

**ANALYSIS OF THE EFFECTS OF AGENCY COSTS ON FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE
NAIROBI**

**SECURITIES EXCHANGE IN MOMBASA COUNTY,
KENYA**

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DECLARATION AND APPROVAL

Declaration by the student

This proposal is my original work and has not been presented in any other university for the award of Master degree

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DEDICATION

Special dedication to my parents Lawrence and Mary Anyango for their buttress, My wife Susan and my children Mary and Precious.



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ABSTRACT

Conflicting interests in a principal-agent relationship lead to agency costs. The relationship arises from the principal's hiring of the agent since they may not be able to manage the business due to their lack of technological knowledge, large number, and geographic dispersion. Principal agent connections can take many different forms in a commercial bank, the most common being the connection between shareholders and management. Agency fees are paid with the goal of coordinating the goals of the principal and the agents to achieve the principal's ultimate objectives. Thus, the purpose of this study's persistence was to examine agency costs and how they affect financial performance. This study examined the impact of agency costs on public commercial banks' financial performance. The study was specifically directed by the following goals: to determine the impact of restructuring costs on the financial performance of listed commercial banks in Mombasa County; to evaluate the effect of bonding costs on the financial performance of listed commercial banks in Mombasa County; to find out how monitoring costs affect the financial performance of quoted commercial banks in Mombasa County; and to investigate the degree to which residual loss affects the financial performance of commercial banks in Mombasa County. The following theories provided support for this study: stakeholder theory, free cash flow, and agency theories. One type of research methodology that establishes the relationship between variables is descriptive design. It was applied in this investigation to determine the general and specific study objectives. Purposive sampling was employed in conjunction with a census of Mombasa County's ten listed commercial banks. Both qualitative and quantitative analysis were used in this study. Validity and reliability were evaluated using a pilot test. While Cronbach alpha was used to verify reliability, interviews were used to test validity. Using the Statistical Package for Social Science (SPSS) Version 22.0, the data was analysed using both descriptive and inferential statistics, such as mean and standard deviation, and regression and correlation. Charts, frequency tables, and cross tabulation were used to present the data. The results showed a strong positive association ($\beta_1 = 0.011$, $p < 0.05$) between financial success and cost monitoring. Bonding cost and financial performance were positively and significantly correlated ($\beta_2 = 0.008$, $p < 0.05$). A negative and statistically significant correlation was found between residual loss and financial performance ($\beta_3 = -0.003$, $p < 0.05$). Financial performance and restructuring costs had a positive and statistically significant link ($\beta_4 = 0.006$, $p < 0.05$). The research recommends that management of listed commercial banks establish an effective internal control system. This will help reduce the cost of auditing, administrative expenses, and unnecessary and wasteful spending. Managers should receive higher compensation and have the ability to link their share bonuses or option entitlements to specific firm performance. They should also implement a restructuring plan that is in line with the company's goals and strategy.

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LIST OF ABBREVIATION AND ACRONYMS

CBK:	Central bank of Kenya
CEO:	Chief executive officer
CRB:	Credit Reference Bureau
EABL:	East African Breweries Limited
ROA:	Return on Asset
ROE:	Return on Equity
ROI:	Return on Investment
UK:	United Kingdom
USA:	United State of America
KNBS:	Kenya national bureau of statistics
MFI:	Micro finance institution
FCF:	Free cashflow

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter covered the following topics: background data, the problem description, the research aims, the relevance of the study, its scope, and its limits.

1.1 Background of the study

According to Pankaj (2022), the principal-agent relationship is the source of agency fees. The two parties are involved in a legal contract where the primary appoints the agent of the other party to act on its behalf. Every time the interests of the two parties are out of sync and agency expenses result, the problem will come up. As a result, agency costs are described as in-house business expenses incurred when an agent's interests and the principal's collide.

Analyzing a company's financial performance involves figuring out how much revenue is produced with the use of its available resources. It may also refer to a technique for evaluating concern's general financial standing for a predetermined duration that can be used to contrast similar companies operating in the similar trade. According to Kyazze, Nsereko, & Nkote (2020), one way to assess the effectiveness and efficiency of a course of action is through financial performance. Efficiency is a measurement of how cost-effectively funds are utilized in providing a specific customer service, whereas effectiveness is the point at which customers' wants are accomplished. The concept of performance was a difficult issue in the financial strategy of the majority of

corporation because of its complicated consequences. (Jayiddin, Jamil, & Roni 2017)

Performance metrics is defined as either organizational or financial. Financial performance is defined as maximizing asset profits and shareholder benefits, which can result in the effectiveness of a firm, while organizational performance refers to the management practices of specific businesses that can increase an organization's output.

Islam, Bhattacharjee, & Islam (2010) grouped agency expense into: monitoring expenses, residual loss plus bonding cost. Monitoring expenses include those related to creating a board of directors, generating financial statements, and offering employee stock options. Expenses suffered by the managers to assure the shareholders that they are performing in owner's interest are known as bonding cost. Despite monitoring and bonding procedures, residual loss occurs when decisions that would advance the agent's self-interest diverge from decisions that would advance the principal's self-interest. The managers' excessive consumption of perks and decreasing conduct causes agency expenses to increase. Additionally, the initiatives they invest in almost exclusively serve to maximize their own personal interests, subjecting shareholders to unnecessary investment risk.

Studying the relationship between CEOS remuneration and bank performance in Bangladesh from 2010 to 2020, Faruque (2022) came to the conclusion that the CEOS compensation package is considerably and favorably related to bank performance. A better remuneration plan encourages the executive to work hard and solve the agency issue.

Using data from 21 commercial banks in Nigeria, Otuendon & Ogbole (2019) conducted research on the board composition and corporate performance of public

commercial banks in Nigeria. The findings showed a weak correlation in total assets and board size, a strong correlation in gross revenue and board size, and a strong association in board size and net profit. According to the study's outcome, exist connection amid the size of the board of directors and the corporate performance of Nigerian banks that are publicly traded.

Over the past decade, a number of progresses in Kenya's financial sector have led to various changes in technology, regulation, and level of competition. With only over 45 million people in the country and only about 5% of them having accounts. Banking industry has faced fierce competition. The country has 42 licensed commercial banks. As a result, banks were compelled to cut expenses and were given some impetus to increase efficiency. Each expense paid by a commercial bank should have a justification in order to preserve profitability (Miencha & Selvam, 2014).

1.1.1 Agency cost

Agency fees are prices suffered by owners for monitoring, bonding, and residual loss. (Nzau, 2019). According to Okundi (2011), exist three different agency costs: monitoring, bonding, and residual loss. It is anticipated that the agent won't behave in the principal's best interests. According to Saltaji (2013), monitoring costs incorporate; auditing fees, top management hiring and training costs, as well as expenses for regulating, rewarding, and measuring manager behavior. Only a few examples of the expenses related to monitoring comprise directorship cost, indenture cost, staffing costs, auditing cost, contract enforcement cost, salary costs, additional layers of management, and budget control cost. Bonding fees are compensation for the agent's promise not to take any actions that could endanger the principal. These costs include

utilities like telephone as well as travel and car expense, advertising expenses, asset utilization cost license fees, accounting costs, maintenance and repair costs, administrative charges and legal charges. Another agency expense of the agency relationship that the main bears is residual loss (Nzau, 2019). charges like extraneous benefits outside of the salary package, an increased workforce, a high debt ratio, inefficient spending, greater interest charges, and higher equity costs are just a few examples of residual costs. The advantage of agency costs is that they contribute in reducing the effects of agency issues. According to Olagunju et al. (2012), agency problems typically occur when the actions of one party, in this case, the managers, have an impact on the welfare of a third party, the principal. By raising the owner-managers' sharing percentage, agency expenses can be decreased (Odhiambo, (2012).

The current agency cost theories produced a variety of findings and recommendations. First of all, Casselman, Sama, and Stefanidis (2015) came to the conclusion that an independent board contributed to decreased agency costs. According to Wijesiri, Yaron, & Meoli (2015), audit committees, manager competency, and reasonable agency fees are all related. Agency costs decrease in locales with salary and nomination committees, claim Lacalle-Calderón et al (2015) as well as Butcher & Galbraith (2015). Additionally, Kiaritha (2015) found a solid correlation in agency costs and corporate capital structures. Wangai, Bosire, and Gathogo (2014) discovered insufficient correlation among agency expenses and corporate capital structures. A significant positive association between the ratios of asset turnover was found, according to (Kleynjans & Hudon (2016). According to Hoepner, Liu, Sandberg, & Wilson (2017), a chief executive officer's dual role does not produce significant

financial gains. The performance and agency costs of family-owned and managed businesses were found to be strongly positively correlated by Wijesiri, Yaron, & Meoli (2017).

Additionally, free cash flow was found to raise agency expenses by D'Espallier, Goedecke, Hudon, & Mersland (2018). Ahmed, Bhuiyan, Ibrahim, Said, and Salleh asserted that international firms pay higher agency charges because they hire seasoned audit specialists to conduct their audits because the principals are far away in their article that was published in Malaysia in 2016. Butcher & Galbraith (2015) agreed by the claim that greater auditing fees in excess of domestic firms are due to complex financial reporting frameworks or systems of foreign holding and strict compliance with corporate governance regulations.

1.1.2 Financial Performance

Nzau (2019) mentioned that financial performance is the way a corporation utilizes its resources to generate profits. By allocating funds to the successful projects that will increase shareholder wealth, it consists of evaluating the financial and policy results of the company. Finding out how much revenue is generated using the firm's resources is a crucial step in evaluating its financial performance. Additionally, it refers to a technique for assessing a concern's overall financial stability over a set time frame that can be used to contrast similar companies operating in the same industry. Financial performance, according to Kyazze, Nsereko, & Nkote (2020), is a method of gauging the effectiveness and efficiency of a course of action.

Additionally, Adabenege & Yahaya (2015) advised that a company must generate enough earnings in order to obtain funding for both expansion and growth as well as to

maintain corporate operations. Financial performance is a way to gauge a concern's prolonged financial health. Additionally, it contrasts the performance of businesses within an industry or the performance of industries as a whole.

Although a number of methods can be used to evaluate a firm's financial performance, they should be taken into account simultaneously (Acharya, Dupatti, & Locke 2015). The total component sales of some elements, such as operational income, process profits, and cash flow from operations, should be taken into account. Financial analyst uses ratios like ROI, ROA and ROE to search for company's marginal growth rate or declining debt.

1.1.3 Commercial Banks in Kenya

A bank is defined as a corporation or other group of people doing banking activities within the meaning of the Banking Act, whether those activities take place in Kenya or overseas. 2014 (CBK CAP 491). Commercial banks are financial establishments that take public deposits of cash for safekeeping, issue and clear checks, and are associated with clearing houses. (Wafubwa, Mbare & Adrew, 2013). Kenya's 53 million citizens are served by 42 commercial banks, which are divided into three groups according to a number of criteria.

A number of tier 3 banks have faced receivership as a result of their failing to meet minimum liquidity levels. The sector also had a negative reputation, which led to Chase Banks, Dubai Bank, and Imperial Banks being placed under receivership due to suspicions of fraudulent practices involving the maintenance of several books of accounts. The operations of commercial banks in Kenya are governed by a number of legislations. These laws include the Banking Act, the Companies Act, the Central Bank

of Kenya Act, and any other recurring regulations that the CBK may periodically issue (Mary, Wakio & Marwa, 2018).

Additionally, they discover rules created by the Capital Market Authority and CRB, among others. Interest rate caps were also implemented by the Kenyan government. The interest rate cap caused significant disruptions in the banking industry, with the majority of banks cutting operational expenses through layoffs, downsizing, and the use of agency banking, among other measures, with the aim of lowering overall costs. The banking industry is actively lobbying lawmakers to remove the interest rate cap since it is believed to be negatively harming the Kenyan economy (Mugambi, 2017).

