INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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INTRODUCTION

- Corporate governance is the new strategic imperative (EIU, 2012).

- Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders (OECD, 2011).

INTRODUCTION

- There are over 40,000 multinational corporations currently operating in the global economy with top 200 multinational corporations having a combined sales of $7.1 trillion, which is equivalent to 28.3 percent of the world's gross domestic product (US, 2011).

- World Bank (2011) highlighted that corporate fraud costs the global economy £25bn every year.

TABLE 1: CORPORATE FAILURE

Author and Year	Country/Continent	Losses annually	
Association of certified Fraud Examiners (2008)	United States of America	I trillion per year	
Australian School of Business (2010)	Australia	A$5.8 billion a year	
Global Centre for Corporate Fraud (2005)	UK	£72 billion a year	
India Fraud Survey Report (2008)	India	range of INR 10 million to INR 100 million annually.	
International Fraud and Corruption Report (2006)	Germany	£137.1 Billion (€200 billion)	
(Geopolicity, 2011). (political governance)	Africa	estimated cost is US$20.56 Billion	

INTRODUCTION (CONT'D)

- Kenya is ranked number 109 out 183 in terms of ease of doing business (WB, 2012)
- Kenya ranked number 154 out of 182 on corruption indexing (CPI, 2011)
- Corporate fraud in Kenya totals $2 billion annually where Kenyan banks lost Kshs. 1.7 bn in three months between August and October, 2010 (PWC, 2011).
- Commercial banks lost Kshs. 756 million in six months in 2010 (CBK, 2011)

STATEMENT OF THE PROBLEM

- Kenya is ranked number 102 out of 142. This ranking is behind South Africa 50, Botswana 80, Namibia 83, and Rwanda 70(GCI, 2012).
- Kenya is still behind the mentioned countries in various governance indicators namely; Efficacy of corporate boards 94, protection of minority shareholders 78, strengths of auditing and reporting standards 66, ethical behavior of firms 99, and strength of investor protection 77 (GCI, 2012).
- In terms of African governance Kenya was ranked 23 out of 100 (Mo Ibrahim, 2011).
- Banking sector contribution to GDP was 6.2% in 2010 and 7.3% in 2011 below wholesale and retail trade, Agriculture and Forestry, Transport & Communication (KNBS, 2012 and RoK, 2012)
- Would lack of corporate governance be the cause of this?

OBJECTIVE

- The study sought to explore the influence of board complexity on financial performance of commercial banks in Kenya.

RESEARCH DESIGN

Research Design	Scholar	Year	Discussion
Descriptive	Mugenda & Mugenda	2003	-Reports the phenomena as it is
	Creswell	2003	-is used when data are collected to describe persons, organizations, settings or phenomena
Exploratory	Orodho	2003	-Provision to consider diverse aspect of the problem

- *The study adopted research design path to answering the stated research questions*

RESEARCH DESIGN (CONT'D)

	Scholar	**Year**	**Discussion**
Population	Sekaran	2010	-entire group of individual or objects having common observable characteristic. include 363 directors from the 43 commercial banks in Kenya (Banking survey, 2003 and CBK, 2011)
Stratified random Sampling	Orodho	2003	-A technique used where the population is not homogeneous.
Sample size	Mugenda and Mugenda	2003	187 directors from the 43 commercial banks drawn from each strata.

RESEARCH DESIGN (CONT'D)

	Scholar	Year	Discussion
Data collection	McNamara	1999	-Questionnaire, observation schedule
Pilot testing	Cooper &Schindler	2010	-detect weaknesses in design and instrumentation
	Mugenda &Mugenda	2003	-Cronbach Alpha to access internal consistency of an instrument
	Cooper & Schilder,, Creswell,	2011 and 2003 respectively	-1% of the sample should constitute the pilot test (not to be included in final study – fatigue

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

- Response rate

  The instruments were administered to all commercial banks excluding those involved in the pilot study. Out of the one hundred and sixty seven (167) questionnaires distributed, one hundred and thirty seven (137) were returned back forming 80%.

STUDY VARIABLES

Board complexity

60.87% indicated that board complexity does not influence financial performance of commercial banks and 39.13% indicated that board complexity influences financial performance of commercial banks

i. Level of complimentarity and diversity

8% of the respondents indicated that board of director's level of complimentarity and diversity influences financial performance of commercial banks to a very great extent, 30.4% indicated board of director's level of complimentarity and diversity influences financial performance of commercial banks to a great extent, 31.2% to a moderate extent, 22.5% low extent and 8% very low extent.

STUDY VARIABLES

ii. Conflict handling in meetings

22.5% of the respondents indicated that conflict handling in meetings influences financial performance of commercial banks to a very great extent, 23.2% indicated conflict handling in meetings rsity influences financial performance of commercial banks to a great extent, 22.5% to a moderate extent, 23.9% low extent and 8% very low extent.

iii) Gender representation

31.2% of the respondents indicated that gender representation influences financial performance of commercial banks to a great extent, 30.4% indicated gender representation influences financial performance of commercial banks to a moderate extent, 23.9% to a low extent and 14.5% very low extent.

