

**INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL
PERFORMANCE: CASE OF COOPERATIVE BANK OF KENYA (CO-OP)**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION DEGREE IN ACCOUNTING AND FINANCE
MOUNT KENYA UNIVERSITY.**

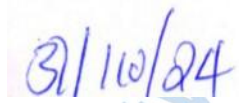
OCTOBER 2024

DECLARATION AND APPROVAL

Declaration by the Student

I hereby affirm that this research project is entirely my own creation and has not been previously submitted to any other institution or to this university. I consent to the availability of this project for reference, both under my authority and that of Mount Kenya University.

Signed.....

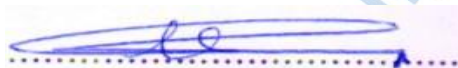
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Approval by the Supervisor

I confirm that the work reported in this research project was carried out by the candidate under my supervision.



Date.....

Signed.....

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DEDICATION

I dedicate this work to my darling Perenise Kaimuri, Trevor Mureti, Favour Kendi, John Machali and to my cherished family.



ACKNOWLEDGEMENTS

I want to sincerely thank my family for all their prayers and continuous support throughout this endeavor. I am also appreciative of my coworkers and fellow students' encouragement and support. I would like to sincerely thank Dr. Isaac Abuga, my supervisor for his unwavering leadership and support during this research project. In an especially grateful to God for His grace and the gift of peace of mind throughout this project.

ABSTRACT

The study focused on the influence of corporate governance on financial performance of the Cooperative Bank of Kenya (COOP). The specific objectives were: to investigate the relationship between board composition and financial performance, to examine the impact of ownership structure on financial performance, to assess the relationship between executive compensation practices and financial performance, and to evaluate the effects of transparency indicators on financial performance. The study was conducted at COOP's headquarters and branches in Kenya. It was based on the Agency Theory, Stakeholder Theory, and Stewardship Theory. A quantitative methodology with a correlational design was adopted. The target population consisted of 850 COOP employees and stakeholders across different levels. Purposive and stratified random sampling techniques were used to obtain a sample of 230 respondents. Data was collected using structured questionnaires and analyzed through descriptive statistics, Pearson's correlation, and multiple regression analysis. Content validity was ensured through expert reviews, while reliability was tested using Cronbach's alpha. The findings revealed a positive and significant relationship between board composition, ownership structure, and executive compensation on financial performance measured by return on assets and net profit margin. However, transparency indicators showed a positive but insignificant effect. The correlation coefficients for board composition, ownership structure, executive compensation and transparency indicators were 0.872, 0.889, 0.864 and 0.732 respectively ($p < 0.05$), indicating a strong association with financial performance. The regression analysis demonstrated that board composition accounted for 37.3%, ownership structure 59.2%, executive compensation 25.7%, and transparency indicators 11.9% of the variation in financial performance. The study concluded that effective corporate governance practices, particularly board composition, ownership structure, and executive compensation significantly influence financial performance within COOP, while transparency indicators had a weaker effect. Recommendations included enhancing board diversity, strengthening ownership structures, aligning compensation with performance, and improving transparency practices and disclosures. The findings contribute empirical evidence to the existing knowledge and provide actionable insights for decision-makers in the banking sector and regulatory bodies.

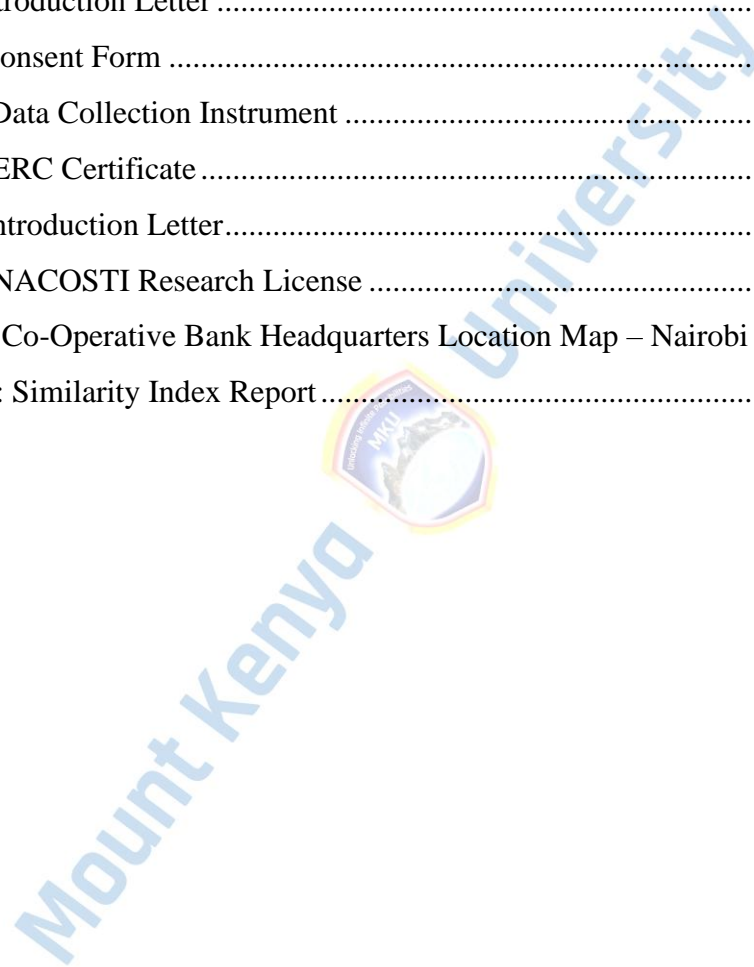
TABLE OF CONTENTS

DECLARATION AND APPROVAL	
II DEDICATION	
III ACKNOWLEDGEMENTS	
..... IV ABSTRACT	
..... V TABLE OF CONTENTS	
..... VI LIST OF TABLES	
..... X LIST OF FIGURES	
..... XI LIST OF ACRONYMS AND ABBREVIATIONS	
..... XII	
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Corporate Governance	3
1.1.2 Financial Performance	7
1.1.3 Association amongst CGPR and the financial performance of cooperative banks in Kenya	8
1.1.4 Cooperatives Banks in Kenya	10
1.2 Statement of the Problem.....	11
1.3 Purpose of the Study	13
1.4 Research Objectives	13
1.5 Research Questions	13
1.6 Justification of the Study.....	14
1.7 Significance of the Study	15
1.8 Scope of the Study	16
1.9 Limitations of the Study.....	17
1.10 Delimitations of the study	18
1.11 Assumptions of the Study	18
1.12 Operational Definition of Key Terms	19
CHAPTER TWO	22

LITERATURE REVIEW	22
2.0 Introduction	22
2.1 Empirical Literature Review	22
2.1.1 Board Composition and Financial Performance	25
2.1.2 Structure Ownership and Financial Performance	29
2.1.3 Executive Compensation and Financial Performance.....	32
2.1.4 Transparency Indicators and Financial Performance.....	36
2.1.5 Financial Performance of Cooperative Banks.....	40
2.2 Theoretical Review	43
2.2.1 Agency Theory	44
2.2.2 Stewardship Theory	46
2.2.3 Stakeholder Theory	47
2.3 Summary of Literature Review	49
2.4 Conceptual Framework	50
2.5 Research Gaps	51
2.6 Recap of the Literature.....	53
CHAPTER THREE	56
RESEARCH METHODOLOGY	56
3.0 Introduction	56
3.1 Research Methodology.....	56
3.2 Research Design.....	56
3.3 Location of the Study	57
3.4 Target Population	57
3.5 Sampling Procedure and Techniques	58
3.6 Sample Size.....	59
3.7 Data Collection Instruments.....	60
3.7.1 Questionnaire	60
3.7.2 Interview Guide.....	60
3.8 Pilot of Research Instruments	60
3.9 Validity and Reliability	61
3.9.1 Validity.....	61
3.9.2 Reliability	61
3.10 Data Collection Procedures or Methods	61
3.11 Data Processing and Analysis Methods	61

3.12 Ethical Considerations	62
CHAPTER FOUR	63
RESEARCH FINDINGS AND DISCUSSIONS	63
4.1 Introduction	63
4.2 Response Rate	63
4.3 Pilot Test results.....	64
4.3.1 Reliability Tests	64
4.3.2 Validity Tests	64
4.4 Demographic Analysis	65
4.4.1 Gender of the Respondents	65
4.4.2 Age	65
4.4.3 Marital status.....	66
4.4.4 Highest level of education.....	66
4.4.5 Employment type of job.....	67
4.5 Analysis of Study Variables.....	67
4.5.1 Board Composition and Financial Performance	67
4.5.2 Ownership Structure.....	69
4.5.3 Executive Compensation.....	70
4.5.4 Transparency Indicators	72
4.5.5 Financial Performance	73
4.6 Inferential Analysis	74
4.6.1 Multiple Regression analysis	74
4.7 Discussion of the Findings of the Research Study.....	77
4.7.1 Board Composition and Financial Performance	77
4.7.2 Ownership Structure.....	78
4.7.3 Executive Compensation.....	79
4.7.4 Transparency Indicators	81
4.7.5 Financial Performance	82
CHAPTER FIVE	84
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	84
5.1 Introduction	84
5.2 Summary of Findings.....	84
5.2.1 Board Composition and Financial Performance	84
5.2.2 Ownership Structure.....	84

5.2.3 Executive Compensation.....	84
5.2.4 Transparency Indicators	85
5.2.5 Financial Performance	85
5.3 Conclusions.....	85
5.4 Recommendations of the Research Study.....	86
5.5 Recommendations for Further Research.....	87
REFERENCES	89
APPENDICES	95
Appendix I: Introduction Letter	95
Appendix II: Consent Form	96
Appendix III: Data Collection Instrument	97
Appendix IV: ERC Certificate	102
Appendix V: Introduction Letter.....	103
Appendix VI: NACOSTI Research License	104
Appendix VII: Co-Operative Bank Headquarters Location Map – Nairobi.....	104
Appendix VIII: Similarity Index Report.....	105



LIST OF TABLES

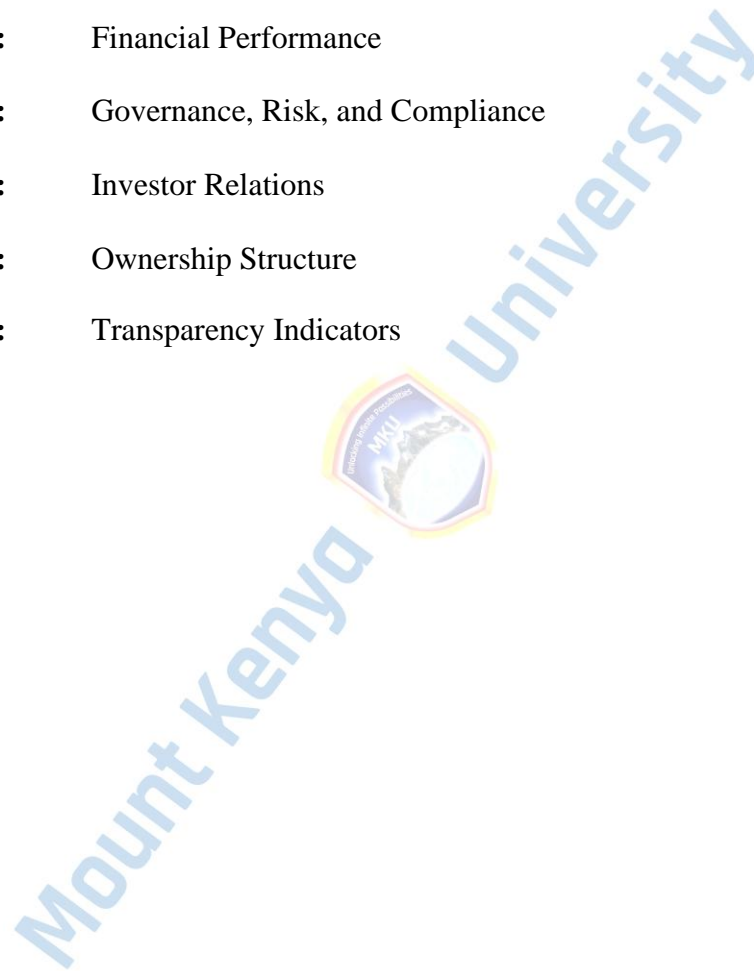
Table 1: Target Population	58
Table 2: Sample Size	60
Table 3: Gender Distribution of the Respondents	65
Table 4: Age of the respondents	65
Table 5: Marital Status Distribution	66
Table 6: Highest Level of Education	67
Table 7: Employment Types of the Respondents	67
Table 8: Board Composition	68
Table 9: Ownership structure	70
Table 10: Executive Compensation	71
Table 11: Transparency Indicators	73
Table 12: Financial Performance	74
Table 13: Regression analysis table	75
Table 14: Regression Coefficients	76

LIST OF FIGURES

Figure 1: Conceptual Framework	51
Figure 2: Response Rate Chart	64

LIST OF ACRONYMS AND ABBREVIATIONS

BOD	:	Board of Directors
CEO	:	Chief Executive Officer
CG	:	Corporate Governance
CP	:	Corporate Performance
EC	:	Executive Compensation
ESG	:	Environmental, Social, and Governance
FP	:	Financial Performance
GRC	:	Governance, Risk, and Compliance
IR	:	Investor Relations
OS	:	Ownership Structure
TI	:	Transparency Indicators



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizational success and sustainability over the long run depend on good corporate governance. All organizational structures, processes, and monitoring mechanisms are part of it to ensure moral decision-making, openness, and accountability. There has been much discussion and analysis of the correlation between good corporate governance and financial success in both scholarly and business publications. The board serves as the primary governance mechanism responsible for overseeing strategic decision-making, providing guidance to management, and safeguarding the interests of shareholders (Mallin, 2017). A diverse and independent board is considered essential for effective governance and can positively impact financial performance by bringing in diverse perspectives and expertise.

Ownership structure is an additional key factor of corporate governance that influences financial performance. The distribution of ownership among various shareholders, such as institutional investors, individual investors, and controlling shareholders, can impact the policymaking processes and enduring tactical orientation of companies (Monks & Minow, 2018). Different ownership structures may have varying incentives and goals, which can affect the company's financial outcomes.

Executive compensation practices are also integral to corporate governance and might cause a significant effect on financial performance. The design and implementation of executive compensation packages can influence managerial behaviour, risk-taking, and alignment with shareholder interests (Bebchuk & Fried, 2004). Well-designed compensation structures that link executive pay to company performance can incentivize managers to make decisions that enhance financial performance and shareholder value.

Transparency and disclosure practices are critical mechanisms of corporate governance. Transparency indicators, like the availability of timely, and accurate financial information, adherence to reporting standards, and the extent of disclosure on governance practices, can impact financial performance (Solomon, 2018). Transparent companies tend to instill greater investor confidence, attract capital, and facilitate better decisionmaking by stakeholders.

In general, the literature suggests that effective corporate governance practices positively influence financial performance by promoting accountability, reducing agency costs, enhancing investor confidence, and improving decision-making processes (Hitt et al., 2018). However, the specific mechanisms and relationships among corporate governance and financial performance require empirical investigation to provide robust evidence and validate theoretical assertions.

Cooperative Bank of Kenya (COOP) is among the top banks in Kenya and serves as the focal point for this study. Established in 1965, COOP has grown to become a prominent performer in the finance sector, offering varieties of monetarist services to individuals, businesses, and cooperatives across the country.

As a licensed commercial bank, COOP operates under the regulatory framework of the Central Bank of Kenya. The bank has a strong presence with a network of branches strategically located throughout Kenya, providing convenient access to its customers. COOP is committed to fostering financial inclusion and supporting sustainable development by offering innovative banking solutions tailored to the diverse needs of its clientele.

COOP's corporate governance structure comprises a Board of Directors in authority for administration the bank's activities and guaranteeing adherence to governance principles.

The board is composed of experienced professionals with diverse backgrounds, including representatives from shareholder cooperatives, independent directors, and executive directors.

In terms of ownership structure, COOP operates as a publicly listed company on the Nairobi Securities Exchange. This implies that ownership is distributed among various shareholders, including individual and institutional investors who hold shares in the bank. Executive compensation packages typically include salary, performance-based incentives, and equity-based compensation, which are linked to key performance indicators and the bank's overall financial performance. Transparency and accountability are integral to COOP's corporate governance framework. The bank places significant emphasis on robust disclosure practices and maintains quality values of financial reportage to ensure equity and build trust among stakeholders. COOP regularly publishes its financial statements and reports in compliance with regulatory requirements.

1.1.1 Corporate Governance

Cooperation governance, as described by Cadbury (2002), is the process by which boards of directors guide and oversee the operations of organizations and businesses. The approach that is presented is described by Monks and Minow (2004) as a means to guarantee that valid questions are asked and that confirmations and equilibriums are in place to guarantee that the answers are consistent with what is optimal for the creation of lasting, justifying value. Precisely, the researchers stress that the association between directors, stakeholders, and administration are the main objective of corporate governance. When Colley et al. (2005) state that "public corporations function as a type of representative government today, they provide more context for the phenomena. Directors are chosen by the owners (shareholders) to act as their representatives in running the company. The CEO is hired by the directors, who collectively are referred to

as the board of directors, and they have a daily duty for running of the company. Both individually and collectively, the BOD holds the CEO accountable to the shareholders. The board not only chooses the CEO but also provides advice, approves, and monitors the firm's business and strategy choices and performance. In summary, corporate governance refers to this form of authoritative guidance or government.

