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Effect of Corporate Governace on Financial Performance of Commercial Banks In Kenya

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ABSTRACT

The objective of this study was to determine the effects of board characteristics on performance of commercial banks in Kenya. In particular, the present study examined the effects of board size, board composition, board ownership and Board Competence in performance of banks in Kenya. Bank performance was measured using Return on Assret(ROA). This study employed panel data design and correlation survey design. The study population will include all the 44O respondents i.e. 10 respondents from each of the 44 banks. The study sample was 132 respondents i.e. 30% of the targeted population. Secondary data from audited and published financial statements will be used. Questionnaires shall be administered as well as data shall be extracted from the annual reports and accounts of the banks over the period 2010 to 2017. The data was analyzed by use of multiple regressions and presented using mean, standard deviations using tables. Based on the findings, the first specific objective here was to establish the influence of Corporate Governance Practices on financial performance of commercial banks in Kenya. There is evidence that the relationship between Corporate Governance Practices and Financial performance of Commercial banks in Kenya which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that Corporate Governance Practices has a significant and moderate strong relationship with the financial performance of commercial banks in Kenya therefore the null hypothesis was rejected on the ground that Corporate Governance Practices had a significant and moderate strong positive linear correlation with financial performance of commercial banks in Kenya. The second objective of this study was to determine the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya. The hypothesis, $H_0$2, stated that: Shareholders Rights and Responsibility has no significant effect on financial performance in the commercial banks in Kenya. The model was found significant and therefore the null hypothesis was rejected on the ground that Shareholders Rights and Responsibility had significant and relatively weak and positive linear correlation with financial performance of commercial banks in Kenya. The third objective of this study was to assess the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya. Findings revealed that the relationship of Disclosure Policies and Practices on Financial performance in the commercial banks variables is linear, positive, relatively weak, and significant. The null hypothesis was rejected as there is significant relationship between Disclosure Policies and Practices and Financial performance. The last variable of the study was corporate governance policies. The study sought to examine the influence of corporate governance policies on the relationship between corporate governance and financial performance of commercial banks in Kenya. From the findings, it is evident that corporate governance policies have a linear, moderately positive and significant relationship with financial performance in the commercial banks in Kenya. Thus, the model is significant and therefore, the $H_0$4 was rejected. Generally, the relationship between corporate governance and financial performance was analyzed. One of the corporate governance that had a higher effect on Financial performance was Corporate Governance Practices ($B = 0.541$, $\beta = 0.510$; $p < 0.05$) while the one with the least effect on Financial performance was Disclosure Policies and Practices ($B = 0.285$, $\beta = 0.383$; $p < 0.05$) in the Commercial banks in Kenya Based on our findings, we can conclude that financial performance is a critical factor in the banking sector. It has come out clearly in this research work that financial performance is determined and influenced by several factors which are dependent on the type of corporate governance a firm has. Therefore, there is a significant relationship between corporate governance and financial performance of commercial banks. The researcher recommends that banks in Kenya should embrace corporate governance practices, policies and procedures including disclosure procedures to ensure financial performance.

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I. Introduction

1.1. Background Information

The subject of corporate governance in Kenya has been top of the agenda for many years. Despite tight regulatory framework, corporate governance continues to weaken in Kenya to some extent. Kenya in particular, concern was raised specifically on the way in which organizations were managed and controlled. According to Centre for Corporate Governance of Kenya (CCG) (2004), focus on corporate governance in the financial sector is crucial mostly because the banking industry became highly exposed to scrutiny by the public and many lessons were learnt because of the risks involved including adverse publicity brought about by failings in governance and stakeholder relations for instance, the collapse of banks such as Euro bank, Trust bank and Daima bank just to mention a few cases (CCG, 2004).

Administration plays pivotal job in companies' good performance in determining the potential economic. Some companies' desire is that regulatiions should be put to regulate big companies from taking advantage of them. UK Financial Reporting Council (FRC), 2014 defines corporate governance as a system by which companies are directed and controlled. The council recommends that the top managerial staff are in charge of administration with the primary job of guaranteeing that the organization's key points are set, authority is given to place them into impact, the administration of the business is regulated and investors are accounted for to on their stewardship. Corporate governance main purpose is to provide integrity and lift companies and its therefore not responsible for aims and objectives of the companies (Abu-Tapanjeh, 2008). Thus, it is with corporate governance that the stakeholders' interests are best protected.

Corporate administration involves a portion of the perspectives including firm size, age, money related use, board size and arrangement, initiative and possession fixation. These factors impact the viability and the productivity of corporate administration and henceforth firm execution. Scientists contend that a company's size decide the fondness of firms for development and productivity. Visitor (2009) for example, contends that bigger firms can experience more prominent office costs

Big company lead to big board size, larger audit committee, and higher financial leverage. Extensive firms are all the more difficult to oversee consequently it requires a solid administering body and appropriate corporate administration rehearses with a specific end goal to acknowledge development, gainfulness and execution. This study targets board size, board composition and board competence as the determinants of corporate governance which is the independent variable and firm performance in terms of ROE and ROA as the dependent variable.

1.1.1. Global Perspective on Corporate Governance and Financial Performance

Globally, In East Asian companies, the relationship between corporate governance and earnings management is more unique compared to their western counterparts. The existence of significant block holder ownership can become an effective monitoring mechanism on managerial incentives when there is a low level of managerial ownership (Yeo, 2012). While the ownership structure in smaller sized East Asian corporations are dominated by owners who are usually the founder and have family relationship, the owners of larger sized corporations usually hold a large number of shares in blocks and operate in inter-connected but diversified.

In order to examine corporate governance practices in Pakistan, the International Financial Corporation conducted a survey in 2016, which revealed the need to create awareness of corporate governance among boards of directors. The Karachi Stock Exchange (KSE, 2016) undertook a similar initiative and set up a board to monitor firms' compliance with the standard. In the last two years, the ICC has increased its monitoring of corporations to enhance the quality of their disclosures. Despite such steps, Pakistan's corporate governance environment is still not mature enough and insider-controlled businesses remain common (Javid & Iqbal, 2008). Existing studies show that insider-controlling shareholders play a dominant role in many corporate decisions. Abdullah, Shah, Iqbal, and Gohar (2011) investigate whether corporate dividend payouts in Pakistan are determined by minimizing the transaction costs of external finance or by the relative power of insider-controlling shareholders and external shareholders. The authors consider nonpayment of dividends an indication of the expropriation of external minority shareholders. They conclude that, in the absence of powerful external shareholders, insider-controlled firms will not willingly pay out dividends. This evidence suggests that insider-controlled businesses have the potential to expropriate minority shareholders (Karach Stock Exchange, 2016).

The case of Enron, Worldcom and some other firms in the U.S. and recently, Transmile in Malaysia, lead many stakeholders to question the effectiveness of monitoring mechanisms on the management (Gregory, 2015). A lack of independence, competency and management share ownership may lead to inefficient resource allocation, which subsequently may be followed by financial misrepresentations. Financial misrepresentation (in this study indicated by earnings management proxy, discretionary accruals), should have been detected by an effective board before financial results are being released to the shareholders (Gregory, 2015). An effective monitoring mechanism on the management is essential to ensure manager's action is in accordance with shareholder's interest. Conflict of interest between managers and shareholders becomes apparent when there is a separation between the people who own a firm and the people who manage the firm (Jensen & Meckling, 1976). In the current business ownership structure, this separation is unavoidable particularly in large listed firms i.e. the owners are more dispersed among shareholders and the appointed management may have very minimal shareholding. In these firms, failure to monitor the management may lead to inefficient resource allocation and to some extent, corporate scandals. These acts are often followed by non-transparent and misleading reporting to camouflage the effect of the scandals from known by the shareholders.

1.1.2. Regional Perspective on Corporate Governance and Financial Performance

Regionally Ghanaian's companies have unique ownership characteristics in shareholding that differ from other countries. First, common shares sold publicly in the domestic market to Ghanaian residents are called 'A shares', while those sold initially to foreign investors are called 'B shares'. B shares have been accessible by Ghanian residents since the restriction was removed in April 2011. H shares are those issued by Ghanaians' companies and traded on their Stock Exchange. This research only includes firms that issued A shares, or A shares and B shares, and/or H shares (Adembago, 2011).

Second, a large proportion of shares are publicly non-tradable meaning majority of the shareholding is by the firms directors themselves and not open to public buy in. The initial purpose for Chinese government to establish a stock market was to raise capital rather than a thorough reform for a pure market drawn economy. Thus, the founders of many companies maintain ownership control by holding a large proportion of non-tradable shares. Even though the proportion of non-tradable shares has reduced due to financial market reforms, the proportion is still high, at 39 percent on average from 2006 to 2012 (Adembago, 2011).

Additionally institutional ownership is relatively low in Ghana, and is mainly held by fund companies. However, institutional ownership represents specialist management of shares, and thus is different from individual shareholders in monitoring of firms. Finally, the managerial ownership has been recognized by Ghanaian authority in recent years. An increasing number of firms have awarded shares to managers or have included shares in managers' remunerations. Although the amount of managerial ownership of Ghanaian listed firms is small, it may have observable influence on firm's management decision (Adembago, 2011).

In South Africa, state ownership has remained high because many publicly listed firms were carved out or spun off from existing state enterprises. The state is the ultimate controlling shareholder or the largest shareholder for many listed firms. In recent years, the listing of non-state owned companies has increased. Such companies are called private firms or civilian firms in the literature, and are ultimately controlled by non-government units, including individuals, collective enterprises, and social entities. The ownership of South African listed firms is highly concentrated (Schipper 2014). This high level of foreign ownership has not only resulted from the many listed firms that were carved out from state enterprises, where the state retains a large proportion of shares, but also through family founder's private firms that preferred to maintain their controlling ownership. In particular, the foreign ownership in South Africa can be categorized as total ownership and tradable ownership concentration. The large tradable shareholders and non-tradable shareholders have various motivations in earnings management (Schipper 2014).

In Nigeria, the banking sector is undergoing strategic reform and thus is of great interest to the current study. In response to the expansion and sophistication of the operations of banks in Nigeria, together with the effort to realize the goals and objectives of the industry, the National banking Commission (NBCOM) in the year 2013 recently launched a Code of Corporate Governance for the banking industry in Nigeria (NABCOM, 2013). This is part of the Commissions strategic effort to rebuild and sustain the waning confidence of stakeholders in order to promote the quality and efficiency of banking industry in Nigeria. Some of the issues that the code clearly defined are that; (1) the accounting system should contain the information needed by investors, customers, supervisors, and other stakeholders, as it will aid them in their decision making about the future prospect of the company, and (2) accounting methods shall provide real performance and also information about shareholders who own directly and/or indirectly a minimum per cent shares of a company. One of the major issues that the code emphasized is the ownership structure of the firms in the industry, this is in cognizance to the principal-agent conflict in which managers are serving their self-interest and opportunistic behavior in particular, which usually tent to affect reported earnings adversely (NABCOM, 2013).

Kenya's corporate governance system is highly influenced by two factors: after the government relaxed rules that governed issuance of licenses to banks in 1982 and by the privatization process that began in the 1980's and gained momentum in the 90's. This led to the growth of many banks that did not put into practice proper corporate governance structures resulting into poor governance and management culture in the industry (Mwangi, 2002). A case in point was the year 1984 when the Rural Urban Credit Finance was placed in interim liquidation. The Government of Kenya through the Central Bank made changes in the Central Bank act and the banking act to curb instability in the banking industry. This was for example, through raising the capital requirements and the creation of the Depositors Protection Fund.

Regardless of efforts made to streamline the banking sector, many banks have been liquidated or put under receivership. The collapse was due to weak internal controls, poor governance and management practices. For example, Bank of Kenya and Continental Credit Finance Ltd collapsed in 1986. In 1987 Capital Finance went under and more recent dubai bank, imperial bank and chase bank . The Government then formed Consolidated Bank by merging seven banks that had collapsed (Nambiro, 2007). Various reasons were given that may have contributed to the collapse of banking institutions in Kenya. The Centre for Corporate Governance, (2004) outlined the following reasons as being major contributors to this phenomenon; insider lending and conflict of interest, weaknesses in regulatory and supervisory systems, poor risk management strategies, lack of internal controls and weak corporate governance practices. This followed by the Central Bank of Kenya to outline more bold and elaborate measures to curb these problems and also to strengthen its arm of supervisory role it plays in the industry.

Corporate governance in the banking sector in Kenya largely relates to the responsibility conferred to and discharged by the various entities and persons responsible for and concerned with the prudent management of the financial sector (Central Bank of Kenya,2006). The corporate governance stakeholders in the banking sector include the board of directors, management, shareholders, Central Bank of Kenya, external auditors and Capital Markets Authority (CCG, 2004). It is believed that good governance generates investor goodwill and confidence. Again, poorly governed firms are expected to be less profitable.

Kenya currently has 44 licensed commercial banks and one mortgage finance company. Of these 44 institutions, 31 are locally owned and 13 are foreign owned. The government of Kenya has a substantial stake in three of Kenya's commercial banks, (Okumu, 2006). The remaining local commercial banks are largely family owned. Commercial banks in Kenya they accept deposits from individuals and turn a profit by using the deposits to offer loans to businesses with a high interest rate.