Kenyan banks have seen a number of developments that have precipitate competitiveness and pressurize management to outperform rivals and also enhance prior performance. The government's implementation of interest rate caps and rules requiring banks to maintain a minimum level of reserves and liquidity have made the issue worse. These regulations serve as incentives for management to use creative accounting techniques, which in turn force shareholders to raise agency fees to ensure shareholders' protected interest and maximization of their wealth.

This work will be useful in finding if it is right for owner raise agency charges without hindering these institutions' financial performance. Nevertheless, rising costs would result in higher operational expenses, which would lower total operating profits and have an impact on financial performance. A rise in agency expenses, on the other hand, may indicate that managers are actuated to agree their interests with those of the shareholders, thus boosting financial performance. I therefore attempted to respond to the question by analyzing the agency expense on the financial performance of Kenyan

commercial bank

1.1.4 Nairobi securities exchange

The NSE, was known as the Nairobi Stock Exchange, began as a society act-authorized voluntary association of stock brokers. Before shifting to the Nation Centre Nairobi in 1994, a trading floor and administration were established inside the IPS building in 1990. In September 2006, the securities exchange automated its trading, and in 2007, it made it simple for stockbrokers to operating remotely, eliminating the requirement that dealers avail themselves.

Additionally, the operating time was raised from two to six. The relocation to Westlands in the Nairobi area signified the last time when stockbrokers owned and operated the market (NSE, 2013). The Nairobi Securities Exchange's mission is to link capital to opportunity to enhance stakeholder's value. It is responsible for the strength of the Securities Exchange because it is required to quote firms and allow investors to buy or sell company's securities. As of 2013, there were 61 listed companies divided into 11 different sectors.

1.2 Statement of Problem

It is without doubt that shareholders suffer expenses to ensure primary concentrate on maximizing their interest. Shareholders have heavily invested on commercial banks in anticipation of better returns this is contrary to the managements goals of earning better salaries and allowances. When a company has debt, management may be tempted to adopt their own tactics, which would result in agency costs for

the organization (Gulubov & Xiong, (2016).

The performance of banking sector in the last five years have not been consistent because some banks have been recording good performance while others have been recording declining performance. Some banks have steady growth while some have been recording mixed results every year. For example, Equity bank recorded 5.6% in ROA in the year 2018 and 4.7% in ROA in the year 2022. The same case was reported by Diamond Trust bank which recorded 3.3% in ROA in 2018 and 1.8% in ROA in 2022. National bank has been struggling over the last five year and in the year 2022 they reported a very low ROA of 0.6%. It is the same case at Housing finance Corporation which has also been reporting wanting performance and in 2022 they recorded ROA of 0.2% (CBK Supervisory report 2018- 2022)

Abdulrahman (2014) looked at the connection in agency costs and the NSE-listed companies' financial performance. Results showed that agency costs significantly improve financial performance. Rather, Njenga (2012) investigated the impact of agency charges on the financial performance of Saccos in the Githunguri District that were registered with Fosa. The findings were in disagreement with those of Abdirahman (2014).

A study on agency fees and mutual fund portfolio performance in Kenya was carried out by Kathenya (2017). Kathenya came to the conclusion that agency fees had a big influence on the portfolio's performance. These internal studies show how different economic sectors' financial performance is affected by agency costs differently.

We cannot depend on the results of local research to form an opinion concerning agency costs and returns because they are inconsistent and come from different

entities, including banks. This brings a research hole, which this study aimed to seal.

International study on the agency cost and performance of several Indian banks was done by Acharya et al. (2014). Results demonstrated the substantial deficiencies in the governance framework and, as a result, the agency cost in Indian banks. Wang (2010) examined the effects of FCF and agency bank performance on China and discovered data that supported the agency theory's contention that agency expenses had a negative effect on business performance. As a result, previous studies have produced contradictory results, making it difficult to draw accurate conclusions about the findings of a similar study for Kenyan banks. As a result, there is a research hole that this study set out to seal by looking at the analysis of the effects of agency costs on the performance of the listed commercial banks in Mombasa County in Kenya.

1.3 Purpose of the study

Analyzing the effects of agency costs on the financial performance of Mombasa County-listed commercial banks listed on the Nairobi Securities Exchange was the primary objective of the study.

1.3.1 Specific Objective

The following were the specific objective of the study:

- i. To examine the extent to which residual loss affect the financial performance of commercial banks in Mombasa County
- ii. To assess the effects of bonding cost on the financial performance of commercial banks in Mombasa County
- iii. To establish how monitoring cost affect the financial performance of commercial banks in Mombasa County

- iv. To assess how restructuring cost affect the financial performance of commercial banks in Mombasa County.

1.4 Research Questions

- i. To what extent does residual loss affect the financial performance of commercial banks in Mombasa County?
- ii. What are the effects of bonding cost on the financial performance of commercial banks in Mombasa County?
- iii. How does monitoring cost affect the financial performance of commercial banks in Mombasa County?
- iv. What are the effects of restructuring cost on the financial performance of commercial banks in Mombasa County?

1.5 Significance of the study

Stakeholders in Kenyan banking industry will benefit from this research because it will elaborate on the analysis of agency costs on financial performance. Investors will be aware of how much agency expenses need be paid in order to increase their wealth. This report will be useful to the government as well as other regulatory bodies like CBK. It will help with the development of regulations relating to the number and makeup of bank directors. A controlled employee share ownership program would also stop immoral management actions, like hostile takeovers and others. Students and academics alike will gain from this research. The study will be useful in helping various researchers in relevant fields of study develop their literature reviews. The goal of this study is to help Kenyan Commercial Banks create guidelines and policies that will help them classify their clients based on demographic traits, reduce non-performing loans, and better understand what is needed to improve the quality of their loan book. Additionally, CBK can utilize this study to assess various regulations put in place to help supervise banks, with an emphasis on enabling banks to keep up-to-date

loan books. Additionally, they would receive the high-quality data needed for effective management.

1.6 Scope of the Study

The study's focus was on just ten of the county of Mombasa's listed commercial banks. The bonding cost, residual loss, monitoring cost and restructuring cost were the independent variables allowed in the study, which concentrated on financial performance. The four factors in the study—bonding cost, residual loss, monitoring cost and restructuring cost—were discussed. Three theories—Agency theory, Free cashflow theory and stakeholder theory —were main topics of the work. The research analyzed the performance of listed commercial banks between 2018 to 2022.

1.7 Limitation of the Study

The county of Mombasa was chosen because it is a smaller region and does not adequately represent all of Kenya. The entire city and other urban regions should have been investigated to obtain comprehensive results. The distance between them and other logistical issues make this unlikely. Results might not be exact. The survey responders were hesitant or declined to answer the questions. Some questionnaires were not returned. Residential areas, on which many businesses rely, was a logistical challenge. The main constraints on the study's ability to analyze all of the chosen banks and try to collect more data each day was time and money. The interviewees' attitudes had a detrimental impact on the quality of the collected data.

1.8 Delimitation of the Study

The agency cost on performance of the public commercial banks in Mombasa County was analyzed in this research. The Mombasa County branches, more specifically

Mombasa Town, was be the focus of the investigation. The regional managers, branch managers and operational managers were the study's target audience. These are believed to include the crucial statistical's research issue.

1.9 Operational definition of key terms

Agency cost: These are to cost related to; monitoring, bonding and residual loss.

Bonding Costs: To assure the principal that their interest is taken into consideration, the agents pay these costs.

Financial Performance: The capability of a company to create income using the resources from its principal business model is stated to as its financial performance

Commercial Banks: It's a financial organization that offers its services to both the general people and corporate organizations.

Monitoring Cost: When shareholders take action to make sure that the management abides by protective covenants in the bond arrangement, they incur an agency cost.

Residual Loss: This is the loss suffered by the owner because the agent's decision do not serve its interest.

Return on Equity: This is the net profit after taxes divided by shareholders equity which is given by net worth.

Return on Asset: It is how profitable an organization is relation to its total asset.

Restructuring cost: This means the infrequent expenses or one-off cost sustained by the company in revamping its business operations with an aim of improving long-term performance and working efficiency of the company and are treated as the non-operating expenses in the financial statements.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

According to Effron & Ravid (2019), any research study should include a thorough literature review. One of the greatest ways to learn what is already known about your study topic and determine which parts require additional understanding is to conduct a literature review. This chapter discusses the theoretical framework, which includes a review of various theories relevant to the study, a conceptual framework and discussion of study variables; an empirical review and critique of existing literature relevant to the study; research gaps and a summary of the literature reviewed.

2.1 Theoretical Framework

It entails interlinked concepts and ideas that are built upon established theories. It serves as a logical structure of statements, originated from and backed by empirical information or proof. By accounting for and elucidating occurrence, abstract aims to provide explanations for the underlying reasons behind observed occurrences. According to Kivunja (2018), theories empower researchers to draw novel conclusions, enhance practical actions, and foster the development of more advanced theories. This current study is anchored by the agency theory, free cashflow theory and stakeholders' theory.

2.1.1 Agency Theory

The business's owners appoint qualified management to run it (Goergen & Renneboog 2014). According to Meyer (2015), agency issues arise when managerial decisions diverge from maximizing shareholder return. According to Mori, Golesorkhi, Randoy,

& Hermes (2015), agency theory aims to offer a solution to issues that develop in the connection amid principal and agent and therefore it is suitable for explaining monitoring cost. The foundation of agency theory, according to Nasrin, Rasiah, Baskaran, & Masud (2017), is the notion that corporations ought to put maximizing shareholder value first.

Tchuigoua (2015) claims that in order to verify that the manager's decisions are based on maximizing shareholders' profit, the principal must pay agency costs. In a principal-agent relationship, there are two issues that need to be addressed: first, the cost the principal incurs when watching the agent perform mundane tasks, and second, the different perspectives the agent and principal have on dangers. However, agency theory has come under fire. To govern the conduct of the agents, the principal gives management recommendations and forecasts.

The theory is useful for the present study since it encourages commercial bank management to emphasize on procedure than on structural issues that can maximize profitability. The study also has value for commercial bank management, which aims to enhance company performance by coordinating owners' and managers' objectives to reduce agency conflict since there will be reduction in costs like monitoring cost. An inspired management's efforts to realize long-term achievement will profit the shareholders (Mishkin, 2016).

The concept has come under fire for taking an unfair and fragile stance, emphasizing only one aspect of the agent while ignoring the principal, who also has the power to cause or contribute to problems. In fact, as the agent, the principal takes opportunity to, defrauds, and avoids his or her employment (the agent) (Livnat, Smith, Suslava, &

Tarlie, 2016). Additionally, the master cleverly and dishonestly pressure agents into dangerous, or vague employment agreements.

Furthermore, this theory presupposes an employment agreement between the two parties without a term limit, which introduces the element of uncertainty regarding the agent's future. Worse, the notion that this contract agreement theory will solve or eliminate agency conflict is constrained by information sharing that is disproportionate, cunning, deceitful, and contract cost. This is false because the principals have little involvement in management of the firm, even if they expect great returns on their investment (Bortych, 2017).

More significantly, Berger & Bonaccorsi (2006) discovered a novel method for testing agency theory in the banking sector by examining capital structure and business performance. According to the current theory, leverage lowers agency costs and, as a result, has a detrimental impact on business performance. As a result, the study came up with a fresh way to conduct the investigation. Profit efficiency was used to quantify performance, with each firm's results being compared to the top-performing firm under the identical exogenous conditions. They utilized a simultaneous equations model to take reserve causality—the relationship between capital structure and performance—into consideration.

According to the study, leverage did in fact raise agency costs, which had a negative impact on US banks' financial performance. The outcomes were strong, statistically significant, and economically significant in addition to being in line with the hypothesis.

