

**CRITICAL ANALYSIS OF CORPORATE GOVERNANCE STRATEGIES ON  
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS, KENYA**

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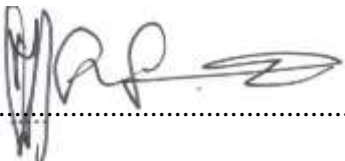
**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE  
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**JANUARY 2023**

**DECLARATION AND APPROVAL**

**Declaration by student**

This thesis is my original work and has not been presented for a degree in any other university or for any other award.

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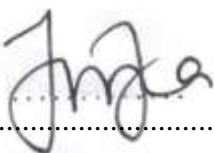
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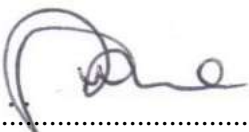
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## DEDICATION

I dedicate this thesis to my beloved late parents; Peter Kasuni Somba and Ann Syunzuu Kasuni.



## ACKNOWLEDGEMENTS

I thank God for enabling me to travel this far in the world of academia in pursuit of higher education and self-actualization. I express my most sincere gratitude to Dr. Evans Nyamboga Mandere and Dr. Phelista W. Njeru, both of Mount Kenya University, for their professional guidance and as my PhD Supervisors. Their patience, understanding, encouragement, untiring support and readiness to assist even when their administrative and teaching duties seemed so overwhelming encouraged me to undertake this research. I acknowledge my family, in particular, my wife Jane Mbula Suka and my daughter-in-law, Purity Mueni Nthiw'a for the patience, understanding and the encouragement they gave me during the period I was doing this research.

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## ABSTRACT

Effective Corporate Governance is a critical component of value addition in virtually all aspects of corporate performance. Annual financial reports by the Central Bank of Kenya for the period 2010-2019 showed a declining trend in the general performance of Commercial Banks in Kenya, during which Returns on Assets (ROA) declined from 4.51% to 3.84% and Returns on Equity (ROE) from 29.4% to 25.6%. The Study sought to critically analyze Influence of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya. The Study investigated; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. Explanatory Research Design was used to guide the conduct of the Study. A sample population of 112 managers drawn from 8 out of the 9 large banks were selected as respondents, for the period 2010-2019. The Study was guided by four theories; Agency Theory, Stewardship Theory, Stakeholder Theory and Financial Intermediation Theory. Data collection was done by use of a close-ended and open-ended questionnaire in which 85 (76%) of the 112 questionnaires were returned. Secondary data were collected from published Annual Financial Reports of Commercial Banks, by the CBK for the period 2010-2019. Content Validity of the research instrument was tested by subject matter experts comprising of the researcher's supervisors and defense panelists from and outside Mount Kenya University. Reliability of the research instrument was tested using the Cronbach's Alpha test, which gave an alpha value of 0.8, well within the acceptable range of  $\alpha \geq 0.7$ . Data analyses were done by use of both Descriptive and Inferential statistics. Descriptive data analysis consisted of summarizing the data into tables and describing characteristics of the data set using means and standard deviations. Inferential analysis was done by use of a multiple regression analysis program in a SSPS-26 Software, which gave an Adjusted  $R^2$  equal to .765 indicating that Corporate Governance Strategies correlated well with Financial Performance of Commercial Banks. The analyzed data were presented using, graphs, pie chart and tables. The findings showed that there was a significant positive correlation between Corporate Governance Structure, Strategic Leadership, and Accountability System with Financial Performance of Commercial Banks in Kenya while Board Composition was partially significant. Financial Performance was measured by use of profitability ratios, ROA and ROE. The Moderating variable comprised of Government controls and regulations and were analyzed by use of inferential statistics. The result showed that the adjusted  $R^2$  dropped from .765 to .608 indicating a decline of .157 (15.7%), which was the influence of the Moderating variable on the strength of the correlation between independent variables and the dependent variable. The conclusion of the study was that Corporate Governance Strategies influenced financial performance of commercial banks in Kenya, with Strategic Leadership producing the greatest influence, with an Adjusted  $R^2$  of .812 (81.2%). The study recommended that Commercial Banks in Kenya entrench Strategic Leadership in their corporate governance practices, minimize conflicts of interest between shareholders and corporate level managers, and promote inclusivity in the management process in order to maximize financial performance of commercial bank

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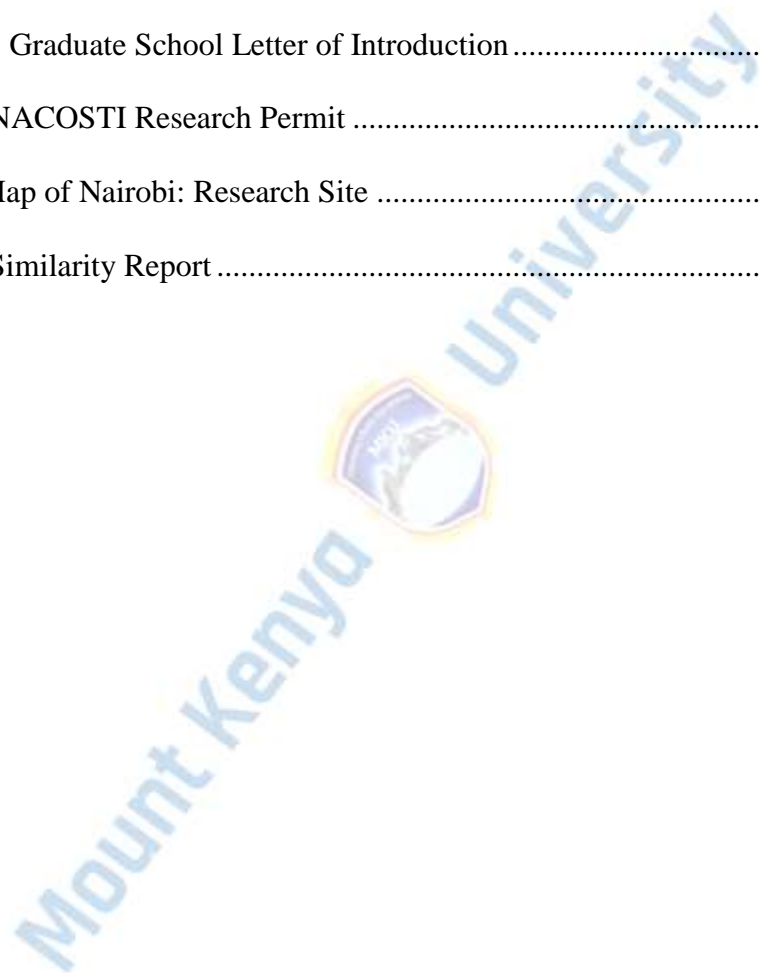
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## LIST OF ABBREVIATIONS AND ACRONYMS

<b>ABSA</b>	:	Amalgamated Bank of South Africa, previously Barclays Bank
<b>ACGN</b>	:	African Corporate Governance Network
<b>CBK</b>	:	Central Bank of Kenya
<b>CEO</b>	:	Chief Executive Officer
<b>CFO</b>	:	Chief Finance Officer
<b>CLM</b>	:	Corporate Level Managers
<b>CMA</b>	:	Common Markets Authority
<b>CO-OP</b>	:	Co-operative Bank of Kenya
<b>DTB</b>	:	Diamond Trust Bank
<b>GM</b>	:	General Meeting
<b>HRM</b>	:	Human Resource Management
<b>IBEA</b>	:	Imperial British East Africa
<b>M&amp;I</b>	:	Investments and Mortgages Bank
<b>IMF</b>	:	International Monetary Fund
<b>KCB</b>	:	Kenya Commercial Bank
<b>ROA</b>	:	Return on Assets
<b>ROE</b>	:	Return on Equity
<b>ROS</b>	:	Return on Sales
<b>SCB</b>	:	Standard Chartered Bank
<b>UK</b>	:	United Kingdom
<b>USA</b>	:	United States of America

# CHAPTER ONE

## INTRODUCTION

### 1.0 Introduction

The contents of this chapter consist of the following sub-topics; Introduction, Background to the Study, Corporate Governance Strategies, Commercial Banks in Kenya, Measures of Financial Performance of Commercial Banks in Kenya, Moderating Effect of Government Regulations, Statement of the Problem, Purpose of the Study, Objectives of the Study, Research Hypotheses, Significance of the Study, Scope of the Study, Limitations of the Study, Delimitations of the Study, Assumptions of the Study, and Operational definitions of Key Terms.

### Background to the Study

Corporate governance plays a key role in articulating and enhancing financial performance in organizations. It is a crucial tool used by corporations to add value to virtually all aspects of their performance. In the banking, sector corporate governance helps in facilitating efficient mobilization and allocation of financial resources, which stimulate the productive capacity, and growth of the country's economy (Caprio & Levine, 2002). The existence of the Principal-Agent problem in any organization, in which the Agent (management) converts benefits accruing to the Principal (shareholders) to itself, thus inhibiting maximization of shareholder wealth, provides the primary motive for the establishment of a credible system of corporate governance (Aquilera & Cuervo-Cazurra, 2004). This view was supported by Yermack (2017) when he observed that the discipline of Corporate Governance was grounded on the practice that the owner of a company delegates management to an agent to design policies, practices and strategies

in order to promote the performance of the company and hence maximize his wealth, without the agent converting this wealth to personal use.

Scholars view corporate governance as consisting of both structure and the relationships that exist between various components of an organization (McRitchie, 2019). These combine to shape the direction and performance of the organization. Among the most popular views of corporate governance is one advanced by the Cadbury Committee Report of 1992 in which corporate governance was viewed as the manner in which companies were directed and controlled in order to promote their performance (Shah & Napier, 2016). The Cadbury Committee Report of 1992 identified four core principles, which have since guided corporate governance, namely; Fairness, Accountability, Transparency and Responsibility (Shah & Napier, 2016). Raut (2004) propounded a compelling definition of corporate governance, which drew quite heavily from the ideas of the Cadbury Committee Report of 1992. He observed that corporate governance was a process that aimed at allocating resources in a manner that maximized value for all stakeholders and held those at the helm of the organization to account by evaluating their decisions on transparency, inclusivity, equity and responsibility. Raut (2004) saw corporate governance as a set of policies, processes, customs, laws and institutions affecting the way a corporation was directed, administered and controlled. Aggarwal (2013) pointed out that the principal focus of corporate governance was to ensure that corporations promoted transparency and accountability in fulfilling the fair expectations of all their stakeholders. He noted that corporate governance was simply about running companies in an open and honest manner.

The importance of corporate governance to an organization was highlighted by (Mallin, 2016) when he observed that it was a good safeguard to the organization against its future financial mismanagement. Mallin (2016) emphasized that a company's management

structure had an impact on its capacity to react to outside events that had an influence on its success. He further noted that in a market economy, an organization could function well only if there was an effective corporate governance framework in place, both within the individual organization and throughout the entire economy. The central role played by corporate governance in organizations was also highlighted by John and Senbet (2017) when they observed that good corporate governance motivated companies to allocate and use resources effectively as this helped to promote the growth of the economy by lowering the cost of capital. The duo also noted that corporate governance mistakes could harm development efforts through inefficient allocation and distribution of investment funds. According to John and Senbet (2017), development mistakes occasioned by weak private sector governance stood in the way of wealth growth, and job creation, which inhibited the overall growth of the economy.

The structure of corporate governance consists of four components, namely; Shareholders, Corporate Board, Management and Other Stakeholders (Acharya, 2018). Shareholders are persons or institutions, which have pooled resources together to form the company. They are the owners of the company. According to Acharya (2018), the key role of shareholders is to appoint a corporate board, which they do by exercising their right to vote and voting in board members in a general meeting (GM). Corporate Board consists of members appointed by Shareholders to oversight Corporate Management. The existence of conflicts of interest between the Shareholders and Corporate Management occasioned by information asymmetry renders the stewardship role of corporate management untenable. A corporate board is therefore put in place, by Shareholders, to exercise oversight over managers at the corporate level of management to redress their excesses and ensure that they played their stewardship role in safeguarding the interests of share-

holders (Acharya, 2018). Company Management consists of top-level executive managers, appointed by the Corporate Board and charged with the responsibility of implementing policies and practices approved by the Corporate Board, aimed at maximizing interests of shareholders (Ingram, 2009). They are technocrats who provide guidance on the day-to-day functions of the company at the corporate level. Company Management are expected to be pro-organizational and faithful stewards of the company who are charged with the responsibility of taking investment decisions and risks aimed at promoting corporate performance (Abdullah & Valentine, 2000). Other stakeholders are persons or institutions who have an interest in the organization. They have a stake in the organization and may affect or may be affected by the performance of the company. In the banking sector, some of these include; employees, depositors, borrowers, competitors, industry regulator, suppliers, buyers, community served by the organization and financial markets.

Evolution of corporate governance around the world may be traced to the 19<sup>th</sup> Century, when, as a result of expansion of businesses from small family outfits to large enterprises management became more complex and stretched beyond the control of a single individual, necessitating separation of ownership from control (Ruparelia & Njuguna, 2016). According to Ruparelia & Njuguna (2016), separation of ownership from managerial control was one reason why corporate governance had become a crucial issue within both the public and private organizations. Among the key events that led to the establishment of corporate governance Worldwide included: the Stock Market Crash in the USA of 1929, the Secondary Banking Crisis in the UK in 1970s, the Savings and Loans Crisis in the USA in 1990s and the East Asian Economic Crisis of 1997 (Beeson & Rosser, 1998). Two notable events, in the UK and the USA prompted governments to exert efforts and set aside resources to establish effective corporate governance structures and practices,

in a bid to protect company managements from turning public resources to private use. The collapse of the Baring Bank in UK on Feb, 26, 1995, due to poor corporate governance (Yah, 2009), was a wakeup call for governments to develop policies and best practices which would help companies achieve their primary objective of maximizing shareholder wealth. Baring Bank derived its fame from being the World's second oldest merchant bank and the best merchant bank in Britain (Yah, 2009). The collapse of Baring Bank occurred when management failed to put in place internal controls, which fact resulted to bank management developing conflict of interest and converting bank resources to personal use, with one bank employee causing a loss of 1.4 billion dollars in stock trading (Yah, 2009). The management also failed to detect huge fraudulent payments to Singapore and Osaka Stock Exchanges leading to the collapse of the bank on Feb 26, 1995 (Yah, 2009).

Another notable case of poor corporate governance whose effects reverberated across the USA economy was the collapse of Enron Corporation in 2001 (Twa & Khaw, 2006). Before its collapse in 2001 Enron Corporation was the World's largest energy trading company and the seventh biggest corporation in the USA (Twa & Khaw, 2006). Problems in Enron Corporation started when senior management staff created outside partnerships that helped them to conceal poor financial conditions of the corporation and regularly misstated its earnings and assets (Twa & Khaw, 2006). Corporate executives also mismanaged the company by paying themselves huge bonuses while at the same time earning billions of dollars as remuneration through sale of the company shares. These malpractices led to the collapse of the company in 2001.

In Africa, the first concerns regarding corporate governance were raised in Sub-Saharan Africa, by the World Bank in 1988 (Kerandi, 2019). According to this report, inadequa-

cies in physical infrastructure and inept management were considered as the main constraints to economic performance (Kerandi, 2019). The International Monetary Fund (IMF) justified her involvement in the enhancement of governance of developing countries by tying aid to good governance arguing that good governance fell within her mandate and expertise (IMF, 2017). The emergence of stock markets in most Sub-Saharan African countries, which occurred in the 1990s (except in Nigeria and Kenya where they had been established earlier in 1954 and 1960, respectively) paved the way for corporate governance in Africa. Although laws to regulate the conduct of corporations had started to emerge, the critical issue regarding corporate governance remained one of enforcing the regulations (Berglof & Claessens, 2006). The reason for this was that the enforcement of the laws was considered important in reducing differences in access to information between shareholders and the management of the corporations, which would in effect reduce the costs of external financing of corporations (Berglof & Claessens, 2006). Although efforts to introduce corporate governance principles and practices have been in existence in several African countries the first real homegrown initiative for establishing a collective framework for effective corporate governance in Africa did not come until 2013 when the African Corporate Governance Network (ACGN), a body consisting of 16 member countries, was launched in Mauritius with the objective of developing capacity in corporate governance and promoting effective corporate governance practices among African countries (International Finance Corporation, 2016).

In Kenya, the liberalization of the economy in 1990, which led to the privatization of public corporations, marked the start of serious efforts in institutionalizing corporate governance (Gakeri, 2013). Before then lack of accountability and corporate framework were the main features of public corporations. These problems were aggravated by the fact that security laws were not enforceable because senior government officials

maintained a conflict of interest by owning shares in some of the public companies (Gakeri, 2013). The establishment of the Common Markets Authority (CMA) in 1990 was a watershed in the formulation of basic principles which would strengthen corporate governance in public corporations (Gakeri, 2013). The objective of the CMA in designing principles that strengthened corporate governance was to affect the general performance of the economy (Gakeri, 2013).

The development of corporate governance has been manifested in different models in different countries in the world. In the UK, USA, Australia and Canada the Anglo-American model is the most popular model (Diligent, 2017). This model consists of boards of 8-12 members who, except the chairperson are non-executive directors from outside the company. In this model the CEO has a dual mandate; the chief executive officer and the board's chairperson. In this model too, the board's obligation is to maximize shareholder value (Diligent, 2017). Corporate governance, in this model is exercised through giving adequate profit-related incentives to managers to dissuade them from having a conflict of interest (Qassim, 2017). In Germany, two boards exercise corporate governance; the Supervisory board made of directors from outside the company who represent shareholders' interests, and the Management board comprising of top executive members who are employees of the company (O'Connell, 2019). In this model, the shareholders of the company appoint the Supervisory board, which in turn appoints the Management board. The average size of the combined board in this model is 17. This model allows members of the labor unions to patronize both the Management and Supervisory boards (Diligent, 2017). Like the Anglo-American Model, the objective is to maximize shareholder value by enhancing corporate performance.

The Nordic Model of corporate governance, practiced by the Nordic countries of Denmark, Sweden, Norway and Finland consists of three prominent features; General

Meeting (GM), the highest decision making body, the Chain of Command cascading from the board chairman down to the managers and to employees, and the Executive Management (Diligent, 2017). Shareholders exercise their corporate governance by using their voting rights to appoint directors of the board and approve decisions and policies of the board (Diligent, 2017). The primary objective of this model is to empower majority shareholders to manage the company and at the same time provide sufficient safeguards to protect minority shareholders from any abuse of power by the majority shareholders (Gilson, 2014). The average board size in this model is 6.5 directors (Diligent, 2017).

The Japanese Model of corporate governance, exclusively applied in Japan, is dominated by eight large groups of companies called 'Keiretsu' (Jancer, 2016). Each group of companies (Keiretsu) consists of about 30 companies spread out over a large range of industries (Jancer, 2016). Some examples of Keiretsus in Japan include Mitsubishi, Mizuho Financial Company and Toyota. The main motive of the Japanese Corporate Governance is the growth of the parent company, Keiretsu (Qassim, 2017). The executive board in this model consists of loyalist managers who are chosen through competitive bidding and are more concerned with the welfare of the parent company (Keiretsu) than maximizing shareholder profits (Qassim, 2017). The board is usually patronized by about 60 directors drawn from outside the company, including the mother company called Keiretsu. An important distinction between the Japanese Model of corporate governance and other models is that the Keiretsu system regards its management as faithful and honest stewards of the company who serve to promote the interests of shareholders without supervision as opposed to managers in other models who have the potential of conflict of interest (Qassim, 2017).

In China, as in Germany, corporate governance is exercised by two boards; the Management board consisting of insider managers, and the Supervisory board consisting of outsider members (Shchavelev, 2012). The management board is vested with the responsibility of preparing and executing decisions of shareholders while the supervisory board monitors and supervises management. The primary function of both boards is to strike a balance between the objectives of the majority shareholders and those of minority shareholders. The majority shareholders in Chinese firms comprise of the State and families. These are normally the most powerful parties and their main role consists of electing and dismissing members of both the Management and Supervisory boards. Resolutions of a GM of majority shareholders are superior to all decisions that any of the two boards may take. Indeed, the majority shareholders facilitate the operations of both the Management and Supervisory boards by donating power and authority to them (Jiang & Kim, 2020). The Chinese system of corporate governance is characterized by a perennial agency problem arising from conflicts between the majority shareholders and the minority shareholders brought about by concentration of ownership of companies (Jiang & Kim, 2020). The majority shareholders, consisting of the state and families have the highest stake in Chinese companies and quite often expropriate minority shareholders by transferring company resources to serve state objectives (Shchavelev, 2012).

Although Kenyan banks seem to have adopted the Anglo-American governance model, with all banks maintaining one board there are nevertheless significant differences in the structure and operations of the banks. The most obvious is the absence of CEO duality in Kenyan banks, a central feature of the Anglo-American model. Although the CEO holds immense powers and authority over the general management of the bank, he is

nevertheless subservient to the chairperson of the board of directors. Further, the prescribed size of the board of directors of 8-12 members in the Anglo-American Model is not always applied in Kenyan banks.

Some Kenyan banks seem to have adopted a hybrid structure in which the boards are patronized by both outsiders and insiders. The Standard Chartered Bank (K), with seven outside directors and five inside directors (including the CEO) is a case in point (Appendix 7). The Co-Operative Bank of Kenya maintains a purely outsider board of 17 members, with the CEO as the only insider member (Appendix 7) seems to have copied the Anglo-American Governance model fairly closely although again, the CEO does not have a dual mandate..

### **1.1.1 Corporate Governance Strategies**

The need to increase shareholder value by enhancing corporate performance remains the principal focus of corporate governance (Aggarwal, 2013). Successful corporate governance is driven by corporate strategy. David (2011) defined corporate strategy as a long-term plan emanating from the decisions of the topmost level of leadership intended to achieve organizational goals. The researcher in this Study identified four corporate governance strategies; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System.

The choice of Corporate Governance Structure as a strategy was informed by views of scholars (McRitchie, 2018) that the structure of corporate governance and the reporting relationships between the components of corporate governance structure underlined the direction and purpose of an organization. Corporate Governance Structure consists of four elements; shareholders, Board of Directors, Management and Other Stakeholders

(Acharya, 2013). The primary function of shareholders is to appoint the board of directors. This is normally done in a general meeting where shareholders vote in the directors recommended by management. The main role of management is to implement policies and best practices approved by the board with a view to maximizing shareholder wealth. Boards of directors were vested with the obligation of overseeing management so that it delivers on its promise of maximizing shareholder value. Other stakeholders served in various capacities as dictated by the policies and regulations of the organization. Nazir and Afza (2018) observed that an effective structure of corporate governance had the capacity to prevent any conflicts of interest between shareholders (acting as principals) and managers (acting in their capacity as agents), which could lead to transfer of earnings to management and a decline in shareholders' wealth. The duo suggested that corporate governance procedures were necessary for the efficient supervision of managers and for ensuring that there was disclosure of reliable accounting information. Empirical studies carried out by Haniffa and Hudaibu (2006), Sanda (2016), Dzingai and Fakoya (2017) and Shao (2019) have shown that a deliberate act of constituting a corporate governance structure consisting of the four parties, and with the requisite relationships provides an effective means of raising corporate performance.

The justification for the choice of Strategic Leadership as a corporate governance strategy was grounded on the views expressed by Slawinski (2007), that meaningful corporate performance was premised on the development of clear vision and mission statements. Slawinski (2007) observed that three main features defined Strategic Leadership, namely; the development of clear vision and mission statements which guided strategy formulation and implementation, developing human capital and effective management of resources. According to Rowe and Nejad (2009), Strategic Leadership was the ability of the leader to influence followers to perform voluntarily towards achieving the goal of

the organization. This is normally done through motivating, inspiring, encouraging, persuading and effective communication. Palladan, Abdulkadir and Chong (2016), identified the following five features that they said were associated with strategic leadership: defining corporate direction, maintenance of controls, effective management of resources, developing an effective culture for the organization and inculcation of ethical behavior in the workforce. Empirical studies by Witts (2016), Kitonga (2016), Kabetu (2018) and Chepkech and Mboya (2021) indicated that the use of Strategic Leadership as a strategy was one of the most effective means of promoting corporate performance.

The rationale for using Board Composition as a corporate governance strategy emanated from the observations of Garcia and Herrero (2018) that a competent board of directors was an important milestone in promoting corporate performance. An effective and efficient board of directors, which took care of its core functions of oversight and policy formulation, helped corporations to fulfil their promise of maximizing shareholder value to its shareholders (Garcia & Herrero, 2018). Garcia and Herrero (2018) identified three key areas which defined Board Composition as board size, board independence and board diversity define board Composition. Board size comprises of both outsider and insider directors. Board independence was defined as the ratio of outsider directors to insider directors (Ayuso & Argandona, 2007). The magnitude of this ratio determines the level of independence of the board. Board diversity consists of both demographic and cognitive characteristics (Garcia & Herrero, 2018). Demographic features are population characteristics, which include such features as nationality, gender, race, age, and physically deprived persons. Cognitive characteristics consist of features such as skills, qualifications, formal and professional education, training, enterprise leadership and sector experiences. For this study, four areas will be measured; Board Size, Board Qualifications, Board Training and Board Independence.

The researcher's choice of Accountability System as a corporate strategy came from the views of the Cadbury Committee recommendations of 1992 in which accountability was seen as one of the core principles of corporate governance (Shah & Napier, 2016). Accountability refers to the obligation by those in positions of authority to be answerable for the performance of an organization (Wigmore, 2020). An Accountability System consists of in-built structures and internal controls that facilitate effective measurement and reporting of performance to stakeholders. The following four parameters will be used to measure Accountability in this study; Transparency in the management of organizational performance, Modern Technology for effective and efficient performance measurement and reporting, Information disclosure, and Integrity. Proper accountability system remained the primary instrument that protected stakeholders from financial reports that were either not representative of the situation or even fraudulent (Bajra & Cadez 2017). According to Bajra and Cadez (2017) an Accounting System was made up of a wide variety of players and/or internal controls such as oversight by the board of directors, the audit committee, the internal audit function, the regulators and transparent reporting of accounts. An effective Accountability system, also enabled a company to earn credibility and confidence by stakeholders and thus attract investors into the company. Nazir & Afza (2018) observed that a good and effective accountability system had the advantage of preventing managers from engaging in opportunistic activities and hence diminishing shareholder value.

### **1.1.2 Commercial Banks in Kenya**

Banking activities in Kenya began in the 19<sup>th</sup> Century when the Imperial East Africa (IBEA) was formed in 1887 by Sir William Mackinnon, through the prompting of the British Foreign Office (CBK, 2017). The IBEA was set up to serve the trade interests of

the British Empire along the East African Coast and had its local representatives as Smith Mackenzie and Company. The disbandment of the IBEA in 1895 and its replacement with the East Africa Protectorate gave the British Government a firmer grip on the commercial interests in the East African Coast and in 1896, the National Bank of India took advantage of these positive trade signals and established its first branch in Mombasa (CBK, 2017). The next bank to establish business interests in Kenya was the Standard Bank of South Africa in 1911 (CBK, 2017). A few years later in 1916, the National Bank of South Africa also entered into the industry. These three banks continued to be the main players in the banking industry in Kenya, dispensing banking services mainly to Europeans and Asians. In 1910 the Post Office Savings Bank opened its doors to provide banking services mainly to Africans. In 1925, the Barclays Bank also came into the scene. The continued steady growth of the Kenyan Economy in the 1950s, despite the challenges brought about by World War II and the Mau Mau uprising, attracted even more banks into the industry (CBK, 2017). Until Kenya's independence, all banks operating in Kenya were foreign owned. Efforts by indigenous citizens to own banks came into fruition in 1968 when the Co-Operative Bank of Kenya opened its doors. It was also about the same time when the National Bank of Kenya became a Government bank.

Banking in Kenya is currently conducted by 40 banking institutions, which include 39 commercial banks and the Housing Finance Company of Kenya (CBK, 2019). The mandate of the CBK, the Industry regulator, is to manage the monetary policy in order to maintain stability in the money market. The 40 operational banking institutions are categorized into three classes called tiers, on the basis of the proportion of the market they control, their asset portfolios and value of deposits made by customers (CBK, 2019). The 9 commercial banks under Tier 1 classification controlled about 75% of the market share (CBK, 2019) and were spread out across the Country. This, together with the fact

that such banks had the best human and physical infrastructure and well established corporate governance structure (CBK, 2019), capable of responding to all relevant research questions motivated the researcher to purposively choose them as units of analysis for the study. The list of the 9 commercial banks under Tier 1 classification is shown on Appendix 4.

### **1.1.3 Financial Performance of Commercial Banks, Kenya**

Scholars view the term financial performance as a measure of how well a company allocates its assets, both financial and non-financial in order to generate revenue for the sustainable wellbeing of the company (Kenton, Murry & Courage, 2022). An important use of financial performance statistics is to be able to compare similar companies operating in the same sector at the same time. In commercial banks, as in other organizations worldwide, the whole purpose of corporate governance is to enable the bank to maximize shareholder value through enhanced financial performance, while at the same time safeguarding the interests of other stakeholders (Jones, Freeman and Wicks 2002). Enhanced financial performance generates profit part of which is shared out as dividends to shareholders. Increased dividends also enable the top corporate management of the company to undertake sound policy decisions for the future development of the company. Tracking of financial performance is therefore critical in order to assess whether or not banks deliver on their promise of profit maximization to their shareholders. Woznieska (2008) observed that efficiency measures constitute the best way of determining the level of bank performance. According to Woznieska (2008) bank efficiency is best determined by use of profitability ratios, three of which; Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS), are universally used. Woznieska (2008) noted that

among the three ratios; ROA, ROE and ROS, ROE was the most effective tool for determining bank efficiency as it relates income with equity. The ratio, ROE is calculated by taking the quotient of profits (incomes) to share value, as follows;  $ROE = \text{Net profits} / \text{Value of shares}$ . A high value of ROE indicated that share values were high and that returns to shareholders were similarly high. ROA is another important efficiency measure, which determines how a company manages its investments to generate profits (Carson, 2020). It measures a company's profits in relation to investment in total assets (Carson, 2020). ROA is calculated as follows:  $ROA = \text{Net profits} / \text{Value of Assets}$ . The higher this value the better the financial performance of the bank. For commercial banks to discharge these functions effectively and serve the interests of other stakeholders, it's imperative that their financial performance be tracked. Scholars concur that the best way to track financial performance of commercial banks is by use of profitability ratios (Woznieska, 2008).

Here in Kenya, in a space of two years, in 2015 and 2016, three commercial banks; Dubai Bank, Imperial Bank and Chase Bank collapsed. The reasons given for their collapse hinged on poor financial performance occasioned by weak corporate governance policies and practices. These were compounded by fraud and outright theft of shareholder deposits (Masinde, 2016 & Owahh, 2016). A similar observation was made by Gathaiya (2017) who attributed the declining performance of banking institutions in Kenya to weak corporate governance practices. Gathaiya (2017) noted that the main cause of commercial bank failures in Kenya emanated from high levels of non-performing loans caused by corporate mismanagement, perpetuated through irregular insider lending practices and conflicts of interest by the management cadre in the banks. In discharging their primary role of financial intermediation commercial banks, serve the interests of both the depositor and the borrower by developing products, which satisfy their interests, while at the

same time reducing transactions costs by centralizing payments processes (Andries & Cuza, 2009).

Annual supervisory reports by the Central Bank of Kenya (CBK) on the financial performance of commercial banks in Kenya, measured by ROA and ROE showed a declining trend during the period 2013-2019 for most banks in Tier 1 of the CBK classification. The time series data for this study, shown on Table 1 and Table 2 illustrate this observation.