Mayer (1997) asserts that corporate governance is concerned with aligning directors' and depositors' benefits and making sure businesses are operated for the advantage of investors. It focuses on the efforts made by all parties involved to assurance that executives, staff members, and further insiders always take the proper precautions to protect their interests. The framework that directs and controls organizations is called as corporate governance.

Workers', creditors', and other shareholders' rights are addressed, along with managers' and monitoring stockholders' control over minor interests. It is a web of connections connecting the many parties involved in running a company, including shareholders, directors, and others (Muriithi, 2009). Metrick and Ishii (2002) provide a definition of corporate governance as the commitment to return money with a fair profit and to operate a corporation in a profitable manner..

Keasey, Thompson, and Wright (1997) termed corporate governance as the systems, cultures, developments, and structures that support the effective operation of organizations. Consequently, the idea may center on how the company interacts with various elements of its surrounding environment. It is the goal of good corporate governance, as stated by Maati (1999), to ensure that financial intermediaries actively participate in the production process, generate an organizational surplus, and fairly distribute profits among partners in proportion to their contributions to the business.

Corporate governance is defined as "the framework that guides the operations of the business" by the Cadbury Committee, Cadbury (1992). Cooperation governance was described by Shleifer and Vishny (1997) as the process by which financial backers of firms ensure that their investment will provide a return. Several research on corporate governance have examined several means by which investors might keep an eye on their holdings, where a board of directors offers services in the place of liaison for both investors and managers.

Strong and sustainable business decisions have been inhibited and bribery, acquaintance, and corruption have flourished due to a lack of strong corporate governance. It is imperative to bear in mind that, despite its emergence as a management tool for contemporary joint-stock corporations, corporate governance holds equal significance in public-sector firms, cooperatives, and private commerce. No matter the nature of the enterprise, only sound governance can produce long-term, profitable results. Freeman (1984). Good corporate governance enables businesses to continue providing excellent services and to make improvements. Inadequate governance setups create the conditions that prevent organizational systems and procedures from identifying or foreseeing significant financial and service breakdowns. According to Baker (2007), openness, clarity, and sincere accountability are the cornerstones of good governance in companies, which builds civic participation and public trust.

A company's operations are governed by a bunch of rules called corporate governance, which also define the contact amongst investors, management, and the board of directors. Corporate governance, at its utmost vital, addresses glitches that arise from the dissection of tenure and rheostat. Nevertheless, corporate governance is more of laying down a precise framework for the interaction between management and shareholders. Robust governance norms facilitate improved capital access and sustenance pecuniary growth.

Furthermore, corporate governance encompasses larger formal and societal aspects. Implementing the values of fairness, sincerity, responsibility, and accountability to stakeholders and shareholders has to be the main goal of elegant governance laws. According to Nicolaescu (2012), organizations that practice good corporate governance has to be responsible for their operations and benefit from a fair and transparent business environment. The crucial goal of the article was to examine if the variables (independent factors) under examination could impact SACCOs' financial performance through corporate governance. The following factors are Board size, diversity (gender), board remuneration (average income of all executives on the board), and board working experience (total number of years on the board) are all measures of a board's health and effectiveness..

Additionally, it is thought that strong governance inspires confidence and goodwill among investors. Once more, it is anticipated that badly run businesses would be less successful. According to Claessens et al. (2002), improved corporate frameworks help businesses by improving funding availability, lowering capital costs, enhancing financial performance, and treating stakeholders better. They contend that in addition to hazardous financing practices and subpar company financial performance, insufficient corporate governance also creates an environment that is favorable to large economic crises like the East Asia crisis of 1997.

Corporate governance in the banking industry refers to the process by which a company's senior management and board of directors supervise the operations and expertise of the company's employees. This has a significance on how the bank expresses its targets, plans, and strategies whereas also considering factors such as ensuring appropriate financial returns for the bank's founders and other shareholders, handling daily manoeuvres, maintaining the rights and benefits of recognized shareholders (such as

investors and stakeholders), and the corporations' devotion to safeguard and sound proficient behaviors and practices that comply with laws and regulations (Linyiru, 2006). The corporate governance standards of contemporary organizations have garnered significant attention in recent times, especially in light of the prominent failures of major U.S. corporations like Enron Corporation and WorldCom (Nambiro, 2007).

According to this perspective, corporate governance encompasses important business matters, especially corporate finance, which includes risk management, capital markets, creditors, and the firm's financial structure.

1.1.2 Financial Performance

Financial performance is defined by Heremans (2007) as the use of fiscal indicators to evaluate the extent to which objectives are met, the bank's support in supplying funding, and the accessibility of investment possibilities. Financial performance is defined by Rutagi (1997) as an organization's level of performance. According to Namisi (2002), performance of the organization is defined by other scholars as the degree to which the organization accomplishes its desired goal. Effective boards promote effective organizations, according to the mainstream belief held by researchers and practitioners alike. Whether looking at the company's value from the perspective of external shareholders or internal long-term profitability, there is evidence to indicate that competent boards may increase both. Thirdly, Epstein et al..

Both internal and external factors impact the financial success of Kenyan cooperative banks. According to Linyiru (2006), there are two main types of internal drivers of profitability that may be controlled by bank management: variables related to financial statements and variables related to non-financial statements. A financial statement variable amount is associated with actions that consistently affect items in the income and balance sheets, as opposed to a nonfinancial statement variable, which does not have

any direct relationship to the financial statements. The numeral of divisions, the branch's status (limited or full-service, single or several subdivisions), the bank's position, and its size are a few examples of non-financial variables that fall under this category, according to Sudin (2004).

The elements that are alleged to be outside of a bank's management's control are known as external factors.

Stiff competition, guideline, attentiveness, ownership, soq segment, scarcity of principal, cash stream, price increases, and magnitude are a few of the frequently mentioned peripheral variable star. Sudin (2004). In Kenya, several ratios are used to assess the monetary recital of banks, including NIM, ROE, and ROA.

1.1.3 Association amongst CGPR and the financial performance of cooperative banks in Kenya

Various scholars stated that in order to assure implementation in businesses, corporate governance requires established procedures, methods, and codes of regulations (Altunbas et al., (2001)

In a study of commercial banks, Matama (2005) found a positive association between good corporate governance and financial success. Board effectiveness and solid economic success are positively correlated, according to Masibo's (2005) study on board governance and steady performance in specified public-sector enterprises and emphasized administrations on USE. When conducting experimental study on corporate governance and business performance from an international viewpoint, Piesses (2005) came to contradictory conclusions about the relationship between the two.

There are a number of reasons to anticipate that banks with stronger governance will likely operate more profitably and efficiently. First and foremost, governance may lessen the frequency and value of transactions involving associated groups as well as other

forms of "self-dealing." Reduced transaction volume should result in better performance because these transactions are typically not the most efficient from an efficiency perspective. Second, banks with stronger governance might have cheaper capital costs, particularly if they use subordinated debt financing. Third, as the superintendent board and administration duties are divided and rationalized, improved governance may result in more streamlined and effective operations.

Larger boards typically result in better performance for banks than smaller ones. This is as a result of their superior knowledge, which helps them make better decisions. Then again, Fama and Jensen (1983) argue against it. They contend that larger boards are simpler for the CEO to manage and less effective. Smaller administrations are not complex to manage and deter free equestrian, which improves the bank's efficiency.

Another aspect of corporate governance that influences the success of Kenyan banks is the diversity of the board. Diversity is said to boost board independence because individuals from diverse genders, ethnic origins, or cultural backgrounds may pose questions that directors from more conventional backgrounds would not. Alternatively, an executive that is more miscellaneous may also be a more advanced administration since atypical external managers may be regarded as the decisive outsiders and hence have a beneficial effect on the recital of the board.

Depositors see NED-composed executives as a major component in assessing a corporation's performance, therefore the popularity of NEDs on a board is a requirement of good practice recommendations for corporate governance (ASX Corporate Governance Council 2003; Cadbury 1992; Hampel 1998). The board is an essential part of corporate governance, according to Fama (1980) and Fama & Jensen (1983). Independent directors are responsible for keeping an eye on management and providing them with supplementary knowledge when needed..

Nonetheless, the cypher of finest practices for corporate governance stipulates that the executive and NED composition of the board should be balanced to avoid anybody or minor parties from governing the panel's policymaking.

1.1.4 Cooperatives Banks in Kenya

The primary governing bodies of Kenya's banking sector are the Corporation's Act, the CBK Act, and the Banking Act. The level of reporting by commercial banks has significantly increased thanks to these Acts and the prudential guidelines that the CBK periodically issues.

Corporate governance in Kenya's banking sector is still getting worse, despite strict regulations. Focusing on corporate governance in the fiscal sector is vital, according to CCG (2004), primarily because the banking sector came under intense civic inspection and several instructions were followed to avoid the hazards involved, such as negative P.R. brought on by governance and shareholder relationships failings, for example the failure of banks like Eurobank, Trust Bank, and Daima Bank. Corporate governance in the finance sector was impacted by two factors: the government's 1982 relaxation of the regulations controlling the issue of bank licenses, and the process of privatization, which commenced in the 1980s and accelerated in the 1990s. This brought an outcome in the expansion of several banks that failed to contrivance sound corporate governance practices, which in turn created a bad management culture and governance environment inside the sector (Mwangi, 2002). One such instance occurred in 1984 whereby the Rural Urban Credit Finance (RUCF) was put into temporary bankruptcy. To lessen instability in the financial company, the GOK amended the Financial Act and the Central Bank Act via the Central Bank. For instance, this was achieved by establishing the DPF and increasing the capital requirements. Notwithstanding initiatives to streamline the finance sector, a large number of banks have been placed in receivership or dissolved. The

primary causes of the collapse were inadequate management, governance, and internal controls. For instance, in 1986, Continental Credit Finance Ltd. and Continental Bank of Kenya failed. Capital Finance failed in 1987.

After that, the government combined seven failed banks to form Consolidated Bank (Nambiro, 2007). According to the CCG (2004), insider lending, conflicts of interest, inadequate risk management plans, a non-existence of interior management, and a feeble CGPR were the main causes of the collapse of these banking companies in Kenya. In order to address these issues and fortify its support of the managerial protagonist it acts in the commerce, the CBK intervened and outlined bolder and more detailed steps. The main focus of corporate governance in Kenya's banking industry is the distribution and fulfillment of responsibilities among the various administrations (banks) and persons responsible for the prudent management of the financial sector (Central Bank of Kenya, 2006). The BOD, organization, stockholders, CBK, external auditors, and CMA are amongst the corporate governance investors in the finance sector (CCG, 2004). It is assumed that actual bank governance lowers investment risks, nurtures investor hope and goodwill, and enhances bank performance.

1.2 Statement of the Problem

Both academics and businesses put a premium on the correlation between good corporate governance and bottom-line results. There must be a clear understanding of the relationship between good corporate governance and a company's bottom line. Multiple studies have shown that good corporate governance is associated with higher profits (Adams & Mehran, 2012; Mallin, 2016; Monks & Minow, 2018

COOP operates in the highly competitive Kenyan banking industry, characterized by fluid market conditions, regulatory changes, and emerging challenges. Research on the relationship between corporate governance and financial performance in the financial

sector has been limited; however, there is some evidence that COOP's corporate governance practices impact financial performance (Shleifer & Vishny, 1997; Solomon, 2018; Tricker, 2015).

Moreover, comprehending the specific schemes through which corporate governance shapes financial performance is vital for various stakeholders of COOP, including shareholders, management, regulators, and policymakers. By pinpointing the strengths and weaknesses of COOP's corporate governance practices concerning financial performance, this study can offer actionable recommendations to bolster governance effectiveness and contribute to the sustainable growth and stability of COOP. This all-inclusive scrutiny of COOP's corporate governance practices and fiscal performance indicators is geared towards bridging the existing research gap and delivering empirical evidence of the connection amid corporate governance and economic performance. Even so, there is still a lack of understanding on the precise mechanisms via which corporate governance policies impact financial performance, especially when considering the Cooperative Bank of Kenya (COOP).

To address this knowledge vacuum, this study will analyze how COOP's financial performance was impacted by several aspects of corporate governance, including the makeup of the board, the tenure structure, executive remuneration, and transparency indicators. By probing these governance strategies' effects on key performance metrics in the financial sector. This research aims to contribute to the existing body of information about the relationship between corporate governance and financial performance by shedding light on the efficacy of COOP's corporate governance policies.

1.3 Purpose of the Study

This study aims to shed light on the relationship between corporate governance and the financial results achieved by the Cooperative Bank of Kenya (COOP) in order to provide useful recommendations for enhancing financial sector governance practices. The management would determine how different facets of corporate governance procedures impact Kenyan cooperative bank operations. Additionally, they would note the challenges these banks confront when implementing different corporate governance procedures that have an impact on their bottom line.

This study will guide policymakers regarding the design of suitable actions that would normalize shareholder involvement in influencing the monetary performance of Kenyan banks by providing them with knowledge of the dynamics of the banking sector and appropriate responses. Several industry stakeholders, including the following, will help from the findings of the study

1.4 Research Objectives

- i. To investigate the association between board composition and financial performance.
- ii. To determine the influence of proprietorship structure on financial performance.
- iii. To evaluate the existing corporate governance framework and practices within Cooperative Banks of Kenya.
- iv. To evaluate the impact of transparency indicators on financial performance.

1.5 Research Questions

- i. How does board composition, including board size, independence, diversity, and expertise, influence the financial performance of companies?

- ii. What is the impact of ownership structure, such as concentrated ownership, institutional ownership, and family ownership, on the financial performance of companies?
- iii. How do executive compensation practices, including executive pay, performance-based incentives, and equity-based compensation, affect the financial performance of companies?
- iv. What is the relationship between transparency indicators, such as disclosure practices, financial reporting quality, and information transparency, and the financial performance of companies?

1.6 Justification of the Study

There are many strong arguments for why this research is important.

There are many strong arguments for why this research is important. First, it addresses a gap in the literature by providing a critical analysis of the relationship between corporate governance and financial performance in the context of the Cooperative Bank of Kenya (COOP). This brings us full circle to the scant but growing corpus of literature on the topic of corporate governance procedures and their impact on banking institutions' bottom lines in Kenya.

Secondly, this study's findings carry hands-on insinuations not only for COOP but also for other banks operating under analogous market conditions. Identifying precise financial performance impacted by governance mechanisms equips the study to provide actionable insights and recommendations for enhancing COOP's corporate governance

practices. These insights can also prove valuable for regulators and policymakers keen on fortifying governance frameworks within the banking industry.

Thirdly, as corporate governance continues to garner global attention, this study contributes to the broader academic discourse about the nexus between governance and financial performance. By delving into the unique characteristics and dynamics of COOP, the study augments our thought of the intricacies and subtleties of corporate governance and how it shapes financial outcomes, particularly in emerging market contexts.

Lastly, this study aligns itself with the escalating call for transparency, accountability, and the practice of good governance within the banking sector. By investigating the connection between transparency indicators and financial performance, the study emphasizes the vital role of exposé and reporting practices in nurturing trust and confidence among stakeholders.

The rationale for this study lies in its potential to yield valuable insights, inform decisionmaking both within COOP and the broader banking industry, contribute to academic knowledge, and encourage the adoption of effective corporate governance practices that can amplify financial performance and foster sustainable growth.

1.7 Significance of the Study

Academic Significance: By adding empirical evidence on the impact of corporate governance on financial performance, this research contributes to the existing body of knowledge. It adds to our understanding of how governance methods affect financial results and lays the groundwork for future studies in this area..

Practical Significance: The study's conclusions may have applications for leaders, boards of directors, and businesses. Decision-making and strategic planning may be influenced by an understanding of how corporate governance affects financial performance, which enables businesses to implement successful governance policies that support their long-term success..

Policy Significance: Policymakers and regulatory bodies can benefit from the study's findings in formulating and implementing governance regulations and guidelines. The insights gained from this study can inform the development of policies that promote transparency, accountability, and ethical behavior, thereby enhancing overall corporate governance standards.

Investor Significance: The study's conclusions may be used by financial analysts and investors to evaluate firms' governance procedures and make better investment choices. Investors may use the research to assess possible risks and rewards related to various governance structures and practices..

1.8 Scope of the Study

The primary focus of this research is to examine the relationship between corporate governance and the Cooperative Bank of Kenya's (COOP) financial performance. The research project has a 12-week duration and will examine certain governance methods. Examining the implications of ownership structure, CEO remuneration, board composition, and transparency indicators on financial performance measures including profitability, asset quality, liquidity, and market value is part of this..The research is limited to the context of COOP and does not extend to other banks or industries. Additionally, the study will utilize data and information available up to the specified time period, ensuring relevance and accuracy within the scope of the research. The study will

primarily rely on quantitative research methods, analyzing financial statements, corporate governance reports, and relevant literature to draw meaningful conclusions.

