

**INFLUENCE OF CORPORATE GOVERNANCE ON PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

By

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND INVESTMENT)

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
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OCTOBER, 2020

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made, and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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ABSTRACT

Corporate governance comprises of policies, practices and rules that guide decisions and operations in an organization to ensure that the interests of shareholders and other stakeholders are served responsibly and effectively. Emerging issues in corporate governance continue to fuel new debate on its effect on firm performance. The general objective of this study was to establish the influence of corporate governance on performance of commercial banks in Kenya. The specific objectives of the study were to establish the effect of board competence, board accountability, compensation decision-making and risk management on the performance of commercial banks in Kenya. This study was anchored on agency theory, stewardship theory and performance theory. The study adopted descriptive research design and the target population was 40 commercial banks that were licensed by central bank of Kenya by December 2019. The study will use structured questionnaire to collect primary data. Data was analysed using descriptive statistics, correlation analysis and multiple regression analysis with the aid of statistical package for social sciences. The study established that board competence had a statistically and significant positive effect on performance of the commercial banks ($\beta = 0.264$, $t = 2.308$, $p = 0.027$). Board accountability did not have a significant effect on performance of commercial banks ($\beta = -0.128$, $t = -1.105$, $p = 0.277$) while compensation decision-making had a significant positive influence on performance of commercial banks in Kenya ($\beta = 0.454$, $t = 4.778$, $p < 0.05$). Besides, risk management had a statistically significant and positive effect on performance of commercial banks in Kenya ($\beta = 0.404$, $t = 3.211$, $p = 0.003$). Based on the conclusions from the study, the following recommendations are made. First, shareholders of commercial banks should ensure that the board members they elect to oversee running of the commercial banks are competent. The critical factors that these shareholders should consider when electing board members include professional and education qualifications, technical capabilities and experience in the banking industry. On board accountability, regulatory authorities such as NSE and CMA should ensure that boards of commercial banks adhere to honest, clear and open reporting on issues touching on the banks. The study recommends to shareholders to ensure that the elected board put in place effective compensation philosophy that is performance and risk based. Lastly, the study recommends to regulatory authorities to ensure that boards play oversight roles towards operational, market and financial risks that the commercial banks face.

Key words: Accountability, Corporate governance, Competence, Compensation decision-making, financial performance, Risk management.

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DEDICATION

This dissertation is dedicated to my dear family. My husband Alex Njuguna and our children Elvis and Eliam. Your support, great interest and patience have given me the will, zeal and passion to pursue this education to this end.

ACRONYMS AND ABBREVIATIONS

CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CMA	Capital markets Authority
NGO	Non-Governmental Organization
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Emerging scandals and cases of fraud in the corporate world have fuelled debate on compliance to corporate governance even though corporate governance has been made mandatory. Increased regulations and standards on corporate governance has not lessened the fraud and scandals in the corporate sector (Yameen et al., 2019). The high-profile scandals experienced in various organizations including Enron, WorldCom, Satyam, Tata Mistry, Volkswagen, and the 2007/2008 financial crisis have stimulated debate amongst investors, academicians, policymakers, and other stakeholders on the role of corporate governance on corporate stewardship and financial performance (Naimah & Hamidah, 2017). In the banking sector, Marcinkowska (2012) observes that ineffective and weak corporate governance mechanisms in commercial banks were the main contributor to the 2007/2008 financial crisis.

The 2007/2008 financial crisis originated in the United States (US) and was caused by weak and ineffective corporate governance in the banking sector. Corporate governance in general and specifically compensation arrangements that rewarded high risk-taking without commensurate punishment for failure was the most prominent cause of the crisis (Dibra, 2016). In Europe, risk and performance of commercial banks is influenced by corporate governance aspects such as board accountability, management remuneration mechanisms, board transparency and risk management. Improved corporate governance in Europe has enabled banks to stabilize, improve performance and reduce malpractices and fraud.

In South Africa, there have been 30 banks that have failed in the past 30 years. More than 70% of these failures have been due to weak corporate governance mostly poor risk management practices and lack of an accountable, transparent and competent board (Isukul & Chizea, 2017). In Nigeria, an assessment by the Central Bank of Nigeria on the commercial

banks in the country revealed large-scale fraud in five commercial banks which were committed by the bank's CEO's in collaboration with some members of the respective boards. The Central Bank of Nigeria placed five banks under administration and spent billions in saving other banks from collapse. Five CEOs and several members of board were charged with crimes that ranged from advancing credit without due diligence, market manipulation, fraud and concealment (Okoro, 2018). This shows that commercial banks in Nigeria continue to be affected by corporate governance issues.

Locally, the recent failure of three commercial banks (Dubai Bank, Imperial Bank and Chase bank) have raised questions on the role of corporate governance in the banking sector in Kenya (Mpiana, 2017). According to Central bank of Kenya, the key contributory factors of failure of Dubai Bank in 2015 was liquidity and capital deficiencies due to continued breach of its daily cash reserve ratio (CRR) requirement. Imperial bank was put under statutory management in 2015 because of risky and flawed business practices and conditions. In 2016, Chase bank was put under receivership due to under-reporting of insider loans and inability to meet statutory banking ratios (Gathaiya, 2017). The failure of three banks in a span of five years indicates that corporate governance is still a challenge in local commercial banks which requires empirical investigation.

1.1.1 Corporate Governance

Corporate governance relates to the mechanisms, practices, policies and rules that guide decisions and operations in an organization to ensure that the interests of shareholders and other stakeholders are served responsibly and effectively (Mohan & Chandramohan, 2018). The purpose of corporate governance practices is to guarantee that the company meets its long-term as well as its short-term goals. Adopting good corporate governance practices for an organization can be beneficial in various ways. These benefits include having a good

reputation, creating trust amongst the various stakeholders, enhancing performance, enabling effective risk management and sound strategic planning (Roy, 2016). Further, Sarpong-Danquah, Gyimah, Afriyie and Asiamah (2018) observe that good corporate governance enables the firm to adhere to the law and ethical practices.

Corporate governance can entail various mechanisms. These include ensuring a competent board of directors by focusing on characteristics and qualities of the board, aligning goals with strategies and ensuring accountability (Yasser, 2019). Other practices include high level of integrity and ethics, clarity in defining responsibilities and roles, and effective risk management. Roy observe that key corporate government practices include disclosure, right and equity in shareholders' treatment, consistency, transparency and fairness. Besides, being consensus oriented, responsiveness, inclusiveness and participation are main corporate governance practices (Javaid & Saboor, 2015). Additionally, Elvin and Hamid (2016) note that having principled compensation decisions is a key corporate governance practice.

1.1.2 Performance of Commercial Banks

This study will use non-financial performance metrics to measure the performance of commercial banks in Kenya. Non-financial performance measures give us the information on a company's performance in non-monetary terms. Over the years, experts and analysts are using non-financial performance measures to understand and reveal the things that financial performance measures do not tell (Larsen & Tan, 2015).

Non-financial performance measures help us to understand the quality of the product or service that a bank offers. In the banking industry, non-financial performance drivers include company's reputation, quality of service, operation efficiency, customer satisfaction,

customer loyalty, staff competence, employee satisfaction, employee turnover and innovative potential (Larsen & Tan, 2015).

1.1.3 Corporate Governance and Performance of Banks

There have been various attempts to evaluate the association between corporate governance and the performance of the organization. In the United States (US), Ali (2016) determined that corporate governance codes are strictly adhered to by many organizations with serious penalties to those that are in violation. In the US and Pakistan, Ali (2016) established that board education and experience, board ownership, CEO duality, and board effectiveness have a positive association with the firm's performance but board size had a negative correlation with financial performance. Moreover, the independence of directors had no relationship with financial performance.

In Sri Lanka, Balagobei (2018) established that audit committees and board size and have a significant influence on financial performance while board independence, CEO duality, and director's ownership have an insignificant influence on financial performance. A similar study on listed firms in Vietnam by Vo and Nguyen (2014) established that clarity in accountability, and CEO compensation are positively correlated with firm performance. The study, however, indicated that board independence has an inverse relationship with firm performance. The study however found no significant correlation between board size and firm performance.

In Ghana, Sarpong-Danquah, Gyimah, Afriyie, and Asiana (2018) indicates that board gender diversity and competence of the board have a significant positive effect on the financial performance of manufacturing firms while there was no statistically significant association between board size and firm performance. In South Africa, Dzingai and Fakoya (2017) note that King IV Code of Corporate Governance provides guidelines that bodies on

corporate governance should contain individuals with a variety of diverse aspects, independence, and knowledge to enable them to discharge their duties efficiently and objectively. Empirical evidence indicates a weak negative relationship between financial performance and board size, and a weak, but positive, relationship between financial performance and board competence.

Locally, Kamau, Machuki, and Aosa (2018) established that board committee and skills played a key role in influencing financial performance of financial institutions. However, board diversity, code of corporate governance, independence of the board and board size had no significant effect on financial performance. In publicly listed state owned corporations in Kenya, Ngunjiri (2015) established that audit committee size, board gender diversity and board size did not have an effect on the financial performance. This study aimed at establishing the effect of corporate governance (Board competence, board accountability, compensation decision-making and risk management) on financial performance of commercial banks in Kenya.

1.1.4 Commercial Banks in Kenya

The current study was on commercial banks in Kenya. There are 43 commercial banks in Kenya. These commercial banks are divided into publicly owned institutions and publicly owned commercial banks. There are three publicly owned commercial banks in Kenya, which are National Bank of Kenya, Development Bank of Kenya and Consolidated Bank of Kenya. These are commercial banks that have more than 50% government shareholding. The privately-owned commercial banks are divided into locally owned (25) and foreign owned (15) commercial banks (Central Bank of Kenya, 2020).

Commercial banks play an essential role in the economy of the country by providing financial services to businesses and general public which ensures social and economic

stability and sustainable economic growth. Commercial banks in Kenya have played this role effectively in the past. However, there are recent incidences of poor corporate governance in commercial banks. Such incidences have involved Charterhouse Bank, Dubai Bank, Imperial Bank, Chase Bank and National Bank of Kenya. This has resulted to some of the commercial banks being placed under statutory management or liquidation (Ombok, 2018). This indicates that there might be some corporate governance issues in some commercial banks that need investigation.

1.2 Statement of the Problem

The recent failure of three commercial banks (Dubai Bank, Imperial Bank and Chase bank) have raised questions on the role of corporate governance in the banking sector in Kenya (Mpiana, 2017). The Central bank of Kenya indicated that the key contributory factors of failure of Dubai Bank in 2015 was liquidity and capital deficiencies due to continued breach of its daily cash reserve ratio (CRR) requirement. Imperial bank was put under statutory management in 2015 because of risky and flawed business practices and conditions. In 2016, Chase bank was put under receivership due to under-reporting of insider loans and inability to meet statutory banking ratios (Gathaiya, 2017). These failures demonstrate that corporate governance deficiencies still affect the commercial banking sector in Kenya. This study sought to explain the link between the corporate governance mechanisms of the commercial banks and performance. There have been various studies globally, regionally, and locally on the relationship between corporate governance and performance in commercial banks. However, these studies leave contextual, conceptual, and methodological gaps which have been documented herein.

On a study in the US, Yameen et al. (2019) established that compensation decision making that did not account for risk were the main culprits of the 2007/08 financial crisis. A

study by Felício, Rodrigues, Grove, and Greiner (2018) on 97 banks in Europe established that board size, board competence, compensation structure and insider representation had significant effect on performance of the banks. This study was, however, conducted in a different context than Kenya and hence the findings may not reflect the social, economic and regulatory environment of Kenya. Moreover, the study was conducted using secondary data while the current study will use primary data. Another study by Al-Baidhani (2013) on the banking sector in the Arabian peninsula established that board competence, accountability and meetings have a positive and significant effects on ROE. However, board independence and ownership concentration had a negative and significant effect on ROA. This study did not consider compensation structure and risk management which are key corporate governance aspects in the banking sector which will be included in the current study.

Hajer and Anis (2018) conducted a study on Tunisian banks and determined that proportion of foreign directors and size of the board did not have a significant effect on financial performance of the banks. However, CEO duality, CEO compensation, institutional directors and government directors had a significant effect on financial performance. This study left out board competence, board accountability and risk management. In the United Arab Emirates (UAE), Al-Tamimi (2012) established that board accountability, executive compensation, transparency had no significant effect on performance. This study is contradicted the findings by Hajer and Anis (2018) and hence it is justifiable to conduct a study to establish the influence of the corporate governance mechanisms on performance of commercial banks in Kenya.

Locally, Gathaiya on a study of failed commercial banks in Kenya established that conflict of interest, weak internal controls, poor board transparency and accountability, weak corporate governance practices and poor risk management were the main contributing factors of failure. This study however, only purposively focussed on the failed commercial banks and

may not be relevant in explaining the link between corporate governance and performance in the existing commercial banks. Another study by Kivoi (2016) established that efficacy of board and strength of reporting and auditing standards had a positive effect on bank performance. This study left out key corporate governance mechanisms such as compensation decision-making, board accountability and risk management which are critical in the banking sector. The current study hence sought to fill these knowledge gaps by investigating the influence of board competence, board accountability, compensation decision-making and risk management on performance of commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To establish the influence of corporate governance on performance of commercial banks in Kenya.

1.3.2 Specific Objectives

- i. Establish the influence of board competence on performance of commercial banks in Kenya.
- ii. Examine the influence of board accountability on performance of commercial banks in Kenya.
- iii. Investigate the influence of compensation decision-making on performance of commercial banks in Kenya.
- iv. Determine the influence of risk management on performance of commercial banks in Kenya

1.4 Research Hypotheses

H₀₁: Competence of board of directors has no significant influence on performance of

commercial banks in Kenya.

H₀₂: Board accountability has no significant influence on performance of commercial banks in Kenya.

H₀₃: Compensation decision-making has no significant influence on performance of commercial banks in Kenya.

H₀₄: Risk management has no significant influence on performance of commercial banks in Kenya.

