Effect of Corporate Governance Practices on Profitability of Commercial Banks in Kenya

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Abstract:

Whereas the Kenyan banking sector remained stable in profit during 2015; from Kshs. 3.2 trillion in 2014 to Kshs. 3.5 trillion in 2015, the period 2012 to 2016 registered declining trends despite the slowdown in global economic growth to 3.1% in 2015 from 3.4% in 2014. This study sought to analyze the effect of Corporate Governance practices on profitability of Commercial Banks in Kenya. A survey was conducted on 13 Commercial Banks in Kisumu County. The findings revealed a positive significant correlation between qualification of board of directors and bank profitability (r=.270, p=.023), role definition and bank profitability (r=.373, p=.001), operational ethical control and bank profitability (r=.623, p=.000), board performance& compensation and bank profitability (r=.335, p=.004) and risk management and bank profitability (r=.561, p=.000). The study concluded that corporate governance has an effect on bank profitability. It was recommended that selected corporate governance dimensions be improved for maximum bank profitability.

Keywords: Corporate Governance Practices, Profitability, Commercial Banks, Kisumu.

1. Introduction

Financial performance refers to the act of carrying out financial activity; which in broader sense, is the degree to which financial objectives are being or have been accomplished (Trivedi, 2010). Although there are many different ways of measuring financial performance, all measures should be taken in totality as they drive to a firm's profitability. A key indicator of financial performance is profit, which is measured through Return on Assets, Return on Equity, Net Interest Margin, among others. According to Pandey (2002), profitability means ability of a firm to make profit from all its business activities; showing how efficiently the management can make profit by using all the resources available in the market. Therefore profitability is an aggregated capacity of a firm to employ firm based resources and environmental opportunities to generate optimum benefit or profit. Delen, Kuzey and Uyar (2013), analyzed firm profitability through financial ratios (i.e. Return on Assets, Return on Equity, Net Interest margin among others), as predictive measures of performance. UK - Cadbury Report, (1992) stated that Corporate Governance is the system by which companies are directed and controlled. It therefore comprises a set of rules that define the relationship between stakeholders, management, and board of directors of a company; and influences how that company is operating. Key Corporate Governance arrangements are important and critical to economic growth, enhanced welfare,

increased investment, capital market efficiency and company performance; all of which are proxies of firm level environment, which determine profitability.

Dabor, Isaivwe, Ajagbe and Oke (2015) studied the Impact of Corporate governance on Firm performance by examining Board structure as a variable for measuring corporate governance. They revealed that there is significant negative relationship between Board qualification and firm ROA and Return on Equity (ROE). Mwega (2010) from his research on improvements in corporate governance in Kenyan banking institutions to better profitability found that there was a positive correlation between Qualification of Board of directors and profitability in Kenyan Banks. Role definition has also been found to positively correlate with Return on Equity (ROE) in Belgian Companies (Dehaene, Vuyst and Oogodhe, 2001; Wangari, 2014). Beineret (2004) analyzed the relationship between role definition and Return on Equity of Swiss firms, and revealed a negative relationship between the two variables. Htay and Shahid (2012) in a bi-variate study found a negative relationship between operational and ethical controls and Return on Assets, Return on Equity and Net Interest Margin. Masibo, (2005) while studying ethical controls and Net Interest Margin of selected Commercial Banks and listed organizations in Kenya got a positive direct and indirect link between the two. Forbes and Milliken (1999) and Wen (2010), found no correlation between risk management and profitability but suggested that that state-owned Commercial banks might present a quadratic relationship. This is contrary to Eisenberg (1998) and Muriithi's (2011) assertion that risk management had a correlation with profitability. Matama (2005) in the study of Board performance and compensation and profitability on selected commercial banks in Kenya, obtained no relationship between reviewing performance and compensation of employees and bank profitability. From the available literature, it is clear that there exists a relation between Corporate Governance Practices and profitability of commercial banks but many studies present contradictory information in terms of the direction and effect power of the relationship of the two variables. Therefore, this requires further examination of the variables of Corporate Governance and its contribution to profitability of not only other sectors but also to the critical financial sector as predictor of their sustainable growth and profitability. This study employed three variables for bank profitability relevant to return on shareholder's investment. These are Return on Assets (ROA), Return on Equity (ROE) and Net Interest Margin (NIM).