1.9 Limitations of the Study

The following limitations of the study have been identified.

Sample Selection Bias: The study's findings may be subject to sample selection bias due to the specific criteria used to select companies for analysis. The sample may not be fully representative of all industries, sizes, and geographical locations, which could limit the generalizability of the results to a broader population.

Data Availability and Reliability: The availability and dependability of data sources have a significant impact on the study's conclusions used for financial performance and corporate governance measures. Limitations in data quality, incomplete data, or potential data errors could affect the accuracy and robustness of the results.

Causality and Endogeneity: The cross-sectional nature of the study might make it more difficult to prove a link between financial performance and corporate governance practices. Endogeneity issues, where the relationship between variables may be influenced by reverse causality or unobserved factors, can pose challenges in accurately assessing the impact of corporate governance on financial outcomes.

External Factors and Contextual Specificity: The impact of contextual distinctiveness and outside influences on financial success may not have been taken into consideration in this research. Corporate governance standards may interact with factors including industry dynamics, legal and regulatory frameworks, and macroeconomic situations, making it difficult to separate their individual influence on financial performance.

1.10 Delimitations of the study

Several delimitations are important to acknowledge in this investigation. First, the research focuses on specifically on the Cooperative Bank of Kenya (COOP) and may not be generalizable to other banks or financial institutions. The findings and conclusions drawn from this research should be interpreted within the context of COOP's unique characteristics, governance structure, and market conditions.

Secondly, the study primarily relies on quantitative data analysis, which may limit a comprehensive exploration of the qualitative aspects of corporate governance and financial performance. While quantitative measures provide valuable insights, the study may not capture the full depth of the subject matter.

Thirdly, the study's scope is limited to the specific governance mechanisms of board composition, ownership structure, executive compensation, and transparency indicators. Other important governance aspects such as risk management practices, internal controls, and ethical considerations are beyond the scope of this research.

Furthermore, the study is based on data and information available up to the specified time period, and changes in COOP's governance practices or financial performance beyond that period may not be reflected in the analysis.

Also, there may be inherent limitations in data availability, accuracy, and reliability. The study relies on publicly available information and financial reports, which may have limitations or constraints in terms of completeness or precision.

1.11 Assumptions of the Study

This study is based on several key assumptions, which provide a foundation for the research and its findings:

The assumption is made that the financial statements and corporate governance reports of Cooperative Bank of Kenya (COOP) provide accurate and reliable information. It is assumed that the data used for analysis is complete and representative of COOP's financial performance and governance practices.

It is assumed that the selected financial performance indicators, such as profitability, asset quality, liquidity, and market value, effectively capture the overall financial performance of COOP. These indicators are assumed to reflect the key dimensions of financial performance that are relevant to the study.

The assumption is made that the selected governance mechanisms, including board composition, ownership structure, executive compensation, and transparency indicators, are significant determinants of financial performance in the context of COOP. It is assumed that variations in these governance factors will have an impact on the financial outcomes of the bank.

The study sample, which consists of COOP and its pertinent financial and governance data, is thought to be typical of Kenya's bank industry as a whole. It is anticipated that the study's findings and conclusions will shed light on the larger connection between corporate governance and financial performance in the banking industry, however extrapolations beyond the study's parameters should be done with care..

The design, analysis, and interpretation of the study's findings are predicated on these assumptions. But it's crucial to understand that these presumptions could have limits, and their viability has to be assessed carefully before extrapolating the results to other situations or drawing generalizations..

1.12 Operational Definition of Key Terms

Corporate Governance: The set of guidelines, procedures, and practices that govern

how an organization is run; it includes the interactions between management, shareholders, and other stakeholders as well as the different systems and structures that guarantee accountability and openness..

Financial Performance: The evaluation of a company's financial results, including profitability, efficiency, liquidity, and solvency measures, indicating how well the company is utilizing its resources to generate returns and create value for shareholders.

Board of Directors: a group selected by the owners of the business to oversee management. Setting the company's course, deciding on strategic options, and ensuring that the enterprise serves the interests of its stakeholders and shareholders are their responsibilities..

Ownership Structure: The way that ownership is distributed and composed inside a corporation, including the kinds and identities of shareholders, how ownership is concentrated or distributed, and whether institutional investors or controlling shareholders are present.

Executive Compensation: The financial rewards, incentives, and benefits provided to top executives of a company, such as CEOs and other senior management, typically comprising of salaries, bonuses, stock options, and other forms of remuneration intended to align their interests with those of shareholders and motivate performance.

Transparency Indicators: The metrics or measurements used to evaluate a company's level of disclosure practices and transparency, such as the accessibility and caliber of financial and non-financial data, compliance with reporting requirements, and the degree to which interested parties can obtain pertinent details about the business's activities and financial situation.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The whole body of research on the relationship between corporate governance and financial success is presented in this chapter. It is divided into two separate sections: the "Theoretical Review" and the "Empirical Literature Review."

2.1 Empirical Literature Review

Previous empirical research has examined the link between company corporate governance and financial performance (Gompers et al., 2003; Black et al., 2003 and Sanda et al., 2003, with mixed findings). As shown, among others, by Bebchuk and Cohen (2004), businesses with good governance processes operate more profitably. These studies have emphasized that the main characteristics of corporate governance are the size, diversity, and joint leadership of the board by the CEO and the board. Rosenstein and Wyatt (1990) showed that corporations that appoint outside directors are more likely to be favored by the market. According to Brickley et al. (1994), the proportion of external directors had a direct bearing on the standard market's resistance to the use of poison tablets. On the other hand, Forsberg (1989) found no correlation between a number of financial success criteria and the proportion of outside directors. Bhagat and Black's 2002 study found no significant correlation between panel mix and financial success. Furthermore, Yermack (1996) demonstrated that there is no discernible impact of the external management sample on the company's financial performance. Political board growth typically leads to an excessive number of outsiders sitting on the panel, which has a negative impact on financial performance, according to Agrawal and Knoeber (1996). A number of recent empirical studies seem to focus on the relationship between corporate governance assessments and firm financial success: Gompers et al.

(2003), Brown and Caylor (2004) for the USA; Drobetz et al. (2003) and Bauer et al. (2004) for Europe; Foerster and Huen (2004) for Canada. Ricart et al. (2005) investigated the relationship between the corporate governance frameworks and sustainable development of the top corporations in the DJSI.

Researchers Bauer et al. (2004) looked at 269 companies listed on the FTSE Eurotop 300 between 2000 and 2001 to see whether good corporate governance boosts mutual routine revenues, company net worth, or effective performance. In order to determine how wellrun each company was, the authors used Deminor's corporate governance ratings. Corporate governance transparency, takeover defenses, shareholder rights, and board operations and composition are the four pillars upon which Deminor's grade rests. Investor confidence will rise, they say, thanks to better corporate governance, which in turn will lower company risk and increase the predicted profit margin. Additionally, the value of the firm is increased by a smaller-than-expected percentage of sales. However, they did find a very weak correlation between corporate governance and the value of firms. Finally, consistent performance is negatively correlated with corporate governance in a statistically meaningful way..

There is conflicting experimental proof regarding the relationship amid (NEDs) and corporate financial performance. Research has demonstrated that increased numbers of external sovereign managers on the panel lead to better financial performance (Dalton and Daily, 1994); however, other research (Hermalin and Weisbach, 1991) has not identified a connection between increased numbers of independent NEDs and greater firm financial performance. Grounded on these findings, it can be summarized that independent NEDs do not clearly improve corporate financial performance. According to Petra (2005), the contradictory outcomes could be a reflection of a corporate culture

in which management controls corporate boards and the occurrence of autonomous NEDs has no appreciable influence on administration choices.

There has been a deluge of local study on the topic of how corporate governance affects financial success. Muriithi (2004) investigated the relationship between corporate governance strategies and the performance of NSE-quoted companies and found that the most important factors were the size and composition of the board of executives, as well as the division of authority and organizational structure. A research conducted by Ngugi in 2007 looked on the relationship between corporate governance rules and the efficiency of indemnity firms in Kenya. He found that the board of directors has a greater grasp of the business and can keep an eye on management, especially if they see a hole in the board to fill with incompetent directors. The study also discovered that the ideal balance between inside and outside directors determines a board's efficacy, and it concluded that improved board composition improves company success.

Gatauwa (2008) investigates the connection between ordinary market liquidness for companies listed on the Nairobi Stock Exchange and corporate governance practices. More transparency lowers the cost of capital because it increases stock market liquidity, according to the study. The dedication of management teams to enhance transparency also results in a reduction of the info irregularity among directors and stakeholders as well as a decrease in the cost of capital. Matengo (2008) also researched the linking between performance and corporate governance procedures in the context of Kenya's banking sector.

Good corporate governance reduces business risk, which in turn lowers the cost of capital, according to the study. Separating ownership and control also maximizes shareholder worth, according to the study.

2.1.1 Board Composition and Financial Performance

An important area of study in the field of corporate governance is the relationship between board diversity and independence and the financial success of companies. The impact of gender diversity on board performance has been the subject of much research in the US. Companies with more female board members had higher financial performance as a result of more inclusive decision-making, according to study by Adams and Ferreira (2016) that analyzed data from 2,500 US enterprises. The study suggests that women often bring distinct perspectives, enhancing discussions on risk management and ethical governance. It was noted that firms with at least three women on their boards reported better Return on Assets (ROA) and lower volatility in earnings, which positively impacted stock market performance. The research supports the notion that genderdiverse boards contribute to the overall health and sustainability of an organization by fostering varied viewpoints that enrich boardroom debates and decision-making. A large body of research in the UK has examined the correlation between independent boards and successful financial outcomes. A larger number of independent, nonexecutive directors was associated with more financial success, according to research by Armstrong, Guay, and Weber (2015), which looked at information from 300 companies registered on the London Stock Exchange. Companies with more independent directors outperformed those with fewer in terms of profit margins and returns to shareholders, according to their research. The authors state that independent directors are great watchdogs because they bring management's and shareholders' interests into harmony, which in turn decreases agency conflicts. The study concluded that board independence mitigates risks associated with managerial entrenchment, thereby protecting the longterm financial health of the organization.

Similarly, in Australia, board composition has been found to significantly influence corporate performance, especially regarding the role of non-executive directors. Nguyen, Locke, and Reddy (2015) conducted a study analyzing 500 firms in the Australian Stock Exchange and found that non-executive directors, due to their external perspective, played a crucial role in ensuring accountability and improving financial performance. Firms with a higher proportion of non-executive directors demonstrated better governance practices and more robust financial performance, measured by increased profitability and stock returns. The study suggests that non-executive directors add value through oversight and unbiased decision-making, ensuring that companies adhere to best governance practices. This contributes to a reduction in financial mismanagement and enhances the firm's competitive edge in the market.

In South Africa, the membership of boards has been thoroughly examined, especially in relation to the King IV Report on Corporate Governance, which highlights independence and diversity as essential components of good governance. According to Ntim (2018), 200 companies listed on the Johannesburg Stock Exchange (JSE) were studied to see how board diversity affected financial achievements. Specifically, the research indicated that companies with more diverse boards performed better than those with less varied boards when measuring gender, ethnicity, and independence. This was reflected in higher stock returns, profitability, and market valuation. The research indicates that diverse boards foster an environment of innovative thinking and comprehensive decisionmaking, which positively influences financial performance. The findings align with the King IV Report's emphasis on the role of board diversity in promoting transparency, accountability, and sustainability in South African firms.

Given the recent corporate governance changes in Nigeria aimed at improving accountability and transparency in the wake of the recession, the makeup of boards has

taken on more significance. In 2016, Ujunwa analysed 150 publicly traded Nigerian firms to see how board diversity and independence affected their bottom lines. Return on Assets (ROA) and Return on Equity (ROE) were two measures of financial performance, and the research indicated that companies with a better mix of independent directors and experts from varied backgrounds performed better. Corruption has long been an issue for many Nigerian businesses, but the research showed that board changes are crucial to eliminating corruption and providing effective supervision. According to Ujunwa, a diverse board improves governance, which increases investor trust, which strengthens financial performance, and ultimately increases the value of the organization..

In Ghana, research on the effect of board composition on financial performance has also gained traction, particularly in understanding how board size and diversity influence corporate outcomes. Agyemang and Castellini (2018) analyzed 50 firms listed on the Ghana Stock Exchange and found that companies with larger and more diverse boards reported better financial performance, with improved profitability and higher market value. The study attributed this to the broader pool of expertise and perspectives that larger, more diverse boards bring, enabling firms to make more informed and balanced decisions. The findings also suggested that firms with a balanced gender representation on their boards were more innovative and responsive to market changes, which contributed to their financial success. This research supports the growing call for board diversity in Ghanaian firms as a critical factor in fostering sustainable financial growth. The relationship between board composition and financial performance is one area that has recently attracted more attention in Kenya's investigation of corporate governance. Companies traded on the Nairobi Securities Exchange (NSE) were the focus of Muriithi and Waweru's (2017) investigation of the effect of independent boards on financial performance. The research looked at 40 organizations over the course of five years and

found that companies with more independent directors had superior financial performance. This was shown by greater stock returns, shareholder value, and profit margins. According to the findings, independent directors are vital to good corporate governance because they reduce conflicts of interest between shareholders and management and provide objective supervision. greater decision-making and, eventually, greater financial performance, are the results of this enhanced governance framework..

Researchers Ochieng and Awino (2016) looked at how gender diversity on boards affected the bottom line of Kenyan companies. The study, which looked at 30 NSE-listed businesses, found that companies with more female board members were more financially responsible, had better stock market performance, and were more profitable overall. The authors attributed these outcomes to the distinct leadership styles and perspectives that women bring to board discussions. Female directors were found to contribute to enhanced ethical governance and risk management, which translated into better financial results. The study concluded that gender diversity in board composition is not only a social imperative but also a financial one, given its positive correlation with firm performance.

With a focus on commercial banks in Kenya, Kihara, Wanjiru, and Kamau (2019) investigated the connection between board expertise and financial success. Their study analyzed 10 leading banks over a 7-year period and found that banks with boards composed of members with financial, legal, and management expertise demonstrated significantly better financial performance. These banks had higher ROE and better market share compared to those with less specialized boards. The study concluded that expertise in financial and legal matters enables board members to navigate complex regulatory environments and make informed decisions, thus improving overall performance in the highly competitive Kenyan banking industry.

2.1.2 Structure Ownership and Financial Performance

Proprietorship structure, or the type of ownership, has been shown to significantly impact financial performance across different regions. In the United States, corporate ownership structure has been studied in relation to how different ownership types—such as family ownership, institutional ownership, and state ownership—affect financial performance.

Family ownership has a double impact on financial success, according to Anderson and Reeb (2016), who performed a comprehensive analysis on family-owned enterprises. The improved alignment of interests between owners and managers in family-owned businesses led to greater profitability and long-term success. However, they also faced governance challenges such as nepotism, which sometimes hampered short-term financial growth. The research found that strong governance frameworks, in conjunction with family ownership, might improve financial performance. This shows how important ownership structure is for financial results.

Institutional ownership and its impact on financial performance is a well-studied topic in Germany. Institutional ownership was associated with better financial performance, according to research by Becht, Bolton, and Röell (2015), which looked at 100 publicly listed companies in Germany. The study highlighted that institutional investors, due to their focus on long-term returns, tend to enforce stricter governance practices and demand higher accountability from management, leading to better financial outcomes. Firms with higher institutional ownership demonstrated improved profitability and stock performance, as institutional investors provided oversight and mitigated risks associated with managerial decisions. This study supports the view that proprietorship structure, specifically institutional ownership, can drive financial success through better governance and risk management practices.

In Japan, the influence of state ownership on financial performance has drawn significant attention due to the prevalence of state-owned enterprises (SOEs). A study by Yoshikawa and Rasheed (2017) analyzed the performance of 150 Japanese SOEs and found that state ownership had mixed results on financial performance. While state-owned firms benefited from government support and stability, they were often less efficient than privately-owned firms due to bureaucratic decision-making processes. However, the research also showed that when state ownership was combined with partial privatization and strong managerial oversight, SOEs performed better financially, particularly in terms of profitability and market competitiveness. The findings suggest that state ownership can influence financial performance, but the impact varies based on the level of governmental involvement and the presence of efficient governance structures.

In South Africa, proprietorship structure has been a key determinant of financial performance, particularly in the mining and manufacturing sectors. Du Plessis, McConvill, and Bagaric (2016) conducted research on family-owned firms in South Africa and found that while family ownership provided stability and long-term focus, it also posed challenges in terms of governance and succession planning. The study revealed that family-owned firms in South Africa often struggled with conflicts of interest, which negatively affected short-term financial performance. However, firms that incorporated professional management alongside family ownership exhibited better financial outcomes, with improved profitability and market growth. The findings highlight the need for balancing family ownership with professional management to enhance financial performance in South African firms.

Oil and gas, two of Nigeria's most important sectors, have been significantly impacted by state control. Political meddling and bad leadership have made it difficult for Nigeria's state-owned businesses (SOEs) to be efficient and profitable, claims Ujunwa (2016).