1.5 Justification of the Study

The commercial banks in the country play a critical financial intermediation role. They provide financial services to businesses and the public ensures social and economic stability and sustainable growth of the economy. The financial performance, stability and sustainability of commercial banks is therefore critical for the economy. However, in the recent past, Kenya has experienced placement under receivership of Charterhouse Bank, Imperial Bank and Dubai Bank. Moreover, there have been allegations of unethical conduct in Chase bank that has made the bank to be acquired. According to Kamau, Machuki and Aosa (2018), this has placed commercial banks at a risk of declining reputation that can adversely affect their performance and sustainability.

Effective corporate governance is a valuable mechanism to minimize chances of mismanagement and fraud in these banks and hence providing them with good stewardship for improved financial performance. A study on corporate governance and financial performance of commercial banks is hence justified. The additional knowledge will be of value to policymakers, scholars, students and researchers as the study will provide the link between corporate governance and financial performance of commercial banks in Kenya.

The findings of this study are beneficial to CBK, CMA, NSE and other government

agencies to put in place effective legislation to ensure that clients of commercial banks are well protected from any fraudulent activities by commercial banks by ensuring observance of effective corporate governance practices. The study findings may also be of value to the media as it will provide deeper insights into the corporate governance factors that could influence performance and hence enhance coverage into such aspects. Besides, the findings will be critical to professional associations such as ICPAK and KIB which will get deeper insights into the corporate governance mechanisms that influence financial performance in the banking industry. These associations could use the findings to enhance their activities towards the factors considered critical in this study.

Lastly, the study findings are critical to researchers, scholars and academicians. To researchers, the study will provide suggestions for further research which could be explored by researchers in the future. Besides, the study will document limitations which will provide insights to researchers which could enhance their knowledge on mitigations to consider. The study will also be critical to scholars as it will add to the existing knowledge on corporate governance and organizational financial performance. Moreover, the study is vital to academicians who are studying corporate governance in the banking sector.

1.6 Scope of the Study

The study was conducted on 40 commercial banks that were operational and licensed by CBK. The study relied on primary data that was collected from the 40 commercial banks. Though there are many aspects of corporate governance, the study focussed only on board competence, board accountability, compensation decision-making and risk management. The study was a survey of all commercial banks in Kenya that was conducted during the months of August and October, 2020.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides the literature review pertinent to the study. The chapter covers the theoretical review and empirical review of previous studies on the effect board competence, board accountability, compensation decision-making and risk management on the financial performance. The knowledge gaps that are evident from the empirical review are also presented. Further, the chapter provides the conceptual framework that will guide the study. Lastly, the study provides a framework of how variables were operationalized and measured.

2.2 Theoretical Review

Theoretical review is essential in a research to provide an anchor for the study indicating how the study variables could be related. This study was based on agency, stewardship and performance theories. Agency theory was used to explain the link between board competence, risk management and financial performance. Stewardship theory explained the expected link between compensation decision-making and performance while performance theory explained the influence of board accountability on performance.

2.2.1 Agency Theory

The agency theory developed by Jensen and Meckling (1976), hypothesizes that agency problems emanates from the separation of control and ownership in modern organizations. The argument of the theory is that since managers (agents) are contracted by shareholders (principals) for the day to day operations of the firm, they possess more information about the firm which gives rise to information asymmetry (Joher & Ali, 2011). Furthermore, the theory posits that since shareholders have less knowledge that management in the organization's

operations, this gives managers a more latitude to engage in self-interested behavior (Mohan & Chandramohan, 2018). This means that managers may sometimes pursue goals and interests that are not aligned to the goals and interests of shareholders. The shareholders hence, must incur costs in disciplining and monitoring managers or incur losses when managers engage in self-interested behavior.

The agency costs that shareholders incur in monitoring and disciplining managers are essential to enhance managerial efficiency and productivity. One of the most important mechanisms of controlling managers by shareholders is through board of directors (Mohan & Chandramohan, 2018). The members of the board are elected by shareholders with their main responsibility being to ensure long-term prosperity of the firm by directing the company's affairs to meet the interests of shareholders and other key stakeholders. The board, therefore, ensures that management do not engage in self-interested behavior, resources are applied prudently and value for shareholders is maximized (Kandukuri et al., 2015). Moreover, the board is critical for risk management. The board ensures that management undertake reasonable risks and at the same time ensuring that the firm has effective risk management mechanisms (Roy, 2016).

The agency theory was applied in the study to link board competence and risk management with organizational performance. Applying the theory, it is expected that an organization with a competent board will perform better than its counterparts who have boards with less competence. The theory was supported by the study by Ali (2016) which established that competence of board of directors lessened agency problems and thus enhanced corporate performance. The theory also links risk management with organizational performance. This was supported in a study by Mardiana (2018) who indicated that effective risk management practices influenced organizational performance. Management acting as good stewards smoothed the agency relationship between them and management by

adopting effective risk management to enhance returns to shareholders. The agency theory was therefore appropriate for this study to explain the expected link between competence of the board, risk management and financial performance.

2.2.2 Stewardship Theory

The stewardship theory by Davis, Schoorman and Donaldson (1997) states that when managers are left alone with effective systems and structures, they will choose to be good stewards and manage the firm's resources effectively for value maximization. Proponents of stewardship theory argue that even when left alone without close monitoring by shareholders, managers will choose cooperation with shareholders than defection. In supporting the stewardship theory, Caldwell, Hayes, Bernal and Karri (2007) argued that managers have intrinsic motivation to work for shareholders or for the organizations to accomplish the entrusted responsibilities and tasks. Hence, managers are pro-organizational, cooperative and collective minded rather than individualistic (Hernandez, 2007). They therefore focus on accomplishing group and organizational goals for their intrinsic satisfaction. To achieve this, shareholders should devise effective mechanisms, systems and structures in the organization.

Stewardship theory explains that managers are trustworthy, pro-organizational and cooperative. This theory hence provides a framework that could be applied to provide the motivation for managers to be accountable to the shareholders (Sundaramurthy & Lewis, 2003). The theory is applied in this study to explain how compensation decision-making can be used as a mechanism to make managers to seek to attain organizational objectives. When there is an effective compensation structure in the organization, managers are motivated to make decisions that enhance performance of the bank (Zhao et al., 2018). Further, an organization with effective compensation policies creates an equitable working environment and acts as a motivator for enhanced employee performance.

The stewardship theory was applied in the current study to link compensation decision-making with financial performance of an organization. Yan and Sloan (2014) observe that when an organization adopts an effective culture based on performance-based compensation, the employees of the organization are motivated to enhance their productivity and thereby increasing the financial performance of the organization. Moreover, Kirsten and Toit (2018) indicated that effective remuneration mechanisms played a key role in enabling productive behavior in employees. This enhances overall productivity and efficiency in the organization which could lead to enhanced financial performance. This theory is therefore appropriate as it provides a link through which compensation mechanisms can influence financial performance of the organization.

2.2.3 Performance Theory

The performance theory by Campbell, McCloy, Oppler and Sager (1993) hypothesizes that structure of the organization, hierarchy of authority and responsibility and accountability creates an environment of enhanced productivity and performance. The theory indicates that having clear accountability enables specialization and division of labor which has an effect on employee productivity and hence the financial performance of the entire organization. Sonnentag and Frese (2005) supported this theory by establishing that clear lines of accountability are created by having a formal chain of command. This provides clarity to the organization's hierarchy of authority and reporting relationships. Moreover, having a formal chain of command established clarity in decision-making power and accountability.

This theory has been supported by various studies including Tinggi et al. (2019) and Kamau et al. (2018) whose findings linked lines of authority and responsibility to financial performance. Moreover, Elger (2006) observe that as an organization workforce increases, it is critical to formalize the chain of command, responsibility and accountability structure. This

enables employees to understand their roles in the large organization. Similarly, Campbell et al. (1993) indicated that an effective chain of command ensures that every position, job, task or department has one person assuming responsibility for performance. This enhances performance of the individuals and units and ultimately leads to enhanced performance of the entire organization.

This theory was applied in this study to link board accountability with performance of commercial banks in Kenya. The formalization of procedures and practices regarding lines of responsibility, authority and accountability enhances the employee's focus into their roles and thus playing a critical role in attaining their work responsibilities (Elger, 2006). Moreover, accountability enables the managers responsible to focus on key aspects that drive performance in the organization. This does not only drive short-term performance but it also drives sustainability and long-term performance. The performance theory hence linked board accountability with performance and hence makes the theory critical in this study.

2.3 Empirical Review

This section provides a review of literature relevant for the current study on the influence of corporate governance on financial performance of commercial banks in Kenya. The review is presented in various sections based on the study objectives. This review provides the previous research that has been conducted by other scholars in the study area. The review also provides a basis of establishing the research gaps which justified the current study.

2.3.1 Board Competence and Performance

A study in China by Zhao, Teng, and Wu (2018) investigated the impact of competence of the board of directors on the performance of Chinese banks. Hand-collected data from privately listed commercial banks in Shanghai Stock Exchange and Shenzhen Stock

Exchange in 2014 was used in the study. A total of 12 banks were involved in the research. The study findings show that having a competent board was critical for financial performance as board competence (in terms of education and technical qualifications, experience and skills diversity) had a significant positive effect on financial performance.

Amoll (2015) posits that the subject areas of corporate governance and board management have received much attention in recent years due to their impact on performance especially amongst commercial banks. According to the author, in spite of the existing strategic regulatory framework, effective board management has continuously weakened institutions due to malpractices and poor professional governance. Through a quasi-experiment, Amoll (2015) sought to establish the impact of board competence on financial performance of organizations listed in the Nairobi Securities Exchange (NSE). A sample population of 65 board management and executives from institutions was used. The study applied a descriptive survey research and used secondary information from CMA and NSE library. From the findings, the age, level of education and independence had a significant influence on the institutions' financial performance. Since board of directors are involved in corporate management, competence determines their ability to enhance performance.

Kitui's (2012) study noted that the current global events relating to high-profile corporate failure are traced back to the efficacy of board composition and competence. Kitui's (2012) study sought to investigate the impact of board composition on the financial performance of companies listed in NSE. During the study, secondary data was used where annual financial reports were retrieved to measure the performance. The target population included all the companies listed at NSE. From the study findings, composition variables such as independence and age determine the competence of members. Kitui (2012) recommends that the variables should be used to steer managerial functions within organizations as a way of promoting financial performance. The findings resonate with

Muzhar, Javed, and Lodhi and Malik (2013) research that exemplifies the significant impact of board structure on organizations' financial performance. According to the authors, board committees' competence and transparency has an adverse effect on firm performance.

Waithaka (2014) examined the impact of board effectiveness on the corporate financial performance of banking institutions. The major purpose of the research was to answer the question how expertise among board members, independence, and ownership influence the financial performance of institutions. A sample population of 39 banks was incorporated in the research. The descriptive study used correlation and linear regression to derive the results. Waithaka's (2014) findings show that 68% of the board members had 4 or more levels of expertise, 76% were university graduates, and 68% had more than 15 years of experience. From the study, board effectiveness had a significant impact on institutions' financial performance. This exemplifies Amoll's (2015) study that agree in the relationship between board competence and financial performance of firms. The researchers agree that board independence was one of the major variables that determine competence and transparency thus impacting on the performance levels.

A study by Gómez, Cortés, and Betancourt (2017) investigated the relationship between number of meetings, independence, and board size on the performance of Colombian firms. The analysis was done through regression model that considered random influence. According the authors, lack of good corporate governance contributes to the fall of corporate giants. The argument is exemplified by Assenga, Alyand and Hussainey's (2018) study that examined the influence of board characteristics on financial performance of Tanzanian institutions. Among the board characteristics investigated included board skill, diversity, and size. Structure interviews were conducted with 12 participants. The study findings show a positive relationship between the board skills and competence on the firms' financial performance.

2.3.2 Board Accountability and Performance

Kimeu (2017) investigated the impact of corporate governance on the performance of commercial banks in Kenya involving 41 institutions in the banking industry. The independent variables included corporate governance and measured through board accountability, culture, board size, and board diversity. The research employed a descriptive cross-sectional design and analyzed the data through multiple linear regression model. The study findings show that board accountability has a significant impact on management culture which accounts for financial performance. Cheema and Abbas (2017) augment the concept that organizational accountability in a research that investigated the impact of board accountability on banking performance in Pakistan. The study results show a significant relationship between accountability and the performance of banks.

Mwaura (2013) notes that financial accountability is a major challenge for businesses globally due to misappropriations and corporate scandals. The study sought to investigate the impact of financial accountability on performance of non-governmental institutions in Kenya. The descriptive study incorporated 52 respondents where a semi structured questionnaire was administered. The study dependent variable was financial performance while independent variable was accountability. From the findings, institutions that applied financial standards in enhancing accountability boosted donor funding which resulted to increased performance (Mwaura, 2013). This argument is supported by Muttaqin and Mulyasari's (2018) findings which exemplifies the relationship between financial accountability and performance. The authors note that enhancing effectiveness, accountability, and efficiency within the public sector establishes measurable and clear performance. The study by Muttaqin and Mulyasari (2018) noted that the basic concepts of accountability are founded on the marginal responsibilities at all levels of organizational management.

Chelangat (2013) investigated the relationship between accountability and financial sustainability of non-governmental organizations (NGOs) in Nairobi, Kenya. The research used a descriptive research design and data was collected through primary techniques from 550 NGOs. The dependent variable was financial sustainability while the independent variables included financial control, planning, evaluation, and monitoring. Study findings revealed a significant relationship between the independent and dependent variables. Accountability was found to have a significant and positive impact on NGO's financial sustainability (Chelangat, 2013). A comparable study by Agburuga (2018) examined the association between leadership accountability and financial management performance. The author supports the concept that leadership accountability improves resource utilization through moderation of processes and procedures in military expenditure. Literature suggest that policy frameworks to encourage accountability and budgeting through evaluation, monitoring, and responsibility should be reinforced to ensure sustainability (Agburuga, 2018).