2. Statement of the Problem

Corporate Governance practices are vital to the profitability of the banking sector because commercial banks are the heart of a country's economic activities and therefore, poor bank performance minimizes the economic welfare in a country. In spite of strong regulatory and legal framework imposed by Central Bank, banking system in Kenya has experienced banking problems since 1986, leading to the downfall of more than 40 commercial banks. Listed Commercial Banks in Kenya recorded anemic Earnings Per Share growth in 2016, coming in at 4.4%, compared to 2.8% in 2015, and a 5 year average of 13.9%. The poor performance which is in terms of Return on Assets, Return on Equity and Net Interest Margin was on the back of weak Corporate Governance Practices. Recorded also were gross loans and advances growth of 8.1% to Kshs 1.9 trillion in December 2016 from Kshs 1.8 trillion in December 2015, slowing down from the 5 year average growth rate of 14 .6%, while deposits grew 6.7% to Kshs 2.1 trillion in December 2016 from Kshs 2.0 trillion in December 2015, also slower than the 5 year average of

14.6%. Available information on the relationship between Corporate Governance Practices and profitability measures (Return on Assets, Return on Equity and Net Interest Margin) present contradictory information in terms of the direction and effect power of the relationship of Corporate Governance Practices on profitability of firms in general and Commercial Banks in particular. It is on this basis that this study sought to analyse the effect of corporate governance practices on profitability of commercial banks in Kenya.

3. Objectives of Study

3.1 General objective

The general objective of the study was to analyze the Effect of Corporate Governance Practices on Profitability of Commercial Banks in Kenya.

3.2 Specific Objective

Specifically, this study also seeks to achieve the following objectives:

a) Assess the impact of Qualification of Board of Directors on profitability of Commercial Banks in Kenya.
b) To determine the relationship between Role Definition and Profitability of Commercial Banks in Kisumu County.
c) To assess the relationship between Operational and Ethical Controls and Profitability of Commercial Banks in Kisumu County.
d) To analyze the relationship between Board Performance and Compensation and Profitability of Commercial Banks in Kisumu County.
e) To determine the relationship between Risk management and profitability of commercial banks in Kisumu county

4. Literature Review

4.1 Theoretical Review

4.1.1 Stewardship Theory

Schoorman and Donaldson (1997) defined stewardship theory as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". Stewardship theory is a model of management where managers are considered good stewards who will act in the best interest of the owners and that when left on their own, they will indeed act as responsible stewards of the assets they control (Fernando, 2009). To achieve research objectives, this study examined Stewardship theory because according Letting' (2012), it further argues that: executive-dominated Boards should be favored by organizations because of their depth of knowledge, ability to access current operating information and their technical expertise and commitment to the firm that potentially impacts on profitability positively.

4.1.2 Stakeholder Theory

This theory stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives

some degree of satisfaction (Abrams, 1951). Stakeholder theory explains the role of Corporate Governance by highlighting different constituents of a firm (Coleman, 2008). This study will adopt stakeholder theory because it basically aims at striking a balance between the company's profitability, corporate governance and stakeholder satisfaction, hence trying to identify the purpose of the firms (bank). This therefore becomes the driving force underlying the firm's activities.