Researchers in Nigeria looked at 50 state-owned enterprises (SOEs) and discovered that the more state-owned a company was, the less profitable and stable its finances were compared to privately-owned companies. Still, studies showed that state-owned enterprises (SOEs) with more effective frameworks for governance and partial privatization had superior financial results. The research indicates that while state ownership might provide stability, private sector governance approaches are often necessary to enhance financial results..

There is strong evidence that institutional ownership has a major impact on financial performance in Egypt. Institutional investors' impact on the bottom lines of eighty publicly listed Egyptian companies was the subject of research by Omran, Bolbol, and Fatheldin (2018). Specifically looking at Return on Equity (ROE) and profitability, the study found that companies with more institutional ownership performed better financially. Better decision-making and financial results were associated with institutional investors' favorable effects on corporate governance, which they achieved via encouraging openness and responsibility. The study highlights that institutional ownership can act as a catalyst for improved financial performance, especially in emerging markets like Egypt, where governance standards are still evolving.

Companies' bottom lines in Kenya are heavily influenced by their ownership structure, especially in the agricultural and industrial industries. The impact of family ownership on the financial performance of Kenyan enterprises was examined in a research conducted by Muriithi and Waweru (2017). In terms of market share and profitability, the study indicated that family-owned enterprises did better than non-family-owned firms. This, according to the authors, is because family members are involved for a long time and have a stake in the company's success. However, the study also noted that family-owned firms faced governance challenges, particularly related to succession

planning and conflict resolution, which sometimes undermined financial stability. The research concluded that family ownership can positively influence financial performance if coupled with effective governance mechanisms.

Parastatals have been the primary focus of research on state ownership in Kenya's public sector. Finding that state-owned businesses (SOEs) in Kenya often faced financial instability and inefficiency as a result of government meddling and bad governance practices, Ochieng and Awino (2016) investigated the financial performance of SOEs in Kenya. The research looked at 20 Kenyan SOEs and found that companies with a lot of state control weren't as successful as those with a mix of private and public ownership. On the other hand, state-owned enterprises (SOEs) that implemented changes like partial privatization and better corporate governance performed far better financially. This study's findings imply that stable state ownership necessitates robust governance systems to improve financial results.

One factor that influences the success of banks in Kenya is the level of institutional ownership they have. Institutional investors' impact on Kenyan commercial banks' bottom lines was studied by Kihara, Wanjiru, and Kamau (2019). Their study found that banks with higher institutional ownership demonstrated better financial outcomes, including higher ROE and market share. Institutional investors were found to enforce stricter governance practices, which contributed to improved decision-making and risk management. The research highlighted that institutional ownership positively impacts financial performance by ensuring that banks adhere to sound governance standards, thereby improving profitability and competitiveness in Kenya's banking sector.

2.1.3 Executive Compensation and Financial Performance

The impact of executive salary on financial performance is one area that has long attracted researchers' attention. In the US, studies have shown time and time again that

companies' bottom lines improve when CEO pay plans are well-structured. Financial performance, as assessed by Return on Equity (ROE) and shareholder value, was better at companies that offered performance-based compensation, such as bonuses, stock options, and long-term incentive plans, according to research by Murphy and Jensen (2018) that examined compensation data from Fortune 500 companies. The study emphasized that aligning executive pay with company performance encourages CEOs to focus on long-term value creation rather than short-term profit maximization, contributing to sustainable financial success.

In Canada, the structure of executive compensation has also been linked to firm performance. According to a study by Conyon and He (2017), firms that incorporate a larger proportion of equity-based compensation, such as stock options, tend to exhibit higher financial performance. The research, which examined 150 Canadian publicly traded companies, found that executives with significant ownership stakes are more motivated to align their decisions with shareholder interests, leading to better financial outcomes. Companies that relied on fixed salaries without performance-based incentives showed lower profitability and market value compared to those that integrated variable compensation elements. This study underscores the importance of designing executive pay structures that incentivize financial performance and value creation.

In Australia, research on executive compensation has highlighted the significance of long-term incentive plans in driving financial performance. Nguyen, Locke, and Reddy (2016) conducted a study on Australian Stock Exchange (ASX) listed companies and found that firms offering substantial long-term incentives, including equity-based compensation, had better financial outcomes. Their research revealed that long-term incentives align the interests of executives with those of shareholders, encouraging sustained financial growth. Firms with short-term compensation structures, such as

annual bonuses, showed less consistency in financial performance. The study concluded that structuring compensation to reward long-term growth helps mitigate risks associated with short-term decision-making, thereby improving overall financial health.

South Africa's particular issues caused by income inequality and economic disparities have led to a substantial amount of research on CEO remuneration practices. Ntim (2018) looked at 100 companies listed on the Johannesburg Stock Exchange (JSE) to see if CEO compensation correlated with financial success. Particularly for companies providing equity-based incentives and bonuses, the research indicated a favorable association between performance-based remuneration and better financial results. However, the research also highlighted the controversy surrounding high executive pay in a country with significant wage gaps. Ntim concluded that while performance-based pay can enhance financial performance, it is critical to balance compensation packages with broader corporate social responsibility goals to ensure long-term sustainability.

Executive remuneration and its impact on financial performance has also been studied in Ghana. Financial results, especially Return on Assets (ROA) and profit margins, were higher for companies that offered performance-based pay, according to research by Agyemang and Castellini (2017) that examined the remuneration policies of fifty companies listed on the Ghana Stock Exchange. The research highlighted the importance of performance-based compensation in encouraging CEOs to prioritize shareholder interests, which ultimately results in long-term financial success. A balanced compensation system is necessary, since the research pointed out that public scrutiny and possible governance difficulties might result from excessive pay without matching performance criteria..

In Nigeria, executive compensation has been linked to financial performance in various sectors, particularly in banking and oil industries. A study by Ujunwa (2017) investigated

50 listed Nigerian companies and found that firms offering substantial performance-based compensation to their executives experienced better financial outcomes. The research revealed that companies that linked executive compensation to metrics such as profit growth and stock market performance saw improved financial results. However, the study also noted that excessive executive pay without proper governance controls could lead to agency problems, where executives prioritize their own interests over those of shareholders. Ujunwa recommended that Nigerian firms adopt a balanced approach to executive compensation to ensure financial performance aligns with shareholder interests.

The banking and telecoms industries in Kenya have come under intense scrutiny recently due to their CEO remuneration practices. The correlation between CEO pay and NSE-listed companies' bottom lines was investigated in a 2017 research by Muriithi and Waweru, which included forty companies from Kenya. Companies that paid their employees depending on their performance—through incentives and stock options, for example—performed better financially than those that paid their employees a set wage, according to the research. According to the study's findings, corporate performance is improved when leaders are incentivized to prioritize financial development and shareholder value via performance-based compensation. On the other hand, the report did point out that more robust governance systems are needed to make sure that CEO compensation is linked to financial goals for the long run..

In the public sector, executive compensation in Kenyan state-owned enterprises (SOEs) has been studied in relation to financial performance. Ochieng and Awino (2016) conducted research on 20 Kenyan SOEs and found that firms with performance-based compensation structures for their executives showed better financial outcomes, particularly in terms of profitability and operational efficiency. The research revealed

that SOEs that implemented compensation plans tied to specific financial targets had better financial results than those offering fixed salaries. However, the study also emphasized the need for greater transparency and accountability in executive pay to prevent issues of excessive compensation, which could undermine public trust and financial stability.

In the Kenyan banking sector, executive compensation practices have been closely linked to financial performance. Financial performance, as shown by return on assets (ROA) and market share, was stronger at the 10 top Kenyan banks that offered long-term incentives, such as equity-based pay (Kihara, Wanjiru, & Kamau, 2019). The study revealed that aligning executive compensation with long-term financial goals encouraged more prudent decision-making and risk management. Banks that relied on fixed or short-term compensation packages, on the other hand, experienced more volatility in financial performance. The research concluded that well-structured compensation plans are essential for driving long-term financial success in Kenya's competitive banking industry.

2.1.4 Transparency Indicators and Financial Performance

Transparency in corporate governance has been widely recognized as a critical factor influencing financial performance globally. In the United States, transparency indicators, particularly those related to financial disclosures, have been linked to improved financial outcomes. According to a study by Bushman and Smith (2016), companies with higher levels of financial transparency, such as timely and detailed financial reports, experienced better financial performance as measured by stock returns and profitability. The research emphasized that transparent financial reporting reduces information asymmetry between management and investors, leading to increased investor confidence

and improved access to capital. Companies that consistently provide transparent information are also more likely to attract long-term investments, contributing to sustainable financial growth.

In Germany, transparency in corporate governance has been strongly associated with financial performance, particularly in publicly listed companies. Becht, Bolton, and Röell (2017) analyzed 200 firms listed on the Frankfurt Stock Exchange and found that companies with higher corporate transparency, including clear disclosures on executive compensation and risk management practices, performed better financially. Their findings revealed that firms with more transparent governance structures exhibited higher profitability, better stock market performance, and lower capital costs. The study concluded that transparency indicators, such as clear communication of corporate governance practices and financial risks, positively impact financial performance by fostering trust among investors and other stakeholders.

Improved corporate governance and bottom-line results have been associated with transparency indicators in Japan. Based on their analysis of 150 Japanese businesses' financial performance, Yoshikawa and Rasheed (2018) concluded that organizations with more robust transparency procedures, including independent audit committees and extensive risk disclosures, had better financial outcomes. These businesses' ROA was greater, and their profits volatility was lower. The study suggested that transparency fosters accountability, which mitigates risks associated with financial mismanagement and corporate fraud, ultimately leading to improved financial outcomes. The authors recommended that firms prioritize transparency in their corporate governance strategies to enhance long-term financial performance.

Research in Ghana has shown that openness in corporate governance has a significant effect on financial results, especially in the banking industry. Fifty publicly listed

Ghanaian enterprises were studied by Agyemang and Castellini (2017) to determine the correlation between corporate openness and financial success. Increased profitability and improved returns for shareholders were reported by companies with superior transparency indicators, according to the research. These indicators include transparent financial reporting and procedures for independent audits. The research highlighted that transparency reduces the risk of financial mismanagement and corruption, which are common challenges in emerging markets like Ghana. By promoting clearer communication and accountability, transparency improves investor confidence, leading to enhanced financial performance.

A major factor in the private sector's financial success in Tanzania is the degree to which corporations are transparent with their operations. Melyoki (2017) looked at how transparency indicators affected the bottom lines of Tanzanian businesses. The results showed that more open and honest financial reporting and governance led to better financial results. Firms with more transparent operations had higher profitability, better access to credit, and improved market valuation. Research has shown that financial audits and public disclosures are good markers of transparency since they help lower financial risks, enhance decision-making, and boost financial performance.

When it comes to improving financial performance, openness has been crucial in Rwanda, especially during the post-genocide economic recovery. Uwizeyimana (2018) states that Rwandan businesses saw a significant increase in their financial performance after adopting IFRS and other international transparency requirements. Researchers in Rwanda looked at 30 different businesses and discovered that those with more open books about their finances were able to attract more investors and get better loans, which boosted their profits and made them more competitive in the market. The research concluded that transparency indicators, such as adherence to global reporting standards

and regular external audits, are critical for improving financial performance in Rwanda's growing economy.

Kenyan corporate governance, and the financial services industry in particular, have begun to place a premium on transparency metrics. The effect of openness on the bottom lines of companies traded on the NSE was the subject of research by Muriithi and Waweru (2017). Financial performance, including profitability and stock market returns, was better for companies with more financial openness, according to the research. This includes things like providing thorough and timely financial reports. According to the study's findings, financial reporting openness enhances access to finance, boosts investor trust, and decreases information asymmetry. Firms that consistently provide transparent information are more likely to attract long-term investments, which positively influences their financial performance.

In Kenya's public sector, transparency in procurement and financial management has been linked to improved financial outcomes. Ochieng and Awino (2016) conducted research on state-owned enterprises (SOEs) and found that firms with better transparency indicators, such as open procurement processes and clear financial disclosures, demonstrated improved financial performance. The study revealed that transparency in public financial management reduces corruption and mismanagement, leading to better operational efficiency and financial results. Based on the findings, openness is key for Kenya's state-owned enterprises (SOEs) to improve their financial performance, especially in energy and infrastructure sectors.

Financial performance in Kenya's banking industry has been significantly improved by using transparency metrics. According to research by Kihara, Wanjiru, and Kamau (2019), commercial banks in Kenya that practice more open governance—including conducting financial audits on a regular basis and being transparent about their risk

management—report better market share and greater profitability. The study highlighted that transparency enhances investor confidence and promotes better risk management, leading to improved financial outcomes. The research concluded that transparency in corporate governance is essential for ensuring sustainable financial growth in Kenya's competitive banking industry.

2.1.5 Financial Performance of Cooperative Banks

In Germany, cooperative banks play a critical role in the financial system, particularly in rural areas, offering credit and banking services to small businesses and individuals. A study by Ewert and Schenk (2017) found that cooperative banks outperformed commercial banks in terms of financial stability and customer satisfaction, especially during financial crises. The research highlighted that the member-owned structure of cooperative banks fosters a long-term focus on financial sustainability and prudence, leading to steady profitability even in adverse market conditions. Furthermore, the study revealed that cooperative banks tend to have lower risk exposure compared to their commercial counterparts due to their focus on relationship banking and conservative lending practices, which enhance financial performance over time.

In Canada, cooperative banks, also known as credit unions, have demonstrated resilience in financial performance, particularly in comparison to other financial institutions. Conyon and He (2016) conducted research on the financial performance of credit unions across Canada and found that they had higher capital adequacy ratios and lower default rates than traditional banks. This stability is attributed to their member-focused approach and profit-sharing model, where excess earnings are returned to members or reinvested in the business. The study also showed that cooperative banks excel in fostering financial

inclusion, contributing to their strong financial performance by expanding their customer base, particularly among underserved populations.

Small and medium-sized businesses (SMEs) in Italy have long relied on cooperative banks for funding and assistance. When compared to bigger commercial banks, Italian cooperative banks performed far better financially, according to research by Signorini and Visco (2018). This was especially true when looking at liquidity ratios and Return on Assets (ROA). The research attributes this success to their localized knowledge, relationship-based banking models, and focus on SMEs, which allows them to mitigate risks effectively. The study also found that cooperative banks were more resilient during economic downturns due to their emphasis on customer loyalty and community engagement, which resulted in a stable deposit base and lower credit risk.

The expansion of cooperative banks in Tanzania, a nation bordering Kenya, has been a boon to the banking industry as a whole. Cooperative banks in Tanzania showed high profitability and liquidity ratios, according to Melyoki (2017), who attributed this to the fact that these banks mostly served rural areas and provided loans for agricultural projects. The study revealed that cooperative banks in Tanzania are particularly effective in extending credit to underserved populations, including smallholder farmers, which enhances financial inclusion and boosts their financial performance. Melyoki emphasized that cooperative banks' close ties to their member-owners help them maintain a focus on long-term financial sustainability, which is critical in a market often dominated by commercial banks.

In Rwanda, cooperative banks, particularly savings and credit cooperatives (SACCOs), have become integral to the country's financial inclusion agenda. A study by Uwizeyimana (2018) analyzed the financial performance of SACCOs in Rwanda and found that they reported better financial outcomes than commercial banks in terms of

loan recovery rates and customer satisfaction. SACCOs were shown to have a stronger connection to local communities, which enhanced customer loyalty and reduced loan defaults. The study concluded that cooperative banks contribute to economic growth by facilitating access to credit for small businesses and individuals, ultimately improving their financial performance through effective risk management and customer engagement.

Similarly, cooperative banks in Uganda have had a notable effect on economic growth, especially in more remote regions. Ugandan cooperative banks outperformed some commercial banks in terms of profitability measures, according to research by Kiyangi and Obwona (2016).. The research attributed this success to the member-oriented business model, which prioritizes reinvestment in the bank and offering affordable loans to members. Additionally, the study revealed that cooperative banks in Uganda have lower non-performing loan ratios, which boosts their overall financial stability. The authors argued that cooperative banks' focus on serving members' needs rather than maximizing shareholder profits contributes to their resilience and strong financial performance.

The Cooperative Bank of Kenya is a major participant among Kenya's cooperative banks, which are essential to the country's financial system. Cooperative Bank of Kenya showed superior profitability and financial stability when compared to other commercial banks, according to a research by Muriithi and Waweru (2017). The study attributed this success to the bank's cooperative ownership structure, which aligns the interests of members with the financial health of the institution. The research also highlighted that the Cooperative Bank of Kenya's focus on financial inclusion, particularly in underserved rural areas, has contributed to its robust financial performance by expanding its customer base and reducing risks associated with financial exclusion.

In addition to its national presence, cooperative banks in Kenya have been instrumental in promoting financial inclusion through their SACCO network. Ochieng and Awino (2016) conducted research on SACCOs in Kenya and found that these institutions outperformed commercial banks in terms of loan repayment rates and customer satisfaction. The study emphasized that SACCOs' close ties to their member-owners enable them to maintain a strong customer base and manage credit risks effectively, contributing to better financial performance. The research also revealed that SACCOs in Kenya benefit from high levels of customer loyalty, which translates into a stable deposit base and consistent profitability.