Mbithi and Wasike (2019) examined the impact of accountability and transparency on sustainability of the Kenyan banking sector. The target population composed of 495 workers from the banking industry in Kenya where 222 respondents were selected. According to Mbithi and Wasike (2019) the board and top management staff actions are instrumental in enhancing accountability strategies. The study findings show that accountability and transparency have a positive and significant impact on sustainability of banking sector. The literature affirms that good governance is a way of creating a business culture of accountability, trust, and transparency which supports growth and financial stability (Mbithi & Wasike, 2019). These findings augment Mwaura (2013) argument that accountability is founded on each level of management within institutions. Muttaqin and Mulyasari (2018)

also confirm that control systems aimed at managing accountability enhance consistent growth and sustainability within organizations.

Karanja (2017) research investigated the impact of corporate governance on the financial performance of commercial banks listed in NSE. The author affirms that corporate governance is about enhancing credibility, accountability, and transparency. The research involved 11 financial banks listed with the NSE. The findings of the study show that accountability enhances financial performance. Murerwa (2015) affirms that transparency and accountability within commercial banks a determinant for increased financial performance since it is categorized as a factor under the control of owners and management. Waithaka (2014) posits that ethical values that underpin strategic corporate governance include accountability, responsibility, transparency, and fairness. The four principles are critical elements of ensuring high performance within commercial banks in Kenya (Murerwa, 2015). The concept that accountability has a positive impact on organizations' financial performance is supported by various scholars.

2.3.3 Compensation Decision-Making and Performance

Tarus (2014) sought to examine the impact of executive compensation on the financial performance of insurance institutions in Kenya. A casual research design was used to collect and analyze the secondary data between 2006 and 2010. The findings of the research show compensation decisions to pay executive has a negative impact on firms' ability to maximize shareholders returns which impairs financial performance. A corresponding study by Mutuma (2016) investigated the link between executive compensation and financial performance of organizations listed with NSE in Kenya. According to the author, compensation schemes are critical in motivating top management to make strategic choices that contribute to shareholders' wealth. The findings show a non-significant nexus between directors'

compensation and financial performance. Mutuma's (2016) argument differs with Tarus (2014) findings that compensation decisions have a negative impact on financial performance of Kenyan firms.

Aduda and Musyoka (2011) posit that the executive pay has emphasized in design and decision of optimal compensation schemes to align the institution interests of shareholders and managers. The design of strategic compensation contracts is founded on risk sharing considerations and incentive challenges. The findings of this research show that executive compensation decisions are not considered as measures of performance in the Kenyan banking sector. Aduda and Musyoka (2011) affirm that the negative correlation recommends capping of executive compensations to maximize financial performance and shareholders' returns. Kirsten and Du Toit (2018) exemplify that directors are agents of shareholders and their role is to manage the firms in best interests. The study that was conducted in South Africa reveals that remuneration is not directly associated to profitability unless the compensation policies are based on share price and thus directly related to wealth maximization.

A study by Rousseau, Beck, Kim, Splenda, and Young (2019) investigated the impact of executive contracts on the financial performance of firms over time. According to the authors, management compensation is intended to motivate chief executives to aid firms attain crucial business goals by aligning individual interests with firms' stakeholders, employees, and investors. The systematic review affirms that there is non-significant relationship between compensation decisions on the firms' financial performance. A corresponding study by Yan and Sloan (2016) examined the effect of employee compensation on financial performance of non-profit organizations. The authors findings differ from Rousseau et al. (2019) since it agrees that decisions to compensate beyond the

median is unfavorable for donations and can contribute to negative impact on financial performance among non-profit making institutions.

Kahuko (2018) explored the impact of executive compensation on financial performance of commercial banks listed in NSE, Kenya. The research used secondary data from annual reports from 2012 to 2017. From the study findings, executive annual bonuses, fixed salaries, and allowances have a positive impact on financial performance of listed commercial banks. The author admits that some variants and decisions to compensate executives may not improve financial performance. There are differing concepts relating to compensation decisions and its impact on financial performance with Rousseau et al. (2019) arguing that there is a minimal effect while Kahuko concept exemplifies a major positive impact and Yan and Sloan (2016) considers a negative impact of decision to compensate on financial performance.

2.3.4 Risk Management and Performance

Harelimana (2017) research examined the role and effect of risk management on financial performance of banking firms in Rwanda. The study involved 30 staff members from the Unguka Bank Ltd. Findings show a strong relationship between risk management approaches and financial performance. Harelimana (2017) affirms that the role of risk management is to enhance profitability and performance. Wanjohi (2013) investigated the effect of risk management on financial performance of commercial banks in Kenya. A self-administered survey questionnaire was used to obtain the data and analyzed through multiple regression. From the study, most of the Kenyan commercial banks engaged in good financial risk management practices which resulted to increased performance. Both Harelimana (2017) and Wanjohi (2013) agree that there is a positive correlation between good risk management

practices and financial performance of commercial banks. Financial institutions that are keen in making profits should concentrate on mitigating risks.

Mwangi (2013) investigated the relationship between risk management and financial performance of commercial banks in Kenya. The study used secondary data collected from banks financial reports and central bank which was later analyzed through multiple regression. The research dependent variable was financial performance and independent variable was risk management practices. According to Mwangi (2013) findings, there is a negative relationship between insolvency risks and credit risk on financial performance when not effectively managed. Mutuku (2016) concept echoes prior findings Mwangi (2013) that risk management practices have a significant effect on the financial performance of commercial banks in Kenya. The survey that incorporated 42 commercial banks in Kenya reveal that with exception of risk monitoring and capital adequacy, poor risk management have a negative effect on performance (Mutuku, 2016). Risks are attributed to financial constraints among commercial banks.

Mardiana and Dianata (2018) posits that banks that apply risk management achieve benefits associated to sustainable assets. The authors affirm that risk management can be applied as a basis for banking institutions to execute and determine appropriate actions. Mohamed and Onyiego (2018) investigated the impact of risk management on financial performance of commercial banks in Mombasa County, Kenya. The independent variables included operational risks, liquidity risks and interest rate risks. The study findings show a weak correlation between interest rate risk and liquidity risks on financial performance of banks. Credit risks are categorized as the major factor that significantly influences commercial banks' financial performance. Mardiana and Dianata (2018) agree that good risk management ensures that institutions gain more profits and increased financial performance.

The argument supports a previous study by Wanjohi (2013) that exemplify the significant relationship between the risk management and financial performance for commercial banks.

A more recent study by Tassew and Hailu (2019) examined the impact of risk management on the financial performance of commercial banks in Ethiopia. The authors posit that risk management is an important element to sustain financial stability. The presence of various risks associated with finance compels for effective risk management to achieve positive results. Tassew and Hailu (2019) focused on 17 Ethiopian commercial banks where data was analyzed through random effect regression model. Makokha, Namusonge, and Sakwa (2016) corresponding research investigated the impact of risk management practices on the financial performance of Kenyan commercial banks. A mixed method of study was used where 43 licensed commercial banks and 133 bank managers were included in the research. A descriptive and inferential statistics which included multiple and bivariate regression analysis were used. The findings of the research affirm a positive relationship between risk management practices and financial performance.

2.4 Research Gaps

The empirical review has provided various studies conducted locally, regionally and globally on influence of corporate governance on financial performance. This section provides the research gaps identified from the reviewed studies which include conceptual, contextual and methodological gaps. For instance, a study by Amoll (2015) was conducted on companies listed in the NSE and established that competence of board members determines their ability to enhance financial performance. Similarly, Kitui (2012) conducted a study on NSE listed firms and established that board competence had a significant influence on the financial performance of companies listed in NSE. These two studies focused on a different context with a study by Waithaka (2014) which was conducted on banks. This study established that

board competence had a significant effect on corporate financial performance of banking institutions. Moreover, another study by Gómez et al. (2017) was conducted on Colombian firms while the study by Assenga et al. (2018) examined the influence of board competence on financial performance of Tanzanian institutions. These studies focused on different contexts and hence their findings may not inform how corporate governance can influence financial performance of commercial banks in Kenya.

The reviewed studies also had conceptual gaps. For instance, the study by Mwaura (2013) established that accountability increased financial performance. This study however, did not include risk management, board competence and compensation decision-making. Another study by Duggar (2009) focused on board accountability and its effect on financial performance. This study however, did not focus on competence of board of directors, board accountability, compensation decision-making and risk management which will be considered in the current study. Further, the study by Harelimana (2017) examined the effect of risk management on financial performance of banking firms in Rwanda. This study did not consider board competence and compensation decision-making which was included in the current study.

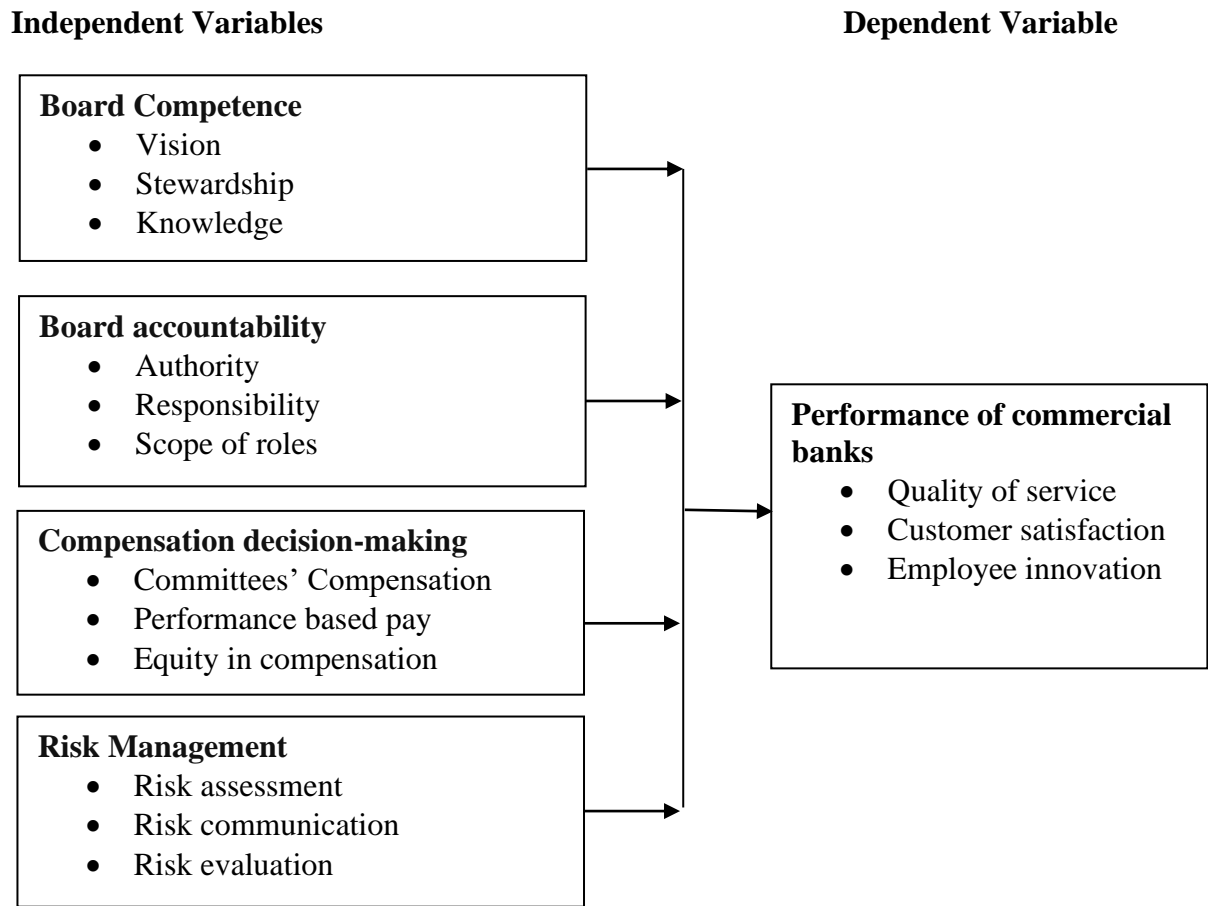
Lastly, the literature review established the prevailing methodological gaps. For instance, a study by Zhao et al (2018) investigated the impact of board accountability on the performance of Chinese banks. This study focused on secondary data while the current study will make use of primary data. The study by Zhao et al (2018) also applied panel data regression while the current study will apply multiple linear regression. Besides, the study by Maduku (2017) examined the impact of board competence on financial performance of firms listed in NSE. The research adopted a casual design while the current study will apply a descriptive design. Lastly, the study by Mutuma (2016) investigated the link between executive compensation and financial performance of organizations listed with NSE in

Kenya. This study used secondary data collected from annual financial statements while the current study made use of primary data collected through structured questionnaire.

2.5 Conceptual Framework

The conceptual framework that guided the study is provided in Figure 1. In the framework, it is hypothesized that board competence, board accountability, compensation decision-making and risk management have an effect on financial performance of commercial banks in Kenya. The indicators for all the variables are indicated in the conceptual framework.

Figure 1
Conceptual Framework



Source: Author (2020)

2.6 Operationalization of the Study Variables

The operationalization and measurement of variables is provided in this section. Operationalization is the process of describing variables into measurable indicators. Moreover, the framework provided in Table 1 shows how all the variables were measured.