2.1.2 Free Cash Flow Theory

Narwal & Jindal (2015) defined free cash flow as the amount of liquid left over after projects with positive net present values were finished. Free cash flows are frequently referred to as idle cash flows because they are allocated by the company's management. Excessive cash flow can waste business resources and cause internal insufficiency, which has a negative impact on shareholders' wealth or success by way of agent-related expenses and therefore can be used to explain bonding cost and residual loss. Excessive management spending brought on by an excess of cash flow may affect company's financial performance negatively at the end of the financial term and also in return to shareholders.

The majority of the information needed to calculate an organization's free cash flow may be found on its cash flow statement. Therefore, free cashflow is equal to the entire cash flow from operations minus the cash flow allocated to capital projects. A high free cash flow shows that the company has the resources to grow, create new goods, pay dividends, and settle debt. It also suggests, nevertheless, that the management is not profitable enough to identify investment opportunities with positive net present values. High free cash flow also makes it more likely for management to make choices that do not always optimize shareholder value, forcing the shareholder to pay additional agency fees to safeguard his interests (Acharya, et al 2014).

According to Quayes (2015), the 1980s saw a sharp decrease in ROI in US corporations, above usual rates. This decline is attributed to free cash flow. The theory also asserted that the primary factor influencing agency costs is the management's self-interest. When management and shareholder interests' conflict or collide, the

shareholders' interests invariably lose out and it is clear that this is the case.

Free cash flow theory also has some drawbacks. The essay claims that firms with considerable free cash flow frequently encounter manager and stakeholder conflicts of interest. Managers use the remaining cash flow to their advantage rather than the interests of shareholders. (Narwal & Jindal, (2015).

This hypothesis is extremely relevant to this investigation since it suggests that having a lot of free cash available to commercial bank management may induce them to spend it on items that are not necessary and weren't planned for. In every situation, these costs are typically incurred to enrich the management and further their own interests. As a result, these charges drive up traveling and vehicle expense (bonding cost) and perquisites and wasteful expenses which are residual loss at the expense of commercial bank's shareholders.

Amaoko & Goh (2015) assert that companies experiencing high liquidity also face more agency charges. Managers capitalize the extra liquidity in businesses that don't maximize value. Owners of businesses with higher levels of free cash flow keep a close eye on management's actions to prevent resource waste. This monitoring raises the agency cost for the firm, which raises the cost of the concern's monitoring.

2.1.3 Stakeholder Theory

Stakeholders are important people who affect an organization's performance, continuation, and existence (Ronzoni & Valentini 2015). Stakeholder theory is a structural theory of business and management ethics that considers various sectors that are affected by businesses, including suppliers, employees, creditors, local communities, and others (Lin & Tom, (2018). Stakeholder theory also takes into

account various kinds of stakeholders in addition to the relationship between managers and shareholders (Nwaobia & Jayeoba, (2016). Stakeholders who believe the board of directors violated their duty of care may file a lawsuit. A company's management should always prioritize the interests of its shareholders in order to meet the objectives of all stakeholders. The theory can be used to explain restructuring cost. According to the notion, management ought to be focused on advancing shareholders' interests in the company's long-term viability and financial performance.

The company's goal is to generate wealth or value for its investors by turning their equity into products and services. A company can maximize the creation of total wealth by giving those who control or contribute critical, specialized inputs (firm-specific human capital) more voice and ownership-like incentives, and by coordinating their interests with those of outside, passive shareholders. Multiple boards representing investors and stakeholders should share control of the company in order to eliminate conflicts of interest and associated agency expenses. Businesses should look for long-term investors, give them a direct say in governance, and designate important investors, clients, vendors, staff members, and community representatives to the BODs.

Stakeholder theory has nevertheless also drawn criticism. On a shared commercial goal, several stakeholders have different opinions. Many people may desire the company to remain at its current size, while others may want the company to grow. Still others may favor a takeover. The firm's goals may not be achieved as a result of this. In addition, stakeholder theory downplays the importance of competition. Since

they are impacted by the accomplishment of the company's goals, stakeholders should be considered the company's competitors. According to Ronzoni and Valentini (2015), stakeholder theory also does not show that stakeholders are represented.

2.2 Empirical Review

The earlier research in the field is presented in this part. Second, the research hypotheses for further examination have been derived from empirical literature review.

2.2.1 Monitoring Costs and Financial Performance

In addition to expenses associated with maintaining a board of directors, monitoring expenses can include expenses related to creating employee stock option schemes and books of accounts. This is an agency expense that develops when shareholders take action to make sure that the management abides by the protective covenants in the bond agreement (Osman, 2014).

Some MFIs decide to hire managers from their mother country to look at their operations in foreign land. This is done to keep an eye on those branches and guarantee shareholders get the best possible return on their investment. These managers are unable to betray the values that belong to their own people because they were hired (Cull, Navajas, Nishida, & Zeiler (2015). MFIs in Japan are characterized by the idea of hiring fellow citizens as top executives as well as intermediate level management to oversee their overseas activities. They may effectively manage their foreign corporations by citizens of the same opinion. Meyer (2015) suggests a number of additional non-staff monitoring approaches, including the establishment of boards, complicated budgeting systems, and additional administrative cadres. However, given

the tight foreign employee policies of the hosting nations, it is wise to maximize the use of local staff.

The use of audit as a supplementary approach for monitoring agents was advocated to MFIs (Quayes 2015). Additionally, he made the case that auditing certifies or confirms that the actions and judgments of the affiliated corporations are in keeping with the desires and interests of the shareholders. According to a study conducted in Malaysia, companies operating abroad pay higher related costs since they frequently hire highly skilled employees to perform the best audits because the principals are located elsewhere (Ahmed, Bhuiyan, Ibrahim, Said, & Salleh, (2016).

The argument is supported by the finding by Bortych (2017) from a study done in the USA that MFIs employ top-notch auditing employees. MFI with operations in several nations offer financial disclosures that are more detailed than companies with operations in only one country (Blanco-Oliver et al 2016). It should take a lot of time and highly qualified persons to audit these extensive reports. Due to this, the auditor must charge a hefty audit fee, raising agency expenses.

Butcher & Galbraith (2015) concurred with the conclusions that complicated financial reporting frameworks or systems of foreign subsidiaries and strict adherence to corporate governance principal are the causes of higher auditing fees than local corporations. The need for rigorous auditing will result in compounding auditing fees due to the demand for translating financial reports into other languages, interstate currency translation, and transfer fees.

Monitoring, according to Casselman, Sama, & Stefanidis (2015), was a result of MFI corporate governance competition. The main business might loosen the strict structure and decentralized control to help the subsidiaries withstand the fierce competition.

The claim that MFI requires an assurance that mechanism can only be supplied by independent auditor who cannot be influenced was supported by Daher & Saout (2015). The role of the auditors is far more crucial than that of the board of directors.

2.2.2 Bonding Costs and Financial Performance

Bonding cost are charges incurred by the agents in ensuring that principal's interest is taken care of, according to Banerjee, Karlan, & Zinman (2015). According to agency theory, ownership structure significantly affects agency cost reduction. By adding more company owners to the board of directors, agency costs can be decreased (Fratini & Tettamanzi 2015; Ibrahim, Ahmed, & Mina 2018). The rationale for this is that the likelihood of monitoring increases with the number of directors.

The agency theory states that well-structured businesses have lower agency costs due to their rigidly defined operating procedures. According to research done in the UK by Ahmed, Bhuiyan, Ibrahim, Said, & Salleh (2016), hiring full-time service directors reduces agency operating expenses. In Indonesia, but in family-owned businesses where agency costs were kept in check, Bortych (2017) disagreed with these findings.

On the other hand, there was no correlation between a full-time service director and lower agency costs. Due to the goal congruence between owner and manager and the fact that employees earn dividends from the company's higher profits, businesses where the owner is also the manager do not pay any agency costs (D'Espallier, Goedecke, Hudon, & Mersland 2017). In listed public firms when owners are not managers, the opposite is true. Effective governance, according to proponents of the agency theory, lowers agency costs.

An effective board of directors provides governance. On the other hand, Mishkin (2016) found that businesses were well-run by smaller and fewer directors.

Nurmakhanova, Kretzschmar, & Fedhila (2015) showed a correlation between low agency costs and a board with more directors, in contradiction to Randoy, Strom, & Mersland (2015) who found the converse to be true. There is a strong connection between audit committee and manager's competency and reduced agency cost (Wijesiri, Yaron, and Meoli 2015). Where a remuneration and nomination committee exist, agency costs are reduced (Lacalle-Calderón, et al 2015); Butcher and Galbraith (2015). In order to determine whether agency costs and the capital structure of quoted companies on NSE are related, Kiaritha (2015) performed research. In line with a study conducted by Wangai, Bosire, & Gathogo (2014), this study also looked into the possibility of reducing shareholder and management conflict through the usage of debt in capital structure. Every company that traded on the Nairobi Stock Exchange between 2012 and 2013 was included in the study's overall population. Excel's statistical capability was employed to evaluate the data, and the results showed that there is only a modest correlation between agency costs and the capital structure of Nairobi Stock Exchange companies. Additionally, it was found that using debt lowers expenses in high-growth companies and enhances asset utilization in low-growth companies. Generally, the agency dispute or issue is addressed through the use of several governance structures.

2.2.3 Residual Loss and Financial Performance

This cost arises when the owner's interests diverge from the agent's interest notwithstanding monitoring and bonding procedures (Ndeto 2019). Additionally, Kleynjans & Hudon (2016) conducted a study from 2013 to 2014 on 505 companies that were traded on the Taiwan Stock Exchange (TSE) to examine the relationship

between agency fees and free cash flow. ROE and ROA were used to conduct the performance of corporation.

Results indicated a link amid turnover on asset and a company's ROA and ROE performance. Operational expense sales ratio influences a company's success similarly to ROA and ROE. The results of a study (Hoepner, Liu, Sandberg, & Wilson 2017) on the impact of a chief executive officer's dualities on corporate performance were consistent with the agency theory's claims that CEO duality does not generate enormous returns.

Between 2009 and 2013, Garca-Meca, et al 2015 researched firms with CEOs who also served as chairperson. They looked at 40 Fortune 500 organizations as a sample. Businesses utilizing such a method were shown to have higher ROE and ROI in addition to increased earnings. On the other side, Banerjee et al (2015) noted the opposite then recommended additional research towards the effect of board structure on returns. The performance of family-owned and managed businesses and agency costs are directly correlated (Wijesiri, Yaron, & Meoli, (2017). A cross-sectional poll was undertaken because there were family-enterprise's 37301 CEOs in United States. The companies chosen as the sample had 195 employees, an average annual revenue of \$36 million, and a 49-year operating history.

There was no indication from the data that there was a negative correlation between non-family pay incentives and performance. The research revealed that while CEO tenancy had a detrimental impact on organizational performance, strategic planning had a beneficial impact. In their 2015 study, Aribi and Arun examined how unutilized liquidity and the agency cost moderating effect affected Israeli companies listed on the

Telavi Stock Exchange. 143 businesses were examined between 2006 and 2011 using random sampling. Turnover ratios were utilised to operationalize agency costs, and the Len and Paulse model was used to determine free cash flow. A free cash flow increases agency costs, the study finds.

In order to better understand the key elements and nature of the agency relationship between Kenya's public universities acting as an agent and the government acting as the principal for higher education provision, Ayuma, Namusonge, & Iravo (2015) conducted a study. Six public institutions under commission were chosen, and each university received semi-structured surveys. To examine the data, tables, proportions, and percentages were used. The results showed that there are direct agency linkages between government and higher education, which are manifested in law, policy, establishment, funding for higher education, cooperation, and research.

Biwott, Asienga, Oketch, & Mutai (2015) conducted a study to ascertain the influence of agency expenses and some other attributes of management behavior on the performance of organizations inside the nation. A sample of 27 businesses from the financial, industrial, and service sectors of the economy were assessed for the study. The results of the study showed that there is a considerable, non-linear relationship between management ownership and agency cost of ownership, and that the performance of the business affects this union. Kahuthu, Muturi, & Kiweu (2015) investigated the relationship between stock prices listed at Nairobi Security Exchange and agency costs. Researchers analyzed secondary data from annual financial reports furnished by data sources approved by the Nairobi Securities Exchange Council. The

information was displayed using descriptive statistics. Additionally, quantitative analysis was done to help make sense of the data outputs. They found that the price of public companies' shares and the agency costs borne by those firms were positively correlated.