In the agricultural sector, cooperative banks in Kenya have played a crucial role in financing smallholder farmers, enhancing their financial performance and contribution to the economy. A study by Kihara, Wanjiru, and Kamau (2019) analyzed the financial performance of cooperative banks supporting agriculture in Kenya and found that these institutions had higher loan recovery rates and lower credit risks compared to commercial banks. The study highlighted that cooperative banks' deep understanding of the agricultural sector, coupled with their focus on community-based lending, contributed to their strong financial performance. The research concluded that cooperative banks are well-positioned to drive economic growth in Kenya through their support of agriculture and rural development.

2.2 Theoretical Review

The purpose of this theoretical study is to shed light on the underlying ideas of the correlation between good corporate governance and financial success. Here we explore four important theories: Integrating Agency and Stewardship Theories.

2.2.1 Agency Theory

Shareholders are examples of principals, whereas executives and managers are examples of agents, according to agency theory. This viewpoint holds that the agents are chosen to perform duties by the company's owners, sometimes known as the principals, the shareholders. The principals permit them to run the business in their capacity as the shareholders' representatives (Clarke, 2004). The division of labor between finance and management is the main cause of the basic agency problem in contemporary businesses. Since ownership and control of modern businesses are perceived as being separated, professional managers, or agents, are in charge, and they are not answerable to scattered shareholders.

According to agency theory, there are a lot of methods that businesses may make the agency problem go away. The bonding mechanism reduces managerial moral hazard when they are not limited by bond contracts and bankruptcy risk; the dividend mechanism reduces managerial intention to make an over-investment decision that will be funded by internal free cash flow; and the incentive mechanism for managers rewards their efforts to serve the interests of the owners. The owners have taken further steps to reduce the agency cost of equity, which may be created by moral hazard management, such as appointing a reliable board of directors, involving shareholders directly, threatening to fire employees, and considering a takeover (Sandaet al., 2005). This method ensures that competent persons are selected or appointed to head these financial institutions in Kenya, therefore conforming to the fundamental principles of corporate governance.

Two problems may emerge in agency interactions, and agency theory aims to solve them. This is because, as stated by Davis, Schoorman, and Donaldson, the separation of ownership and control leads to a conflict of interest between the principle and the agent. (in the year 1997). The owners have legitimately given management autonomy, yet

managers frequently act opportunistically. Conflicts of interest and issues with agency are caused by this activity. The principle expects to be compensated in the event that the agent incurs any risk to the principal's investment. One scenario where the cost of capital rises is when the board of directors, in their role as agents, decides to take on a riskier project in response to payment demands from shareholders. According to Jensen and Meckling (1976) and Shleifer and Vishny (1989), among the obstacles that principals and agents face when trying to align their interests are moral threat, earnings retention, temporal horizon, and risk perception. The agency hypothesis paints a picture of an employee who is more likely to prioritize incentives and punishments, more rationally limited, and more self-interested, say Jensen and Meckling (1976)..

In contrast to the management, who prefers cash flows generated during their tenure in office, shareholders often desire to earn cash flows over an extended period based on dividends and the rising value of the company. Agency conflict with a time horizon results from this. Dechow and Sloan (2011) discovered that a company's investment in R&D and fixed assets decreases during the last years of the Chief Executive Officer's tenure. This may be explained by the fact that a CEO of that caliber won't be around to enjoy the long-term gains from such expenditures. Simultaneously, the company's management might also utilize inventive bookkeeping techniques to manipulate earnings before leaving the office in an effort to increase their performance-based bonuses (Ermina & Mariamp, 2010).

Agency Theory, initially formulated by Jensen and Meckling (1976), stands as a prominent theoretical perspective in the domain of corporate governance. In this view, the split between corporate ownership and control is the root cause of all kinds of conflicts of interest. Instead of maximizing shareholder profit, managers (agents) may put their own interests first. Independent boards, performance-based incentives, and

executive compensation plans are all examples of governance mechanisms that, according to Agency Theory, should be carefully designed to reduce agency costs and bring shareholders' and managers' interests into harmony. According to Fama and Jensen (1983) and Adams and Mehran (2012), these strategies increase the likelihood of achieving better financial performance by reducing agency conflicts..

2.2.2 Stewardship Theory

Davis, Schoorman, and Donaldson (1997) first proposed Stewardship Theory as an alternative to Agency Theory. Managers, according to this notion, may act as guardians of shareholders' interests if they show extreme accountability and put an emphasis on creating value for the company in the long run. Genuinely caring about the company as a whole, exhibiting a feeling of ownership, and being intrinsically motivated are all hallmarks of a steward. The effective implementation of corporate governance practices, including the cultivation of a culture of trust, the promotion of shared vision and values, and the empowerment of managers, can foster stewardship behavior among executives. Stewardship Theory proposes that organizations can achieve improved financial performance by bringing managers' and shareholders' interests into alignment (Donaldson & Davis, 1991; Davis et al., 1997).

This is how stewardship theory is defined by Davis, Schoorman, and Donaldson (1997): "A steward protects and maximizes shareholders' wealth through firm performance because by so doing, the steward's utility functions are maximized." Psychology and sociology inform this account. In this view, stewardship is best shown by corporate leaders and managers who work to protect and grow shareholder profits. The stewardship hypothesis, in contrast to the agency theory, states that stewards are motivated and fulfilled when their organization succeeds. It also emphasizes the stewardship role of top management, who align their goals with those of the business..

This empowers and offers maximal autonomy that is founded on trust, without suppressing the aspirations of the steward operating on behalf of the institution. As a result, the bank would perform better financially and operationally and spend less on behavior monitoring and management. According to this viewpoint, the bank as a whole adopts the steward's objectives and points of view.

2.2.3 Stakeholder Theory

Stakeholder theory emerged in the mid-1980s from Freeman's(1984) stakeholder approach to SM.. According to Freeman, observing and meeting the needs of pertinent stakeholders eventually boosts the sustainability and performance of businesses. According to Donaldson and Preston (1995), stakeholder theory expanded its purview to include approaches to descriptive modeling and understanding, ethical concerns about the proper social interactions between enterprises, and finally, the presentation of data showing the benefits of stakeholder management. Several fields, notably e-Government, have used the idea to manage the continuing e-transformation (Scholl, 2005). Some have argued that this method is useful for examining the ethical and practical consequences of how technological advancements have changed the relationship between people and their government (Flak & Rose, 2005)..

According to management science literature, Adam Smith's Theory of Moral Sentiments is where the concept of a stakeholder originated (Freeman, 1984).

The expression was first used in the management literature in 1963 by the Stanford Research Institute to expand on the notion that management just needed to be attentive to shareholders' interests (Jongbloed et al., 2008). This perspective holds that when commercial companies make strategic decisions, they ought to take other stakeholders' interests into account, as stated by Freeman (1984).

Freeman's work (1984) initiated the development of stakeholder theory, despite it being a relatively new concept. His work aimed to present an alternate approach to strategic management in response to the increasing levels of globalization, competitiveness, and operational complexity in businesses. Public interest, media attention, concerns about corporatist governance, and the "Third Way"'s embrace of the concept of stakeholders have all contributed to the concept's rising profile (Hutton, 1999; Greenwood, 2008).

Stakeholder theory evolved from the ideas put forth by Freeman (1984) within an organizational framework that held that corporations were not independent but rather dependent on groups outside the organization (Pfeffer and Salancik, 1978). What Freeman (1984) called these third parties were "stakeholders."

The fundamental tenets of the stakeholder theory are as follows, per Jones and Wicks (1999): the corporation develops ties with several groups that either impact or are influenced by the business, or, using Freeman's (1984) word, "stakeholders." The idea focuses on these links' properties in terms of processes and results for stakeholders and the company.

It is considered that there is no one dominant set of interests and that the interests of all parties involved are of inherent importance.

This is an alternative to agency theory that was put forth by Donaldson (1990). It makes an argument based on management motivation. The main defense is that, rather than being a "opportunistic shirker," the executive manager truly wants to do a good job and take good care of the company's assets. As per the stewardship concept, variations in performance stem from an executive's capacity to respond appropriately to the structural conditions surrounding them. The question then becomes whether or not the executive's ability to create and carry out plans for high corporate performance is aided by the organizational structure. It suggests that shareholders will benefit from arrangements that

allow CEOs gain complete control over their firms and maintain a clear and unchallenged stance in the event that shareholders want their companies to perform better. The CEO taking on the role of chair of the board is a more attainable goal. Therefore, stewardship theory concentrates on enabling, empowering frameworks and maintains that merging the CEO and chair responsibilities will increase effectiveness and yield higher returns to shareholders than doing so separately. This theory's flaw is that it downplays the significance of accepting responsibility by making a lot of people accountable.

2.3 Summary of Literature Review

Corporate governance rules have an effect on the profitability of commercial banks in Kenya, according to a number of studies included from this volume.. Governance theories, including agency, stakeholder, and stewardship theories, shed light on the connections between the people in charge of an institution's management and the institutions themselves (banks).

In contrast to agency theory, which centers on the manager's point of view and attempts to explain the nature of the principal-agent relationship, stewardship theory seeks to maximize return on investment by aligning the steward's personal goals with those of the bank as a whole. Conversely, stakeholder theory prioritises stakeholder interests. There was an argument that the financial performance of commercial banks involved in the industry improved when stakeholder interests were satisfied..

Businesses should be run in a way that maximizes profits and efficiency so that they may better serve their stakeholders, provide employment opportunities for workers, and pay dividends to shareholders. A number of indicators of good corporate governance were identified by the research. These included regular board meetings, a sufficient number of independent directors, a small board, clear separation of responsibilities between the

chief executive officer and chairperson, and committee independence. Thus, corporate governance's primary functions are to promote organizational effectiveness, resolve any disputes, assure the openness and legality of organizational operations, mitigate investment risk, provide substantial returns for shareholders, and establish procedures for holding managers to account..

In addition, these theories offered various solutions to the issues caused by the separation of ownership and control. These included bringing managers and shareholders closer together through incentive programs, stock options, and bonus plans; having lenders and large shareholders oversee the board; providing minority shareholders with shareholder rights to protect them from managerial expropriation; and turning to the market as an external tool for corporate control..

It is believed that a diverse board of directors affects the company's success. Incorporating diversity into a bank's board composition, coupled with other qualities such as a small, competent board and an adequate number of non-executive directors, unquestionably improves the operational and financial performance of the bank. In order to establish a reliable asset base for measuring financial performance, these boards meticulously examine the loan portfolio that yields the best returns. To fill this knowledge vacuum, this research analyses the relationship between corporate governance practices and the financial performance of Kenyan cooperative banks, with a focus on the diversity of board members and other board characteristics..

2.4 Conceptual Framework

This theoretical framework provides a foundation for investigating how various aspects of corporate governance affect a company's bottom line by drawing on the relationships

between board make-up, ownership structure, executive pay practices, transparency metrics, and financial results..

Independent variables.

Dependent variable

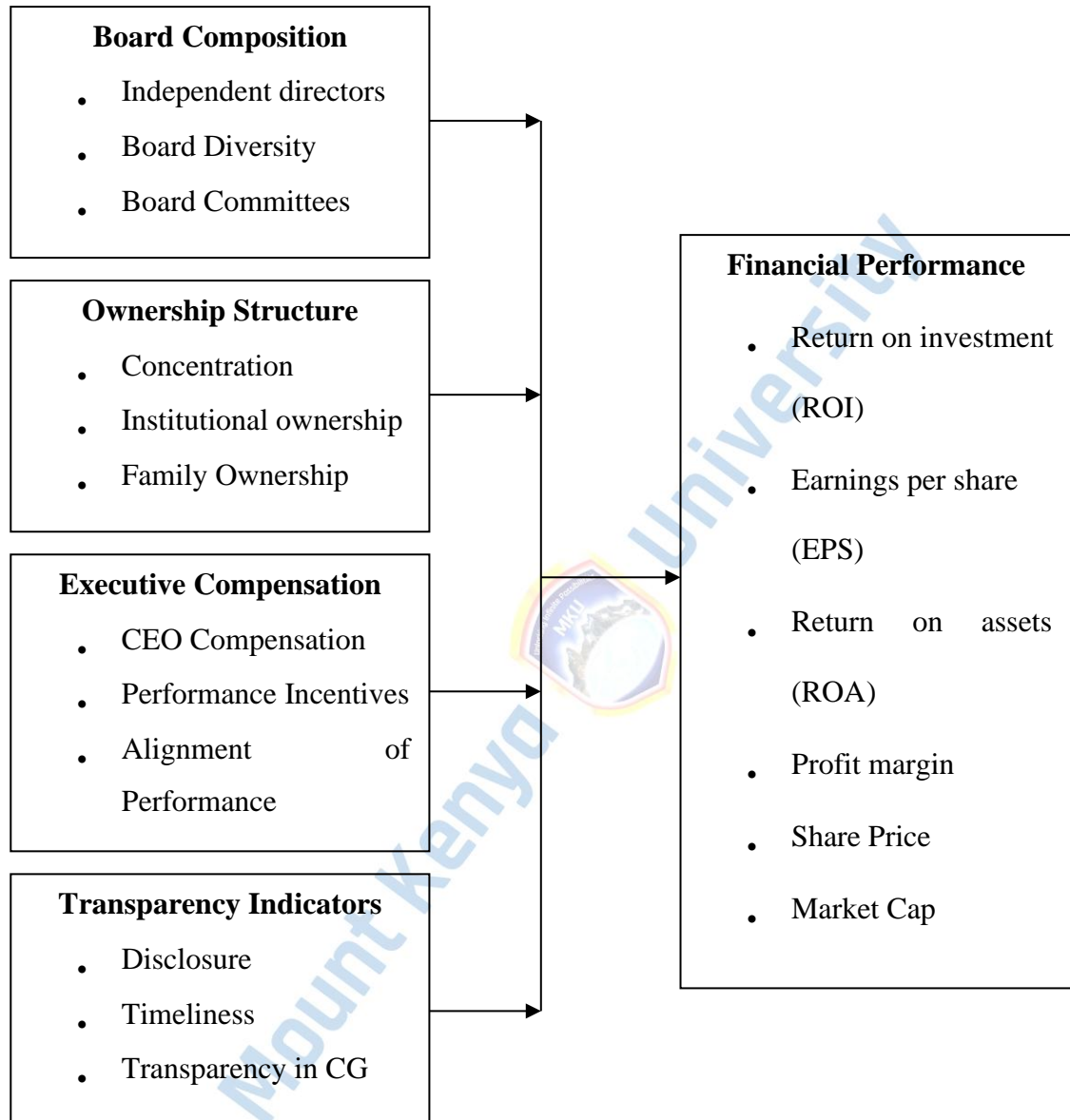


Figure 1: Conceptual Framework

Source: Researcher, (2024)

2.5 Research Gaps

Despite the abundance of literature on the topic, there are still important questions that have not been answered on the relationship between corporate governance and financial

success. In this part, we outline some of the most significant knowledge gaps found in the current literature.:

Limited Focus on Emerging Markets. Most of the research on the relationship between corporate governance and financial success has concentrated on countries with developed economies, such as those in Europe and the US. Dharmawan et al. (2020) note that developing economies have unique institutional features, ownership structures, and governance styles, thus there has to be more research that investigates these issues directly. A better understanding of the processes at work in developing markets like Kenya's may be gained by looking at the relationship between corporate governance and financial success there..

Insufficient Attention to Specific Governance Mechanisms. While previous research has explored how corporate governance affects financial performance as a whole, there is a lack of in-depth analysis of specific governance structures. For example, previous research has looked at how different board committees, including the audit and pay committees, affect financial results, but it's unclear how much of an impact these committees really have. Additional study into the precise processes by which various governance elements affect financial success is urgently required..

Limited Examination of Long-Term Financial Performance. Profitability ratios and stock returns are two examples of the short-term financial performance metrics that have been the subject of several research. If we want to know how long a company can last and how much value it can create, we need to know how good its corporate governance is. Additional research on the relationship between corporate governance and long-term financial success metrics including innovation, market share growth, and corporate social responsibility is necessary (Ioannou & Serafeim, 2015)..

Lack of Consensus on Optimal Governance Structures. Despite extensive research on corporate governance, there is still no consensus on the optimal governance structures and practices that lead to improved financial performance. Different studies have yielded conflicting results, highlighting the need for more robust and comprehensive analyses that consider contextual factors and incorporate a broader set of governance variables (Vafeas, 2003). Future research should aim to provide more definitive insights into the specific governance configurations that maximize financial performance outcomes.

Addressing these knowledge gaps will provide policymakers, practitioners, and stakeholders with priceless insights into the relationship between corporate governance and financial performance. These insights will aid in the formulation of efficacious governance practices and policies aimed at amplifying financial outcomes and fostering enduring value within organizations.