4.2 Empirical Literature Review

In Kenya, Qualification of Board of Directors (BOD) is prescribed under Section 11(3) and 12of the Capital Markets Authority Act, (CMA Act, 2000) that empowers the Capital Markets Authority to make rules and regulations to govern capital markets in Kenya. This study seeks to establish the association between qualification of Board of Directors and profitability of Commercial Banks in Kenya. Role definition will lead to avoidance of CEO entrenchment, increase of Board monitoring effectiveness, availability of Board chairman to advise the CEO and establishment of independence between Board of Directors and corporate management (Baysinger and Hoskisson, 1990). Available information on the relationship between role definition and profitability of firms reveal conflicting results. This means more examination has to be conducted on the relationship between role definition and profitability of Commercial Banks in Kenya. Not only must Directors declare conflicts of interest and refrain from voting on matters in which they have an interest, but a general culture of ethics in business dealing and of respect and compliance with laws and policies without fear of recrimination is critical (Langford, 2014). Ethical and operational controls are important and highly valued morals, not only in banking but also in business generally (Fakunyama, 1995). Previous studies raise issues of contradictions through variations of their findings which has potential to creating inconsistency in information. This requires further assess the relationship between Operational and Ethical Controls and Profitability of Commercial Banks in Kenya. Firms should establish measurable performance targets for executive officers (including the CEO), regularly assess and evaluate their performance against them and tie compensation to performance (National State Auditors Association, 2004). Different researchers have come up with different conflicting conclusions presenting a structure of conflicting study results, where some pose no relation, and others there was negative and positive relations; hence further examination needed on the relationship between Board performance and compensation and profitability of Commercial Banks in Kenya. Companies should regularly identify and assess the risks they face, including financial, operational, reputational, environmental, industry-related, and legal risks (Epstein and Rejc, 2005). The management of the risks occurring in the banking sector becomes important for reducing the losses of the banking industry as profitability and risk are positively related in commercial banks (Aloglu, 2005). From the available literature, it is clear that there exists a relation between risk management and profitability of Commercial Banks but studies present contradictory information in terms of the relationship of the two. It is on this note that this study will determine the relationship between risk management and profitability of commercial banks in Kenya.

5. Research Methodology

This section discusses the methods and procedures that were employed in carrying out the research. It discusses the research design, study population, research instruments, data collection procedure, pilot testing, data analysis and presentation.

5.1. Study Area

The study was conducted in Kisumu County, one of the 47 counties in Kenya. The county lies within longitudes 33° 20'E and 35° 20'E and latitudes 0° 20' South and 0° 50' South. It is situated in Western part of Kenya. It borders Siaya County to the West, Vihiga County to the North, Nandi County to the North East and Kericho County to the East. Its neighbor to the South is Nyamira County and Homa Bay County is to the South West.

5.2. Research Design, Target Population, Sample Size, Data Collection Methods, Data

Collection Instruments and Data Analysis

This study applied a Correlational Research Design. The target of this study was 85 branch managers from 13 Commercial Banks in Kisumu County. Census study was carried out on all the population. According to Kothari (2006) Census is the best method when a population of the study is small. In this case, the target population was bank managers who are 85 in Kisumu County. The study used both primary and secondary data. Semi-structured questionnaires was used as a primary data collection instrument by administering them to the sampled commercial banks. The study adopted content validity as a measure of the degree to which data was obtained from the research instrument. Content validity of the questionnaire was ensured by giving it to the research experts in the field of finance to review and consequently corrected accordingly. Data was analyzed using descriptive, correlational and regression analysis techniques. Correlation analysis was used to measure the association between variables and quantitate the strength of their relationship. Regression analysis was adopted to determine the effect of independent variables on a dependent variable and to predict the value of one variable based on the value of one or more other variables. The collected data was analyzed using SPSS Version 20.0.

6. Results

6.1 Introduction

This chapter presents the findings and discussions of the study as per the objectives. The analysis was based on data that was gathered exclusively from the structured questionnaires and Bank Supervision reports alongside Commercial Banks' official websites. The findings of the study are presented using means, standard deviations for descriptive statistics and Pearson's correlation coefficient and regression coefficients for inferential statistics.

6.1.1 Effect of Qualification of Board of Directors on Profitability of Commercial Banks

The effect of qualification of Board of directors on profitability of commercial banks is shown in Table 1. Respondent's response on the fact that directors are knowledgeable, have expertise relevant to the business, qualified and competent was neutral (M=3.07, SD=0.74). An overall mean on the level of agreement (M=3.46, SD=0.24) implies that respondents agreed that board of directors were qualified.