1.1.4 Financial Performance

There are formulae that have been adopted to measure a firm's financial performance. In order to measure the return on investment for example, there is need to have statements that display the annual net income and average total value of assets (Edenkule et al., 2014). The other common measure of financial performance as highlighted above is the profit margin. Return on Equity (ROE) seeks to determine the amount of profits that a firm is able to generate from the shareholder's contributions Shahwan (2015) argues that a proper corporate governance body has to be put in place to ensure that all these records are put in place to enhance the monitoring of a firm's financial performance. Without proper records on a firm's policies, operations and activities, it is difficult for a firm to show accountability and its financial health is at stake. It is therefore good corporate governance that can enhance a firm's financial performance.

1.1.5 Determinants of Financial Performance in Commercial Banks.

These are factors which play a role in shaping the financial status of a company. Most studies divide the determinants of commercial banks' financial performance into two categories, namely internal and external factors. Internal determinants of profitability, which are within the control of bank management, can be broadly classified into two categories, i.e. financial statement variables and nonfinancial statement variables, (Linyiru, 2006). While financial statement variables relate to the decisions which directly involve items in the balance sheet and income statement; non-financial statement variables involve factors that have no direct relation to the financial statements. The examples of non-financial variables within the this category are number of branches, status of the branch (e.g. limited or full-service branch, unit branch or multiple branches), location and size of the bank, Sudin (2004). External factors are those factors that are considered to be beyond the control of the management of a bank. Among the widely discussed external variables are competition, regulation, concentration, market share, ownership, scarcity of capital, money supply, inflation and size. Sudin (2004). The government owned bank for instance, suffers incessant/frequent changes in board membership and many appointments were made based on political affiliation rather than expertise consideration. Consequent upon this, board members saw themselves as representative, of political parties in sharing the national cake emanating thereof and thus, ascribed their loyalty to the party members rather than the proper running of the bank itself. On the side of the privately-owned banks, shareholders constituted a problem.

As a result of the insiders abuse of recruiting inexperienced and incompetent personnel to hold key positions in the bank, deterioration of management culture and weak internal control system instigated by the squabbles among the high rank management decision making team, and non- compliance with laws and prudential standards, mismanagement seemed to play a major role in bank failure in Kenya. Bank losses increased and management resorted to hiding the losses in order to buy time and remain in control, (Ogumu, 2006). The banking industry being the nerve centre of the economy is invariably affected by economic and political environment/condition of the country. For instance the Structural Adjustment Programme (SAP) introduced in 1986 led to a wide range of economic reforms that affected the banking system.

Also political situation like the political crisis like the disputed election in 2008, led to massive withdrawal of funds that affected banks (especially) those around affected regions, (CBK, 2008). The regulatory and supervisory measures of the CBK are unable to keep pace with the rapid changes in the banking industry. The CBK brief (2007) noted that the ability of the CBK to perform its regulatory role had in the past been affected by political leadership and corruption in the former regime. Ogumu, (2006) in discussing the challenges of bank liquidation and deposit payoff, noted that closing a bank is a specialized job requiring services of technically skilled people in banking, accounting, legal, quantity surveying, estate management, information management and technology as well as facility support and also noted that political instability constituted a problem to its supervisory function.

1.2. Statement of the Problem

The subject of corporate governance is not well emphasized in most organization, Kihumba, (2000) this has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general. Corporate governance should be enriched by expanding the framework of analysis beyond the conventional criteria to incorporate the norms and values, such considerations can improve our understanding of boardroom dynamics and the characteristics of the decision management and decision control, (Wainaina, 2003).

Locally, there are a few studies in corporate governance. For instance, Jebet (2001) focuses on the listed companies; Macuvi, (2002) focuses on the motor vehicle industry while Mwangi, (2002) focuses on insurance companies. From the published annual financial reports, commercial banks in Kenya recorded unpleasant performance in the early 2000 but there has been significant improvement since 2007 and this study is therefore designed to establish the effect if any of corporate governance on financial performance of Commercial Banks in Kenya. Many other researchers have examined the relationship between variety of governance mechanisms and firm performance. However, the results are mixed. Some examine only the impact of one governance mechanism on performance, while others investigate the influence of several mechanisms together on performance. A number of studies have also been carried out in the area of corporate governance and financial performance in state corporations, in cooperative societies, in companies listed in the Nairobi Stock Exchange in Kenya, examples; Njoka, (2010); Linyiru, (2006); Maina, (2006); Awino, (2011); Muriiti, (2011) and Ooko, (2011).

There is a yawning gap that exists since none of them covers effects of ownership structure on corporate governance and performance specifically in the commercial banking sector in Kenya. The only study done in Kenya by the Centre for Corporate Governance focused on governance practices in the commercial banking sector in Kenya. More so, the many unpublished work done in Kenya followed suit by focusing corporate governance in general with only one study among them focusing on the relationship between implementation level of Capital Markets Authority guidelines on corporate governance and profitability of companies listed at the Nairobi Stock Exchange (NSE). It was against this background that the researcher found it necessary to carry out a study on ownership structure and corporate governance and its effects on performance in the Kenyan commercial banking sector to bridge the gap that existed.

1.3Objective of the Study

1.3.1 General objective

The study sought to study the effects of corporate governance on Financial performance of commercial banks in Kenya.

1.3.1Specific Objectives

i. To examine effect of Corporate Governance Practices on the financial performance of commercial banks in Kenya.

ii. To examine effect of Shareholders Rights and Responsibility on the financial performance of commercial banks in Kenya

iii. To examine effect of Disclosure Policies and Practices on financial performance of commercial banks in Kenya.

iv. To examine effect of Corporate governance policies on Financial performance of commercial banks in Kenya

1.4 Research Questions

The research endeavored to answer the following questions.

1. How does Corporate Governance Practices affect financial performance of commercial banks in Kenya?
2. What are the effects of shareholders rights and responsibility on the financial performance of commercial banks in Kenya?
3. How does disclosure policies and practices affects financial performance of commercial bank in Kenya?
4. How do corporate governance policies affect financial performance of commercial banks in Kenya?

1.5 Significance of the Study

The findings of this research project would contribute to improving understanding about corporate governance practices in Kenyan banking, and in that ways the banks can implement good corporate governance that aligns with bank performance. Many Commercial Banks in Kenya will find the study very valuable to their operations and more so a benchmark to decisions to improve on corporate governance in the banking industry.

The policy makers in the banking business will find the study useful as a basis of formulating policies, which can be effectively implemented for better and easier regulation of the banking sector. The government will use the study so as to come up with policies and ways of promoting corporate governance financial institutions in the country.

The empirical results would also provide general indicators of corporate governance useful for both regulator and business people in making policies and decisions as well as in rewarding or punishing the banks that have great or little intention to improve their corporate governance aligning with managers-owners risk-taking behaviour and bank performance. Other researchers and academic community will use this study as a basis for further studies on corporate governance in Kenyan banks.

1.6 Scope of the Study

This project concentrated on commercial banks in Kenya. This examination was undertaken inside and out investigation of their Corporate administration as far as board composition, size and board competence and their effect on the money related on ROA and ROE between the years 2009 to 2019. Information was gathered from the individual organizations' yearly reports and CBK bank supervision report.

II. Literature Review

2.1Introduction

This chapter presents the review of various literature related to the area of study. The chapter reviewed both theoretical literature and empirical literature for each of the study objectives

2.2 Theoretical Review

The main theoretical assumption of this research relies on the agency framework. The following discussions explain about corporate governance from the agency framework.

2.2.1 Agency theory

Often, conflict of interest can occur between the principal and the agents leading to unhealthy relationships that generate cost inefficiencies which ultimately affect the performance of the firm. Agency theory is therefore concerned with resolving the problems that can occur in agency relationships (Eisenhardt, 1989). Problems can occur: when the goals of the agent and principal conflict; and when it is difficult for the principals to verify what the agent is doing. This theory considers the managers as the crucial agent in decision making. It discusses the application of the Principal-Agent model. The managers or principals are the major decision makers, and the board of directors is the monitoring mechanism. Thus, this theory is majorly concerned with resolving problems that may arise between the agents, who form the company executives and the principals who are the shareholders. There exist several problems within a corporate institution ranging from ownership, conflict of interests, and expropriation of the minority shareholders to fraudulent practices.

When managers are engaged in such practices, they are threatened by the dominating shareholders assuming the fact that the principals are interested in scrutinizing the behavior of the agents. The conflict between the principal(s) and the agents leads to type I agency problem while conflict between agent-agent (majority-minority) relationships leads to type II agency theory. These problems directly affect the performance of firms. In type I agency theory, the principals could be trying to maximize wealth but the agents expropriate funds. Contracts, which increase agency costs can help in solving such a problem but where contracts are inefficient,

internal and external corporate governance mechanisms are used to monitor and control the agents.

Agency theory is greatly relevant to this study since it focuses on the relationship between board size and the board composition and its effect on the financial performance of the companies involved. The theory advocates for a board size of not more or less than seven people in order to reduce agency costs. The agency costs are related to the management having a conflict of interest between their own benefits and preferences over the interests of the stakeholders. The board consisting of both the executive and non-executive directors acts to supervise the management in order to minimize agency conflicts of interest.

2.2.2. Resource Based View Theory

Resource-based view theory (Wernefelt, 1984 and Penrose, 1959)is seen as a theory that enhances a firm's competitive advantage in the vast dynamic business environment. To survive and to remain relevant in the face of globalization and increased technology use, most if not all firms must invest in a firm's resources, both tangible and intangible.

In corporate governance, board directors both executive and non-executive are a part of the human resources involved in activities geared to improved and outstanding company performance. Executive directors (ED) are often full-time employees of the firm serving at senior management capacities like CEO and chief financial officer (CFO). They are basically involved in the company's strategic planning and policy formulation and implementation. Non-executive directors (NED) oversee management and governance of the company and monitor management performance. Additionally, NEDs review and approve companies' financial statements and often do financial reporting. Both EDs and NEDs define the purpose and values of a company as well as identifying stakeholder relevance in order to develop and implement strategies that optimize a company's performance and enhance its competitive advantage. Generally, research recommends more NEDs compared to EDs due to the fact that higher number of NEDs have been associated with high profitability reflected in high ROE and positive stakeholder reaction. NEDs, according to Adams et al., 2010; Chen & Wu, 2016, enhance the legitimacy and public image of the firm; provide expertise; link the firms to important stakeholders; facilitate access to resources; build a company's external relations; provide external perspective of risk management; and provide a balancing influence by minimizing conflicts of interest

To perform these duties and properly place the company on a competitive edge, the company should either recruit board of directors with skills and expertise or train its EDs to match the market demands. Training and development is one of the ways of improving a company's performance using its human resource hence training and development of EDs and recruitment of NEDs with expertise can be employed in corporate governance for the financial improvement of firms.

2.3. Conceptual Framework

The examination will inspect the impacts of corporate governance (board estimate, proprietorship structure, board piece and board competence) on the performance of commercial banks in Kenya, utilizing both market and budgetary pointers as proportions of money related execution while controlling for firm age, industry and money related gainfulness. Accepting that monetary productivity is steady, an examination among autonomous and subordinate factors can be figured it out. In this system, money related execution measures to be specific: Return on Assets (ROA), Return on Equity (ROE) will be used. This choice is motivated by the fact that these indicators may have different interpretations regarding financial institution's performance. The hypothesized relationship is shown in the figure below

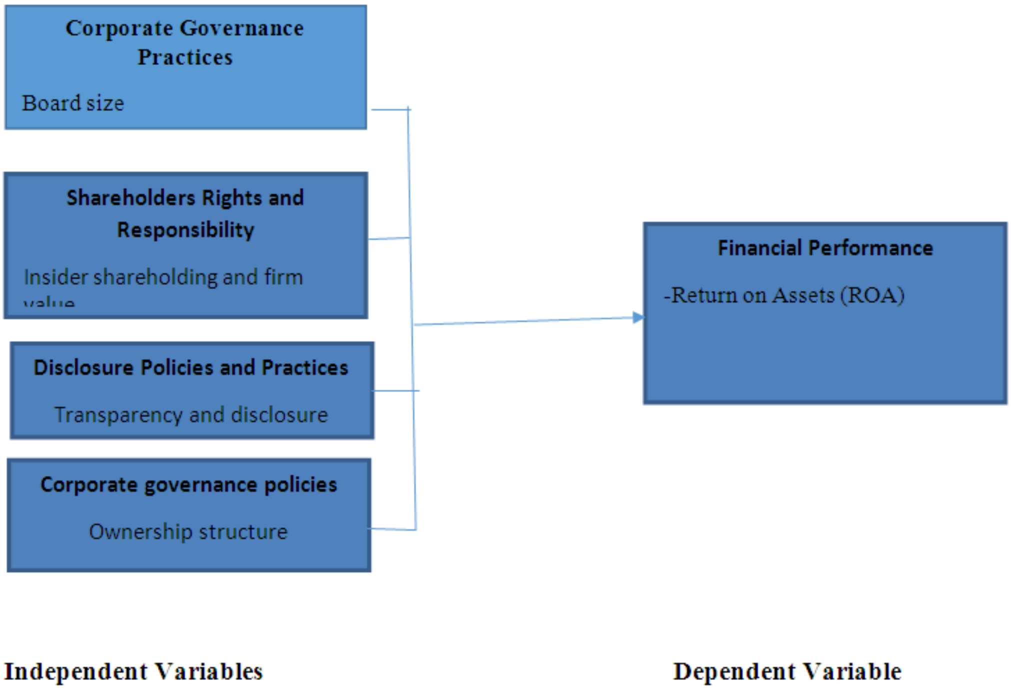

Figure 2.1: Conceptual Framework

2.3.1 Board Size

Several empirical studies (Gill & Obradovich, 2012; Wanyama & Olweny, 2013) give mixed results on the effect of board size on the performance of the firm. Additionally, board sizes are thought to be industry specific and depend on the size of the company. Large companies tend to have larger board sizes as compared to small companies. The board could be small or large. However, Gill and Obradovich (2012) strongly argue that large board sizes negatively impact on firms. Boards with good leadership, effectiveness, accountability, remuneration and good relations with the stakeholders on the other hand positively impact on an organization's value (FRC, 2014). Though large board sizes (9 members) are challenging in terms of communication, decision making, work planning and regular meetings, they are advantageous in some way. Large board sizes act as security to companies since they help companies to secure resources, reduce environmental risks such as expropriation by the CEO, something that is so common with small board sizes. Besides, large board sizes are rich in diversity in terms of contacts, skills, expertise, gender and nationality (Wanyama & Olweny, 2013). However, large board sizes come with agency problems and therefore increase agency costs thus affecting the performance of the firm.