Researchers Mwangi, Shisia, Mwai, & Okibo (2014) investigated the association concerning agency-related costs and the dividend policy of public companies. 54 publicly traded firms were the focus. In order to maximize stratified random sampling, descriptive design was adopted. Over the course of eight years, from 1999 to 2006, 20 companies were chosen which a sample of 54 enterprises was. It was found that the company's dividend policies don't appear to be intended to reduce the agency costs of the company.

2.2.4 Restructuring cost and financial performance

Restructuring cost are cost incurred to change or alter organization structure so as to prevent undesirable management activities or decisions (Joshua, 2018). According to Ngige (2012), restructuring is a type of change that can occur quickly and cause a lot of disruption within an organization, but it doesn't change the paradigm. an investigation into the impact of organizational restructuring on the National Bank of Kenya's performance. In the study, a target population of 54 respondents was taken into account. The study concluded that restructuring has a favorable, albeit not statistically significant, impact on business performance. The National Bank of Kenya should always make sure that no department within the company is noticeably over or understaffed, and it should phase out any stagnating worker productivity. The advice given was this (Harwood et al., 2016).

Mokaya (2016) carried out research on how corporate restructuring affected EABL's performance. A study considered 270 employees of EABL as its population. According to the report, EABL's restructuring involved merging and eliminating several departments, which changed the company's business strategy. The corporation underwent restructuring with the exclusive goal of successfully increasing its competitiveness, as the company was driven by the worldwide competition. The study's conclusion was that EABL's ability to effectively combine and maximize all of its resources is essential to its survival and growth in its industry. Restructuring is done to support businesses in focusing on operational synergy, core competencies, and the cost-effective distribution of managerial capabilities and infrastructure. According to the research, EABL reorganized in order to raise its market competitiveness and add value.

A study conducted between 2001 and 2014 examined the impact of organizational restructuring on the performance of commercial banks in Kenya (Ongwae & Moronge 2016). At that time, Kenyan commercial banks were dealing with high operating costs and were reorganized in an effort to reduce expenses and boost productivity. The employees of the commercial banks in the main office made up the target population. 462 employees from the main office part of commercial banks made up the sample size. A stratified random sampling technique was used to choose the sample. Primary data were gathered using a questionnaire, and descriptive and inferential statistics were employed for analysis. The analysis determined that system upgrades within the company during the past ten years had an impact on organizational performance. The system improvement also increased the organization's competitiveness, permitted the

provision of more unique products and services, and shortened the time it took to provide a service. According to the report, commercial banks have been considerably reducing their operations, which has improved their performance. Once more, it was noted that the centralized nature of the commercial banks' operations greatly improved the company's controls. Management should make sure that each department head has access to clear and complete information on time to facilitate decision-making regarding organizational restructuring that would improve performance. This was one recommendation made by the study.

A comparative analysis of the post-restructuring performance of a sample of companies drawn from the banking and oil and gas sectors of the Nigerian economy was carried out by Oloyode & Sulaiman (2013). Ten banks and four additional companies in the oil and gas industry were included in the investigation. Ratio analysis and the paired sample t test were the foundations for the model estimation process. According to the study, restructuring had a major effect on the solvency, liquidity, and profitability of businesses in the real sector—but not the financial sector.

Additionally, Olokoyo, Adegboye, Okafor Okoye, & Akinjare (2018) demonstrate that mergers and acquisitions have a mistakenly beneficial impact on bank performance. The ordinary least squares method (OLS) was used in the study to evaluate the reaction of bank performance to the 2004/2005 bank capital restructuring in Nigeria, using data from 2000 to 2013.

Using a sample of thirteen banks that are listed on the Qatar Stock Exchange, Anasweh (2015) investigated the relationship between market structure and the performance of the banking sector in Qatar. The study, which took place between 2009 and 2014

during a 5-year period, demonstrates how increased competition brought about by banking market liberalization enhances performance. This finding suggests that increased performance is hampered by banking focus. Jeon & Miller (2002) investigated the relationship, if any, between concentration and bank performance in the United States of America, looking at each state separately. The proportion of a bank's total assets was chosen as a stand-in for concentration. In the study, models with fixed and random effects were examined. The outcome demonstrates a significant positive relationship between performance and bank concentration. It also supported the idea that performance is causally impacted by concentration.

Zhang, Jiang, Qu, & Wang (2013) investigated the connection between market concentration, risk-taking, and bank performance using a special dataset from the BRIC (Brazil, Russia, India, and China) banks over the years 2003–2010. They discover a negative correlation between bank performance and market concentration. The study also verified the inverse relationship between risk-taking and bank performance, showing that better performance is correlated with lower risk levels.

2.3 Conceptual Framework

The conceptual basis for this study was four independent variables that are thought to influence the financial performance of Kenyan commercial banks. The theoretical framework is made clear by in Figure 2.1 by independent and dependent variable. The framework made an assumption about the connection amid the independent and dependent variables. So, the graph displays the association amid agency fees and corporate financial success. Agency fees are effectuated residual loss, bonding cost, monitoring cost and restructuring cost whereas financial performance is measured by

ROA and ROE.



Independent variables Intervening Variable
variable

Dependent

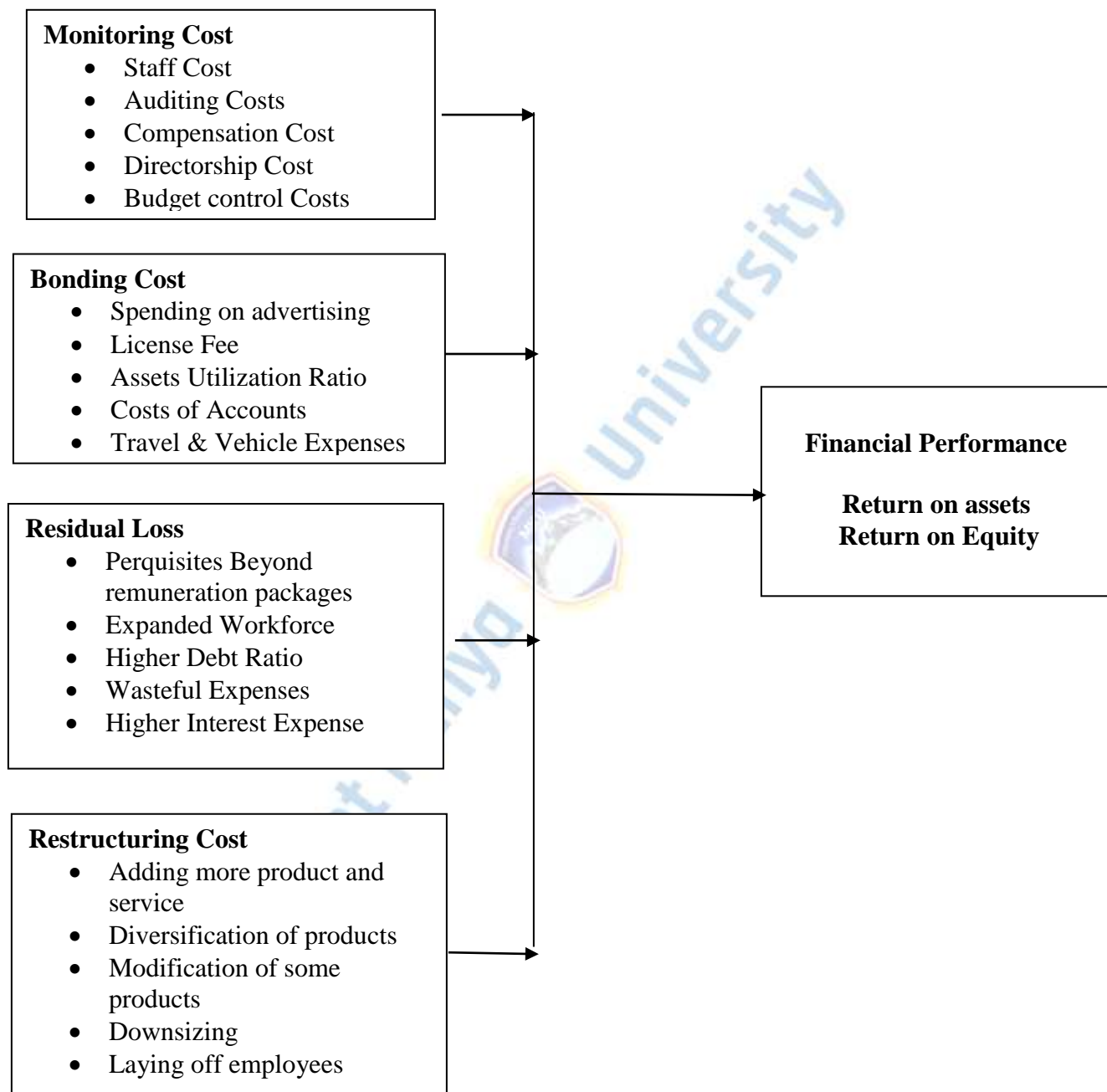


Figure 1: Conceptual framework

Source: Researcher (2023)

2.4 Literature recap

Goergen & Renneboog (2014) claim that shareholders hire professionals to run their business. Agency conflicts arise when managerial decisions harm shareholders' interests. According to Mori, Golesorkhi Randoy, & Hermes (2015), the goal of agency theory is to address issues that arise in the interaction between the agent and the principal. To make sure that managers' decisions are focused on maximizing shareholders' profit, agency costs are borne by the principal (Tchuigona 2015).

According to Narwal & Jindal (2015), free cashflow is the remaining cash flow the corporation has set aside funds for initiatives with a positive net present value. Excess liquidity can result in resource waste and shortages, which can harm shareholder wealth and increase agent-related costs. A company's management may overspend as a result of excessive cash flow, which would be bad for the business's financial performance and dividend payouts to shareholders at the conclusion of the financial term.

According to Amako & Goh (2015), businesses with high agency expenses also have surplus cashflow. The success, survival, and continuation of an organization are all dependent on its stakeholders, according to Ronzoni & Valentini (2015). The hypothesis has drawn considerable criticism because diverse groups do not have a similar business objective. Some people could want a business to expand, while others might want it acquired, and yet others might want it to stay the same size. The goal of a business might thus be defeated.

According to Saltaji Issam (2013), monitoring costs are those that are paid for regulating, rewarding, and measuring management behavior. Staff costs, budget-related expenditures, auditing fees, compensation costs, directorship fees, indenture fees, and fees for contract enforcement are all included in the monitoring costs, according to Nzau Ndeto (2019).

Bonding costs are fees managers incur to guarantee shareholders interest is catered for, according to Banerjee Kovlan & Zinman (2015). Despite monitoring and bonding efforts, residual loss refers to costs that develop whenever there is a conflict between the manager's and the principal's interests. (Nobanne, Ellil, & Abraham, 2017)

2.5 Research Gap

A circumstantial gap in the literature has been identified as a result of the previously mentioned examination of literature about the analysis of the impact of agency cost on the financial performance of listed commercial banks in Mombasa County, Kenya. Since the majority of studies have been conducted in other contexts, not much research has been done in the area of interest for this one. Theoretically, a lot of studies have examined larger aspects of agency cost in relation to other factors including competitiveness, profitability, and performance.