**Table 1: Financial Performance of commercial banks in Tier 1 (CBK Classification in Kenya measured by ROA (2010-2019)).**

The ROA value is defined by  $ROA = \text{Net Income (Profits)} / \text{Total Assets} \times 100$

<b>Bank/Year</b>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1 KCB	5.17	4.98	5.2	5.5	5.93	5.01	5.64	4.94	5.0	4.9
2 Equity	6.95	6.84	7.4	7.7	7.26	6.56	6.00	5.68	5.6	5.1
3 Co-Op	3.61	3.68	4.8	4.7	4.43	4.14	5.15	4.31	4.3	4.5
4 SCB	5.37	5.03	5.9	6.0	6.42	3.83	3.83	3.34	4.0	4.2
5 ABSA	6.24	7.18	7.0	5.8	5.44	5.01	4.02	3.68	3.2	3.2
6 DTB	4.90	4.19	4.9	4.9	4.47	3.69	3.64	3.05	3.3	3.2
7 Stanbic	1.96	2.23	3.5	4.1	4.31	3.56	3.37	2.34	3.1	2.8
8 NCBA	4.24	3.58	4.0	3.6	2.57	3.14	3.60	3.13	3.4	2.0
Mean	4.81	4.71	5.34	5.25	5.10	4.37	4.40	3.80	4.0	3.73

**Source:** Extracts from CBK Bank Supervision and Annual Report (CBK, 2020)

**Table 2: Financial Performance of Commercial Banks in Tier 1 (CBK classification) measured by ROE (2010-2019)**

**ROE**= Net income (profits)/ Total Equity (Shares)

<b>Bank/ Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
KCB	28.23	31.18	29.8	28.4	31.0	29.0	35.2	30.9	32.1	35.8
Equity	32.9	34.53	37.6	36.0	49.4	47.2	43.2	37.2	40.2	37.2
Co-Op	27.52	29.47	33.1	30.0	29.5	28.5	30.0	24.2	25.7	26.4
SCB	37.94	40.11	37.6	37.0	35.4	21.9	24.8	21.3	25.2	26.9
ABSA	34.25	41.11	44.0	36.8	32.5	30.4	29.1	23.0	23.7	26.9
DTB	35.64	31.34	31.4	30.0	24.5	23.5	24.4	19.1	19.4	17.8
Stanbic	20.96	30.82	26.0	31.3	27.7	25.1	22.9	16.9	25.4	21.2
NCBA	36.06	30.04	34.3	32.5	25.3	27.4	27.6	22.8	23.3	13.4
Mean	31.69	33.6	34.2	32.8	31.9	29.1	29.7	24.4	26.9	25.7

**Source:** Extracts from CBK Bank Supervision and Annual Report (CBK, 2020)

The trend in financial performance measured in ROA for the first three years of the period under study showed a lack of consistency with ROA falling from 4.81 to 4.71 and then rising to the highest level (5.34) in the entire period. There was a noticeable decline in the performance trend with ROA systematically dropping from 5.34 in 2012 to the lowest value of 3.73 in 2019.

The ROE values indicated an increasing trend, rising from 31.69 in 2010 to 34.24 in 2012, the highest value in the entire study period. The performance trend, however assumed a declining trend from 34.24 in 2012 down to 25.70 in 2019. Overall, the general trend in performance showed a declining trend from 2012-2019.

#### **1.1.4 Moderating Effect of Government Regulations**

The strength of the relationship between Corporate Governance Strategies and Financial Performance of commercial banks, which this Study seeks to investigate, is often affected

by Government regulations and monetary policy regulations by the Central Bank of Kenya. These regulations constitute a third variable in regression analysis called the moderating variable or simply as moderator (Tsang, 2015).

The imposition of interest rate ceiling to all banks directed by the Government, as happened in 2016 is a moderator. The monetary policy tools used by the Central Bank to control the supply of money, like Open Market Operations (OMO), Central Bank Rate (CBR), Cash Reserve Ratio (CRR) and Discount Rate are examples of moderators.

In addition to investigating the correlation between the Independent Variables and the Dependent Variable the researcher also investigated the impact of the Moderating Variable on the correlation between Independent Variables and the Dependent Variable.

## **1.2 Statement of the Problem.**

The core function of commercial banks is financial intermediation. This consists of mobilizing funds from those surplus units who want to lend and allocating such funds to those deficit units who want to borrow for investment purposes (Aggarwal, 2018). Efficient mobilization and allocation of financial resources lowers the cost of capital and enhances capital formation, thus promoting economic growth (Nwaobi, 2014).

During the period, 2010-2019 Kenyan Commercial Banks in Tier 1 CBK classification experienced a problem of declining financial performance, as evidenced by a progressive decline in average ROA from 5.34% in 2012 to 3.73% in 2019 and from an average ROE of 34.2% in 2012 to 26.9% in 2019 (CBK, 2020).

The declining trend in bank performance, unless checked risked reducing the capacity of commercial banks to discharge their core function of financial intermediation. This would lead to lower savings and investments in the economy and hence slow the overall growth of the economy.

The researcher felt that adoption of Corporate Governance Strategies; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System, would help turn around the declining performance in commercial banks and enhance their capacity to perform their financial intermediation function. The purpose of this Study was to critically analyze the influence of the aforementioned strategies on the financial performance of commercial banks in Kenya.

### **1.3 Purpose of the Study.**

The purpose of the Study was to investigate influence of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya.

#### **1.3.1 Objectives of the Study**

- i. To investigate Influence of Corporate Governance Structure on Financial Performance of Commercial Banks in Kenya
- ii. To investigate Contribution of Strategic Leadership on Financial Performance of Commercial Banks in Kenya.
- iii. To investigate Influence of Board Composition on Financial Performance of Commercial Banks in Kenya.
- iv. To investigate Contribution of Accountability System on Financial Performance of Commercial Banks in Kenya.
- v. To investigate Moderating Effect of Government Regulations on correlation between Corporate Governance Strategies and the Financial Performance of Commercial Banks in Kenya.

#### **1.4 Research Hypotheses**

The researcher developed five null for this study, namely;

**HO<sub>1</sub>:** Corporate Governance Structure had no significant influence on Financial Performance of Commercial Banks in Kenya

**HO<sub>2</sub>:** Strategic Leadership had no significant contribution to Financial Performance of Commercial Banks in Kenya

**HO<sub>3</sub>:** Board Composition had no significant influence on Financial Performance of Commercial Banks in Kenya.

**HO<sub>4</sub>:** Accountability System had no significant contribution on Financial Performance of Commercial Banks in Kenya.

**HO<sub>5</sub>:** Government Regulations had no significant influence on correlation between Corporate Governance Strategies and Financial Performance of Commercial Banks in Kenya

#### **1.5 Significance of the Study**

Several parties and institutions stand to gain from the findings of this Study. The first is the Kenyan economy. Successful application of the four corporate governance strategies highlighted undoubtedly translates to improved performance in commercial banks. The effect is that commercial banks would improve on their intermediation role, which involves efficient mobilization and allocation of financial resources from surplus to deficit units, thus promoting savings and investments. Increased investments enhance capital formation and the overall growth of the economy.

Another beneficiary of the findings of this Study are corporate bodies. The use of the corporate governance strategies highlighted facilitates the application of core principles and best practices, which lead to the achievement of corporate objectives of maximizing

shareholder wealth and safeguarding the interests of other stakeholders. Improved performance translates to increased dividends to shareholders and achieves the core function of corporate governance.

The findings of this Study, when generalized has the potential of improving the general corporate governance of organizations. Application of the core principles of corporate governance, namely; fairness, responsibility, transparency and accountability preempts conflict of interest among the management staff and other forms of unethical malfeasance in a company, which leads to maximization of shareholder interests while also safeguarding the interests of other stakeholders. Effective implementation of a policy on Strategic Leadership exploits the benefits of trained human resource which is a critical ingredient of performance.

Other beneficiaries of this Study are potential investors. The application of a credible accountability system enhances the credibility of financial statements of a corporation. Credible financial statements foster stakeholder faith and trust in the management of an organization and this motivates the corporate management to work more diligently and achieve its objective of maximizing shareholder wealth. Further, credibility of a corporation's financial statements helps to promote financial stability in the company. Enhancement of financial stability is important as it attracts potential investors and hence raises the level of savings and investment, and the overall growth of the company.

This study is also important to researchers on corporate governance as it provides alternative corporate governance strategies for future research, in addition to the traditional monetary policy strategies, which have been extensively studied.

## **1.6 Scope of the Study.**

The scope of a study consists of the parameters under which the study would be conducted (Simon, 2013). The general objective of this Study was to investigate the influence of corporate governance strategies on the financial performance of commercial banks in Kenya. To undertake the Study, the researcher identified five parameters, which he considered relevant for purposes of achieving the Study objectives. These were; Time Frame, Sample Population, Geographical Location, Content and Theoretical Review.

The researcher set a period of four months during which he would undertake data collection, analysis, interpretation and presentation. The researcher further sampled 112 respondents comprising of top-level corporate managers, 14 of whom were selected from each of the eight commercial banks in Tier 1 of CBK Classification.

The Study was carried out in Nairobi, at the head offices of each of the eight commercial banks chosen, which were chosen as the units of analysis and from where the top-level managers, sampled as respondents were based.

The Content scope consisted of four independent variables and one dependent variable. The independent variables were; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. The dependent variable was Financial Performance of Commercial Banks measured by profitability ratios ROA and ROE.

The Study was guided by four theories; Agency Theory, Stewardship Theory, Stakeholder Theory, and Financial Intermediation Theory, which explained variables in the study. This Study used the Explanatory Research design, which sought to identify causes and effects of declining financial performance of commercial banks and to give an explanation for occurrence of such phenomena (DeCarlo, 2018).

## **1.7 Limitations of the Study**

Limitations are influences beyond the control of a researcher, which can affect the design, and results of the study (Simon, 2013). In carrying out this Study, the research faced several limitations, which obviously had an impact in the conduct and findings of the Study.

The first limitation was the problem of data collection. The initial arrangement was that the researcher and his assistants hold a briefing meeting with the 14 respondents from every bank to discuss the process of data collection and highlight, to respondents, ethical issues related to the Study. This, however was not done because the respondents claimed that they were too busy to attend such meetings. They therefore asked that questionnaires be deposited with Human Resource managers who would take them to the senior managers and collect the same later after they were filled.

Another limitation was the perceived lack of accuracy of the responses given. The apathy with which the corporate managers treated the researcher's request for a meeting to discuss research matters cast grave doubts on whether the responses they would give would be accurate. In a few of the banks the corporate managers felt fatigued with requests to fill research forms and would not even afford to greet the researcher and his assistants. They would send word that the questionnaires are left with the Human Resource manager. Lack of depth of content in the questionnaire responses made the researcher doubt whether indeed these were given by the corporate-level managers. The researcher was not sure that the senior managers had not delegated their responsibility of filling the questionnaires to junior managers or employees.

This Study was also faced with the problem of a small sample population as it restricted data collection to Tier 1 banks. Logistical implications would not permit conducting this Study in all commercial banks as was initially envisaged. Lack of adequate financial

resources and a time frame of four months set for the Study would not permit the successful completion of the Study. Undertaking this Study only on Tier 1 banks meant that, although these represented about 75% of the market share in the banking sector in Kenya, findings arrived at would not be truly representative of all other banks. The researcher felt that each tier of banks had their own unique characteristics and problems. Generalization of research findings, based on findings from the small sample population in Tier 1 banks would not, entirely be justified.

### **1.8 Delimitations of the study.**

Researchers view delimitations in research as choices made to describe the boundaries of a study (Simon, 2011). Matthews and Kostelis (2011), in support of this view held that delimitations are a chance for the researcher to indicate any restrictions that he makes on the study.

In this study, the researcher identified four delimitations, namely; Choice of commercial banks in CBK Tier 1 Classification as units of analysis, Choice of 14 top-level managers in each bank as respondents of the Study, Choice of four corporate governance strategies and Choice of profitability ratios, ROA and ROE.

Commercial banks were chosen as units of analysis rather than bank employees because the researcher was of the view that top corporate level managers, who implement corporate strategies stood the best chance of providing the information required. Commercial banks in Tier 1, and not other banks were chosen because they held majority shares in the banking sector and had the necessary infrastructural development and capacity to implement the four strategies used in this study.

The top-level corporate managers in each bank in CBK Tier 1 classification were chosen because they participated in policy formulation and implementation and had the necessary information to respond to all the research questions.

The four corporate governance strategies, namely; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System were chosen instead of several others because of their supposed efficacy in enhancing performance. The researcher further chose to measure bank performance by using profitability ratios ROA and ROE, because, according to Woznieska (2008) they were the most effective and efficient measures of bank performance.

### **1.9 Assumptions of the Study**

The researcher in this Study made several assumptions, besides the basic statistical assumptions of Normality, Homoscedasticity, Multicollinearity and Validity whose compliance was a prerequisite for regression analysis. These were tested and found to be compliant for purposes of regression analysis.

The first assumption was that there would be a relationship between the independent variables chosen and the dependent variable. This assumption was crucial because it formed the basis of the Study, for without it there would have been no point undertaking the Study.

Another assumption was that the respondents would give true and accurate information to facilitate meaningful findings. This assumption presupposed that the respondents were sufficiently qualified to understand and interpret research questions correctly. There was also the presumption that the respondents would co-operate and give information willingly without coercion.

The Study further assumed that the sampling of Tier 1 commercial banks as units of analysis, rather than Tier 2 and Tier 3 banks was justified because these banks constituted about 75% of the market share of the banking sector and this formed a true representation of the banking sector. This assumption meant that corporate level managers in these large and well-developed banks were best placed to provide all the necessary information required in the Study.

Another assumption was that the four corporate governance strategies chosen for the Study were the only corporate governance strategies at the disposal of commercial banks, which could be used for enhancing financial performance. This assumption further held that the corporate governance strategies chosen were measurable and could easily provide the necessary data for regression analysis.

A final assumption was that the researcher, in conducting the Study, was guided by ethical considerations and would therefore not manipulate the results of the Study to justify his research objectives. This assumption also presumed that the researcher and the Study were independent entities from each other and that there was no room for personal bias when conducting the Study.

### **1.10 Operational definition of Key Terms.**

**Accountability:** Is the obligation of the top leadership of a company to explain to the stakeholders the company's performance.

**Agency Problem:** Is a conflict that arises when a manager of a company uses his authority or power for his own benefit instead of safeguarding the interests of the employer, the Shareholders

**Bank Profitability:** Difference between what a company earns from receipts of interests charged to borrowers and what it pays out as interests to depositors.

**Board Composition:** Consists of board size, independence and diversity

**Cash Reserve Ratio (CRR):** This is the ratio of money kept by the Central Bank from each banks to the bank's total deposits. This ratio is maintained to control the supply of money in the economy.

**Central Bank Rate (CBR):** This is a tool of monetary policy which controls interest rates in commercial banks. Commercial Banks are expected not to exceed this rate in their lending services.

**Conceptual Framework:** Defines the various variables that the researcher requires in a study and how they relate to each other.

**Empirical Study:** Empirical studies are actual field researches which consist of data collecting, analysis, interpretation and presentation.

**Equity:** Refers to fairness. This fairness includes equal voting rights.

**Corporate Level Managers (CLM):** These are top-level managers in a company in charge of departments who formulate and implement corporate policies and strategies.

**Explanatory Variable:** Is an independent variable. It explains variations in the dependent variable .

**Delimitations:** Are choices that a researcher makes to describe the boundaries of his study.

**Financial Intermediation:** Mobilization of funds from lenders to borrowers

**Financial Performance:** Refers to a firm's financial status when measured over a specific period of time

**Financial Transparency:** This is the obligation of the company management to willingly make available periodically, clear and accurate information about the performance of the company to its stakeholders

**Information Asymmetry:** This is the differential in access to information between the shareholder and the manager of a company, mainly due to bureaucracy or deliberate acts by the agent to keep the principal in the dark

**Inclusive management:** Refers to the practice of leadership to include the contributions of other stakeholders in the management of the company.

**Keiretsu:** A Japanese word that means a cluster of companies

**Limitations:** Are influences beyond the control of the researcher which can affect the conduct and findings of a study.

**Moderating Variable:** A moderating variable or moderator is variable in a regression analysis which affects the strength of the relationship correlation between the independent variables and the dependent variable

**Outcome Variable:** Refers to a dependent variable whose value depends upon the independent variable

**Shareholder:** Is the owner of the company and appoints the board of directors to oversight company management in order to maximize his wealth

**Stakeholder:** A person or group of persons or institution with an interest in the performance of a company

**Steward:** A person driven by intrinsic motivators who serves to achieve the goals of a company. Such a person doesn't harbor a conflict of interest in the company

**Strategic Leadership:** Refers to a leader's capacity to influence his followers to voluntarily perform to achieve the company's goals.

**Strategy:** A plan intended to achieve organizational goals, emanating from the decisions of the topmost level of management.

**Transformation of terms:** This is one of the core intermediary functions of banks. It consists of banks developing products, which meet the interests of both the lender and the borrower.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

In this chapter, the researcher reviewed relevant literature on both empirical sources on corporate governance strategies and the theoretical sources upon which the study was grounded. The specific contents of the chapter include; Empirical Literature review, Theoretical Review, Conceptual Framework, Recap to Literature Review and Knowledge Gap.

#### **2.1 Empirical Literature Review**

Empirical studies are original research, which consists of collecting and analyzing data through observation, or experience (Hasan, 2021). Empirical research also relies on data collected through questionnaires. Review of empirical literature deals with review of original research which is based on experience and observation (Hasan, 2021). It brings out what is known about the topic under study (Hasan, 2021). In empirical literature, review the role of the researcher is to prepare abstracts of past studies relevant to the area being studied (Hasan, 2021). In this Study, the researcher sought to review empirical literature related to the influence of the following corporate governance strategies; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System on bank performance around the world. In choosing these four strategies, the researcher was guided by the following considerations: that the decision to use any of the four strategies was a corporate decision emanating from the top leadership of the organization and the effective corporate performance revolved around the correct application of the corporate governance strategies.

David (2011) submitted that corporate level strategy is the topmost strategy in an organization and emanates from the decisions of the top leadership of the organization. Nordmeyer (2017), observed that corporate strategy served four important purposes in an organization; firstly, it's an effective means of allocating organizational resources; secondly, it defines the expectations of an organization by articulating the expected outcomes; thirdly it serves to improve the organization's position in the industry and lastly; it seeks to increase shareholder value in the organization.

### **2.1.1 Corporate Governance Structure and Financial Performance of Commercial Banks, Kenya**

Corporate Governance Structure consists of four elements; shareholders, board of directors, management and other stakeholders (Acharya, 2018). These, together with the relationships that exist between them provide direction and enhance performance of corporations (McRitchie, 2019). Below are some empirical studies that attest to the usefulness of corporate governance structure in corporate performance. In a study by Haniffa and Hudaibu (2006), from Malaysia, set up to establish the relationship between corporate governance structure and performance, 347 companies were used. The independent variables comprised of; board size, role duality, shareholding and managerial shareholding while the dependent variable was corporate performance. The results were that board size and shareholding had a significant positive correlation to corporate performance while role duality and managerial shareholding had a negative correlation with corporate performance.

In another study intended to gauge correlation between firm structure and firm performance Shao (2019), from China, sampled 22700 respondents. The parameters of measure for corporate governance included, board size, CEO duality and managerial ownership.

The results indicated that the size of the board was not significantly related to firm performance while CEO duality and managerial ownership had a significant negative correlation to firm performance. The study showed that in companies where the CEO was also the chairperson of the board of directors performance declined. Ehikioya (2009) conducted a study to assess the correlation between corporate structure and performance. He used 107 firms and collected data for the period 1998-2002. After analyzing the data, the outcomes of the study were that firm ownership and firm size and leverage had a significant positive relationship with performance while CEO duality adversely affected firm performance. In a study to assess the correlation between board features and performance, Paniagua et al. (2018), employed a cross-sectional, analytical research design. To generate a sample that accurately represented the total population purposive sampling was performed. Five of the eleven chief executive officers of the banks were sampled for the study. Primary data was acquired from published reports. According to the study, the size of the board, board independence, board members' educational backgrounds, gender diversity, and ethnic makeup all have a significant favorable impact on the financial performance of listed commercial banks.

In another study from Nigeria to assess contribution of board independence on firm performance for the period 1996-2004, Sanda (2011) analyzed data for 205 firms by use of descriptive statistics and 89 firms by use of inferential statistics. The findings were that family affiliations of board members promoted firm growth while CEOs in audit committees negatively affected firm performance. In South Africa, Dzingai and Fakoya (2017) conducted a study to assess the relationship between corporate governance structure and financial performance of selected mining firms during the period 2010-2015. Data collected were analyzed by use of Panel Data Analysis of random effect model. The independent variables used were board independence and board size. The independent

variable was Return on Equity (ROE). The results of the investigation were that there was a weak but negative correlation between ROE and board size. The results also indicated that there was a positive but weak correlation between ROE and board independence. In Ghana, Kyereboah, Adjasi and Abor (2007) conducted a study to find the relationship between corporate governance and firm performance in Ghanaian Listed companies. The independent variables were board composition and board size. The findings were that boards of size 8-11 members performed better. It was also found out that those boards with more outsider members performed better. Two tier- boards appeared to do better than single-tier boards. In Rwanda, a study by Umutesi (2017) used board size, directors' equity and gender diversity as independent variables. It used only secondary data and targeted listed commercial banks in the Rwanda Stock Exchange. The study revealed that board size, directors' equity and gender diversity all showed a positive correlation with corporate performance.

In Kenya, Njiru ((2014) conducted a study to determine the relationship between organizational structure and financial performance of state corporations. The study employed the survey research design and targeted 34 state commercial corporations. The data collection instrument was a questionnaire with both structured and unstructured questions. Data analysis was done by use of SPSS software in which both quantitative and qualitative data were analyzed. The independent variables of the study were size of the financial organization, structure formation and structure complexity. The study obtained the following results: that an increase in organizational size produced a proportionate increase in financial performance, with a unit increase of organizational size resulting to 0.971-unit increase in financial increase; that one-unit increase in structure complexity led to 0.835-unit increase in financial performance and one-unit increase in structure formation produced 1.271 nits increase in financial performance. Nyarige (2012) designed a study

to establish whether there was a relationship between corporate governance structure and financial performance of commercial banks in Kenya. The study used 9 banks listed in the Nairobi Stock Exchange during the period 20005-2010. In this study Nyarige used a Cross-sectional study design. The independent variables consisted of board size, board meetings, board composition and number of board committees. The dependent variable was financial performance of the commercial banks. The findings of the study were that there was positive correlation between the independent variables and the dependent variable indicating that banks' financial performance depended on the board features; size, number of meetings, composition and number of board committees.

Also from Kenya, Kimeu (2017) conducted a study to find out the impact of board features on performance of commercial banks for the period 2012-2017. The independent variables used consisted of board features. The dependent variable was ROA. After analyzing, the findings were that all the independent variables correlated positively with the dependent variable. In another study by Otieno (2016) to establish the contribution of corporate structure on financial performance of commercial banks, for the period 2011-2015 the researcher used, as independent variables; shareholder rights, transparency and board operations. Data were collected from 10 CEOs of commercial banks listed in Nairobi Stock Exchange. The findings of the study were that shareholder rights, transparency, disclosure of information and board operations had a positively significant correlation with performance, all accounting for 52.1% of the banks' performance. Onyuma (2020) designed a study to investigate correlation between organizational structure of investment groups and financial performance in Kenya's Capital Markets. The study used descriptive survey design. Both simple and stratified random sampling were employed on 130 investment groups. Data analysis was done by use of both descriptive and

inferential statistics. The study results indicated that investment group structure correlated positively and significantly with financial performance. Adhiambo (2019) evaluated the connection between a few elements of corporate governance and the financial success of Kenyan commercial banks. Licensed banks that were open for business between January 2009 and December 2013 made up the study's population. The Central Bank of Kenya's audited financial reports for the years 2013 to 2018 provided secondary data. For the purpose of establishing the correlation between the two variables, a multiple regression model was used. According to the study's findings, big board size had a negative influence on the financial performance of commercial banks in Kenya, whereas board composition, board compensation, and board educational level had a positive impact on financial performance. The recommendation of the study was that for commercial banks to improve on their financial performance there was need to entrench, in their management processes, proper corporate governance policies and practices.

A study by Nyarige (2017) on all the commercial banks listed on the Nairobi Securities Exchange was the subject of a research intended to investigate how corporate governance practices impacted Kenyan commercial banks' financial performance. The study used four governance structures; frequent board meetings, board composition, insider share ownership, and executive compensation that are favored by banks during prolonged financial crises. Results indicated that changes in executive salary, insider share ownership, frequency of board meetings, and corporate governance structures led to companies' poor performance.

Muiruri (2019) looked at how corporate governance policies affected Kenyan commercial banks' financial performance. The study used both quantitative and qualitative data. Exploratory research design was used to guide data collection and analysis. The data gathered was from secondary sources. The study found that most of the variables showed

a positive relationship with financial performance. For instance, a medium negative correlation of -0.56 for board size suggested that as board size increased, banks' financial performance decreased. This was consistent with the literature review where some academics argued in favor of manageable board size. An ideal board was thought to be the most effective and showed superior performance. The study also found no connection between the gender diversity of the board and the financial success of commercial banks, as demonstrated by a significant negative correlation of -0.90. This suggested that while gender diversity on the board had no impact on financial success, other factors might have had an influence. Wanjama (2017) conducted research on the impact of corporate governance on financial innovation at Kenyan commercial banks. The target population for the study included all 43 commercial banks. The CBK annual reports and publicly available annual reports of the various banks provided the study with all of its secondary data. To describe the scenario, the researcher used a descriptive study design. The data collected for the five-year period under investigation were analyzed. The data were presented in tables as percentages and means using SPSS software. The analysis revealed that although all banks had adopted corporate governance practices each bank had a different board size which significantly affected financial performance. The results also indicated that the independence, and diversity of the boards had a considerable impact on financial innovation, whereas the size of the bank and the number of committees had little impact. A coefficient of association of 0.6516 between corporate governance and financial innovation was also discovered by the study to be quite positive. The study also found a positive association between board diversity, size of the bank, and board size and a negative relationship between board independence and the number of committees.

The capital structure of non-financial enterprises listed on the Nairobi Securities Exchange was researched by Kinyanjui (2018). The research design for the study was descriptive cross-sectional. The secondary information used was taken from the Kenyan listed non-financial companies' audited financial statements for the five-year study period (2013-2017). The researcher collected data for 37 of the 40 non-financial firms. This resulted in a response rate of 92.5 percent, which the study deemed to be a sufficient representation of the target population. Data analyses were done using descriptive statistics, correlation analysis, and regression analysis. The study's findings were presented in tables. The findings of the study were that there was a favorable and statistically significant association between the capital structure, board committee, and board diversity. The relationship between the board structure, business performance, and capital structure was also shown to be negative and inconsequential. The study also found that in Kenya's listed non-financial enterprises, there was a positive but negligible correlation between board size, firm size, and capital structure. Research on corporate governance and organizational effectiveness of insurance businesses in Kenya was conducted in 2015 by Luyima. The study used a cross-sectional descriptive research design. The findings show that corporate governance processes and structures were in place in Kenya's insurance businesses and that their operations were based on the core values and tenets of corporate governance. Corporate governance frameworks independently had a favorable association with the performance of insurance. The findings also showed that there was no correlation between financial success and corporate governance principles. Nevertheless, there was a favorable correlation between the principles and measures of customer performance, internal business performance, and learning and growth. Financial performance was positively correlated with the corporate governance pillars, although this connection was statistically negligible. Corporate governance practices and organizational

performance had a weak but positive association. However, it made a significant contribution to both customer and financial performance. According to the study, the performance of insurance businesses in Kenya was positively and statistically significantly correlated with the combination of effective corporate governance structures, principles, and pillars.

Omwenga (2017) investigated how corporate governance affected the financial success of Kenya's Large Tier Savings and Credit Cooperative Societies. The 15 Large-Tier deposit-taking Saccos in Kenya were the population of study. Descriptive research design was used for this study. The study made use of secondary data that spanned a five-year period from 2012 to 2016. Multiple linear regression model was employed to ascertain the association between the variables. From the findings of the study, the financial performance of SACCOs in Kenya was negatively and significantly correlated with board size, CEO duality, and firm size. The results showed that board structure had a negligible positive link with the financial performance of SACCOs in Kenya, whereas board diversity and the size of the audit committee had a negligible negative impact.

In her research, Ann (2018) looked at how corporate governance affected financial management in tertiary institutions in Kenya's Nakuru district. A cross-sectional research design was used for this investigation. The target population consisted of the management and finance executives employed by Kenya's higher institutions. The demographics that was available consisted of the 324 aforementioned employees that worked for the tertiary institutions in Nakuru County. 58 respondents were selected at random from the accessible population using stratified random sampling. To make data collection easier, a structured questionnaire that was created by the researcher was used. In Nakuru County, the study established that tertiary institutions' financial management were significantly

influenced by corporate culture, corporate leadership, legal obligations, and transparency. The survey found that Nakuru County's higher institutions employed a variety of leadership styles. It was also found that strong corporate leadership resulted in significant financial management improvement. It was further found that tighter compliance with legal obligations led to a modest improvement in financial management in tertiary institutions. Another finding of the study was that transparency in governance, faculty, and salary were crucial elements of transparency since they affected financial management in the tertiary institutions.

Omware et al. (2020) studied correlation between corporate governance and financial performance of companies listed on the Nairobi Stock Exchange. Secondary data for the study were collected from the publicly available annual statements for the listed companies. The study employed descriptive statistics for data analysis. Multiple regression analyses were also utilized to analyze the data. The study's findings were that financial performance dramatically improved due to effective corporate governance. It showed that both the structure and relations among parties contributed positively to financial performance. The study further revealed that large boards significantly impacted performance as they had a variety of experiences that helped in making better judgments and were more difficult to control by strong CEOs, thus enhancing their independence. A study on the impact of corporate governance on the financial performance of commercial banks listed on the Nairobi Securities Exchange was conducted by Karanja (2017). Panel multiple regression analysis and descriptive statistics were employed by the researcher for data analyses. The correlation analysis revealed a favorable association between the board size and the ROA and ROE of banks listed on the NSE. A unit change in the board size led to a significant increase in both ROA and ROE. Another finding was that board independence correlated positively with increases in ROA and ROE. The outcome also

showed a favorable correlation between the percentage of female board members and ROA and ROE at a 95% significant level. The last finding on CEO duality demonstrated a favorable correlation between business success and non-CEO duality, implying that CEO duality was not a significant factor in the promoting financial performance.

In Kenya's Meru County, Wako (2020) investigated the correlation between financial performance and corporate governance of saving and credit cooperatives. The researcher used a descriptive research design to guide the study. The researcher used 132 respondents from the 132 SACCOs registered in the County. Out of the 132 respondents, randomly sampled 98 respondents participated in the study. The study took into account relevant ethical concerns required in research. According to the study, corporate governance played a crucial role in determining how well the SACCOs in Meru County performed. The study discovered that the boards had a high degree of independence, accountability, dedication, and organization. The study also discovered that the financial performance of SACCOs was boosted by board responsibility, integrity, professionalism, transparency, and efficiency. The study also established that gender equality and composition did not impact the performance of the SACCOs.

The corporate governance policies and financial results of commercial banks listed on Kenya's Nairobi Securities Exchange were the subject of a research by Chege (2021). For the study, Chege (2021) collected data from 12 NSE-listed commercial banks in Kenya. For collecting secondary data, information sheets were used. Regression analysis was used to assess the effect of financial performance of the commercial banks listed in the NSE, Kenya. The study found a favorable ( $B=0.174$ ) and statistically significant ( $P\text{-value}=0.0220.05$ ) relationship between financial success and board compensation indicating that corporate governance structure positively impacted financial performance of the 12 listed commercial banks.

### **2.1.2 Strategic Leadership and Financial Performance of Commercial Banks, Kenya**

Strategic leadership is anchored on the inherent capacity of a leader to influence his followers to perform voluntarily in a bid to deliver on the organization's set goals (Rowe & Nejad, 2009). Slawinski (2007) submitted that the defining quality of a strategic leader is the establishment of a clear road map, which defines the purpose, and future of the organization. According to Slawinski (2007), strategic leadership performs three key roles, namely; defining the purpose and direction of the organization, developing knowledge, skills and abilities in the work force, and prudent management of resources. Palladan, Abdulkadir and Chong (2016), in support of these views identified five features which they said were associated with strategic leadership: defining corporate direction, maintenance of controls, effective management of resources, developing an effective culture for the organization and inculcation of ethical behavior in the workforce. The views expressed by the aforementioned scholars have been corroborated by several empirical studies worldwide.