Small board sizes on the other hand are thought to be better but they also have their own challenges. When the board size is small, it consists of fewer non-executive directors which on one hand is advantageous since it consists of more executive directors who understand the business better but on the other hand may experience lack of diversity and is vulnerable to manipulation by the CEO. Additionally, small board sizes have better monitoring abilities on the firm's management. However, a board size of less than six members is thought to have no significant effects on the performance of the firm but a board of greater than seven members may have a negative effect on performance due to increased agency problems and costs (Fauzi & Locke, 2012; Guest, 2009).

2.3.2 Board Composition

According to Ochoi and Memba (2015), a board should be composed of both executive (inside) and non-executive (outside) directors in the ratio of 2:3. The larger the board, the higher the number of non-executive directors. Non-executive directors mostly tend to fulfil their monitoring role with respect to corporate financial reporting. This is because more outside directors act in the interest of the shareholders.

Although they have more effective monitoring abilities that lead to the reduction of agency costs, more non-executive directors may limit managerial discretion. However, Korir and Cheruiyot (2014) state that more non-executive directors lead to more independence. Bhagat and Black (2002) did not find any significant relationship between non-executive directors and firm performance. They hypothesize that ultimately; firm performance depends on optimal mix between executive and non-executive directors.

Board diversity can also be enhanced by including both male and female as members. While some researchers have found no significant relationship between board gender composition and firm financial performance, Adams and Ferreira (2008) indicated that more female directors in the board leads to decreased firm financial performance. On the contrary, Green and Homroy (2015) indicate that the inclusion of female directors in the board boosts the financial performance of the firm.

2.3.3. Board Competency

The Cadbury report emphasizes that the non-executive directors' competency is an important factor for the board to be effective (Cadbury report, 2012). Among others, directors should have knowledge on managing company and corporate governance processes (Chtourou, 2011). Directors with accounting and finance background would have a better understanding of the implication of earnings manipulation, compared to managers who do not have that knowledge. Managers without appropriate competency in accounting and finance field may be able to monitor business processes but they may not be able to understand earnings management practices (Xie, 2013).

Board of directors who are competent are expected to be able to maximaze financial performance. Chtourou (2011) provides evidence that firms with experienced external directors show significantly trends of financial performance. This is consistent with Xie (2013) who found that the relationship between experienced board of director (directors with corporate and finance background). Years of experience serving as a board member provides an opportunity for the member to understand the company. This experience would help them developing better governance (Park & Shin, 2004).

However, in our study experience is measured according to director's experience in accounting and finance field. This measure is used because directors with accounting and finance experience may have a better understanding of financial reporting than other directors. Johnson and Ellstrand (1999) show that firm performance is positively associated with board competence because board whose members have an understanding on profitability has a better chance to track and advice managing earnings. Boards whose members lack accounting and finance competencies are perceived as unable to detect or constrain fraud (Yu, 2008) if dominated by large shareholders or management. Competent boards are better able to monitor the actions of top management (Zahra & Pearce, 1989). Boards with a more diverse range of academic and technical backgrounds, expertise, and perspectives on how to develop the quality of decision making are more likely to protect and represent shareholders' interests. They are thus less vulnerable to CEO dominance.

Khanalizadeh and Hashemi (2012) on their part investigated the relationship between Competencies of Board and Corporate Performance, with a Sample size of 540 firms for the period 2006 to 2010. The variables of returns on sales (ROS), profit growth rate (GP) and cash flows (CF) were used to measure corporate performance and competences of Board was an indicator of corporate governance. Regression model was used to test the relationship between them. They firstly performed robustness tests for using regression models which include heteroscedasticity, auto correlation and significance tests of fixed effects. After this, OLS and GLS techniques were used for regressing model. The finding indicates that there is no significant relationship between the competences of board and return on sales, profit growth rate and cash flows.

In view of Alexander (2010), the population used in the study comprised the listed industrial companies in Amman Stock Exchange between 2001 and 2005. The final sample consists of 195 firm-year observations for accrual estimation and empirical analysis. The correlation between Board Competences and unprofitability is negative and significant at 5%. The regression results showed that board competences has a negative but insignificant association with poor profitability. This insignificant association indicated that board competencies is not a major consideration in managers' aggressive strategy.

Chuni and Ramadhani (2009) examined the Effect of Board competencies on financial profitability in Kenya. The sample consists of 613 firms from construction, industrial products and consumer products sectors selected from the main board. The time period covered for the study was from year 2001 to 2003. Modified Jones Model with cross sectional approach was employed to measure discretionary accruals. Multiple regression result revealed that large diversified boards have a negative relationship with profitability; however, the result is not statistically significant. The findings indicate that in contrast to the evidence in developed markets, competence of board in Kenyan firms is not an effective mechanism to constrain the firms' profitability.

2.3.4 Ownership Structure

Ownership structure is the identity of company ownership and an important element of corporate governance which is potentially important. Ownership structure consists of two types, dispersed ownership to outside investors and concentrated ownership, (Surya et..al,2005). Ownership concentration in some families or business group cause a big control to majority shareholder, which eventually a different treatment between shareholders emerge and the one who will be harm is the minority shareholders. Ownership concentration is determined by the number of share that is held by three biggest shareholders and counted with Herfindahl index which is the square amount of share proportion (in percent), (Firth et..al, 2006).

Investor protection is high when the management ownership is high because outside investors expect the manager with their share ownership significantly will act in the best interest of all the shareholders to minimize the negative impact from unanticipated crisis of their share, (Leung et..al, 2007). Durnec and Kim (2003) claim that the bigger the ownership that owned by the controller shareholders and it will improve the quality and performance of a firm. Juliana (2006), proves that a high ownership concentration can give a trustable commitment from the controller owner with a purpose to build reputation and not to misuse the interest of minority shareholders. In this regard, ownership concentration factor is one of the determinants in the performance of banks as business institutions.

2.3.5 Transparency and Disclosure

Transparency is integral to corporate governance, higher transparency reduces the information asymmetry between a firm's management and financial stakeholder's (equity and bondholders), mitigating the agency problem in corporate governance (Sandeep et al,2002). The concept of Bank transparency is broad in scope it refers to the quality and quantity of public information on a bank's risk profile and to the timing of its disclosure, including the banks past and current decisions and actions as well as its plans for the future. The transparency of the banking sector as a whole also includes public information on bank regulations and on safety net operations of the central bank (Enoch et al, 1997).

2.3.6 Insider shareholding and firm value

The first argument to address the problem of agency concerns the use of insider shareholding. Several researchers (DeAngelo and DeAngelo, 1985; McConnell and Servaes, 1990; Loderer and Martin, 1997; Nor et al., 1999; Yeboah-Duah, 1993) have undertaken research on this aspect, reporting very conflicting results. In particular,

McConnell and Servaes (1990) find a significant curvilinear relationship between insider ownership and firm performance. While Loderer and Martin (1997) find no significant relationship, Nor et al. (1999) reported a non-linear relationship, drawing conclusionscontrary to those of Yeboah-Duah (1993).

2.3.7 Financial Performance

Financial soundness is a situation where depositor's funds are safe in a stable banking system. The financial soundness of a financial institution may be strong or unsatisfactory varying from one bank to another (BOU, 2002). External factors such as deregulation; lack of information among bank customers; homogeneity of the bank business, connections among banks do cause bank failure. Some useful measures of financial performance which is the alternative term as financial soundness are coined into what is referred to as CAMEL as elaborated below:

Capital Adequacy: This ultimately determines how well financial institutions can cope with shocks to their balance sheets. The bank monitors the adequacy of its capital using ratios established by The Bank for International Settlements. Capital adequacy in commercial banks is measured in relation to the relative risk weights assigned to the different category of assets held both on and off the balance sheet items (Awino, 2010).

Asset Quality: The solvency of financial institutions typically is at risk when their assets become impaired, so it is important to monitor indicators of the quality of their assets in terms of overexposure to specific risks trends in non- performing loans, and the health and profitability of bank borrowers especially the corporate sector. Credit risk is inherent in lending, which is the major banking business. It arises when a borrower defaults on the loan repayment agreement, (Bank of Uganda, 2002).

Earnings: The continued viability of a bank depends on its ability to earn an adequate return on its assets and capital. Good earnings performance enables a bank to fund its expansion, remain competitive in the market and replenish and /or increase its capital (Juliana, 2006).

Liquidity: Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches. An unmatched position potentially enhances profitability but also increases the risk of losses (Linyiru, 2006).

2.4 Empirical Literature Review for the study

The possibility of corporate administration is as unique as the worldwide economy may be. As indicated by Adekunle and Aghedo (2014) in their paper on looking at corporate administration and budgetary execution of chose cited organizations in Nigeria in the year 2011 upon the examination of 263 organizations recorded in the Nigerian Securities Exchange utilizing OLS relapse investigation strategy, They set up that most firms need to keep up a sizable number of administration. This diminishes the office costs in type of wage charge and thus specifically suggest an expansion in the monetary execution of the organizations. He additionally subjected his discoveries to a relapse show with an end goal to decide the relationship of different standards and their commitments to benefit of the organizations. The quantity of board individuals additionally had differentiating suggestion on execution of organizations. The less the board individuals along these lines, the higher the profits collected to the organization.

High possession fixation may likewise prompt carelessness of different investors who have a low focus. The majority of them look to seek after their own particular advantages and not that of the others. Their childishness may over the long haul prompt crumple of the organization.

Two broadly defined theories co- exist in the corporate governance literature. One stresses the discipline of the market, claiming that threat of hostile takeovers and leveraged buyouts in firms was sufficient to ensure full efficiency. Where managers neglect to invest in those projects that add value to the firm and its shareholders but divert recourses to their own benefit, the financial markets act to restore good governance. A number of mechanisms have been suggested, such as removing senior managers in poorly performing firms, (George, 2011); demanding cash flow payments in the form of debt service; and linking executive compensation to performance, including equity and options Jensen, (1986).

Matama, (2005) in the investigation of Corporate Governance and monetary execution on chose business banks, got a positive connection between Corporate Governance and budgetary execution. Masibo, (2005) inquired about on Board Governance and firm execution of chose state claimed enterprises and in recorded associations on Uganda Securities Exchange, got a positive immediate and aberrant connection between Board Governance and Firm money related Performance through Board Effectiveness. Piesses, (2005), completed exact research on Corporate Governance and firm execution in a worldwide point of view and acquired clashing outcomes on the connection between Corporate Governance and Firm execution

Barako et al. (2006) found that there was a positive connection between corporate social detailing and the board portrayal. On the off chance that there is an aggregate exposure of every single money related report, at that point the organization has a higher opportunity to perform. Barako and friends completed a nitty gritty research on the 54 Kenyan banks recorded at the Nairobi Stock trade for the years 1992-2001 utilizing OLS and Board Corrected Standard Errors techniques and there was a noteworthy postponement in money related detailing in Kenya.

Muhoro and McGee (2009) established from their paper, “A Comparative Study of Kenya and the United States of America”, it takes at least 30 more days for companies to release their financial reports compared to the USA. The delay in reports lowers stakeholder confidence in the company. To some extent, it may even create loopholes to manipulation of the reports and consequently corruption. It is therefore important that the reporting strategies be implemented with discretion.

A study performed by Enekwe et al. (2014) on “the effect of financial leverage on financial performance: Evidence of quoted pharmaceutical companies in Nigeria” found no significant relationship between the financial leverage and firm performance upon evaluating the debt ratio, debt-equity ratio and interest coverage ratio and their effects on ROA in three pharmaceutical companies in Nigeria.

Several studies have been conducted on ownership structure metrics of managerial ownership, foreign ownership and institutional ownership Yu (2013) uses a panel data of Chinese listed firms during the period of 2003 and 2010 to investigate the effect of state ownership on earnings management. He found that, state ownership effects on earnings management is in a form of a U-shape. This means that, while state ownership initially decreases with earnings management, it would enhance firm performance when it is concentrated. This effect can be explained by the fact that high concentration of state ownership helps firms get benefits from government’s support and political connections. The research also indicates that government policy related to state ownership plays a role in positive link between state ownership and earnings management.

Namazi and Kermani (2008) analyzed the impact of ownership structure on firm performance of listed companies in Tehran Stock Exchange. The sample consisted of 66 companies, panel data was used to test the hypotheses. They divided the ownership into institutional and private ownership categories. Private ownership was further divided into corporate, management and external shareholders .They found that managerial ownership has a negative association with performance. In a similar study by Mirada (2008) who examined the controlling role of institutional investors, the result suggested a positive relation between institutional investors and earning quality.

2.5 Summary of Literature Reviewed

A few examinations have been led on corporate administration and hierarchical execution with many concentrated on corporate administration and general execution of an association.