Table 1
Operationalization of the Variables

Variable	Measurements	Level of measurement
Board Competence	<ul style="list-style-type: none"> • Professional and education qualifications • Visionary • Stewardship • Knowledge • Technical competence 	Ordinal (likert scale questions)
Board accountability	<ul style="list-style-type: none"> • Reporting structure • Clear lines of authority • Clarity in responsibility • Clarity in scope of roles • Answerability to all stakeholders 	Ordinal (likert scale questions)
Compensation decision-making	<ul style="list-style-type: none"> • Board's accountability towards executive compensation • Disclosure on compensation philosophy • Equity in compensation • Independence of compensation committee • Long-term focus of compensation 	Ordinal (likert scale questions)
Risk Management	<ul style="list-style-type: none"> • Risk assessment • Measures to prevent excessive risk taking • Risk mitigation • Risk communication • Risk evaluation 	Ordinal (likert scale questions)
Performance of Banks	<ul style="list-style-type: none"> • Quality of service • Customer satisfaction • Employee innovation • Customer loyalty • Turnover rate for high performers 	Ordinal (likert scale questions)

Source: Author (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the methodology that was used to conduct the study. This comprises of research design, the target population, the sample and sampling procedure and the research instrument that were used for data collection. Besides, the chapter includes the approaches that were applied to test for validity and reliability of the research instrument, the procedures that were applied for data collection and the procedures that were utilized to process and analyse the data.

3.2 Research Design

This study adopted descriptive research design to describe the influence of board competence, board accountability, compensation decision-making and risk management on performance of commercial banks in Kenya. Sharp, Peters and Howard (2017) observe that a descriptive research design is appropriate in a study that seeks identify trends, characteristics and features of a phenomenon under investigation or even relate one variable with another. This study sought to identify the extent of corporate governance mechanisms in the commercial banks and link these to performance of the commercial banks and hence the design suits the study.

3.3 Target Population

The target population of this study was 40 commercial banks that were licensed by central bank of Kenya by December 2019 (CBK, 2019). These were all the operational commercial banks in Kenya. The unit of analysis was commercial banks in Kenya. This was in line with the study's purpose of establishing the relationship between corporate governance

mechanisms and performance of commercial banks in Kenya. The target respondents (unit of observation) in the study were banks' finance directors or their representatives. These were selected because they were the ones expected to understand the corporate governance mechanisms applied in the commercial banks. They were expected to provide information about corporate governance and financial performance in their respective banks.

3.4 Sampling and Sampling Procedure

This study was a census and hence it included all the 40 commercial banks in the study. This method is justified since the target population was small, accessible and manageable. According to Saunders, Lewis and Thornhill (2015) when the population is small and manageable, there is no need for sampling and studying the whole population is advisable.

3.5 Research Instrument

This study used a structured questionnaire to collect primary data purposely for this study. Questionnaire was used for this study since some of the data required for this study included qualitative aspects of corporate governance and performance which could not be measured quantitatively and hence could not be available from secondary sources. Fisher (2017) observes that a questionnaire is an appropriate method of data collection as it can be designed to collect the data that is specifically suited to the study at hand. The questionnaire used in this study was structured with questions that covered all the variables in the study. Since some of the variables were qualitative, Likert scale was used which enabled the study to turn some of the qualitative aspects into measurable scale. This was supported by Sharp, Peters and Howard (2017) who posit that Likert-type scales are useful when the researcher is measuring qualitative constructs and respondents, through their experience or opinion, could indicate their choice or rating.

The questionnaire was designed to have six sections. The first section collected general information regarding the respondents who represented the commercial banks in the study, and the commercial banks themselves. The ensuing four sections sought information about the four corporate governance mechanisms (board competence, board accountability, compensation decision-making and risk management) that were the subject of the study. The last section sought bank performance information.

3.6 Validity and Reliability of the Instrument

The study assessed validity of the questionnaire by subjecting the questionnaire to experts in the field of corporate governance. These experts who included the research supervisor and project review panel members assessed the questionnaire on face, construct and content validity. Saunders et al. (2015) observe that face validity assesses the extent of the research instrument to measure the study variables while construct validity assesses the appropriateness of the instrument to measure the underlying constructs. On the other hand, content validity assesses the extent that the items in the research instrument are relevant in relation to the constructs being measured. The expert reviewers of the instruments provided recommendations which were acted upon to enhance the validity of the instruments.

Reliability of the instruments was assessed using Cronbach's alpha which assesses the internal consistency of the items in the research instrument. After making the amendments recommended by experts, a pilot test of the questionnaire was conducted with eight respondents (20% of the population) from microfinance banks in Kenya. Microfinance banks were selected for the pilot test as they operate under the same regulatory agencies and their operations are comparable to commercial banks. The data collected from the pilot test was used to assess reliability by computing Cronbach's alpha through the use of statistical

package for social sciences (SPSS). For the items to be considered reliable, they must have a Cronbach alpha of 0.7 or above. All the items were reliable as indicated in Table 2.

Table 2
Questionnaire Reliability

Variable	Number of items	Cronbach's alpha
Board competence	8	0.769
Board Accountability	7	0.811
Compensation decision-making	8	0.793
Risk management	10	0.862
Bank performance	8	0.775

Source: Author (2020)

The reliability scores indicate that all the five variables had Cronbach's alphas of 0.7 and above. The items with the highest reliability were items on the risk management variable while the ones with the lowest reliability were items on the board competence variable. However, since all the variables had Cronbach's alphas above 0.7, they were considered to be reliable. The questionnaire was also suitable for data collection as it showed stability and internal consistency.

3.7 Data Collection Procedure

The study used the drop-and-pick method to administer the questionnaire. This method involved printing the questionnaires, attaching the data collection authorization form from KCA University and taking the questionnaires to the finance directors of the 40 commercial banks in their head offices in Nairobi. The researcher then sought audience with the finance director or their representatives, who were issued with the questionnaire. The researcher then requested the respondents to fill the questionnaire within four days.

The filled questionnaires were then collected and checked for completeness and filed. Any finance director who had not finished filling the questionnaire within the stipulated time was given more time and a later date agreed for collection of the questionnaire. This cycle

was repeated until all or a reasonable number of the questionnaires were collected. Each collected questionnaire was safely filed ready for analysis.

3.8 Data Processing and Analysis

Data collected through the questionnaires was first checked for accuracy and consistency. It was then coded and entered into a computer data base. The coded data was analysed using descriptive statistics, correlation analysis and multiple regression analysis with the aid of statistical package for social sciences (SPSS). The descriptive statistics applied in the analysis were summary statistics (percentages and frequencies), measures of central tendency (means) and measures of dispersion (standard deviation). These were applied to indicate the extent that corporate governance practices are observed in the commercial banks in Kenya.

The study also used ordinary least squares (OLS) regression to test the study hypotheses. The hypotheses indicated that board competence, board accountability, compensation decision-making and risk management has no significant influence on performance of commercial banks in Kenya. Saunders observe that regression can be used to test the effect of one variable or various variables on another variable. This makes multiple regression analysis an appropriate analysis technique for this study.

The empirical model that was applied was as follows.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$, where Y = Performance of commercial banks, α = Constant term, β_1 = Coefficients, X_1 = Board Competence, X_2 = Board accountability, X_3 = Compensation decision-making, X_4 = Risk management and ε = Error term. Data analyzed was presented using tables and pie charts.

3.9 Diagnostic Tests

Before fitting the model, the study assessed whether the collected data adhered to regression assumptions. The tests conducted were tests of linearity, multi-collinearity, heteroscedasticity

and normality of residuals. The test of linearity assessed whether the independent variables had a linear association with the dependent variables. This was tested using the analysis of variance. The null hypothesis in the linearity test is that there is a linear association between the predictor and response variables whereas the alternate hypothesis states that there is no linear association. The null hypothesis is accepted when the p value is 0.05 or less while the alternate hypothesis is accepted when the p value is above 0.05.

Test of multi-collinearity assessed whether there are any independent variables with a high linear relationship in the regression model (Chandra & Sharma, 2013). This test was conducted using the variance inflation factor (VIF). When the VIF is five or below, there is no multi-collinearity. However, when the VIF is above five, then this indicates multi-collinearity.

After the model is fitted, the tests that were conducted included test of normality of residuals and heteroscedasticity. Tests of normality of residuals test whether the errors of the regression model are normally distributed. This was conducted using the Shapiro-Wilk test. This test was applied on the regression residuals. The null hypothesis in this test is that the residuals are normally distributed while the alternate hypotheses states that the residuals are not normally distributed. The null hypothesis is rejected when the p value is below 0.05 and accepted when the p value is above 0.05.

The test of heteroscedasticity assesses whether the variances of residuals has a constant variance. This study tested heteroscedasticity through plots of the residuals against the predicted values. When the plots have a funnel shape, this indicates heteroscedasticity. However, when the residuals do not have a funnel shape, this is an indication of homoscedasticity. If any assumption is violated, corrective action should be taken as appropriate.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

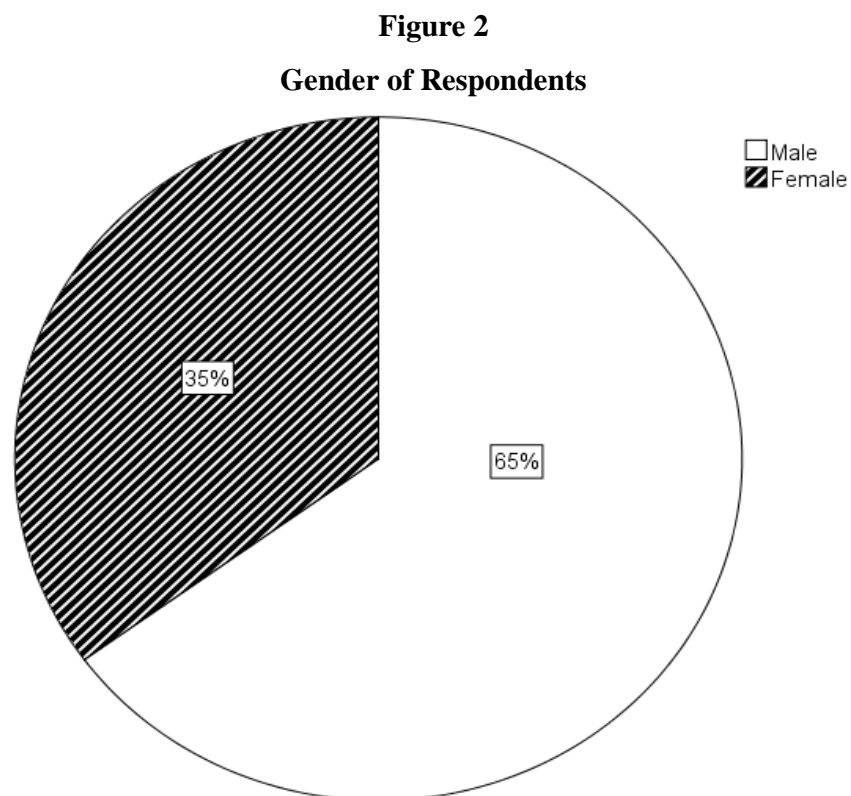
The process followed in data analysis, the research findings from the analysis, and the discussion of the study findings are presented in this chapter. First, the chapter provides the response rate and then presents the results of the demographic information sought in the study. Further, the descriptive analysis of the variables is provided which is based on mean scores and standard deviations to show the central tendency of the responses, and also the variation in the responses amongst the various respondents from the commercial banks. Further the diagnostic tests are provided which are critical before fitting the multiple regression model applied in the study.

4.2 Response Rate

The study utilized primary data that was collected from finance directors of commercial banks or their representatives. In total, 40 commercial banks were included in the study. The study administered and collected filled questionnaires from all of them thus reporting a 100% response rate. This was achieved by sending constant reminders to the targeted respondents who had not filled the questionnaires at the agreed time. Saunders et al. (2019), observes that when the target population or sample is small, the study should target a high response rate so that the results are representative of the population. In the current study, the target population was small, accessible and manageable within the planned study time which enabled attainment of the high response rate.

4.3 Demographic Information

The study results regarding the demographic information collected is provided in this section. The demographic information collected in the study appertained to gender of the respondents and the number of years that the respondents had been serving the commercial banks. Regarding gender of respondents, the study results are presented in Figure 2.



Source: Author (2020)

The findings presented in Figure 2 established that 65% of the respondents were male while 35% were female. This implies that both genders were adequately represented in this study. On number of years that the respondents had worked in the commercial banks, the findings are presented in Table 3.

Table 3
Years of service in the bank

Number of years	Frequency	Percent
Less than 5	6	15.0
5 - 10	9	22.5

11 - 15	12	30.0
16 - 20	11	27.5
21 and above	2	5.0
Total	40	100.0

Source: Author (2020)

The results provided in Table 3 established that those who had served in the commercial banks for 11 to 15 years were 30% while those who had served more than 20 years were 5%. Besides, the results also showed that those who had served for 16 to 20 years were 27.5%, those that had served for 5 to 10 years were 22.5% while those who had served in their respective commercial banks for less than five years were 15%. Thus, majority of the respondents had worked for more than 11 years in the commercial banks. The respondents understand the operations of their bank.

4.4 Study Variables

This section provides the descriptive results of the study variables. These include the independent variables (board competence, board accountability, compensation decision-making and risk management) and the dependent variable (bank performance). The analysis was based on descriptive statistics to indicate the extent of the corporate governance mechanisms in the commercial banks and also to establish the dispersion of the practices amongst the different commercial banks. Besides, the study results provide the mean scores and standard deviation of the qualitative bank performance measures used in the study.

4.4.1 Board Competence

One of the study's independent variables was board competence. To measure the level of board competence in the commercial banks, various indicators of board competence were provided and respondents were required to indicate the extent of their agreement towards those board competence indicators in their commercial banks. Respondents were provided

with these statements on a five point Likert scale where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5= strongly agree and asked to indicate the extent to which they agreed with the statements on competence of board of directors in the commercial bank. Descriptive statistics were used to analyze the responses. The results are presented in Table 4.