A study by Chepkech and Mboya (2021) on Effect of Strategic Planning on Financial Performance of Commercial Banks in Mogadishu had three independent variables; goal setting, generic strategies and monitoring and evaluation. The dependent variable was financial performance. The study used 80 respondents drawn from two commercial banks using simple random sampling as the method of selection. Data were collected by use of questionnaires. The results of the study were that both goal setting and generic strategies produced a positive correlation with financial performance while monitoring and evaluation gave a medium and positive correlation with financial performance. Witts (2016) observed that lack of strategic leadership in most organizations in the financial

sector accounted for their inability to achieve their financial objectives. Using 12 purposively selected members of bank's board of directors with at least three years of top management experience Witts (2016) garnered information by use of questionnaires and published reports. Strategic leadership skills used as independent variables were identified from the resource-based view framework. Data were analyzed using the modified Van Kaam approach. The study confirmed the hypothesis that leadership skills influenced bank profitability. In a related study by Kitonga (2016), 305 respondents, drawn from 1475 organizations in Nairobi were used. Independent variables used included; development of the human resource, maintenance of ethical behavior and strategic controls. Data were analyzed by use of SPSS. The researcher deduced that performance depended on strategic leadership. A study by Kehinde, Jegede and Akinlabi (2012), intended to find out whether strategic leadership skills impacted financial performance of commercial banks collected data using questionnaires which were administered to 200 branch managers randomly chosen from selected banking institutions in Nigeria. The observation from the study was that acquisition of leadership skills and availability of information raised the level of performance of the organizations.

The role played by leadership in the competitive banking environment in Kenya was the subject of a study by Nyamu (2017). Independent variables used were; human capital, organizational style of leadership and articulation of strategic intent and vision. Profitability, productivity and market share were used as the dependent variables. Two managers drawn from each of the 40 commercial banks which were operational at the end of 2015 acted as respondents. Only primary data were collected and analyzed by use of SPSS. Use of human capital, organizational leadership style and articulation of vision and mission were found to give rise to increased profits, enhanced productivity and in-

creased market share. In yet another study to determine whether corporate strategic direction, organizational controls and effective resource management were instrumental in performance of state corporations in Kenya, Nthini (2013) targeted 48 corporations. Proxies for performance were employee turnover, Net profit margin and customer satisfaction. The researcher concluded that strategic leadership indeed significantly increased performance. A related study intended to establish whether strategic leadership promoted the growth of the Tourism Industry, Kabetu (2018), used descriptive survey design to carry out the study. There were 197 respondents from across all levels of management of UN Habitat. Primary data collection was done using questionnaires. On analyzing the data, the researcher found out that performance of UN Habitat staff in Kenya significantly depended on strategic leadership. Another study by Nganga (2018), intended to establish whether strategic leadership direction helped in the growth of the Tourism Sector in Kenya used a sample of 420 respondents consisting of 109 management staff and 311 non-management staff drawn from 6 government agencies. Questionnaires were used to collect data. After analyzing the data, it was observed that strategic direction and resource portfolio raised the performance of the Tourism Industry.

A study by Abba, A, (2021) designed to establish the relationship between influence of strategic leadership and strategy implementation in commercial banks in Kenya used 106 respondents drawn by probability sampling technique from managers of the Kenya Commercial bank of Kenya. The tool of data collection was a questionnaire. The study employed a descriptive research design. Data collected was analyzed using both the descriptive and the inferential statistics. Data presentation was done by use of tables. The study revealed that setting long-term objectives and aligning such objectives to activities and projects promoted decision-making. The conclusion was that strategic leadership did in-

deed and enhance strategy implementation and hence financial capabilities of the commercial banks. Nyangoka (2016) conducted a study to determine how strategic leadership affected Kenyan commercial banks' performance. Out of the 42 commercial banks in Kenya that received the surveys, 33 responded. The respondents comprised human resource managers, operations managers, and finance managers. The findings of this study were that strategic leadership and performance were positively correlated. 87.6% of the variances in financial success was attributed to strategic leadership. The components of strategic leadership had a positive synergistic effect on how well organizations operated in general, and banks in particular. Clear corporate, business, and functional level strategies were associated more with banks that had clear vision and mission statements, which were widely shared throughout the banks. These banks also tended to have elaborate processes for formulating long-term strategies that involved all employees. Financial performance was found to have been enhanced where banks hired qualified people based on their knowledge, abilities, and experience and created workflow charts for staff members and service delivery and charters for clients during the implementation of a strategy. These strategic leadership facets were found to have a significant correlation with performance measures expressed in profitability ratios; return on assets (ROA), and return on equity (ROE). Nthini (2018) conducted a study on how the performance of Kenya's commercial and financial state corporations was impacted by the strategic leadership. All forty-eight (48) commercial and financial State Corporations in Kenya made up the target population. People in charge of the strategy or human resources departments participated in the survey. Primary data were gathered via a semi-structured questionnaire. The analysis revealed that, in a healthy organizational culture, basic values, symbols, and ideologies are shared, according to the study's response rate, which was 77.1 percent based on 37 respondents out of 48. The association between strategic leadership

practices and organizational effectiveness was revealed using correlation research, which also revealed a substantial correlation between corporate strategy direction and good customer satisfaction. A substantial correlation between balanced organizational controls and annual employee turnover was visible. This study used several strategic leadership techniques as proxies for independent variables such as determining the business strategic direction, balancing organizational controls have all been strongly connected with these strategies. Effective strategic leadership had a positive impact on organizational performance, according to the correlation study that examined the strength and importance of links among the research variables.

A study on the strategic leadership and productivity of Kenyan manufacturing companies was done by Nganga (2017). The study's target population, the 700 manufacturing companies in Kenya that are registered with the Kenya Association of Manufacturers, was chosen using a cross-sectional survey design. Stratified sampling technique was used to choose a sample of 70 businesses. The research tool was a semi-structured questionnaire. The analysis employed descriptive statistics which included frequencies, percentages, means, and standard deviation). To assess the importance of the link between strategic leadership and business performance, a Pearson correlation analysis was also carried out at a 95 percent confidence level ( $p = .05$ ). The study concluded that the use of and alignment of core skills with strategic goals were the most important leadership qualities in the manufacturing firms under investigation. Additionally, the study revealed that strategic leadership emphasized, pushed, and compelled staff members to support corporate objectives. The leadership also developed social and human resources while fostering a culture that promoted good performance. The strategic leadership and long-term competitive advantage of Kenya's commercial banks were the main topic of a study by Kiragu

(2015). The study focused on 43 Kenyan commercial banks. The primary tool for gathering data for the study was a questionnaire. Surveys were considered appropriate since they protected respondents' privacy. Data analysis was done by use of descriptive statistical methods which included frequencies, percentages, standard deviation, and means. Field data were coded into the editor of a computer software and analyzed. The results were presented using tables. The results showed that banks still maintained a sustainable competitive edge despite the fierce competition in the financial sector. The results also showed that the strategic leadership roles and practices including anticipating environmental change, encouraging human creativity, improving service delivery through the adoption of modern technology, lowering operating costs, hiring qualified staff, implementing strategies, and upholding ethical standards had a significant impact on bank financial performance and the maintenance of the banks' competitive advantage.

Bose and Ndegwa conducted a study in 2019 on the efficiency of the directorate of criminal investigations in Nairobi County, Kenya. The study focused on the effectiveness of the directorate's organizational structure. The three main leadership theories; the Characteristic Leadership theory, the Path-goal Leadership theory, and the Transformation Leadership theory served as the theoretical foundation for the research. Descriptive research design was used for this study's investigation. The target population for the study consisted of the 141 senior officers working for the DCI's 10 different units in Nairobi City County. A stratified random sampling was used to choose the sample size of 42, which corresponded to 30 percent of the total population being studied. During the course of the inquiry, both primary and secondary sources of data were utilized. For the purpose of gathering primary data, a semi-structured questionnaire employing the drop-and-pick methodology was distributed to the law enforcement personnel. Secondary sources of data included the documents, plans, and reports produced by the DCI on a yearly basis,

as well as its database of human resources. The findings of the study were that, management competencies, corporate culture, stakeholder involvement, and ethical practices enhanced financial performance. The study recommended that these essential aspects of strategic leadership needed to be completely adopted if an organization's performance was going to improve to the level that was desired, of p-Value = 0.05, F-Value = 44.283, and R-Squared value = 0.76.

A study by Onchieku and Ragui (2019) was designed to examine how strategic leadership affected the success of housing cooperative societies in Kenya's Nairobi City County. Through the use of self-administered surveys with thoughtfully crafted and easily comprehensible questions and language, the study employed primary data collected from the respondents. Tables, charts, graphs, and figures were used for the presentation of results. The impact of strategic leadership on the performance of housing cooperative societies in Nairobi City County was examined using multiple regression analysis. The significance level for the F-Test on the ANOVA was 0.05, with a P-Value that was greater than 0.05, or P (= 5% level of significance). The result of the first research goal was that performance was found to be significantly impacted by effective strategic direction communication which had a regression coefficient of +0.346. The result derived from the second research goal was that performance was significantly impacted by building human capital shown by a regression coefficient of +0.471. The finding reached in the third research goal was that maintaining corporate culture resulted to a beneficial impact on performance as shown by a regression coefficient of +0.261). The result arrived from the fourth research goal, was that organizational flexibility had a significant impact on performance which was shown by a regression coefficient of +0.151.

A study on the strategic Leadership Practices and Performance of Tea Companies in Nandi County, Kenya, was conducted by Chikamai (2021). The study design adopted

was descriptive. The 121 management staff members at the 9 tea businesses in Nandi County served as the study's unit of analysis. Since there were only 121 respondents, the poll used a census study to collect data from all of them. Data from the original sources were gathered using a semi-structured questionnaire that was self-administered. The validity of the construct and the substance was established. On the other hand, construct validity was achieved by use of factor analysis where factor loadings for all the items in the questionnaire were determined. Reliability test was done through Cronbach's Alpha test. Descriptive statistics were generated and represented by percentages, frequencies, standard deviation and mean. Information generated from the findings of the study indicated that, most tea factory management used guiding vision statements, mission statements, firm objectives, and tea factory guiding principles to manage their firms which led to improved performance. The study discovered that employee training and development, career development, performance rating, awards, and compensation all had a significant impact on tea factory performance. The study further found that firms in the tea industry espoused ethical practices in the leadership which translated to improved performance. Aspects of ethical principles used in these firms included use of codes of conduct and core values which were strictly followed by every tea factory administration. Further, the findings indicated that implementation of internal controls within the factories, which resulted to reduced costs were given a lot of prominence. The study's findings contributed to improvement in strategic leadership and enhancement of performance in the tea industry.

A report on the relationship between strategic direction and organizational success in the banking industry was conducted by Odita and Bello (2015). The research was a cross-sectional survey which used self-reporting questionnaires. The research sample size was 201. The study found that strategic purpose and its dimensions (mission, vision and

goals) contributed greatly to organizational performance and success. The study established that independent variable, strategic leadership, accounted for 34% of the variation in the dependent variable, financial performance of the banking industry. Specifically, the parameters of measure used in strategic leadership gave the following results: development of objectives (47 percent), development of vision statement (19 percent), and formulation of achievable goals (58 percent). The results from this study showed that strategic leadership was an essential ingredient of bank management. In Kenya's private universities, Jonyo, Ouma, and Mosoti (2018) investigated the impact of vision and mission on organizational performance. This correlational study was conducted from a positivist point of view of philosophy. The research covered every one of Kenya's 17 private universities that had received accreditation from the Commission of University Education. According to the report, organizational performance variation was significantly explained by development of mission and vision statements which accounted for a coefficient of determination,  $R^2=0.633$ . The significance level used to assess the validity of the model for the influence of the Mission and Vision on organizational effectiveness was  $F(1, 122) = 208.929, p = 0.00$ . The model was therefore statistically significant in predicting the association between the investigated variables; vision and mission statements, and organizational performance. The specific finding was that mission and vision had a significant impact on organizational efficiency, indicated by Beta value of 0.867. The interpretation of this result was that for every unit variation in the mission and vision statements the organizational performance varied by 0.867 units.

In a study on strategic direction and church growth in Kenya, Mutia (2016) used a descriptive correlation survey with a sample size of 95 bishops and 387 priests. He discovered a substantial association between these two variables, which were measured using several metrics. Although the environmental and structural conditions in churches did

not show a competitive business inclination, implying that the results were not generalizable the results of Mutia (2016) study nevertheless indicated that strategic direction had a positive impact on church growth. The performance of charitable ambulance service organizations in Nairobi City County, Kenya, was the subject of investigation by Kegeni (2021). 144 managers and employees made up the study population, and 130 of them answered the questionnaire, yielding a response rate of 90.28 percent. Data analyses were done by use of both descriptive and inferential statistical analysis. Descriptive statistical analysis involved use of frequencies, percentages, means and standard deviations. Inferential statistical analysis consisted of use of multiple regression analysis intended to establish the relationship between the independent and dependent variables. The findings of the study indicated a tenuous positive link between organizational performance and strategic direction for ambulance service providers. Human capital development exhibited an average positive association with performance, but operational efficacy had a substantial positive correlation. Finally, there was an average positive link between strategic control and performance. Overall investigation revealed a high positive association between organizational performance of charitable ambulance organizations and strategic leadership techniques. Ondoro (2017) conducted research on Bamburi Cement Limited to find out the relationship between strategy control and conceptual evaluation, and organizational performance. The objective of the study was to find out how the control systems of the institution impacted financial performance of the company. The study used both primary and secondary data The study revealed that there was a significant correlation between application of in-depth strategic control systems and financial performance of the factory. Mbaya, Maina, and Namusonge conducted a study in 2021 on the strategic leadership and efficacy of Kenya's small and medium-sized dairy processing firms. This study used both a descriptive and an explanatory approach. An initial sample

of ninety-two people was drawn from a pool of 23 registered small and medium-sized dairy processing enterprises in Kenya. Respondents for the study were drawn from the CEO, CFO, Marketing Manager, and Production Manager of each of the 23 dairy processing enterprises. Primary data was collected using semi-structured questionnaires. Quantitative data was analyzed using both descriptive statistics and inferential analytic techniques. Mean and standard deviation were employed as descriptive statistics to describe the properties of the data, while multiple regression was performed to examine the impact of the research variable, strategic leadership on company performance. The qualitative information obtained was analyzed by thematic analysis which involved grouping the data in common themes and identifying common characteristics of the data. Using Cronbach's Alpha, the questionnaire's reliability was examined, and it was discovered to be above the advised level, indicating that it was reliable. Utilizing construct validity, face validity, and content validity, the instrument's validity was evaluated. Tests for normality, linearity, Multicollinearity, and heteroscedasticity were performed as diagnostic procedures. The adjusted coefficient of determination was used to evaluate the model's fitness. The F-statistic was calculated with a 95% confidence level. P-values at the 5% significance level were used to guide the hypothesis testing decision. The findings demonstrated a positive significant relationship between strategic thinking, strategic learning, and strategic action with the performance of small and medium-sized dairy processing enterprises in Kenya.

Ng'ang'a (2018) performed research on how Kenyan tourist government agencies assessed the impact of strategic leadership on organizational performance. Six tourism-related government entities made up the study's sample population. The study population was deemed adequate since it was sufficiently objective, exploratory, and error-free. In her study, stratified sampling was used. Management and non-management were two

strata that made up the population. The study's sample size was 420, with 109 management employees and 311 non-management employees. The respondents were selected using random sampling in order to reach the required percentage of non-management workers. The survey employed a self-administered questionnaire to obtain data using quantitative methodologies. The research design used in the study was survey. SPSS was used to analyze the data once it was obtained via questionnaires. Regression analysis was used for inferential data analysis, multiple regression analysis was used for hypothesis testing, and the model was fitted. According to the study's findings, organizational culture was found to have a detrimental impact on the performance of the six organizations, in which strategic direction and resource portfolio were perceived to have a good impact. Environmental factors were found to have a considerable moderating impact on the performance of the organizations, with the political climate and unfavorable travel warnings brought on by insecurity having the biggest impact.

### **2.1.3 Board Composition and Financial Performance of Commercial Banks in Kenya**

In corporate governance, the Board of Directors is a key ingredient of corporate performance (Ingram, 2009)). Its core functions consist of providing oversight over management so that management delivers on its promise of maximizing shareholder value. The board's oversight duties include, among others; supervising and monitoring, preventing conflict of interest among executives, formulating policy and providing advice to the executive on management improvement (Garcia & Herrero, 2018). These duties presuppose that the choice of members of boards of directors be aligned to the duties the members are expected to perform. Garcia and Herrero (2018) viewed board composition as consisting of three aspects; Board Size, Board Independence and Board

Diversity. The size of a corporate board is about the number of members, both insiders and outsiders who patronize the board and discharge their core mandate of overseeing management in its day-to-day functions of promoting interests of shareholders.

Scholars are of the view that the board size has a bearing on the performance of the organization. The proponents of the small-board size base their argument on the Agency Theory, which points out that large boards increase agency costs (Yan, Hui & Xim 2021). According to this view, large board increase costs of overseeing the management, while at the same time raising costs of coordination and communication.

The opponents of small boards, on the other hand base their argument on the Resource Dependence theory, and point out that large boards provide organizations with more opportunities for external linkages from which board members can attract the much-needed resources for use in the organizations (Yan, Hui & Xim, 2021). The trio observed that larger boards included more professionals from diverse fields who were able to give expert advice to the CEOs and provide oversight to the executive more competently so that management excesses that give rise to agency problems are not forthcoming.

The membership of board of directors in corporate bodies comprises of both executive and non-executive members. Non-executive directors are also referred to as outsider or independent directors, while executive directors are referred to as dependent or insider-directors (Arayakarnkul et al., 2022). For the board to function well and to get unbiased oversight, independent directors should make up at least one-third of the desired board composition (Arayakarnkul et al., 2022). Dependent directors are crucial because they have access to information about the company that outsider directors do not have. Though this is advantageous but there is also the risk of conflict of interest occurring due to this differential access to information, leading to conversion of shareholder wealth to their own benefit (Cadbury, 2004). A board made up of individuals who are not firm

executives, shareholders, blood relatives, or in-laws of the family owning the business is said to exude a considerable measure of independence (Yusuf, 2019). Due to the fact that independent directors typically have no affiliation to the corporation, there is no chance, at best, of a conflict of interest because they have no real stake in the organization. Generally, the independence of a board is determined by the number of outsider members, so that the more the number of outsider members the more independent is the board (Yusuf, 2019).

In a study in Colombia designed to assess the relationship between board size and corporate performance, Orozco, Vargas and Donado (2018) identified a sample of 84 large companies and collected data from the companies for the period 2008-2012. Correlations and cluster analysis were used for data analysis. The results of the study indicated that large boards were associated with high levels of performance. This finding seemed to corroborate the findings reached by (Yan, Hui & Xim, 2021) in which large companies were considered more appropriate because of their capacity to address the multiplicity of challenges that faced these companies.

In India, Goel and Sharma (2020) conducted a study to evaluate the effect of board size and firm performance in 42 companies during the periods; 2011-2012 and 2015-2016. Regression analysis was applied to in the analysis of the study. The results of the study indicated that board size had an adverse effect on corporate performance, with large boards producing low performance. This result contradicted earlier studies which pointed out that large boards positively influenced to produce high performances

Another important attribute of board composition is Board Independence. Sonnenfeld (2002) viewed board independence as a quotient of outside directors to inside directors. The magnitude of this ratio illustrates the level of independence. Sonnenfeld (2002) observed that boards with too many insiders were not as independent as boards with

many outsiders. Non-executive directors are those director's appointment by shareholders from outside the organization for whom the management has little or no influence over. Executive directors are corporate level managers who are employees of the organization and answerable to the CEO of the organization.

A study to find out the relationship between board independence and corporate performance by Oludele, Oloko and Olweny (2016) in 74 companies in Nigeria purposively selected a sample of 34 companies. The study used both primary and secondary data. Primary data were collected from 170 respondents from the 34 companies sampled, by use of questionnaires. Secondary data were collected from annual published financial statements from the 34 companies selected. The results were that there was a positive linear correlation between board independence and corporate financial performance.

Another equally important attribute of board composition is board qualifications. Dowd (2020) observed that in addition to having a minimum level of education, basic enterprise and sector experiences, and high ethical standards. This Study examines board composition in light of four important aspects; Size, Qualifications, Training and Independence

Garcia and Herrero (2018) did a study to measure the correlation between board size, independence and diversity. The outcome of the study was that board composition and firm performance were not correlated. Another study in India by Palaniappan (2017) aimed at finding out the influence of board features on financial performance used data from 275 listed firms during the period 2011-2015. The data collected were analyzed by use of a Multiple Regression Model. The findings indicated an inverse correlation between board size and firm performance. Tulung and Ramdani (2018) conducted a study in Indonesia to assess the correlation between board independence, board size and bank

financial performance. The study identified 203 top level executives from 26 banks during the period 2010-2014. The findings of the study were that both board independence and board size were positively correlated with bank performance.

Theo et al. (2016) carried out a study among Dutch firms to gauge the correlation between firm performance and board composition. To find this association, they regressed data on board size with data on firm performance. The study employed cross-sectional research design for purposes of data collection, analysis and interpretation. The study revealed that there was no connection between management board size and firm performance. Additionally, given that compensation for supervisory boards as a whole reflects the size of the boards, they discovered a negative correlation between supervisory board compensation and performance. Another study to investigate the correlation between board composition and firm performance in Bangladesh was carried out by Rashid et al. (2011). Their study, which used linear regression, showed that the number of outside (independent) directors did not significantly improve the financial success of the company. Although the researchers observed increased transparency in the affairs of the firms investigated the study revealed that there was no direct linkage between the appointment of independent directors and firm performance.

In a study conducted in Australia by Wang and Oliver (2019) intended to investigate board composition and business performance, the duo used a sample of 384 Australian enterprises. The study used descriptive analysis to analyze data collected from the 384 firms. The independent variables in the study were; executive directors and independent directors, while the dependent variable was firm performance. The findings of the study were that executive directors had a negative impact on firm performance. The study further revealed that independent directors, too did not have a significant impact on firm

performance. The impact of board composition on the financial performance of commercial banks in Kenya was examined by Abdirashid in 2021. The study collected data from all the 42 commercial banks registered by the CBK to operate in Kenya. Secondary data were collected from annual published reports by the CBK. The 42 commercial banks were used as units of analysis because the researcher felt that all the information required for the study would be available from the banks. Primary data from the 42 banks were collected regression analysis. Data collected were analyzed by use of multiple regression analysis which involved the use of estimation method of Ordinary Least Square in order to find out the association amongst board composition and the bank size. The independent variable was board size while the independent variable was financial bank performance. The finding of the study was that there was a negative and significant correlation found between financial success and board independence. The study also showed that the size of a bank was positively related to its financial performance.

In a study to establish correlation between board diversity and financial performance of commercial banks in Kenya, Rajula (2016) used as independent variables, data on age, gender and education of respondents chosen from commercial banks listed in the NSE in 2009. The dependent variable was financial statements drawn from annual reports of the selected commercial banks in 2009. Data analysis was done by use of regression analysis. The findings of the study were that the independent variables positively influenced banks' financial performance. Ngulumbu and Aduda (2016) did a study to examine the linkage between the membership of the board of directors of Nairobi stock exchange listed companies and the financial performance of the banks. The research utilized secondary data taken over the course of three years, during the period 2010-2012. The independent variable was board size while the dependent variable was financial perfor-

mance, expressed in returns on assets (ROA). Data analyses were done by use of Statistical Package for the Social Sciences (SPSS), and the results were presented by use of frequencies, tables and graphs. The results of the study indicated that the size of the board had a significant impact on the financial success of publicly traded corporations. The regression analysis revealed a significant association between board size and financial performance, as well as a positive influence of board size on operational efficiency. The results also indicated that there was a significant correlation between the number of independent directors and the financial success of publicly traded companies. Overall, the study discovered a high and positive correlation between board composition and the financial success of Nairobi Securities Exchange-listed enterprises.

Amoll (2015) designed a study to find out the linkage between the composition of board members and financial performance of companies listed in the Nairobi Security Exchange. The study collected data from the companies over the period, 2010-2014. The study sampled 65 members of the executive members of the board of directors and an equal number of non-executive members of the board, to act as respondents for the study. The researcher used secondary data from the NSE published reports from the CBK and from the library of Common Markets Authority. The study used a descriptive survey research design. The impact of board composition on performance of the companies listed on the NSE was determined using a conventional multiple regression model to analyze the data. To ascertain whether there was a difference in performance between executives and non-executives, an independent sample t-test was also performed. Tables with averages, percentages, and counts were used to present the results. The results show that age, level of education, and gender all had unique and significant effects on the financial performance of the Nairobi Securities Exchange, with age having the largest effect ( $=.382, p.01$ ), level of education having the second-largest effect ( $=.263, p.01$ ), and

gender having the smallest effect ( $=.197, p.01$ ). Board independence and ethnicity scored the lowest, with ( $=-.199, p.05$ ) and ( $=-.195, p.01$ ) respectively.

Chepkosgei (2013) examined the impact of the composition of Kenya's commercial banks' boards of directors on their financial performance. The study's goal was to find out how the composition of Kenya's commercial banks' boards of directors affected those institutions' financial performance. Data was acquired using a cross-sectional survey research approach, and descriptive and inferential statistical analysis was used to examine it. The study's conclusions showed that only CAR (Central Accounting Reporting), ROE, and ROA could be meaningfully predicted by board size, average tenure, the proportion of female directors, the directors' professional backgrounds, and the proportion of non-executive directors.

Hussein (2020) looked into Kenyan Commercial Banks' Board Diversity and Financial Performance. The use of secondary data sources was made. Data was gathered for different units of analysis across various time periods using panel data. From the study's findings, board diversity had a considerable impact on financial success and could be used to accurately forecast financial performance. Additional research findings revealed a significant positive link and relationship between financial performance and average board experience. Another finding was that the relationship between directors' ages and financial success was marginally positively significant. The study's final conclusion was that neither gender diversity nor educational attainment had a meaningful association with or connection to financial performance. This finding contradicted other findings in which educational qualifications of board members had a significant correlation with financial performance of commercial banks.

A study on the relationship between specific corporate board dynamics and the financial performance of Kenyan commercial banks was undertaken by Muigai (2014). The study

used a descriptive research approach, with 43 Kenyan Commercial Banks that were licensed as at December 2013 as the study's study population. Data were collected over a five-year period from 2009 to 2013 by use of a census survey method. Data were analyzed by use of regression analysis. Financial performance was represented by ROA (return on assets). When firm size was included as a control variable, the result was that the independent variables investigated were found to be significant predictors of the financial performance of commercial banks. Additionally, it was discovered that the average number of directors on boards of commercial banks in Kenya was 10, with an average of three executives on each board and an average of one woman.

Awino (2021) sought to assess the influence of board composition on the performance of sugar companies in Western Kenya. Given that the number of sugar firms in Western Kenya was only 11, five respondents were chosen through purposive sampling to represent each of the 11 sugar factories. These were the board chair, board secretary (CEO), the two board members (female and male) and the finance manager. The five members were considered as sufficient for purposes of providing the necessary information to respond to the research questions. The study used a sample size of 55 respondents as respondents. The instrument of primary data collection was a questionnaire with open-ended and closed-ended responses. Data collected were tested for validity and reliability. The test of validity involved subjecting the data to a team of subject experts who examined the data and advised on whether it could measure the subject it was meant to test. Reliability was tested by use of the Cronbach's Alpha test. Descriptive together with inferential statistics were applied for data analyses and interpretation. Results indicated that board size, board gender ratio, board age diversity, and board independence significantly triggered increased performance of sugar companies in western Kenya. In order

of importance; board gender ratio was ranked first, second was board independence, third was board age diversity and lastly was board size.

Naburi and Ndede (2019) conducted research with a study's population including 700 top management personnel from all 64 firms registered on the Nairobi Securities Exchange. A stratified random sampling approach was used to choose the sample. A total of 254 members of the Nairobi Securities Exchange's top management teams participated in the study. Both secondary and primary data were gathered for the study. Although board diversity was statistically significant at a 5% significance level, directors' competency and independence were shown to be statistically more significant.

A study designed to investigate correlation between board independence and financial performance of SACCOs in Siaya County, Kenya, was done by Ong'ure (2021). The 57 deposit-taking SACCOs in Siaya County served as the unit of observation, while the 5 board members from each SACCO, totaling 285 respondents, served as the unit of analysis. Questionnaires were used to gather the data. Stratified random sampling was used, and 50 percent of the board members from each SACCO were chosen from each SACCO, where upon 143 people were selected and made up the sample of respondents. Semi-structured questionnaires were used for data collection. When evaluating whether the tool measured the study's intended goal, content validity was used by speaking with the designated supervisor. The reliability of the questionnaires was ensured by using the test-retest approach. Inferential analysis, which comprised multiple regression analysis was used to determine the degree to which variables were related to each other. From the findings of the study, having a large percentage of male board members improved financial success. Deposit taking Saccos with boards that were much more diverse in terms of talents performed far much better than those with boards that had less diverse composition in terms of skills. The financial success of deposit-taking Saccos was also found to

be significantly influenced by the age diversity of the boards of the SACCOs investigated.

#### **2.1.4 Accountability System and Financial Performance of Commercial Banks in Kenya**

The Cadbury Report of 1992 defined accountability as both an obligation and responsibility of those entrusted with the management of an organization to give an explanation of the performance of the organization and be able to face the consequences emanating from that performance (Pearse, 2014). The primary role of shareholders in corporate governance is to appoint a corporate board to oversee management so that management develops policies and practices which maximize gains accruing to shareholders and other stakeholders.

Koppell (2008), in an effort to demystify the concept of accountability, identified five key dimensions which he said defined accountability. These consist of transparency, liability, controllability, responsibility, and responsiveness. Other scholars who support this view consider the five dimensions as essentially encapsulating the broad definition of responsibility. Transparency and liability, the first two types of accountability, were seen as the pillars that supported accountability in all of its forms. According to Koppell (2008) the three substantive notions of accountability, namely; controllability, responsibility, and responsiveness are in constant conflict with one another but serve to prop the important concept of accountability. The key component of accountability in corporate governance is transparency (Pearse, 2014). Transparency consists of presenting an open, clear and honest report of a company's performance periodically, to stakeholders. To be able to present a fair and balanced position of an organization's performance, management must embrace a modern system of technology capable of efficient data collection, analysis and interpretation for stakeholders' ease of consumption. In addition, corporate

level managers entrusted with the overall management of the organization must be endowed with high levels of integrity. This study seeks to evaluate the influence of Accountability System as a corporate governance strategy on financial performance, by considering the efficacy of four parameters of measure, namely; Technology, Transparency and Integrity and Training. Empirical studies conducted around the World have given credence to Accountability System as an efficacious strategy necessary for strengthening corporate performance.

In a study, in Iraq by Almarah, Norwam and Khalid (2019) designed to assess the relationship between transparency and corporate financial performance of 25 listed corporations, 80 participants were chosen for the study. The collection of data was carried out during the period 2014-2017. Independent variables used for the study included ownership structures and stakeholder rights as proxies for transparency. The dependent variables were ROA, ROE and ROI. The data collected were analyzed by the method of Ordinary Least Squares (OLS). The finding was that financial performance correlated significantly with transparency.

Here in Kenya, Ndungu (2012) conducted a study to determine the correlation between transparency, disclosure and financial performance during the period 2008-2012. The study used respondents from 40 insurance firms. The results of the study were that information disclosure and transparency enhanced financial performance. In a comparative study carried out by Halamka and Teply (2016) during the period 2003-2013 the researchers sought to find the association between ethics and bank performance. The study used 69 ethical banks and 80000 bank-year observations from conventional banks. The indicators of bank performance were ROE and ROA. Within-Between estimation method was used on bank financial indicators ROE and ROA. The findings were that ethical banks showed lower volatility in ROE than conventional banks and that those ethical

banks had higher profit margins than conventional banks. In a study by Mbithi and Wasike (2019) designed to establish the correlation between transparency and accountability on financial performance of commercial banks in Kenya the duo worked on a population of 495 employees from whom they sampled 222 respondents. The study employed both primary and secondary data. Analysis of data was done by use of descriptive statistics consisting of mean, standard deviation, percentages and frequencies. Presentation of data was done by use of tables. The study established that transparency and accountability had a significant correlation to financial performance of commercial banks.

