financial performance. According to Ma'aji, Anderson and Colon (2021) size of the board significantly affects bank profitability. Owiredu and Kwakye (2020) in Ghana documented that board size had a significant direct impact on the banks ROE and ROA. However, Vo and Nguyen (2014) documented an insignificant relation between board size and performance.

The study also documented that board independence had a positive but insignificant (relationship with financial performance. This means that presence of independent and

non-executive board members in the banking entities boards does not enhance the banking entities financial performance. In support of the finding Owiredu and Kwakye (2020) documented that board independence insignificantly affected the banks ROE and ROA. However, Basuony and Ehab (2015) documented a significant relation between independent directors and profitability. Taherian and Karampour (2017) documented that board independence positively affected performance. Islami, Setiawan and Mai (2020) indicate that board independence promote corporate transparency to all stakeholders by improving performance the company and reducing the risks it faces.

The findings indicated that audit committee size had a negative but insignificant effect on financial performance. This infers that a unit reduction in the number of AC members adversely affects banking entities financial performance. Fanta, Waka and Kemal (2013) established that board audit committees negatively affect bank performance. El-Chaarani, Abraham and Skaf (2022) supports that board committees contribute to board effectiveness by exercising greater control over management decisions. Danoshana and Ravivathani (2019) found that audit size committee and board size positively affected the entities performance.

The findings revealed that bank size had a positive and significant effect on financial performance. This indicates an increase in banks assets significantly enhances their performance. According to Ferrouhi (2014) company size indicators can be translated into various measures such as the assets value and the amount of investment. If the size of the company gets bigger, the company will be increasingly required to be transparent regarding information on the condition of the company, be it financial conditions or other conditions.

The results also found that liquidity had a positive but insignificant effect on bank performance. This finding thus indicates that increase in liquidity levels does not significantly affect banking institutions financial performance. Ali (2020) supports that bank's liquidity plays a significant function in the determination of a bank's financial performance. According to Ferrouhi (2014), problems associated with liquidity influence the profitability and leads to solvency problems. Fatihudin and Mochklas (2018) documented that liquidity is part of the main indicators of financial stabilities provided that its deficiency in one institution leads to systemic problems in the banking sub-sector because of inter-connectedness.

The study findings revealed that capital adequacy had a positive and significant effect on financial performance. This indicates that a unit increase in bank capital significantly enhances the bank institutions financial performance. According to Ali (2020), banks with lower capital adequacy are considered to be at high risk, making it difficult to obtain cheaper funds and increasing the cost of capital, which affects their overall performance. Nkechi and Oluchi (2019) documented that well-capitalized institutions face lower predictable bankruptcy costs, and this benefit translates into improved performance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study and gives the study conclusions and recommendations. The section also outlines the research limitations and suggestions for further research.

5.2 Summary of the Findings

This study sought to determine the effect of corporate governance on financial performance of commercial banks in Kenya. This research reviewed key theories to explain CG as, the agency theory, the stakeholder, stewardship and the shareholder theories. This study employed a descriptive research design and the population of the research consisted 39 commercial banks in Kenya as at 31st December 2021. This study used secondary data source and was sourced from the audited financials and yearly reports of the various Kenyan banking entities for five years from 2017 to 2021. Descriptive and inferential statistical tools were used for data analysis using the SPSS statistical software. Descriptive analysis entailed standard deviation, the mean, maximum and minimum values which were used to organize, describe and summarize the data. Inferential statistics entailed correlation and regression analysis which was used to determine whether a relationship exists between independent and the dependent variable.

Descriptive results established that the average value for ROA was 0.0295 thus an indication that the average performance of the Kenyan banking entities was 0.00295 respectively. Board size had an average value of 0.8975, which indicated that the most of

the banking institutions had adequate board members respectively. The average value for board independence was 0.798, which indicates that in most of the banking institutions boards 79.8% of the members were independent and non-executive directors. Audit committee size had an average value of 3.3706 hence an indication that most boards had an average of three AC members. Bank size had an average value of 5.18582 while liquidity had a mean value 0.49019, which indicated that the average liquidity for the banking institutions was 49.019%. The average value for capital adequacy was 0.19824 indicating that the average capital adequacy of 19.824% respectively.