2.6 Recap of the Literature

This chapter's literature review has provided a thorough synopsis of the studies that have examined the connection between good corporate governance and financial results. It has distilled key findings and insights from empirical studies and theoretical viewpoints to underscore the current state of knowledge in this domain. The following encapsulates the pivotal takeaways from the literature review:

Consistent Correlation: There is a remarkable correlation between good corporate governance and bottom-line results, according to the research. Research confirms that financial performance results are positively affected by good corporate governance standards, which include transparent metrics, CEO remuneration, ownership structure, and board composition..

The influence of board composition on financial success has been well-documented. This includes factors such as the number of independent directors, gender diversity, and the variety of board competence. Decisions and financial results are both improved by boards that are diverse and include independent directors, according to studies. This is because different directors bring different experiences, knowledge, and viewpoints to the table.. The dynamics of ownership structure, including family ownership, institutional ownership, and government ownership, and how they affect financial performance, have been extensively studied in the literature. Findings accentuate that the concentration and nature of ownership can leave an imprint on managerial decision-making, agency conflicts, and, in turn, financial performance.

Varied Findings on Executive Compensation: Executive compensation has emerged as a focal point of research, yielding mixed findings regarding its association with financial performance. While some studies propose a positive linkage between pay-performance alignment and financial outcomes, others underscore concerns regarding excessive compensation and the lack of a direct correlation between executive pay and performance.

Transparency's Impact: Transparency and disclosure practices have garnered increasing attention in the literature. Studies have scrutinized the influence of information transparency, financial reporting quality, and disclosure mechanisms on financial performance. Augmented transparency is conjoined with bolstered investor confidence, diminished information asymmetry, and superior financial performance.

However, it also reveals research gaps that need to be addressed, including the need for more studies in emerging markets, a focus on specific governance mechanisms, consideration of long-term financial performance, and consensus on optimal governance structures.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research methodology and methodologies utilized in this study to investigate the connection between financial performance and corporate governance. This section summarizes the methodology and research technique. Following that, a lot of information is addressed on the study's design, target population, sampling strategy, sample size, data collecting tools, pilot testing, validity and reliability problems, data gathering procedures, data processing and analysis methodologies, and ethical considerations.

3.1 Research Methodology

The study used quantitative approach as research technique, meaning that numerical data are gathered and analyzed to clarify the correlations between variables (Creswell, 2013). The technique allows for a statistical analysis of the connections between various aspects of corporate governance and financial results. In an effort to provide objective and measurable insights on the research objectives, the study employs a quantitative technique.

3.2 Research Design

Board composition, ownership structure, executive compensation practices, and transparency indicators are the independent variables in this study. The dependent variable is financial performance. The research design used is a correlational design, which aims to examine the connections and associations between these variables (Kothari, 1985). By making it easier to see trends and patterns, the correlational design sheds light on how various corporate governance variables affect financial performance.

Importantly, this layout does not suggest causation, but it can facilitate the investigation of correlations between variables.

3.3 Location of the Study

Kenya was the site of the research, and the COOP Bank in particular was the focus of attention. Because of its central role in Kenya's financial industry and the availability of relevant data, the Cooperative Bank of Kenya has been chosen as the study location. Researching the Kenyan banking business in this particular setting allows for a more thorough understanding of their financial performance and corporate governance policies. The availability of relevant data lends credence to the selection of the Cooperative Bank as the location for the investigation. Researchers sometimes find it simpler to collect the data they need for study from large, well-established organizations because of the thorough records these institutions often keep. Data accessibility not only strengthens the research but also allows for a more thorough investigation of the relationship between corporate governance procedures and financial success.

3.4 Target Population

Executives, branch managers, lower-level workers, stockholders, and everyone else with a stake in the Cooperative Bank of Kenya was considered a part of the study's target group. Their knowledge of the bank's financial performance and corporate governance standards is invaluable. By including multiple stakeholders, the study aims to capture diverse perspectives and obtain a holistic understanding of the research topic.

Table 1: Target Population

Category	Population	Percentage
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Senior Executives	50	5.9%
Branch Managers	100	11.8%
Subordinate Staff	500	58.8%
Shareholders	200	23.5%
Total	850	100%

Source: Cooperative Bank, (2024)

3.5 Sampling Procedure and Techniques

This research used a hybrid of stratified and purposive sample methods for its sampling approach. Important individuals with extensive understanding of corporate governance processes, such as senior executives and board members, were selected using a purposeful sampling method. Since this research is primarily concerned with corporate governance, it is necessary that it employed purposive sampling to recruit crucial participants who possess extensive expertise in the field. Their analysis is likely to provide light on the organization's governance methods in a more complex and detailed way. A representative sample of shareholders and workers from various levels and divisions within the firm will be selected using stratified random sampling. This sampling approach ensures the inclusion of relevant stakeholders while maintaining the representativeness of the sample. By employing stratified random sampling for employees and shareholders, the study aimed at capturing a diverse range of perspectives within the organization. This method helps in avoiding biases and ensures that the sample reflects the heterogeneity present in the larger population. It is particularly important when studying corporate governance, as different departments and levels may have varying experiences and perceptions of governance practices. Incorporating both

purposive and stratified random sampling methods allows the study to gather valuable insights from key decision-makers while also maintaining a broader perspective by including voices from different segments of the organization. This balanced approach enhances the external validity of the study, making the findings more applicable and generalizable to the larger organizational context.

3.6 Sample Size

The appropriate method for calculating sample sizes in correlational studies was used to determine the sample size for this investigation. It was considered that the desired level of precision, the confidence level, and the anticipated effect size, as per the guidance of Kumar (1996). The aim was to establish an adequate sample size that guarantees statistical validity and meaningful data analysis. The calculation of the sample size was adhere to recommended guidelines to assure sufficient statistical power and dependable findings. The formula utilized for determining the sample size is as follows:

$$\text{Required Sample Size} = (Z^2 * p * (1 - p)) / E^2$$

Where:

- Z is the Z-score linked to the intended confidence level, such as 1.96 for a 95% confidence level.
- The estimated percentage of the population that possesses the desired attribute is denoted by p.
- E is the desired margin of error.

This formula gives an estimate of the minimum sample size needed for a given confidence level and margin of error, assuming a simple random sample.

Table 2: Sample Size

Category	Population	Sample Size
Senior Executives	50	10

Branch Managers	100	20
Subordinate Staff	500	150
Shareholders	200	50
Total	850	230

Source: Researcher, (2024)

3.7 Data Collection Instruments

3.7.1 Questionnaire

The data was collected from the participants using a standardized questionnaire. In addition to questions on financial performance, the questionnaire had questions about the following independent variables: ownership structure, board makeup, executive pay policies, and transparency indicators. The questions were designed using a Likert scale to measure the respondents' perceptions and attitudes towards these variables. The questionnaire was reviewed thoroughly by experts in the field to ensure content validity.

3.7.2 Interview Guide

Key participants, including board members and senior executives, were interviewed using a semi-structured interview guide in addition to the questionnaire. The purpose of the interviews is to get a better understanding of the relationship between corporate governance procedures and financial success by asking more detailed questions. The development of the interview guide was to provide consistency across interviews while allowing for the exploration of new topics and viewpoints.

3.8 Pilot of Research Instruments

A pilot study was conducted before the main data collection to assess the research instruments' clarity, relevance, and efficiency. In order to evaluate and improve the

dependability of the study tools, the research gathered feedback from a group of participants who will get the questionnaire and interview guide. Based on the results of the pilot research, the study made any necessary improvements and changes.

3.9 Validity and Reliability

3.9.1 Validity

To ensure the research instruments' validity, experts in corporate governance and finance will assess the questionnaire and interview guide for content validity. In order to make the study instruments more relevant and suitable for assessing the targeted constructs, we will take their opinions and suggestions into account..

3.9.2 Reliability

The reliability of the research instruments will be assessed through a pilot study and the calculation of internal consistency measures such as Cronbach's alpha. The pilot study will help identify any ambiguous or inconsistent items, which can then be refined to improve the reliability of the instruments. High reliability ensures that the research instruments consistently measure the intended constructs.

3.10 Data Collection Procedures or Methods

In order to gather data, the questionnaire and interview were administered to the persons who were chosen. The questionnaires were distributed electronically, and participants were be given a specific timeframe to complete them. The interviews were conducted face-to-face or through video conferencing, depending on the participants' availability and preferences. The data collection procedures were guided by ethical considerations to ensure participant confidentiality and data protection.

3.11 Data Processing and Analysis Methods

The collected data were processed and analysed using appropriate statistical methods. Descriptive statistics, which include measures like mean, standard deviation, and

frequency distributions, were utilized to offer a concise summary of the data. Utilizing descriptive statistics helps in forming an initial understanding of the dataset, making it more manageable and interpretable. This is essential for researchers and stakeholders to grasp the basic characteristics of the data before delving into more complex analyses. In addition, the linkages between the independent and dependent variables were investigated using inferential statistical methods, namely regression analysis and correlation analysis. Regression analysis determines the effect of independent factors on the dependent variable, while correlation analysis helps find and analyze the direction and intensity of correlations between variables. Statistical software applications, such as SPSS or Excel, were applied as the tools of choice for the data analysis process. SPSS and Excel are widely accepted and reliable tools for statistical analysis. They provide a range of functions for both descriptive and inferential statistics, making them suitable choices for researchers. Additionally, these tools facilitate the reproducibility of the analysis, allowing others to validate and replicate the study.

3.12 Ethical Considerations

At all times, the researcher has to follow all applicable ethical standards, which include getting participants' informed consent properly and being in good standing with relevant ethics committees like the ERC and the NACOSTI. This entails maintaining confidentiality and anonymity of participants, ensuring voluntary participation, and conducting the study in an unbiased and impartial manner. Additionally, the researcher has no right to disclose any potential conflicts of interest and maintain integrity and professionalism in data collection, analysis, and reporting.

Prior to data collection, the study ensured that all participants have given their informed permission in compliance with ERC and Nacosti laws. The anonymization of

participants' identities was guarantee that their replies were to stay secret, protecting their privacy.

The research process adhered to ethical standards and regulations, including those outlined by the ERC and Nacosti. Data has been securely stored and accessible only to the authorized research team members. To maintain anonymity, the data will only be utilized for this research and presented in an aggregated, anonymized format. The results of the study was shared in an ethical and open way, preserving the study's integrity and recognizing the participants' efforts.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The analysis of the study's findings is presented in this chapter. It begins with a presentation and analysis of the response rate data. The description of the fundamental data obtained from the analysis is then presented. Additionally, it provides an analysis of each variable used in the research using descriptive statistics. The results of the regression and correlation analyses are shown in the final section.

4.2 Response Rate

The response rate, which indicates how much of the final set of data comprises sample members, is calculated by dividing the number of persons with whom interviews are completed by the total number of participants in the sample, including those who refused to participate and those who were unavailable (Koltler, 1997)).

During the data collection phase, 600 questionnaires were sent out and received by the population. Following the data preparation stage, which included carefully reviewing the

data to ensure that all questions were answered correctly, 425 questionnaires were completed correctly, yielding a 71% response rate for this study.

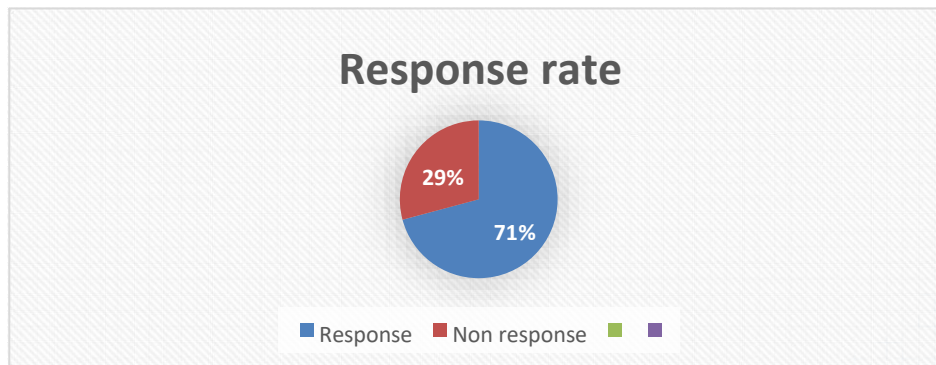


Figure 2: Response Rate Chart

Source: Researcher (2024)

4.3 Pilot Test results

4.3.1 Reliability Tests

The stability and equivalency reliability tests were taken into account in this investigation. The stability component's main goal was to provide consistent findings from several evaluations of the same person using the same questionnaire. The equivalency component was utilized to account for the potential mistake introduced by varying samples of the goods under investigation. The research employed reliability testing by standardizing the measurement environment and creating precise instructions for the measurement that did not differ between groups.

4.3.2 Validity Tests

In order to determine the extent to which the questionnaire assessed the intended outcomes, validity tests were performed. In this analysis, content validity was used to establish the extent to which the questionnaire sufficiently addressed the study problem. By connecting a series of additional propositions with the outcomes obtained from administering the questionnaire, construct validity tests were also utilized to assess the extent to which test scores were explained by the explanatory constructs of a reliable

theory. The questionnaire as the measuring instrument was successfully tested for validity in data collection.

4.4 Demographic Analysis

4.4.1 Gender of the Respondents

When asked to identify their gender, the respondents gave a response as follows: Table 3 shows that 63% of the respondents were men and 37% were women. This indicates that a higher proportion of men than women took part in the poll..

Table 3: Gender Distribution of the Respondents

Gender	Frequency	Percentage
Male	267	63%
Female	158	37%
Total	425	100%

Source: Researcher (2024)

4.4.2 Age

Based on the data analysis, half of the survey participants were less than 45 years old, while the other half were older than 45. The table 4 shows the data that was examined..

Table 4: Age of the respondents

Age (Years)	Frequency	Percentage
18-25	71	17%
26-35	128	30%
36-45	170	40%
46 and above	55	13%

Total	425	100%
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Source: Researcher (2024)

4.4.3 Marital status

The data analyzed indicate that more than 50% of the respondents are married and with families. The results of data analysis are as depicted in the table 5.

Table 5: Marital Status Distribution

Marital status	Frequency	Percentage
Single	72	17%
Married	225	53%
Divorced	29	7%
Widowed	41	10%
Separated	55	13%
Total	425	100%

Source: Researcher (2024)

4.4.4 Highest level of education

Given that 70% of the respondents had a university degree, it may be assumed that they are intelligent and capable of coming up with wise business judgments and strategies.

Following is a table that displays the data analysis findings..

Table 6: Highest Level of Education

Education level	Frequency	Percentage
University	297	70%

College	98	23%
Secondary	30	7%
Primary	0	0%
Total	425	100%

Source: Researcher (2024)

4.4.5 Employment type of job

Data analysis for the departments of the respondents indicate that more than 50% came from supervisory, managerial and executive types of job. The table 7 indicate the results of this analysis.

Table 7: Employment Types of the Respondents

Category	Number of Individuals	Percentage
Board Members	25	5.9
Top Executives	50	11.8
Employees	250	58.8
Shareholders	100	23.5
Total	425	100%

Source: Researcher (2024)

4.5 Analysis of Study Variables

4.5.1 Board Composition and Financial Performance

The purpose of this study is to examine the relationship between corporate governance and the financial performance of the Cooperative Bank of Kenya (COOP) and to provide actionable suggestions for raising the bar for governance in the banking sector. This section's primary objective of the research was to determine the impact of board composition on financial performance.

The makeup of the board was centered on independent directors, diversity, and committees. Table 8 presents the descriptive findings. 44% and 23% of respondents, respectively, said that the Board of Directors' (BOD) structure has a substantial influence and a very big impact on the bank's financial performance. The findings also revealed the statement's mean of 5, which suggested that most respondents indicated to a great degree, and its standard deviation of 1.2, which indicated that respondents' replies varied. In response to the question of how much the bank makes sure the BOD has the education, experience, and skill set needed to manage the bank's operations and strategic direction, 46% and 22% of respondents, respectively, said that they were very confident. The findings also revealed the statement's standard deviation of 1.1, which demonstrated variation in respondents' replies, and its mean of 4, which verified that the majority of respondents indicated to a great degree. Regarding the efficacy of communication between the senior management team and the BOD, the findings reveal that 49% and 16%, in turn, indicated a very significant and substantial degree. The findings also revealed the statement's standard deviation of 1.5, which demonstrated variation in respondents' replies, and its mean of 5, which verified that the majority of respondents indicated to a great degree.

Table 8: Board Composition

Board Composition	To no extent	To a minor extent	To a moderate extent	To a significant extent	A very substantial extent	Mean	Standard Deviation

The structure of the BOD influences the financial performance of the bank.	5%	18%	10%	44%	23%	5	1.2
The bank guarantees that the BOD possesses the essential skills, knowledge, and experience required to proficiently oversee the bank's operations and strategic course.	8%	16%	8%	46%	22%	4	1.1
Communication between the BOD and the executive management team proves to be efficient.	2%	22%	11%	49%	16%	5	1.5

Source: Researcher (2024)

4.5.2 Ownership Structure

Three main ownership pillars were institutional ownership, family ownership, and concentration. The descriptive findings are shown in Table 9. Concerning whether a small number of investors possess a disproportionate share of the bank. According to the results, 49% and 18% of the respondents, respectively, indicated to a very large and significant amount. The statement had a mean of 3, indicating that the majority of respondents indicated to a large degree, and a standard deviation of 1.6, indicating variety in respondents' replies, according to the data. Regarding the query whether. The results revealed that 46% and 20% of the respondents stated to a major degree and a very big level, respectively, that institutional entities possess more than 50% of the bank's shares. The statement's mean of 4, which confirmed that the majority of respondents indicated to a large degree, and its standard deviation of 1.3, which showed variety in respondents' replies, were also disclosed by the findings. The results show that, when asked whether foreign investors own a sizable amount of the company's equity, 55% and 10% of the respondents said that they do so to a very big and significant level, respectively. The

statement's mean of 4, which confirmed that the majority of respondents indicated to a large degree, and its standard deviation of 1.2, which showed variety in respondents' replies, were also disclosed by the findings.