Kisanyanya (2018) conducted an investigation of the internal control systems and the financial performance of public higher education institutions located in Vihiga County, Kenya. The findings of the study were that control actions taken by the institutions to foster accountability in institutions of higher learning were competent and effective and promoted financial performance of the institutions. These control actions included producing frequent internal audit reports, adequately segregating roles in the finance and accounting departments, and implementing physical controls to prevent excess allocation of financial resources. It was found that control actions had a significant and positively impacting effect on the financial performance of the institutions which were under examination. From the findings of the study, the organizations which were under scrutiny possessed adequate risk assessment tools as well as risk assessment management systems because they carried out ongoing financial assessments of their businesses in addition to conducting regular, timely, and comprehensive audits. It was observed that risk assessment had a significant favorable impact on the financial performance of the institutions that were under scrutiny. The research findings also revealed that the institutions in question possessed an efficient control environment. In both the finance and audit departments, there was an adequate number of staff members who had adequate education and

experience in accounting and financial management software. It was found that the control environment had a beneficial and significant impact on the financial performance of the institutions that were under investigation. The findings of the research further held that the organizations in question had an effective distribution system of information as well as communication channels. In addition, the research found that an enhanced flow of information and communication helped institutions become more financially accountable and improved their overall financial performance. The expenditures made by the institutions were adequately supervised, and the audit offices were completely autonomous. It was found that conducting financial monitoring had a positive and significant impact on the overall financial performance of the organizations that were investigated. Kamau and Kaplelach (2019) conducted a research on linkage between Financial Management Systems and the Performance of Kenyan State Corporations: The study narrowed its investigations to the case of the Kenya Rural Roads Authority. A questionnaire was employed to collect primary data using descriptive study style. Secondary data was used to assess primary data's realistic and communicative validity. The study's target demographics consisted of 102 employees from the Kenya Rural Roads Authority's Finance Department. Purposive sampling approach was used to identify respondents for the study. The results revealed that KeRRA's (Kenya Rural Roads Authority) had a transparent financial reporting systems which provided reliable, efficient, and effective, financial reports. In addition, it was noted that laws and regulations were rigorously enforced and monitored. The results further showed KeRRAs financial accounting systems had a positive impact on KeRRA's financial performance. It was also pointed out that the transparent and reliable cash management system maintained by KeRRA prevented misap-

appropriation of funds. Another finding was that KeRRA's Accounting System was effective because it was supported by an adequate management reporting and policy decisions systems which ensured transparency and accountability.

Apunda and Ndede (2020) studied the financial performance of Kenyan commercial parastatals using management accounting approaches. All 119 Kenyan commercial parastatals were included in the study, which used a descriptive survey approach. Based on random sampling, 69 Kenyan commercial parastatals were surveyed for the study. Budgeting, variance analysis, and breakeven analysis were found to have a significant impact on the financial performance of Kenyan commercial parastatals. The budgeting process was found to be critical to the financial success of government parastatal businesses, according to the research. It was found that variance analysis distinguishes between tangible financial performance and purposeful financial decisions made by diverse individuals, which resulted in improved levels of financial performance for the firm.

Mwaura (2013) investigated the impact of financial responsibility on the financial performance of Kenyan non-governmental organizations. To examine the relative importance of each variable in terms of the impact of financial fraud on financial performance, a multivariate regression model was used. The findings of the study were that the NGOs that employed financial criteria to assure their organizations' financial responsibility received more donor assistance, leading to better performance. NGOs' financial health in Kenya was shown to be correlated with the independent variable of financial accountability, according to the research.

Nzima (2017) evaluated Rwanda's non-governmental organizations' project performance and system of financial accountability. The 25 employees of EDC-project AK1 were the study's target audience, and as there weren't many staff members, a census technique was

employed to establish the sample size. As a result, only those 25 employees were included in the study. Employees of EDC-project AK1 were given questionnaires to complete in order to gather data. The Statistical Package for Social Science (version 21) was used to analyze the data and produce frequencies, percentages, bar charts, and area after the instruments had undergone reliability and validity tests. The research discovered that budgeting had a significant effect on the EDC-project AK1's level of project performance. The study also discovered that the EDC-project AK1's project performance was impacted by activities in the control environment. According to the study, NGOs who implemented financial rules to guarantee financial accountability inside their organizations increased donor support, which led to greater Project performance.

The role of financial management accountability in enhancing organizational performance in Indonesia was looked at by Muktiadji et al. in 2020. The goal of the study was to examine how the performance of HEIs was affected by the adoption of an internal quality assurance system (IQAS), as mediated by financial management accountability. For this study, 108 leaders of private HEIs in Region IV Service Institutions provided samples of their responses. The non-probability sampling method of purposive sampling was selected as the sample strategy. To test the hypothesis, statistical data analysis was done using the structural equation model. The findings show that while IQAS implementation had a significant impact on HEI performance, it had no discernible impact on financial management responsibility. Furthermore, the dedication of foundation leadership had a very significant impact on the performance of HEIs and financial management accountability. Accountability in financial management had a large beneficial impact on how well HEIs performed. The fact that financial reporting was the culmination of all HEIs' activity made financial management crucial.

Vilain (2012) conducted an analysis of the impact of financial accountability on financial performance of organizations, with particular reference to Sri Lankan governmental and private enterprises. The study's main goals were to determine whether a system of financial accountability improved an organization's financial performance. The study discovered a positive relationship between financial accountability and financial performance despite the absence of a statistically significant relationship between these two variables in determining performance. This relationship also existed between financial performance and information and communication but not with the control environment.

Porter and Rose (2015) evaluated Tanzania's Lands Commission's system of financial accountability. The study's overarching goal was to evaluate Tanzania's land organizations' financial accountability framework. The study used the case study design and used the northern region's commission offices as the target population. For the study, a sample of 38 commission officers was chosen at random using sampling methodology. Utilizing questionnaires, interviews, and a study of the relevant documentation, both primary and secondary data were employed. The head office exploited the existing examples, but more work was needed to establish strong, sound financial management throughout the industry. Some financial regulations were followed, while others had excellent procurement. The study revealed that sound financial accountability systems impacted positively financial performance of the land organizations.

Smith and Kida (2015) examined the financial accountability system for cash collection using a case study of the East Accra District of the Electricity Company of Ghana Ltd. The study's main goal was to identify the Electricity Company of Ghana's (ECG) financial accountability framework for cash collection as well as the general practical difficulties in ensuring responsible cash collection for ECG Ltd. Several sample techniques were used for this study. The study discovered that a financial accountability system, no

matter how well it was designed and run, could only give management and the board of directors a reasonable level of assurance regarding the accomplishment of an entity's goals. All financial accountability systems had constraints that affected the possibility of performance. The findings of the study found out that; the truths that human judgment in making decisions can be flawed, those in charge of building controls must take into account their relative costs and benefits, and breakdowns can happen as a result of human error, such as a simple mistake. Additionally, collaboration between two or more people can be used to go around regulations. Finally, management is capable of financial reporting and legal and regulatory compliance. The manner in which activities under the entity's control are carried out determines whether those objectives, which are largely dependent on criteria set by other parties, are achieved.

The effect of accountability on organizational performance in the US federal government was evaluated by Han and Hong (2019). The duo intended to find out how employees of public organizations viewed the relationship between organizational performance levels and accountability in the areas of staffing, performance evaluation, and compensation. The independent variables of the study were staffing accountability, performance evaluation, and compensation, while the dependent variable was financial performance. The study also wanted to find out the perceptions of employees' autonomy and accountability on financial performance. The study revealed that the levels of responsibility that are demonstrated in staffing, performance evaluation, and remuneration had a positive and significant impact on the overall performance of the businesses. Additionally, the favorable effects of responsibility on performance in two HRM functions, staffing and compensation tended to be amplified by employee autonomy.

Olwol et al. (2022) carried a research on how financial accountability influenced the financial performance of Uganda's National Water and Sewerage Corporation. The study

used a cross-sectional, descriptive correlational survey design that was primarily quantitative with some qualitative aspects as well. The result was that the study used model fitted well in showing the link between financial accountability and financial performance of the Ugandan National Water and Sewerage Corporation. The result of the study was that financial accountability had a statistically significant influence on financial performance, shown by  $F=64.119$ ,  $sig. = 0.000$ . The 64.1 percentage influence on financial performance showed that there are many other variables besides financial accountability, which influenced financial performance of the company.

## **2.2 Theoretical Review**

Researchers are of the view that theoretical review consists of theories and concepts that explain the variables identified for a study (Labaree, 2013). This Study focused on Agency Theory, The Stewardship Theory, The Stakeholder Theory, and The Financial Intermediation Theory.

### **2.2.1 The Agency Theory**

The Agency Theory was developed by Stephen Ross and Barry Mitnick in 1973 (Mitnick, 2019). The theory is grounded on the Principal-Agent relationship. The basic proposition of the Agency Theory is that two entities; Principal and Agent exist in all organizations and that the Principal, the owner of the organization, engages the Agent as the manager, to formulate policies and strategies on his behalf for the purpose of achieving the Principal's goal of maximizing his wealth (Investopedia, 2018). Differences between the goals of the Principal and those of the Agent often arise because of information asymmetry, whereby the Principal is not aware of the actions of the Agent or he is prohibited from accessing information concerning those actions (Sherman, 2020). The

Agent therefore develops a conflict of interest and serves his own interests instead of serving those of the principal. The act by the Agent of digressing from promoting the interests of the principal and instead serving his own interests due to the differential in access to information, of the operations of the organization, between him and the Principal is termed the Agency Problem (Sherman, 2020). The Agency Theory was established as a means of reconciling the interests of both the Principal and the Agent (Sherman, 2020)).

In banks, the Agency Theory is manifested in the Corporate Governance Structure which consists of four parties, two of which are Shareholders (Principal) and the Management (Agent). In banks, as in other organizations the interests of the two do not always converge. Although shareholders engage managers to act on their behalf to achieve their goals of profit maximization, managers do instead work to achieve their own goals, of converting shareholder gains to their own personal gains. To avoid this scenario shareholders, in a general meeting appoint independent directors to form a board of directors to supervise such managers in a bid to ensure that they operate as honest stewards and serve their employers. Here the board of directors serves as the Agency Theory.

Another application of the Agency Theory in the banking industry is found in its emphasis on Strategic Leadership, which is discharged by boards of directors. According to Price (2018) boards of directors not only provide oversight to management to ensure that interests of shareholders are safeguarded but they also formulate policies, strategies and practices, which provide direction and purpose for the company. Formulation of corporate direction (vision) and purpose (mission) falls in the realm of strategic leadership.

### **2.2.2. The Stewardship Theory**

The development of the Stewardship Theory is attributed to the work of Donaldson and Davis in 1989 (Subramanian, 2018). It is the antithesis of the Agency Theory. Unlike the Agency Theory, which prescribes the existence of conflicts of interest by management, arising out of information asymmetry, the Stewardship Theory is based on the assumption that people are intrinsically motivated to perform and accomplish given tasks aimed at promoting the interests of their employer without supervision (Menyah, 2013). The theory presupposes that intrinsic motivators such as trust, autonomy, reputation development, mission alignment and job satisfaction drive people to work to achieve organizational goals without supervision (Menyah, 2013). The theory is grounded on the belief that managers are pro-organizational and obedient servants who, left alone, will act responsibly and ethically to enhance the interests of the organization.

In corporate governance structure, company executives are expected to serve as stewards, working to achieve the interests of shareholders. The primary objective of the Stewardship Theory is to develop a successful company from which the owners may maximize their wealth while at the same time protecting the interests of other stakeholders (Flynn, 2018).

A key advantage of the Stewardship Theory is that there is no confusion regarding the leadership of the company as the CEO is also the chairperson of the board of directors. This arrangement is important as it avoids the duplication of functions of the CEO and the board chair by putting both under one person. This means that the company under the Stewardship Theory structure enjoys lower costs of monitoring and control as these are performed by one individual (Abdullah & Valentine, 2009). Another advantage of the Stewardship Theory is that it recognizes the importance of structure in corporate governance and empowers the stewards to develop trust for the company (Abdullah & Valentine,

2009). This empowerment motivates stewards to work more effectively and diligently without recourse to material benefits from their employer, to raise the performance of the company and optimize shareholders' returns as they develop their own careers (Fama, 1980).

The relevancy of the Stewardship Theory in banking is that it confers stewardship to the managerial cadre of the banks. According to this theory managers are assumed to be obedient and subservient to their employers, the shareholders and perform their duties and obligations diligently, without coercion and supervision, to safeguard and maximize benefits accruing to shareholders. The Stewardship Theory recognizes intrinsic motivation of managers as a means of preventing conflict of interest and raising corporate performance and hence maximizing shareholder value.

### **2.2.3 The Stakeholder Theory**

The Stakeholder theory was developed by R. Edward Freeman in 1978 (Freeman, 1984). The theory rests on the assumption that besides shareholders of a company there are other groups that have interests in the company (Freeman, 1984). Donaldson and Preston (1995) argued that a company has other stakeholders, besides shareholders to whom the company has an obligation to protect and ensure that they got a fair return from the company. While agreeing with this view Fernando (2009) pointed out that besides shareholders of a company, there are other stakeholders, like employees, customers, suppliers and the community in which the company operates that have a stake in the company.

An important feature of Stakeholder Theory is that it lays emphasis on ethical conduct in the interactions between a corporation and its stakeholders. Jones, Freeman and Wicks (2002) argued that companies had a social responsibility to operate ethically even if it meant reducing their profits in the long-term. According to Jones, Freeman and Wicks

(2002) the board of a company had the responsibility of being the guardian of the interests of all stakeholders. The trio argued that it was the responsibility of the board of directors to ensure that a corporation created value not just for its shareholders but also for all stakeholders. They also recommended that the corporate practices that companies engaged in should take account of the principles of sustainability for the surrounding communities in which the corporations operated.

The Stakeholder Theory is critical to the banking industry as it seeks to explain the roles played by all stakeholders as well as providing safeguards against abuse of their rights. Every banking institution is patronized by four parties, namely; shareholders, corporate board, management and other stakeholders.

Shareholders are persons or groups, which have pooled their resources into the bank and are therefore the owners of the bank. Their overriding interest is to maximize profits accruing to their investments. The corporate board, also called the board of directors is made of persons appointed by the shareholders to provide oversight over management to ensure that the interests of shareholders are served. Management consists of technocrats who implement corporate policy and best practices approved by the board of directors. They undertake the day-to-day functions of the banks. Other stakeholders consist of employees, suppliers, communities contiguous to the bank, the government, regulatory body, customers, borrowers, depositors and any other body with an interest in the bank. All the above groups have their roles, interests and rights. In addition to defining the roles of each group, the Stakeholder Theory seeks to protect the rights and privileges of each of these groups.

#### **2.2.4 The Financial Intermediation Theory**

The Theory of Financial Intermediation is a consequence of the work of Gurley and Shaw on financial intermediaries in the 1960s (Andries & Cuza, 2009). In commercial banks, the theory seeks to explain the core function of commercial banks, which consists of harmonizing the interests of both the lender and the borrower in an economy (Andries & Cuza, 2009). The Financial Intermediation Theory is based on the argument that due to information asymmetry there is a differential in access to information between the lenders of funds and the borrowers of such funds (Allen & Santomero, 2019). Financial Intermediaries therefore come in to fill this gap by providing products that satisfy both the lender and the borrower. Information asymmetry arises in the financial markets because depositors of funds are risk averse and uncertain about their future consumption needs while borrowers are well aware of their financial needs for investment (Allen & Santomero, 2019). Financial intermediaries step in to fill this information gap by developing products, which satisfy the needs of both the depositor and the borrower while at the same time covering operations costs.

According to Andries and Cuza (2009), commercial banks, like other financial intermediaries perform two key functions; Transformation of terms and Reduction of transactions costs. Transformation of terms involves setting deposit rates and lending rates which are agreeable to both the depositor and the borrower of funds. In the financial sector depositors who consist of individuals, households and firms prefer to deposit their savings in banks and other institutions at short-term periods in order to reduce liquidity risk. Borrowers, on the other hand prefer long-term credits to finance their investments (Andries & Cuza, 2009). Financial intermediaries therefore act as the go-between, reducing liquidity risk for depositors who give their deposits at short-term periods, while at

the same time extending long-term credit to borrowers to support their long-term investments.

Reduction of costs by commercial banks is achieved by bringing the lender and the borrower of funds into direct contact, thus centralizing the payment process and at the same time avoiding the prospect of direct lending. The existence of financial market imperfections, arising from information asymmetry give rise to some transaction costs. Financial intermediaries reduce transactions costs by centralizing the payment process, thus avoiding wasteful duplication of verification (Andries & Cuza, 2009). Financial intermediaries also cut down costs associated with information asymmetry by bringing lenders into contact with borrowers, thus eliminating the problem of direct lending which requires that there be double coincidence of wants.

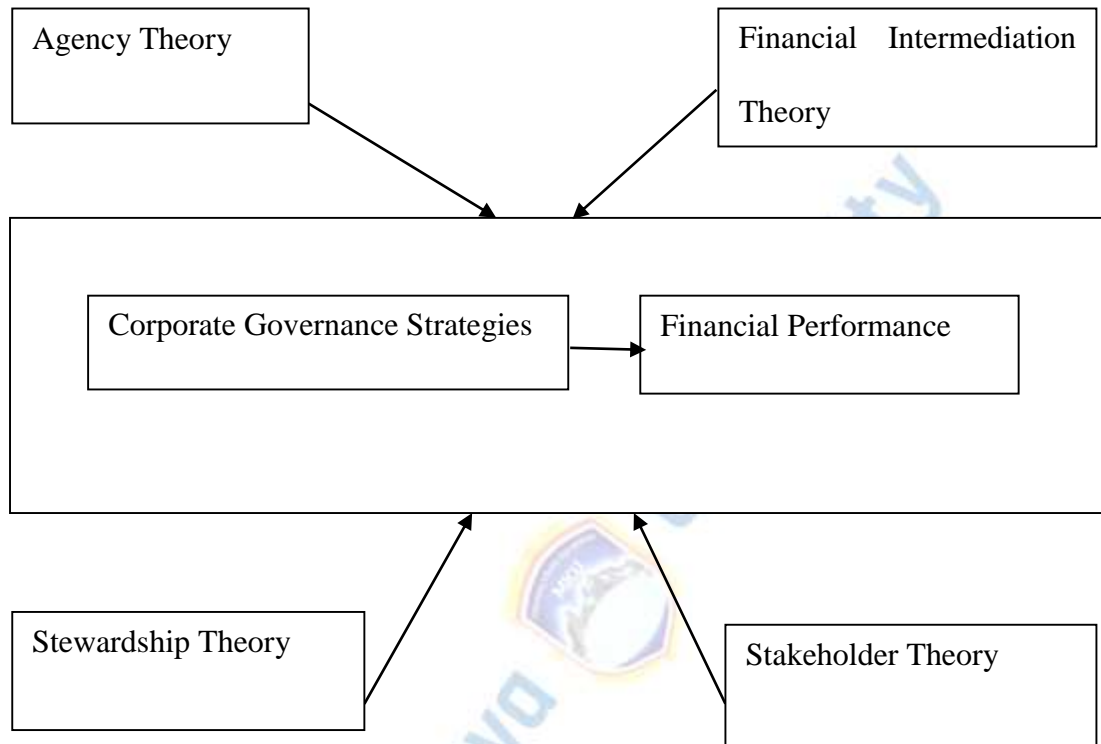
The concept of double coincidence presupposes that a lender would have to move up and down the country looking for someone who needs to borrow money at his own terms, and coincidentally meets a borrower seeking to borrow money at the lender's terms. This process, in which the lender coincidentally gets a borrower willing to accept his terms, is not only cumbersome but it's also inefficient (Sanderson, 2016)

### **2.2.5 Theoretical Framework**

Theoretical Framework is a visual representation of the interrelationship between theories developed by scholars to explain variables identified by researchers for various studies (Kivunja, 2018). This Study employs four theories; the Agency theory, the Stewardship theory, the Stakeholder theory and the Financial Intermediation theory. The Agency theory explains the Corporate Structure and the Strategic Leadership variables, while the Stewardship theory discusses corporate management and assigns stewardship to the managers in the corporation. The Stakeholder theory recognizes the existence of other players

in the corporate setup other than shareholders, while the Financial Intermediation theory discusses the role of commercial banks as financial intermediaries.

The following is a diagrammatic representation of the theoretical framework for this study.



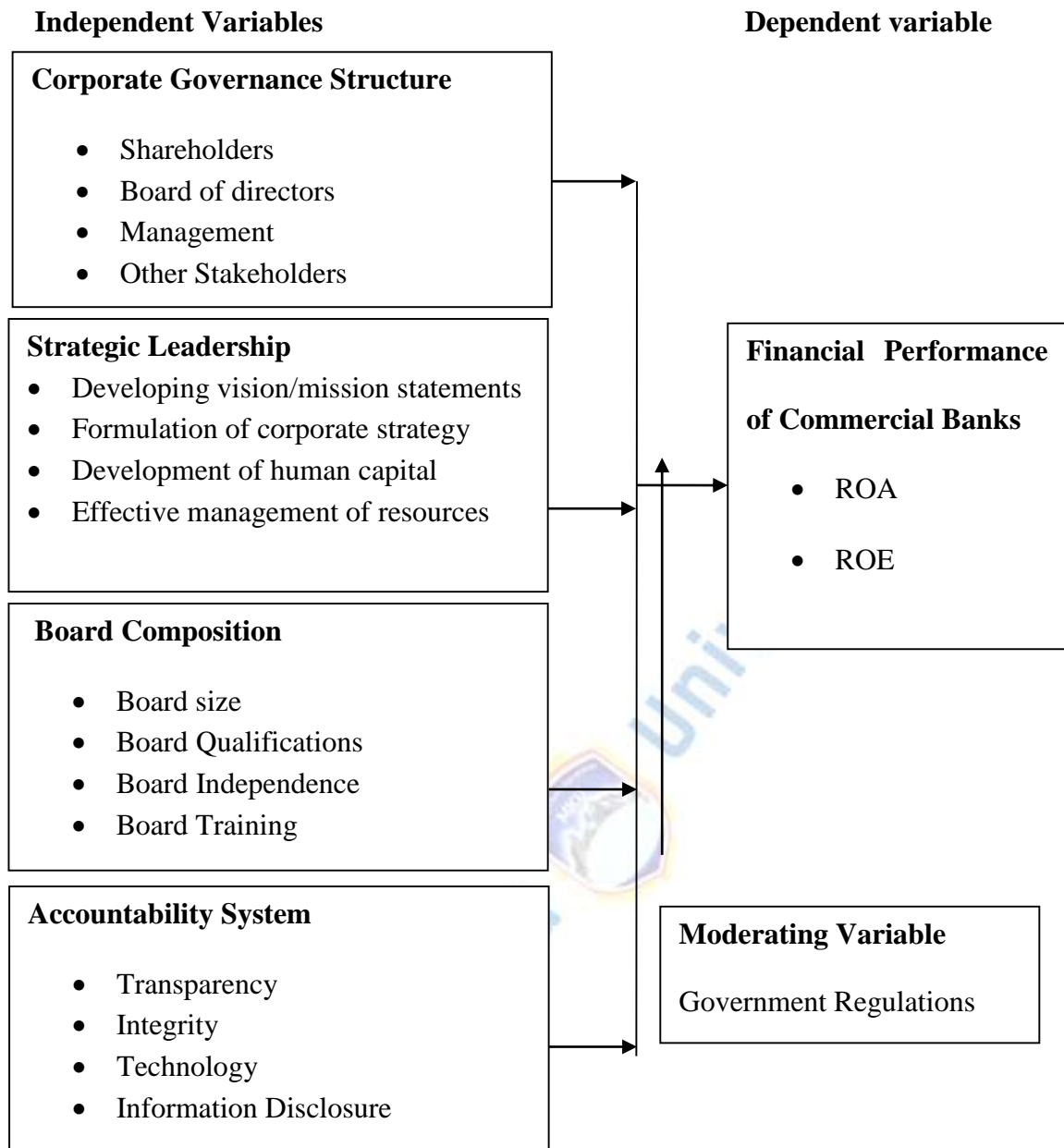
**Figure 1: Theoretical Framework.**

**Source:** Researcher (2021).

### 2.3 Conceptual Framework

Conceptual Framework has been viewed as the researcher's road map in undertaking a study and consists of interrelatedness between the variables that the researcher requires in conducting his investigation (Regoniel, 2015). This Study was guided by three variables, namely; Independent, Dependent and Moderating variables. McLeod (2018) defined an independent variable as one whose change brings a change in the dependent

variable. A dependent variable, according to McLeod (2018) is one, which changes following changes in the predictor (independent) variable. A moderating variable or moderator is a third variable in a regression analysis which affects the correlation between the independent and the dependent variables (Tsang, 2015). Unlike an intervening variable, which explains the correlation between the independent and the dependent variables and is not measurable, a moderating variable can be measured in research (Tsang, 2015). In this Study the Independent Variables were; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. The parameters of measure for financial performance were profitability ratios, ROA and ROE while the Moderating variable was Government Regulations, which included direct government controls and regulatory measures of the Central Bank of Kenya. Below is a diagrammatic representation of the interrelatedness of the three types of variables, called the conceptual Framework, which the researcher used in undertaking this Study.



**Figure 2:** Conceptual Framework

**Source:** Researcher (2021)

## 2.4 Recap of Literature Review

Empirical studies reviewed have provided conclusive results regarding the positive correlation between corporate strategy and bank profitability. Studies by Haniffa and Hudaibu (2006), Shao (2019), Ehikioya (2009) and Sanda (2011) have shown that

Corporate governance Structure is positively correlated to bank financial performance. Studies conducted by Witts (2016), Nyangoka (2016), Nyamu (2017) and Nganga (2018), have revealed that Strategic Leadership does indeed enhance financial performance of commercial banks. Studies conducted by Garcia and Herrero (2018), and Palaniappan (2017) showed that Board Composition plays a significant role in corporate performance. Studies by Halamka, Teply (2016) and Ndungu (2012) have revealed that Accountability System influences corporate governance and performance.

From the afore listed observations it was the researcher's contention that implementation of the above strategies had the potential to reverse the declining trend in performance observed in Kenyan banks in the period 2010-2019 and enable such banks to discharge their core business of financial intermediation.

## **2.5 Research Gap.**

Despite the tight regulatory monetary policy initiatives maintained by the CBK, bank performance in Kenya continued to decline resulting to the collapse of some banks. The failure of the Imperial Bank, the Bank of Dubai, the Chase Bank and the Uchumi supermarket, attributed to inappropriate corporate governance (Mukabwa, 2016) attest to this view. Although current studies conducted did indeed confirm this position no studies had been conducted in Kenyan Commercial Banks involving the four corporate governance strategies; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System as a group. The researcher was of the view that application of the four corporate governance strategies had the potential of raising profitability of banks and promoting financial stability in the money market.

An environmental factor likely to influence the financial performance of commercial banks in Kenya was the COVID-19 pandemic. Containment measures for COVID-19

pandemic, in Kenya were enforced in March 2020. Ambani (2021) observed that as a result of COVID-19 pandemic bad loans in Kenya's nine commercial banks in Tier 1 CBK classification increased from Ksh 257.4 billion in the first quarter of 2020 to Ksh.339.9 of the same period in 2021. Non-performing loans (NPLS) rose from 12.5% in 2020 to 14.5% in 2021. These effects had the potential of affecting commercial bank performance and hence the correlation between corporate governance strategies and financial performance of commercial banks.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

In this chapter, the researcher discussed Research Methodology and the design of the Study. The specific contents include; Research Philosophy, Research Methodology, Research design, Location of the Study and Rationale, Target Population, Sampling Procedure and Techniques, Sample Population, Data Collection Instruments, Testing for Validity and Reliability of Research Instruments, Data Collection Methods and Procedures, Data Analysis, Techniques and Procedures, and Ethical Considerations.

#### **3.1 Research Philosophy**

Research Philosophy has been viewed as both the process of creating knowledge and the type of knowledge created (Chetty, 2016). It involves data collection, analysis and use (Thakurta, 2015). Research Philosophy falls into four categories; Pragmatism, Positivism, Realism and Interpretivism (Thakurta, 2015). Of the four categories, the researcher used the Positivism Research Philosophy for this study. The rationale behind the choice of Positivism Philosophy was that it relies on quantifiable observations and statistical analysis which lead to generalizations (Dudovskiy, 2018).

These views were in agreement with the design of this study which relies on quantifiable observations, analysis, and interpretation of both quantitative and qualitative data and whose findings could be generalized and used for policy formulation in the banking industry.

### **3.2 Research Design**

Scholars view research design as the way data is collected, analyzed, interpreted and reported in a research study (Creswell, 2013). It's a plan developed for answering research questions. This study used the Explanatory Research design, which aims at identifying causes and effects of phenomena and explaining the reasons for occurrence of such phenomena (DeCarlo, 2018). This design is relevant to this study, as it's concerned with identifying causes of declining financial performance of commercial banks. Explanatory designs are also characterized by research hypotheses, which define the correlation between the independent variables and the dependent variable (DeCarlo, 2018). This view resonates with the purpose of this study, which comprises of hypotheses designed to test whether or not corporate governance strategies correlate with financial performance of commercial banks.

The researcher, in this Study collected data using Mixed-Methods approach. Quantitative data were collected using a 5-1 Likert Scale, which sought to get respondents' degree of agreement with the given responses. Qualitative data were collected by seeking opinions of respondents and categorizing these into groups of similar themes.

This approach was considered important because it provided more information and gave respondents more latitude to give their views on pertinent issues of the Study.

### **3.3 Location of the Study and Rationale**

Since banks were the units of analysis in this study, the researcher used corporate level managers, in charge of departments at each bank's head office, located in Nairobi, as respondents. The rationale for this choice was that all information required to answer the research questions could be provided by the corporate- level managers of each bank at

the bank's head office, who were privy to corporate-level policies, strategies and practices.

### **3.4 Target Population**

Target population refers to the entire population to which the findings of a study would be generalized (Berg & Lune (2017)). The target population for this study was the 40 banking institutions in Kenya, which included 39 commercial banks, and the Housing Finance Company of Kenya (CBK, 2020). The researcher sampled the 9 large banks in Tier 1 of the CBK classification (CBK, 2020), 8 of which were used for the main study while data from the 9<sup>th</sup> bank were used for the pilot study. The study targeted 112 respondents, 14 of whom were drawn from among corporate level managers in each of the 8 large commercial banks used for the main study.

### **3.5 Sampling Procedure**

Although the population of banking institutions in Kenya was 40, the researcher purposively selected the 9 large commercial banks classified under Tier 1 by the CBK (2019) for this study. The rationale behind this was that the large banks controlled 74.7% of the market share in the banking sector in Kenya's money market. That meant that the large banks were a sufficient and adequate representation of the banking sector. Besides this, the 9 large banks had the necessary financial and human resource infrastructure required to facilitate adequate investigations of the corporate governance strategies in this study. The Study used commercial banks as units of analysis. The implication was that respondents from these banks could provide all the necessary information required to answer the research questions. Since corporate governance strategies were a product of decisions made at the corporate level of management the Study used corporate level managers,

who were in charge of departments and implemented corporate policies and strategies in the banks (Gachimu, 2017). One out of the 9 large banks was randomly selected for purposes of pilot testing the research instruments, leaving 8 large banks for the main study. Although there was no strict uniformity in the job descriptions of corporate level managers in the 8 large banks in Tier 1 there were nevertheless generic functional departments that were common to all the banks. The researcher identified and extracted 14 top management positions from published CBK reports (CBK, 2020) which, in his opinion were relevant for purposes of gathering information for the study.

The sample population for this Study comprised of 112 respondents made of 14 corporate members chosen from each of the 8 commercial banks in CBK Tier 1 Classification. The choice of the 14 was based on the possible areas that the researcher would base the research questions. This sample population for the Study is shown in Table 3.