Correlation results revealed board size had a significant weak and positive (r=0.203) correlation with ROA whilst board independence had an insignificant, weak and negative correlation with ROA respectively. Audit committee size had a significant, weak and positive correlation with ROA whereas bank size had a significant, weak and positive correlation with ROA respectively. Liquidity had a weak and positive correlation with ROA whilst capital adequacy had a significant, strong and positive correlation with ROA respectively.

Regression results revealed a positive and significant relationship between board size and financial performance. The findings indicated that board independence had a positive but insignificant relationship with financial performance while audit committee size had a negative and significant effect on financial performance. The study further established that bank size had a positive and significant effect on financial performance while liquidity had a positive but insignificant effect on bank performance. Finally, capital adequacy had a positive and significant effect on financial performance.

5.3 Conclusions

The research results showed that board size had a positive and significant effect on financial performance. As per this finding, this study concludes that a large sized board significantly and positively enhances Kenyan banking institutions financial performance. The study also established that board independence had a positive but insignificant relationship with financial performance. The study thus concludes that board independence insignificantly enhance the Kenyan banking entities financial performance. Further, the revealed that audit committee size negatively and insignificantly affected financial performance.

Further, the findings showed that bank size had a positive and significant effect on financial performance. The study therefore concludes that an increase in banks assets significantly enhances their performance. The results also documented that liquidity had a positive but insignificant effect on bank performance. This study thus concludes that an increase in liquidity levels does not significantly affect banking institutions financial performance. Lastly, the results showed that capital adequacy had a positive and significant effect on financial performance. The study thus concludes that an increase in bank capital significantly enhances the bank institutions financial performance.

5.4 Recommendations of the Study

According to findings, board size significantly and positively enhances banking institutions financial performance. This study therefore recommends that the shareholders of Kenyan banking institutions should ensure that their entities form large sized boards who have various skills and qualifications to oversight the action of the management thus reducing agency costs and enhance the entities performance.

As per the study findings, board independence insignificantly enhance the Kenyan banking entities financial performance. This study however recommends that shareholders should ensure there is a balance between independent, non-executive and executive directors in the board as this would promote corporate transparency to all stakeholders by improving performance the company and reducing the risks it faces.

The study indicated that audit committee size negatively and insignificantly affected financial performance. As per this observation, the study concludes that Kenyan banking entities boards should ensure that audit committees have an adequate number of members with the necessary accounting and finance qualifications to provide oversight and provide recommendation of improving the entities internal controls.

The study concluded that bank size significantly enhances Kenyan banking entities financial performance. The study as per this conclusion recommends that the management of the Kenyan banking institutions should invest more in assets since assets are key in revenue generation making it possible for the firms to generate profits that enhances shareholders wealth and value.

This study indicated that liquidity had a positive but insignificant effect on bank performance. The study however concludes that that the management of the Kenyan banking institutions should ensure they hold optimum liquidity levels since high liquidity levels adversely affects profitability, which may hamper the entities ability to meet their obligations.

The study further concluded that bank capital significantly enhances the bank institutions financial performance. As per this finding, the study recommends that ensure they have

adequate capital and capital buffers since well-capitalized institutions face lower predictable bankruptcy costs, and this benefit translates into improved performance.

5.4 Limitations of the Study

This study largely capitalized on secondary data that was obtained on for a 5 years period between 2012 and 2021. Though secondary data was easily available and can be obtained from the various published reports, it has several limitations. First, secondary data ignores the qualitative aspects, which may influence the study variables. Secondly, secondary data is for the past therefore it may not signify the existing conditions in a country. Third, secondary data does not give into account the qualitative aspects and responses of various respondents in the banking sector as to whether corporate governance affect performance.

The paper based on financial performance and corporate governance among Kenyan banking entities and various indicators of corporate governance not limited on board size, independence and AC size and ROA is not the only financial performance measure. The study outcomes therefore form part of the research procedures and metrics. This study was also undertaken in Kenya thus its outcomes may not be applicable in other countries around the world since banking institutions firms differ across counties and different currencies are used. In addition, different counties have varying levels of corporate governance within the banking sector, liquidity and capital adequacy requirements.