Moreover, a significant number of studies have inspected the connection between corporate administration and monetary execution of associations in managing an account, protection and securities

Exchange. The hypothetical writing has differing sees on the impact of corporate administration on execution of associations. The office hypothesis proposes that supervisors seek after their own particular advantages to the detriment of the investors while asset based hypothesis demonstrates that the organization needs to put resources into its official and non-official executives keeping in mind the end goal to put the association in an aggressive edge. Observational writing both worldwide and nearby, demonstrate proof of some connection between corporate administration and budgetary execution of associations.

In spite of the variety of writing, little has been done on the connection between corporate administration and monetary execution Islamic establishment. Where examines have been done, just a couple of factors have been talked about. This investigation hence tried to connect the current relevant and calculated hole that exists in the writing.

2.6. Research Gap

Although findings noted in other studies are important in explaining the relationship between corporate governance and financial performance of commercial banks, there is scanty literature on the application of this subject in commercial banks in Kenya. This study is specifically addressing this gap and the extent to which these corporate governance aspects affect financial performance of commercial banks in Kenya. The empirical studies reviewed considered huge sample sizes and therefore this study endeavored to investigate the influence of using a smaller sample on the relationship between corporate governance and financial performance of Kenyan commercial banks.

III. Research Methodology

3.1 Introduction

This chapter discussed the research design, the description of the study population, the sampling procedures, and data collection procedures, data collection instrument, data analysis and the limitation of the study.

3.2 Research Design

In order to look at the ownership structure and corporate governance and its effects on performance in the Kenyan commercial banks, this research study used cross sectional and analytical research designs. This research design was used to collect a snap shot of data and analysis of the relationships between study variables. The design was more appropriate as it enabled respondents to give their relevant information on the issue of interest to the study, (Cooper & Schindler, 2003).

3.3 Population

This study targeted 440 respondents i.e. 10 supervisory staff from each of the 44 target banks

Target population in statistics is the specific population about which information is desired. According to Mugenda & Mugenda (2003), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The study population was all the 44 commercial banks in Kenya.

3.4 Sample

According to Mugenda (2003), a sample ratio of 0.3 was used to obtain sample representation of all respondents. In this case, thirteen (13) commercial banks were subjected to the study. The study purposively sampled 10 supervisory staff from each of the 13 sampled firms to get a sample of 132 respondents.

Due to the variability of characteristics among items in the population, the researchers applied scientific sample designs in the sample selection process to reduce the risk of a distorted view of the population, and made inferences about the population based on the information from the sample survey data. Only the sampled population was subjected to the data gathering exercise to provide the necessary information for the study.

3.5 Sources of Data

The two sources of data are primary and secondary data. Primary data were obtained by administering questionnaires to the sampled commercial banks. Secondary source were provided information and data from the published annual reports and company sources spanning five years. In this study, questionnaires and abstraction methods were used in collecting data. Questionnaire was used to collect primary data directly from the respondent. It consisted of questions on Corporate Governance, board roles, board effectiveness, size and contingency. Abstraction method was used to collect secondary data from financial reports and statements provided by the sampled banks. In order to increase reliability of the findings, a combination of data from annual financial reports and questionnaires were used.

3.5.1 Reliability and Validity tests

Prior to visiting the company for data collection, the researcher obtained a letter from the authorities to permit him proceed in obtaining the data. The purpose of the letter was to ensure trustworthiness by the respondent and therefore able to provide quality and reliable data. On the other hand the content validity and reliability was assured by ensuring that each question in the questionnaire and interview schedule is valid and correctly structured for easy understanding. Moreover, the secondary data to be reviewed must be recent and up to date as well as containing relevant contents.

To ensure reliability, the researcher pre-tested the questionnaire using two commercial banks. The purpose of the pilot study was to enable the researcher to improve on the reliability of the data collecting instruments and to familiarize with their administration.

According to Masibo (2005), pre-testing provides a check on the feasibility of the proposed procedure for coding data and shows up flaws and ambiguities in the instruments of data collection. It also yielded suggestions for improvement of data collecting tools. The test-retest technique of measuring reliability was used in the case. This involved administering the questionnaire to the two pilot respondents twice with a time lapse of one week and then computing the correlation coefficient (r) for the two tests.

On the other hand the content validity of the two instruments of data collection was assured by ensuring that each of the items in the questionnaire and interview schedule addressed specific contents and objectives of the study. The end result was that the instruments were appropriate in terms of content validity. The validity and reliability of the tools for data collection were eventually ascertained, and used to collect data from the sampled respondents.

3.6 Data analysis

The independent variable which is corporate governance was measured in terms of board structure / size and decision making. Board roles were measured in terms of monitoring and control, access to resources, strategy and advice and counsel. Board effectiveness was measured in terms of committees, risk management, delegation, skills and knowledge. Financial performance as dependent variable was measured in terms of the revenue collection performance ratio of actual revenue over budgeted revenue, expenditure performance ratio of actual expenditure over budgeted expenditure.

Value for money was measured as a ratio of actual revenue over actual expenditure (efficiency). Data analysis was carried out by use of narrative analysis strategy, by gauging the extent to which given information provides insights about the issues of corporate governance and its effect on financial performance of commercial Banks. Some statistical software was also used in analysis of quantitative data. The results from the annual financial reports and other documentations were presented in tables, and in form of charts, graphs and narrative statements.

3.7 Variables for Bank Financial Performance

Bank performance represents the objective of shareholder's interest. This study employed a single variable for bank performance relevant to return on shareholder's investment, called ROE. Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. It is calculated through the
following formula:

$$\text{Return on Equity} = \frac{\text{net income}}{\text{Shareholders equity}}$$

A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better.

3.8 Bank Performance equation

Separation between ownership and management has led to the creation of problems within the institution as a result of conflicting interests of owners and managers leading to the need to search for those means which ensure consensus and ending the conflict.

Due to financial crises, especially during the past few years, interest has grown in what is known as corporate governance as a contributor to ending this problem through the adoption of governance mechanism ensuring that managers act to serve shareholders' interests to improve performance and maximize shareholders' wealth, (Aljifri & Moustafa, 2007)

The performance equation for the study was formulated as follows:

There was a statistically indicative effect for bank corporate governance (i.e. corporate governance practices, Shareholders rights and responsibilities, Disclosure policies and practices, corporate governance policies in ROE as indicator of bank financial performance. This was illustrated by the equation below:

$$ROE = b0 + b1\ CGPR + b2\ SRR + b3\ DPP + b4CGPO + e$$

Where:
CGPR: Corporate Governance Practices
SRR: Shareholders Rights and Responsibility

DPP: Disclosure Policies and Practices
CGPO: Corporate governance policies
e: Standard Errors

IV. Data Analysis And Discussions

4.1 Introduction

The chapter presents findings of the study which has been analyzed in line with the study objectives using thematic and sub thematic areas as follows: questionnaire return rate, background information of the respondents, and thematic areas of corporate governance practices, shareholders rights and responsibilities, disclosure policies and practices and corporate governance policies as independent variables and financial performance as the dependent variable. The study presents analyzed data inform of descriptive and inferential statistics.

4.2 Questionnaire Return Rate

The study used questionnaires as a tool for data collection. Out of the 132 questionnaires issued, 121 were filled and returned. This represented a return rate of 91.67% which was good when compared to the recommended response rate to verify consistency of measurements required for analysis (75% based on Nachimias & Nachimias, 2005). Table 4.1 shows this information;

Table 4.1 Questionnaire Return Rate

Questionnaire	Number	Percentage %
Delivered	132	100.00
Returned	121	91.67
Not returned	09	8.33

4.3 Background Information

The study examined the respondents in respect to their age, gender academic qualifications and length of operation in the current office. It was important to consider the above demographic characteristics of respondents to see whether they have any implications on the study variables. Additionally, To examine effect of Corporate Governance Practices on the financial performance of commercial banks in Kenya, To examine effect of Shareholders Rights and Responsibility on the financial performance of commercial banks in Kenya, to examine effect of Disclosure Policies and Practices on financial performance of commercial banks in Kenya and to examine effect of Corporate governance policies on performance of commercial banks in Kenya

4.3.1. Distribution of Respondents by Age

The study also examined how respondents were distributed according to their age categories. Table 4.2 shows the results of the analysis.

Table 4.2: Distribution of Respondents by Age

	Frequency	**Percent**
Below 25 Years	10	8.3
25 to 29 Years	19	15.7
30 to 34 Years	12	9.9
35 Years and Above	80	66.1
Total	**121**	**100.0**

It was noted that 66.1% of the respondents who were the majority were above the age of 35 years. Respondents between 25 to 29 years were 15.7% while those between 30 to 35 years were 9.9% of the sampled population. It was further noted that 10 respondents which represented 8.3% of the sampled population were below 25 years of age. The findings implied that most of the respondents were elderly as shown in the table 4.2 above;

4.3.2 Distribution of Respondents by Gender

The study also examined how respondents were distributed according to their gender categories. Table 4.3 shows the results of the analysis.

Table 4.3: Distribution of Respondents by gender

GENDER		
	Frequency	**Percent (%)**
Male	**74**	**61.2**
Female	**47**	**38.8**
Total	**121**	**100.0**

It was noted that (74) 61.2% of the respondents who were the majority were male while (47) 38.3%) were female. This shows that most of the respondents were male.

4.3.3 Distribution of Respondents by Academic Qualifications

The study examined the distribution of respondents according to their highest academic qualifications. The pertinent results are shown in Table 4.4.

Table 4.4 Distribution of Respondents by Academic Qualifications

	Frequency	Percent
Primary	0	0.0
Secondary	1	0.8
Diploma	18	14.9
Undergraduate Degree	83	68.7
Post Graduate Degree	19	15.7
Total	**121**	**100.0**

The study findings indicated that majority (83) (68.7%) of the respondents were bachelor degree holders. In addition, (18) 14.9% of the respondents were diploma holders while (19) 15.7% held post graduate degrees. 1(0.8%) of the respondents held a secondary level certificates while none had primary level qualifications. Only 2.9% respondents had primary as the highest level. The findings illustrated that most of the respondents were academically qualified.

4.3.4 Distribution of Respondents by Length of service in the current office

The study further examined how respondents were distributed according to the length of service in the current position (Table 4.5).

Table 4.5: Length of service in the current office

	Frequency	Percent
1 year	16	13.2
2 Years	22	18.2
3 Years	55	45.5
4 or more than 4 Years	28	23.1
Total	**121**	**100.0**

The study determined that 45.5% of the respondents had length of operation experience in the current position for 3 years. In addition, 23.1% had 4 or more than 4 years working experience while 18.2% had worked for 2 year in the current position. Respondents that had worked for only 1 year were 13.2%. This implies that most respondents had joined their current organizations just 3 years ago.

4.4. Test for assumptions of Multiple Linear Regression Analysis

Multicollinearity

Multicollinearity exists when the independent variables are highly correlated (r= 0.7 and above). Multiple regressions are very sensitive on this. Tabachnick and Fidell (2001) suggest that one should avoid inclusion of two variables with a bivariate correlation of 0.7 or more in the same multiple linear regression analysis. To determine the nature and magnitude of the relationships between the independent variables in the study, Pearson Product Moment Correlation Coefficient technique was used.

Table 4.6: Correlation matrix for the Independent variables

		Corporate Governance Practices	Shareholders Rights and Responsibility	Disclosure Policies and Practices
Corporate Governance Practices	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	121		
Shareholders Rights and Responsibility	Pearson Correlation	.293**	1	
	Sig. (2-tailed)	.000		
	N	121	121	
Disclosure Policies and Practices	Pearson Correlation	.211**	.408**	1
	Sig. (2-tailed)	.005	.000	
	N	121	121	121

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

Since none of the pair of independent variables had a correlation coefficient above 0.7 as shown in table 4.35 above, then there is an indication of absence of multicollinearity. The VIF (variance inflation factor) values in table 4.36 were less than four and tolerance above 0.2; implying that there was no Multicollinearity, Tabachnick and Fidell (2001).

Table 4.7: Variance Inflation Factor (VIF) among Independent variables

Variable	Tolerance	VIF
Corporate Governance Practices	.904	1.106
Corporate Governance Practices	.789	1.268
Disclosure Policies and Practices	.824	1.213
Corporate governance policies	.904	1.106

To test for the assumptions of linearity, Homoscedasticity and presence of outliers in the scores, Normal p-p plot and Scatter plot of the standardized residuals were adopted for the study.

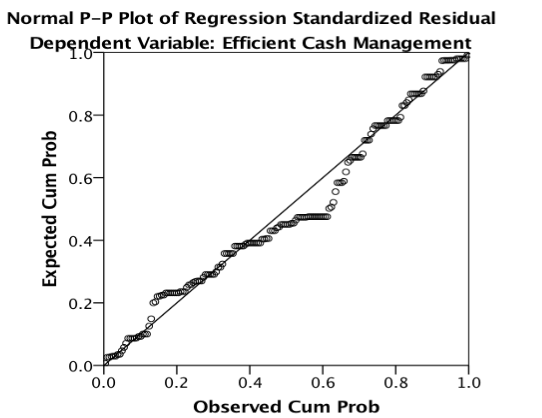

Figure. 4.8: Normal p-p plot of regression standardized residual

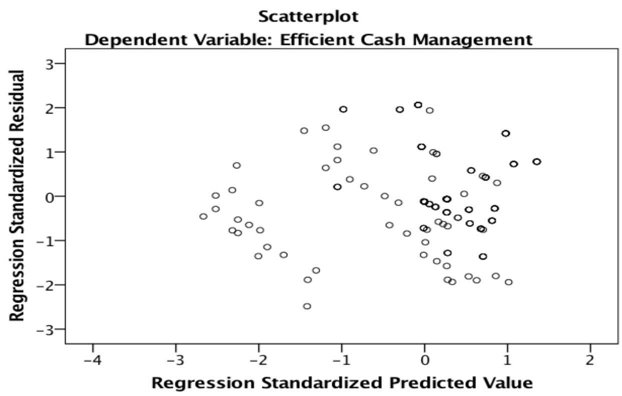

Figure. 4.9: Scatter plot of the standardized residuals

4.4.1. Linearity test

As shown Normal Probability Plot in figure 4.8, the points lie in a reasonably straight diagonal line from bottom left to top right; an indication of linearity assumption being achieved.