Therefore, it is necessary to fill this research vacuum by examining the relationship between agency expenses and the financial performance of Mombasa County's listed commercial banks. In essence, it adds significantly to our understanding of this area, particularly with regard to the performance of listed commercial banks in developing nations. Furthermore, by looking into the relationship between these monitoring expenses and public commercial banks, the regulatory agencies can evaluate and improve the intervention measures. The concern and stakeholders may find these findings helpful in better understanding the agency expenses' economic justification and their role in the corporate governance of mentioned commercial banks.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter involves the process for gathering study data. The research technique is a group of interconnected assumptions that captures the researcher's perspective on reality and how this reality is expressed in the research. What the researcher hopes to learn is reflected in the methods they choose. In order to define the research methodology, this chapter includes the study design, research and population philosophy, sampling strategy, sample size, tools, pilot testing, and data analysis.

3.1 Research design

Cooper & Schindler (2014) state that the research project is the plan for gathering, measuring, and analyzing data. They also point out that a study design is a framework and structure for the investigation that allows the researcher to allocate limited resources and make crucial decisions regarding methodology. For this study, a descriptive research design was adopted. A descriptive research design, according to Cooper & Schindler (2014), seeks to determine the who, what, where, when, and how of a study problem. Descriptive studies, in the opinion of Sekaran & Bougie (2013), can aid the researcher in understanding the traits of a group in a particular situation, thinking systematically about situational elements, providing ideas for additional research and investigation, and finally assisting in the making of straightforward decisions. The descriptive research project was appropriate because the study's focus was on examining the effect of agency costs on the financial performance of

commercial banks listed in Mombasa County, Kenya, on the Nairobi Securities Exchange.

3.2 Location of the Study

The commercial bank selected were located in Mombasa County's central business district.

This was picked since it is inexpensive and geographically advantageous for the researcher.

3.3 Target Population

The target population is clearly defined group of people or things that share certain traits (Mugenda & Mugenda 2013). For statistical purposes, a population is a set of individuals or things that has been clearly characterized (Collins & Hussey, 2013). The 10 listed commercial banks in Mombasa County which include: Absa bank Kenya PLC, Cfc Stanbic Holding Plc, Diamond Trust bank Kenya Ltd, HF group Ltd, KCB Group Ltd, I and M Bank Ltd, NCBA Group, Standard chartered bank, Equity group holding and cooperative bank (CBK Supervisory report 2022) were the target population.

Table 3. 1: Target population

Category	Population size	Percentage
Regional Manager	10	33.333
Branch Manager	10	33.333
Operations Manager	10	33.333
TOTAL	30	100.00

Source: Researcher 2023

3.4 Sampling procedures and Technique

According to Collins & Hussey (2013), the process of choosing the precise approach that will be utilized to choose the entities in the study is known as the sampling technique. The study used purposive sampling technique.

3.5 Sample size

A sample, according to Chandran's (2013) definition, is a chosen portion of the entire population. It also involves selecting individual in a large selected group (Bayoh 2010). The study used census since all quoted commercial banks in Mombasa County were the subject of this investigation.

3.6 Construction of research instrument

In this study, questionnaire was used as a method to gather primary data because it is relatively inexpensive method. A questionnaire is a document that contains a series of gestures that is sent to a large number of participants to obtain their contribution and opinions on the topic of research work (Feler Orido et al 2022). When respondents come from a single organization, as is the case, and the majority can complete the questionnaire during business hours, it is reasonably simple to distribute and collect surveys.

Journals, papers, diaries, and any other published materials on the subject were used to gather secondary data. Three different types of questionnaires were employed in this study, including structured questionnaires, which are frequently used to examine social and economic issues and the effects of changing laws and policies. Likert scales was also be employed because they reveal how strongly a customer agrees with a certain topic and how much it affects responders. A questionnaire with an evaluation scale was also be included in the survey, and respondents were asked to rate a specific issue on a range of good to bad. To prevent answering the center option every time, these questions include a variety of possibilities.

3.7 Validity and reliability test

3.7.1 Validity test

Validity is the extent to which an assessment evaluates what it is meant to measure (Kihn & Ihantola, 2015). By using a supervisor, coworkers, and a purposeful selection process to pick respondents from the specified commercial banks, along with the utilization of prior research findings and questions from many secondary sources, the validity of the survey questionnaire was increased. To improve the validity of this study, experts including the research supervisor and web resources were consulted in order to assess the validity of the questionnaire related to the planned content. To confirm the content validity, it was subjected to a preliminary assessment to ensure that no ambiguity in the question formulation and that was utilized in the application to gather appropriate answers. Additionally, the interviewers got the same set of questions, ensuring that the answers may be compared across sites. The experimenter reviewed each completed questionnaire as well as any interview-based responses. Any responses that are contradictory, insufficient, or unrelated to the search queries were disregarded.

3.7.2 Reliability test

According to Kombo & Tromp (2016), reliability is a gauge of how consistently accurate a test's results are. When a test is administered to a participant twice and the results are the same in both administrations, it is a measure of reliability (Kombo & Tromp 2016). According to Mudenda & Mugenda (2013), the degree to which a research tool provides findings or consistent data after numerous tests is the measure of an instrument's reliability. The Cronbach alpha coefficient was employed in the study to assess the reliability of the research tool and to test the consistency of the instruments utilized in the investigation. The

average Cronbach's reliability for all variables was 0.833, higher than 0.7, indicating the reliability of the questionnaire's items.

3.8 Data collection methods and procedures

The researcher handed out the questionnaires to the banks and personally delivered them, then provide a favorable environment and positive connections to entice the respondents to complete the questionnaires and provide clarification when necessary. The focus groups' respondents were interviewed using the question guide, and observations of the workers going about their everyday business will also be made.

Both primary and secondary data were employed in the investigation. Surveys with a semi-structure were employed to collect primary data. There will be three sections to the questionnaire. Section A is for demographic data, and Section B is for commercial banks' agency fees and section C on the financial performance. The questionnaire included both closed-ended and open-ended questions to gather the required information. A five-point Likert scale was used to calculate the financial performance. The questionnaire was distributed to various commercial banks using a drop-off and pick-up after manner. The secondary data was gathered from the CBK supervisory report from 2018 to 2022 and the commercial bank's published financial statements.

3.9 Data Analysis and presentation

The process of reviewing data gathered from an experiment or survey and drawing conclusions from it is referred to as a "data analysis method" (Kombo & Tromp 2016). In this inquiry, both qualitative and quantitative analyses were applied. The data was assessed, edited, and sorted to make sure that all of the study questions had been addressed and that the collected data were comprehensive. Furthermore, the information was confirmed and

validated. After the accuracy and clarity were verified, a sequence of steps was taken to convert the disorganized raw data into categories that were in order. The fact that the data was encoded implies that it was converted into numerical codes that stand in for the attributes or measurements of the variables (Mugenda Mugenda 2013). The data was analyzed using both inferential statistics, such as regression and correlation, and descriptive statistics, such as mean and standard deviation.

The following is description of the multiple regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

Y = Financial performance of the firm

X₁ = Monitoring cost of the firm

X₂ = Bonding cost of the firm

X₃ = Residual loss of the firm

X₄ = Restructuring cost

e = error term

β₀ = represents regression constant

β₁, β₂, β₃ and β₄ = coefficients of regression equation

3.11 Ethical Considerations

The requested information was collected in a way that was permitted by law. No respondent was coerced or compensated into providing information. The investigator requested authorization from the commercial banks to undertake the investigation. Respondents

vouched for confidentiality and anonymity, and the collected data was applied for this study only, never in a way that jeopardizes the interviewees' wellbeing.



CHAPTER FOUR

RESEARCH RESULTS AND DISCUSSION

4.0 Introduction

This chapter entails Data analysis, interpretation, discussion, and result aggregation. The exact goal for which the variables were looked at, interpreted, and concluded is similar to the data analysis. Response rates, experimental findings presentations, responder demographic data, descriptive statistics, and illogical statistics are the categories in which these contributions are arranged. The results are used to talk about how Mombasa County's listed commercial banks' financial performance is impacted by agency costs.

4.1 Response rate

In total the respondents were 30 which constituted the population. Only 25 completed and successfully gave back the questionnaires, translating to rate of 83.33 percent. This feedback rate met the requirement for the investigator to come up with satisfactory deductions from the study

Table 4. 1: Response rate

Category	Frequency	Percentage
Returned	25	83.333
Unreturned	5	16.667
Total	30	100.00

Source: Researcher 2023

From 4.1 above a total number of questionnaires returned were 25 out of 30. This corresponds to a total success rate of 83.333%. Those who did not respond represent 16.667%. A feedback rate of 50% or more is adequate (Mugenda & Mugenda 2013)

4.2 Pilot Test Results

Before being used in the main survey, a pilot test evaluates the specific questions, structure, question sequence, and instructions. Before the actual study was conducted, reliability and validity tests were carried out.

4.2.1 Test of Reliability

It is a measure of to what extent the result of an investigation is reliable (Kombo & Tromp, 2011). Kombo & Tromp (2011) defined reliability as when a tested is done on the same subject matter twice, it will give similar results. Instrument reliability, according to Mugenda & Mugenda (2013), is a metric by which an instrument yields consistent results following multiple experiments. Cronbach's alpha offers the benefit of multi-item scales in the measuring scale, needing just one management and offering numerical estimates, a unique internal consistency scale, according to Sekaran (2006), Cooper & Schindler (2014). A coefficient with a value between 0 and 1 denotes dependability. A high coefficient of Cronbach Alpha indicates more reliability of the test. The internal consistency measure Cronbach's Alpha was used to assess the dependability of the tool.

The Social Sciences Data Software Package (SPSS) was used to enter the questionnaire responses, and Cronbach's alpha coefficient was computed to assess reliability. If the Cronbach's alpha coefficient is near to 1, the internal consistency is more reliable (Sekaran, 2006). When an instrument has an internal consistency of 0.7 or higher, it can be considered adequate for use in a study (Babbie & Mouton, 2009). When items or questions used to evaluate a construct are actually connected to that construct, this is referred to as internal consistency (Babbie & Mouton, 2009). All of the variables showed appropriate Cronbach Alpha values, as shown in Table 4.2, with values greater than 0.7. The scales employed in this study were deemed to be reliable in collecting factors since they had a high degree of dependability.

The reliability of the data for the different variables is shown in Table 4.2. All of the variables were valued using the Cronbach's alpha reliability coefficient over 0.7. Monitoring cost was dependable (= 0.876), bonding cost was effective (= 0.841), residual loss was efficient (= 0.819), and was restructuring cost high (= 0.805). As a result, the study's conclusion said that the instrument was trustworthy and that more research might be done using it.

Table 4. 2: Reliability results

Variable	Cronbach's Alpha	Number of items	Comment
Monitoring cost	0.876	3	Accepted
Bonding cost	0.841	3	Accepted
Residual loss	0.819	3	Accepted
Restructuring cost	0.805	3	Accepted

Source: Researcher 2023

4.2.2: Test of Validity

According to Mugenda & Mugenda (2013), validity is the precision and value of the conclusions drawn from the study's findings. Alternatively, validity denotes to the level to which data analysis results correctly mirror the subject of study. Formulation of the validity and validity of the content was used in this study. In order to ensure construct validity—that is, that each section contained information intended for a specific purpose and that the variables used in the conceptual framework of this causal analysis study were the same—the questionnaire was divided into various sections. The research supervisor initially confirmed the questionnaire's validity. Two managers from targeted listed commercial banks who were chosen at random and other resource representatives were consulted in order to confirm the questionnaire. The representative's opinions were evaluated in order to improve the validity of the questionnaire's content. This included adding missing linkages, eliminating vague or broad material, or substituting it with structures that were easy to understand.

4.3 Demographic Information

The following data were required from the participants; designation, duration of service in the organization. The length of the human subject's service was deemed crucial since it indicates their level of familiarity with the relevant businesses and the banking industry.