5.5 Suggestions for Further Research

In this study, secondary data was used. However, with the use of secondary sources, the qualitative views and opinions of banking institutions executives on whether CG affect banking entities performance were not incorporated. Thus, there is a need to undertake a

similar research using primary data which can be obtained from interviews and questionnaires so as to get an-depth opinion of the variables interrelationships. The study also used specific measures to measure the study variables. However, the variables have other measures and indicators. Thus, an additional research can also be undertaken using other indicators of corporate governance, financial performance, bank size, liquidity and capital adequacy.

The focus of this study was commercial banks in Kenya, the researcher suggests that, similar research can be done but focus on non-financial entities. Non-financial entities include the entities in construction, services sector, manufacturing sector, agricultural sector, automobiles sector, energy sector and telecommunication. This study can be useful for comparison purposes.

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APPENDICES

Appendix I: List of Commercial Banks in Kenya

1. Victoria Commercial Bank.
2. UBA Kenya.
3. Transnational Bank.
4. Standard Chartered
5. Stanbic Bank.
6. Spire Bank
7. Sidian Bank.
8. SBM Bank.
9. Prime Bank Ltd.
10. Paramount Bank
11. NCBA
12. National Bank
13. M-Oriental Bank Ltd.
14. Middle East Bank
15. Mayfair Bank
16. Kingdom Bank Ltd.
17. KCB Bank
18. I & M Bank.
19. Housing Finance
20. Habib A.G. Zurich
21. Gulf African Bank.
22. Guardian Bank.
23. First Community Bank.
24. GTB.
25. Family Bank.
26. Equity Bank.
27. Ecobank
28. Dubai Bank Ltd.
29. Diamond Trust Bank
30. Development Bank
31. Credit Bank.
32. Co-operative Bank
33. Consolidated Bank
34. Citibank N.A.
35. Bank of India
36. Bank of Baroda.
37. Bank of Africa
38. African Banking Corp.
39. ABSA

Appendix II: Analyzed Data

Bank	Year	ROA	Board Size	B. Independence	AC size	Bank size	Liquidity	Capital adequacy
ABC	2021	0.003	0.778	0.667	3.000	7.569	0.303	0.162
	2020	0.004	0.778	0.667	3.000	7.525	0.288	0.020
	2019	0.003	0.778	0.667	3.000	7.468	0.311	0.154
	2018	0.002	0.778	0.667	3.000	7.435	0.330	0.158
	2017	0.006	0.778	0.667	3.000	7.395	0.340	0.151
BOA	2021	0.005	0.845	0.857	3.000	7.637	0.460	0.175
	2020	-0.009	0.845	0.857	3.000	7.652	0.575	0.163
	2019	-0.046	0.845	0.857	3.000	7.643	0.487	0.108
	2018	0.004	0.778	0.833	3.000	7.691	0.437	0.160
	2017	0.001	0.778	0.833	3.000	7.734	0.363	0.158
Baroda	2021	0.029	0.903	0.625	3.000	5.256	0.816	0.300
	2020	0.027	0.845	0.714	3.000	5.221	0.833	0.307
	2019	0.029	0.845	0.714	3.000	5.156	0.784	0.327
	2018	0.032	0.778	0.667	3.000	5.090	0.781	0.347
	2017	0.041	0.778	0.667	3.000	4.983	0.656	0.323
ABSA	2021	0.025	1.000	0.800	5.000	5.632	0.383	0.171
	2020	0.011	1.000	0.800	5.000	5.579	0.387	0.175
	2019	0.020	1.000	0.800	5.000	5.573	0.198	0.166
	2018	0.023	0.954	0.778	5.000	5.512	0.354	0.164
	2017	0.026	0.954	0.778	5.000	5.433	0.334	0.180
Stanbic	2021	0.022	1.000	0.900	4.000	5.517	0.574	0.182
	2020	0.016	1.000	0.900	4.000	5.504	0.564	0.181
	2019	0.021	0.903	0.875	4.000	5.466	0.584	0.183
	2018	0.021	0.903	0.875	4.000	5.463	0.543	0.174
	2017	0.017	0.903	0.875	4.000	5.396	0.524	0.169
Citibank	2021	0.027	0.699	0.400	2.000	5.117	0.600	0.188
	2020	0.029	0.699	0.400	2.000	5.027	0.719	0.225
	2019	0.030	0.699	0.400	2.000	4.985	0.793	0.272
	2018	0.037	0.699	0.400	2.000	4.933	0.752	0.276
	2017	0.040	0.699	0.400	2.000	4.992	0.645	0.256
NCBA	2021	0.017	1.041	0.818	5.000	5.772	0.617	0.191
	2020	0.009	1.041	0.818	5.000	5.723	0.551	0.175
	2019	0.016	1.041	0.818	5.000	5.694	0.510	0.186
	2018	0.022	0.954	0.778	4.000	5.366	0.475	0.157
	2017	0.024	0.954	0.778	4.000	5.361	0.504	0.173
Consolidated	2021	-0.021	0.954	0.889	4.000	4.155	0.288	0.053