Table 4
Board Competence in the Commercial Banks

Board Competence indicators	Mean	Std. Deviation
The elected directors are committed to the mission of the commercial bank	4.30	.823
The board members in this commercial bank have requisite professional and education qualifications	4.05	.932
Board members in this commercial bank have knowledge and experience in the banking industry	4.25	.870
All members of the board have technical skills and specialist knowledge that they use to assist with ongoing aspects of the board's role	3.92	1.163
Members of the board have the capacity to empower and inspire others, including the mentoring and recruitment of new leaders	3.95	.876
Board members have the capacity to appropriately analyze reports from board committees and make effective decisions	3.95	.783
The members of the board effectively collaborate with the executive directors, other board members and employees of the bank	3.83	1.035
The board of directors provides stewardship for the bank in resource use, goal setting and meeting of the needs of shareholders and other key stakeholders	3.73	.877

Source: Author (2020)

The findings presented in Table 4 indicate that the respondents agreed to all the statements on board competence since all the statements have means of around 4. Regarding commitment of board members towards the mission of the banks, respondents agreed to the statement (mean = 4.30, std. deviation = 0.823). Moreover, respondents agreed that board members in the commercial banks had knowledge and experience in the banking industry (mean = 4.25, std. deviation = 0.870), that board members in the commercial banks had requisite professional and education qualifications (mean = 4.05, std. deviation = 0.932)

and also agreed that members of the board have the capacity to empower and inspire others, including the mentoring and recruitment of new leaders (mean = 3.95, std. deviation = 0.876).

The findings presented in Table 4 determined that respondents agreed to the statements that board members had the capacity to appropriately analyze reports from board committees and make effective decisions (mean = 3.95, std. deviation = 0.783) and also agreed that all members of the board have technical skills and specialist knowledge that they use to assist with ongoing aspects of the board's role (mean = 3.92, std. deviation = 1.163). Moreover respondents agreed that board members collaborate with the executive directors, other board members and employees of the bank (mean = 3.83, std. deviation = 1.035) and similarly agreed that the board of directors provide stewardship for the bank in resource use, goal setting and meeting of the needs of shareholders and other key stakeholders (mean = 3.73, std. deviation = 0.877).

These findings indicate that board competence in the commercial banks in Kenya was high. This is indicated by the capacity of the board to understand, commit and work towards the mission of the banks, their knowledge and experience in the banking industry and having the requisite professional and education qualifications. Besides, competence was also indicated by the capacity of the board to empower and inspire others, and their stewardship towards goal setting, resource use and consideration for stakeholder needs.

4.4.2 Board Accountability

The study sought to assess the extent of board accountability in the commercial banks. To measure board accountability, various statements on board accountability were provided and respondents were required to rate their agreement towards the statements on a scale of 1-5, where 1= strongly disagree, 2=disagree, 3=Neutral, 4=agree and 5=strongly agree.

Descriptive statistics (means and standard deviations) were used to analyze the responses and the study results are provided in Table 5.

Table 5
Board Accountability in the Commercial Banks

Board accountability indicators	Mean	Std. Deviation
The board of directors in this commercial bank take responsibility for the performance of the bank	4.10	.871
The board presents an understandable, balanced and fair, assessment of the bank's prospects and position to stakeholders	4.25	.899
The board have established clear channels for communication and decision making in this bank	4.45	.504
The board adheres to honest, clear and open reporting on issues touching on the bank	4.22	.832
The board is effectively answerable to its various stakeholders including employees, customers, government and the public	4.05	1.218
The commercial bank has a corporate social responsibility policy which ensures that it cares for the environment and the community	4.17	.984
The board members of this commercial bank always present themselves in a way that is consistent with the image the bank wants to portray	4.00	1.261

Source: Author (2020)

The study results provided in Table 5 indicated that on the statements provided on board accountability, respondents agreed to all of them. For instance, respondents agreed that the boards in the commercial banks had established clear channels for communication and decision making in the banks (mean = 4.45, std. deviation = 0.504) and that the board presents an understandable, balanced and fair, assessment of the bank's prospects and position to stakeholders (mean = 4.25, std. deviation = 0.899). Besides, respondents agreed that the board adheres to honest, clear and open reporting on issues touching on the bank (mean = 4.22, std. deviation = 0.832) and also agreed that the commercial bank has a corporate social responsibility policy which ensures that it cares for the environment and the community (mean = 4.17, std. deviation = 0.984).

The study results also indicated that the respondents agreed to the statements that the board of directors in the commercial banks took responsibility for the performance of the

banks (mean = 4.10, std. deviation = 0.871) and also agreed that the board is effectively answerable to its various stakeholders including employees, customers, government and the public (mean = 4.05, std. deviation = 1.218). Furthermore, respondents agreed that the board members of the commercial bank always present themselves in a way that is consistent with the image the banks wants to portray (mean = 4.10, std. deviation = 0.871).

These findings suggest that board accountability in the commercial banks was high. This is indicated by the board establishing clear communication channels, accountability to stakeholders through provision of an understandable, balanced and fair, assessment of the bank's prospects to them and adhering to honest, clear and open reporting on issues touching on the bank. Besides, accountability was illustrated by having a corporate social responsibility policy, taking responsibility for the bank's performance and presenting themselves in a manner consistent to the bank's image.

4.4.3 Compensation Decision-Making

The study sought to assess compensation decision-making and link it to performance of the commercial banks. To measure the level of compensation decision-making in the commercial banks, various indicators of compensation decision-making were provided and respondents were required to indicate the extent of their agreement towards those compensation decision-making indicators in their commercial banks. Respondents were provided with these statements on a five point Likert scale where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5= strongly agree. Descriptive statistics were used to analyze the responses. The results are presented in Table 6.

Table 6
Compensation Decision-Making in the Commercial Banks

Indicators of Compensation Decision-Making	Mean	Std. Deviation
The board provides oversight over executive compensation in this commercial bank	3.25	1.335
The commercial bank provides full disclosure regarding the compensation philosophy	3.45	1.011
Employees in this commercial bank feel that the compensation of the bank is equitable	4.23	1.000
The corporate board has a compensation committee which conducts its activities independently	4.17	.984
The compensation decisions made in this commercial bank has a long-term focus	4.32	.917
Compensation in this commercial bank has a performance-based component	4.02	1.000
This commercial bank does not have a big pay variance between the top management and lower level employees	3.75	1.214
Compensation in this commercial bank is regularly updated in line with changing circumstances	3.88	1.090

Source: Author (2020)

The study results provided in Table 6 determined that respondents agreed that the compensation decisions made in the commercial banks had a long-term focus (mean = 4.32, std. deviation = 0.917) and also agreed that (mean = 4.23, std. deviation = 1.000). Moreover, respondents agreed that the corporate boards had compensation committees which conducted their activities independently (mean = 4.17, std. deviation = 0.984) and also agreed that compensation in the commercial banks had a performance-based component (mean = 4.02, std. deviation = 1.000). Besides, respondents agreed that compensation in the commercial banks is regularly updated in line with changing circumstances (mean = 3.88, std. deviation = 1.090).

Further findings presented in Table 6 indicate that respondents agreed that the commercial banks do not have a big pay variance between the top management and lower level employees (mean = 3.75, std. deviation = 1.214). However, respondents neither agreed nor disagreed to the statements that the commercial banks provided full disclosure regarding

the compensation philosophy (mean = 3.75, std. deviation = 1.214) and that the board provides oversight over executive compensation in the commercial banks (mean = 3.75, std. deviation = 1.214).

These findings indicate that most of the commercial banks had effective compensation decision-making practices. Specifically most of the banks had compensation decisions with a long-term focus, had independent compensation committees and performance-based compensation. Besides, majority of the banks regularly updated their compensation in line with changing circumstances and ensured that the pay variance between the top management and lower level employees remained small. However, though some of the commercial banks provided full disclosure regarding the compensation philosophy and the boards provided oversight over executive compensation, there were equally other commercial banks which did not engage in this compensation practice.

4.4.4 Risk Management

The study sought to assess the extent of risk management in the commercial banks. To measure risk management, various statements were provided and respondents were required to rate their agreement towards the risk management statements on a scale of 1-5, where 1= strongly disagree, 2=disagree, 3= Neutral, 4=agree and 5 =strongly agree. Descriptive statistics (means and standard deviations) were used to analyze the responses and the study results are provided in Table 7.

The study findings presented in Table 7 revealed that respondents agreed that the commercial banks identified financial risks and their likelihood to affect the capacity of attaining the set objectives of the bank (mean = 4.27, std. deviation = 0.679) and also agreed that risk management practices are shared with all the employees in the banks (mean = 4.25, std. deviation = 0.870). Moreover, respondents agreed that the existing risk policies in the

banks provide for the effective identification of financial risks (mean = 4.08, std. deviation = 0.971) and also agreed that the commercial banks identify corruption risks and their likelihood to affect the capacity of attaining the set objectives of the banks(mean = 4.03 std. deviation = 0.733). Besides, respondent's also agreed that the commercial banks hold formal risk management meetings to assess the status of risk management (mean = 4.00 std. deviation = 0.847).

Table 7
Risk Management in the Commercial Banks

Risk Management Indicators	Mean	Std. Deviation
This commercial bank has an approved risk management policy	3.90	.871
The existing risk policy provides for the effective identification of financial risks	4.08	.971
There exists a board level committee with the mandate to provide oversight on risk management in this commercial bank	3.93	1.047
The commercial bank identifies financial risks and their likelihood to affect the capacity of attaining the set objectives of the bank	4.27	.679
The commercial bank identifies corruption risks and their likelihood to affect the capacity of attaining the set objectives of the bank	4.03	.733
The risk management function evaluates the on-going effectiveness of management of risks	3.95	.714
Formal reports are submitted to the Board periodically on the state of risk assessment and mitigation	3.63	.952
The commercial bank has an automated system to track risk-related information	3.87	1.017
The commercial bank hold formal risk management meetings to assess the status of risk management	4.00	.847
Risk management practices are shared with all the employees in the bank	4.25	.870

Source: Author (2020)

The study findings (Table 7) also show that the respondents agreed to the statement that the risk management function evaluates the on-going effectiveness of management of risks(mean = 3.95, std. deviation = 0.714) and similarly agreed that there exists board level

committees with the mandate to provide oversight on risk management in the commercial banks (mean = 3.93, std. deviation = 1.047). Furthermore, study respondents agreed that the commercial banks had an approved risk management policy (mean = 3.90, std. deviation = 0.871) and likewise agreed that the commercial banks had an automated system to track risk-related information (mean = 3.87, std. deviation = 1.017). Additionally, respondents agreed that formal reports are submitted to the board periodically on the state of risk assessment and mitigation in the banks (mean = 3.63, std. deviation = 0.952).

These study findings on risk management suggest that the commercial banks identified financial risks that could affect attainment of their goals and they shared risk management practices amongst their employees. Besides, the commercial banks had effective policies to identify financial risks, identified corruption risks and their likelihood to affect the capacity of attaining the set objectives, regularly held formal risk management meetings to assess the status of risk management. Additionally the findings imply that the banks regularly evaluated the on-going effectiveness of risk management practices, had board level committees with the mandate to provide risk management oversight, had effective risk management policies and had automated systems to track risk-related information.

4.4.5 Bank Performance

The dependent variable in the study was bank performance. The study applied qualitative measures of performance which were measured on a scale of 1-5, where 1= strongly disagree, 2 = disagree, 3=Neutral, 4=agree and 5=strongly agree. The responses were analyzed using descriptive statistics (means and standard deviations) and they are presented in Table 8.

Table 8
Performances of Commercial Banks

Performance Indicators	Mean	Std. Deviation
The bank's customer satisfaction index has been improving	4.02	.862
There has been an increase in Quality of service to customers	4.05	.932
Customer loyalty have enabled the bank to retain majority of its customers	4.28	.784
Revenue from all the bank branches have been increasing over the years	4.02	.862
Continuous staff development has improved staff competence and bank performance	4.02	1.000
The bank encourages internal promotions based on staff performance	4.00	.987
The turnover rate for higher performers is low	3.95	.815
Staff innovation has been increasing over the years; This has enabled the bank to improve on operation efficiency	4.08	.888

Source: Author (2020)

The study results presented in Table 8 indicate that respondents agreed to all the statements regarding qualitative measures of bank performance. The results indicate that respondents agreed that customer loyalty had enabled the bank to retain majority of its customers (mean = 4.28, std. deviation = 0.784) and also agreed that staff innovation has been increasing over the years which had enabled the bank to improve on operation efficiency (mean = 4.08, std. deviation = 0.784). Additionally, the respondents agreed that there has been an increase in quality of service to customers (mean = 4.05, std. deviation = 0.932) and that revenues from all the bank branches had been increasing over the years (mean = 4.02, std. deviation = 0.862).

The study results in Table 8 also established that the respondents agreed that the bank's customer satisfaction index had improved over the years (mean = 4.02, std. deviation = 0.862) and also agreed that continuous staff development has improved staff competence and bank performance (mean = 4.02, std. deviation = 1.000). Moreover, respondents agreed that the bank encourages internal promotions based on staff performance (mean = 4.00, std.

deviation = 0.987) and that the turnover rate for higher performers is low (mean = 3.95, std. deviation = 0.815).

The ensuing findings indicate that the qualitative aspects of bank performance had improved for most of the banks. This was evident in aspects such as improvement in customer loyalty, quality of service to customers and improvement in customer satisfaction index over the years. Besides, the banks' revenues from most of the branches had increased over the years. Similarly, majority of the banks had experienced improvement in staff innovation that had led to improvement in efficiency and had engaged in continuous staff development which had improved staff competence. Moreover, there was reported improvement in internal promotions and low turnover rate for higher performers.

4.5 Factor Analysis

The study conducted factor analysis using principal components analysis as the method of extraction and Varimax rotation. This was done on all the likert scale questions in the questionnaire that related to the independent variables. Using the factor analysis process outlined, the following sections provide results from the factor analysis based on the study's independent variables.

4.5.1 Board Competence

Board competence was one of the study's independent variables. Eight items were used to measure the level of board competence in the commercial banks. Using principal component analysis and Varimax rotation to reduce the indicators, two components were extracted as indicated in Table 9.