4.4.2. Homoscedasticity test

Homoscedasticity refers to the assumption that the dependent variable exhibits similar amounts of variance across the range of values for an independent variable. Lack of the deviations of the residuals from a centralized rectangle with most of the scores concentrated in the Centre (along the point) as shown in figure 4.9 suggest that we did not violet the assumption of homoscedasticity.

Outliers

Tabachnick and Fidell (2001, p. 122) define outliers as those with standardized residual values above about 3.3 (or less than –3.3). Linear Regressions analysis is very sensitive to outliers (very high or very low scores). From figure 4.9, none of the standardized residuals is more than 3.3 or less than –3.3, indicating absence of outliers in our dataset.

4.5. Descriptive Statistics for the Study

4.5.1. Effect of Corporate Governance Practices on the financial performance of commercial banks in Kenya

The first objective of this study was to examine effect of Corporate Governance Practices on the financial performance of commercial banks in Kenya. To achieve this respondent were asked to give their opinions on how they agree or disagree with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

Respondents were asked to state their observation on whether BoD has regular meetings. As tabulated in 4.8 they observed as follows: 4.7% (6) strongly disagreed, 21.9% (26) disagreed, 28.1% (34) were undecided, 25.0% (30) agreed and 20.3% (25) strongly agreed. Therefore, majority 45.3% (55) of the respondents generally agreed that BoD has regular meetings. However, 26.6% (33) generally disagreed.

The study also sought to investigate whether there are many potential conflict of interest between the company and the BoD. It was realized, as seen ***4.***8, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 4.7% (6) were undecided, 39.1% (47) agreed and 56.3% (68) strongly agreed. As indicated by the high percentage 95.4% (115), Majority of the respondents agreed that there are many potential conflict of interest between the company and the BoD. However, none 0.0% (0) disagreed.

The third item under this theme was to establish whether the company has unequivocal list of shares owne by the members of BoD. It was established, as seen ***4.***8, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 26.6% (32) agreed and 71.9% (87) strongly agreed. As indicated by the high percentage 98.5% (119), majority of respondents agreed that The Company has unequivocal list of shares owned by the members of BoD. However, 0.0% (0) disagreed.

The fourth item under this theme was to establish whether The Company has an internal written policy regarding BoD members having recurrent positions as directors in other companies. It was found that, as seen ***4.***8 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 23.4% (28) agreed and 76.6% (93) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that the company has an internal written policy regarding
BoD members having recurrent positions as directors in other companies.

The study sought to establish whether The BoD is responsible for vision, mission and Strategic plan. As illustrated in ***4.***8, the employees' responses were as follows: 0.0 (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 54.8% (55) agreed and 45.2% (66) strongly agreed. Therefore, all respondents 100% (121) generally agreed that The BoD is responsible for vision, mission and Strategic plan.

In establishing whether the company provides formal performance appraisal review of the BoD regularly, it was realized, as seen in ***4.***8, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 45.3% (55) agreed and 53.1% (64) strongly agreed. Majority of respondents agreed, as seen from the high percentage 98.4% (119) that The company provides formal performance appraisal review of the BoD regularly.

The seventh item under this theme was to determine whether The Company provides formal performance appraisal review of the BoD regularly. It was established, as seen ***4.***8, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 1.6% (2) were undecided, 21.9% (26) agreed and 75.0% (91) strongly agreed. As indicated by the high percentage 96.9% (75), majority of respondents agreed that The Company provides formal performance appraisal review of the BoD regularly. However, 1.6% (2) disagreed.

Respondents were asked to state their observation on whether the company provides an internal nomination process for the BoD. As tabulated in 4. They observed as follows: 4.7% (6) strongly disagreed, 21.9% (26) disagreed, 28.1% (34) were undecided, 25.0% (30) agreed and 20.3% (25) strongly agreed. Therefore, majority 45.3% (55) of the respondents generally agreed that The Company provides an internal nomination process for the BoD. However, 26.6% (33) generally disagreed.

This findings are confirmed by previous studies by Alves (2012) who examined the relationship between corporate governance practices in Portugal and Financial performance Using a sample of 34 non-financial listed Portuguese firms for the period between 2002 to 2007, discretionary accruals were estimated using both the cross sectional variation of the Jones model (1991) and the cross sectional variation of the modified Jones model proposed by Dechow, Sloan & Sweeney (1995). They found that, the coefficient of corporate governance practices variable was positive and significant. The study's result suggested that Corporate Governance Practices improved the financial performance. The findings were presented in ***4.***8.

Table 4.8: The Influence of Corporate Governance Practices on the financial performance of commercial banks in Kenya

SN.	Description	SD	D	U	A	SA	Total
1.	BoD has regular meetings	4.7% (6)	21.9% (26)	28.1% (34)	25.0% (30)	20.3% (25)	100.0% (121)
2.	There are many potential conflict of interest between the company and the BoD	0.0% (0)	0.0% (0)	4.7% (6)	39.1% (47)	56.3% (68)	100.0% (121)
3.	The company has unequivocal list of shares owned by the members of BoD	0.0% (0)	0.0% (0)	1.6% (2)	26.6% (32)	71.9% (87)	100.0% (121)
4.	The company has an internal written policy regarding BoD members having recurrent positions as directors in other companies	0.0% (0)	0.0% (0)	0.0% (0)	23.4% (28)	76.6% (93)	100.0% (121)
5.	The BoD is responsible for vision, mission and Strategic plan	0.0% (0)	0.0% (0)	0.0% (0)	54.8% (66)	45.2% (55)	100.0% (121)
6.	The company provides formal performance appraisal review of the BoD regularly	0.0% (0)	0.0% (0)	1.6% (2)	45.3% (55)	53.1% (64)	100.0% (121)
7.	The company provides formal performance appraisal review of the BoD regularly	0.0% (0)	1.6% (2)	1.6% (2)	21.9% (26)	75.0% (91)	100.0% (121)
8.	The company provides an internal nomination process for the BoD	4.7% (6)	21.9% (26)	28.1% (34)	25.0% (30)	20.3% (25)	100.0% (121)

4.5.2. To examine effect of Shareholders Rights and Responsibility on the financial performance of commercial banks in Kenya

The second objective of this study was to determine the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya. To achieve this respondent were asked to give their opinions on how they agree or disagree with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

The study sought to investigate whether the banks have a corporate governance manual and policy. It was realized, as seen in Table4.9, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (23) agreed and 79.7% (96) strongly agreed. A higher percentage of 98.5% (119) shows that most respondents agreed that the banks have a corporate governance manual and policy. However, 1.6% (2) disagreed.

The second item under this theme was to establish whether the bank has active working committees on audit, compliance, risk management, insurance and compensation. It was established, as seen Table4.9, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 15.6% (19) agreed and 84.4% (102) strongly agreed. As indicated all, 100.0% (121), of respondents agreed that the bank has active working committees on audit, compliance, risk management, insurance and compensation.

The third item under this theme was to establish whether banks have a written code of corporate e governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure. It was found that, as seenTable4.9, 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 12.5% (15) agreed and 87.5% (106) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that banks have a written code of corporate e governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure.

The study sought to establish whether their written policies and rules on corporate governance are implemented. As illustrated in Table4.9, the employees' responses were as follows: 0.0 (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 12.5% (15) agreed and 85.9% (104) strongly agreed. Therefore, a majority of respondents 98.4% (119) generally agreed that their written policies and rules on corporate governance are implemented.

In establishing whether the board has a policy on periodic regular meetings, the study realized, as seenTable4.9, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 22.2% (27) agreed and 77.8% (94) strongly agreed. This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (121), that the board has a policy on periodic regular meetings.

In establishing whether corporate governance policies enhance financial performance of banks, the study realized, as seenTable4.9, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 20.3% (25) agreed and 79.7% (96) strongly agreed. This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (121), that Corporate governance policies enhances financial performance of banks.

The above findings are not in line with findings of previous studies by Shah, Zafar and Durrani (2009) who investigated listed companies in Karachi Stock Exchange. The sample consists of 120 listed companies from different sectors. Discretionary accrual was measured using cross sectional modified Jones 1995. The correlation result shows that Shareholders Rights and Responsibility has no statistically significant correlated with financial performance. The findings for this objective were tabulated in Table4.9.

Table4.9: Influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya

NO.	Description	SD	D	U	A	SA	Total
1.	We have a corporate governance manual and policy	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (23)	79.7% (96)	100.0% (121)
2.	The bank has active working committees on audit, compliance, risk management, insurance and compensation	0.0% (0)	0.0% (0)	0.0% (0)	15.6% (19)	84.4% (102)	100.0% (121)
3.	Our bank has a written code of corporate e governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure	0.0% (0)	0.0% (0)	0.0% (0)	12.5% (15)	87.5% (106)	100.0% (121)
4.	Our written policies and rules on corporate governance are implemented	0.0% (0)	1.6% (2)	0.0% (0)	12.5% (15)	85.9% (104)	100.0% (121)
5.	The board has a policy on periodic regular meetings	0.0% (0)	0.0% (0)	0.0% (0)	22.2% (27)	77.8% (94)	100.0% (121)
6.	Corporate governance policies enhances financial performance of banks	0.0% (0)	0.0% (0)	0.0% (0)	20.3% (25)	79.7% (96)	100.0% (121)

4.5.3. To examine effect of Disclosure Policies and Practices on financial performance of commercial banks in Kenya

The third objective of this study was to assess the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya. To achieve this respondent were asked to give their opinions on how they agree or disagree with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

The study was interested in assessing whether their bank provides equal access to information for Shareholders and investment analysts. As shown in Table 4.10, the respondents' responded as follows: 0.0 (0) strongly disagreed, 0.0 (0) disagreed, 1.6% (2) were undecided, 14.1% (17) agreed and 84.4% (102) strongly agreed. Therefore, a majority of respondents 98.4% (119) generally agreed that their bank provides equal access to information for Shareholders and investment analysts.

The second item that was investigated under this theme was whether the reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank. It was found that 0.0% (0) strongly disagreed, 3.1% (4) disagreed, 1.6% (2) were undecided, 18.8% (23) agreed and 76.5% (92) strongly agreed. A higher percentage of the respondents, thus 95.3% (115), indicated that the reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank.

The third item in this theme was to assess whether the company publishes and distributes its financial results and management analysis for analysts. It was established, as seen Table 4.10, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 26.6% (26.6) agreed and 73.4% (89) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that the company publishes and distributes its financial results and management analysis for analysts.

In establishing whether the company posts its financial results and management analysis on the internet, it was realized, as seen in Table 4.10, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 14.1% (17) agreed and 85.9% (104) strongly agreed. This finding indicated that all respondents agreed that the company posts its financial results and management analysis on the internet.

The fifth item under this theme was to determine whether the company tracks changes in its corporate governance so that any and all voting blocks are known. It was established, as seen Table 4.10, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 20.3% (25) agreed and 79.7% (96) strongly agreed. Therefore, it's agreeable to conclude that The Company tracks changes in its corporate governance so that any and all voting blocks are known.

The study sought to investigate whether the annual reports clearly described. It was realized, as seen Table4.10, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 29.7% (36) agreed and 70.3% (85) strongly agreed. As indicated by this percentage 100.0% (121), all respondents agreed that the annual reports clearly described.

The above findings are in an agreeing viewpoints with findings of previous studies by several researchers like Grinblatt and Keloharju (2010) and Sea holes (2000) who in investigating the influence of disclosure policies argue that organizations will structured disclosure guidelines have a higher stakeholder trust and thus perform well even financially compared to firms which don't have clear disclosure mechanisms. The findings are tabulated in Table 4..10 and discussed hereunder

Table 4.10: Disclosure Policies and Practices on financial performance of commercial banks in Kenya

NO.	Description	SD	D	U	A	SA	Total
1.	Your bank provides equal access to information for Shareholders and investment analysts	0.0% (0)	0.0% (0)	1.6% (2)	14.1% (17)	84.4% (102)	100.0% (121)
2.	The reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank	0.0% (0)	3.1% (4)	1.6% (2)	18.8% (23)	76.5% (92)	100.0% (121)
3.	The company publishes and distributes its financial results and management analysis for analysts	0.0% (0)	0.0% (0)	0.0% (0)	26.6% (32)	73.4% (89)	100.0% (121)
4.	The company posts its financial results and management analysis on the internet.	0.0% (0)	0.0% (0)	0.0% (0)	14.1% (17)	85.9% (104)	100.0% (121)
5.	The company tracks changes in its corporate governance so that any and all voting blocks are known	0.0% (0)	0.0% (0)	0.0% (0)	20.3% (25)	79.7% (96)	100.0% (121)
6.	The annual reports clearly described	0.0% (0)	0.0% (0)	0.0% (0)	29.7% (36)	70.3% (85)	100.0% (121)

4.5.4. To examine effect of Corporate governance policies on performance of commercial banks in Kenya

The fourth variable of the study was corporate governance policies. Respondent were asked to give their opinions on how they agree or disagree with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

Respondents were asked to state whether Shareholders are encouraged to attend and vote during the annual General meetings. As tabulated in ***4.***11, the respondents observed as follows: 4.7% (6) strongly disagreed, 21.9% (26) disagreed, 28.1% (34) were undecided, 25.0% (30) agreed and 20.3% (25) strongly agreed. Therefore, majority 45.3% (55) of the respondents generally agreed that Shareholders are encouraged to attend and vote during the annual General meetings. However, 26.6% (33) generally disagreed.