Table 9: Ownership structure

Ownership structure	To no extent	To a minor extent	To a moderate extent	To a significant extent	A very substantial extent	Mean	Standard Deviation
	Ownership within the bank is highly concentrated among a select few investors.	6%	19%	8%	49%		
The ownership of the bank's shares by institutional entities exceeds 50%.	8%	17%	9%	46%	20%	4	1.3
A significant portion of the company's stock is held by foreign investors.	3%	25%	7%	55%	10%	4	1.2

Source: Researcher (2024)

4.5.3 Executive Compensation

CEO pay, performance incentives, and performance alignment were the main focuses of executive remuneration. The descriptive findings are shown in Table 10. About the existence of a policy guaranteeing the continued high level of competition in CEO and senior executive pay. According to the results, 48% and 22% of the respondents, respectively, indicated to a very large and significant amount. The statement's mean of 4, which confirmed that the majority of respondents indicated to a large degree, and its standard deviation of 1.1, which showed variety in respondents' replies, were also

disclosed by the findings. Regarding the query of whether the bank guarantees that each worker has the necessary training, background, and expertise to effectively manage the bank's day-to-day operations and long-term goals. According to the results, 52% and 11% of the respondents, respectively, indicated to a very big and significant amount. The statement had a mean of 3, indicating that the majority of respondents indicated to a large degree, and a standard deviation of 1.2, indicating variety in respondents' replies, according to the data. According to the data, 51% and 12% of the respondents, respectively, stated to a major degree and a very big amount that employee remuneration is based on readily measurable performance measures and that there is a clear alignment between performance and compensation. The statement's mean of 5, which confirmed that the majority of respondents indicated to a large degree, and its standard deviation of 1.6, which showed variety in respondents' replies, were also disclosed by the findings.

Table 10: Executive Compensation

Executive compensation	To no extent	To a minor extent	To a moderate extent	To a significant extent	A very substantial extent	Mean	Standard Deviation
A policy is in place to ensure that CEO and senior executive compensation remains highly competitive.	5%	18%	8%	48%	22%	4	1.1
The bank assures that all employees possess the essential skills, knowledge, and experience to proficiently oversee the bank's operations and strategic direction.	10%	19%	10%	52%	11%	3	1.2

Employee compensation is founded on easily quantifiable performance metrics, and there is a clear alignment between performance and compensation.	4%	24%	9%	51%	12%	5	1.6
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Source: Researcher (2024)

4.5.4 Transparency Indicators

Transparency indicators focused on disclosure, timeliness and transparency in corporate governance. The descriptive findings are shown in Table 11. When asked whether the bank scrupulously complies with the disclosure requirements for its financial statements, 57% and 4% of the respondents, respectively, responded that the bank does so to a major and very large amount. The statement had a mean of 6, indicating that the majority of respondents indicated to a large degree, and a standard deviation of 1.3, indicating variety in respondents' replies, according to the data. on the inquiry on the quick release of financial statements and other necessary requirements, such as audits, by the bank, the results revealed that 47% and 18% of the participants indicated a major and very large degree, respectively. The statement's mean of 4, which confirmed that the majority of respondents indicated to a large degree, and its standard deviation of 1.2, which showed variety in respondents' replies, were also disclosed by the findings. In reference to the extent to which the bank exhibits transparency in corporate governance, specifically with regard to fair performance evaluation, recruitment, advancement, and general customer service, the results show that 40% and 20% of the participants indicated as much as possible, respectively. The statement's mean of 3, which validates that the majority of

respondents indicated to a large degree, and its standard deviation of 1.1, which shows variety in respondents' replies, were also disclosed by the findings.

Table 11: Transparency Indicators

Transparency Indicators	To no extent	To a minor extent	To a moderate extent	To a significant extent	A very substantial extent	Mean	Standard Deviation
The bank diligently complies with the disclosure requirements for its financial results.	9%	10%	20%	57%	4%	6	1.3
Financial results and other mandatory obligations, including audits, are promptly released by the bank.	5%	18%	12%	47%	18%	4	1.2
The bank demonstrates transparency in corporate governance, particularly in areas such as equitable performance assessment, hiring, promotions, and overall customer service.	8%	13%	19%	40%	20%	3	1.1

Source: Researcher (2024)

4.5.5 Financial Performance

The results of the Cooperative Bank of Kenya's financial performance were shown in Table 12. Return on Assets and Net Profit Margin were the primary metrics utilized to assess the financial performance. Table 4.5.5 presents the study results, which suggest an increase in the company's return on assets performance. Specifically, 56% and 6% of respondents identified better and significantly better performance, respectively. The

statement had an average answer of 5, indicating that most respondents agreed—in fact, strongly agreed—that return on assets has improved. The results also revealed that 48% and 16% of respondents said things were better or much better, indicating a significant increase in the bank's net profit margin. With a mean of 6 and a standard deviation of 1.0, the statement suggested that most respondents agreed with a little departure from the norm..

Table 12: Financial Performance

Financial Performance	Much worse	Worse	Almost the same	Better	Much better	Mean	Standard Deviation
Return on Assets	8%	9%	21%	56%	6%	5	1.3
Net Profit Margin	5%	13%	18%	48%	16%	6	1.0

Source: Researcher (2024)

4.6 Inferential Analysis

Kothari (2014) states that regression is the determination of a statistical relationship between two or more variables.

4.6.1 Multiple Regression analysis

In order to determine the overall mathematical connection between the independent and dependent variables, this research used a multiple regression model.. The dependent variable is Y represents organizational performance, the independent variables X1, X2, X3 and X4 represent cost approach, value approach, HR audit, and HR effectiveness index respectively.

This is depicted by the equation:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon, \text{ Where:}$$

Y = Financial Performance

X1 = Board Composition

X2 = Ownership structure

X3 = Executive Compensation X4= Transparency Indicators β_0 = the constant term β_i

= 1...4 were used to measure the sensitivity of the dependent variable Y to unit change

in the predictor variables X1, X2, X3 and X4 and ϵ = error term for incorporating the

unexplained variations in the regression model.

The purpose of the regression study was to ascertain how the dependent variable—


financial performance as determined by Return on Assets and Net Profit Margin—

relationships with the independent variables (ownership structure, executive

remuneration, board composition, and transparency measures). Table 13 displays the

outcomes..

Table 13: Regression analysis table



R	R²	Adjusted R²	Standard error of the estimate
0.823	0.65	0.64	0.446

Source: Researcher (2024)

Regression analysis reveals a link with R squared = 0.64 and R=0.823. According to these

data, a unit change in the ownership structure, CEO salary, board composition, and

transparency metrics may account for 64% of the difference in the financial performance.

Other factors that were left out of this model account for the remaining 36% of the total.

The board makeup, ownership structure, CEO salary, and transparency indicators were

shown to be important predictors of the Cooperative Bank of Kenya's financial

performance, according to an ANOVA analysis of the data. The F-statistics findings (F

= 31.764, $p = 0.000$) demonstrated the statistical significance of the model that linked the independent and dependent variables.

Table 14: Regression Coefficients

Predictors	B	Standard Error	Beta	T	α
Board Composition	0.211	0.08	0.245	4.25	0.003
Ownership structure	0.343	0.079	0.47	3.72	0.001
Executive compensation	0.175	0.055	0.317	2.689	0.003
Transparency Indicators	0.003	0.034	0.002	0.014	0.87

Source: Researcher (2024)

The findings of the regression showed that the financial performance was positively and significantly impacted by the makeup of the board ($\beta = 0.211$, $p = 0.003$). These results suggested that improved board composition led to higher financial success. The research found a favorable and statistically significant correlation ($\beta = 0.343$, $p = 0.001$) between ownership structure and financial success. The results suggested that the bank's financial performance was highly impacted by the make-up of investors and the corporate ownership structure.

The findings of the regression analysis indicated that there was a substantial positive impact ($\beta = 0.175$, $p = 0.003$) of executive salary on financial performance. These results suggested that there was a considerable improvement in financial performance with proper CEO remuneration. Ultimately, the findings of the regression analysis showed that the financial performance of transparency indicators was positively and marginally affected ($\beta = 0.001$, $p = 0.87$).

4.7 Discussion of the Findings of the Research Study

4.7.1 Board Composition and Financial Performance

Consistent with previous research, this analysis confirms that board composition significantly affects financial success. Anderson and Reeb (2016) found that having independent directors on a board improves a company's governance and, in turn, its financial performance. Likewise, Hermalin and Weisbach (2017) state that diverse and independent boards are more likely to provide a broader range of viewpoints, improving strategic decision-making and oversight. The fact that a large percentage of respondents indicated that the BOD structure had a significant or very significant impact on the bank's financial outcomes lends credence to this claim.

On the other hand, Adams and Ferreira (2016) found the opposite, indicating that board diversity—and especially gender diversity—may have an industry-specific impact on financial success. Diversity may improve governance in certain industries, but the study authors found that the banking industry was one where the direct financial advantages of diversity were less apparent. However, according to Carter et al. (2018), there seems to be a favorable perception of diversity among stakeholders in the Cooperative Bank. This might be a reflection of a larger trend where diversity promotes trust and enhances connections between stakeholders.

Regarding the training, expertise, and experience of board members, the respondents' positive perceptions are in line with the study by Paniagua, Rivelles, and Sapena (2016), which found that well-trained and experienced boards tend to navigate corporate challenges more effectively, thus improving financial performance. This reinforces the notion that corporate governance reforms, such as ongoing board member training, have been instrumental in improving governance standards, particularly in financial institutions (Tricker & Tricker, 2017).

Last but not least, the results support previous research by Healy and Palepu (2015) on the importance of good communication channels between the board and management in coordinating the implementation of organizational strategies with day-to-day operations.. This alignment often leads to improved financial outcomes, as supported by the high percentage of respondents in this study affirming strong communication within the Cooperative Bank.

4.7.2 Ownership Structure

The findings regarding ownership concentration within the Cooperative Bank of Kenya align with existing literature that discusses the implications of concentrated ownership on financial performance. According to Morck et al. (2016), concentrated ownership, particularly among a few large investors, often leads to more effective monitoring of management, which can enhance firm performance. This aligns with the 49% and 18% of respondents indicating that ownership is highly concentrated to a significant or very substantial extent. Different people have different opinions on whether concentrated ownership is always good for corporate governance, and that shows in the standard deviation of the replies..

The findings are in line with those of Zhu, Ye, and Dai (2018), who pointed out that when institutional ownership surpasses 50%, it helps stabilize a company's financial health. This is because institutions usually go for long-term investment plans. The 46% and 20% of respondents who indicated a significant and very substantial extent of institutional ownership suggest that the Cooperative Bank benefits from such a structure.

Institutional investors often bring not only financial capital but also governance expertise, contributing to better management practices and strategic decision-making, as noted by Gillan and Starks (2018).

The findings on foreign ownership, where 55% of respondents indicated it is significant, align with the view that foreign investors play a critical role in emerging markets, particularly in terms of enhancing corporate governance standards and financial transparency. According to research by Bena, Ferreira, and Matos (2017), foreign ownership often introduces more stringent governance practices and promotes higher standards of financial reporting, which may improve firm performance. The positive perception of foreign ownership in this study underscores its potential role in contributing to the financial stability of the Cooperative Bank.

In contrast, some studies such as those by Al-Najjar and Kilincarslan (2016) argue that high levels of foreign ownership can sometimes lead to conflicts between domestic and foreign shareholders, particularly in terms of strategic priorities. However, this study's findings suggest that foreign ownership in the Cooperative Bank is perceived as largely beneficial, with limited indications of such conflicts, as seen from the majority's positive responses.

4.7.3 Executive Compensation

The findings on CEO and executive compensation competitiveness align with recent research that emphasizes the importance of maintaining competitive compensation to attract and retain top talent. In order to keep senior executives engaged and invested in the organization's long-term performance, Jensen and Murphy (2019) argue that competitive remuneration systems are crucial. The trend is reflected in the percentage of respondents who said the Cooperative Bank's remuneration policy is extremely competitive (48% and 22%, respectively).. This highlights the bank's focus on aligning executive pay with market standards, ensuring it remains attractive to high-caliber professionals, which, in turn, enhances overall financial performance.

The study's conclusions are in line with those of Core and Guay (2017), who contend that tying pay to measurable performance is the key to a successful business. The 51% of respondents indicating that employee compensation is based on quantifiable performance metrics suggests that the Cooperative Bank has implemented mechanisms that closely link pay with performance, which is supported by the theory that performance-based compensation improves productivity and organizational outcomes.

This also aligns with Murphy's (2018) assertion that firms with clear alignment between performance and compensation structures tend to exhibit stronger financial results, as employees are motivated to meet measurable targets.

However, the findings related to the bank's assurance that all employees possess essential skills, knowledge, and experience show a slight deviation from studies that emphasize the need for comprehensive skill development in banking institutions. While 52% of respondents confirmed that the bank assures employees are proficient in overseeing operations, this is relatively lower compared to studies such as those by Armstrong and Taylor (2020), who stress that continuous skill development and training are essential in dynamic industries like banking. This finding may suggest that while the Cooperative Bank emphasizes competitive compensation, there might be a gap in ensuring comprehensive training and skill development for all employees.

The study's findings on the alignment between performance and compensation are consistent with prior research by Edmans and Gabaix (2016), who emphasize the importance of clear and measurable performance metrics in compensation structures to avoid excessive executive pay without corresponding performance. There is a strong correlation between performance and pay, according to the majority of respondents (mean score of 5), which supports the idea that pay-for-performance strategies can

improve management practices by encouraging employees to concentrate on achieving concrete results..

4.7.4 Transparency Indicators

Consistent with other research stressing the significance of openness in corporate governance, the results on transparency measures, especially regarding the bank's adherence to disclosure obligations, are encouraging. According to Lins, Servaes, and Tamayo (2017), companies that diligently adhere to financial disclosure requirements tend to foster greater trust among investors and stakeholders, which can improve financial performance. The high percentage of respondents (57%) indicating significant compliance with disclosure requirements supports this assertion and highlights the Cooperative Bank's commitment to transparency. Christensen, Hail, and Leuz (2020) argue that market confidence and information asymmetry are enhanced when regulations are adhered to, particularly in financial disclosures. This conclusion is in line with their theory.

The findings of Gompers, Ishii, and Metrick (2019) are in line with the rapid publication of financial results and other duties, such as audits. They claim that a fundamental part of corporate governance is the enhancement of a firm's reputation via the timely reporting of financial information. It is clear that the Cooperative Bank is dedicated to upholding openness and accountability, since 47% of respondents say that they assure timely disclosures and 18% say the same about other aspects of the bank.. This also reflects the bank's compliance with industry standards, which is crucial for maintaining investor trust and ensuring regulatory compliance, as supported by studies such as those by Healy and Palepu (2017).

However, the results on transparency in corporate governance, particularly in areas such as performance assessment, hiring, and promotions, show a slightly lower level of

respondent confidence, with only 40% and 20% indicating a significant and very substantial extent of transparency. This contrasts with studies by Cohen, Holder-Webb, and Nath (2016), who found that companies that demonstrate high levels of transparency in these areas tend to exhibit stronger organizational culture and performance. The relatively lower mean score of 3 in this study suggests that while the Cooperative Bank performs well in financial disclosure, there may be room for improvement in internal transparency practices related to governance.

Moreover, the findings align with the work of Fama and Jensen (2017), who argue that transparency in corporate governance is critical for ensuring equitable treatment of employees and customers, which in turn can drive long-term success. Based on the standard deviation of the replies, it seems that some stakeholders see the bank's governance systems as transparent, while others may think that areas like hiring and promotions may need some work..

4.7.5 Financial Performance

The findings on the improvement of Return on Assets (ROA) for the Cooperative Bank of Kenya align with prior research that suggests good corporate governance positively impacts financial performance. According to Yermack (2017), improved corporate governance structures, including effective board oversight and transparent management practices, lead to better financial performance, as reflected in improved ROA. The 56% of respondents indicating that ROA has improved aligns with this, reinforcing the idea that strong governance can optimize asset utilization, enhancing financial returns. The finding is in line with what was observed in the research by García-Meca and SánchezBallesta (2018), which said that organizations with good governance usually have better financial performance because their resources are allocated more efficiently..