	2020	-0.021	0.954	0.889	4.000	4.110	0.172	0.092
	2019	-0.045	0.954	0.889	4.000	4.074	0.273	0.135
	2018	-0.042	0.954	0.889	4.000	4.110	0.218	0.010
	2017	-0.025	0.954	0.889	4.000	4.129	0.217	0.051
Co-op	2021	0.029	1.114	0.846	5.000	5.763	0.538	0.170
	2020	0.020	1.114	0.846	5.000	5.730	0.522	0.169
	2019	0.031	1.079	0.833	5.000	5.660	0.448	0.158
	2018	0.031	1.079	0.833	5.000	5.616	0.415	0.154
	2017	0.029	1.079	0.833	5.000	5.588	0.335	0.227
Credit	2021	0.005	0.954	0.889	3.000	4.414	0.394	0.158
	2020	-0.002	0.954	0.889	3.000	4.366	0.265	0.145
	2019	0.010	0.954	0.889	3.000	4.336	0.260	0.150
	2018	0.014	0.903	0.875	3.000	4.251	0.210	0.145
	2017	0.009	0.903	0.875	3.000	4.160	0.296	0.159
Developme nt	2021	0.003	0.845	0.857	2.000	4.238	0.259	0.173
	2020	0.001	0.845	0.857	2.000	4.236	0.224	0.198
	2019	0.070	0.845	0.857	2.000	4.186	0.094	0.315
	2018	0.008	0.845	0.857	2.000	4.185	0.016	0.232
	2017	0.002	0.845	0.857	2.000	4.213	-0.017	0.236
DTB	2021	0.010	1.000	0.800	4.000	5.660	0.616	0.212
	2020	0.008	1.000	0.800	4.000	5.628	0.560	0.225
	2019	0.018	1.000	0.800	4.000	5.587	0.548	0.209
	2018	0.018	0.954	0.778	4.000	5.577	0.535	0.211
	2017	0.018	0.954	0.778	4.000	5.560	0.499	0.190
Ecobank	2021	0.007	0.903	0.750	3.000	5.014	0.727	0.172
	2020	0.000	0.903	0.750	3.000	4.975	0.705	0.159
	2019	0.002	0.903	0.750	3.000	4.877	0.639	0.135
	2018	0.001	0.845	0.714	3.000	4.736	0.702	0.166
	2017	-0.021	0.845	0.714	3.000	4.728	0.639	0.160
Spire bank	2021	-0.303	0.845	0.714	3.000	3.586	0.089	-0.109
	2020	-0.248	0.845	0.714	3.000	3.709	0.077	-0.606
	2019	-0.069	0.845	0.714	3.000	3.836	0.083	-0.206
	2018	-0.244	0.778	0.667	3.000	3.965	0.101	-0.220
	2017	-0.101	0.778	0.667	3.000	4.047	0.142	0.127
Equity	2021	0.031	0.903	0.875	4.000	6.116	0.634	0.177
	2020	0.020	0.903	0.875	4.000	6.007	0.593	0.189
	2019	0.033	0.903	0.875	4.000	5.828	0.547	0.174
	2018	0.034	1.041	0.909	4.000	5.758	0.579	0.140
	2017	0.036	1.041	0.909	4.000	5.720	0.548	0.165
Family	2021	0.021	0.778	0.833	2.000	5.048	0.434	0.209
	2020	0.013	0.778	0.833	2.000	4.957	0.371	0.179