Table 1: Level of Qualification of Board Members

Statements	M	SD
1. Directors are knowledgeable, have expertise relevant to the business, qualified and competent.	3.07	0.74
2. BOD has an appropriate structure in terms of diversity.	3.54	0.65
3. Company sets the criteria which defines the required expert and professional knowledge and experience, as well as other requirements to be met so as to be appointed a director	3.45	0.65
4. Your bank has training programs for management committees	3.41	0.73
5. The size and composition of the board of directors is reviewed periodically with intent to render the board more effective and efficient	3.55	0.63
6. Members of the board have undergone training in directorship prior to appointment	3.61	0.49
7. Board is able to provide a balanced and understandable assessment of the organization's position	3.61	0.75
8. The Board consists of the executive and non-executive members on a fairly balanced proportion	3.38	1.01
9. The selection process considers present skills and requirements in the Board of directors	3.46	1.03
10. A succession plan is in place for the Board's chairperson, Board members, the CEO and the senior management	3.77	0.68
Overall mean and standard deviation	3.46	0.24

KEY: SD-Standard Deviation; M-Mean

6.1.2. Role Definition among Commercial Banks

The effect of role definition on profitability of commercial banks is shown in Table 2. The findings show that there is neutral response on separation of the post and roles of the Board Chair and the CEO (No CEO/Chairman Duality) as indicated by mean and standard deviation (M=2.99, SD=0.57). An overall mean of 3.47 and a standard deviation of 0.28 confirmed that respondents agreed that there were clearly defined roles among commercial banks.

Table 2: Level of Role Definition among Commercial Banks

Statements	M	SD
1. There is separation of the post and roles of the Board Chair and the CEO (No CEO/Chairman Duality)	2.99	0.57
2 The Company's act clearly defines the authorizations and responsibilities of the executive directors	3.51	0.65
3. Employees are allowed to be in a material business relationship (e.g. as a supplier or customer) with the Company or other group member	3.21	0.58
4. A better understanding of the role and function of the Chairperson and the Chief Executive Officer is laid down in the company's code	3.54	0.63

5. The Board has formally constituted and recorded committees with clearly defined terms of reference, composition and reporting mandates	3.61	0.62
6. Board defines and communicates to management their powers, roles and responsibilities	3.62	0.62
7. Board consults technocrats on professional matters	3.54	0.84
8. Board has got an operating plan that defines its functions, activities and its objectives	3.48	0.63
9. Board conducts its activities in a free and democratic atmosphere	3.62	0.49
10. The Board is involved in the selection of the directors	3.62	0.49
Overall mean and standard Deviation	3.47	0.28

KEY: SD-Standard Deviation; M-Mean

6.1.3 Operational and Ethical Control's association with Bank Profitability

The effect of operational and ethical control on profitability of commercial banks is shown in Table 3.The findings indicate that trust and integrity are important and highly valued morals among the bank employees as agreed among the respondents, (M=3.30, SD=0.62), and bank managers are challenged and have met the obligation on bank operation and society at large, to support and assist the society to imbibe the ethical culture in which there is the interest of everyone (M=3.75, SD=0.60), Management has established an ethical tone at the top by setting a good example of ethical conduct, providing positive and open communication, and supporting ethical conduct as agreed by respondents, (M=3.44, SD=0.65),]. The overall mean and standard deviation indicated that there are high operational and ethical controls.

Table 3: Level of Operational and Ethical Controls

Statements	**M**	**SD**
1. Trust and integrity are important and highly valued morals among the bank employees.	3.30	0.62
2. Bank Managers are challenged and have met the obligation on bank operation and society at large, to support and assist the society to imbibe the ethical culture in which there is the interest of everyone.	3.75	0.60
3. Management has established an ethical tone at the top by setting a good example of ethical conduct, providing positive and open communication, and supporting ethical conduct	3.44	0.65
4. There are resources adequate for the organization's ethics program	3.83	0.38
5. Ethics is a focus during regular top management meetings	3.83	0.38
6. There is a designated ethics officer or ethics contact	3.52	0.50
7. Ethics is a focus during hiring and employee training process	3.39	0.75
8. Your bank has a written ethics code	3.39	0.62
9. Importance of ethics is communicated to all employees on a regular basis via formats such as organization newsletter articles and posters	3.77	0.42
10. Your organization has an ethics hotline	3.83	0.38

11. An ethical culture has been ingrained in the organization's brochures, materials, and website	3.48	0.75
12. Staff treat each other with respect and dignity	3.46	0.50
13. Where the conduct of any director becomes questionable, he or she is asked to leave the Board	3.54	0.65
14. Interest and conflicts between Board members are declared and resolved amicably	3.75	0.71
Overall mean and standard Deviation	3.59	0.28