STUDY VARIABLES

iv. Affirmative action

15.9% of the respondents indicated that affirmative action influences financial performance of commercial banks to a very great extent, 15.2% of the respondents indicated that affirmative action influences financial performance of commercial banks to a great extent, 46.4% indicated affirmative action influences financial performance of commercial banks to a moderate extent, 15.9% to a low extent and 6.5% to a very low extent.

STUDY VARIABLES

ii. Influence on the appointment

38.4% of the respondents indicated that access to key information influences financial performance of commercial banks to a very great extent, 29.7% of the respondents indicated that access to key information influences financial performance of commercial banks to a great extent, 15.9% indicated access to key information influences financial performance of commercial banks to a moderate extent and 15.9% to a low extent.

iii. Influence on key decisions

28.3% of the respondents indicated that influence on key decisions influences financial performance of commercial banks to a very great extent, 39.9% of the respondents indicated that influence on key decisions influences financial performance of commercial banks to a great extent, 23.9% indicated influence on key decisions influences financial performance of commercial banks to a moderate extent and 8% to a low extent.

STUDY VARIABLES

iv. Direct involvement in the management of the bank

37.7% of the respondents indicated that direct involvement in the management influences financial performance of commercial banks to a very great extent, 39.9% of the respondents indicated that direct involvement in the management influences financial performance of commercial banks to a great extent, 14.5% indicated direct involvement in the management influences financial performance of commercial banks to a moderate extent and 8% to a low extent.

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STATISTICAL MODELLING FOR ALL STUDY VARIABLES

Board complexity

Scatter diagram on financial performance of commercial banks/board complexity

positive linear relationship between board complexity and financial performance of commercial banks.

Linear regression model financial performance/board complexity

the value of R^2 is 0.387602 and Adjusted R Square is 0.383379 indicating that board complexity has a weak linear relationship with financial performance of commercial banks. The Adjusted R squared value of 0.383379 implies that board complexity explains 38.33% of the variability in financial performance of commercial banks in Kenya. The other percentage could be explained by other variables.

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STATISTICAL MODELLING FOR ALL STUDY VARIABLES

- **Analysis of Variance**
- The study sought to investigate the effect of board complexity on financial performance of commercial banks. Specifically the study tested the hypotheses
- Null hypothesis
- H_o: board complexity has no influence on financial performance
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- The alternative hypothesis
- $H_{1:}$ board complexity has influence on financial performance
- The ANOVA table 4.7.3.2, shows that the P – Value is 0.000 which is less than 0.05 leading to the conclusion that board complexity has a significant effect on financial performance.
- The hypotheses in question were;
- Ho : $\beta = 0$
- Vs
- H_1: $= \beta \neq 0$
- Since P – Value is equal to 0.000 the null hypothesis beta (β) is equal to zero is rejected and the alternative hypothesis that beta (β) is not equal to zero is taken to hold. This implies that board complexity has a statistically significance effect on financial performance of commercial banks in Kenya.

STATISTICAL MODELLING FOR ALL STUDY VARIABLES

Coefficient

- board complexity has a positive gradient of 0.598301 and is significant. Board Complexity influences financial performance positively. The gradient 0.598301 means that for a unit increase of board complexity the financial performance increases at a rate of 0.598301. The Constant 0.695297 means that without board complexity the financial performance of commercial banks would be at 0.695297. The commercial banks would still survive but not maximize the profits
- The effective simple linear model is therefore,
- Y = 0.696297 + 0.598301X

SUMMARY OF FINDINGS

- **Influence of board complexity on financial performance of commercial banks in Kenya**

- The third objective of this study focused on the relationship between board complexity and financial performance of commercial banks
- The finding of the study reveal that board complexity positively influences the financial performance of commercial banks. 38.3379% of the corresponding change in financial performance of commercial banks can be explained by a unit change in board complexity.
- As a result, the null hypothesis that there is no relationship between board complexity and financial performance was rejected.

RECOMMENDATIONS

- Commercial banks should increase the level of board complexity in order to increase financial performance

CONTRIBUTION TO KNOWLEDGE

- Several contributions emerge from this study. First, the study contributes to understanding of corporate governance practices link by examining both the traditional variables such as board size, and other organizational attributes such as managerial skills. This approach offers a newer light into constitution and functioning of top management teams as strategic decision making groups (Rhoades, Rechner and Sundaramurthy, 2001).

AREAS OF FURTHER RESEARCH

- Due to constraints, highlighted in Chapter one, this study could not exhaust all corporate governance practices influencing the financial performance of commercial banks in Kenya. First, the study focused only on certain set of board characteristics for their impact on firm performance. While the characteristics covered are important, there are other diversity variables such insider ownership, remuneration committee, board meeting, independence of directors nomination committees, CEOs remuneration, capital structure and disclosure could not be included. Furthermore, the performance of a company is influenced by more factors than just good corporate governance. Issues of social, legal, economic and the political environment are equally important. It is therefore suggested that future research should consider some of these factors in exploring the impact of corporate governance on firm performance.

Others

- References

THANK YOU.