Furthermore, the findings on the increase of net profit margin are in line with previous research, as 48% of respondents reported improved performance and 16% reported much higher performance. A higher net profit margin is indicative of better control over expenses and more efficient operations, according to research by Singh and Davidson (2016).. The significant improvement in net profit margin reported in this study aligns with prior findings that underscore the relationship between effective financial management and profitability. This is also supported by Gentry and Shen (2019), who noted that companies with better corporate governance and sound financial strategies typically experience improvements in profit margins, as they are better positioned to manage risks and capitalize on opportunities.

However, the findings contrast slightly with studies by O'Connor et al. (2016), who suggested that while corporate governance improvements do contribute to financial performance, the relationship between governance and net profit margin can be industry-specific and influenced by external market factors. In the context of the banking industry, which is heavily regulated, external economic conditions may also play a significant role in profit margins, an aspect that the current study does not address in detail.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The stated objectives of the study were adequately considered, researched and analyzed based on the data obtained in the research study. It was adequately established that board composition, ownership structure, executive compensation, and transparency indicators were significant predictor variables of financial performance of Cooperative bank of Kenya.

5.2 Summary of Findings

5.2.1 Board Composition and Financial Performance

Cooperative Bank of Kenya's financial performance was positively and significantly correlated with the membership of its board, according to the research. Improved financial results were a direct result of the increased governance efficacy that resulted from having independent directors and board members from different backgrounds. The results highlight the importance of a diverse and well-trained board in enhancing strategic decision-making, which in turn impacts the bank's financial success..

5.2.2 Ownership Structure

The results showed that the ownership structure significantly affected the financial performance for the better. The promotion of good governance standards, which enhanced profitability and financial stability, was greatly aided by concentrated ownership and institutional investors. Stricter governance norms, brought about by institutional ownership, improved decision-making and risk management..

5.2.3 Executive Compensation

A favorable and statistically significant correlation was found between executive salary and financial success, according to the study. Executives were motivated to match their

aims with the bank's financial goals via performance-based remuneration packages, which included incentives and stock options.. This alignment fostered long-term financial success and ensured that compensation was linked to performance.

5.2.4 Transparency Indicators

The results showed that financial performance was positively affected by transparency measures, although this effect was not statistically significant when compared to other forms of governance.. Transparency through disclosures and financial reporting contributed to enhanced stakeholder trust and better decision-making but was not as influential in directly driving financial performance.

5.2.5 Financial Performance

Overall, the study confirmed that good corporate governance practices, particularly in terms of board composition, ownership structure, and executive compensation, were key contributors to the improved financial performance of the Cooperative Bank of Kenya. It is crucial to have good governance in order to keep the bank profitable, since the regression analysis showed that these factors explained a lot of the variance in the bank's financial performance..

5.3 Conclusions

The study's results confirm that Cooperative Bank of Kenya's financial performance was significantly impacted by board composition, ownership structure, CEO salary, and transparency KPIs..

The research also showed that banks' financial performance improved when they implemented corporate governance procedures such a more transparent ownership structure, remuneration for executives, and board composition. Also, the study found that when these three aspects of corporate governance—ownership structure, CEO

remuneration, and board composition—are used well, they boost financial success. Transparency indicators did not significantly affect financial performance when compared to the other three corporate governance measures..

5.4 Recommendations of the Research Study

i) To the Authorities for Implementation

Several suggestions for the efficient execution of this study's results are put out to the COOP authorities by the COOP.:

Enhance Board Diversity: The bank's authorities should prioritize the appointment of board members with diverse skill sets, backgrounds, and perspectives. This diversity can contribute to more robust decision-making processes.

Strengthen Ownership Structures: The authorities should consider measures to encourage a balanced ownership structure that prevents excessive concentration of power, ensuring better checks and balances.

Align Compensation with Performance: The bank should review its executive compensation practices, linking remuneration to both financial performance and responsible risk-taking.

Improve Transparency: The bank's management should enhance transparency through increased disclosure of relevant financial and governance information to stakeholders.

ii) To Service Users/Beneficiaries

1. **Stay Informed:** Service users and beneficiaries should actively seek information about the bank's governance practices, financial performance, and

transparency initiatives. Informed customers can make better decisions and promote accountability.

iii) To Other Stakeholders

1. **Advocate for Transparency:** Financial performance and corporate governance procedures in the banking industry may be better understood if stakeholders like trade groups and regulatory agencies push for more open reporting requirements..
2. **Promote Best Practices:** Shareholders, including institutional investors, can play a role in encouraging banks to adopt best practices in corporate governance and contribute to the long-term sustainability of financial institutions.

5.5 Recommendations for Further Research

While this study has provided valuable insights, several avenues for further research within this field of study are suggested:

Longitudinal Studies: To better understand the relationship between changes in corporate governance procedures and financial success, it is recommended to conduct longitudinal studies that follow participants over a lengthy period of time..

Comparative Analysis: Examine the correlation between corporate governance and financial success at several Kenyan banks side by side to see how the two variables vary..

Cross-Country Analysis: Extend the research to encompass banks from different countries, considering variations in regulatory frameworks, cultural contexts, and economic conditions.

Qualitative Investigations: Undertake qualitative research to explore the perspectives of board members, executives, and stakeholders regarding the implementation and effectiveness of corporate governance practices.

Event Studies: Try using event studies to see how certain corporate governance events, such as remuneration adjustments or board composition shifts, affected financial results and stock prices..

Integrated Frameworks: The effects of corporate governance may be better understood by creating integrated frameworks that include CSR metrics with financial performance.



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APPENDICES

Appendix I: Introduction Letter

Dear respondent,



RE: REQUEST TO FILL THE QUESTIONNAIRE FOR RESEARCH PURPOSE

As a Mount Kenya University postgraduate student, I have to do research on how corporate governance affects the Cooperative Bank of Kenya's (COOP) financial performance. In order for this study to be effectively completed, I need your invaluable assistance in supplying data by answering the attached questionnaire..

It is imperative that you participate in this research, and please answer all of the questions honestly. Rest assured that all gathered data will be used only for academic reasons and

will be kept in the strictest of confidence. Thank you very much for helping to complete this questionnaire.

Yours Sincerely,



Zachaeus Kariunga Mariuko



Appendix II: Consent Form

Dear.....

You are cordially invited to participate in a research study being conducted by Zachaeus Kariunga Mariuko, a Master of Business Administration student at Mount Kenya University. Your involvement in this study is completely voluntary, and you have the right to withdraw at any time without facing any negative consequences. Opting to participate or withdraw will not affect your relationship with Mount Kenya University or any related entities.

I assure you that your privacy and confidentiality will be strictly maintained throughout this study. Your personal information and responses will be accessible only to the researcher and, if necessary, the research supervisor(s). Your identity will remain anonymous unless you choose to disclose it.

While participation in this study may not provide immediate personal benefits, your input is invaluable. It is important to recognize that your opinions may differ from those of other participants, but you are encouraged to share your perspectives openly. If any topics arise that you find sensitive or potentially risky to your personal or professional safety, please inform the researcher. Steps will be taken to protect your anonymity and wellbeing.

Should you have any questions or require further clarification, please feel free to contact the researcher, who will be glad to address your concerns.

By signing this consent form, you confirm your understanding of the study's purpose and nature and agree to participate voluntarily. Additionally, you acknowledge that you have had the opportunity to ask questions and have received satisfactory responses.

Participant Information:

Name: [Participant's Name]

Signature: _____

Date: _____

Researcher's Statement:

I, Zachaeus Kariunga Mariuko, in my capacity as the researcher, confirm my belief that the participant has granted informed consent to take part in this study.

Researcher Information:

Name: Zachaeus Kariunga Mariuko

Signature: 

Date: 30/12/2023

For further information or inquiries, please contact:

Chairman,
MKU ERC,
P.O Box 342-01000, Thika.

Appendix III: Data Collection Instrument

QUESTIONNAIRE for used to collect data. (Tick where necessary)

1. Gender

- a) Female
- b) Male

2. Age

- a) 18-25
- b) 26-35
- c) 36-45

- d) 46-and
- above

3. Marital status

- a) Single
- b) Married
- c) Divorced
- d) Widowed
- e) Separated

4. Education:

- a) University
- b) College
- c) Secondary
- d) Primary

5. What is your employment type?

- a) Directorate
- b) Corporate
- c) Human Management
- d) Finance
- e) Supervisory
- f) Field



Resource

6. Board composition

To what degree do you concur with the subsequent statements regarding board composition within your bank? Please employ a rating scale ranging from 1 to 5, where 5 corresponds to "a very substantial extent," 4 indicates "to a significant extent," 3 signifies "to a moderate extent," 2 denotes "to a minor extent," and 1 represents "to no extent."

Board Composition	1	2	3	4	5
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BOD organizational structure affects the bank's financial performance.					
The bank guarantees that the BOD possesses the essential skills, knowledge, and experience required to proficiently oversee the bank's operations and strategic course.					
Communication between the BOD and the executive management team proves to be efficient.					
Decision-making in the bank is improved when there are more independent directors on the board.					
The current BOD demonstrates diversity in aspects such as gender, age, ethnicity, and professional background.					

7. Ownership structure

How strongly do you concur with the following statements related to the ownership structure within your bank? Please employ a rating scale that ranges from 1 to 5, with 5 signifying "to a very substantial extent," 4 indicating "to a significant extent," 3 denoting "to a moderate extent," 2 representing "to a minor extent," and 1 corresponding to "to no extent."

Ownership structure	1	2	3	4	5
Ownership within bank is highly concentrated among a select few investors.					
The ownership of the bank's shares by institutional entities exceeds 50%.					
A significant portion of the company's stock is held by foreign investors.					
The bank has implemented an established employee share ownership program that enables insider ownership of the bank's shares.					

8. Executive compensation

How much do you align with the subsequent statements regarding executive compensation within your bank? Please utilize a scale ranging from 1 to 5, with 5 signifying "to a very substantial extent," 4 indicating "to a significant extent," 3 denoting "to a moderate extent," 2 representing "to a minor extent," and 1 corresponding to "to no extent."

Executive compensation	1	2	3	4	5
A policy is in place to ensure that CEO and senior executive compensation remains highly competitive.					
The bank assures that all employees possess the essential skills, knowledge, and experience to proficiently oversee the bank's operations and strategic direction.					
Employee compensation is founded on easily quantifiable performance metrics, and there is a clear alignment between performance and compensation.					
A policy for equity-based compensation is established to incentivize all employees toward enhanced performance.					
The bonus structure and compensation are grounded in company policy and uphold principles of fairness and equity.					

Transparency indicators

How strongly do you concur with the subsequent statements regarding Transparency Indicators within your bank? Please utilize a rating scale spanning from 1 to 5, where 5 signifies "to a very substantial extent," 4 indicates "to a significant extent," 3 denotes "to a moderate extent," 2 represents "to a minor extent," and 1 corresponds to "to no extent."


Executive compensation	1	2	3	4	5
Bank diligently complies with the disclosure requirements for its financial results.					
Financial results and other mandatory obligations, including audits, are promptly released by the bank.					

The bank demonstrates transparency in corporate governance, particularly in areas such as equitable performance assessment, hiring, promotions, and overall customer service.					
High-quality financial reporting and audits are consistently maintained, and the bank has not encountered any instances of financial mismanagement.					

How would you rate the financial performance based on the above corporate governance practices used currently in the bank

Factor	Much worse	Worse	Almost the same	Better	Much better
Return on Assets					
Net Profit Margin					
Profit on Capital Investment					
Earnings per share					
Share price					

Appendix IV: ERC Certificate



Mount Kenya University

REF: MKU/ISERC/3427 Date: 20 January 2024
TO: ZACHAEUS KARIUNGA MARIUKO
REG: MBA/2022/48794

Dear Sir/Madam,

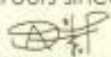
RE: INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE: CASE OF COOPERATIVE BANK OF KENYA (COOP)

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2471**. The approval period is **20/01/2024 - 19/01/2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

Dr. Alfred Owino, PhD
Chairman, Mount Kenya University ISERC

The Chairman
Mount Kenya University
Ethics Review Committee
P. O. Box 342 - 0100, Thika

Appendix V: Introduction Letter



DIRECTORATE OF GRADUATE STUDIES

MBA/2022/48794

29th January 2024

National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA

Dear Sir/Madam,

RE: ZACHAEUS KARIUNGA MARIUKO - REGISTRATION NO. MBA/2022/48794

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**

The title of the research is **"Influence of Corporate Governance on Financial Performance: Case of Cooperative Bank of Kenya."** It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **February 2024, and April 2024.**


Any assistance accorded to the student will be highly appreciated.


Thank you.


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


Enc.

Appendix VI: NACOSTI Research License


REPUBLIC OF KENYA
 National Commission for Science, Technology and Innovation



**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**
 Date of Issue: **06/February/2024**

RESEARCH LICENSE




This is to Certify that Mr.: ZACHAEUS KARIUNGA MARIUKO of Mount Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic:
INFLUENCE OF COPORATE ON FINANCIAL PERFORMANCE for the period ending : 06/February/2025.

License No: **NACOSTI/P/24/32935**


Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION**

Applicant Identification Number
497214

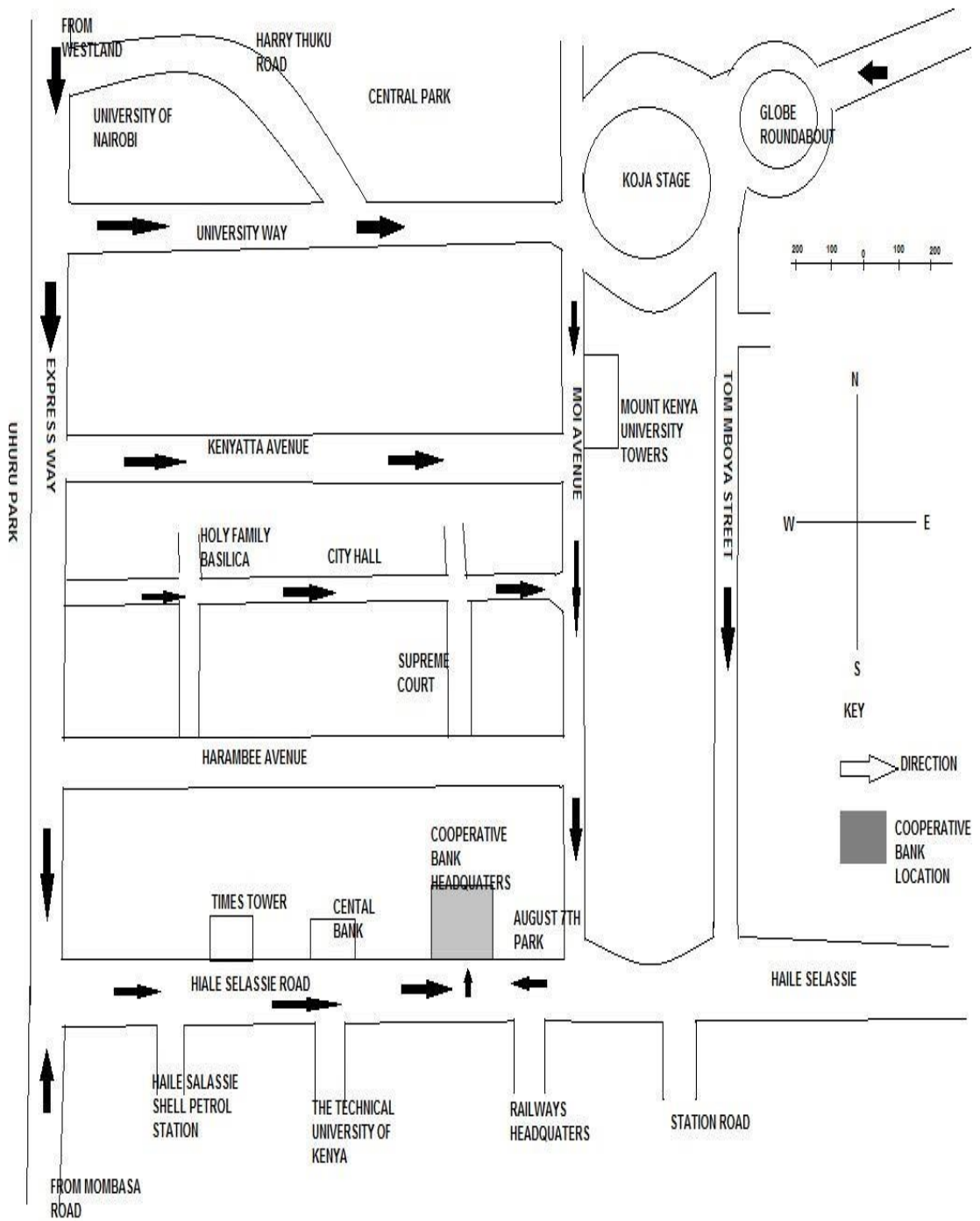


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See overleaf for conditions

Appendix VII: Co-Operative Bank Headquarters Location Map – Nairobi



Appendix VIII: Similarity Index Report

ZACHAEUS KARIUNGA




INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL

PERFORMANCE: CASE OF COOPERATIVE BANK OF KENYA (C...

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