KEY: SD-Standard Deviation; M-Mean

6.1.4 Board Performance and Compensation and Bank Profitability

The effect of board performance and compensation on profitability of commercial banks is shown in Table 4. The table presents the findings on the level of board performance and compensation. Respondents agreed that performance of staff is regularly assessed and evaluated as indicated by a mean of 3.23 and standard deviation of 0.59 which shows no deviation from the mean. Clear agreement among respondents indicated that management provides a thorough analysis of performance against budget, targets and key outcomes, and discusses any necessary remedial action (M=3.23, SD=0.59) and the board gets early-warning signals of problems ahead that will adversely affect key outcomes, targets or financial performance as indicated by means and standard deviations of 3.24, and 0.80 respectively.

Table 4: Board performance and compensation

Statements	**M**	**SD**
1. Performance of staff is regularly assessed and evaluated	3.23	0.59
2. The company ties compensation to performance	3.24	0.80
3. There is a written remuneration policy	3.63	0.62
4. The firm adopts a transparent and publicly available remuneration policy for the Board of Directors members	3.20	0.71
5. Remuneration paid to the company's commission members is included in the remunerations policy for the Company's Commission members, i.e. determined within the framework defined by the Company's assembly	3.62	0.49
6. Remuneration paid depends on their contribution to attaining corporate financial and non-financial results and business goals	3.14	0.66
7. Specific committee (i.e executive compensation, audit or personnel) has a responsibility for evaluation of the CEO's performance and compensation	3.86	0.35
8. A set of performance standards of criteria that allow for periodic evaluation of a Council director's performance has been established	3.62	0.62
9. The board takes collective responsibility for the performance of the organization.	3.72	0.59
10. The board has a good understanding of the performance of the	3.76	0.43

organization relative to other bodies, where appropriate.		
11. Management provides a thorough analysis of performance against budget, targets and key outcomes, and discusses any necessary remedial action	3.23	0.59
13. The board gets early-warning signals of problems ahead that will adversely affect key outcomes, targets or financial performance	3.24	0.80
Overall mean and standard deviation	3.51	0.25

KEY: SD-Standard Deviation; M-Mean

6.1.5. Risk Management and Bank Profitability

The effect of risk management on profitability of commercial banks is shown in Table 5 that presents the findings on risk management level among commercial banks. It was agreed among respondents that risks faced are regularly identified and assessed (M=3.24, SD=0.43) and furthermore, the board accepts it as their responsibility for strategic leadership in establishing the company's risk tolerance and developing a framework and clear accountabilities for managing risk (M=3.44, SD=0.50). The overall mean (3.59) and standard deviation (0.28) implies that there is an agreement that the board has good risk management among the banks, a factor that could be associated with bank profitability

Table 5 Level of Risk Management

Statement	M	SD
1. Risks faced are regularly identified and assessed	3.24	0.43
2. The Board accepts it their responsibility for strategic leadership in establishing the company's risk tolerance and developing a framework and clear accountabilities for managing risk.	3.44	0.50
3. The board has a sound process for identifying and regularly reviewing its principal risks, and makes the necessary amendments in the light of changes in the internal and external environment		
4. The board takes full account of risk in its decisions , for example, in relation to proposed major projects and programs	3.69	0.47
5. The board receives reliable projections of future cash flows for the medium as well as the short term, and is confident that the available funding will enable the organization to develop and operate as planned	3.54	0.50
6. The board is satisfied there have been no problems with regulatory and similar requirements, and that sound health and safety, employment and other practices are implemented to protect the organization against unnecessary litigation and reputation risk	3.62	0.49
7. The board is aware of changing demand patterns and is confident that these can be met from the resources available and within the organization's	3.93	0.26

statutory remit		
8. The board monitors the political environment for potential changes to its remit and assesses the impact these will have on the strategy	3.69	0.47
9. The board is aware of the organization's information needs. Any exceptions to best practice over data acquisition, usage, storage and destruction are reported	3.85	0.36
10. No substantial, unexpected problems have emerged which the board should have been aware of earlier	3.83	0.38
Overall mean and standard deviation	3.51	0.25

KEY: SD-Standard Deviation; M-Mean

6.2 Correlation Analysis

The findings in Table 6 show that there is a positive significant correlation between corporate governance practices and profitability of commercial banks, implying that there is an association that is positive and significant between the two variables.