**Table 3: Corporate Level Managers (CLM)**

<b>Corporate Level Managers</b>	<b>Sample size</b>
Managing Director (MD)	8
Chief Finance Officer (CFO)	8
Company Secretary and Head of Legal Affairs	8
Director Internal Audit	8
Director Operations	8
Director Corporate Banking	8
Director Risk management	8
Director Retail Banking	8
Director Marketing	8
Director Credit Management	8
Director Branch Banking	8

Director Investment Banking	8
Director Human Resource Management	8
Director IT	8
Total	112

**Source:** Extracts from published reports of Executive Management Committees of Commercial Banks (CBK, 2020)

### 3.6 Data Collection Instruments

The researcher collected primary data from corporate level managers using a questionnaire, which had both closed-ended and open-ended questions. Questionnaires were left to respondents to be filled and collected later as agreed. Necessary arrangements were however made to ensure clarifications were made on issues that were not clear, either by phone or by email. The advantage with a questionnaire as a data collection instrument was that it was cheap and efficient and could be used to collect large volumes of data. (McLeod, 2018).

Although all 8 commercial banks were served with 14 questionnaires each, for the 14 corporate managers identified, not all respondents returned their questionnaires, even after the research assistants had made as many as four visits to the particular banks to collect them, as agreed. In the end, after a change of tact, which involved getting to the respondents via other senior officials in the bank, the burden of data collection was eased and a total of 85 questionnaires were returned, giving a response rate of 76%, which was well over the 50% acceptance response rate recommended by Mugenda and Mugenda (2004).

Quantitative data were collected by use of a 5-1 Likert Scale. The Likert Scale questions consisted of closed-ended questions, which allowed the respondent to choose one out of

five choices. Qualitative data were collected from open-ended questions, which allowed respondents to give their opinions on issues pertaining to the research questions. Secondary data on profitability ratios were collected from CBK's published profitability ratios for the period 2010-2019 using collection sheets, for the 8 commercial banks registered under Tier 1 (CBK, 2020)

### **3.7 Piloting of Research Instruments**

A pilot study is a small-scale replica of a larger-scale study intended to test the feasibility of a research design (Leon, Davis & Kraemer, 2010). Mugenda and Mugenda (2012) recommended that samples of 10-50% of the population would be sufficient for purposes of conducting feasibility studies in research. I&M bank was purposively chosen for piloting the research instrument because of its high performance despite its comparatively low scope. The research instrument used for this study was a close-ended and open-ended questionnaire whose respondents were corporate level managers. 8 filled questionnaires were returned out of the 14 given for piloting purposes. Two tests namely; Test of Validity and Test of Reliability were carried out on the questionnaire.

#### **3.7.1 Testing for Validity of Research Instrument**

Validity of a research instrument refers to the accuracy with which the instrument measures the phenomenon being measured (Surbhi, 2017). The research instrument used for this study was a questionnaire with closed-ended and open-ended responses. The relevant validity for the study was content validity. Clause (2015) held that content validity was about how accurately a research instrument measured what it was expected to measure. According to Clause (2015), content validity was established by relying on expert

knowledge of subject-matter experts who examined the research instruments and gave a feedback on their accuracy and suitability.

To ascertain whether the questionnaire used in this Study had content validity the quantitative items (closed-ended questions) and the qualitative items (open-ended questions) were developed based on the research objectives and research questions. The items in the questionnaire were then subjected to the scrutiny of subject experts who comprised of course supervisors and defense panelists from within and outside of Mount Kenya University. These subject-matter experts examined the questionnaire and gave the necessary feedback on how to improve their accuracy and efficacy. Recommendations for improving the questionnaire by supervisors and panelists were implemented accordingly as advised by the defense panelists and external examiners.

### **3.7.2 Testing for Reliability of Research Instruments**

Reliability in research refers to how consistent a research instrument measures a given construct over time (Surbhi, 2017). The instrument of measure for this study was the Cronbach's Alpha test. The Cronbach's Alpha test is a measure of internal consistency of a set of test items (Goforth, 2015). It's a coefficient, which measures the strength of internal consistency of a given construct (Goforth, 2015). The Cronbach's Alpha is defined by the equation;  $\alpha = \frac{NC'}{V' + (N-1) C'}$ , where N is the population targeted for the study, C' is average covariance among items and V' is the average variance (Goforth, 2015). The coefficient,  $\alpha$ , obtained by encoding the data on the SPSS-26 editor and running the Cronbach's Alpha test is called the Cronbach's Alpha Coefficient. The Cronbach's alpha coefficient for this Study was found to be  $\alpha = .800$ . A research instrument is considered to have internal consistency if it has an  $\alpha$  value in the range  $\alpha \geq .7$

(Kothari & Garg, 2014). The Cronbach's Alpha Coefficient analysis for this Study was conducted under section 4.1 in Chapter 4.

### **3. 8 Data Collection Procedure**

Upon acceptance of the research proposal by Mount Kenya University, the researcher sought and was granted clearance by NACOSTI to conduct the research. The researcher and his two assistants then visited the head offices of each of the 8 commercial banks in Tier 1 to build rapport with the respondents and arrange when to deliver research questionnaires for filling. The greatest challenge in the data collection process was that it was not possible to meet the respondents in each bank as a group, to brief them about the research, due ostensibly to their commitments. Indeed, the impression given by respondents in these banks was that responding to researchers' questionnaires was not a priority and would only be attended to after officers had performed their core duties. It therefore forced the researcher and his assistants to wear an aura of patience, humility and excellent public relations to get the audience of these senior officers.

The researcher and his two research assistants had to contend with delivering the questionnaires to the head offices of the banks where they were received at the offices of the HRM (Human Resource Managers), who promised to deliver them to individual respondents. It was then agreed that the filled questionnaires be collected after two weeks.

Although the research assistants did visit the head offices as agreed, only a handful of questionnaires had been returned. Two more visits a week apart only yielded about 20% of the returned questionnaires. The researcher was advised to contact individual respondents directly through friends within or outside the particular banks instead of relying on the formal channel of communication, which required leaving them with the

HRM for onward delivery to respondents. This change of tact produced 56% more responses constituting, in all, 76% response rate.

### **3.9 Data Analysis**

Analyses of both primary and secondary data were done by descriptive and inferential statistics. Descriptive statistical analysis focuses on describing facts of a summarized data set. It is concerned with summarizing and describing characteristics or features of a given data set (Creswell, 2013).

In this study, the researcher collected quantitative data by use of 5-1 Likert Scale. These were grouped in tables and analyzed by use of three descriptive measures, namely; Measures of Distribution, Measures of Central Tendency and Measures of Dispersion. Measures of Distribution involve the use of frequencies and percentages. Measures of Central Tendency aim at describing the data points at the center of a distribution. The measure of Central Tendency used for this Study was the mean. Measures of Dispersion (variability) show how data points are spread out in the distribution. The measure of Dispersion used in the study was the Standard Deviation. Qualitative data collected from open-ended responses were analyzed by use of Thematic Analysis, which involved identifying repeated patterns in a data set and grouping them in various themes, which were then analyzed descriptively and reported accordingly.

Inferential Statistics, on the other hand, relied on randomly selected samples to make predictions and generalizations about a larger population (Creswell, 2013). The purpose of Inferential Statistical Analysis was to use the data collected to find out whether there was a relationship between the independent and the dependent variables, and whether indeed the findings were generalizable to the entire banking population in Kenya.

Inferential Statistical analysis focused on testing the null hypothesis to determine whether or not to accept it, and conducting the relevant regression analysis to find out the strength of the relationship between the independent and the dependent variables. Inferential statistical analysis in this study was done by coding quantitative data onto the editor of SPSS Version-26 software and running the Regression Analysis. The results of the Regression Analysis were the coefficients of determination,  $R^2$  which determined the correlation between the Independent and the Dependent variables. The magnitude of each value of  $R^2$  showed the extent to which bank profitability depended on corporate governance strategies.

### **3.9.1 The Regression Model of the Study.**

The regression model for the study was based on the following regression equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

where:

Y was Financial Performance,

$X_1$  was Corporate Governance Structure,

$X_2$  was Strategic Leadership,

$X_3$  was Board Composition,

$X_4$  was Accountability System

$X_5$  was Government Regulations and

$\alpha$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ , and  $\beta_5$  are constants.

The constant  $\alpha$  is the Y-intercept. It represented the level of performance achieved when no corporate governance strategy had been implemented.  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ , and  $\beta_5$  were coefficients of the independent variables.

$\varepsilon$  was the error term or residue, which represented the difference between the actual and predicted values.

To determine the relationship between corporate governance strategies and financial performance, data on financial performance, Y were regressed against data on each of the strategies; X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub>. The values of the coefficients of determination R<sup>2</sup>, resulting from the regression analyses of each operation showed the strength of the relationship between the independent variables, X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and X<sub>4</sub> and the dependent variable Y. A value of  $0.40 \leq R \leq 0.69$  indicates a strong positive relationship while  $0.70 \leq R \leq 0.99$  indicates a very strong positive relationship (Williams, & Piepho, 2015). Regression analysis was also run for the moderating variable, X<sub>5</sub> to determine whether government regulations affected the correlation between corporate governance strategies and financial performance of commercial banks. The results for this analysis are shown in chapter 4.

### **3.9.2 Operationalization of Research Variables**

McLeod (2018) defined operationalization of research variables as the way the researcher defines and measures those variables used in his study. The researcher in this study has identified the following four independent variables: Corporate Governance Structure , Strategic Leadership , Board Composition and Accountability System .

The dependent variable was financial performance measured by ROA and ROE.

The choice of these is accordance with McLeod (2018)

Operationalization of variables in this study are illustrated in Table 4.

**Table 4: Operationalization of Variables**

Type of Variable	Specific Variable	Measures	Notation
Dependent Variables (DVs)	Financial Performance	-Return on Assets = Net income/ Total assets	ROA
		-Return on Equity= Net income /Equity	ROE
Independent Variables (IVs)	Corporate Governance	- shareholders - corporate board - management - Other stakeholders	
	Strategic Leadership	- Vision and Mission statements - Formulation of corporate strategy - Development of human capital - Effective resource management	
	Board Composition	- Board size - Board qualifications - Board training - Board Independence	
	Accountability System	- Transparency - Integrity - Information disclosure - Technology used	

**Source:** Researcher (2021)

### 3.10 Ethical Considerations

The importance of ethics in research was highlighted by Resnik (2011) when he pointed out that ethical norms in research helped in promoting aims of research. Some of these included the acquisition of knowledge, truth and avoidance of error. He also observed that ethics helped in promoting values for collaborative work which were essential for cooperation among the many different people and institutions involved in research. In addition, Resnick (2011) advanced the importance of ethical norms as a means of holding researchers accountable to the public for the consequences of their researches.

In this study the researcher maintained ethical values by; seeking and obtaining consent to conduct the research from Mount Kenya University and NACOSTI and articulating, convincingly, the purpose of the research, the procedures of carrying out the research and the risks involved in the research to respondents. He also maintained integrity and intellectual honesty by citing all works he made references to.



## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

#### **4.0 Introduction**

The contents of this chapter consist of findings and discussions resulting from analyses of Influence of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya. The contents of the chapter were grouped into three sections. The first section consists of Introduction, Pilot Test of Research Instruments, Response Rate and Background Information. The background information consists of Respondents' Characteristics and Measures of Financial Performance of Commercial Banks in Kenya.

The second section consists of descriptive analyses of Study variables comprising of data set organized thematically according to the following objectives of the study; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. Ethical Considerations were also discussed at the end of this section.

The third section contains inferential statistical analysis consisting of tests of basic Statistical Assumptions, Hypotheses testing, Regression Analysis and Moderating effect of Government regulations on correlation between Corporate Governance Strategies and Financial Performance of Commercial Banks in Kenya.

#### **4.1 Pilot Test of Research Instruments**

The research instrument in this study comprised of a questionnaire with both closed-ended and open-ended questions. The researcher carried out two tests to determine whether the research instrument was feasible and could be used to answer the research questions. The two tests carried out were Validity and Reliability tests. Content

Validity of the research instrument was covered under section 3.7.1 in Chapter 3. Reliability test was carried out by conducting the Cronbach's Alpha Coefficient analysis in the SPSS-26 Software.

#### **4.1.1 Test of Reliability of a Research Instrument: Analysis of Cronbach's Alpha Coefficient.**

Reliability in research refers to how consistent a research instrument measures a given construct over time (Surbhi, 2017). The instrument of measure for this study was the Cronbach's Alpha test. The Cronbach's Alpha test is a measure of internal consistency of a set of test items (Goforth, 2015). It's a coefficient, which measures the strength of internal consistency of a given construct (Goforth, 2015). The Cronbach's Alpha is defined by the equation;  $\alpha = \frac{NC'}{V' + (N-1) C'}$ , where N is the population targeted for the study, C' is average covariance among items and V' is the average variance (Goforth, 2015). The coefficient,  $\alpha$ , obtained by encoding the data on the SPSS-26 editor and running the Cronbach's Alpha test is called the Cronbach's Alpha Coefficient. The Cronbach's alpha coefficient for this Study was found to be  $\alpha = .800$ . A research instrument is considered to have internal consistency if it has an  $\alpha$  value in the range  $\alpha \geq .7$  (Kothari & Garg, 2014).

**Table 5: Average Reliability Statistics of Corporate Governance Strategies**

Variables	Cronbach Alpha Based on Standardized Items	No. of items
Average Reliability of Statistics of Corporate Governance strategies	$\alpha = .800$	24

**Source:** Field Data (2022)

The main tool consisted of four constructs namely; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System, each with 6 items or indicators or factors. The Cronbach's Alpha values for each of the four constructs are as shown in Table 6. These represent the specific reliability scores for each of the four constructs.

**Table 6: Reliability Statistics of specific Constructs of Corporate**

**Governance Strategies**

Variable	Cronbach Alpha	Based	No. of items
	on Standardized Items		
Corporate Governance Structure	.870		6
Strategic Leadership	.792		6
Board Composition	.811		6
Accountability System	.724		6
<b>Average</b>	<b>.800</b>		<b>24</b>

**Source:** Field Data (2022)

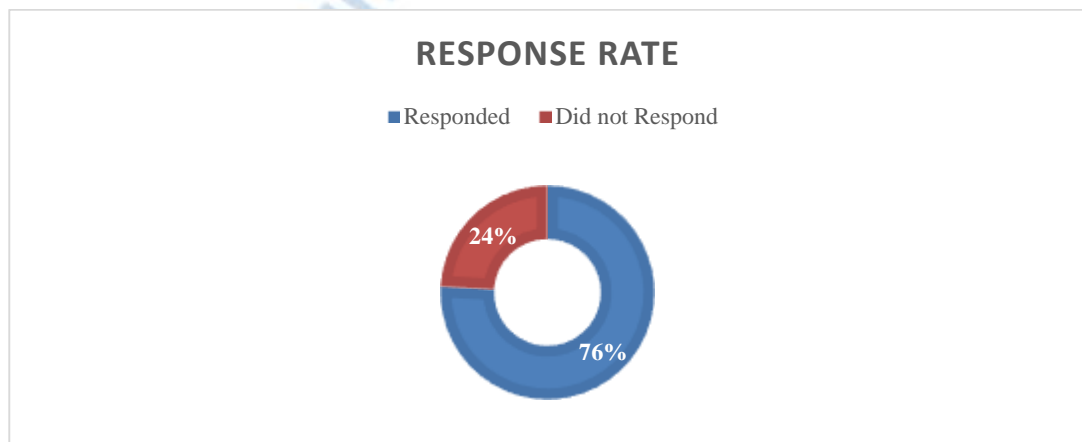
Cronbach's Alpha Coefficients vary from 0 to 1 with coefficients closest to 1 showing highest internal consistency. A research instrument was considered as reliable if it met the acceptable range of  $\alpha \geq .7$  recommended by Kothari and Garg (2014). Mugenda and Mugenda (2012) went further and classified values from Cronbach's Alpha test as follows;  $.7 \leq \alpha \leq .8$  as acceptable, values in the range,  $.8 \leq \alpha \leq .9$  as good and acceptable and values in the range  $\alpha \geq .9$  as very good and acceptable.

Cronbach's Alpha scores for both the entire questionnaire and the specific constructs fell above the acceptable range of internal consistency recommended by Kothari and Garg

(2014) and Mugenda and Mugenda (2012), indicating that they measured internal consistency of the constructs quite reliably.

#### 4.2 Response Rate

The researcher sought to establish the response rate of the respondents. The study targeted 112 corporate level managers as respondents, drawn from 8 of the 9 commercial banks in Tier 1 of the CBK (2020) classification. These consisted of 14 corporate level managers in charge of departments in each bank. The researcher collected primary data from corporate level managers using a questionnaire, which had both closed-ended and open-ended questions. The study findings show that a total of 112 questionnaires were distributed out of which 85 were successfully completed and returned, thus giving a response rate of 76.0%. Mugenda and Mugenda (2012) recommended that a 50% response rate was satisfactory, 60% good while 70% and above was rated as very good response rate. Based on this information, the response rate of 76.0% was very good and acceptable for purposes of making decisions on the findings and conclusions from the Study. These findings were illustrated in the pie-chart shown below, with a response rate of 76% and a non-response rate of 24%. The response rate is illustrated in the pie chart in Figure 3.



**Figure 3: Response Rate**

**Source:** Researcher's Field Data (2022)

### **4.3 Background Information**

This section consists of basic information concerning the characteristics of respondents and the commercial banks they represented. The respondents were drawn from corporate level managers of 8 Tier 1 commercial banks according to CBK (2020) classification. Tier 1 commercial banks consisted of the large banks which held between them a market share of about 74.7% (CBK, 2020) in the banking sector and had the necessary infrastructure development needed to facilitate implementation of the corporate governance strategies identified.

#### **4.3.1 Respondents' characteristics**

Respondents' characteristics consisted of those attributes, which defined their demographics and work-related information. The specific characteristics examined in this section included respondents' age, gender, functional positions held in the banks and periods during which the respondents held those positions. This information was useful in this research because it assisted in understanding the characteristics and nature of the persons whose opinions and decisions the researcher relied on in arriving at the findings reached in the study. The findings are contained in Table 7.

**Table 7: Respondents' Characteristics**

<b>Characteristics of Participants</b>		<b>Frequency</b>	<b>Percentages</b>
Gender	Male	49	57.6
	Female	36	42.4
	<b>Total</b>	<b>85</b>	<b>100</b>
Age	20-30 Years	0	0
	31-40 Years	6	7.1
	41-50 Years	45	52.9
	51-60 Years	27	31.8
	Over60 Years	7	8.2
	<b>Total</b>	<b>85</b>	<b>100</b>
Functional Role	Board of di- rectors	0	0
	Depart- mental Man- agers	85	100
	Shareholders	0	0
	Employees	0	0
	<b>Total</b>	<b>85</b>	<b>100</b>
Duration in the posi- tion in the bank	0-5	8	9.4
	6-10	19	22.4
	11-20	32	37.6
	Over 20	26	30.6
	<b>Total</b>	<b>85</b>	<b>100</b>

**Source:** Field Data (2022)

The findings of the study, in Table 7 were that 57.6% of the respondents were male while 42.4 % were female. The deduction from the study was that there was gender mainstreaming in the banking sector as no gender was found to be dominant in corporate governance structure. All participants in the study (100%) male or female were corporate level managers meaning that they were conversant with the management of their banks. The study also sought to establish the age of the respondents in the banking sector. This was necessary because there was need to establish whether the respondents had a proper understanding of the banking sector. The findings in table 7 indicated that majority of

respondents represented by 37.6 per cent had worked in the banking sector for 10 to 20 years. The finding also showed that the most productive age of top bank executives was aged between 41-60 years, represented by 84.7%. Top bank executives aged 31-40, represented by 7.1 percentage came from large upcoming banks while top executives in the age bracket over 60 years were found to be from big and established banks, in Tier 1 classification which had been in existence for many years. The study established that there was no manager within the age bracket 20-30 years, and that the majority of the managers lived in the age brackets 41-50 years (52.9%) and 51-60 years (31.8%). Those in the age brackets 31-40 were 7.1% while those in the age bracket 60 years and over were 8.2%. The study established that, age distribution of the respondents ranged from 31 years to 60 years and above. This was re-assuring, as top-level decisions expected of corporate managers had to come from persons who had served and risen up through the ranks over time. That there were no top executives within the age bracket, 20-30 years meant that advancement in career progression was based on work experience.

Another aspect of respondents' background information highlighted in this study was the functional role played by the various top executives in the banks. All the 85 returned questionnaires represented by 100% were from top corporate managers. The choice of only top managers was important and necessary in order to forestall bias in responding to the research questions.

Related to functional roles played by bank executives was also the question of work experience of various managers. The results showed that 37.6 per cent of the respondents had worked in the banking sector for 11-20 years while 30.6% had served for over 20 years. 22.4 per cent of the respondents had worked in the banking sector for between 6-10 years while 9.4 per cent had worked in the banking sector for less than 5 years. These findings indicated that the top management cadre of the banks had adequate working

experience in the banking sector which meant that they possessed the relevant and requisite information, knowledge and institutional memory considered useful for this study. The study established that there was no manager within the age bracket 20-30 years, and that the majority of the managers lived in the age brackets 41-50 years (52.9%) and 51-60 years (31.8%). Those in the age brackets 31-40 were 7.1% while those in the age bracket 60 years and over were 8.2%. The study established that, age distribution of the respondents ranged from 31 years to 60 years and above. This was re-assuring considering that top-level corporate managers were charged with the responsibility of designing policies and best practices which would guide the future direction of the company. The length of time through which the managers had worked in the banks enabled them to gain the requisite experience to respond competently to the research questions.

#### **4.3.2 Analysis of Measures of Financial Performance of Commercial Banks in Kenya**

In his section the researcher discussed findings reached on key performance indicators of commercial banks in Kenya during the period 2010-2019. Measurement of bank performance was conducted by use of secondary data on two profitability ratios namely; Return on Assets (ROA) and Return on Equity (ROE). The time series data for ROA, reproduced from Appendix V is given below.

**Table 8: Bank Profitability Ratio: ROA (%): 2010-2019)**

Bank/Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1 KCB	5.17	4.98	5.2	5.5	5.93	5.01	5.64	4.94	5.0	4.9
2 Equity	6.95	6.84	7.4	7.7	7.26	6.56	6.00	5.68	5.6	5.1
3 Co-Op	3.61	3.68	4.8	4.7	4.43	4.14	5.15	4.31	4.3	4.5
4 SCB	5.37	5.03	5.9	6.0	6.42	3.83	3.83	3.34	4.0	4.2
5 ABSA	6.24	7.18	7.0	5.8	5.44	5.01	4.02	3.68	3.2	3.2
6 DTB	4.90	4.19	4.9	4.9	4.47	3.69	3.64	3.05	3.3	3.2
7 Stanbic	1.96	2.23	3.5	4.1	4.31	3.56	3.37	2.34	3.1	2.8
8 NCBA	4.24	3.58	4.0	3.6	2.57	3.14	3.60	3.13	3.4	2.0
Mean	4.81	4.71	5.34	5.25	5.10	4.37	4.40	3.80	4.0	3.73

**Source:** Extracts from CBK Bank Supervision and Annual Reports (CBK, 2020)

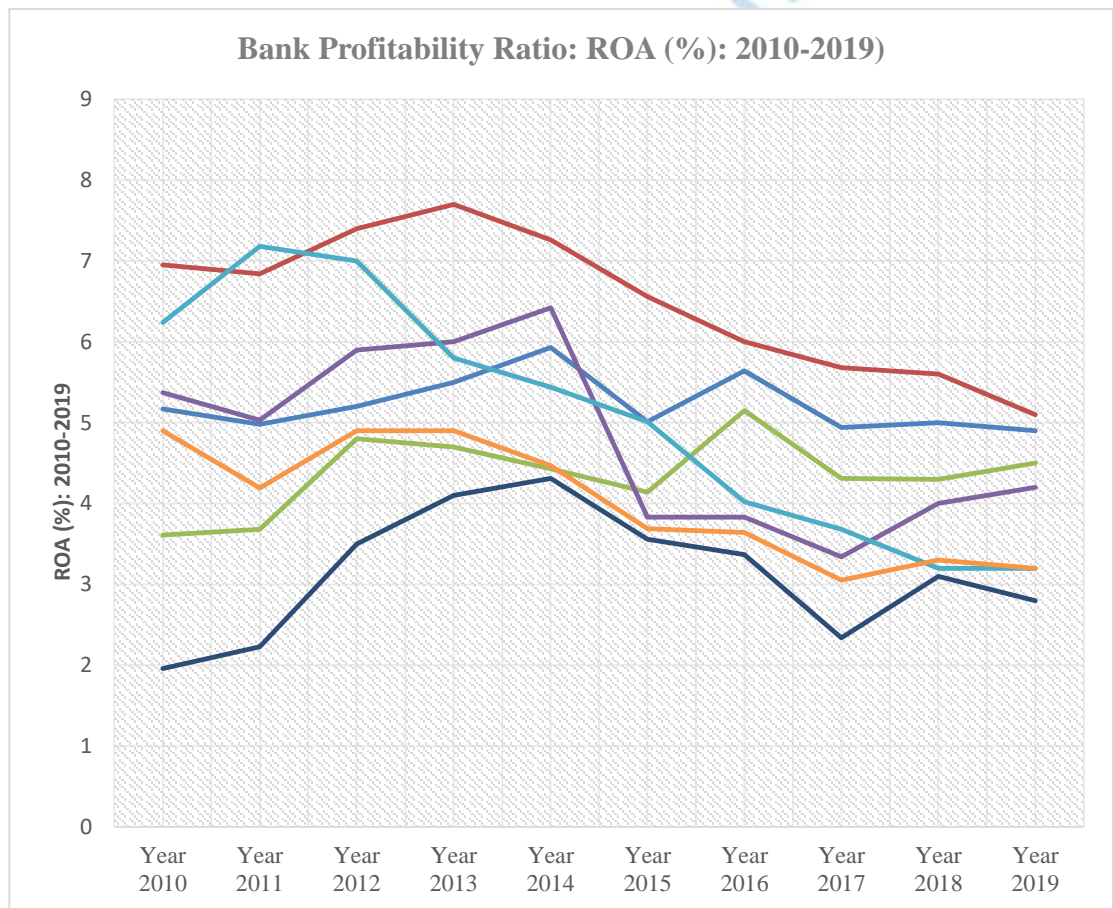
The analysis of ROA indicated that the first three years (2010-2012) of the study period produced the highest average returns on assets recording an average ROA value of 4.97%. It's also during this period that the Tier 1 banks produced the highest ROA value of 5.34% in 2012. The second part of the study period (2013-2015) registered an average ROA value of 4.90% representing a decline of 2.3%. In the third part of the study period (2016-2019), the average ROA value declined from 4.90% to 4.19%. This period also saw the group of 8 Tier 1 banks produce the lowest average ROA in the entire study period, of 3.17% in 2019. The entire 10-year period registered a percentage decline in performance represented by a ROA value of 28.8%

Table 9 illustrates the progressive decline in performance of the 8 commercial banks in the 10-year study period.

**Table 9: Financial Performance of Commercial banks measured by ROA (2010-2019)**

Statistical Analysis		
Mean ROA: 2010-2019	4.55%	
Period 1: Mean ROA 2010-2012	4.97%	P1
Period 2: Mean ROA 2013-2015	4.90%	P2
Period 3 : Mean ROA 2016-2019	4.19%	P3
Minimum ROA 2010-2019	3.17%	Year 2019
Maximum ROA 2010-2019	5.34%	Year 2012
Percentage Decline of ROA, 2010-2019	28.8%	

Graphically, the financial performance decline was illustrated by figure 4 shown below.



**Figure 4: Bank Profitability Ratio: ROA (2010-2019)**

The financial performance of the 8 commercial banks was also measured by ROE for the period 2010-2019. The Profitability Ratio: ROE (2010-2019) reproduced from Appendix VI is shown in Table 10.

**Table 10: Bank profitability Ratio: ROE (2010-2019)**

<b>Bank/ Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
KCB	28.23	31.18	29.8	28.4	31.0	29.0	35.2	30.9	32.1	35.8
Equity	32.9	34.53	37.6	36.0	49.4	47.2	43.2	37.2	40.2	37.2
Co-Op	27.52	29.47	33.1	30.0	29.5	28.5	30.0	24.2	25.7	26.4
SCB	37.94	40.11	37.6	37.0	35.4	21.9	24.8	21.3	25.2	26.9
ABSA	34.25	41.11	44.0	36.8	32.5	30.4	29.1	23.0	23.7	26.9
DTB	35.64	31.34	31.4	30.0	24.5	23.5	24.4	19.1	19.4	17.8
Stanbic	20.96	30.82	26.0	31.3	27.7	25.1	22.9	16.9	25.4	21.2
NCBA	36.06	30.04	34.3	32.5	25.3	27.4	27.6	22.8	23.3	13.4
Mean	31.69	33.58	34.23	32.7	31.91	29.13	29.7	24.43	26.88	25.75

Source: Extracts from CBK Bank Supervision and Annual Report (CBK, 2020)

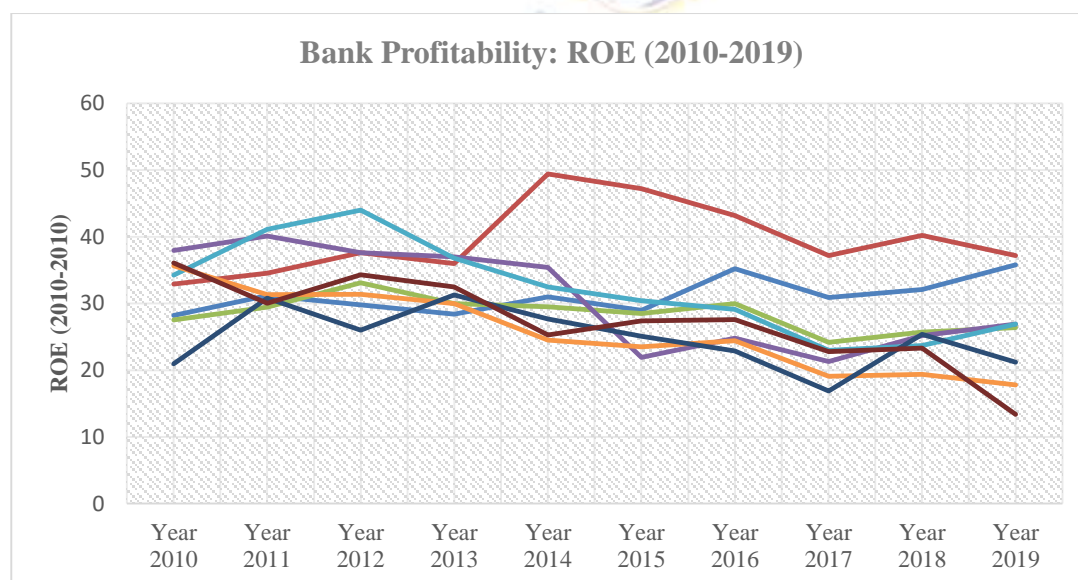
Like was the case with ROA, the first three years of the study period (2010-2012) produced the highest average returns on equity (ROE) of 33.17. The year 2012 also saw the 8 Tier 1 banks produce the highest ROE value of 34.23 in the entire study period. The next three years (2013-2015) saw the ROE values decline to an average value of 31.3.

The last four years of the study period (2016-2019) produced an average ROE value of 26.7 with 2017 registering the least value of 24.4. These changes are illustrated in Table 11.

**Table 11: Financial Performance of Commercial banks measured by ROA (2010-2019)**

Statistical Analysis		
Mean ROE for 2010-2019	30.4	
P1: Mean ROE: 2010-2012	33.2	P1
P2: Mean ROE 2013-2015	31.3	P2
P3: Mean ROE 2016-2019	26.7	P3
Minimum ROE 2010-2019	24.4	Year 2017
Maximum ROE 2010-2019	34.2	Year 2012
Percentage average decline of ROE from 2012 to 2019	24.9%	

The progressive decline in ROE for the period 2010-2019 was illustrated graphically in Figure 5 below.



**Figure 5: Bank profitability Ratio: ROE (2010-2019)**

#### **4.4 Descriptive Analysis of Study Variables**

The purpose of this study was to investigate influence of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya. The variables investigated were; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. Both Descriptive and Inferential Statistics were used for purposes of analyses. The following are descriptive analyses of influence of each of the four Strategies on Financial Performance of Commercial Banks in Kenya.

