CORPORATE GORVERNANCE INFLUENCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN THIKA SUB-COUNTY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULLFILLMENT OF THE REQUIMENT FOR THE AWARD OF DEGREE IN BACHELOR OF COMMERCE FINANCE OPTION IN SCHOOL OF BUSINESS, GRETSA UNIVERSITY.

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DECLARATION

I, Kelvin Kyalo Mulatya, do hereby declare that this entrepreneurship project is my own original work and to the best of my knowledge it has not been presented to any other University for similar purpose or for similar purpose or for any other degree award.

Signature... Date.....14/12/2020..............................

KELVIN KYALO MULATYA

BUS-G-4-0427-17

I confirm that the student under my supervision as the university supervisor carried out the work reported in this entrepreneurship project.

Signature... Date.....14th Dec, 2020..............................

Madam Fridah Kathure

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DEDICATION

This project is to my parents Mr. and Mrs. Mulatya who have done so much and in paying my financial bills, fees and their time enabling me to achieve my goals. I also dedicate it to my younger sister Caroline Mulatya who has also been in the front line of encouraging me. To my best special person Esther Wangui for her ceaseless support and love. Finally, to my finance class who were resourceful in many helpful ways.

ACKNOWLDGEMENT

To the almighty God for his grace and strength to keep me going on strong. Special thanks goes to my supervisor; Fridah Kathure for her intellectual guidance and she steered me in the right direction whenever I needed it. I most sincerely wish to register my gratitude to all personnel who in one way or another assisted me when conducting this research project May God bless you.

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LIST OF ABBREVIATION

ATM	Automated Teller Machine
C E O	Chief Executive Officer
CG	Corporate Governance
COVID 19	Corona Virus Disease
GPM	Gross Profit Margin
OECD	Organization for Economic Cooperation and Development
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

ABSTRACT

It being evident enough that the fall of chase bank which were in Kenya, March 2016 it transparently indicates the banking industry is still in the cycle of facing major problems of poor governance with the managerial activities. These corporate struggles are habitually preceding by the finance struggles that end up leading to the decline of most banking industry and other firms on their performance. This study sought to determine corporate governance influence on financial performance in commercial banks at Thika sub-county. Descriptive research of quantitative data was performed for the analysis of the study. The collection consisted of the financial statements from respective websites of commercial banks in Thika, from which the sample population data was covered. The secondary data was from eight commercial branch banks in Thika sub-county for 2020. The collected data was directly undertaken for completeness, enciphered and keyed into the SPSS to finalize the major analysis. Regression analysis was also used to find out the relationship existing in the dependent and independent variable that include ROA and board diversity & appointments, board independence and board size respectively.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the past three decades, the whole world experienced more and more cases of corporate failure. This has led to the rise of attention to corporate governance and to the effectiveness of boards, audit committee, disclosures, internal controls and the independence of directors. In a firm the corporate governance mechanism tool defines and guide on how a firm is governed and its related mechanism (Korent, Dundek & Calopa, 2014). Sound corporate governance increases monitoring efficiency and the corporate is necessary to guarantee a healthy financial system this widely assist ensure investor invested amounts or other assets anticipate to commensurate returns., countries economic development.

According to OECD (2015) Report on principles of corporate governance, “good corporate governance is not an end in itself but it’s a means to generate market confidence and business integrity. The key aspects of corporate governance are important to all types of institutions even so only a few studies have focused on banks’ corporate governance.

Several theories have emerged to advance on the corporate governance. There is the agency theory, which explains existing relationship between an agent and the principle and stewardship theory that shows achievements of the manager’s needs on which the performance will determine their achievements.

In Kenyan Commercial Banks, the measurement of financial performance is on the financial ratios presented such as liquidity ratios and debt ratio. Financial performance is measured from certain instruments, which include profitability, solvency and liquidity (Mwangi & Angima, 2016).

History of commercial banks in Kenya

There are two major operators in this industry of banking in Kenya; the central bank of Kenya CBK and the commercial banks. The other parties are micro-finance institutions, non-bank financial institutions and forex bureaus. According to CBK (2016), "there is 1 mortgage finance company and 42 commercial banks. Commercial banks are the far most dominants in the Kenya banking system and for this they are supervised by the central bank of Kenya in their operations. Before the enactment of the banks act in 1989 some banks like Union Bank, Trust Bank, City finance had already collapsed, also 19 others collapsed for they had been wrapped up in the Goldberg Scandal. From 2007 to 2015 Governor Prof Njuguna Ndungu in control, there occurred some other collapse and the banks were under statutory management by the CBK. The latest bank to be under this is the well-known Chase Bank.

1.2 Statement of Research Problem

Recognizing the power and characteristics of effective governance is vital for commercial banks and country's stability as far as economic and social growth is concerned. The subject of corporate governance has not been well emphasized in most institutions this has attracted attention because of its apparent importance for strategic health of organizations and society in general.