Table 6 Correlation Results for all the variables

Correlations

		board performance and compensation	**board qualification**	**operational and ethical controls**	**risk management**	**role definition**	**profitability**
board performance and compensation	Pearson Correlation	1	.406**	.019	.413**	.263*	.335**
	Sig. (2-tailed)		.000	.876	.000	.027	.004
	N	71	71	71	71	71	71
board qualifications	Pearson Correlation	.406**	1	.170	.231	-.191	.270*
	Sig. (2-tailed)	.000		.156	.053	.111	.023
	N	71	71	71	71	71	71
operational and ethical controls	Pearson Correlation	.019	.170	1	.619**	.545**	.623**
	Sig. (2-tailed)	.876	.156		.000	.000	.000
	N	71	71	71	71	71	71
risk management	Pearson Correlation	.413**	-.231	.619**	1	.316**	.561**
	Sig. (2-tailed)	.000	.053	.000		.007	.000
	N	71	71	71	71	71	71
role definition	Pearson Correlation	.263*	-.191	.545**	.316**	1	.373**
	Sig. (2-tailed)	.027	.111	.000	.007		.001
	N	71	71	71	71	71	71
Profitability	Pearson Correlation	.335**	.270*	.623**	.561**	.373**	1
	Sig. (2-tailed)	.004	.023	.000	.000	.001	
	N	71	71	71	71	71	71

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

*. Correlation is significant at the 0.05 level (2-tailed).

6.3 Summary Effect of Corporate Governance Practices on Profitability of Commercial Banks in Kenya.

A standard multiple regression model was carried out. The summary model results are presented as shown in Table 7 below.

Table 7 Summary Model Results on Effect of Corporate Governance on Bank Profitability.

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	.798[a]	.637	.609	.10339	.637	22.836	5	65	.000

a. Predictors: (Constant), Role definition, Board qualifications, Risk management, Board performance and compensation, Operational and ethical controls

The findings in Table 7 show that there is a positive relationship between corporate governance and bank profitability as indicated by R value of 0.798 in the overall model. This means that the two variables are associated. The findings further show an R square value of 0.637, which is the proportion of variance in the bank profitability accounted for by corporate governance. This meant 63.7% becomes the overall percentage change in bank profitability accounted for by corporate governance. An adjusted R square value of 0.609 was obtained after shrinkage so as to get the true population value when errors in the estimation were controlled for. Thus it is clear that corporate governance explained 60.9% change in bank profitability. An F value of 22.836 confirms that the findings are not by chance but as a result of fitting the model and therefore the model is significant, F(5, 65)=22.836, P=.000. These findings imply that in overall, corporate governance significantly accounts for over half of change of commercial bank profitability based on the selected variables.

6.4 Coefficients on the Contribution of each Corporate Governance Dimensions on Bank Profitability

In this sub-section, the study presented the findings on the contribution of each dimension of corporate governance on bank profitability. Standardized coefficient values are therefore used since they indicate the unique contributions of each dimension after an overall comparison on the same scale through standardization process. The findings are presented as shown in Table 8 that follows.

Table 8 Model Coefficients on the Contribution of Each Corporate Governance Dimension.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.148	.477		.309	.758

	board performance and compensation	.231	.060	.362	3.844	.000
	board qualifications	.211	.043	.458	4.960	.000
	operational and ethical controls	.166	.078	.291	2.132	.037
	risk management	.373	.151	.302	2.480	.016
	role definition	.065	.059	.112	1.098	.276