The study sought to investigate whether there is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting. It was realized, as seen ***4.***11, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 4.7% (6) were undecided, 39.1% (47) agreed and 56.3% (68) strongly agreed. As indicated by the high percentage 95.4% (115), majority of respondents agreed that there is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting.

The third item under this theme was to establish whether there is adequate time given during the annual shareholders' meeting for shareholders to ask questions. It was established, as seen ***4.***11, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 1.6% (2) were undecided, 26.6% (32) agreed and 71.9% (87) strongly agreed. As indicated by the high percentage 98.5% (119), majority of respondents agreed that there is adequate time given during the annual shareholders' meeting for shareholders to ask questions.

The fourth item under this theme was to establish whether the annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors. It was found that, as seen ***4.***11, 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 23.4% (28) agreed and 76.6% (93) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that the annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors.

The study was interested in assessing whether Shareholders are aware of their rights and responsibilities. As shown in Table 4.10, the respondents' responded as follows: 0.0 (0) strongly disagreed, 0.0 (0) disagreed, 1.6% (2) were undecided, 14.1% (17) agreed and 84.4% (102) strongly agreed. Therefore, a majority of respondents 98.4% (119) generally agreed that Shareholders are aware of their rights and responsibilities

.The sixth item that was investigated under this theme was whether minorities are well protected. It was found that 0.0% (0) strongly disagreed, 3.1% (4) disagreed, 1.6% (2) were undecided, 18.8% (23) agreed and 76.5% (92) strongly agreed. A higher percentage of the respondents, thus 95.3% (115), indicated that minorities are well protected.

The seventh item in this theme was to assess whether shareholders have equitable treatment. It was established, as seen Table 4.10, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 26.6% (26.6) agreed and 73.4% (89) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that Shareholders have equitable treatment.

Previous works according to Khanalizadeh and Hashemi (2012) who investigated the relationship between corporate governance policies and financial Performance, with a Sample size of 540 firms for the period 2006 to 2010. Regression model was used to test the relationship between them. They firstly performed robustness tests for using regression models which include heteroscedasticity, auto correlation and significance tests of fixed effects. After this, OLS and GLS techniques were used for regressing model. The researcher contradicts the above findings by establishing no direct statistically significant relationship between corporate governance policies and financial performance. The findings were presented in ***4.***11.

Table 4.11: Corporate governance policies

Description	SD	D	U	A	SA	Total
1. Shareholders are encouraged to attend and vote during the annual General meetings	4.7% (6)	21.9% (26)	28.1% (34)	25.0% (30)	20.% (25)	100.0% (121)
2. There is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting.	0.0% (0)	0.0% (0)	4.7% (6)	39.1% (47)	56.% (68)	100.0% (121)
3.There is adequate time given during the annual shareholders' meeting for shareholders to ask questions	0.0% (0)	0.0% (0)	1.6% (2)	26.6% (32)	71.% (87)	100.0% (121)
4.The annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors	0.0% (0)	0.0% (0)	0.0% (0)	23.4% (28)	76.% (93)	100.0% (121)
5.Shareholders are aware of their rights and responsibilities	0.0% (0)	0.0% (0)	1.6% (2)	14.1% (17)	84.4% (102)	100.0% (121)
6.Minorities are well protected	0.0% (0)	3.1% (4)	1.6% (2)	18.8% (23)	76.5% (92)	100.0% (121)
7.Shareholders have equitable treatment	0.0% (0)	0.0% (0)	0.0% (0)	26.6% (32)	73.4% (89)	100.0% (121)

4.5.5. Financial performance of commercial banks in Kenya

The dependent variable of this study was financial performance of commercial banks in Kenya. To achieve this respondent were asked to give their opinions on how they agree or disagree with the statements in Likert scale of 1-5, where 1= Strongly Disagree, 2= Disagree, 3= not sure, 4= Agree, 5= Strongly Agree.

The study sought to investigate whether the bank has had good improvement on return on equity in the ten years. It was realized, as seen in Table4.12, that 0.0% (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 18.8% (23) agreed and 79.7% (96) strongly agreed. A higher percentage of 98.5% (119) shows that most respondents agreed that the bank has had good improvement on return on equity in the last ten years. However, 1.6% (2) disagreed.

The second item under this theme was to establish whether the bank has had good improvement on return on assets in the last ten years. It was established, as seen Table4.12, that 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) were undecided, 15.6% (19) agreed and 84.4% (102) strongly agreed. As indicated all, 100.0% (121), of respondents agreed that the bank has had good improvement on return on assets in the last ten years.

The third item under this theme was to establish whether the bank has better return on equity than the industry. It was found that, as seen table 4.12, 0.0% (0) strongly disagreed, 0.0% (0) disagreed, 0.0% (0) was undecided, 12.5% (15) agreed and 87.5% (106) strongly agreed. General, it was evident that 100.0% (121) of respondents agreed that the bank has better return on equity than the industry.

The study sought to establish whether the bank has better return on assets than industry. As illustrated in Table4.12, the employees' responses were as follows: 0.0 (0) strongly disagreed, 1.6% (2) disagreed, 0.0% (0) were undecided, 12.5% (15) agreed and 85.9% (104) strongly agreed. Therefore, a majority of respondents 98.4% (119) generally agreed that the bank has better return on assets than industry.

While Healy (2015) used ROI and ROE to measure financial performance, subsequent studies attempt to separate them into components. Profitability features in most of the studies as an essential measure of financial performance in many organizations. Additionally, other studies find a positive correlation between corporate governance and financial performance of commercial banks. The findings for this objective were tabulated in Table4.12.

Table4.12: Financial performance of commercial banks in Kenya

NO.	Description	SD	D	U	A	SA	Total
1	The bank has had good improvement on return on equity in the last ten years	0.0% (0)	1.6% (2)	0.0% (0)	18.8% (23)	79.7% (96)	100.0% (121)
2	The bank has had good improvement on return on assets in the last ten years	0.0% (0)	0.0% (0)	0.0% (0)	15.6% (19)	84.4% (102)	100.0% (121)
3	The bank has better return on equity than the industry	0.0% (0)	0.0% (0)	0.0% (0)	12.5% (15)	87.5% (106)	100.0% (121)
4	The bank has better return on assets than industry	0.0% (0)	1.6% (2)	0.0% (0)	12.5% (15)	85.9% (104)	100.0% (121)

4.6. Inferential Analysis

This section presents inferential analyses, findings and discussions. Testing of the hypotheses was also dealt with.

4.6.1 Corporate Governance Practices and Financial performance

The means of Corporate Governance Practices and Financial performance of commercial banks in Kenya were regressed. The purpose of this analysis was to find the causal relationship between Corporate Governance Practices and Financial performance of commercial banks in Kenya. This aided in testing the first hypothesis of the study that posits, $H_0 1$: Corporate Governance Practices has no significant effect on financial performance in commercial banks in Kenya. This was tested using significance of R square and Regression coefficient at 95.0% confidence level.

There is evidence that the relationship between Corporate Governance Practices and Financial performance of Commercial banks in Kenya which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that Corporate Governance Practices has a significant and moderate strong relationship with the financial performance of commercial banks in Kenya. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in financial performance of commercial banks in Kenya is explained by Corporate Governance Practices. The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting the effect of Corporate Governance Practices on Financial performance of commercial banks in Kenya.

The unstandardized regression coefficient (β) value of Corporate Governance Practices was 0.541, correlation coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between Corporate Governance Practices and Financial performance of Commercial banks in Kenya . At 5% level of significance and 95% level of confidence, Corporate Governance Practices is significant in predicating the degree of financial performance of commercial banks in Kenya. The regression equation to estimate the relationship between Corporate Governance Practices and Financial performance of commercial banks in Kenya is stated as:

$FP = 1.914 + 0.541CGP + e$

An F-significance value of p = 0.000 indicated that there was a probability of 0.00% from the regression model to accept the null hypothesis. The first research hypothesis posited $H_0 1$: Corporate Governance Practices has no significant effect on financial performance of commercial banks in Kenya, Kenya. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that Corporate Governance Practices had a significant and moderate strong positive linear correlation with financial performance of commercial banks in Kenya.

Table 4.13: Regression Results of Corporate Governance Practices and Financial performance

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics			
					R Square change	F change	df1	Sig. F change
1	0.510[a]	0.260	0.258	0.76894	0.260	118.737	1	0.000

a. a. Predictors: (Constant), Corporate Governance Practices
b. c. Dependent Variable: Financial performance

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	70.206	1	70.206	118.737	0.000[b]
	Residual	199.850	120	0.591		
	Total	270.056	121			

a. Dependent Variable: Financial performance
c. b. Predictors: (Constant), Corporate Governance Practices
d.

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	1.914	0.167		11.445	0.000			
	Corporate Governance Practices	0.541	0.050	0.510	10.89	0.000	0.510	0.510	0.510

a. Dependent Variable: Dependent Variable: Financial performance
b. Predictors: (Constant), Corporate Governance Practices

4.10.2 Shareholders Rights and Responsibility and Financial performance

The means of Shareholders Rights and Responsibility and Financial performance in commercial banks in Kenya were regressed. The purpose of this analysis was to find the relationship between Shareholders Rights and Responsibility and Financial performance in the commercial banks in Kenya. This aided in testing the second hypothesis of the study that posits, H_02: Shareholders Rights and Responsibility has no significant effect on financial performance in the commercial banks in Kenya. This was tested using significance of R square and Regression coefficient at 95.0% confidence level. The results are presented in Table 4.13.

Table 4.14 reveals that the relationship of Shareholders Rights and Responsibility and Financial performance variables which was linear, positive and significant. The correlation coefficient (R) of 0.470 implied a relatively weak relationship of Shareholders Rights and Responsibility and Financial performance in the commercial banks in Kenya. The coefficient of determination, R-square of 0.221 implied that 22.1% of the variance in Financial performance of the Commercial banks in Kenya was accounted for by Shareholders Rights and Responsibility with the significance value of $p = 0.000$ which is less than 0.05. The unstandardized regression coefficient (β) value of Shareholders Rights and Responsibility and Financial performance was 0.384, correlation coefficient (β) of 0.470 and with a t-test of 9.789 and significance level of $p = 0.000$, which further confirmed existence of a significant and relatively weak positive linear correlation of Shareholders Rights and Responsibility and Financial performance of Commercial banks in Kenya .

Table 4.14: Regression Results of Shareholders Rights and Responsibility and Financial performance

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics				
					R Square change	F change	df1	df2	Sig. F change
1	0.470[a]	0.221	0.219	0.78899	0.221	95.821	1	120	.000

a. a. Predictors: (Constant), Shareholders Rights and Responsibility
b. c. Dependent Variable: Financial performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	59.649	1	59.649	95.821	.000[b]
	Residual	210.407	120	0.623		
	Total	270.056	121			

a. Dependent Variable: Financial performance
c. b. Predictors: (Constant), Shareholders Rights and Responsibility

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	2.322	0.145		16.000	0.000			
	Shareholders Rights and Responsibility	1.384	0.039	0.470	9.789	0.000	0.470	0.470	0.470

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Shareholders Rights and Responsibility

This indicated that a unit change in Shareholders Rights and Responsibility would result to change in financial performance of commercial banks in Kenya by 1.384 in the same direction. At 5% level of significance and 95% level of confidence, Shareholders Rights and Responsibility was significant in predicating the degree

of financial performance in the commercial banks in Kenya. The regression equation to estimate the degree of financial performance in the commercial banks in Kenya is stated as:
FP = 2.322 + 1.384SRR +e

An F-significance value of p = 0.000 was established showing that there was a probability of 0.00% from the regression model to accept the null hypothesis. The hypothesis, $H_0 2$, stated that: Shareholders Rights and Responsibility has no significant effect on financial performance in the commercial banks in Kenya. Thus, the model was found significant and therefore the null hypothesis was rejected on the ground that Shareholders Rights and Responsibility had significant and relatively weak and positive linear correlation with financial performance of commercial banks in Kenya. The second research hypothesis was tested using the significance level of both the R^2 and regression coefficients at 0.05.

4.10.3. Disclosure Policies and Practices and Financial performance

Results from the Table 4.15, illustrate that the means of Disclosure Policies and Practices and Financial performance in the commercial banks in Kenya were regressed. The purpose of this analysis was to find the relationship of Disclosure Policies and Practices on Financial performance. This aided in testing the third hypothesis of the study that posits, $H_0 3$: Disclosure Policies and Practices have no significant effect on financial performance in the commercial banks in Kenya. This was tested using significance of R square, regression coefficient (β) and correlation coefficient (β) at 95.0% confidence level. The results are presented in Table 4.14.

Table 4.15 reveals that the relationship of Disclosure Policies and Practices on Financial performance in the commercial banks variables is linear, positive, relatively weak, and significant; the correlation coefficient (R) of 0.285. The coefficient of determination, R square of 0.146 implied that 14.6% of the variance in the service quality is accounted for by Disclosure Policies and Practices. The significance value of $p = 0.000<0.05$, signified that the model is statistically significant in predicting how Disclosure Policies and Practices affect Financial performance.