4.3.1 Designation

The human subjects were required to state their designation in the present firm. The outcomes are shown in Table 4.3 below

Table 4. 3: Designation

	Frequency	Percent
Operation Manager	9	36.00
Branch Manager	8	32.00
Regional Manager	8	32.00
Total	25	100.00

Source: Researcher 2023

Operations managers constituted majority of the respondents as per table 4.3 above, this represented 36% of the respondents, branch managers and regional managers had the same response rate at 32%

4.3.2 Gender of respondents

In terms of the gender, the outcome is as shown in the table 4.4 below:

Table 4. 4: Gender

	Frequency	Percent
Male	13	52.00
Female	12	48.00
Total	25	100.0

Source: Researcher 2023

From table 4.4 above, 52% of the human subject were male while 48% were female

4.3.3 Duration of service in the current organization

The duration of service of the human subject in the current firm was also asked. Table 4.5 displays the results.

Table 4. 5: Duration of service

	Frequency	Percent
Below 10 years	3	12.00
10- 15 years	15	60.00
16- 20 years	6	24.00
21 years and above	1	4.00
Total	25	100.00

Source: Researcher 2023

As can be seen from Table 4.5 above, 60% of the participants had a cumulative employment history of between 10 and 15 years with the current firm. A quarter of the participants had been employed by the current company for 16 to 20 years. Of the participants, just 3% had worked for the current firm for less than ten years, and 1% had been there for more than twenty-one years. It means that most of the participants had enough facts concerning their present firm, thus would give valuable information on the subject matter.

4.4 Descriptive Statistical analysis

The report looked at a number of recommendations regarding Mombasa County's listed commercial banks' performance and agency costs. The viewpoints of the personnel of listed commercial banks were represented using the Likert scale. Five (SA), four (A), three (N), two (D), and one (SD) on that standard scale stand for strongly disagree, disagree, neutral, agree, and strongly agree. Table 4.6 below shows the outcome

4.4.1 Monitoring cost

Table 4. 6: Descriptive Statistics for Monitoring cost

	N	Minimum	Maximum	Mean	Std. deviation
Staffing cost are high	25	3.00	4.00	4.0800	.27689
Cost of budget control are high	25	3.00	5.00	3.9927	.40000
Auditing cost are high	25	3.00	4.00	3.0400	.20000
Compensation costs are high	25	2.00	3.00	3.9600	.20000
Directorship costs are high	25	2.00	3.00	3.8800	.33166
Valid N (listwise)	25				

Source: Research data 2023

The research needed to discover, on a scale of 1 to 5, how applicable certain claims about cost monitoring in their companies were to the human subjects.

From the previously mentioned table 4.6, respondents were asked several questions on monitoring cost.

First, the human subjects were required to rate the degree to which staff cost was high in their companies. With an average score of 4.0800 and a standard deviation of 0.27689, the majority of participants agreed that this was the case. The respondents were also required to give their opinion whether the cost of budget is high. Again, the average was 3.9927 with a standard deviation of 0.40000. It is implied that an increase in budgetary costs affects financial success negatively.

Again, the study sought the view of the participants' on how high were auditing cost.

Majority of the participants were unable to tell that auditing cost are high (Mean= 3.04, SD= 0.2000). Meaning auditing cost is not known whether it affects financial performance negatively or positively.

The participants were required to rate how high was compensation cost. The participants indicated that compensation cost is high (Mean= 3.96, SD= 0.2000).

Finally, the respondents were required to state to what extent the directorship cost are high. The respondents indicated that the directorship cost was high. (Mean= 3.88, SD= 0.33166). This indicates that directorship cost negatively affects financial performance.

On aggregate, most respondents agreed that monitoring cost were high (Mean= 4.1600, SD = 1.46287). The correlation between listed commercial banks' financial performance and cost monitoring is the explanation. indicating that expense monitoring has a detrimental impact on listed commercial banks' financial performance, supporting the goal of the study.

4.4.2 Bonding cost

Second, using a 5-point rating system, the study asked participants to rate the relevance of various bonding cost statements to their own organizations. The result is shown in Table 4.7 below.

Table 4. 7: Descriptive Statistics for Bonding cost

	N	Minimum	Maximum	Mean	Standard deviation
The advertising expenditure are high	25	3.00	5.00	3.7200	.61373
The license fee is high	25	4.00	5.00	4.2800	.45826
The accounting cost is minimal	25	2.00	3.00	3.8000	.40825
The travel and vehicle costs are high	25	3.00	5.00	3.6800	.61373
The maintenance and repair cost are high	25	3.00	5.00	3.7400	.711811
Valid (listwise)	N 25				

Source: Researcher 2023

From table 4.7, on a scale of 1- 5, the human subjects were required to give their view on how high is the advertising expenditure. The majority of responders (Mean = 3.72, SD = 0.61373) agreed that advertising expenditure was excessive. Suggesting that advertising spending has a negative impact on the financial performance of commercial banks that are listed in Mombasa County.

On a scale of 1-5, the human subjects were required to rate the extent to which license fee is high. Again, most agreed that license fee to a great extent was high (Mean= 4.28, SD= 0.45826). The implication is that license fees negatively impact the financial performance of listed commercial banks in Mombasa County.

On a scale of 1-5, the respondents were to rate how minimal their accounting cost were considered. Most of the participants were in agreement that minimal were their accounting

cost (Mean=3.8, SD= 0.40825). Thus, it can be argued that accounting costs have no effect on financial performance of listed commercial banks in Mombasa County. Therefore, there is a feeble correlation amid the two variables.

Respondents were also required to state to what extent travel and vehicle expenses cost were considered high. Most participants agreed that to a great extent their travel and vehicle expenses were high (Mean = 3.68, SD= 0.61373). This response unequivocally confirms that these charges have an effect on the financial performance of Mombasa County's listed commercial banks.

Finally, the individuals had to provide their opinion on how much they thought their maintenance and repair costs were excessive. The majority of human subjects (Mean=3.74, SD=0.71181) concurred that their maintenance and repair expenses were excessive to a considerable degree.

On aggregate, most human subject concurred that bonding cost were high (Mean= 3.9200, SD = 1.70587). The correlation between listed commercial banks' financial performance and cost monitoring is the explanation. indicating that expense monitoring has a detrimental impact on listed commercial banks' financial performance, supporting the goal of the study.

4.4.3 Residual loss

The opinion of certain employees employed with the listed commercial banks in Mombasa County were sought in relation to residual loss. Their views are summarized in Table 4.8 below.

Table 4. 8: Descriptive Statistics for Residual loss

	N	Minimum	Maximum	Mean	Standard deviation
Perks beyond remuneration package	25	2.00	3.00	2.8800	0.33166
The firm has expanded workforce	25	2.00	4.00	4.0800	0.40000
The firm has expenses considered wasteful	25	1.00	3.00	3.5200	0.71414
Interest expenses are a concern in the firm	25	2.00	5.00	4.2000	0.76376
There is high debt ratio	25	1.00	5.00	3.7200	0.84261
Valid (listwise)	N 25				

Source: Research Data (2023)

Participants were asked to rate the extent to which the management received incentives beyond compensation on a 5-point scale, based on table 4.8. The majority of participants (Mean= 2.88, SD = 0.33166) were neutral in their opinion that the management received high-quality benefits beyond compensation. This suggests that benefits provided to the management have a zero impact on the financial performance of listed commercial banks in Mombasa County.

The respondents were also asked to rate how much their companies had grown their workforce, on a scale of 1 to 5. Once more, the majority concurred that their company had increased its personnel (Mean= 4.08, SD= 0.4000). Increased labor force is a sign of agency costs, which suggests they have a detrimental effect on the financial results of Mombasa County's listed commercial banks.

On a scale of 1-5, the human subjects were required to assess the magnitude to which some expenditure in their companies was considered wasteful. The majority of participants (Mean=3.5200, SD=0.71414) were neutral in their opinion that certain firm expenses were largely deemed wasteful. There is a weak link between the two variables, despite what is viewed as a substantial correlation between wasteful spending and financial performance. This suggests that wasteful spending has an impact on the financial performance of Mombasa County's listed commercial banks.

The purpose of the study was to ascertain from the respondents how much interest costs worried their company. The majority of respondents (Mean = 4.200, SD = 0.76376) agreed that interest expense was a worry in their cranialization. These results support a theory that residual loss and financial performance are correlated, indicating that interest costs reduce profitability and, as a result, have an impact on the financial performance of Mombasa County's listed commercial banks. In addition, the participants were asked to rank how high they thought the debt ratio was. The majority of respondents (Mean= 3.72, SD= 0.84261) agreed that debt ratios were excessive in most cases.

On aggregate, most respondents agreed that residual loss were high (Mean= 4.3400, SD = 1.49666). The correlation between listed commercial banks' financial performance and cost monitoring is the explanation. indicating that expense monitoring has a detrimental impact on listed commercial banks' financial performance, supporting the goal of the study.

4.4.4 Restructuring cost

Regarding restructuring costs, the survey asked specific employees of Mombasa County's

listed commercial banks for their opinions. Table 4.9 displays the pertinent findings.

Table 4. 9: Descriptive Statistics for Restructuring cost

	N	Minimum	Maximum	Mean	Standard deviation
You have added more products/services	25	4.00	5.00	4.8800	0.33166
Diversified your product offering	25	3.00	5.00	4.8400	0.55377
Modified some products to match with customer needs	25	2.00	5.00	4.4000	0.91287
Downsized the organization by shutting down some branches	25	1.00	3.00	3.56	0.71181
Laid off some employees	25	1.00	3.00	2.4000	0.91287
Valid (listwise)	N 25				

Source: Research Data (2023)

Based on table 4.9, Participants were asked to judge the extent to which the organizations have added more items to their main products on a 5-point rating system. The majority of respondents agreed that companies have significantly increased the number of products they offer (Mean = 4.8800, SD = 0.33166). As a result, there is a link between the financial performance of listed commercial banks and the addition of more products, suggesting that

the financial performance of listed commercial banks in Mombasa County is positively impacted by the addition of more goods.

The respondents were asked to rate the degree to which their firm has varied its product line on a scale of 1 to 5. Once more, the majority concurred that the companies have greatly diversified their product offerings (Mean= 4.84, SD= 0.55377). The results suggest that product diversification has a beneficial effect on the financial performance of Mombasa County's listed commercial banks.

Additionally, the participants were asked to rank the degree to which the company had altered several items on a scale of 1 to 5. The majority of respondents (Mean=4.4000, SD=0.91287) concurred that their company has changed its products. This data suggests that these modifications have a beneficial effect on the financial performance of Mombasa County's listed commercial banks.

The purpose of the study was to find out from the participants how much their company has shrunk by closing certain branches. The majority of respondents (Mean = 3.5600, SD = 0.71181) agreed that their firm had significantly reduced staff. This finding confirms a strong association between downsizing and financial performance, suggesting that Mombasa County's listed commercial banks' financial performance is impacted by downsizing.

Finally, the respondents were asked to rank the degree to which their company has let go of certain people. The majority of respondents (Mean = 2.4000, SD = 0.91287) disagreed that their percentage of laid-off employees was high. This finding points out that Mombasa County's listed commercial banks' financial success is not influenced their decision to lay off some staff.

Overall, the majority of respondents (Mean=3.9600, SD=1.71950) felt that the costs associated with restructuring were considerable. The correlation between listed commercial banks' financial performance and restructuring cost is the explanation. indicating that

expense restructuring has a positive impact on listed commercial banks' financial performance, supporting the goal of the study.

The comments above generally confirm that restructuring costs have a favorable impact on financial performance whereas monitoring costs, bonding costs, and residual loss have a negative impact on listed commercial banks' financial performance.

4.4.5 Financial performance

The study's objective was to analyze the impact of agency costs on the financial performance of commercial banks in Mombasa County that are listed on the Nairobi Securities Exchange. As indicated in Table 4.10, the data was collected from the poll respondents as well as the CBK reports and financial report of the specific bank.