	2019	0.013	0.778	0.833	2.000	4.897	0.331	0.187
	2018	0.004	0.699	0.800	2.000	4.826	0.307	0.195
	2017	-0.014	0.699	0.800	2.000	4.839	0.346	0.199
SBM	2021	0.004	1.000	0.800	3.000	7.914	0.614	0.164
	2020	0.008	1.000	0.800	3.000	7.899	0.656	0.172
	2019	0.012	1.000	0.800	3.000	7.861	0.772	0.231
	2018	0.019	0.954	0.778	3.000	7.849	0.828	0.243
	2017	-0.029	0.954	0.778	3.000	7.062	0.321	0.164
GTB	2021	0.016	0.845	0.857	3.000	4.535	0.567	0.254
	2020	0.012	0.845	0.857	3.000	4.495	0.592	0.273
	2019	0.012	0.845	0.857	3.000	4.464	0.473	0.263
	2018	0.010	0.845	0.857	3.000	4.404	0.464	0.270
	2017	0.007	0.845	0.857	3.000	4.441	0.501	0.269
FCB	2021	0.017	0.845	1.000	2.000	4.393	0.210	0.089
	2020	0.008	0.845	1.000	2.000	4.341	0.372	0.093
	2019	0.010	0.845	1.000	2.000	4.273	0.351	0.081
	2018	-0.012	0.845	1.000	2.000	4.252	0.411	0.091
	2017	0.009	0.845	1.000	2.000	4.240	0.436	0.153
Guardian	2021	0.009	1.000	0.700	4.000	4.249	0.677	0.264
	2020	0.006	1.000	0.700	4.000	4.227	0.594	0.236
	2019	0.011	1.000	0.700	4.000	4.214	0.477	0.222
	2018	0.014	1.000	0.700	4.000	4.209	0.486	0.227
	2017	0.010	1.000	0.700	4.000	4.199	0.414	0.202
Gulf	2021	0.012	0.954	0.889	3.000	7.576	0.516	0.191
	2020	0.010	0.954	0.889	3.000	4.576	0.501	0.190
	2019	0.005	0.954	0.889	3.000	4.546	0.338	0.171
	2018	0.004	0.954	0.889	3.000	4.523	0.327	0.187
	2017	0.005	0.954	0.889	3.000	4.496	0.349	0.162
I&M	2021	0.021	1.041	0.818	4.000	5.618	0.523	0.215
	2020	0.023	1.041	0.818	4.000	5.554	0.505	0.220
	2019	0.028	1.041	0.818	4.000	5.499	0.463	0.212
	2018	0.029	1.000	0.700	3.000	5.460	0.470	0.182
	2017	0.028	1.000	0.800	3.000	5.380	0.357	0.182
Kingdom	2021	0.016	0.778	0.833	2.000	4.501	3.588	0.247
	2020	0.000	0.778	0.833	2.000	4.487	3.622	0.132
	2019	-0.111	0.778	0.833	2.000	3.966	-0.254	-0.019
	2018	-0.068	0.699	0.800	3.000	3.989	-0.190	0.225
	2017	-0.037	0.699	0.800	3.000	4.109	-0.095	0.193
KCB	2021	0.030	1.079	0.750	3.000	6.057	0.391	0.217
	2020	0.020	1.079	0.750	3.000	5.995	0.361	0.216
	2019	0.028	1.079	0.750	3.000	5.954	0.371	0.190