The unstandardized regression coefficient (β) value of Disclosure Policies and Practices on Financial performance is 0.285, correlation coefficient (β) of 0.285 and with a t-test of 7.616 and significance level of p = 0.000, which further confirmed existence of a significant and relatively weak positive linear correlation of Disclosure Policies and Practices and Financial performance of Commercial banks in Kenya . This indicated that a unit change in Disclosure Policies and Practices would result to change in financial performance of commercial banks in Kenya by 0.285 in the same direction. At 5% level of significance and 95% level of confidence, Disclosure Policies and Practices and Financial performance was significant in predicating the degree of financial performance in the commercial banks in Kenya which in this case is attributed to 14.6% of Disclosure Policies and Practices. The regression equation to estimate the degree of financial performance in the commercial banks in Kenya is stated as:

EM = 2.666 + 0.285 FOROWN +e

An F-significance value of p = 0.000 was established showing that there is a probability of 0.00% from the regression model to accept the null hypothesis, $H_0 3$: Disclosure Policies and Practices have no significant effect on financial performance in the commercial banks in Kenya. Hence, the model is significant and the study rejected the third null hypothesis of the study as there is significant relationship between Disclosure Policies and Practices and Financial performance.

Table 4.15: Regression Results on Disclosure Policies and Practices and Financial performance

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics				
					R Square change	F change	df1	df2	Sig. F change
1	0.383[a]	0.146	0.144	0.82580	0.146	58.005	1	120	0.000

a. a. Predictors: (Constant), Disclosure Policies and Practices
b. c. Dependent Variable: Financial performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	39.556	1	39.556	58.005	0.000[b]
	Residual	230.500	120	0.682		
	Total	270.056	121			

a. Dependent Variable: Financial performance
c. b. Predictors: (Constant), Disclosure Policies and Practices
d.

Coefficients [a]

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	Correlations

		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	2.666	0.140		18.989	0.000			
	Disclosure Policies and Practices	0.285	0.037	0.383	7.616	0.000	0.383	0.383	0.383

a. Dependent Variable: Financial performance
b. . Predictors: (Constant), Disclosure Policies and Practices

4.11. Corporate governance policies on performance of commercial banks in Kenya

Table 4.15: Regression Results of corporate governance policies on performance of commercial banks in Kenya.

Model Summary [c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change statistics				
					R Square change	F change	df1	df2	Sig. F change
1	0.425[a]	0.180	0.178	0.80930	0.180	74.316	1	120	0.000

e. a. Predictors: (Constant), Corporate governance policies
f. c. Dependent Variable: Financial performance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	48.675	1	48.65	74.316	0.000[b]
	Residual	221.381	120	0.655		
	Total	270.056	121			

a. Dependent Variable: Financial performance
g. b. Predictors: (Constant), Corporate governance policies
h.

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.	Beta			Zero order	Partial	Part
1	(Constant)	1.858	0.216		8.614	0.000			
	Corporate governance policies	0.423	0.49	0.425	8.621	0.000	0.425	0.425	0.425

c. Dependent Variable: Dependent Variable: Financial performance
d. Predictors: (Constant), Corporate governance policies

The means of corporate governance policies and financial performance of commercial banks in Kenya were regressed. The purpose of this analysis was to find the direct causal relationship between corporate governance policies and financial performance of commercial banks in Kenya. This aided in testing the fourth hypothesis of the study that posits, $H_0 4$: Corporate governance policies has no significant effect on delivery in the commercial banks in Kenya. This was tested using significance of R square and Regression coefficient at 95.0% confidence level.

From Table, it is evident that corporate governance policies have a linear, moderately positive and significant relationship with financial performance in the commercial banks in Kenya. The correlation coefficient (R) of 0.425 indicates this strong positive linear relationship. The coefficient of determination, R-square of 0.180 implied that 18.0% of the variance in the financial performance in the commercial banks in Kenya is explained by corporate governance policies. The significance value of $p = 0.000>0.05$, thus, the model is statistically significant in predicting how Corporate governance policies affect Financial performance in the Commercial banks in Kenya.

The unstandardized regression coefficient (β) value of Corporate governance policies and Financial performance was 0.423, correlation coefficient (β) of 0.425 and with a t-test of 8.621 and significance level of $p = 0.000$, which further confirmed existence of a significant and relatively weak positive linear correlation of Corporate governance policies and Financial performance of Commercial banks in Kenya . This indicated that a unit change in corporate governance policies would result to change in financial performance of commercial banks in Kenya by 0.423 in the same direction. At 5% level of significance and 95% level of confidence, Corporate governance policies and Financial performance of Commercial banks in Kenya was significant in predicating the degree of Financial performance in the Commercial banks in Kenya which in this case was attributed to 18.0% of Corporate governance policies . The regression equation to estimate the degree of financial performance in the commercial banks in Kenya is stated as:

Financial performance = 1.858 + 0.423 Corporate governance policies +e

An F-significance value of $p = 0.000$ was established showing that there is a probability of 0.00% from the regression model to accept the null hypothesis, $H_0 4$: Corporate governance policies have no significant effect on delivery in the commercial banks in Kenya. Thus, the model is significant and therefore, the $H_0 4$ was rejected since there was a significant relationship between corporate governance policies and financial performance in the commercial banks in Kenya.

4.12. Relationship between corporate governance on financial performance of commercial banks in Kenya.

The relationship between corporate governance and financial performance was analyzed. The results are as shown in Table 4.16. As indicated in Table 4.20, the study showed that there was a linear positive and statistically significant relationship between corporate governance and Financial performance ($B = 0.4083$, $\beta = 0.447$; $p < 0.05$). The relationship though positive, it is moderate and significant. This implies that corporate governance though present in the commercial banks in Kenya, their effect on financial performance is not very high as expected.

Table 4.16: Summary of Relationship between Corporate governance and financial performance

Table 4.: Regression Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients			
	B	**Std. Error**	**Beta**	**T**	VIF	**Sig.**
1 (Constant)	1.420	0.448		3.169		0.510
Corporate Governance Practices	0.541	0.158	0.048	0.234	1.70	0.510
Shareholders Rights and Responsibility	0.384	0.197	0.232	1.107	1.43	0.470
Disclosure Policies and Practices	0.285	0.149	0.008	0.046	1.24	0.383
Corporate governance policies	0.423	0.158	0.048	0.234	1.70	0.425

a. Dependent Variable: Financial performance

The interpretation of the findings is shown in the following regression model:

$Y= \beta_0 + \beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+ \varepsilon$

$Y= 2.190+ 0.541X_1+ 0.384X_2+ 0.285X_3+ 0.423X_4 + \varepsilon$

One of the corporate governance that had a higher effect on Financial performance was Corporate Governance Practices ($B = 0.541$, $\beta = 0.510$; $p < 0.05$) while the one with the least effect on Financial performance was Disclosure Policies and Practices ($B = 0.285$, $\beta = 0.383$; $p < 0.05$) in the Commercial banks in Kenya.

V. Summary Of Findings, Conclusions And Recommendations

5.1 Introduction

This chapter presents the summary of major findings of the study, conclusions, recommendations and the areas suggested for further research.

5.2 Summary of Findings

This section presents the summary of key findings of the study. The purpose of this study was to expand the base knowledge and empirically test the influence of corporate governance on financial performance.

5.2.1. To establish the influence of Corporate Governance Practices on financial performance of commercial banks in Kenya

The specific objective here was: To establish the influence of Corporate Governance Practices on financial performance of commercial banks in Kenya. Several parameters of Corporate Governance Practices were examines as follows;

Respondents were asked to state their observation on whether BoD has regular meetings. Majority 45.3% (55) of the respondents generally agreed that BoD has regular meetings. The study also sought to investigate whether there are many potential conflicts of interest between the company and the BoD. Majority of the respondents agreed that there are many potential conflicts of interest between the company and the BoD. The third item under this theme was to establish whether the company has unequivocal list of shares owned by the members of BoD. As indicated by the high percentage 98.5% (119), majority of respondents agreed that The Company has unequivocal list of shares owned by the members of BoD.

The fourth item under this theme was to establish whether the company has an internal written policy regarding BoD members having recurrent positions as directors in other companies. General, it was evident that 100.0% (121) of respondents agreed that the company has an internal written policy regarding BoD members having recurrent positions as directors in other companies. The study sought to establish whether The BoD is responsible for vision, mission and Strategic plan. All respondents 100% (121) generally agreed that The BoD is responsible for vision, mission and Strategic plan.

In establishing whether the company provides formal performance appraisal review of the BoD regularly. Majority of respondents agreed, as seen from the high percentage 98.4% (119) that the company provides formal performance appraisal review of the BoD regularly. The seventh item under this theme was to determine whether The Company provides formal performance appraisal review of the BoD regularly. As indicated by the high percentage 96.9% (75), majority of respondents agreed that the company provides formal performance appraisal review of the BoD regularly. However, 1.6% (2) disagreed. Respondents were asked to state their observation on whether the company provides an internal nomination process for the BoD. Majority 45.3% (55) of the respondents generally agreed that The Company provides an internal nomination process for the BoD. However, 26.6% (33) generally disagreed.

From the correlation result it's found that the p value ($0.00 < 0.05$). The result of the analysis is an indication that there is a relationship between the tested variables. We therefore reject the null hypothesis that Corporate Governance Practices does not influence financial performance of commercial banks in Kenya. In other words, there is a relation between Corporate Governance Practices and Financial performance.

5.2.2. To establish the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya

The second objective of this study was to determine the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya. The study sought to investigate whether the banks have a corporate governance manual and policy. A higher percentage of 98.5% (119) shows that most respondents agreed that the banks have a corporate governance manual and policy. However, 1.6% (2) disagreed.

The second item under this theme was to establish whether the bank has active working committees on audit, compliance, risk management, insurance and compensation. As indicated all, 100.0% (121), of respondents agreed that the bank has active working committees on audit, compliance, risk management, insurance and compensation.

The third item under this theme was to establish whether banks have a written code of corporate governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure. General, it was evident that 100.0% (121) of respondents agreed that banks have a written code of corporate e governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure.

The study sought to establish whether their written policies and rules on corporate governance are implemented. Majority of respondents 98.4% (119) generally agreed that their written policies and rules on corporate governance are implemented. In establishing whether the board has a policy on periodic regular meetings. This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (121), that the board has a policy on periodic regular meetings.

In establishing whether corporate governance policies enhances financial performance of banks, This finding indicate that all respondents agreed, as seen from the high percentage 100.0% (121), that Corporate governance policies enhances financial performance of banks.

The analysis showed that the p value ($0.00 < 0.05$). The result of the analysis shows that there is a relationship between the tested variables. We therefore reject the null hypothesis that the Shareholders Rights and Responsibility does not influence financial performance. In other words, there is a relation between Shareholders Rights and Responsibility and financial performance of commercial banks in Kenya.

5.2.3. To establish the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya

The third objective of this study was to assess the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya.

The study was interested in assessing whether their bank provides equal access to information for Shareholders and investment analysts. Majority of respondents 98.4% (119) generally agreed that their bank provides equal access to information for Shareholders and investment analysts.

The second item that was investigated under this theme was whether the reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank. A higher percentage of the respondents, thus 95.3% (115), indicated that the reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank.

The third item in this theme was to assess whether the company publishes and distributes its financial results and management analysis for analysts. General, it was evident that 100.0% (121) of respondents agreed that the company publishes and distributes its financial results and management analysis for analysts. In establishing whether the company posts its financial results and management analysis on the internet. This finding indicated that all respondents agreed that the company posts its financial results and management analysis on the internet. The fifth item under this theme was to determine whether the company tracks changes in its corporate governance so that any and all voting blocks are known. It's agreeable to conclude that The Company tracks changes in its corporate governance so that any and all voting blocks are known.

The study sought to investigate whether the annual reports clearly described. As indicated by this percentage 100.0% (121), all respondents agreed that the annual reports clearly described.

The Correlation result S p value is ($0.00 > 0.05$) is an indication that a relationship subsist between the tested variables. We therefore reject the null hypothesis that there is no significant relationship between Disclosure Policies and Practices and Financial performance in commercial banks in Kenya. In other words, there is a positive relation between the two.

5.2.4. To examine the influence of Corporate governance policies on the relationship between corporate governance and financial performance of commercial banks in Kenya

The fourth variable of the study was corporate governance policies. Respondents were asked to state whether all of the board members have skills in accounting.

Respondents were asked to state whether Shareholders are encouraged to attend and vote during the annual General meetings. Majority 45.3% (55) of the respondents generally agreed that Shareholders are encouraged to attend and vote during the annual General meetings. However, 26.6% (33) generally disagreed.

The study sought to investigate whether there is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting. As indicated by the high percentage 95.4% (115), majority of respondents agreed that there is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting.

The third item under this theme was to establish whether there is adequate time given during the annual shareholders' meeting for shareholders to ask questions. As indicated by the high percentage 98.5% (119), majority of respondents agreed that there is adequate time given during the annual shareholders' meeting for shareholders to ask questions.

The fourth item under this theme was to establish whether the annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors. General, it was evident that 100.0% (121) of respondents agreed that the annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors.

The study was interested in assessing whether Shareholders are aware of their rights and responsibilities. Majority of respondents 98.4% (119) generally agreed that Shareholders are aware of their rights and responsibilities. The sixth item that was investigated under this theme was whether minorities are well protected. A higher percentage of the respondents, thus 95.3% (115), indicated that minorities are well protected. The seventh item in this theme was to assess whether shareholders have equitable treatment. General, it was evident that 100.0% (121) of respondents agreed that Shareholders have equitable treatment.