Table 9
Factor Analysis of Board Competence in the Commercial Banks

Board Competence indicators	Components	
	1	2
The elected directors are committed to the mission of the commercial bank	.793	
The board members in this commercial bank have requisite professional and education qualifications	.802	
Board members in this commercial bank have knowledge and experience in the banking industry	.828	
All members of the board have technical skills and specialist knowledge that they use to assist with ongoing aspects of the board's role	.758	
Members of the board have the capacity to empower and inspire others, including the mentoring and recruitment of new leaders		.711
Board members have the capacity to appropriately analyze reports from board committees and make effective decisions	.771	
The members of the board effectively collaborate with the executive directors, other board members and employees of the bank	.754	
The board of directors provides stewardship for the bank in resource use, goal setting and meeting of the needs of shareholders and other key stakeholders	.713	

Source: Author (2020)

The findings presented in Table 9 indicate that the first component included factors such as commitment to mission of the bank (0.793), having requisite professional and education qualifications, having knowledge and experience in the banking industry, and having technical skills and specialist knowledge. Others included capacity to analyze reports, and teaming up with executives to deliver the banks mission. This component was the technical and professional competence of the board members. Component 2 included only one factor on capacity of board to empower and inspire others, including the mentoring and recruitment of new leaders (0.711). This component was the capacity to inspire the bank's top employees.

4.5.2 Board Accountability

Board accountability in the commercial banks was measured using seven indicators. Factor analysis reduced these indicators to three components as indicated in Table 10.

Table 10
Factor Analysis on Board Accountability in the Commercial Banks

Board accountability indicators	Components		
	1	2	3
The board of directors in this commercial bank take responsibility for the performance of the bank	.551		
The board presents an understandable, balanced and fair, assessment of the bank's prospects and position to stakeholders			.667
The board have established clear channels for communication and decision making in this bank		.658	
The board adheres to honest, clear and open reporting on issues touching on the bank	.566		
The board is effectively answerable to its various stakeholders including employees, customers, government and the public			.502
The commercial bank has a corporate social responsibility policy which ensures that it cares for the environment and the community	.705		
The board members of this commercial bank always present themselves in a way that is consistent with the image the bank wants to portray	.754		

Source: Author (2020)

As indicated in Table 10, three components were extracted. Component 1 was interpreted to be board responsibility. This include factors such as taking responsibility for the performance of the bank (0.551), adhering to honest, clear and open reporting on issues touching on the bank (0.556), corporate social responsibility (0.705) and personal responsibility (0.754). Component 2 was board communication this included one factor which was establishing clear channels for communication and decision making in the bank (0.658). Component 3 was responsibility towards stakeholders. This included presenting an understandable, balanced and fair, assessment of the bank's prospects and position to

stakeholders (0.667) and being answerable to various stakeholders including employees, customers, government and the public (0.502).

4.5.3 Compensation Decision-Making

Compensation decision-making had eight indicators that were provided on a five point Likert scale. These were reduced to 2 components through principal component analysis and Varimax rotation of the factors. The results are provided in Table 11.

Table 11
Compensation Decision-Making in the Commercial Banks

Indicators of Compensation Decision-Making	Components	
	1	2
The board provides oversight over executive compensation in this commercial bank		.818
The commercial bank provides full disclosure regarding the compensation philosophy	.583	
Employees in this commercial bank feel that the compensation of the bank is equitable	.763	
The corporate board has a compensation committee which conducts its activities independently	.803	
The compensation decisions made in this commercial bank has a long-term focus	.778	
Compensation in this commercial bank has a performance-based component	.818	
This commercial bank does not have a big pay variance between the top management and lower level employees	.762	
Compensation in this commercial bank is regularly updated in line with changing circumstances	.681	

Source: Author (2020)

The study results provided in Table 11 show that Component 1 had seven factors. This component was interpreted to be enabling of compensation decision making based on equity, risk and performance. Component 2 had only one factor and was interpreted to be provision of oversight on compensation.

4.5.4 Risk Management

Risk management in the commercial banks was measured using 10 factors. These were reduced to two components through factor analysis. The results are provided in Table 12.

Table 12
Factor Analysis of Risk Management in the Commercial Banks

Risk Management Indicators	Components	
	1	2
This commercial bank has an approved risk management policy	.812	
The existing risk policy provides for the effective identification of financial risks	.794	
There exists a board level committee with the mandate to provide oversight on risk management in this commercial bank	.783	
The commercial bank identifies financial risks and their likelihood to affect the capacity of attaining the set objectives of the bank		.536
The commercial bank identifies corruption risks and their likelihood to affect the capacity of attaining the set objectives of the bank	.750	
The risk management function evaluates the on-going effectiveness of management of risks		.585
Formal reports are submitted to the board periodically on the state of risk assessment and mitigation		.655
The commercial bank has an automated system to track risk-related information		.628
The commercial bank hold formal risk management meetings to assess the status of risk management	.679	
Risk management practices are shared with all the employees in the bank	.546	

Source: Author (2020)

The study findings (Table 12) show that Component 1 had 6 factors with a correlation of 0.4 and above with these underlying components. These were factors associated with formal policies and regulations on corruption and financial risks management that were communicated to all staff. Component 2 had four factors. This was interpreted to be monitoring and evaluation of risk management practices to ensure that they were aligned to the attainment of the bank's objectives.

4.6 Association between Corporate Governance Mechanisms and Bank Performance

The study assessed the association between the independent variables and the dependent variable. Since the measures were on an ordered scale (1-5), cross tabulations of the modal rating on the independent variables and the modal rating on bank performance were used. Besides, Chi square was used to assess association. Results on the association between board competence and bank performance are provided in Table 13.

Table 13
Association Between Board Competence and Bank Performance

		Bank Performance				Total
		2	3	4	5	
Board Competence	1 Count	1	0	0	0	1
	% within Board Competence	100.0%	0.0%	0.0%	0.0%	100.0%
	2 Count	0	1	0	0	1
	% within Board Competence	0.0%	100.0%	0.0%	0.0%	100.0%
	3 Count	0	2	3	2	7
	% within Board Competence	0.0%	28.6%	42.9%	28.6%	100.0%
	4 Count	1	3	9	4	17
	% within Board Competence	5.9%	17.6%	52.9%	23.5%	100.0%
	5 Count	0	2	5	7	14
	% within Board Competence	0.0%	14.3%	35.7%	50.0%	100.0%
Total	Count	2	8	17	13	40
	% within Board Competence	5.0%	20.0%	42.5%	32.5%	100.0%
	Value	df	Asymptotic Significance (2-sided)			
Pearson Chi-Square	26.971	12	.008			
Likelihood Ratio	14.062	12	.297			
Linear-by-Linear Association	6.659	1	.010			
N of Valid Cases	40					

Source: Author (2020)

The results provided in Table 13 indicate that there was a significant association between board competence and bank performance (chi square = 26.971, p = 0.008). The results on cross tabulation indicated a positive association. Most of the respondents who rated highly on board competence also rated highly on bank performance and vice versa.

The association of board accountability and bank performance was also assessed. The results are provided in Table 14.

Table 14
Association Between Board Accountability and Bank Performance

			Bank performance				Total
			2	3	4	5	
Board accountability 2	Count		1	2	1	0	4
	% within Board accountability		25.0%	50.0%	25.0%	0.0%	100.0%
4	Count		0	3	9	6	18
	% within Board accountability		0.0%	16.7%	50.0%	33.3%	100.0%
5	Count		1	3	7	7	18
	% within Board accountability		5.6%	16.7%	38.9%	38.9%	100.0%
Total	Count		2	8	17	13	40
	% within Board accountability		5.0%	20.0%	42.5%	32.5%	100.0%
		Value	df		Asymptotic Significance (2-sided)		
Pearson Chi-Square		8.223	6		.222		
Likelihood Ratio		8.344	6		.214		
Linear-by-Linear Association		4.062	1		.044		
N of Valid Cases		40					

Source: Author (2020)

The results provided in Table 14 show that board accountability did not have a significant association with bank performance (chi square = 8.223, p + 0.222). This indicates that changes in board accountability were not expected to be related with any changes in bank performance.

The study further assessed the association between compensation decision-making and bank performance. The study results are provided in Table 15.

Table 15
Association Between Compensation Decision-making and Bank Performance

		Bank Performance				Total
		2	3	4	5	
Compensation decision-making 1	Count	1	0	1	0	2
	% within Compensation Decision-making	50.0%	0.0%	50.0%	0.0%	100.0%
2	Count	1	0	2	1	4
	% within Compensation Decision-making	25.0%	0.0%	50.0%	25.0%	100.0%
3	Count	0	2	8	3	13
	% within Compensation Decision-making	0.0%	15.4%	61.5%	23.1%	100.0%
4	Count	0	6	5	5	16
	% within Compensation Decision-making	0.0%	37.5%	31.3%	31.3%	100.0%
5	Count	0	0	1	4	5
	% within Compensation Decision-making	0.0%	0.0%	20.0%	80.0%	100.0%
Total	Count	2	8	17	13	40
	% within Compensation Decision-making	5.0%	20.0%	42.5%	32.5%	100.0%
		Value	df	Asymptotic Significance (2-sided)		
Pearson Chi-Square		24.602	12	.017		
Likelihood Ratio		20.868	12	.052		
Linear-by-Linear Association		4.500	1	.034		
N of Valid Cases		40				

Source: Author (2020)

Results provided in Table 15 indicate that compensation decision making had a significant association with bank performance (chi square = 24.602, $p = 0.017$). The cross tabulation indicated a positive association.

Lastly, the study assessed the association between risk management and bank performance. The study results are provided in Table 16.

Table 16
Association Between Risk Management and Bank Performance

			Bank performance				Total
			2	3	4	5	
Risk management 1	Count	1	0	0	0	1	
	% within Risk management	100.0%	0.0%	0.0%	0.0%	100.0%	
2	Count	0	1	0	0	1	
	% within Risk management	0.0%	100.0%	0.0%	0.0%	100.0%	
3	Count	0	2	0	0	2	
	% within Risk management	0.0%	100.0%	0.0%	0.0%	100.0%	
4	Count	0	3	10	6	19	
	% within Risk management	0.0%	15.8%	52.6%	31.6%	100.0%	
5	Count	1	2	7	7	17	
	% within Risk management	5.9%	11.8%	41.2%	41.2%	100.0%	
Total	Count	2	8	17	13	40	
	% within Risk management	5.0%	20.0%	42.5%	32.5%	100.0%	
		Value	df	Asymptotic Significance (2-sided)			
Pearson Chi-Square		33.586	12	.001			
Likelihood Ratio		19.233	12	.083			
Linear-by-Linear Association		7.417	1	.006			
N of Valid Cases		40					

Source: Author (2020)

The results in Table 16 established that risk management in the commercial banks had a significant association with bank performance (chi square = 33.586, p = 0.001). The results on cross tabulation determined that risk management practices in the commercial banks had a positive association with bank performance. This implies that improvement in risk management is expected to relate with improved bank performance.

4.7 Diagnostic Tests

The study sought to conduct a linear regression model to test the study hypotheses which were; Competence of board of directors has no significant influence on performance of commercial banks in Kenya; Board accountability has no significant influence on performance of commercial banks in Kenya; Compensation decision-making has no

significant influence on performance of commercial banks in Kenya and; Risk management has no significant influence on performance of commercial banks in Kenya. Before the regression model was fitted, diagnostic tests to assess model specification were conducted. These included pre-test diagnostics (test of linearity and multi-collinearity) and post-test diagnostics (heteroscedasticity and normality of residuals). The average ratings of the measures for each variable were used as input for the model. The results of these test are provided hereunder.

4.7.1 Test of Linearity

The test of linearity assessed whether the independent variables had a linear association with the dependent variables. This was tested using the analysis of variance. The null hypothesis in the linearity test is that there is a linear association between the predictor and response variables whereas the alternate hypothesis states that there is no linear association. The null hypothesis is accepted when the p value for deviation from linearity is 0.05 or more while the alternate hypothesis is accepted when the p value is below 0.05. The dependent variables in the test were board competence (BC), board accountability (BA), compensation decision-making (CD) and risk management (RM). The dependent variable was bank performance (BP). The results of the ANOVA test are provided in Table 17.

The results indicated in Table 17 indicate that all the independent variables had a linear association with bank performance. Board competence ($p = 0.303$), board accountability ($p = 0.105$), compensation decision-making ($p = 0.244$) and risk management ($p = 0.415$) all had linear association with the dependent variable (bank performance). According to Linton (2017), these results imply that a linear regression model is appropriate for the data and hence could be fitted.

Table 17
ANOVA Test of Linearity

			Sum of Squares	df	Mean Square	F	Sig.
BP * BC	Between Groups	(Combined)	14.177	16	.886	4.907	.000
	Deviation from Linearity		3.404	15	.227	1.257	.303
			Sum of Squares	df	Mean Square	F	Sig.
BP * BA	Between Groups	(Combined)	9.090	12	.758	2.214	.042
	Deviation from Linearity		6.760	11	.615	1.796	.105
			Sum of Squares	df	Mean Square	F	Sig.
BP * CD	Between Groups	(Combined)	15.181	14	1.084	8.609	.000
	Deviation from Linearity		2.235	13	.172	1.365	.244
			Sum of Squares	df	Mean Square	F	Sig.
BP * RM	Between Groups	(Combined)	14.752	18	.820	4.811	.000
	Deviation from Linearity		3.177	17	.187	1.097	.415

Source: Author (2020)

4.7.2 Test of Multicollinearity

Test of multi-collinearity assessed whether there are any independent variables with a high linear relationship in the regression model (Chandra & Sharma, 2013). This test was conducted using the variance inflation factor (VIF). When the VIF is five or below, there is no multi-collinearity. However, when the VIF is above five, then this indicates multi-collinearity. The results are provided in Table 18.