##### **4.4.1 Corporate Governance Structure and Financial Performance of Commercial Banks, Kenya**

Descriptive analysis of influence of Corporate Governance Structure on Financial Performance of Commercial Banks were undertaken by use of a 5-1 Likert Scale requiring the respondents to say to what extent they agreed with given statements. The rating 5 showed strong agreement while a rating of 1 indicated strong disagreement. The research instrument consisted of a closed-ended and an open-ended questionnaire. Corporate governance structure was measured using four observable variables, namely;

Shareholders, Board of directors, Management and Other Stakeholders. These constitute parties that form the corporate governance structure. The four elements were measured by use of the following parameters of measure; effectiveness of boards 'oversight role, effective working relationships among parties, equitable treatment of all members, policy implementation by corporate management, differential access to information between shareholders and management, and forums for stakeholders to ventilate about issues affecting them.

The findings were presented in Table 12, in mean score, standard deviation and frequencies for each item.

**Table 12:** Corporate Governance Structure and Financial Performance of Commercial Banks, Kenya

Corporate Governance Structure	5-SA		4-A		3-N		2=D		1=SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Board of directors oversight role	61	71.7	19	22.5	5	5.8	0	0.0	0	0.0	4.67	1.05
Effective working relationship	42	49.4	40	47.0	3	3.5	0	0.0	0	0.0	4.48	1.2
All stakeholders are treated equitably	47	55.3	32	37.6	0	0.0	6	7.0	0	0.0	4.43	1.3
Policy decisions implemented	41	48.2	30	35.2	14	16.4	0	0.0	0	0.0	4.40	1.9
Differential in access to information	2	2.4	11	12.9	30	35.3	10	11.8	32	37.6	2.39	1.0
Stakeholders ventilating	0	0.00	26	30.5	23	27.0	3	3.5	1	1.2	3.89	1.2

**N=85**

**Source:** Field Data (2021)

The findings in Table 12 show that 71.7% of the respondents were in strong agreement that there was a competent board of directors in their banks that played its oversight role over management quite effectively. The findings also revealed that 22.5% of respondents also agreed with the statement while 5.8% were undecided. The findings were further confirmed by a mean score of 4.67 with Standard deviation of 1.05 both suggesting that the respondents did not differ much in their agreement with the statement. The conclusion inferred from this finding is that commercial banks have indeed put in place corporate governance structures capable of actualizing their promise to their shareholders, that of maximizing shareholder value.

These findings were in agreement with the observations of Acharya (2018) on the role of corporate boards, which consisted of overseeing management to ensure that the interests of shareholders were served. Similar observations were made by Shao (2019) and Njiru (2014) who designed studies to find out whether indeed organizational structure affected firm performance.

On whether various elements constituting the governance structure in the banks maintained a good and effective working relationship in the banks the majority, accounting for 49.4% strongly agreed with the statement while 47.0% agreed with the statement. Only 3.5% of the respondents were undecided. This position was confirmed by a mean of 4.48 and a standard deviation 1.2, suggesting that the respondents did not differ much on interrelationships among elements in the banks. The views expressed by the respondents on the existence of good working relationships between the various parties in corporate governance were captured by McRitchie (2019) when he noted that corporate governance was a product of both the structure and the relationships between various components of an organization.

On whether the principle of equity was practiced in the banks the study found out that 55.3% of the respondents strongly agreed with the statement while 37.6% were also in agreement. The standard deviation of 1.3 showed that the divergence in the level of agreement among the respondents was not significant. This finding tallies well with the observations of the Cadbury Committee Report (1992) that fairness in the treatment of all stakeholders was one of the basic principles of corporate governance. Freeman and Wicks (2002), agreeing with this contention observed that boards of directors had a responsibility of ensuring that all stakeholders in a corporate entity were accorded equitable treatment in addition to safeguarding their interests.

On whether corporate level managers of the banks implemented all the policy decisions and best practices approved by the board of directors the study found that majority of respondents 48.2% strongly agreed with the statement while 35.2 % were also in agreement. This finding was in consonant with the observation made by Acharya (2018) that the role of management consisted of running the day-to-day affairs of the organization as well as implementing policies and best practices of the organization. A similar view, in support of this contention was offered by Olalere (2019) when he pointed out that a company's management had an obligation to develop and implement corporate policy in order to maximize shareholder wealth.

On the question of whether there is a differential in access to information between managers and shareholders, giving rise to a conflict of interest, 37.6% strongly disagreed while 11.8% also disagreed with the statement. 35.3% neither accepted nor disagreed with this view. 15.3% agreed with the statement. The low percentage of agreement with the statement (15.3%) showed that information asymmetry was not very prevalent in commercial banks indicating that conflicts of interest was not a major issue among man-

agers. This view was contrary to the proposition propounded by Ingram (2009) who attributed poor corporate performance to conversion of shareholder wealth to private ownership. The indifferent positions held by quite a sizeable percentage of the respondents on the subject of conflict of interest in banks did not seem realistic noting that contributions on this subject by Gathaiya (2017) clearly painted a bad picture of the involvement of bank management in corporate mismanagement, which had led to the collapse of several banks in Kenya. The researcher was of the view that the responses given by respondents on the question of information asymmetry were not honest and indicated a real problem in corporate management in commercial banks in Kenya. This may explain why bank performance showed a decline during the period 2015-2019. The findings of this study also seem to contradict the views expressed by Sherman (2020) that the existence of conflicts of interest between shareholders and management in an organization arose because of the differential in access to information existing between the two parties. The finding is, however not conclusive as a big percentage of the respondents (35.3%) declined to give their responses on this important matter.

The question of whether there were sufficient avenues for stakeholders to ventilate on pertinent issues affecting their interests in the banks the study established varied responses. Although the majority, accounting to 30.5% were in agreement a substantial percentage of the respondents (27.0%) were undecided. The finding that quite a substantial number of respondents (38.8%) abstained from expressing their opinion on this very important aspect of corporate governance is really worrying as it may be a pointer to the non-inclusive management styles existing in the banks. Lipton and Lorsh (1992) observed that an effective system of corporate governance was built around the freedom of stakeholders to ventilate on issues that affected their interests in an organization.

#### 4.4.1.1 Components of the Corporate Governance Structure in Commercial Banks, Kenya

The Study sought to find out whether respondents recognized the components of corporate governance structure in the banking industry in Kenya by listing out all such components. Although the question may have appeared obvious there were interestingly differing responses. The researcher gave four options, from which to choose one, namely; shareholders, management, board of directors and Other stakeholders. Quite a few respondents though in the top corporate management didn't seem to know the correct answer to this question. The findings are as shown in Table 13.

**Table 13: Component the Corporate Governance Structure in the Commercial Banks, Kenya.**

	Variables	F	%
Component of the Corporate Governance Structure	Management	0	0
	Board of Directors	9	10.6
	Shareholders	0	0
	All four	76	89.4
	Other stakeholders	0	0
	<b>Total</b>	<b>85</b>	<b>100</b>

Source: Field Data (2021)

The majority of the respondents (89.4%) gave the true position indicating that corporate governance structure in banks consists of shareholders, board of directors, management and other stakeholders. 10.6% of the respondents however indicated that corporate governance was only about board of directors only. The responses in this section are in agreement with Acharya (2018) in which he pointed out that the structure of corporate governance consisted of four elements; shareholders who own the corporation, management who develop and implement policy decisions of the corporation, board of directors

members who play oversight over management and other stakeholders who consist of employees, consumers, depositors, borrowers, financial markets, the industry regulator and the community surrounding the corporation, among others..

#### 4.4.1.2 Appointments of Board of Directors in Commercial Banks, Kenya

The study sought to find out who appointed board of directors in commercial banks in Kenya. The findings are as shown in Table 14.

**Table 14: Appointments of Board of Director in the Banks**

	Variables	F	%
Appoint- ments of Board of Di- rector in the Banks	Management	0	0
	Shareholders	75	88.2
	CEO	6	7.1
	Other stake- holders	0	0
	Others stake- holders	4	4.7
	<b>Total</b>	<b>85</b>	<b>100</b>

**Source:** Field Data (2021)

The study, in Table 14, provides an interesting array of responses coming especially from the top management cadre of the banks. The Study established that the majority of the respondents (88.2%) indicated that the shareholders appointed members of the board of directors. A small section (7.1%) of the respondents however indicated that board members were appointed by the CEO. The fact that most CEOs were so powerful, to the extent of overshadowing chairpersons of boards of directors may explain why some managers thought they were responsible for the appointment of the board of directors of the banks.

Yet another 4.7% indicated that boards of directors were appointed by stakeholders outside of the banks. These findings were in concurrence with the observations of Ingram (2009) and Acharya (2018) which stipulated that it was indeed shareholders appointed boards of directors, in a general meeting to oversight management to ensure that their interests were safeguarded.

#### 4.4.1.3 Size of the Board of Directors in Commercial Banks, Kenya

The study sought to establish the size of the board of directors in each of the 8 commercial banks in CBK Tier 1 classification. The findings are as shown in Table 15

**Table 15: Size of Boards of Directors in Commercial Banks in Kenya.**

Variables	F	%
Size of the Board of Director in Commercial Banks		
0-5 members	0	0
6-10 members	40	47.1
11-15members	21	24.7
16-Over	24	28.2

**Source:** Field Data (2021)

The study, in Table 15, found that the majority of respondents (47.1%) indicated that their banks maintained boards of governors with membership lying in the 6-10 bracket. 24.7% of the respondents indicated that their banks maintained boards with 11-15 members while 28.2% indicated that their banks had boards with 16 or more members. The study further showed that no bank maintained a board of directors with 5 or less members. These findings run contrary to the Anglo-American Model of corporate governance which prescribed the size of the board of directors of 8-12 members. The study shows that although Kenyan banks seem to have adopted the Anglo-American Model of corpo-

rate governance they did not lift the model whole sale but in fact made significant modifications. Some Kenyan banks seem to have adopted a hybrid structure in which the boards are patronized by both outsider and insider directors. The responses expressed here seem to reflect the Anglo-American model of Corporate governance noted by (Diligent, 2017), in which boards consisted of 8-12 members.

#### 4.4.1.4 Composition of Corporate Board Members in Commercial Banks, Kenya

The study sought to establish the composition of corporate board members in the banks, by gender and appointment. The findings are as shown in Table 16.

**Table 16: Composition of Corporate Board Members in Commercial Banks, Kenya**

Sex	F	%	Membership Category	F	%
Male	53	62.4	Executive	24	28.2
Female	32	37.6	Non-Executive	10	71.8
Total	85	100		85	100

**Source:** Field Data (2021)

The study found that there was a significant difference between males and females who patronized top positions of management with males accounting for 62.4% while females were 37.4%.

In the membership category in which the study sought to find out whether a member was executive or non-executive the study showed that there were more non-executive members (71.8%) than executive members (28.2%) were. This was good for the banking industry in Kenya because the greater numbers of non-executive members than executive members meant that the ratio of non-executive to executive was high and this was a good indicator of the high independence board of directors enjoyed in Kenya. The use of the ratio of non-executive to executive members as a measure of the independence of the

board of directors, so that the higher this ratio the higher was the independence of the board was observed by Sonnenfeld (2002).

The views expressed in this study, about the composition of board members seem to lean more on the German model of corporate governance which recognizes two distinct types of members, namely; the executive board made of corporate managers employed by the organization and non-executive members, also called independence members of the board who are not employees of the organization (O'Connell, 2019). This composition digresses from the Anglo-American model which consists of the CEO as the only member of the executive and all other members being independent members (Diligent, 2017).

#### **4.4.1.5 Academic Qualifications and Requisite Industry Experiences of Boards of Directors Members**

The researcher in this Study sought to find out whether members of board of directors were suitably qualified for purpose of discharging their oversight functions. The test for qualification consisted of both academic and requisite industry experiences. The Study highlighted four areas of qualifications; PhD, Masters, First Degree and Industry Experience. Findings in Table 17 indicated the academic qualifications of board members, including their sector experiences. Also included alongside these was a lot for indicating banking industry experiences.

**Table 17: Qualifications of Board of Directors Members**

N =102	Qualifications	F	%
	First degree	29	28.4
	Masters degree	62	60.8
	PhD	11	10.8
		102	100
	Industry Experience	36	35.3

**Source:** Field Data (2021)

The Study findings in Table 17 indicate that the majority of the board of directors' members had a higher degree (Masters and PhD) at 71.6% while first degree holders were at 28.4%. The Study further showed that only about one third of all the board members, 35.3% had the requisite banking experience. This observation strengthened the researcher's call for not only an induction programme for board members on appointment but also for relevant on-the job trainings in banking.

The views expressed by respondents in this section are supported by the observations made by Dowd (2020) that besides having both formal and professional qualifications board members needed to have industry and international experiences to enable them perform their oversight roles effectively and efficiently.

#### **4.4.1.6 CEO Duality in Commercial Banks, Kenya**

The Study sought to find out whether the managing director (CEO) in each of respective commercial banks that participated in the study did also serve as the board of director's chairman and how this functional duality, if it existed, affected the financial performance of the banks. The findings are as shown in Table 18.

**Table 18: CEO Duality in Commercial Banks, Kenya**

CEO Duality	Variables	F	Percent
	Yes	0	0
	No	85	85
<b>Total</b>		<b>85</b>	<b>100</b>

**Source:** Field Data (2021)

The study, in Table 18, found that there were no cases of CEO duality in commercial banks in Kenya. The existence of both a CEO and a chairman of the board of directors in every bank seemed to entrench the concept of corporate governance in commercial banks. With a fully-fledged chairperson, the board of directors was able to supervise more effectively the functions of the executive, headed by the CEO. The non-existence of a CEO duality also meant that corporate governance was exercised more effectively as the chain of command in the bank flowed smoothly from the board chairperson down to the CEO, to the executive managers, to the employees and to other stakeholders. This elaborate chain of command meant that both vertical and lateral communication and delegations of power and authority were also easily carried out with every member in the corporate governance network being aware of their reporting relationships.

The fact that the Kenyan model of corporate governance did not allow CEO duality, as shown in the findings above, is the clearest point of divergence between the Kenyan corporate governance structure model and the Anglo-American model of corporate governance. In the Anglo-American corporate governance model, a super being doubles up as both the CEO and the chairperson of the board of directors (Diligent, 2017).

#### 4.4.1.7 Corporate Governance Structure and financial performance of Commercial Banks, Kenya

The study sought to find out from the respondents whether Corporate Governance Structure as constituted, affected financial performance of Commercial Banks. Emerging themes from respondents led to the following findings, shown in Table 19.

**Table 19: Corporate Governance Structure and Financial Performance of Commercial Banks, Kenya.**

	<b>Variables</b>	<b>F</b>	<b>%</b>
Corporate Governance Structure and financial performance of Commercial Banks	Impact on employee performance	18	21.2
	Impact on banks strategy implementation	16	18.8
	Returns on Equity (ROE)	20	23.5
	Returns on investments (ROA)	15	17.6
	Impact on relationships among corporate governance elements	14	16.5
	No impact	2	2.4
	<b>Total</b>	<b>85</b>	<b>100</b>

**Source:** Field Data (2021)

From the descriptive qualitative comments of the respondents, the emerging themes in Table 19, were that majority of respondents indicated that corporate Governance Structure as constituted did indeed affect financial performance of commercial Banks.

Specifically, Corporate Governance Structure influenced employee performance by 21.2%, returns on equity (ROE) by 23.5%, and returns on investments (ROA) by 17.6%. Other areas also affected included; implementation of corporate strategy by 18.8%, and relationships between elements of corporate governance structure by 16.5%. There were two dissensions accounting for 2.4%.

#### **4.4.2 Strategic Leadership and Financial Performance of Commercial Banks, Kenya**

Descriptive analyses of Strategic Leadership on Financial Performance of Commercial Banks in Kenya were undertaken by use of Likert Scale with a rating of 5-1 indicating the extent of agreement with given statements, with 5 representing strong agreement and 1 representing strong disagreement. The instrument of measure was a closed-ended and an open-ended questionnaire. Strategic leadership was measured using four observable variables, namely; Development of vision/mission statements, Formulation of corporate strategy, Development of human capital and Effective management of resources. The findings are presented in Table 20 in form of frequencies, percentages and measure of central tendency represented by mean score and measures of dispersion indicated by standard deviation for each item.

**Table 20: Strategic Leadership and Financial Performance of Commercial Banks,**

**Kenya**

Strategic Leadership N=85	5-SA (81%- 100%)		4-A (61%- 80%)		3-N (41%- 60%)		2=D (21%- 40%)		1=SD (1%- 20%)		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Clear vision and mission statements	65	76.5	20	23.5	0	0.0	0	0.0	0	0.0	4.80	1.1
Board formulates strategies	68	80.0	14	16.5	3	3.5	0	0.0	0	0.0	4.70	1.9
Clear policy on human capital	43	50.5	30	35.2	12	14.1	0	0.0	0	0.0	4.27	0.9
Re-sources aligned to corporate objectives	37	43.5	30	35.2	14	16.4	0	0.0	3	3.5	4.11	1.2
Employees are often consulted when taking decisions	26	30.6	9	10.6	32	37.6	8	9.4	10	11.8	3.27	1.4
Equal voting rights.	41	48.2	14	16.4	15	17.6	10	11.7	6	7.0	3.70	1.9

**Source:** Field Data (2021)

Respondents were asked to show the degree of agreement or disagreement with the statements on influence of Strategic Leadership on Financial Performance of Commercial Banks in Kenya.

The findings shown in Table 20 indicated that 76.5% of the respondents were in strong agreement that most of commercial banks in Kenya had clear vision and mission statements indicating the direction and purpose of the banks. 23.5% also agreed with the statement. None of the respondents dissented as was confirmed by a mean of 4.80 and a standard deviation of 1.1. The low standard deviation meant that respondents did not differ much on the assertion that bank managements developed clear vision and mission statements for their banks.

The above views were in agreement with the observations of Slawinski (2007) who pointed out that Strategic Leadership was defined by three main features, namely; the development of clear vision and mission statements which guided strategy formulation and implementation, developing human capital and effective management of resources. On whether boards of directors formulated strategies to guide the performance and development of the banks, the majority of respondents (80%) strongly agreed while 16.5% also agreed with the statement. A mere 3.5% were undecided. There were no dissentions. These observations were confirmed by a mean of 4.27 and a standard deviation of 1.9. The observation on formulation of both the vision and the mission statements of an organization was corroborated by Slawinski (2007) who noted that strategic leadership entailed the development of a clear vision and mission in an organization.

On whether the commercial banks in Kenya had a clear policy on the development of human capital the study found that 85.7 % strongly agreed or agreed with the statement while 14.1% of the respondents were undecided on the matter.

On the question of whether banks ensured that resources were effectively managed by being aligned to corporate objectives the study found that 43.5% strongly agreed while 35.2% also agreed with the statement. 16.4% were undecided. This finding is in conformity with the views of Slawinski (2002) that strategic leaders had a responsibility to ensure that the organizations they led had a clear policy on human resource development. Varying results were given on whether employees working in commercial banks that participated in the study were often consulted before decisions affecting them were taken. 30.6% of the respondents strongly supported the statement while 10.6% also concurred. Of the more than 50% who did not support the statement, 37.6% were indifferent while 9.4% disagreed and 11.8% strongly disagreed with the statement. The implications of these responses were that the concept of inclusivity in management was not firmly entrenched in commercial banks in Kenya as more than 50% of the respondents were either ambivalent or did not support the statement on inclusivity.

Regarding the question of whether all stakeholders had equal voting rights, the majority of the respondents agreed with the statement with 48.2% showing strong agreement while 16.3% also showed agreement while 17.6% neither accepted nor showed dissent. These strong responses presented on the existence of equal rights in commercial banks in Kenya gave credence to the recommendations of the Cadbury Committee Report (1992) that the principle of fairness was an important pillar of corporate governance.

#### **4.4.2.1 Leadership Styles of CEOs in Commercial Banks, Kenya**

The study sought to establish the style of leadership practiced by CEOs in selected banks that participated in the study. The findings are as shown in Table 21

**Table 21: Leadership Styles of CEOs in Commercial Banks, Kenya**

	Variables	F	%
Leadership Styles of CEOs in Commercial Banks	Autocratic	2	2.4
	Democratic	8	9.4
	Participative	22	25.9
	Bureaucratic	38	44.7
	Servant Leadership	15	17.6
<b>Total</b>		<b>85</b>	<b>100</b>

Source: Field Data (2021)

The findings of the study, in Table 21 showed that five leadership styles were practiced in commercial banks; autocratic, democratic, participative, bureaucratic and servant leadership. These leadership styles were based on decision-making centers and the flow of power and authority.

Autocratic leaders, who are characterized by authoritative and centrality of decision-making constituted only 2.4%. Democratic leadership, the opposite of Autocratic leadership consisted of 9.4 % of the respondents while Participative leadership, exemplified in shared decision-making, amounted to 25.9% of the respondents. The greatest majority of the respondents indicated that bank leadership in Kenya was patronized by Bureaucratic leadership, at 44.7%. this meant that bank leadership followed a strict chain of command where rules and regulations dictated workplace relations. The final type of leadership espoused by Kenyan banks, Servant leadership, accounted for 17.6% of the bank leadership. This is the kind of leadership in which leaders ascent to echelons of leadership by serving others.

The existence of a strong bureaucratic element in commercial bank leadership, coupled with a good proportion of participative leadership and an equally significant injection of servant leadership indicates that there is direction and purpose in the leadership of the banking industry in Kenya.

#### 4.4.2.2 Leadership Styles and Financial Performance of Commercial Banks, Kenya

The study sought to establish how leadership styles exhibited by CEOs of commercial banks in Tier 1 banks affected performance of the banks. The findings are as shown in Table 22.

**Table 22: Leadership Styles and Financial Performance of Commercial Banks in Kenya**

	Variables	F	%
<b>Effect of Leadership Style</b>	Attracting depositors	16	18.8
	Motivating employees	34	40
	Attracting borrowers	16	18.8
	Inspiring workers	15	17.6
	No effect	4	4.7
<b>TOTAL</b>		85	100

Source: Field Data (2021)

Emerging themes from the respondents, in Table 22 were that Leadership Styles influenced bank performance. A few of the ways in which banks influenced bank performance positively include the following; Attracting depositors (18.8%), Motivating employees (40%), attracting borrowers (18.8%), Inspiring workers (17.6%) and No influence on performance (4.7%). These findings were supported by Wilde (2019) who noted that the

type of leadership style that a leader exercised impacted the performance of employees he led.

#### 4.4.2.3 Effective and Efficient Allocation of Financial Resources in Commercial Banks, Kenya

The researcher intended to find out how selected banks ensured that financial resources were effectively and efficiently allocated among competing needs in the banks. The researcher identified five main areas used by banks to ensure prudence in financial management, namely; Budgeting, Performance Reviews, Audits, Cost controls and Needs Analysis. The findings in respect of these performance areas are as shown in Table 23:

**Table 23: Allocation of Financial Resources in Commercial Banks, Kenya.**

	Variables	F	%
<b>Bank's performance strategy</b>	Budgeting	40	47.0
	Performance reviews	16	18.8
	Audits	12	14.1
	Cost Controls	9	10.6
	Needs analysis	8	9.4
	<b>Total</b>	<b>85</b>	<b>100</b>

**Source:** Field Data (2021)

Emerging themes from the study, in Table 23, indicated that the most important strategy for achieving efficient and effective allocation of financial resources was Budgeting, at 47%. Performance reviews followed with 18.8%. Other strategies were; A needs

Analysis (9.4%), Audits (14.1 %), and Cost Control Measures (10.6%). Palladan, Abdulkadir and Chong (2016) pointed out that one of the critical roles of strategic leadership was effective allocation of resources which included effective planning and internal controls.

#### **4.4.2.4 Strategies used by CEOs to Mobilize Stakeholders**

The study sought to establish how CEOs of Tier 1 Commercial Banks in Kenya rallied stakeholders to support the policies and best practices of the banks. The Study identified five broad areas that managers in commercial banks used to rally stakeholders towards supporting the policies approved at the top management level of the banks. These included; holding meetings among senior staff and the boards of directors, effective communication both vertically and laterally, Inclusive management which involved making consultations on matters touching all stakeholders' interests, Empowerment of workers, which involved giving middle and low level management staff the latitude to make and own their own decisions which contributed to the overall performance of the banks, and providing management staff and other employees with incentives to promote their performances.

These findings are as shown in Table 24

**Table 24: Strategies used by CEOs to Mobilize Stakeholders**

Variables		F	%
Strategies used by banks	Holding meetings	19	22.4
	Effective communication	12	14.1
	Inclusive management	16	18.8
	Empowerment of stakeholders	17	20
	Providing incentives for performers	21	24.7
<b>Total</b>		<b>85</b>	<b>100</b>

Source: Field Data (2021)

The study, in Table 24 found that of the five strategies employed by CEOs of commercial banks the most popular and frequently used strategy was provision of profit incentives (24.7%). As a motivational strategy this method consisted of exploiting the linkage between performance and compensation so that the more productive an employee was the more his pay was.

Another strategy, involving holding meetings at various levels of management to review performance at 22.4%, was also a popular strategy. Also popular was the strategy of effective communication (14.1%), which consisted of ensuring that managers and other employees were kept in the loop at all levels about their expectations and their reporting relationships. Inclusive management, which accounted for 8.8% was also another popular strategy. Empowering employees, which accounted for 20 % gave low level managers

and other employees room to make decisions without having to look over their shoulders for guidance from the corporate management.

The primary role of management is to develop policies and adopt best practices with a view to maximizing shareholder wealth (Abdullah &Valentine, 2000), and implement such policies and best practices after they've been approved by the board of directors.

To achieve this, CEOs have an obligation to rally all stakeholders for support in the implementation process.

#### **4.4.3 Board Composition and Financial Performance of Commercial Banks, Kenya.**

The researcher used descriptive analysis to find out whether there was a correlation between board of directors composition and financial performance of commercial banks.

The Study undertook this by use of a closed-ended questionnaire using a Likert Scale of a 5-1 rating where 1 stood for strongly disagree and 5 for strongly agree. The construct of Board Composition was measured by use of four observable indicators, namely; Board size, Board Qualifications, Board Independence and Board Training. The open-ended responses were analyzed thematically by grouping emerging issues into categories and presenting them quantitatively.

The findings are presented in Table 25 in form of frequencies, percentages and measure of central tendency represented by mean score and standard deviation for each item

**Table 25: Board Composition and Financial Performance of Commercial Banks, Kenya**

Board Size N=85	5-SA		4-A		3-N		2=D		1=SD		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Size of Board	22	25.9	28	32.9	15	17.6	13	15.3	7	8.2	3.70	1.1
Qualification of Board	64	75.2	0	0.0	9	10.6	13	14.1	0	0.0	4.70	1.9
Training and Induction of Board members	25	29.4	29	34.1	19	22.3	0	0.0	0	0.0	4.35	0.9
Independence of the Board	34	40	20	23.5	28	32.9	3	3.5	0	0.0	3.88	1.2
Gender of Board	4	4.7	12	14.1	8	9.4	47	55.3	14	16.5	3.58	1.4
Experience of Board	41	48.2	30	35.3	14	16.5	0	0.0	0	0.0	4.40	1.9

**Source:** Field Data (2021)

The findings in Table 25 show that 58.8% of the respondents supported the view that the size of the board of directors influenced the financial performance of commercial banks in Kenya while 23.5% dissented. 17.6% of the respondents neither agreed nor dissented. This finding was in concurrence with the views expressed by Lipton and Lorsh (1992) in which they observed that the size of the board of directors in a company had an important bearing on its effectiveness, noting that small boards were not as effective as large boards in discharging their oversight responsibilities as their services were thinly spread out over a large array of responsibilities. The duo noted that large boards were more efficient in their oversight duties as they oversaw all aspects of the corporation's performance. On whether board members needed to be academically and professionally qualified to serve on the boards of directors, the majority of the respondents, 75.2% supported this

view while 14.1% dissented. 10.6% were indifferent. This position was supported by Dowd (2020) who pointed out that the oversight responsibilities assigned to members of boards of directors required that such members be sufficiently educated academically and with the necessary sector experience to perform such functions efficaciously.

On whether the board members underwent induction training on appointment and other relevant types of training during the course of their work the Study found that 63.5 % agreed or strongly agreed with this position while 22.4% were undecided on the matter. Dowd (2020) observed that for boards of directors to discharge their responsibilities efficaciously members of such boards had to be academically and professionally qualified in addition to having a wide industry experience. Commercial banks in Kenya seem to have entrenched this requirement in their management policies.

On whether appointment of more non-executive than executive members on the board increased the independence of the board of directors the study found that majority 63.5% either agreed or strongly agreed with the statement. However, 32.9% of the respondents could neither agree nor disagree. 3.5% disagreed. This finding is in agreement with the views of Sonnenfeld (2002) that the number of outsider board members determined the independence of the board. A board was considered as independent if the number of outsider members was more than the number of insider (executive) board members. Indeed, the measure of board independence was determined by the ratio of outsider members to insider members (Sonnenfeld, 2002).

On whether the gender of members of the board of directors influenced the financial performance of commercial banks, the majority 55.3% strongly disagreed with this view while another 16.5 % of respondents also disagreeing with the view. 18.8% agreed with the position that gender influenced board performance while 9.4% were non-committal.

On whether board members in the banks had wide industry and international experiences, the majority 83.5 % either agreed or strongly agreed with this position while 16.5 % of the respondents remained indifferent. This finding is in agreement with Dowd (2020) who observed that qualifications and on-the job training of board members and other employees were essential ingredients of good and effective corporate governance.

#### 4.4.3.1 Independence of the Board of Directors in Commercial Banks, Kenya

The Study sought to establish how banks ensured that boards of directors, charged with overseeing corporate management remained independent and were not compromised in their oversight responsibility. The findings are as shown in Table 26

**Table 26: Measures Used by Banks to Ensure Independence of Boards of Directors**

	<b>Variables</b>	<b>F</b>	<b>%</b>
Banks Ensuring Independence of the Board of Directors	Board to serve a limited term	21	24.7
	Setting strict and clear policies	15	17.6
	More non-executive than executive members	31	36.5
	Equal powers for all directors	9	10.6
	Data Driven Decisions	9	10.6
	<b>Total</b>	<b>85</b>	<b>100</b>

**Source:** Field Data (2021)

The study, in Table 26 established five strategies, which banks could use to maintain the independence of boards of directors. These were; appointment of more non-executive

director than directors (36.5%), limited tenure of office for members of boards (24.7%), setting strict and clear policies (17.6%), giving all directors equal powers (10.6%) and making data-based decisions (10.6%). The need for boards of directors to be independent underlines the success of their core functions. The findings in this study resonate with those of Sonnenfeld (2002), who observed that the determining feature of the independence of boards of directors was the numbers of non-executive directors, who were not subject to the influences of the organization's management. The more the non-executive (independent) directors the more independent the boards were

#### **4.4.3.2 Conflict Resolution in Commercial Banks, Kenya**

One problem experienced by all corporate bodies is the existence of the Principal-Agent problem occasioned by information asymmetry (Ingram, 2009). The existence of this problem gives rise to a conflict of interest in which the agent (bank manager) converts benefits which ought to accrue to the principal (shareholders) to his use (Ingram, 2009). Banks have therefore an obligation to resolve these conflicts in order to fulfil their mandate of profit maximization to their shareholders.

The Study sought to establish how commercial banks dealt with these conflicts of interest among shareholders and managers in the banks. The findings are as shown in Table 2

**Table 27: Conflict Resolution in Commercial Banks.**

	<b>Variables</b>	<b>F</b>	<b>%</b>
Conflict Resolutions in Commercial Banks	Entrench ethical practices in governance	27	31.8
	Discipline errant board members by sacking.	15	17.6
	Hold meetings to review workplace practices and job performance.	9	10.6
	Sanctioning the director/manager by the board of directors, if found liable	11	12.9
	All interests are clearly reported/escalated to the compliance team	19	22.4
	Do not Know	4	4.7
		85	100

**Source:** Field Data (2021)

The researcher, in Table 27 found that banks used the following measures to resolve conflicts of interest: Inculcation of ethical values among boards and managers (31.8%), sacking those managers or board members with conflict of interest (17.6%), holding meetings to review workplace practices (10.6%), sanctioning board members/managers (12.9), and members declaring their interests (22.9%). 4.7% did not know how banks resolved conflicts. Resolution of conflicts of interest is a basic responsibility of boards

of directors in corporate governance. Ingram (2009) noted that because of differentials in access to information between shareholders and managers conflicts of interest were bound to occur. Shareholders had therefore a responsibility to appoint boards of directors to oversee functions of management and to resolve any conflicts that may occur.