a. Dependent Variable: y-profitability

Therefore, on the basis of the analysis model;
Profitability = 0.148(Constant)+0.231(BP)+0.211(QB)+0.166(OE)+0.373(RM)+0.65(RD); all significant at P=0.05 except to role definition which was insignificant. The results imply that for every unit change in profitability, Board performance contributes 0.231significant while at P=0.000, Board qualification contributes 0.211 while at P=0.000, operational and ethical controls contributes 0.166 while at P=0.037, risk management contributes 0.373 while at 0.016 and role definition contributes 0.065 while at P=0.276. From the findings presented in Table 8, there would be a change in corporate governance by a value of 0.148 (constant value), without an introduction of any independent variable in the model. However, based on the selected variables, the findings indicates that board qualification as a dimension of corporate governance has the most unique significant contribution to bank profitability (β=.458, p=.000) followed by board performance risk management (β=.302, p=.016) and finally compensation (β=.362, p=.000), operational and ethical control (β=.291, p=.037). However, it emerged that role definition did not have a significant effect on bank profitability. These findings imply that whenever any of the mentioned dimensions are increase, there are significant improvements in bank profitability, leading to realization of maximum profit among commercial banks.

According to the review of existing literature, Uadiale, (2010); Lawal, (2012,) note that qualification of BOD is considered an important factor in the performance of Board roles. Ademba (2006) also finds this qualification to have an influence on bank performance. Cannella and Lubatkin (1993) on the other hand carried out a study on the relationship between CEO duality and firm profitability. They used return on assets and return on equity as measures of profitability and reported a positive link between the two variables. In support to the findings, ethical and operational controls are important and highly valued morals, not only in banking but also in business generally (Fakunyama, 1995). For the case of board performance and compensation, National State Auditors Association, (2004) revealed that the link between Director's pay and firm profitability provides an important incentive through which the Board of Directors can be used to tackle the agency problem, which supports a positive link in the current study. Furthermore, Angeela (2010), in a bivariate study, found no relationship between the credit risk management and the profits figures for Kenyan banks within the financial statements. It can thus be concluded that corporate governance dimensions have an influence on bank profitability among commercial banks in Kenya.

7. Recommendations and Areas for further study

From the first objective of the study, it can be recommended that the recruited or appointed board members should be qualified to serve in that capacity. Banks should also improve on their qualification through trainings in order to improve their profitability. The findings on the second objectives lead to a recommendation that role definition should be improved among commercial

banks. This should be done on all employees to avoid conflicts of the roles played and ensure proper demarcation of the duties to enhance effectiveness and improvement in performance. It can also be recommended that bank management be fully equipped with the knowledge on operational & ethical controls so as to improve bank performance among commercial banks in Kenya. From objective four of the study, the study recommends that banks should ensure good Board Performance and improvement on Compensation so as to enhance bank Profitability. Finally, the study recommends that banks should engage into risk taking ventures after through layout of high calibre risk management strategies. This could avoid losses among the banks while improving on their profits. Due to the fact that the current study could not zip every gap, the study suggests additional studies on the same. A study needs to be carried out on the moderating role of board qualification on the relationship between their competency and bank performance. A study can also be carried out on the relationship between compensation and service quality among commercial banks in Kisumu. Finally, a study can be carried out on the effect of risk management strategies on expansion of commercial banks in Kenya.

8. Conclusions

From the study findings on the five objectives, various conclusions were made as follows. First, there is a relationship between Qualification of Board of Directors and Profitability of Commercial Banks in Kisumu County. This finding also leads to a conclusion that bank profitability is partly a result of board of director qualifications. Hence, board director qualifications have an effect on bank profitability. Secondly, it can be clearly concluded that there is a relationship between Role Definition and Profitability of Commercial Banks in Kisumu County. There is therefore an association between Role Definition and Profitability of Commercial Banks, however, role definition is not the best predictor of bank profitability among commercial banks. The third conclusion drawn from the third objective is that a relationship exists between Operational and Ethical Controls and Profitability of Commercial Banks in Kisumu County. This means that Operational and Ethical Controls have an effect on bank profitability. The findings also conclude that there is a relationship between Board Performance and Compensation and Profitability of Commercial Banks in Kisumu County. This is also same as to having bank profitability associated with Board Performance and Compensation. Therefore this leads to a conclusion that Board Performance and Compensation has an effect on bank profitability of commercial banks. Finally, the study concludes that Risk management and profitability of commercial banks in Kisumu County are associated such that good risk management leads to higher profitability and therefore Risk management has an effect on bank profitability.

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