Table 18
Variance Inflation Factor Test of Multi-collinearity

Variables	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Board Competence	.378	2.645
Board Accountability	.697	1.436
Compensation Decision-making	.448	2.234
Risk management	.460	2.175

Source: Author (2020)

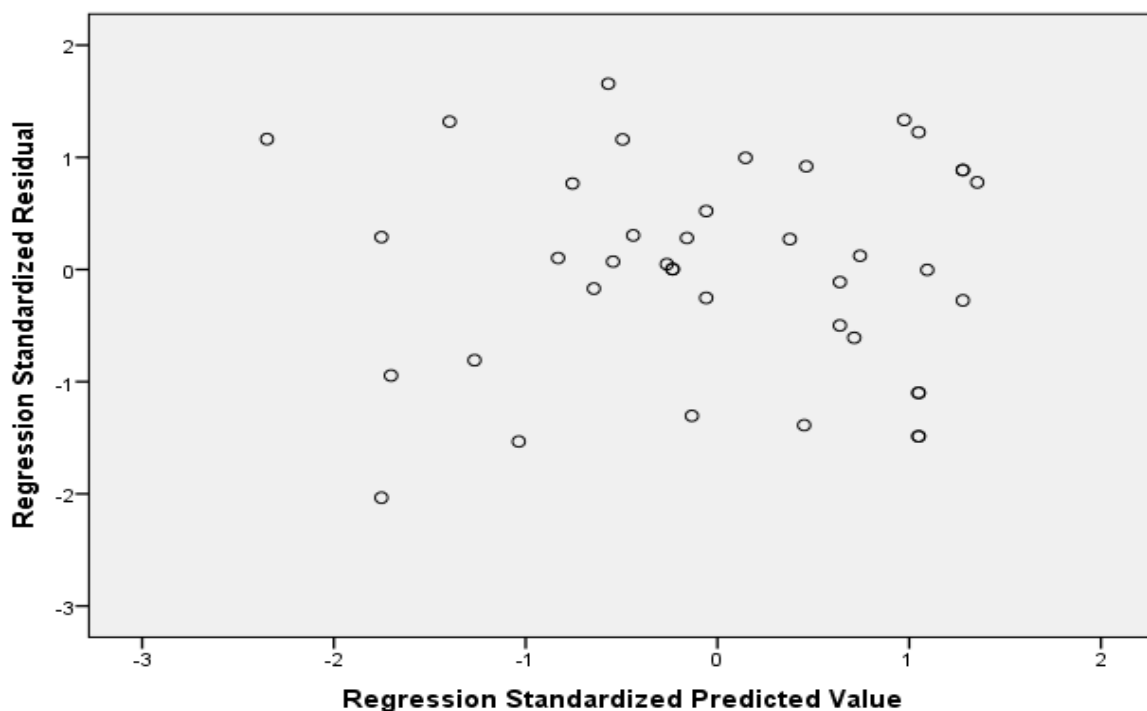
The results presented in Table 18 indicate that all the variables had VIFs below five. Board competence had the highest VIF (2.645), followed by compensation decision-making (2.234), risk management (2.175) and lastly board accountability (1.435). These findings show that there was no multi-collinearity as all the variables had VIFs of below 5.

4.7.3 Test of Heteroscedasticity

After the model was fitted, the test of lack of equality of variance of errors (heteroscedasticity) was conducted. The test of heteroscedasticity assesses whether the variances of residuals has a constant variance. This study tested heteroscedasticity through plots of the residuals against the predicted values. When the plots have a funnel shape, this indicates heteroscedasticity. However, when the residuals do not have a funnel shape, this is an indication of homoscedasticity(Gujarati, 2011). The results are provided in Figure 3.

Figure 3

Test of Heteroscedasticity



Source: Author (2020)

The study results (Figure 3) indicate no funnel pattern of the residuals when they were plotted against the predicted values. This hence is an indication that the variance of the residuals is constant on all levels of the predicted value. Therefore, the homoscedasticity assumption was not violated and the confidence intervals and p values of the model are reliable.

4.7.4 Tests of Normality of Residuals

Tests of normality of residuals assesses whether the errors of the regression model are normally distributed. This was conducted using the Shapiro-Wilk test. This test was applied on the regression residuals. After the model was run, the residuals were saved and applied to test for normality. The null hypothesis in this test is that the residuals are normally distributed while the alternate hypothesis states that the residuals are not normally distributed. The null hypothesis is rejected when the p value is below 0.05 and accepted when the p value is above 0.05. The results are presented in Table 19.

Table 19
Tests of Normality of Residuals

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.098	40	.200*	.961	40	.181

Source: Author (2020)

The results in Table 19 indicate that the Shapiro Wilk test was not significant ($p = 0.181$). This indicates that the null hypothesis that the residual are normally distributed could not be rejected. The conclusion made was that the residual were normally distributed and hence the model coefficients and p values were unbiased and reliable. The model is therefore presented in the following section.

4.8 Empirical Model Fitting

The multiple ordinary least squares regression model that had been proposed for the study was fitted. This section provides the results from the model. The results include the results of the model summary (correlation coefficient, coefficient of determination, adjusted r squared and standard error of the estimate), the analysis of variance (F- test) and the significance of the independent variables in the model (t- test). Table 20 provides results of the model summary.

Table 20
Summary of the Regression Model

R	R Square	Adjusted R Square	Std. Error of the Estimate
.914	.835	.816	.29377

Source: Author (2020)

Results in Table 20 show that the average of the independent variables had a strong relationship (correlation) with the dependent variable ($r = 0.914$). Besides, the results indicated that the explained variance was high ($r^2 = 0.835$). This implied that the independent variables in the model (board competence, board accountability, compensation decision-making and risk management) explained 83.5% of the variation in performance of commercial banks in Kenya. This indicates that the model had a high explanatory power as only 16.5% of the variance in bank performance was not explained by the model.

The results of the significance of the overall model are presented in Table 21.

Table 21
Significance of the Overall Model

Source of variance	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.309	4	3.827	44.347	.000
Residual	3.021	35	.086		
Total	18.330	39			

Source: Author (2020)

The study results (Table 13) revealed that the model was statistically significant ($f = 44.347$, $p < 0.005$). These findings indicate that at least one of the independent variables had a significant effect on bank performance. Moreover, the findings indicated that the model had a high predictive power. The results of the significance of the independent variables are provided in Table 22.

Table 22
Multiple Regression Analysis Results

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.149	.479		.311	.758
Board Competence	.264	.114	.258	2.308	.027
Board Accountability	-.128	.116	-.091	-1.105	.277
Compensation Decision-Making	.454	.095	.490	4.778	.000
Risk Management	.404	.126	.325	3.211	.003

Source: Author (2020)

The study findings presented in Table 22 show that board competence had a statistically significant positive effect on performance of the commercial banks ($\beta = 0.264$, $t = 2.308$, $p = 0.027$). These findings led to the rejection of the first study hypothesis which was; H_{01} : Competence of board of directors has no significant influence on performance of commercial banks in Kenya. This hence led to acceptance of the alternate hypothesis indicating that competence of board of directors has a significant influence on performance of commercial banks in Kenya. The findings also determined that an improvement in the competence of the board would results to an improvement in performance of the commercial banks and vice versa.

The findings (Table 14) indicate that board accountability did not have a significant effect on performance of commercial banks ($\beta = -0.128$, $t = -1.105$, $p = 0.277$). These findings led to the acceptance of the second null hypothesis of the study which stated that;

H₀₂: Board accountability has no significant influence on performance of commercial banks in Kenya. These findings imply that changes in board accountability were not expected to influence bank performance significantly.

Study findings (Table 14) further indicated that compensation decision-making had a significant positive influence on performance of commercial banks in Kenya ($\beta = 0.454$, $t = 4.778$, $p < 0.05$). These results led to rejection of the third null hypothesis of the study which was; H₀₃: Compensation decision-making has no significant influence on performance of commercial banks in Kenya. The alternate hypothesis that compensation decision-making has a significant influence on performance of commercial banks in Kenya was accepted. Besides, the study findings revealed that compensation decision-making was the most significant corporate governance mechanism amongst the mechanisms that were included in the study. Furthermore, the study findings suggest that an improvement in capacity of the board to guide in compensation decision-making in the banks would lead to improvement in bank performance and vice versa.

Study findings presented in Table 14 indicate that risk management had a statistically significant and positive effect on performance of commercial banks in Kenya ($\beta = 0.404$, $t = 3.211$, $p = 0.003$). These study findings led to rejection of the fourth null hypothesis of the study which was; H₀₄: Risk management has no significant influence on performance of commercial banks in Kenya. Therefore, the alternate hypothesis that risk management had a significant effect on performance of commercial banks in Kenya was accepted. Besides, the findings imply that improvement in the capacity of the boards to provide guidance on risk management in the commercial banks would lead to improvement in performance of the commercial banks and vice versa.

4.9 Discussion of the Findings

The study findings established that board competence had a statistically significant positive effect on performance of the commercial banks ($\beta = 0.264$, $t = 2.308$, $p = 0.027$). These findings supported the agency theory by Jensen and Meckling (1976), which hypothesizes that agency problems emanates from the separation of control and ownership in modern organizations. The argument of the theory is that since managers (agents) are contracted by shareholders (principals) for the day to day operations of the firm, they possess more information about the firm which gives rise to information asymmetry. This means that managers may sometimes pursue goals and interests that are not aligned to the goals and interests of shareholders.

One of the most important mechanisms of controlling managers by shareholders is through board of directors. Having a competent board of directors is critical to ensure that managers pursue interest of shareholders. This proposition was supported by the findings from this study which determined that competence of board of directors has a significant effect on performance of commercial banks. The agency theory was applied in the study to link board competence and risk management with organizational performance. Applying the theory, it is expected that an organization with a competent board will perform better than its counterparts who have boards with less competence. The theory was supported by the findings from the study.

The findings of the study regarding the positive effect of competence of the board on performance support previous studies. For instance, the findings support the findings from a study in China by Zhao, Teng, and Wu (2018) that having a competent board was critical for financial performance as board competence (in terms of education and technical qualifications, experience and skills diversity) had a significant positive effect on financial performance. The findings also agree with the findings by Amoll (2015) that competence of

the board had a significant influence on financial performance. Other studies with similar findings to the current study include Waithaka (2014),

The study findings, however contradict findings from other studies. The study contradicts the findings by Gómez, Cortés, and Betancourt (2017) which had established that competence of the board did not have an effect on performance of the organization. Besides, the findings from this study disagree with the findings by Assenga, Alyand and Hussainey (2018) which determined that characteristics or indicators of board competence had no association with organizational performance.

The findings from the study revealed that board accountability did not have a significant effect on performance of commercial banks ($\beta = -0.128$, $t = -1.105$, $p = 0.277$). These findings did not support the performance theory by Campbell, McCloy, Oppler and Sager (1993). The theory hypothesizes that accountability of the organization creates an environment of enhanced productivity and performance. Sonnentag and Frese (2005) supported this theory by establishing that clear lines of accountability are created by having a formal chain of command. This provides clarity to the organization's hierarchy of authority and reporting relationships. Moreover, having a formal chain of command established clarity in decision-making power and accountability.

This theory was applied in this study to link board accountability with performance of commercial banks in Kenya. The formalization of procedures and practices regarding lines of responsibility, authority and accountability are expected to enhance employee's focus into their roles and thus playing a critical role in attaining their work responsibilities as indicated by Elger (2006). Moreover, accountability enables the managers responsible to focus on key aspects that drive performance in the organization. This does not only drive short-term performance but it also drives sustainability and long-term performance. However, the performance theory was not supported by the findings from this study.

The findings from this study on the effect of board accountability on firm performance contradict findings from some previous studies. Specifically, the study contradicts the findings by Kimeu (2017) board accountability has a significant impact on management culture which accounts for financial performance. Moreover, the findings contradict the findings by Cheema and Abbas (2017) that showed a significant relationship between board accountability and the performance of banks in Pakistan. Other studies with findings that contradict the findings from this study include Mwaura (2013), Muttaqin and Mulyasari (2018), Chelangat (2013) and Agburuga (2018).

Study findings determined that compensation decision-making had a significant positive influence on performance of commercial banks in Kenya ($\beta = 0.454$, $t = 4.778$, $p < 0.05$). These findings support the stewardship theory by Davis, Schoorman and Donaldson (1997) which states that when managers are left alone with effective systems and structures, they will choose to be good stewards and manage the firm's resources effectively for value maximization. This was later supported by Caldwell, Hayes, Bernal and Karri (2007) who argued that managers have intrinsic motivation to work for shareholders or for the organizations to accomplish the entrusted responsibilities and tasks.

Regarding compensation decision-making, stewardship theory explains that compensation decision-making can be used as a mechanism to make managers to seek to attain organizational objectives. When there is an effective compensation structure in the organization, managers are motivated to make decisions that enhance performance of the bank. This assertion was supported by the study findings which indicated that compensation decision-making had a significant positive effect on performance of commercial banks. This implies that banks with boards that oversee implementation of effective compensation philosophies are expected to perform better than their peers. Besides, Yan and Sloan (2014) observe that when an organization adopts an effective culture based on performance-based

compensation, the employees of the organization are motivated to enhance their productivity and thereby increasing the financial performance of the organization.

The study findings on the effect of compensation decision-making on bank performance contradict the findings by Tarus (2014) compensation decision-making regarding executive compensation had a negative impact on firms' ability to maximize shareholders returns which impaired financial performance. Besides, the study findings contradict previous findings by Mutuma (2016) which showed a non-significant nexus between directors' compensation and financial performance. Other studies that contradict the findings of the study include Aduda and Musyoka (2011), Kirsten and Du Toit (2018), Rousseau et al. (2019) and Yan and Sloan (2016). The study findings on the effect of compensation decision-making on bank performance, however, are supported by previous studies such as Kahuko (2018) who indicated that having a policy on executive annual bonuses, fixed salaries, and allowances have a positive impact on financial performance of listed commercial banks.

Study findings established that risk management had a statistically significant and positive effect on performance of commercial banks in Kenya ($\beta = 0.404$, $t = 3.211$, $p = 0.003$). These findings supported the agency theory by Jensen and Meckling (1976). The theory proposes that agency problems (such as taking too much risk) can emanate from the separation of control and ownership in modern organizations. Therefore, to ensure that management take risks commensurate with the appetite of the shareholders, shareholders elect a board to oversee management. Besides, involvement of the board on risk management issues ensures that the risks undertaken by the organization are effectively evaluated and managed. This leads to enhanced performance. The findings from the study hence supported this theory and established that risk management has a positive and significant influence on performance of commercial banks.