Table 4. 10: Financial Performance

	Return on Asset (%)	Return on Equity (%)
2022	3.6	26.45
2021	3.1	21.43
2020	1.974	13.24
2019	3.39	23.08
2018	3.47	22.93

Source: CBK Supervisory report (2018 – 2022)

Financial performance can be measured by different indicators. Return on asset and return on equity were used for this study. The study used CBK supervisory report from 2018 to 2022. In 2018, the average ROA for listed commercial banks was 3.47% with ROE of 22.93%. These rates dropped to 3.39% and 23.04% for ROA and ROE respectively. The figures further dropped in 2020. This was due to Covid 19 pandemic. The average ROA and ROE was 1.974% and 13.24% respectively. In 2021 there was an improvement since the listed commercial banks registered 3.1% in ROA and 21.43% in ROE. The performance

further improved in 2022. The average ROA and ROE were 3.6% and 26.45% respectively.

4.5 Inferential Analysis

The study aimed to foster inferential data related to the diversity of this study. The correlation coefficient results, the regression coefficient, and the general analysis of the model variability or variance are all covered in this section.

4.5.1 Model Summary

The model summary includes the correlation coefficient (R) and the determination coefficient (R²). The determination ratio (R²) demonstrates how changes in independent factors (monitoring cost, bonding cost, residual loss, and restructuring cost) forecast changes in dependent variables (financial performance), while the ratio (R) indicates the kind and intensity of the link between the variables.

Table 4. 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.692 ^a	.479	.457	.21658

a. Predictors: (Constant), monitoring cost, bonding cost, residual loss, restructuring cost

Source: Research data (2023)

Table 4.11's findings demonstrate that there was a positive association (R = 0.692) between financial performance and the forecasting factors (monitoring cost, bonding cost, residual loss, and restructuring cost). According to the corrected R-square (0.457), monitoring, bonding, residual loss, and restructuring costs accounted for 45.7% of the variations in financial performance. There was a 54.3% shift in financial performance (from 100 to 45.7) due to factors not covered in this study.

4.5.2 Analysis of Variance (ANOVA)

To ascertain the model's power to explain the link between the dependent variable (financial performance) and the independent variables (monitoring cost, bonding cost, residual loss,

and restructuring cost), the research team performed an ANOVA, as indicated in Table 4.11. Significance F in the table indicates the adoption of a retrospective model with a significance level of 5%. The financial performance of the study and its financial management strategies are demonstrated to be significantly correlated if the p value is smaller than the alpha.

Table 4.12: ANOVA

Model	Sum of Squares	Df	Mean square	F	Sig
Regression	.022	4	.005	.116	.975
Residual	.938	20	0.047		
Total	0.960	24			

Source: Researcher data 2023

Table 4.12's findings demonstrate that, at a 5% significance level, the model was significant ($P = 0.975$) in explaining the relationship between changes in financial performance and the costs of monitoring, bonding, residual loss, and restructuring. The findings indicate that changes in financial performance can be predicted using at least one of the variables taken into consideration (monitoring cost, bonding cost, residual loss, and restricting cost). The regression relationship was significant in predicting how monitoring, bonding cost, residual loss, and restricting cost affected listed commercial banks' financial performance, as indicated by the likelihood value of 0.047.

4.5.3 Coefficients

Table 4. 13: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.954	.151		19.618	.000
Monitoring cost	.011	.041	0.078	.258	.000
Bonding cost	.008	.0040	0.065	.190	.000
Residual loss	-0.003	.041	-0.022	-0.072	.000
Restructuring cost	.006	.039	0.055	0.162	.000

a - Dependent Variable: Financial Performance

Source: Research Data (2023)

Table 4.13's results demonstrate that the constant was 2.954 units. This means that the financial performance would be 2.954 units if the costs associated with monitoring, bonding, residual loss, and restructuring were all constant. The study's model of choice was;

$$Y = 2.954 + 0.011X_1 + 0.008X_2 - 0.003X_3 + 0.006X_4 + e.$$

Table 4.13 demonstrates that there was a substantial and positive correlation

($\beta_1 = 0.011$, $p < 0.05$) between commercial banks' financial performance and their cost of monitoring. The findings indicate that a one-unit shift in monitoring costs will cause the financial performance of commercial banks listed in Mombasa County to vary negatively by one unit, or 0.011. The findings indicate that increases in monitoring expenses will result in decrease in listed commercial's financial performance

The bonding cost and financial performance of listed commercial banks have a positive and significant association, as indicated by Table 4.13's data ($\beta_2 = 0.008$, $p < 0.05$). Thus, this finding validates or establishes the second goal, which was to evaluate whether bonding

expenses and financial performance among Mombasa County's listed commercial banks are related.

Financial performance and residual loss have a negative and significant correlation, as shown in Table 4.13 ($\beta_3 = -0.003$, $p < 0.05$). A 0.3% drop in financial performance would result from a unit change in residual loss. Cost monitoring has a statistically minor impact on an entity's financial performance at the 5% significance level. The aforementioned figures show a significant correlation between Mombasa County's listed commercial banks' financial performance and residual loss. According to the interpretation, Mombasa County's listed commercial banks' financial performance is adversely affected by residual loss.

Table 4.13 data indicate a positive and significant association ($\beta_4 = 0.006$, $p < 0.05$) between restructuring cost and financial performance. This suggests that favorable adjustments to restructuring costs will have a positive impact on the listed commercial banks in Mombasa County's financial performance. The analysis indicates that 0.006 units' financial performance will vary significantly in response to positive adjustments in restructuring cost per unit.

4.6 Discussion of Findings

Analyzing the effects of agency expenses on the financial performance of commercial listings at Mombasa County's Nairobi Securities Exchange was the goal of the study. The study's findings were then connected to previously obtained experimental data. The monitoring, bonding, residual loss, and restructuring costs were operationalized as agency costs in the current study. These were, in essence, the primary research hypotheses that the study set out to investigate in connection with Mombasa County's listed commercial banks' financial performance.

Thus, the primary goal of the study was to ascertain how Mombasa County's listed commercial banks' financial performance and monitoring expenses related to one another. The operationalization of the monitoring expenses variable included staffing, budget control, auditing, remuneration, and directorship costs. The findings in this theme area included the rating of monitoring costs as extravagant, including staffing, auditing, and

budget control costs. It was discovered that the directorship monitoring proxy with the lowest expenses had used the fewest resources. The majority of the human subjects as a whole agreed that their monitoring expenses were quite high. The interpretation is that there is a relationship between listed commercial banks' financial performance and their monitoring expenses. Inferring that cost monitoring has a detrimental impact on the financial performance of listed businesses, this study's goal was established.

This result agrees with many earlier studies, but it also differs from them. Quayes (2015), for example, concurs with the current study that higher levels of management and staffing expenditures have an impact on an organization's performance. This conclusion is supported by Ahmed, Bhuiyan, Ibrahim, Said, & Salleh (2016), who found that foreign firms record higher agency-related costs since these organizations have a policy of hiring highly skilled individuals to perform the best audits because the principals are located far away.

The argument is supported by the finding by Bortych (2017) from a study done in the USA that MFIs employ top-notch auditing employees. MFI with operations in several nations offer financial disclosures that are more detailed than companies with operations in only one country (Blanco-Oliver et al 2016). It should take a lot of time and highly qualified persons to audit these extensive reports. Due to this, the auditor must charge a hefty audit fee, raising agency expenses.

The second goal was to determine the relationship between Mombasa County's Listed commercial banks' financial performance and their bonding costs. The operationalization of bonding costs included charges for advertising, license fees, accounting, travel and vehicle expenses, as well as maintenance and repair costs. Every kind of bonding cost, or proxy, received a very high rating. Overall, the respondents were in agreement that bonding expenses were excessively expensive. The total or combined rating shows a very high positive correlation between Mombasa County's listed commercial banks' financing

performance and bonding costs. Thus, this finding validates or establishes the second goal, which was to evaluate whether bonding expenses and financial performance among Mombasa County's listed commercial banks are related. While many earlier research support this conclusion, some do not, according to this finding. High agency expenses are associated with businesses that have excess cash flow (Amaoko & Goh, 2015). The extra free cash flow is invested by managers in non-value-maximizing enterprises.

Accordingly, Abdulrahman (2014) found that agency expenses and financial success are related. In a similar vein, Acharya, Dupatti, and Locke (2015) found a strong correlation between agency expenses and performance. In a similar vein, Adabenege & Yahaya (2015) concurred with the findings of the current investigation, arguing that agency expenses are significantly correlated with financial performance.

Ahmed, Bhuiyan, Ibrahim, Said, & Salleh (2016) found that block-holders, or concentrated ownership, equitably reduce agency costs in their UK study. However, Bortych (2017) discovered that family-owned businesses control agency costs more effectively than concentrated forms of corporate ownership, which have been shown to not reduce agency costs in Indonesia.

Furthermore, 0% agency cost was found in businesses where the owner also serves as the management by D'Espallier, Goedecke, Hudon, & Mersland (2017) since this structure guarantees that the interests of the owners and managers are aligned. Advocates of agency theory maintain that efficient governance significantly reduces agency costs. Furthermore, the study found that large and powerful boards of directors provide extremely effective governance. However, Mishkin (2016) argues that businesses should be run by smaller boards or boards with fewer directors. While Randoy, Strom, & Mersland (2015) demonstrated the opposite—that is, the fewer directors on a board, the lower the agency costs—Nurmakhanova, Kretzschmar, & Fedhila (2015) linked lower agency costs with a board that has more directors.

However, Casselman, Sama, and Stefanidis (2015) found that an independent board is responsible for lower agency costs. Additionally, Kiaritha (2015) agreed with a study

conducted in 2014 by Wangai, Bosire, and Gathogo, which also looked into the possibility of reducing shareholder and management conflict through the usage of debt in capital structure.

Determining the connection between residual loss and financial performance was the third goal. The operationalization of this research variable included benefits beyond compensation, a larger workforce, a high debt ratio, unnecessary spending, and greater interest costs. Indifferent Remaining losses or expenses such benefits that go beyond compensation, hiring more people, having a large debt load, unnecessary spending, and paying more interest.

Regarding whether residual loss was an issue for their organizations, the respondents as a whole were divided. It is important to note that, despite the overall rating suggesting a negligible correlation between residual loss and financial performance, three of the five proxies for residual loss showed a strong negative correlation with financial performance, suggesting that the majority of this variable has a significant negative impact on financial performance.

Likewise, there has been agreement and disagreement in earlier research regarding the impact of residual loss on a firm's financial success. Additionally, Kleynjans & Hudon (2016) demonstrated the connection between agency expenses and free cash flow. ROA and ROE were used to operationalize a company's performance. They proved that residual loss had no bearing on a company's financial performance.

Examining the impact of restructuring costs on the financial performance of listed commercial banks was the study's ultimate goal. The operationalization of restructuring costs included expanding the product line, diversifying it, altering some of the offerings, and shrinking the company by closing locations and terminating staff. While firing employees received a bad rating, adding more products, diversifying the products, and altering some products received high ratings. Most people agreed that restructuring costs were excessive. This indicates a correlation between the financial performance of Mombasa County's listed commercial banks and the cost of restructuring. This result is in line with earlier research. The current study was in agreement with Harwood et al. (2016). He came to the conclusion that, while not statistically significant, restructuring has a favorable impact on business performance. In a similar vein, Lawrence et al. 2020 conducted research on the effect of corporate restructuring on the financial performance of commercial banks in Nigeria and came to the conclusion that the sector's restructuring and bank profit performance are closely related. The results of this investigation did not agree with those of a study conducted by Zhang, Jiang, Qu, & Wang (2013). They looked examined the connection between market concentration, risk-taking, and bank performance using a special dataset from the BRIC (Brazil, Russia, India, and China) banks over the years 2003–2010. They discover a negative correlation between bank performance and market concentration. The study also verified the inverse relationship between risk-taking and bank performance, showing that better performance is correlated with lower risk levels.