In a bid to find out if, there is a link of connection between CG principles and the firm's financial performance. Olick (2015) also in his research concluded that the board size (in terms of membership numbers) had a positive and significant impact on the ROA ratio. Batool and Gohar (2015) found out that larger boards of directors inversely influence the financial performance of the industries but also had a positive effect on return on asset as a profitability measure.

The evident wide gap that shows only a few covered the effects of corporate governance on firm's financial performance specifically in the commercial banking sector. In Kenya, Thika sub-county the issues and the need for corporate governance have been propelled majorly by the corporate scandals. It has been a common belief that the existence of a sound corporate governance helps generate investor confidence and trustworthy.

1.3 Purpose of the Study

The purpose was to investigate the various effects on elements of corporate governance on financial performance of commercial banks.

The intent of this study was to discover if the board size, board independence, board diversity, number of meetings and number of committees affect the financial performance on the commercial banks in Thika.

1.4 Conceptual Framework

The following is the conceptual framework for the study.

Independent Variable **dependent variable**

Corporate governance Financial Performance

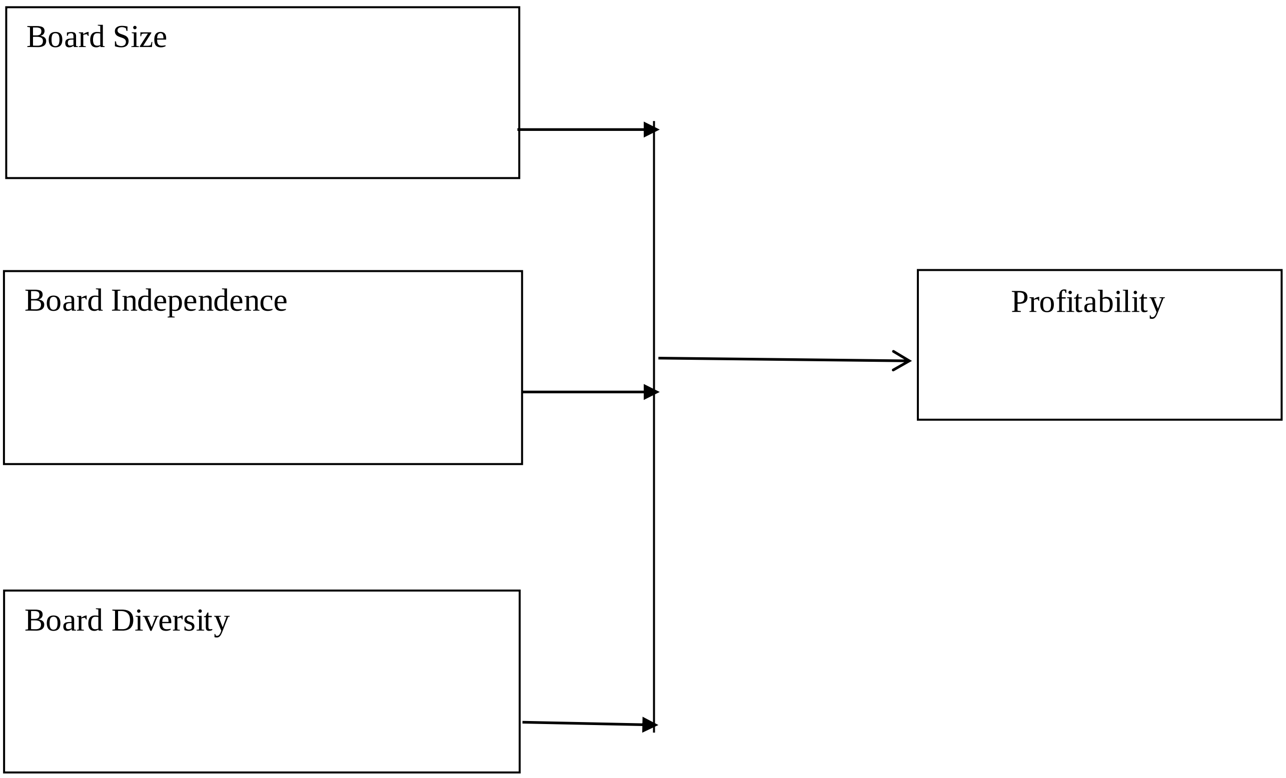

Figure 1.4.1 conceptual framework

The conceptual framework above explains the relationship between corporate governance mechanism (board size, board independence, board diversity) on the financial performances as evaluated by return on assets amongst other measures.

Board size - Total individuals involved in the management of the board of directors.

Board independence - the overall percentage in proportion of the executives.

Board diversity - this are professions represented in terms of gender of members in the institution.