	2018	0.034	1.041	0.727	3.000	5.854	0.333	0.195
	2017	0.030	1.041	0.727	3.000	5.811	0.290	0.166
Sidian	2021	0.012	0.845	0.857	5.000	7.617	0.528	0.186
	2020	0.001	0.845	0.857	5.000	4.525	0.179	0.165
	2019	0.004	0.845	0.857	5.000	4.423	0.420	0.179
	2018	-0.015	0.845	0.857	5.000	4.404	0.354	0.144
	2017	-0.022	0.845	0.857	5.000	4.286	0.243	0.165
Middle East	2021	0.011	0.845	0.857	5.000	7.049	0.521	0.260
	2020	0.011	0.845	0.857	5.000	4.042	0.315	0.279
	2019	0.000	0.845	0.857	5.000	3.928	0.242	0.312
	2018	0.000	0.845	0.857	5.000	3.729	0.561	0.449
	2017	-0.005	0.845	0.857	5.000	3.709	0.479	0.426
NBK	2021	0.007	0.954	0.778	3.000	8.166	0.417	0.143
	2020	0.001	0.954	0.778	3.000	5.103	0.444	0.103
	2019	-0.003	0.954	0.778	3.000	5.049	0.461	0.115
	2018	0.000	0.954	0.778	3.000	5.060	0.431	0.037
	2017	0.004	0.954	0.778	3.000	5.041	0.363	0.054
M-Oriental	2021	0.003	0.778	0.833	3.000	7.135	0.631	0.297
	2020	0.002	0.778	0.833	3.000	7.113	0.549	0.305
	2019	-0.002	0.778	0.833	3.000	4.093	0.553	0.344
	2018	0.008	0.778	0.833	3.000	4.022	0.337	0.309
	2017	0.009	0.778	0.833	3.000	4.024	0.368	0.339
Paramount	2021	0.012	0.778	0.833	4.000	4.095	0.517	0.279
	2020	0.012	0.778	0.833	4.000	4.056	0.440	0.247
	2019	0.009	0.778	0.833	4.000	4.019	0.245	0.413
	2018	0.024	0.778	0.833	4.000	3.995	0.422	0.285
	2017	0.012	0.778	0.833	4.000	3.980	0.409	0.274
Prime	2021	0.019	1.041	0.818	4.000	8.110	0.795	0.416
	2020	0.020	1.041	0.818	4.000	5.073	0.805	0.393
	2019	0.024	1.041	0.818	4.000	5.037	0.771	0.414
	2018	0.021	0.954	0.778	4.000	4.994	0.715	0.373
	2017	0.024	1.000	0.800	4.000	4.883	0.486	0.225
Stanchart	2021	0.027	1.079	0.583	3.000	8.525	0.707	0.178
	2020	0.017	1.079	0.583	3.000	5.513	0.715	0.185
	2019	0.030	1.079	0.583	3.000	5.480	0.626	0.177
	2018	0.028	1.041	0.545	3.000	5.454	0.666	0.195
	2017	0.023	1.041	0.545	3.000	5.455	0.587	0.185
Transnatio nal(access)	2021	0.010	0.778	0.833	3.000	7.121	0.726	0.206
	2020	-0.002	0.778	0.833	3.000	4.006	0.707	0.211
	2019	-0.006	0.778	0.833	3.000	3.969	0.322	0.202
	2018	-0.007	0.778	0.833	3.000	4.010	0.348	0.196

	2017	0.004	0.778	0.833	3.000	4.013	0.371	0.302
UBA_kenya	2021	-0.123	0.954	0.889	3.000	4.133	0.898	0.126
	2020	-0.028	0.954	0.889	3.000	4.273	0.855	0.758
	2019	0.004	0.954	0.889	3.000	4.207	0.758	0.254
	2018	0.003	0.954	0.889	3.000	4.186	0.735	0.332
	2017	0.003	0.954	0.889	3.000	3.813	0.565	0.388
Victoria	2021	0.011	0.778	0.833	3.000	4.638	0.289	0.166
	2020	0.014	0.778	0.833	3.000	4.579	0.379	0.808
	2019	0.015	0.778	0.833	3.000	4.557	0.344	0.202
	2018	0.014	0.778	0.833	3.000	4.510	0.311	0.211
	2017	0.024	0.778	0.833	3.000	4.415	0.286	0.227