#### 4.4.3.3 Improving Board of Directors' Capacity through Training and Inductions

in Commercial Banks, Kenya

The Study sought to establish whether there were specific induction and other training programs given to newly appointed boards members and serving members to improve on their capacity to perform their oversight functions. The findings are as shown in Table 28 below.

**Table 28: Banks Training and Induction Programs**

	F	%
Banks Training and Inductions		
Seminars	22	25.9
Experiential Training	19	22.4
Workshops	14	16.5
Banking Technology	14	16.5
On job training	10	11.8
Conferencing	6	7.1

**Source:** Field Data (2021)

There were several programs identified by this study that banks employed to improve on board members' oversight skills. These included: Seminars, Experiential Training Workshops, Banking Technology courses, on-the Job training and Conferencing. Of these, attendance of seminars by board members was the most popular training mode,

accounting for 25.9%. Another equally popular training program highlighted was experiential training which was about learning through doing, accounting for 22.4%. Training by attending workshops accounted for 16.5% while training on bank technology took 16.5% of all training programs. The least popular program seemed to be conferencing at 7.1%.

The views in these findings are in tandem with observations made by Mwangi (2016) in which he highlighted the value of on-the job training as a means of raising both the individual and the corporate capacity of bank employees to improve the performance of their duties.

#### **4.4.4 Accountability System and Financial Performance of Commercial Banks, Kenya**

The researcher undertook to analyze Accountability System by using descriptive analyses. This was done by use of both the Likert Scale and Thematic Analyzes. A 5-1 Likert Scale was used to analyze closed-ended responses where 1 represented strong disagreement with the statements given while 5 represented strong agreement. Emerging themes from open-ended responses were grouped under different themes, analyzed, and presented as quantitative data. The findings are as shown in Tables 29

**Table 29: Accountability System Financial Performance of Commercial Banks,****Kenya**

Accountability systems N=85	5-SA (81%- 100%)		4-A (61%- 80%)		3-N (41%- 60%)		2=D (21%- 40%)		1=SD (1%- 20%)		Mean	SD
	F	%	F	%	F	%	F	%	F	%		
Managers' awareness of Jobs Expectation	47	55.3	32	37.6	0	0.0	6	7.0	0	0.0	4.42	0.8
The management of the bank prepares accurate, fair reports	37	43.5	30	35.2	14	16.4	0	0.0	3	3.5	4.20	1.4
The bank embraces modern technology	0	0.00	26	30.5	23	27.0	3	3.5	1	1.2	3.91	07
Information disclosure is a key principle	37	43.5	30	35.2	14	16.4	0	0.0	3	3.5	4.06	1.8
Banks hire managers with high integrity	26	30.5	9	10.5	32	37.6	9	10.5	10	11.7	4.13	1.7
There has been no reported cases of mismanagement	22	26.9	9	10.5	38	46.6	9	10.5	10	11.7	3.4	1.3

**Source:** Field Data (2021)

The findings in Table 29 show that 92.9% of the respondents were in agreement with the statement that managers in the commercial banks were well aware of their job expectations and took full responsibility for their performance.

On accurate and fair reports, 78.7% said bank managements prepared accurate and fair financial reports. This observation was supported by the Cadbury Report of 1992 which highlighted transparency and information disclosure as important attributes of a sound financial system.

On the use of modern technology 30.5% of the banks reported that their operations were guided by modern technologies in their banks. The respondents confirmed that drawing of accurate financial reports and reporting of such reports to stakeholders were made possible by use of modern technology.

On whether or not banks employed managers with high integrity 41% of the respondents said that managers in their banks exercised high levels of integrity. This observation was supported by Halamka and Teply (2016) who averred that ethical conduct among management staff was necessary for enhanced financial performance. This finding, however contradicted the views of Masinde (2016 and Owahh (2016) who contended that the reason attributed to the collapse of many banks in Kenya had to do with corrupt malpractices among the management staff who conspired with equally corrupt board members and members of the industry regulator, the CBK to falsify records and present the wrong picture of their banks' financial performance.

On whether or not there were cases of mismanagement in commercial banks 37.4% of the respondents claimed that no cases of mismanagement had been reported in their banks while 46.6% remained non-committal. Only 22.2% of the respondents claimed that there had been cases of mismanagement in their banks. These observations differ with the views of Githaiya (2017) who attributed the poor performance of commercial banks in Kenya to corporate governance mismanagement.

#### 4.4.4.1 Level of Transparency in the Banking Sector, Kenya

The Study sought to find out how banks ensured that managers performed their duties transparently to maximize the interests of shareholders and other stakeholders. Six strategies were identified which banks used to achieve transparency. These included; tracking performance of the management staff and other employees, equitable treatment of all categories of employees and other stakeholders, use of administrative measures to ensure transparency, formulating clear and achievable objectives, ensuring that there was adequate remuneration in the management staff to forestall conflicts of interest and ensuring that there were clear job descriptions which defined work expectations and reporting relations at the workplace.

The findings are shown in table 30.

**Table 30: Level of Transparency in the Banking Sector, Kenya**

	<b>Variables</b>	<b>F</b>	<b>%</b>
<b>N=85</b> Transparent and honest performance of duties by managers	Tracking performance	21	24.7
	Equitable treatment	11	12.9
	Ensuring there was transparency	10	11.8
	Formulating clear/achievable objectives	16	18.8
	Ensuring good remuneration in management	18	21.2
	Ensuring there are clear job descriptions	9	10.6
		<b>85</b>	<b>100</b>

Source: Field Data (2021)

The study, in Table 30 found that, in order to optimize performance and safeguard shareholder value and that of other stakeholders the following strategies needed to be put in place: Tracking managers performance (24.7%), Ensuring good remuneration for managers (21.2), Formulating clear and achievable objectives (18.8%), adherence to the core principles of corporate governance (12.9%), Ensuring transparency and accountability (11.8%) and Ensuring that there were clear job descriptions for managers (10.6%). These findings are supported by the Cadbury Committee Report of 1992 which highlighted transparency and accountability as core principles of corporate governance. The correlation between transparency and bank performance was also highlighted by Ndungu (2012) who observed that information disclosure and transparency enhanced financial performance of commercial banks.

#### **4.4.4.2 Types of Technologies used by the Commercial Banks, Kenya**

The Study sought to find out the types of technologies that banks had employed to improve on performance measurement and reporting. The findings are contained in Table 31.

**Table 31: Types of Technologies Employed by Commercial Banks in Kenya.**

<b>Variables</b>		<b>F</b>	<b>%</b>
Types of technologies employed by Commercial Banks	Online Platform	14	16.5
	Fintech-Vooma, Cash Dispenser Machines, Internet Banking	23.5	20
	Cloud Computing	14	16.5
	M-Banking Through The Channels Which Allow Customers To Transact At Comfort Of Home	15	17.6
	Installation Of Clear CCTV For Reporting, Online Performance Appraisal Which Is Automated	13	15.3
	Score Cards Tools	11	12.9
Total		85	100

**Source:** Field Data (2021)

The findings of the Study, in Table 31, were that several technologies were in use in Commercial banks some of which included: Online platform (16.5%), Fin-Tech-Vooma (23.5%), Cloud Computing (16.5%), M-banking (17.6%), Automated CCTV for reporting (15.3%), and Score Cards (12.9%).

#### **4.5 Ethical Issues in Commercial Banks, Kenya**

The Study sought to establish measures that Commercial Banks in Kenya took, if any, to counteract unethical conduct among managerial staff and members of the board of directors. The findings are as shown in table 32.

**Table 32: Ethical Issues in Commercial Banks, Kenya**

	<b>Variables</b>	<b>F</b>	<b>%</b>
N=85 Dealing with Ethical Issues in Commercial Banks in Kenya	Annual Staff Declarations, Disciplinary Committees	9	11.0
	Disciplinary Committee	9	10.0
	Constantly Reminding employers, managers and board members of the banks Principles	12	14.0
	Conforming with the Ethics And Governance Standards, Policy And Procedures Of The Bank	9	10.0
	10%		
	Managerial Staff-Demotion Or sacking of Members Of Board Of Director	10	12.0
	Dismissal, Warning letters	10	12.0
	12%		
Daily Reporting And Tracking, Improving Of Documentation	12	14.0	

**Source:** Field Data (2021)

The study, in Table 32 established that banks used several strategies to counteract unethical conduct among managerial staff and members of the board of directors. Respondents indicated that 14.0% of the strategies consisted of reminders to all staff members of the values and principles of the banks, 17.0% supported the use of disciplinary action, 14.0% recommended daily reporting and tracking of members conduct, 12.0% said demotion and compulsory leave were necessary, 12.0% said that dismissal letters and warnings would act as deterrence, 11.0% supported annual staff declarations while 10.0% indicated use of disciplinary committees to address unethical conduct.

## **4.6 Testing for Basic Statistical Assumptions in Research**

Before testing research hypothesis, the data were tested to find out whether they met basic statistical assumptions, namely; Normality, Multicollinearity, Homoscedasticity and Validity. This was important because failure to determine whether the data met these essential assumptions would invalidate research findings, interpretations of the results and conclusions.

### **4.6.1 Testing for Normality of Data**

Normality in statistical research refers to the normal distribution of residuals (errors). A residual is the difference between actual (observed) value and the predicted value in research. The purpose of Normality test is to determine whether the sample data used in the study has been drawn from a normally distributed population. This is critical because many of the test tools used in regression analyses (to test the relationship between the dependent and the independent variables) require normally distributed populations (Mishra, Pandey & Keshri, 2019).

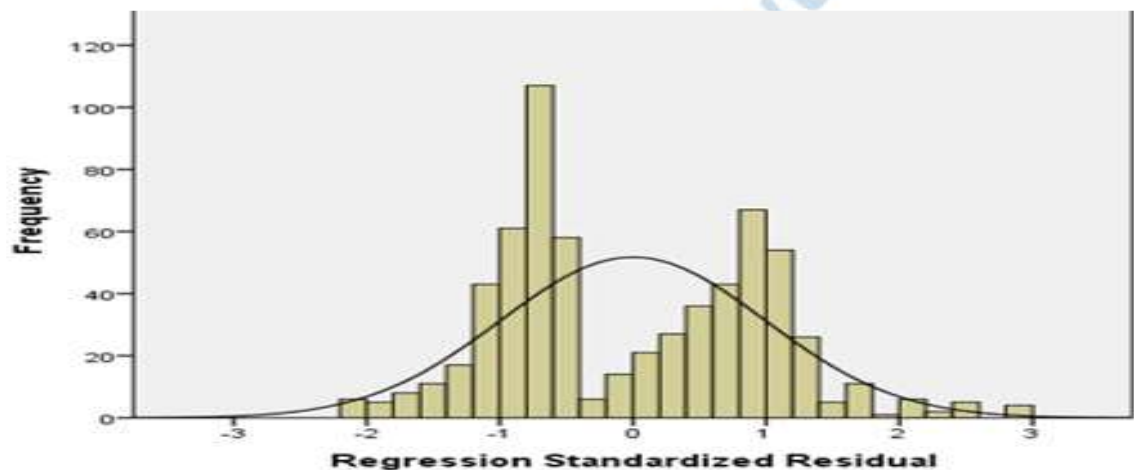
For this study, t-test and ANOVA were used as analytical tools and required a normally distributed sample population. The use of these two tests facilitated the calculation of the p-value, which lies between 0 and 1. The p-value helps the researcher to test the null hypotheses and decide whether to accept or reject it. If a p-value  $> 0.05$  (the level of significance) the interpretation is that, there is no relationship between the independent and the dependent variables and the Null hypothesis should be accepted.

If, on the other hand, the p-value is less than the significance level the interpretation is that the null hypothesis should be rejected, as there exists a relationship between the dependent and the independent variables. The closer this p-value is to 0 the stronger is

the relationship between the dependent and the independent variables (Mishra, Pandey & Keshri, 2019).

The researcher, in this study, used the Graphical Method to test the normality of the data. A graph of standardized residuals (errors) versus frequency was drawn. This involved plotting standardized residuals against the frequencies of the residuals. The result was a bell-shaped curve. This was the test for normality compliance, that the graph be a bell-shaped curve.

The findings of the normality test are presented in Figure 6.



**Figure 6: Normality Test.**

**Source:** Field data (2021)

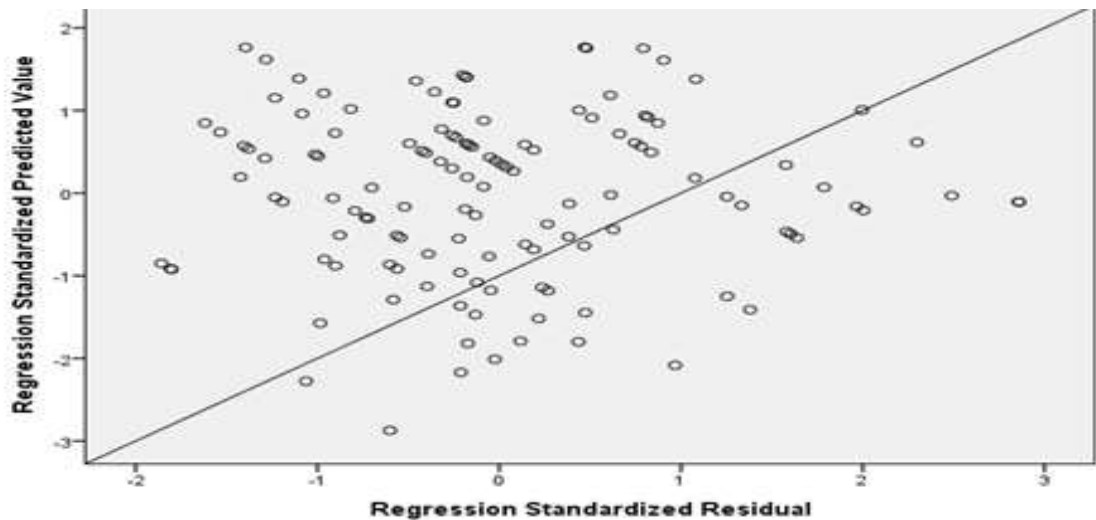
The findings in Figure 6 show that the results produced a symmetrical, bell-shaped curve. This meant that the residuals were normally distributed. The inference was that the population from which the sample was selected was also normally distributed and that the data was appropriate for regression analysis.

#### **4.6.2 Testing for Homoscedasticity Assumption**

Homoscedasticity, also called Homogeneity or Equal Variance Assumption is a condition in regression analysis in which the variances of the residuals are constant. The assumption is that the variances in the independent variables do not affect variations in the residuals. For every value of X of the independent variable, the variance in the residues is the same. Thus, variances of the dependent variable are the same despite variations in the independent variables.

The implication of this assumption is that if the data is Homoscedastic compliant the model is well defined and the independent variables fully explain the performance of the dependent variable. If, on the other hand variances of the dependent variable are not constant it means that the model is not well defined and that the independent variables used do not fully explain the performance of the dependent variable. This means that other additional independent variables may be needed to fully explain this performance. The test for the assumption of Homoscedasticity was done graphically, by using Scatter Plots, in which standard residual data were plotted against standardized predicted data.. Homoscedasticity compliance occurred when there was no definite pattern in the distribution of the data. Any obvious pattern would have indicated non-Homoscedasticity in the data distribution and hence bias in the data collected.

After subjecting the data to Homoscedasticity test, the findings were presented in figure 7.



**Figure 7: Scatter Plots**

The findings in Figure 7 showed that the scatter plot scores did not show any obvious pattern and that the points were randomly distributed about the diagonal line. The scatter plots thus met the assumption of Homoscedasticity. This meant that the data in this research were not prone to bias and they could therefore be used for regression analysis.

Tabachnick and Fidell (2007) pointed out that the assumption of Homoscedasticity could be tested by use of scatter plots, which involve plotting standardized residuals on one axis, against standardized predicted values on the other axis. According to Tabachnick and Fidell (2007), the test of homoscedasticity was complied with if data were randomly scattered on either side of the diagonal. This assumption was met in the scatter plot shown in figure 7 above.

#### **4.6.3 Testing for Multicollinearity of Data**

Multicollinearity test is also called the test of Independence. The assumption of Multicollinearity is that independent variables are not too highly correlated with each other.

The implication of this assumption is that if data were multicollinear it would not be possible to identify the contribution of one independent variable from the others on the dependent variable.

This assumption was tested using Variance Inflation Factor (VIF). VIF measures the amount of collinearity existing between independent variables in a data set (Ringle et al., 2015). A high VIF indicates that the independent variable under consideration is highly collinear with the other variables. According to Ringle et al (2015), independent variables are said to be collinear if the VIF between them is equal to or greater than 10 ( $VIF \geq 10$ ). Any independent variable showing a  $VIF < 10$  is said to exhibit independence from the other independent variables and thus non-collinear.

Associated with the VIF test of Multicollinearity is the test of Tolerance, which is used to ascertain whether or not Multicollinearity affected coefficients of the independent variables in the regression model. The test of Tolerance measures the extent to which coefficients are affected by the existence of Multicollinearity in regression analysis. The test of Tolerance values range from 0 to 1 with the lowest values showing highest tolerance (Allison, 1999). According to Faherty (2007), tolerance levels below 0.40 indicate high levels of Multicollinearity and independent variables exhibiting this tolerance ought to be disallowed.

The VIF test and Tolerance test of the four independent variables used in this study were carried out, with the following results shown in Table 33

**Table 33: VIF Test of Multicollinearity**

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Corporate Governance Structure	.571	2.111
Strategic Leadership	.624	1.660
Board Composition	.782	1.218
Accountability System	.800	1.360

All the four independent variables tested in this study gave VIF values below 10 indicating that there was no Multicollinearity between them. In addition, the four independent variables had tolerance values greater than 0.40 indicating that the coefficients of the independent variables in the regression model were not affected by Multicollinearity.

#### 4.6.4 Testing for Validity of Data

The test for Validity of data was done by use of Factor Analysis. Factor Analysis involves determining the validity in each construct (variable) by identifying the communalities contained in each factor of the construct. Communalities indicate the amount of variance that each factor contributes to the observed variable under study. This is important because it allows the researcher to determine the relevance of each factor in the variable, based on the amount of communalities it contributes to the variable, and hence decide which factor to include or exclude from the variable. Small values of communalities, (less than 0.50) indicate that factors do not fit well with variables and should possibly be dropped from the analysis (Diane, 2009). A value of above 0.5 is considered ideal.

Each of the four constructs (variables) in this study; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System, has 6 factors.

The communalities contained in each of the six factors in each variable are contained in Table 34.

**Table 34: Results of Communalities of factors in Variables**

Communalities	Initial	Final
Presence of competent board of directors	1.00	.825
Effective working relationship	1.00	.800
Core principles of Corporate Governance	1.00	.911
Policy decisions and best practices	1.00	.813
Differential in access to information	1.00	.824
Stakeholders to ventilate on pertinent issues	1.00	.789
Clear vision and mission statements	1.00	.825
Board formulates strategies	1.00	.803
Clear policy on human capital development	1.00	.750
Resources aligned to corporate objectives	1.00	.811
Employees are often consulted	1.00	.756
Stakeholders have equal voting rights.	1.00	.812
Size Of The Board influences performance	1.00	.813
Board members qualified	1.00	.800
Board members undergo induction training	1.00	.789
The appointment of more non-executive members increase independence	1.00	.812
The sex of members of the board influence performance	1.00	.777

Board members in the bank have wide industry	1.00	.790
Managers in the bank are well aware of their job expectations	1.00	.812
The management of the bank prepares accurate, fair reports	1.00	.802
The bank embraces modern technology	1.00	.798
Information disclosure is a key principle	1.00	.800
Corporate level managers with high integrity	1.00	.789
There has been no reported cases of mismanagement	1.00	.801

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Extraction Method:  
Principal Component  
Analysis (PCA)  
Source: Field Data  
(2021)

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Findings in Table 34 show that all variables were within the acceptable range, that is above 0.5, and therefore they could effectively represent their constructs in the function. The findings indicated that the data collection tools had high validity and therefore appropriate for hypothesis testing.

#### 4.7 Hypothesis Testing

Having tested the basic assumptions of data and finding that the data did not violate the rules for inferential statistics, further analysis were carried out to establish the relationships between independent variables and dependent variable. Hypotheses were tested using multiple linear regressions (MLR) which allowed the researcher to measure the behavior of the sample and by extension the behavior of the population in order to verify

the claims (hypotheses) that were made about the population of study. Hypotheses were tested for purposes of drawing conclusions from the sample. This was based on the following multilinear regression equation

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

Where Y is Financial Performance,

X<sub>1</sub> is Corporate Governance Structure,

X<sub>2</sub> is Strategic Leadership,

X<sub>3</sub> is Board Composition,

X<sub>4</sub> is Accountability System

X<sub>5</sub> is Moderating Variable (Government Regulations) and

$\alpha$ ,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$ ,  $\beta_5$  are constants. The constants  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$ ,  $\beta_4$  and  $\beta_5$  represent the coefficients of the independent variables. The constant  $\alpha$  is the Y-intercept. It represents the level of performance that would be achieved when no corporate governance strategy had been implemented.  $\varepsilon$  the error term, also called the residue represents the difference between the actual and the predicted values.

#### **4.7.1 Multiple Regression Analyses Results.**

The Study had the following five Null hypotheses, based on the specific objectives, labeled HO1 -HO5. Multiple Regression analyses were then carried out on these hypotheses.

**HO1:** Corporate Governance Structure had no significant influence on Financial Performance of Commercial Banks in Kenya

**Ha1:** Corporate Governance had a significant influence on Financial Performance of Commercial Banks in Kenya

**HO2:** Strategic Leadership had no significant contribution to Financial Performance of Commercial Banks in Kenya

**Ha2:** Strategic Leadership had a significant influence on Financial Performance of Commercial Banks in Kenya.

**HO3:** Board Composition had no significant influence on Financial Performance of Commercial Banks in Kenya.

**Ha3:** Board Composition had a significant influence on Financial Performance of Commercial Banks in Kenya

**HO4:** Accountability System had no significant contribution on Financial Performance of Commercial Banks in Kenya.

**Ha4:** Accounting System had a significant contribution to Financial Performance of Commercial Banks in Kenya

**HO5:** Government Regulations had no significant influence on relationship between Corporate Governance Strategies and Financial Performance of Commercial Banks in Kenya

**Ha5:** Government Regulations had a significant influence on relationship between Corporate Governance Strategies and Financial Performance of Commercial Banks in Kenya

#### **4.7.2. Joint Regression on Corporate Governance Strategies and Financial Performance of Commercial Banks, Kenya.**

The regression analysis of the hypotheses was intended to determine the relationship between the dependent variable and the independent variables. The analysis consisted of regressing data on the dependent variable, jointly against data on the independent variables. The result of this operation,  $R^2$ , is called the coefficient of determination, and shows the strength of the relationship between the independent variables and the dependent variable (Mugenda & Mugenda, 2012).

The Joint Effect Model summary, showing variations in the dependent variable, measured by  $R^2$  (R Squared), caused by variations in the independent variables, is shown in

Table 35. In the Multiple Regression Model,  $R^2$  varies between 0 and 100%.  $R^2$  is the coefficient of determination, which indicates the variation in the dependent variable caused by variations in the independent variables.

**Table 35: Joint Effect Model Summary**

Model Summary				
Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	.819 <sup>a</sup>	.800	.765	2.00031
1. Independent Variables: Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System Dependent Variable: Financial Performance of Commercial Banks in Kenya.				

**Source:** Field Data (2021)

Findings in table 35 show that the value of  $R^2$ , the coefficient of determination was .800 (80%) while the adjusted  $R^2$  was .765 (76.5%). Creswell (2013) pointed out that the adjusted  $R^2$  gave a more precise view of the correlation between the independent and the dependent variables as it took into account the number of independent variables used. Thus, the value of adjusted  $R^2 = 76.5\%$  showed that the total variance in Financial Performance of Commercial Banks in Kenya was accounted for by changes in Corporate Governance Strategies represented by Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. According to Creswell (2013), the higher the value of adjusted  $R^2$ , the better the model fits the data. Adjusted  $R^2$  is always between 0 and 100%, where 0% indicates that the model explains none of the variability of the independent variable, and 100% indicates that the model explains all the variability of the independent variables. The higher the Adjusted  $R^2$  the more variation is explained by the input variables and hence the better the model (Creswell, 2013).

Another advantage of the adjusted  $R^2$  is that it is a more reliable measure of the correlation between the independent and the dependent variables (Polters, 2022).

#### 4.7.3. Joint Effect Model Analysis of Variance (ANOVA)

Hypothesis testing in a regression model is done by ANOVA, using the p-value. The p-value tests whether the null hypothesis can be accepted or rejected. P-value is the probability that the observed value lies within the null hypothesis. Using a 95% confidence level a p-value  $\geq 0.05$  shows that the observed data is in the null hypothesis and as such, the null hypothesis should be accepted. On the other hand, a p-value  $\leq 0.05$  shows that the observed data is not in the null hypothesis and the null hypothesis should therefore be rejected. This shows that there is a correlation between the independent and the dependent variables.

Table 36 shows the results of the Analysis of Variance (ANOVA), using the p-value at the 95% confidence level, of the Study.

**Table 36: Joint Model Analysis of Variance (ANOVA).**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	811.333	4	187.112	16.100	.020 <sup>b</sup>
	Residual	2203.200	81	12.3121		
	Total	3014.533	85			

a. Predictors: (Constant), Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System

b. Dependent: Financial Performance of Commercial Banks in Kenya.

**Source:** Field Data (2021)

The ANOVA analysis results on Table 36 shows that the overall p-value was .020. This showed that regression analysis results in the ANOVA output table indicate that the overall regression model was significant in predicting Financial Performance of Commercial

Banks in Kenya at 95% confidence level. The p-value has an inverse relationship to the strength of the regression model. The closer the p-value is to zero the stronger is the regression model. A p-value close to zero signals that the model is very strong while large p-values closer to .5 implies that there is weak or partial relationship between independent and dependent variables.

#### **4.7.4. Joint Contribution of each Independent Variable to the Dependent Variable**

In a regression model, the degree of change in the dependent variable arising from every unit change in the independent variable is measured by beta coefficient and t-test. The greater the beta value the stronger the relationship between the Independent variables and the Dependent variable. The t-value measures the level of statistical significance of the variable. The greater the t-value the greater the evidence that there is a relationship. The closer the t-value is to 0 the more likely it is that the variable does not predict the outcome.

The p-value, whose direction is inverse to that of Beta coefficient, determines whether the null hypothesis should be accepted or rejected. A p-value close to 0 indicates a strong evidence that there is a relationship between Independent variables and the Dependent variable, indicating that the null hypothesis should be rejected., with the reverse being true.

The findings are as shown in Table 37.

**Table 37: Beta Coefficients**

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.(p-value)	
	B	Std. Error	Beta		
(Constant)	3.112	3.010		1.190	.120
Corporate Governance Structure	.710	.012	.790	2.009	.022
Strategic Leadership,	.774	.043	.812	2.811	.000
Board Composition	.452	.077	.554	0.993	.043
Accountability System	.623	.082	.709	1.913	.050

a. Dependent Variable: Financial Performance of Commercial Banks in Kenya.

**Source:** Field Data (2021)

The p-values representing the four hypotheses; Corporate Governance Structure (0.022), Strategic Leadership (0.000), Board Composition (0.043) and Accountability System (0.050) showed that each null hypothesis met the rejection condition of  $p < 0.05$ . The four hypotheses were therefore rejected indicating that there was a relationship between each of the four Corporate Governance Strategies with Financial Performance of commercial banks in Kenya. Strategic Leadership showed the strongest evidence of a relationship with the financial performance of commercial banks. Board Composition, showed the weakest evidence of a relationship with financial performance of commercial banks.

Standardized Beta Coefficient represents the impact of each independent variable on the dependent variable. The independent variables in this study are: Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System.

The most effective Corporate Governance Strategy contributing to the greatest variations in the Financial Performance of Commercial Banks in Kenya, contained in Table 37 was Strategic Leadership with a Beta value of 0.812  $t = 2.811$ ,  $p = .00$ . The interpretation for this was that 81.2% variation in Financial Performance of Commercial Banks in Kenya

could be accounted for by influence of Strategic Leadership, which was statistically significant. The researcher deduced that financial performance of commercial banks in Kenya depended largely on strategic leadership.

The second most effective strategy in causing variations in the dependent variable was Corporate Governance Structure with a Beta value of .790,  $t = 2.009$ ,  $p = .022$ . The interpretation was that 79.0% variation in Financial Performance of Commercial Banks could be accounted for by Corporate Governance Structure, which was statistically significant.

In this study too, the contribution of Accountability System, with a Beta value of .709,  $t = 1.913$ ,  $p = .05$  was 71.0% meant that Accounting System accounted for 71% of variations in Financial Performance of Commercial Banks in Kenya, which was statistically significant. The contribution of Board Composition, with a Beta value of 0.554,  $t = 0.993$ ,  $p = .043$ , to the variations in the dependent variables was 55.4%. This meant that Board Composition accounted for 55.4% of financial performance of commercial banks in Kenya, which was also statistically significant. This implied that Board Composition had a marginal influence on the financial performance of commercial banks.

Using the standardized Beta coefficient from the above analysis, the regression model of this Study could be reconstructed as follows:

$$Y = 3.112 + 0.790X_1 + 0.812X_2 + 0.554X_3 + 0.709X_4$$

The findings in this study therefore established that all of the indicators of Corporate Governance Strategies were statistically significant and could be used to explain the variations in the financial performance of commercial banks in Kenya.

#### **4.7.5 Moderating Effect of Government Regulations on Correlation between Corporate Governance Strategies and Financial Performance of Commercial Banks, Kenya**

A moderating variable or moderator is a third variable in a regression analysis that affects the correlation of two variables; the independent and the dependent variables (Tsang, 2015). A moderator alters the association between independent variables and the dependent variable by either weakening, strengthening or even changing the direction of the association (Allen, 2017).

In this study the Independent variables were; Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. The dependent variable was Financial Performance of Commercial Banks measured by profitability ratios, ROA and ROE while the Moderating variable was Government Regulations consisting of direct Government interventions and monetary policy initiatives by the CBK.

To determine how much the moderator variable affected the strength of the relationship between independent variables and dependent variable the research used a linear multiple regression analysis in an SPSS-26 Software. The findings are as shown in Table 38.

**Table 38: Moderating Effect of Government Regulations**

Moderating Factor				
Control Variables			Financial Performance of Commercial Banks in Kenya.	Corporate Governance Strategies)
		Correlation	1.000	.608
	Financial Performance of Commercial Banks in Kenya	Significance (2-tailed)		.021
Government Regulations		df	0	85
		Correlation	.608	1.000
	Corporate Governance Strategies)	Significance (2-tailed)	.021	
		df	85	0

The findings of this study were that there was a drop in the Adjusted  $R^2$  from .765 to .608. The decline in the Adjusted  $R^2$  showed that the moderating variable (Government Regulations), which included direct government controls and regulatory measures of the Central Bank of Kenya indeed diminished the strength of the association between the Corporate Governance Strategies and Financial Performance of Commercial Banks from an adjusted  $R^2$  of 76.5% to an adjusted  $R^2$  of 60.8%. This was a decline of 15.7% in financial performance. The implications of these findings were that application of non-monetary policy measures by the CBK and other direct interventions by the National Government, like raising taxes reduced financial performance of commercial banks by about 16%.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

The contents of this chapter consist of a Summary of the Findings of the Study, Conclusions and Recommendations. The purpose of this study was to establish the influence of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya. The Independent Variables that were the focus of the study were Corporate Governance Structure, Strategic Leadership, Board Composition, and Accountability System, while the Dependent variable was Financial Performance of Commercial Banks measured by profitability ratios; ROA and ROE. Data collection for this Study was done by use of both quantitative and qualitative methods. Data were analyzed by use of descriptive analysis and multiple regression analysis on an SPSS-26 Software.