Since the p value is ($0.00 > 0.05$). The result is an indication that a relationship subsist between the tested variables. We therefore reject the null hypothesis that there is no significant influence of corporate governance policies in the relationship between corporate governance and financial performance. In other words, there is a positive relation between the two.

5.2.5. Financial performance of commercial banks in Kenya

The dependent variable of this study was financial performance of commercial banks in Kenya. To achieve this respondent were asked to give their opinions on how they agree or disagree with the statements. The findings for this objective were as follows;

The study sought to investigate whether the bank has had good improvement on return on equity in the last ten years. A higher percentage of 98.5% (119) shows that most respondents agreed that the bank has had good improvement on return on equity in the last ten years. However, 1.6% (2) disagreed.

The second item under this theme was to establish whether the bank has had good improvement on return on assets in the last ten years. As indicated all, 100.0% (121), of respondents agreed that the bank has had good improvement on return on assets in the last ten years.

The third item under this theme was to establish whether the bank has better return on equity than the industry. General, it was evident that 100.0% (121) of respondents agreed that the bank has better return on equity than the industry. The study sought to establish whether the bank has better return on assets than industry. Majority of respondents 98.4% (119) generally agreed that the bank has better return on assets than industry.

While Healy (2015) used ROI and ROE to measure financial performance, subsequent studies attempt to separate them into components. Profitability features in most of the studies as an essential measure of financial performance in many organizations. Additionally, other studies find a positive correlation between corporate governance and financial performance of commercial banks.

5.3. Conclusions

Based on the findings and discussions of the findings on each research objective, the next section gives the conclusions.

5.3.1. To establish the influence of Corporate Governance Practices on financial performance of commercial banks in Kenya

The specific objective here was to establish the influence of Corporate Governance Practices on financial performance of commercial banks in Kenya. There is evidence that the relationship between Corporate Governance Practices and Financial performance of Commercial banks in Kenya which was linear; the correlation coefficient (R) of 0.510 indicates moderately strong positive linear relationship. This implied that Corporate Governance Practices has a significant and moderate strong relationship with the financial performance of commercial banks in Kenya. The coefficient of determination, R-square of 0.260 implied that 26.0% of the variance in financial performance of commercial banks in Kenya is explained by Corporate Governance Practices. The significance value is 0.000 which is less than 0.05 thus the model is statistically significant in predicting the effect of Corporate Governance Practices on Financial performance of commercial banks in Kenya. The unstandardized regression coefficient (β) value of Corporate Governance Practices was 0.541, correlation coefficient (β) of 0.510 and with a t-test of 10.89 and significance level of p = 0.000, which further confirmed existence of a significant and moderate strong positive linear correlation between Corporate Governance Practices and Financial performance of Commercial banks in Kenya . At 5% level of significance and 95% level of confidence, Corporate Governance Practices is significant in predicating the degree of financial performance of commercial banks in Kenya.

The first research hypothesis posited $H_0 1$: Corporate Governance Practices has no significant effect on financial performance of commercial banks in Kenya, Kenya. Thus, the model was significant and therefore the null hypothesis was rejected on the ground that Corporate Governance Practices had a significant and moderate strong positive linear correlation with financial performance of commercial banks in Kenya.

5.3.2. To establish the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya

The second objective of this study was to determine the influence of Shareholders Rights and Responsibility on financial performance of commercial banks in Kenya. The findings indicated that a unit change in Shareholders Rights and Responsibility would result to change in financial performance of commercial banks in Kenya by 0.384 in the same direction. At 5% level of significance and 95% level of confidence, Shareholders Rights and Responsibility was significant in predicating the degree of financial performance in the commercial banks in Kenya. An F-significance value of p = 0.000 was established showing that there was a probability of 0.00% from the regression model to accept the null hypothesis. The hypothesis, $H_0 2$, stated that: Shareholders Rights and Responsibility has no significant effect on financial performance in the commercial banks in Kenya. Thus, the model was found significant and therefore the null hypothesis was rejected on the ground that Shareholders Rights and Responsibility had significant and relatively weak and positive linear correlation with financial performance of commercial banks in Kenya. The second research hypothesis was tested using the significance level of both the R^2 and regression coefficients at 0.05.

5.3.3. To establish the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya

The third objective of this study was to assess the influence of Disclosure Policies and Practices on financial performance of commercial banks in Kenya. The study was interested in assessing whether most of the shares in their organization are held by non-Kenyans.

Findings reveals that the relationship of Disclosure Policies and Practices on Financial performance in the commercial banks variables is linear, positive, relatively weak, and significant; the correlation coefficient (R) of 0.285. The coefficient of determination, R square of 0.146 implied that 14.6% of the variance in the service quality is accounted for by Disclosure Policies and Practices. The significance value of $p = 0.000<0.05$, signified that the model is statistically significant in predicting how Disclosure Policies and Practices affect Financial performance. The unstandardized regression coefficient (β) value of Disclosure Policies and Practices on Financial performance is 0.285, correlation coefficient (β) of 0.285 and with a t-test of 7.616 and significance level of $p = 0.000$, which further confirmed existence of a significant and relatively weak positive linear correlation of Disclosure Policies and Practices and Financial performance of Commercial banks in Kenya . This indicated that a unit change in Disclosure Policies and Practices would result to change in financial performance of commercial banks in Kenya by 0.285 in the same direction. At 5% level of significance and 95% level of confidence, Disclosure Policies and Practices and Financial performance was significant in predicating the degree of financial performance in the commercial banks in Kenya which in this case is attributed to 14.6% of Disclosure Policies and Practices. An F-significance value of $p = 0.000$ was established showing that there is a probability of 0.00% from the regression model to accept the null hypothesis, $H_0$3: Disclosure Policies and Practices have no significant effect on financial performance in the commercial banks in Kenya. Hence, the model is significant and the study rejected the third null hypothesis of the study as there is significant relationship between Disclosure Policies and Practices and Financial performance.

5.3.4. To examine the influence of Corporate governance policies on financial performance of commercial banks in Kenya

The last variable of the study was corporate governance policies. The study sought to examine the influence of corporate governance policies on financial performance of commercial banks in Kenya.

From the findings, it is evident that corporate governance policies have a linear, moderately positive and significant relationship with financial performance in the commercial banks in Kenya. The correlation coefficient (R) of 0.425 indicates this strong positive linear relationship. The coefficient of determination, R-square of 0.180 implied that 18.0% of the variance in the financial performance in the commercial banks in Kenya is explained by corporate governance policies. The significance value of $p = 0.000>0.05$, thus, the model is statistically significant in predicting how Corporate governance policies affect Financial performance in the Commercial banks in Kenya. The unstandardized regression coefficient (β) value of Corporate governance policies and Financial performance was 0.423, correlation coefficient (β) of 0.425 and with a t-test of 8.621 and significance level of $p = 0.000$, which further confirmed existence of a significant and relatively weak positive linear correlation of Corporate governance policies and Financial performance of Commercial banks in Kenya . This indicated that a unit change in corporate governance policies would result to change in financial performance of commercial banks in Kenya by 0.423 in the same direction. At 5% level of significance and 95% level of confidence, Corporate governance policies and Financial performance of Commercial banks in Kenya was significant in predicating the degree of Financial performance in the Commercial banks in Kenya which in this case was attributed to 18.0% of Corporate governance policies . An F-significance value of $p = 0.000$ was established showing that there is a probability of 0.00% from the regression model to accept the null hypothesis, $H_0$4: Corporate governance policies have no significant effect on delivery in the commercial banks in Kenya. Thus, the model is significant and therefore, the $H_0$4 was rejected since there was a significant relationship between corporate governance policies and financial performance in the commercial banks in Kenya.

5.3.4. Relationship between Corporate governance and financial performance

The relationship between corporate governance and financial performance was analyzed. One of the corporate governance that had a higher effect on Financial performance was Corporate Governance Practices ($B = 0.541$, $\beta = 0.510$; $p < 0.05$) while the one with the least effect on Financial performance was Disclosure Policies and Practices ($B = 0.285$, $\beta = 0.383$; $p < 0.05$) in the Commercial banks in Kenya

Based on our findings, we can conclude that financial performance is a critical factor in the banking sector. It has come out clearly in this research work that financial performance is determined and influenced by several factors which are dependent on the type of corporate governance a firm has. Therefore, there is a significant relationship between corporate governance and financial performance of commercial banks.

5.4 Recommendations

The researcher recommends that banks in Kenya should embrace corporate governance practices, policies and procedures including disclosure procedures to ensure financial performance.

5.5 Suggestions for Further Studies

As mentioned in the scope of this study, not adequate research on the influence of corporate governance on financial performance of commercial banks in Kenya has been conducted. This study suggests that an evaluation of the influence of corporate governance on financial performance of non commercial banks be carried out. Other variables of corporate governance should also be examined.

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APPENDICES

APPENDIX A: INTRODUCTION LETTER

Dear Respondent,

RE: RESEARCH PROJECT

I am a postgraduate student of Jomo Kenyatta university of Agriculture and technology pursuing Masters of Science in Financial Economics. As a requirement of my study, I am carrying out a survey on effect of corporate governance on financial performance of Kenya commercial Banks. The success of this study will substantially depend on your willingness and co-operation to provide the information required.

I kindly request you to allow me have a short interview session for data gathering. The attached interview schedule is specifically designed for the purpose of this study only; and all responses will be treated in absolute confidence and anonymity.

Thank you for your cooperation.

Yours Faithfully,

Najoli Fesal Kisangi

APPENDIX B – Questionnaire

SECTION A: BACKGROUND INFORMATION

In this section, please tick (√) the most suitable response where applicable

1) Gender: Male( ) Female( )

2) Age: 18-25 ( ) 26-35( ) 36-45 ( ) Above46 ( )

3) Highest level of education:

Primary ( ) Secondary ( ) Diploma ( ) Under Graduate ( ) Post Graduate ( )

Any other, (specify)…………………………………………………………………………

4) For how long have you worked in your current office?

One year ( ) Two years ( ) Three years ( ) four or more than four years ( )

SECTION B: CORPORATE GOVERNANCE PRACTICES (CGPR)

9. Indicate your level of agreement with the following statements by ticking at the appropriate box.

Use the ratings criteria below.

Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), Strongly Disagree (SD)

	QUESTION	**SA**	**A**	**U**	**D**	**SD**
A	BoD has regular meetings					
B	There are many potential conflict of interest between the company and the BoD					
C	The company has unequivocal list of shares owned by the members of BoD					
D	The company has an internal written policy regarding BoD members having recurrent positions as directors in other companies					
E	The BoD is responsible for vision, mission and Strategic plan					
F	The company provides formal performance appraisal review of the BoD regularly					
G	The company provides formal performance appraisal review of the BoD regularly					
H	The company provides an internal nomination process for the BoD					

SECTION C: CORPORATE GOVERNANCE POLICIES (CGPO)

Indicate your level of agreement with the following statements by ticking at the appropriate box.

	QUESTIONS	**SA**	**A**	**U**	**D**	**SD**
A	We have a corporate governance manual and policy					
B	The bank has active working committees on audit, compliance, risk management, insurance and compensation					
C	Our bank has a written code of corporate e governance has been implemented governance which covers specifications of rights of shareholders, duties of directors and rules of disclosure					
D	Our written policies and rules on corporate governance are implemented					
E	The board has a policy on periodic regular meetings					
F	Corporate governance policies enhances financial performance of banks					

SECTION D: DISCLOSURE POLICIES AND PRACTICES (DPP)

6. Indicate your level of agreement with the following statements by ticking at the appropriate box.

Use the ratings criteria below.

Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), Strongly Disagree (SD)

	QUESTIONS	SA	A	U	D	SD
A	Your bank provides equal access to information for Shareholders and investment analysts					
B	The reports prepared for annual shareholders meeting contain only basic information of sufficient details to enable investment analysts to assess the financial and non-financial performance of the bank					
C	The company publishes and distributes its financial results and management analysis for analysts					
D	The company posts its financial results and management analysis on the internet.					
E	The company tracks changes in its ownership structure so that any and all voting blocks are known					
F	The annual reports clearly described					

SECTION E: SHAREHOLDER RIGHT AND RESPONSIBILITY (SRR)
Indicate your level of agreement with the following statements by ticking at the appropriate box.
Use the ratings criteria below.
Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), Strongly Disagree (SD)
Questions 78910

	QUESTIONS	SA	A	U	D	SD
A	Shareholders are encouraged to attend and vote during the annual General meetings					
B	There is adequate opportunity for shareholders to receive and review the financial reports in order to ask for questions to be put on the agenda at the annual shareholders' Meeting.					
C	There is adequate time given during the annual shareholders' meeting for shareholders to ask questions					
D	The annual meeting of shareholders decides the following items: appointment of BoD, compensation of BoD, appointment of external auditors					
E	Shareholders are aware of their rights and responsibilities					
	Minorities are well protected					
F	Shareholders have equitable treatment					

SECTION F: BANK FINANCIAL PERFORMANCE
Indicate your level of agreement with the following statements by ticking at the appropriate box.
Use the ratings criteria below.
Strongly Agree (SA), Agree (A), Uncertain (U), Disagree (D), Strongly Disagree (SD)

	QUESTIONS	SA	A	U	D	SD
A	The bank has had good improvement on return on equity in the last ten years					
B	The bank has had good improvement on return on assets in the last three years					
C	The bank has better return on equity than the industry					
D	The bank has better return on assets than industry					

END