As a result, Hoepner, Liu, Sandberg, & Wilson's (2017) findings were in line with the tenets of agency theory, which holds that a CEO's dualism does not translate into large profits. On the other hand, Banerjee, Karlan, & Zinman (2015) noted the opposite and recommended further research on the impact of board structure on returns. In another study, Wijesiri, Yaron, & Meoli (2017) discovered a significant positive relationship between the agency costs and performance of family-owned and managed businesses. Agency cost was found to grow with free cash flow by Aribi and Arun (2015). According to Alabdullah (2016), agency costs and an organization's profitability are positively correlated.

Additionally, Ayuma, Namusonge, & Iravo (2015) found that there are direct agency linkages between government agencies and higher education institutions. These relationships manifest themselves in policy, parliamentary legislation, establishment, financing of higher education, collaboration, and research. In a similar vein, Biwott, Asienga, Oketch, & Mutai (2015) demonstrated that certain management behavior variables and agency cost had an impact on business performance.

Overall, the answers above support the notion that Mombasa County's listed commercial banks' financial performance is impacted by residual loss, bonding expenses, and monitoring costs. Because of their conflicting interests, agent-principal adversarial relationships have a negative impact on a firm's financial success. Restructuring costs, however, have a favorable impact on financial performance. Ultimately, regression and correlation confirmed the previously stated results.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter shows the relationship between the investigation elements (objectives) and the researchers' results from the field response. The objective was to measure the extent to which the objectives were achieved after the research and the results were tested and analyzed as indicated in the previous chapter. The researcher then drew conclusions about the study, made recommendations, and identified areas for future research.

5.1 Summary of Findings

The goal of the study was to examine how agency costs affected the listed commercial banks' financial performance in Kenya's Mombasa County. This section will therefore provide a summary of the findings.

5.1.1 Monitoring Costs and Financial Performance

Monitoring cost were high – this was the agreement by most respondents. This suggests a connection between listed commercial banks' financial success and cost monitoring. This suggests that expense monitoring has a detrimental impact on listed commercial banks' financial performance ($\beta_1 = 0.011$, $p < 0.05$) supporting the study's main finding.

5.1.2 Bonding Costs and Financial Performance

Evaluating the impact of bonding costs on the financial performance of Mombasa County's listed commercial banks was the study's second goal. The inference is that bonding costs have a detrimental impact on listed commercial banks' financial performance ($\beta_2 = 0.008$, $p < 0.005$)

5.1.3 Residual Loss and Financial Performance

Examining the impact of residual loss on the financial performance of Mombasa County's listed commercial banks was the other study goal. The modified R squared value was 0.457, indicating that changes in residual loss caused a 45.7% shift in financial performance. At the 5% significance level, changes in residual loss explained 45.7% of the variation in financial performance. There is a high positive correlation between the residual loss and financial performance ($\beta_3 = -0.003$, $p < 0.005$) as indicated by the R value of 0.692.

5.1.4 Restructuring cost and financial performance

The final goal was to evaluate the impact of restructuring costs on Mombasa County's commercial banks' financial performance. The majority concurred that the companies have greatly broadened their product offerings. The results indicate that financial performance and product diversification are positively correlated. The majority of respondents concurred that their company has changed its product offerings. It is reasonable to conclude from this assessment that there is a favorable correlation between some product modifications and financial performance. The purpose of the study was to find out from the participants how much their company has shrunk by closing certain branches. The majority of respondents agreed that there has been significant downsizing at their company. The majority of respondents said that they had fired a significant number of employees. This research suggests a substantial yet favorable correlation between Mombasa County's listed commercial banks' financial performance and their decision to fire certain personnel ($\beta_4 = 0.006$, $p < 0.005$)

5.2 Conclusion

There were four distinct goals for the study, and each goal was tested using a hypothesis. While information on the dependent variable was taken from the company's financial records, information on the independent factors was gathered using a structured questionnaire. By looking at the actual p-values, a test of significance was conducted at 95 percent confidence level (5% significance level). P-values of 0.05 or higher suggested no significance; if not, they were considered significant.

5.2.1 Monitoring cost

Examining the impact of monitoring expenses on the financial performance of Mombasa County's listed commercial banks was the first goal. According to the study, monitoring expenses did, in fact, have a statistically significant impact on listed commercial banks' financial performance. This can be because the strict monitoring systems deter managers and employees from misappropriating funds.

5.2.2 Bonding cost

The study's second goal was to determine how bonding expenses affected the financial performance of Mombasa County's listed commercial banks. It was discovered that financial performance was impacted by bonding costs. This is explained by improved awareness of the numerous human resource difficulties, sharing, and interpersonal relationships. This can lessen the strain and exhaustion that could cause employees to cheat.

5.2.3 Residual loss

Determining the impact of residual loss on the financial performance of listed commercial banks in Mombasa County was the other goal. Financial performance was found to be statistically strongly impacted by residual loss. This might be the result of less funding available for expansion, which could increase future profitability and, consequently, financial performance.

5.2.4 Restructuring cost

The final goal was to evaluate the impact of restructuring costs on Mombasa County's commercial banks' financial performance. Restructuring costs were determined to have a favorable impact on financial performance. It raises market share, makes the bank more competitive when compared to other banks, encourages product innovation, boosts client retention, and facilitates the bank's regional expansion. There is a delay in attracting and keeping employees during restructuring, which is consistent with comparative research on downsizing that found that jeopardized job security and

workforce quality. The study concludes that effective communication and the careful application of specific tactics are necessary to avoid negative outcomes.

5.3 Recommendations

This study looks at how Mombasa County's listed commercial banks' financial performance is affected by agency costs. The financial performance and agency cost are the explanatory factors that are being studied. The study's findings provide clear evidence that the financial performance of Mombasa County's listed commercial banks is significantly correlated with agency costs such as monitoring, bonding, residual loss, and restructuring. Therefore, in light of these findings, the study suggests that:

1. Effective internal control systems should be implemented by listed commercial bank management. This will assist in cutting down on the cost of auditing, administrative costs, and wasteful and unneeded spending. As from the findings it was found that monitoring cost and bonding cost were found to be positively correlated with financial performance of listed commercial bank.
2. Even the most challenging companies should make an effort to improve their performance. Leveraging cash flow, paying managers more, or attaching monetary or share bonuses or option entitlements to particular firm performance targets can all serve as positive incentive mechanisms, reduce agency costs, and enhance firm performance.
3. From the findings', restructuring cost was found to be positively with financial performance. Restructuring should be a method used by the banks to increase productivity and competitiveness. Banks that are eager to undergo restructuring must carefully analyze the type of restructuring they must do, such as financial, portfolio, and organizational restructuring. These modes address various needs to align with the relevant strategy and objective, each with its own set of implications.

5.4 Areas for Further Research

This study only examined a few topics, and the following recommendations for additional research are made:

- i. The current study's main focus was agency costs. Other scholars might consider looking into other aspects of corporate governance, such as the makeup, compensation, competence, and structure of the board. This is due to the fact that the current study's conclusions are restricted to agency expenses as a component of corporate governance.
- ii. Future research may look at non-financial aspects of corporate performance, while the current study concentrated on financial performance. This is due to the fact that focusing only on profits is no longer a viable approach to conducting business in this day and age. Customer focus, learning and growth, and company process are some other crucial performance characteristics.
- iii. The current study concentrated on Kenya's Mombasa County. It might be of interest to other academics to concentrate on studying the similar occurrence in other Kenyan counties.
- iv. The research design adopted in this study was descriptive. It is possible for other researchers to investigate the same phenomenon with a different research design.

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APPENDIX I: RESEARCH INSTRUMENT

PART A: DEMOGRAPHIC INFORMATION

1. What is your designation?

.....

2. What is your Gender?

i. Male:

ii. Female:

3. How long have you worked for this organization

i. Below 10 Years

ii. 10 – 15 Years

iii. 16 – 20 Years

iv. 21 Years and above

SECTION B.

Please tick (✓) as appropriate your agreement with each of the following statements.

5 – strongly agree, 4 – agree, 3-Neutral, 2- Disagree and 1- Strongly Disagree

4. Monitoring Cost

	Statement	5	4	3	2	1
1	Staffing Cost are high					
2	Cost of budget control are high					
3	Auditing cost are high					
4	Compensation Cost (Cash and Equity) are high					
5	Directorship cost are high					

5. Bonding Cost

	Statement	5	4	3	2	1
1	The advertising expenditure are high					
2	The license fee is high					
3	The accounting cost is minimal					
4	The travel and vehicle cost are high					
5	The maintenance and repair cost are high					

6. Residual Loss

	Statement	5	4	3	2	1
1	Perks beyond remuneration package granted to management are high					
2	The firm has expanded work force					
3	The firm has expenses considered wasteful					
4	Interest expenses are a concern in the firm					
5	There is high debt ratio					

7. Restructuring Cost

	Statement	5	4	3	2	1
1	You have added more products/services to your main products/services					
2	Diversified your products offerings					
3	Modified some products to match with customer needs					
4	Downsized the organization by shutting down some branches					
5	Laid off some employees					

SECTION C: Financial performance

The data to be used will be of between 2018 to 2022

6. What is the financial performance of your bank over the last five years based?

5. Best 4. Better 3. Good 2. Bad 1. Worse

i. Return on Equity

Performance	5	4	3	2	1
2018					
2019					
2020					
2021					
2022					

ii. Return on Assets

Performance	5	4	3	2	1
2018					
2019					
2020					
2021					
2022					

APPENDIX II: ETHICAL REVIEW CERTIFICATE



REF: MKU/ISERC/3240
TO: FREDRICK ODUOR OTETE

Date: 17 October 2023

REG: MBA/2021/76539

Dear Sir/Madam,

RE: ANALYSIS OF THE EFFECTS OF AGENCY COSTS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN MOMBASA COUNTY, KENYA

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2284**. The approval period is **17/10/2024 - 16/10/2024**.

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,

The Chairman
Mount Kenya University
Ethics Review Committee
P. O. Box 3-2 - 0100, Thika

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

Main Campus, General Kago Road, P.O. Box 342-01000 Thika.
Cell: +254 709 153 000 / +254 709 153 200
Email: info@mku.ac.ke, Web: www.mku.ac.ke
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Unlocking Infinite Possibilities

APPENDIX III: INTRODUCTION LETTER



DIRECTORATE OF GRADUATE STUDIES

MBA/2021/76539

17th October, 2023

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

Dear Sir/Madam,

RE: FREDRICK ODUOR OTETE - REGISTRATION NO. MBA/2021/76539

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 "**Analysis of the Effects of Agency Costs on Financial Performance of Commercial Banks listed at the Nairobi Securities Exchange in Mombasa County, 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 **October, 2023 and December, 2023.**

Any assistance accorded to the student will be highly appreciated.






Thank you.


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

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

Enc.

APPENDIX IV: NACOSTI

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 228698	Date of Issue: 31/October/2023
RESEARCH LICENSE	
	
This is to Certify that Mr.. FREDRICK ODUOR OTETE 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 Mombasa on the topic: ANALYSIS OF THE EFFECTS OF AGENCY COST ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN MOMBASA COUNTY, KENYA for the period ending : 31/October/2024.	
License No: NACOSTI/P/23/30776	
228698 Applicant Identification Number	 Director General NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Verification QR Code	
	
NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.	
See overleaf for conditions	

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
 - i. Endanger national security
 - ii. Adversely affect the lives of Kenyans
 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
 - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

National Commission for Science, Technology and
Innovation(NACOSTI),
Off Waiyaki Way, Upper Kabete,
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APPENDIX V: LIST OF COMMERCIAL BANKS QUOTED AT THE NSE

1. ABSA Bank Kenya PLC.
2. CFC Stanbic Holding Plc.
3. Diamond Trust Bank Kenya Ltd
4. HF Group Ltd
5. KCB Group Ltd
6. I & M Bank Limited
7. NCBA Group PLC
8. Standard Chartered Bank Ltd
9. Equity Group Holding
10. Co-operative Bank of Kenya Ltd

Source: Nairobi Securities Exchange (NSE)