#### 5.1 Summary of Findings of the Study

The specific objectives of the Study were to establish the influence of Corporate Governance Structure, Strategic Leadership, Board Composition, and Accountability System on Financial Performance of Commercial Banks, measured by ROA and ROE. The study collected and presented data in Chapter Four with specific objectives being used as parameters of measure for the analysis.

In the Study Theoretical, Empirical and Conceptual reviews were the basis of the study. The study was anchored on four theories namely; Agency Theory, Stewardship Theory, Stakeholder Theory, and Financial Intermediation Theory. Empirical Review was carried out based on four specific objectives, namely; Corporate Governance Structure, Strategic Leadership, Board Composition, and Accountability System. The Conceptual Review

was centered on the Conceptual Framework of the study on which the operationalization of study variables was based. The Conceptual Framework consisted of three types of variables; Independent variables, Dependent variable and Moderating variable. The Independent variables were; Board Structure, Strategic Leadership, Board Composition and Accountability System. The Dependent variable was Financial Performance while the moderating variable was Government Regulations.

The Study targeted 112 corporate level managers as respondents, drawn from 8 of the 9 Commercial Banks in Tier 1 of the CBK (2020) classification. These consisted of 14 corporate level managers in charge of departments in each of the large Commercial Banks in Kenya. One out of the 9 large banks was randomly selected for purposes of pilot study, leaving 8 banks for the main study.

Primary data collection were done by use of a closed and open-ended questionnaire. Data for closed-ended responses were collected by use of a 5-1 Likert Scale while data from open-ended responses were collected qualitatively from emerging themes. Data thus collected were coded in SPSS-26 Software editor in preparation for analyses, which were undertaken using descriptive and inferential statistics. While descriptive statistics measured observable features of the data, inferential statistics sought to find out the relationship between the independent and dependent variables. Inferential statistics were also used to measure the strength of the relationship between the independent and the dependent variables.

Secondary data on profitability ratios were collected from CBK's published profitability ratios for the period 2010-2019, using collection sheets, for the 9 commercial banks registered under Tier 1 (CBK, 2020).

The summaries of the influences of the four corporate governance strategies on financial performance of commercial banks are discussed below, under 5.1.1-5.1.5.

### **5.1.1 Corporate Governance Structure and Financial Performance of Commercial Banks, Kenya**

The researcher sought to assess the influence of Corporate Governance Structure on financial performance of commercial banks in Kenya. The findings of the Study were that Corporate Governance Structure positively influenced Financial Performance of Commercial Banks as indicated, by a variation of Beta = .790,  $t = 2.009$ ,  $p < 0.05$ ) which meant that 79% variation of the Financial Performance of Commercial Banks could be accounted for by Corporate Governance Structure, which was statistically significant.

### **5.1.2 Strategic Leadership and Financial Performance of Commercial Banks, Kenya**

The Study also found that the contribution of Strategic Leadership on Financial Performance of Commercial Banks was strongest with Beta value = 0.812,  $t = 2.009$ ,  $p < 0.05$  which meant that 81.2 % variation in Financial Performance of Commercial Banks were accounted for by Strategic Leadership, which was statistically significant. The finding that Strategic Leadership enhances financial performance in Commercial Banks reinforced the researcher's position that there was need for commercial banks to use Strategic Leadership as a critical strategy in corporate governance and management.

### **5.1.3 Board Composition and Financial Performance of Commercial Banks, Kenya**

Another finding of the Study was that Board Composition did indeed contribute, though marginally, to financial performance of commercial banks in Kenya. Its contribution,

shown by a Beta = .554,  $t = 0.993$ ,  $p < 0.05$  meant that 55.4% variation in Financial Performance of Commercial Banks in Kenya, which was statistically significant, could be accounted for by influence of Board Composition.

#### **5.1.4 Accountability System and Financial Performance of Commercial Banks Kenya.**

The impact of Accountability system on Financial Performance of Commercial Banks, with Beta = .709,  $t = 1.913$ ,  $p < 0.05$  was also quite strong. The interpretation was that 70.9% of the variation in Financial Performance of Commercial Banks in Kenya could be accounted for by Accountability System which was statistically significant. This finding confirms the critical need for commercial banks to institute internal control measures involving stringent accounting systems to ensure that financial as well as other resources are accounted for and necessary reporting made to stakeholders.

#### **5.1.5 Moderating Effect of Government Regulations on Correlation between Corporate Governance Strategies and Financial Performance of Commercial Banks, Kenya**

The moderator in this study was Government regulations which consisted of direct Government controls and monetary policy regulations of the Central Bank of Kenya. The independent variables were Corporate Governance Strategies consisting of Corporate Governance Structure, Strategic Leadership, Board Composition and Accountability System. The dependent variable was Financial Performance of Commercial Banks, Kenya. Regression analysis undertaken without the moderator produced an adjusted  $R^2$  of 76.5%. Regression analysis involving the moderator variable produced an adjusted  $R^2$  value of 60.8% showing that the moderator did indeed diminish the financial performance of commercial banks by 15.7%.

## **5.2 Conclusions**

Regression analyses undertaken to find out whether there was a correlation between Corporate Governance Strategies and Financial Performance of Commercial Banks revealed that the correlation indeed existed with Strategic Leadership showing the greatest variation in the dependent variable, Financial Performance. The general conclusion drawn from the Study was that 76.5 % of the total variance in Financial Performance of Commercial Banks in Kenya was accounted for by changes in Corporate Governance Strategies represented by Corporate Governance Structure, contribution of Strategic Leadership, influence of Board Composition and Accountability System.

The implication arising from this conclusion is that corporate governance strategies are critical to financial performance of commercial banks. The researcher's view was that for banks to improve their financial performance policies involving the application of the four corporate governance strategies were critical and should be put in place.

From the findings of the Study the following, other conclusions were also made:

### **5.2.1 Strategic leadership is critical component of Corporate Governance in enhancing Financial Performance of Commercial Banks, Kenya**

The Beta coefficient of 0.812, for Strategic Leadership indicated that Strategic Leadership was indeed the most effective strategy in enhancing financial performance of commercial banks. This very strong showing implies that Strategic Leadership is indeed critical in corporate governance, in particular and management in general. Strategic leadership therefore constitutes the tool of choice by bank managers in enhancing banks' financial performance.

## **5.2.2 Board Composition and Financial Performance of Commercial Banks in Kenya**

Board Composition was the least influential corporate strategy in enhancing financial performance of commercial banks in Kenya. This was shown by a Beta value of 0.554 indicating that the contribution of Board Composition towards enhanced financial performance of Commercial banks in Kenya was marginal at 55.4%.

## **5.2.3 Lack of Inclusivity in the management of Commercial Bank, Kenya**

The Study, in Table 15, indicated that over 50% of the respondents either dissented or would not say whether or not employees were consulted over issues concerning their work. This gave the impression that inclusivity in management was not firmly entrenched in commercial banks in Kenya. This is worrying because for implementation of policies and best practices CEOs in commercial banks needed to rally employees and other stakeholders behind them for support and ownership. This is best achieved if commercial banks adopted inclusivity in their management policies and practices.

## **5.2.4 Existence of Conflicts of Interest in Commercial Banks in Kenya**

The Study, in Table 15, showed that 15.4% of the respondents supported the view that there was a differential in access to information while another 37.6% declined to say whether or not they supported the view. The differential access to information, called information asymmetry generates conflicts of interest. The findings in this study therefore suggest that there were conflicts of interest which had the potential of undermining financial performance of commercial banks in Kenya. Conflicts of interest in commercial banks normally arise between shareholders and management, when

managers take advantage of shareholders' lack of information about the operations of the banks and convert benefits accruing to shareholders to themselves.

### **5.2.5 Board of Directors Characteristics**

It was the finding of the Study, in Table 12, that all members of boards of directors were graduates with 71.6 % holding postgraduate degrees and 35.3% with requisite banking experience. These observations showed that board members were academically qualified. The same study also observed that boards of directors in Kenyan Commercial Banks were sufficiently independent from being compromised while doing their duties. These characteristics placed members of boards of directors in a strong position for playing their oversight functions effectively.

### **5.2.6 The Composition of Board of Directors' Members and Financial Performance of Commercial Banks, Kenya**

Findings in the Study, Table 18, showed that 71.8% of the respondents in this study dissented with the view that gender was a factor in financial performance of commercial banks. The conclusion was that female members of the boards of directors performed as well as their male counterparts.

Respondents in the Study (78.7%) supported the view that commercial banks in Kenya made budgets based on the objectives they set to achieve. The conclusion is that budgets in commercial banks are guided by set objectives.

### **5.2.7 Budgeting based on Objectives**

Respondents in the Study (78.7%) supported the view that commercial banks in Kenya made budgets based on the objectives they set to achieve. The conclusion is that budgets in commercial banks were guided by set objectives.

### **5.3 Recommendations**

Respondents in the Study (78.7%) supported the view that commercial banks, Kenya made budgets based on the objectives they set to achieve. The conclusion is that budgets in commercial banks are guided by set objectives.

Several findings in this study have given rise to the need to question some policies and practices and to make some recommendations in a bid to improve the financial performance of commercial banks in Kenya. The suggestions below represent the researchers own honest opinions and are open to challenge.

#### **5.3.1 Minimizing information asymmetry in Commercial Banks, Kenya**

The observation that there is indeed some information asymmetry between various elements of the corporate governance structure has been made. That managers know much more about the operations of the banks than do shareholders gives rise to conflicts of interest in which benefits accruing to shareholders are bound to be diverted to other centers. From the emerging views of respondents and the researcher's experiences when undertaking this study there is need to design ways to minimize the gap in access to information between managers and board members on the one hand, and shareholders and other stakeholders on the other hand. It does appear that the general meetings (GMs) held every end of the year, whether virtually or otherwise do not serve the intended purposes and are stage-managed formalities to rubber stamp policy issues put forward by management and the boards of directors.

#### **5.3.2 Inclusivity in the Management of Commercial Banks, Kenya**

Findings in this study have shown that more than 50% of the respondents do not agree with the statement that employees are consulted on issues affecting their work or have

no opinions on this important matter. The researcher is of the view that there is indeed a problem in this area and necessary action should be taken to ensure that low-level employees and other stakeholders are consulted and included in the policy formulation and decision making process. The point about this inclusion is that it would endear them to support and own the process of policy formulation and strategy implementation.

### **5.3.3 Providing a Compromise between Leadership and Management**

One of the primary differences between a leader and a manager is that a leader has followers whose loyalty to him is based on personality, behavior and beliefs. A manager on the other hand has subordinates who work for him as a result of the employment he's given them. The researcher's view after visiting the head offices of the banks and the responses from the respondents confirm the prevalence of this distinction in Commercial Banks in Kenya.

The researcher therefore recommends that CEOs and Corporate Level Managers in Commercial Banks in Kenya act as both leaders and managers by empowering low cadre managers and other employees to make decisions affecting their work. The CEO and the top level managers should also be available to low cadre employees and other stakeholders by building relationships with people around them rather than building systems and processes to control subordinates. It's not surprising that many low-level employees and other stakeholders who are involved in the day-to-day business of the banks only hear of their CEOs and hardly see them, like everybody else, in the streets.

### **5.3.4 Entrenching Shareholders in Corporate Governance**

Although many corporate governance models consider shareholders as the most powerful element in the governance process this does not appear to be so in Kenya Commercial Banks. There is therefore the need to entrench shareholder presence in the general governance process by not only making them privy to all the operations of the banks but by also allowing them to debate and approve policies of the banks on a position of knowledge in addition to taking them through the process of appointing board members. Asking shareholders to appoint board members on the floor of a GM by applause is simply not enough.

### **5.3.5 Recommendations for Future Research in Commercial Banks, Kenya**

The current Study addressed corporate governance strategies in only 9 Tier 1 Commercial Banks in Kenya. While the findings were conclusive in view of the substantial market share and level of infrastructure development in these banks there is need to undertake a study that encompasses the whole population of the 40 or so banking institutions in Kenya. This is because there is a divergence in the way each category of banks deals with the many problems that confront them.

The task of collecting data from Commercial Banks in Kenya, by the researcher was honestly daunting. Having had to reschedule meetings and going to the extent of organizing individual meetings with particular respondents were not uncommon. The researcher recommends that banks be more responsive and facilitate collection of research data meant for knowledge acquisition without subjecting researchers to unnecessary delays and costs.

It's further recommended that a similar study be done after five years to assess the validity and reliability of the research instrument and upgrade changes that may have occurred in the interim



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## APPENDICES

### Appendix I: Letter to the Respondents.

**Julius S. Kasuni**

P.O BOX 285-90121, Emali.

May, 2021

The Office of the National Council for Science, Technology and Innovation,

P.O BOX, 30623,

Nairobi, thro'

Dean, School of Business and Economics,

Mount Kenya University,

P.O BOX 342-01000

Thika.

Dear Sir,

**RE: PERMISSION TO CONDUCT RESEARCH IN TIER 1 COMMERCIAL BANKS  
IN KENYA**

I'm a student of Mount Kenya University pursuing a PhD program in Business Administration and Management. My topic of study is Critical Analysis of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya. The motivation for this study was the declining trend in financial performance of commercial banks in Kenya, contained in the Supervisory and Annual Reports given by the CBK (2020) during the period 2010-2019.

The purpose of this letter is to seek permission to collect data from Tier 1 banks for analysis to determine whether or not corporate governance strategies influence the financial performance of these banks. Findings of this study will be generalized and recommended for use in policy decisions in the banking sector in Kenya,

Thanking you in advance,

Julius S. Kasuni

Student

## **Appendix II: Letter of Introduction**

**Julius S. Kasuni**

P.O BOX 285-90121

Emali.

The CEO,

(Each of 8 banks in Tier 1)

P.O Box-----

Nairobi.

Thro'

The Dean, School of Business and Economics,

P.O BOX 342-01000,

Thika.

Dear Sir,

RE: Research on Critical Analysis of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya

I'm writing to introduce myself as a research student from Mount Kenya University pursuing a PhD course in Business Administration and Management. I intend to collect data on the contribution of corporate governance strategies on financial performance of commercial banks in Kenya to enable me to complete the aforementioned study.

The purpose of this letter is to enlist your cooperation and assistance on this matter. I hasten to assure you that this exercise is a purely academic endeavor and has no other motive than finding solutions to those problems that affect society.

Thanking you in advance,

Research student

Julius S. Kasuni

### **Appendix III: Consent Form**

#### **Project title: Critical Analysis of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya.**

I'm a student at Mount Kenya University pursuing a PhD in Business Administration and Management course. As part of my study requirements, I'm conducting a research in Tier 1 commercial banks in Kenya within Nairobi County. The research is intended to investigate the relationship between corporate governance strategies and financial performance of the commercial banks. A questionnaire will be used to collect data which will be treated with utmost confidentiality and only used for the purposes of the research. Data collected will be stored securely and will be destroyed once the research is completed. Your responses will be made anonymous and no part of the findings of this research will be linked to you but will be used strictly for the purposes of the Researcher's thesis.

You have a right to/not to respond to any questions asked. Pseudonyms will be used during journal and conference presentation of the results to further ensure confidentiality. Your participation in this research is voluntary and you may pull out at any time without reason, simply inform the Researcher. If you have questions pertaining to the research or its findings, contact the Researcher through [kasunijulius@gmail.com](mailto:kasunijulius@gmail.com) or mobile # 0721554741. Should you wish to make any complaint, contact;

Office of the Secretary  
MKU Ethics Review Committee  
P.O. Box 342 – 1000  
Thika.

#### **Consent**

I have read, I understand the above information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason. I voluntarily agree to take part in this study.

Participant's signature \_\_\_\_\_ Date \_\_\_\_\_

Researcher's signature \_\_\_\_\_ Date \_\_\_\_\_

## Appendix IV: Questionnaire for Corporate Level Managers

### Introduction and General Instructions

This questionnaire is designed to assess the contribution of corporate governance strategies on bank performance in the CBK Tier 1 Bank Classification in Kenya. Respondents are requested to answer the questions as accurately and as honestly as they can. Specific instructions are provided against particular questions.

### Section A: Background Information about the bank

1) Name of bank (optional).....

2) How many branches does the bank have Countrywide? .....

3) What is your age? (Tick the correct age bracket)

Age (Years)	20-30	31-40	41-50	51-60	Over 60

3) What is your gender? Male.....Female..... (Tick appropriately)

4) What functional role do you play in the management of the bank? Please tick appropriately

Functional Role	Board Director	Departmental Manager	Shareholder	Employee

5) For how long have you held this position in the bank? Tick the appropriate option.

Duration in Years:	0-5	6-10	11-20	Over 20

**SECTION B:** This section is concerned with statements designed to determine how Corporate Governance Structure Impacts Financial Performance of Commercial Banks in Kenya.

The table below gives a list of statements on influence of Corporate Governance Structure on financial performance of commercial banks. Show by ticking the appropriate box in the 5-1 Likert Scale how much you agree with the statements regarding your bank.

Strongly Agree-5 (81%-100%)	Agree-4 (61%-80%)	Neutral-3 (41%- 60%)	Disagree-2 (21%-40%)	Strongly Disagree-1 (1%-20%)					
Statements					5	4	3	2	1
1	The Board of Directors' oversight role has ensured that there were no conflicts of interest or forms of mismanagement in the bank for the last 24 months								
2	The various elements constituting the governance structure in the bank maintain a good and effective working relationship								
3	The bank affords equitable treatment to all stakeholders								
4	All policy decisions and best practices developed by the corporate level of management have been implemented.								
5	There is a differential in access to information between managers and shareholders and this allows a conflict of interest to exist among the managers.								
6	There are sufficient avenues for stakeholders to ventilate on pertinent issues affecting their interests in the bank								

7) The questions below shed light on corporate governance structure in the bank? Answer the questions as accurately as you can.

i) How many policies and best practices has the bank implemented during the last 24 months?

.....

ii) What is the success rate of policy implementation in the bank? Please tick appropriately

Rate of policy implementation	Below 20%	21%-40%	41%-60%	61%-80%	Over 80%

8) The questions below are intended to elicit board of directors' characteristics. Please answer them as accurately as you can.

i) What is the size of the board of directors in your bank? Please tick appropriately

Number of board members:	1-5	6-10	11-15	16-20	Over 20
--------------------------	-----	------	-------	-------	---------

ii) What is the composition of the members of the board of directors in your bank?

Sex:	Male	Female
Designation:	Executive	Non- Executive

iii) Who appoints the board of directors members in your bank? Please tick the correct option

Appointing authority:	Shareholders	Management (CLM)	CEO	All Stakeholders
-----------------------	--------------	------------------	-----	------------------

iv) The table below seeks to find out the qualifications of members of the board of directors in your bank. Please fill in the details as accurately as you can.

Qualifications	First degree	Master's degree	PhD	Industry experience
----------------	--------------	-----------------	-----	---------------------

Number of members				
-------------------	--	--	--	--

8) Does the managing director play a duality role as both the CEO of the bank and the chairman of the board of directors? Yes..... No.....

If the answer is “Yes”, how does this functional duality affect the financial performance of the bank?

.....  
 .....

9) In what other ways has the corporate governance structure, as constituted, affected the financial performance of the bank?

.....  
 .....  
 .

**Section C:** This section deals with statements intended to determine the contribution of Strategic Leadership Strategy on Financial Performance of Commercial Banks in Kenya Using the 5-1 Likert scale given, show by ticking the appropriate option (s) how much you agree with the following statements listed below.

Strongly Agree-5 (81%-100%)	Agree-4 (61%-80%)	Neutral-3 (41%- 60%)	Disagree-2 (21%-40%)	Strongly Disagree-1 (1%-20%)		
Statements	5	4	3	2	1	
1	There are clear vision and mission statements indicating the direction and purpose of the bank					
2	The board formulates strategies to guide the performance and development of the bank					
3	There is a clear policy on the development of human capital					
4	Resources are effectively managed as they are aligned to corporate objectives					
5	Employees are often consulted and allowed to take decisions concerning their duties					
6	All stakeholders have equal voting rights.					

7) i) What style of leadership does the CEO of the bank maintain...?

.....

ii) How does this leadership style affect the financial performance of the bank, if at all?

.....  
.....

8) In what way(s) does the bank ensure that financial resources are effectively and efficiently allocated among competing needs in the bank?

.....  
.....

9) How does the CEO rally stakeholders to support the policies and best practices of the bank?

.....  
.....

**Section D:** Below are statements intended to examine the level of influence of Board Composition on Financial Performance of Commercial Banks in Kenya

Indicate, by ticking in the appropriate slot in the 5-1 Likert Scale given, how much you agree with the statements given.

Strongly Agree- 5 (81%-100%)	Agree-4 (61%-80%)	Neutral-3 (41%- 60%)	Disagree-2 (21%-40%)	Strongly Disagree- 1 (1%-20%)				
Statements			5	4	3	2	1	
1	The size of the board of directors does not influence the financial performance of the bank							
2	Board members are academically and professionally qualified to serve on the board of directors							
3	Board members undergo induction training on appointment and other relevant types of training during the course of their work.							
4	The appointment of more non-executive than executive members on the board increases the independence of the board of directors.							
5	The sex of members of the board does not contribute, in any way, to the financial performance of the bank							
6	Board members in the bank have wide industry and international experiences.							

7) In what other ways does the bank ensure that the independence of board of directors is not compromised?

.....  
 .....

8) How does the bank deal with board members who develop a conflict of interest in their duties?

.....  
 .....

9) What specific induction and training programs does the bank offer to improve the capacity of board members in their oversight functions?

.....  
 .....

**Section E:** The following statements are designed to determine the contribution of Accountability System on Financial Performance of Commercial Banks in Kenya

By ticking in the appropriate slot in the 5-1 Likert Scale given, show to what extent you agree with the following statements.

Strongly Agree-5 (81%-100%)	Agree-4 (61%-80%)	Neutral-3 (41%- 60%)	Disagree-2 (21%-40%)	Strongly Disagree-1 (1%-20%)					
1	Managers in the bank are well aware of their job expectations and take full responsibility for their performance								
2	The management of the bank prepares and presents to stakeholders an accurate, fair and understandable report of the bank's financial position every year.								
3	The bank embraces modern technology, which facilitates efficient and effective performance measurement and reporting.								
4	Information disclosure is a key principle in the corporate governance of the bank								
5	Corporate level managers exercise a high level of integrity								
6	There has been no reported cases of financial mismanagement in the bank								

7) How does the bank ensure that managers perform their duties transparently to safeguard the interests of shareholders and other stakeholders?

.....

.....

8) What types of technology has the bank employed to improve on performance measurement and reporting in the bank?

.....

.....

9) What measures does the bank take, if any, to counteract unethical conduct among managerial staff and members of the board of directors?

.....

.....

**Section F:** The following statements are intended to establish how Government Regulations influence relationship between Corporate Governance Strategies and Financial Performance of Commercial Banks in Kenya.

Using the 5-1 key given below, show by ticking in the appropriate slot how much you agree with the statements given over the period: 2015-2019.

	Statements	Strongly Agree-5 (81%-100%)	Agree-4 (61%-80%)	Neutral-3 (41%- 60%)	Disagree-2 (21%-40%)	Strongly Disagree-1 (1%-20%)
		5	4	3	2	1
1	The use of interest rate ceiling (CBR) by CBK negatively affects credit creation in the bank					
2	The Central Bank's application of Open Market Operations brings financial stability to the bank					
3	Adjustments in the bank's cash reserve ratio (CRR) with the Central Bank have assisted the operations of the bank.					

4	The bank's businesses in foreign markets have negatively influenced the CBK's foreign exchange controls					
5	The CBK application of its monetary policy instruments has affected the bank's financial performance negatively					
6	Direct controls, like imposition of interest rate caps by the Government lead to a decline in the bank's financial performance.					

**Section G:** This section is on Measures of Financial Performance of commercial Banks in Kenya. Data on financial indicators of performance, ROA and ROE have been extracted from annual published reports of each of the 8 commercial banks in Tier by the CBK. These ratios are contained in appendices V and VI.

**Appendix V: Bank Profitability Ratio: ROA (%): 2010-2019**

	<b>Bank/Year</b>	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	KCB	5.17	4.98	5.2	5.5	5.93	5.01	5.64	4.94	5.0	4.9
2	Equity	6.95	6.84	7.4	7.7	7.26	6.56	6.00	5.68	5.6	5.1
3	Co-Op	3.61	3.68	4.8	4.7	4.43	4.14	5.15	4.31	4.3	4.5
4	SCB	5.37	5.03	5.9	6.0	6.42	3.83	3.83	3.34	4.0	4.2
5	ABSA	6.24	7.18	7.0	5.8	5.44	5.01	4.02	3.68	3.2	3.2
6	DTB	4.90	4.19	4.9	4.9	4.47	3.69	3.64	3.05	3.3	3.2
7	Stanbic	1.96	2.23	3.5	4.1	4.31	3.56	3.37	2.34	3.1	2.8
8	NCBA	4.24	3.58	4.0	3.6	2.57	3.14	3.60	3.13	3.4	2.0
	Mean	4.81	4.71	5.34	5.25	5,10	4.37	4.40	3.80	4.0	3.73

**Source:** Extracts from CBK Bank Supervision and Annual Report 2010-2019 (CBK, 2020)

**Appendix VI: Bank Profitability Ratio: ROE (2010-2019)**

	Bank/ Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	KCB	28.2	31.1	29.8	28.4	31.0	29.0	35.2	30.9	32.1	35.8
		3	8								
2	Equity	32.9	34.5	37.6	36.0	49.4	47.2	43.2	37.2	40.2	37.2
			3								
3	Co- Op	27.5	29.4	33.1	30.0	29.5	28.5	30.0	24.2	25.7	26.4
		2	7								
4	SCB	37.9	40.1	37.6	37.0	35.4	21.9	24.8	21.3	25.2	26.9
		4	1								
5	ABSA	34.2	41.1	44.0	36.8	32.5	30.4	29.1	23.0	23.7	26.9
		5	1								
6	DTB	35.6	31.3	31.4	30.0	24.5	23.5	24.4	19.1	19.4	17.8
		4	4								
7	Stan- bic	20.9	30.8	26.0	31.3	27.7	25.1	22.9	16.9	25.4	21.2
		6	2								
8	NCBA	36.0	30.0	34.3	32.5	25.3	27.4	27.6	22.8	23.3	13.4
		6	4								
	Mean	31.6	33.5	34.2	32.7	31.9	29.1	29.6	24.4	26.8	25.7
		9	8	3	5	1	3	5	3	8	0

**Source:** Extracts from CBK Bank Supervision and Annual Report 2010-2019 (CBK, 2020)

**Appendix VII: List of the 9 Commercial Banks in Tier 1 Classification and their market shares**

	Name of Bank	Market Share	Respondents
1	KCB Kenya Ltd	13.89	14
2	Equity Bank of Kenya Ltd	10.24	14
3	NCBA Bank Kenya PLC	10.10	14
4	The Co-op Bank of Kenya Ltd	9.65	14
5	ABSA Bank Kenya PLC	6.80	14
6	Standard Chartered Bank (K) Ltd	6.37	14
7	Diamond Trust Bank Kenya Ltd	6.34	14
8	I&M Bank Ltd	5.65	14
9	Stanbic Bank Kenya Ltd	5.64	14
	Total	74.68	126

**Source:** Extracts from CBK Bank Supervision and Annual Report (CBK, 2020)

## Appendix VIII: Graduate School Letter of Introduction



### DIRECTORATE OF GRADUATE STUDIES

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PhD/2014/73048

5<sup>th</sup> August, 2021

*The Director, Research Coordination Division  
National Commission for Science, Technology & Innovation  
Utalii House, 8<sup>th</sup> & 9<sup>th</sup> Floor  
P.O Box 30623- 00100  
NAIROBI*

Dear Sir/Madam,

**RE: JULIUS SUKA KASUNI - REGISTRATION NO. PhD/2014/73048**


The purpose of this letter is to introduce the above named student who is pursuing **Doctor of Philosophy in Business Administration** in the Department of **Accounting & Finance** in the School of **Business & Economics**.

The title of his research is *"Critical Analysis of Corporate Governance Strategies on Financial Performance of Commercial Banks in Kenya."*

He has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data for his research between **August and December, 2021**.

Any assistance accorded to him will be highly appreciated.

Thank you.

  
Dr. Samuel M. Karenga, Ph.D.  
Director, Graduate Studies  
Enc.

Mount Kenya University  
P.O. Box 342-01000 THIKA  
Office of the Director  
Graduate Studies

Appendix IX: NACOSTI Research Permit

REPUBLIC OF KENYA  
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 381227  
Date of Issue: 19/August/2021

**RESEARCH LICENSE**



This is to Certify that **Mr. JULIUS SUKA KASUNI** of Mount Kenya University, has been licensed to conduct research in Nairobi on the topic: **CRITICAL ANALYSIS OF CORPORATE GOVERNANCE STRATEGIES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA** for the period ending : 19/August/2022.

License No: NACOSTI/P/21/12342

Applicant Identification Number: 381227

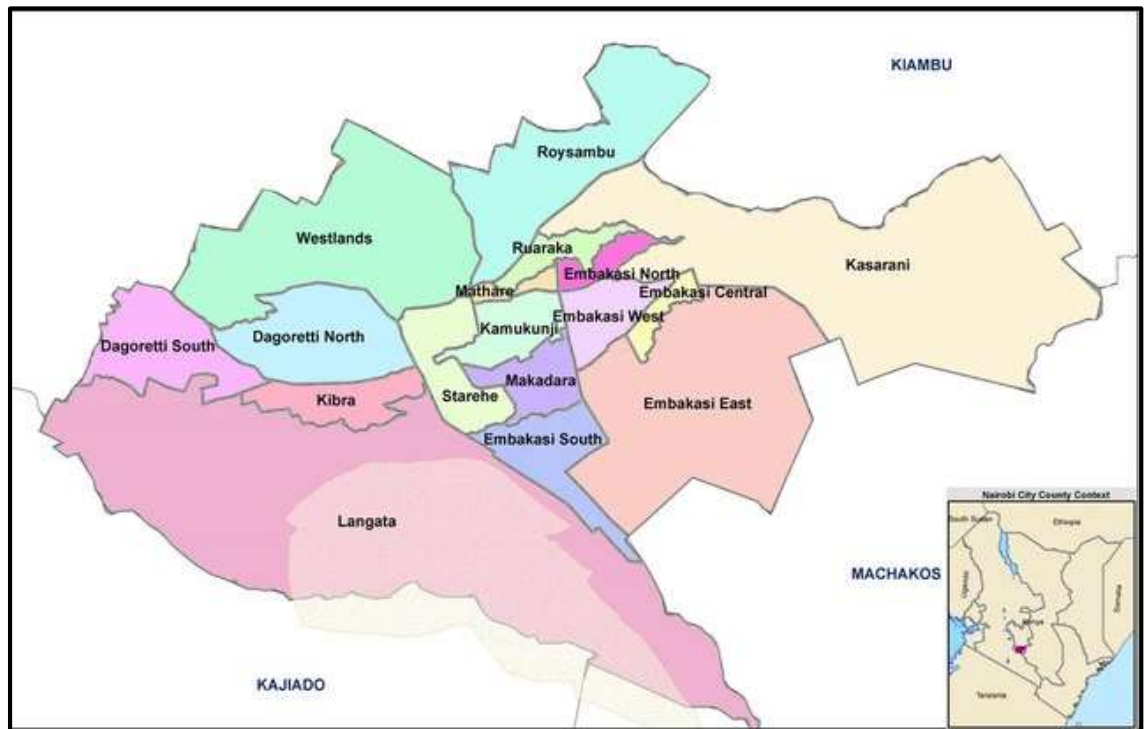
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## Appendix X: Map of Nairobi: Research Site



Mount Kenya

## Appendix XI: Similarity Report

### CRITICAL ANALYSIS OF CORPORATE GOVERNANCE STRATEGIES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS, KENYA

#### ORIGINALITY REPORT

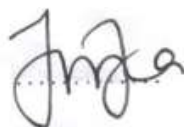
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**DR. EVANS NYAMBOGA MANDERE**



**DR. PHELISTA W. NJERU**