The findings on the positive effect of risk management on performance of banks support previous findings by Harelimana (2017) who established a strong relationship between risk management approaches and financial performance. The findings are also supported by Wanjohi (2013) who indicated that most of the Kenyan commercial banks engaged in good financial risk management practices which resulted to increased performance. Other studies with comparable findings to this study include Mardiana and Dianata (2018), Tassew and Hailu (2019) and Makokha et al. (2016).

The findings from the study of the positive effect of risk management on bank performance are contradicted by the findings by Mwangi (2013) who established that there is a negative relationship between risk management and financial performance. The study findings also disagree with the findings by Mohamed and Onyiego (2018) which established a weak correlation between interest rate risk and liquidity risks management on financial performance of banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The summary of the study findings is provided in this section. The summary of the findings is provided for all the study objectives. This is then followed by the study conclusion and recommendations. Moreover, the chapter provide suggestions for further research.

5.2 Summary of Findings

This section presents the summary of the study findings for each of the study objectives and hypotheses. These include findings relating to the effect of competence of board of directors, board accountability, compensation decision-making and risk management on performance of commercial banks in Kenya.

5.2.1 Competence of Board of Directors and Performance of Banks

The study findings established that board competence had a statistically significant positive effect on performance of the commercial banks. These findings led to the rejection of the first study hypothesis which was; H_01 : Competence of board of directors has no significant influence on performance of commercial banks in Kenya. The alternative hypothesis was accepted indicating that competence of board of directors has a significant influence on performance of commercial banks in Kenya.

Further findings from the study revealed that board competence in the commercial banks in Kenya was high. This is indicated by the capacity of the board to understand, commit and work towards the mission of the banks, their knowledge and experience in the banking industry and having the requisite professional and education qualifications. Besides, competence was also indicated by the capacity of the board to empower and inspire others,

and their stewardship towards goal setting, resource use and consideration for stakeholder needs.

5.2.2 Board Accountability and Performance of Banks

The findings indicated that board accountability did not have a significant effect on performance of commercial banks. These findings led to the acceptance of the second null hypothesis of the study which stated that; H₀₂: Board accountability has no significant influence on performance of commercial banks in Kenya. These findings imply that changes in board accountability were not expected to influence bank performance significantly.

Despite the findings that board accountability had no significant effect on performance of commercial banks, further findings indicated that board accountability in the commercial banks was high. This was indicated by the board establishing clear communication channels, accountability to stakeholders through provision of an understandable, balanced and fair, assessment of the bank's prospects to them and adhering to honest, clear and open reporting on issues touching on the bank. Besides, accountability was illustrated by having a corporate social responsibility policy, taking responsibility for the bank's performance and presenting themselves in a manner consistent to the bank's image.

5.2.3 Compensation Decision-Making and Performance of Banks

Study findings indicated that compensation decision-making had a significant positive influence on performance of commercial banks in Kenya. These results led to rejection of the third null hypothesis of the study which was; H₀₃: Compensation decision-making has no significant influence on performance of commercial banks in Kenya. The alternate hypothesis that compensation decision-making has a significant influence on performance of commercial banks in Kenya was accepted. Besides, the study findings revealed that compensation

decision-making was the most significant corporate governance mechanism amongst the mechanisms that were included in the study. Furthermore, the study findings suggest that an improvement in capacity of the board to guide in compensation decision-making in the banks would lead to improvement in bank performance and vice versa.

Further findings from the study determined that in most of the commercial banks the board of directors had engaged in compensation decision-making practices. Specifically most of the banks had compensation decisions with a long-term focus, had independent compensation committees and performance-based compensation. Besides, majority of the banks regularly updated their compensation in line with changing circumstances and ensured that the pay variance between the top management and lower level employees remained small. However, though some of the commercial banks provided full disclosure regarding the compensation philosophy and the boards provided oversight over executive compensation, there were equally other commercial banks which did not engage in this compensation practice.

5.2.4 Risk Management and Performance of Banks

Study findings revealed that risk management had a statistically significant and positive effect on performance of commercial banks in Kenya. These study findings led to rejection of the fourth null hypothesis of the study which was; H_{04} : Risk management has no significant influence on performance of commercial banks in Kenya.

Therefore, the alternate hypothesis that risk management had a significant effect on performance of commercial banks in Kenya was accepted. Besides, the findings imply that improvement in the capacity of the boards to provide guidance on risk management in the commercial banks would lead to improvement in performance of the commercial banks and vice versa.

Further findings on risk management indicated that commercial banks identified financial risks that could affect attainment of their goals and they shared risk management practices amongst their employees. Besides, the commercial banks had effective policies to identify financial risks, identified corruption risks and their likelihood to affect the capacity of attaining the set objectives, regularly held formal risk management meetings to assess the status of risk management. Additionally the findings imply that the banks regularly evaluated the on-going effectiveness of risk management practices, had board level committees with the mandate to provide risk management oversight, had effective risk management policies and had automated systems to track risk-related information.

5.3 Conclusions of the Study

Considering the findings from the study, the study has the following conclusion. First, board competence in commercial banks is vital for performance of the commercial banks. The critical aspects of board competence is illustrated by the capacity of the board to understand, commit and work towards the mission of the banks, and their knowledge and experience in the banking industry. Besides, the study concludes that members of the board in commercial banks requisite professional and education qualifications, and also had the capacity to empower and inspire others. Moreover, the study concludes that most of the board members in the commercial banking sector illustrate stewardship towards stakeholder needs, resource use and goal setting.

On board accountability, the study concludes that it does not have a significant impact on performance of commercial banks. Despite board accountability having no impact on performance of commercial banks, the accountability of the boards in the commercial banks was high. Besides, the study concludes that the boards in the commercial banks retained clear communication channels and were accountable to the various stakeholders. Furthermore, the

study concludes that the boards adhered to honest, clear and open reporting on issues touching on the banks and took responsibility regarding the performance of the commercial banks.

The study concludes that board oversight over compensation decision-making on was essential for performance of commercial banks. The study also concluded that critical compensation decisions that boards in the commercial banks are involved in are decisions relating to long-term focus of compensation philosophy, having independent compensation committees and implementation of performance-based compensation. The study also concludes that the boards got involved in regular update of compensation based on environmental changes, ensuring that the variance in pay remained low, and providing oversight over executive compensation.

Lastly, the study concludes that risk management was critical for performance of commercial banks in Kenya. Besides, the study concludes that most of the commercial banks had effective risk management policies that were effectively communicated to all the employees. Similarly, most commercial banks effectively identified, evaluated and managed financial risks that could affect attainment of their goals. Further, the study concludes that most of the commercial banks held formal risk management meetings to assess the status of risk management and regularly evaluated the on-going effectiveness of risk management practices.

5.4 Recommendations of the Study

Based on the conclusion from the study, the following recommendations are made. First, shareholders of commercial banks should ensure that the board members they elect to oversee running of the commercial banks are competent. The critical factors that these shareholders should consider when electing board members include professional and education

qualifications, technical capabilities and experience in the banking industry. Moreover, elected board members should show alignment and understanding of the mission and vision of the commercial bank.

On board accountability, the study recommends that emphasis by shareholders should be on the communication between board members and the executive leadership. Regulatory authorities such as NSE and CMA should also ensure that boards of commercial banks adhere to honest, clear and open reporting on issues touching on the banks.

The study recommends to shareholders to ensure that the elected board put in place effective compensation philosophy that is performance and risk based. This would ensure that top management are motivated to enhance performance but at the same time taking acceptable risks in their day to day responsibilities. Labour unions and other stakeholders, such as the media, should also advocate for low pay variance between the highest paid and the lowest paid employees in the banking sector. Moreover, boards in all the commercial banks should have independent compensation committees that should advise the board on the appropriate compensation philosophy.

Lastly, the study recommends to regulatory authorities to ensure that boards play oversight roles towards operational, market and financial risks that the commercial banks face. They should be involved in designing and implementation of effective risk management policies and should ensure that top management identify, evaluate and manage financial risks based on the risk management framework adopted by the commercial banks.

5.5 Limitations of the Study

This study was conducted on the commercial banking sector and the findings determined the influence of corporate governance on performance of commercial banks in Kenya. The study has some limitations which would affect application and generalizability of the study

findings. First, the study only focussed on commercial banks in Kenya and hence the findings may have limited generalizability to other sectors such as the manufacturing, agricultural or commercial services, due to the differences amongst the financial sector and these other sectors. Moreover, the study showed originality by using qualitative measures of performance rather than the quantitative performance measures that are used in various studies. Though test of reliability were conducted and the measures considered to be reliable, qualitative measures of performance can sometimes be subjective and biased.

5.6 Suggested Areas of Future Research

This study was conducted on the commercial banking sector and the findings determined the influence of corporate governance on performance of commercial banks in Kenya. Considering the limitations of the study, the study suggest another similar study to be conducted investigating the influence of corporate governance on financial performance of firms in the non-financial sectors such as agricultural or manufacturing sectors. Besides, another study could explore the role played by corporate governance in family owned firms and assess the influence of corporate governance on financial performance of these firms. This is because these firms operate under different management philosophy from what is present in other types of firms and there have been a high failure rate in family owned firms in Kenya.

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APPENDICES

Appendix I: Questionnaire to Finance Directors in Commercial Banks

Kindly provide correct and useful data and fill appropriately as logically guided. This questionnaire seeks information on corporate governance mechanisms and bank performance. Kindly provide the information by filling in the spaces provided. The information you will provide is for academic purposes only.

SECTION 1: GENERAL INFORMATION

1. Indicate your gender: Male [] Female []
2. How many years have you been working in this commercial bank?

Less than 5years	[<input type="checkbox"/>]	5 – 10 years	[<input type="checkbox"/>]
11 – 15 years	[<input type="checkbox"/>]	16 – 20 years	[<input type="checkbox"/>]
21 years and above	[<input type="checkbox"/>]		

SECTION B: BOARD COMPETENCE

3. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree, please indicate the extent to which you agree with the following statement on competence of board of directors in this commercial bank.

Statements	1	2	3	4	5
a) The elected directors are committed to the mission of the commercial bank					
b) The board members in this commercial bank have requisite professional and education qualifications					
c) Board members in this commercial bank have knowledge and experience in the banking industry					
d) All members the board have technical skills and specialist knowledge that they use to assist with ongoing aspects of the board’s role					
e) Members of the board have the capacity to empower and inspire others, including the mentoring and recruitment of new leaders					
f) Board members have the capacity to appropriately analyze reports from board committees and make					

effective decisions					
g) The members of the board effectively collaborate with the executive directors, other board members and employees of the bank					
h) The board of directors provides stewardship for the bank in resource use, goal setting and meeting of the needs of shareholders and other key stakeholders					

SECTION C: BOARD ACCOUNTABILITY

4. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree; Please indicate the extent to which you agree with the following statements regarding lines of accountability in this commercial bank.

Statement	1	2	3	4	5
a) The board of directors in this commercial bank take responsibility for the performance of the bank					
b) The board presents an understandable, balanced and fair, assessment of the bank's prospects and position to stakeholders					
c) The board have established clear channels for communication and decision making in this bank					
d) The board adheres to honest, clear and open reporting on issues touching on the bank					
e) The board is effectively answerable to its various stakeholders including employees, customers, government and the public					
f) The commercial bank has a corporate social responsibility policy which ensures that it cares for the environment and the community					
g) The board members of this commercial bank always present themselves in a way that is consistent with the image the bank wants to portray					

SECTION D: COMPENSATION DECISION-MAKING

5. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree; Please indicate the extent to which you agree with the following statements on compensation decisions in this commercial bank.

Statement	1	2	3	4	5
a) The board provides oversight over executive compensation in this commercial bank					
b) The commercial bank provides full disclosure regarding the compensation philosophy					
c) Employees in this commercial bank feel that the compensation of the bank is equitable					
d) The corporate board has a compensation committee which conducts its activities independently					
e) The compensation decisions made in this commercial bank has a long-term focus					
f) Compensation in this commercial bank has a performance-based component					
g) This commercial bank does not have a big pay variance between the top management and lower level employees					
h) Compensation in this commercial bank is regularly updated in line with changing circumstances					

SECTION E: RISK MANAGEMENT

6. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree; Please indicate the extent to which you agree with the following statements on risk management in this commercial bank.

Statement	1	2	3	4	5
a) This commercial bank has an approved risk management policy					
b) The existing risk policy provides for the effective identification of financial risks					
c) There exists a board level committee with the mandate to provide oversight on risk management in this commercial bank					

d) The commercial bank identifies financial risks and their likelihood to affect the capacity of attaining the set objectives of the bank					
e) The commercial bank identifies corruption risks and their likelihood to affect the capacity of attaining the set objectives of the bank					
f) The risk management function evaluates the on-going effectiveness of management of risks					
g) Formal reports are submitted to the Board periodically on the state of risk assessment and mitigation					
h) The commercial bank has an automated system to track risk-related information					
i) The commercial bank hold formal risk management meetings to assess the status of risk management					
j) Risk management practices are shared with all the employees in the bank					

SECTION E: BANK PERFORMANCE

7. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree; Please indicate the extent to which you agree with the following statements on the performance of this bank.

Statement	1	2	3	4	5
a) The bank's customer satisfaction index has been improving					
b) There has been an increase in Quality of service to customers					
c) Customer loyalty have enabled the bank to retain majority of its customers					
d) Revenue from all the bank branches have been increasing over the years					
e) Continuous staff development has improved staff					

competence and bank performance					
f) The bank encourages internal promotions based on staff performance					
g) The turnover rate for higher performers is low					
h) Staff innovation has been increasing over the years. This has enabled the bank to improve on operation efficiency					

Thank You for Your Time and Input