1.5 Research Questions

1. Does the company board size influence the financial performance of commercial banks?

2. To what extent does board independence influence the financial performance of commercial banks?

3. To what extent does the board diversity influence the financial performance of Commercial banks?

1.6 Objectives of the Study

1.6.1 General Objective

The aim was to establish the influence of corporate governance and financial performance of commercial banks in Thika Sub-County.

1.6.2 Specific Objectives

1. To establish effect of board size on financial performance of commercial banks in Thika Sub-County.

2. To find out the influence of financial performance of commercial banks in Thika Sub-County.

3. To identify the relationship between board diversity and financial performance of commercial banks in Thika Sub-County.

1.7 Significance of the Study

This study contributed to the statistical evidence of financial performance. Undergraduates will use it in evaluating on the other key gaps that are left out during the research study done. The banking industry will use it by establish the new polices that were put into action for improvement and ease the existing ones in the industry. The government based on these findings they will be able to strengthen the corporate governance in the country to ensure no other bank collapse hence boosting the economic and social factors. The findings of the study showed the need to embrace corporate governance for the wide area of bettering the performance. The public at large especially the citizens who have shares in banks will use it examining the board elected if they have the capability of ensuring the financial performance are as per planned structure.

Many Commercial Banks in not only Thika but also Kenya at large will use the study in their operations decisions in the improvement of corporate governance in the banking industry.

1.8 Scope of the Study

This study sought to discover the effect of corporate governance on the financial performance of the commercial banks in Thika sub-county. Where corporate governance is the independent variable and financial performance is the dependent variable. The major reason for checking in commercial banks is because many citizens bank at commercial banks generally because of their convenience in that the bank branches and ATM's are almost everywhere hence they can get the services easily and more efficient.

1.9 Limitation of the Study

Financial problem- the study required me to visit banks and due to the COVID 19 pandemic transport cost were high and not forgetting the risk of getting infected which discouraged the movement.

Access- the study greatly depended on me having access to documentation and there were was room to get limited information or denied access completely.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents the various theories of corporate governance in banking industry. They widely explain its importance, in that the board plays a major role in its existing standards in boosting performance, executive appointment in the bank performance, policies and legislation for ensuring compliance in the CG and the existing relationship between non-executive directors to total directors for bank performance.

2.2 Corporate Governance

From a banking, industry perspective CG involves the manner in which the affairs of banks are governed by their board of directors and senior management.

Olick (2015) also in his research concluded that the board size (in terms of membership numbers) had a positive and significant impact on the ROA ratio. Batool and Gohar (2015) found out that larger boards of directors inversely influence the financial performance of the industries but also had a positive effect on corporate social responsibility image and reputation of the firm.

The Corporate principles include accountability, fairness, transparency and responsibility.

According to Buallay et al. (2017) the results of the study indicated there is no significant impact for corporate governance adoption in financial performance of firms and this was by testing the Tobin's θ model which in result also significant impact for the ownership and the size of the board of directors on the firm's performance.

2.3 Financial Performance based on Commercial Banks

This are the determinants of financial status of any firm. Most researchers divide the determinants of commercial banks financial performance into parts: internal factor that comprises of profitability in the control of bank management.

A recent study by Ogega (2014) and Rotich (2015) 'on the effect of ownership structure on financial performance of commercial banks in Kenya' concentrated only on one element of corporate governance I.e. ownership structure which included government ownership, domestic ownership, individual ownership and corporate ownership.

According to Ongore and Kusa (2013), "the performance of management is often expressed qualitatively through subjective evaluation of the management systems, control system, disciplined in the organization and others." Liquidity widely affects banks profitability; the availability of adequate liquidity is positively related to the subject bank profitability margins.

In performance measurement were conducted in use the stated accounting methods where calculations are carried on firms statements, this are GPM, ROE, ROA (Mwangi & Murigu 2015).

2.4 The Board Independence

In the board total parties, they greatly influence any industry performance, the existence of diversity in the board assist in the creation and implementation of improved and better policies which in return turn up to be more creative in relation to homogeneous members. This is due to the existence of diversity in the system board.

Ayako et al (2015) concluded that there was existence of significant affect in the industries concerning its performance this was in relation to the number of directors. Hence, organization who are likely to have a larger board leads to increased return on assets unlike the ones who have smaller size. This relates with (Beasly 2014) on other directors.

2.5 Legislation policies

In the recent years Basel Committee have highlighted the principles in practice papers concerning directors who are present in the board pertaining strategies that are to enforce and ensure accountability, which in turn leads to a better-improved corporate governance.

2.6 Board diversity and Appointment

In a research study by Hugh et al. (2011), effect on commercial banks in the USA, they found out that CEO duality associated negatively with the performance of the industry. Then further found intensive pay to executives indicates a positive financial performance. Wairumu (2014) researched on the effect of corporate governance practices on the financial performance of commercial banks in Kenya. The CG invested included number of non-executive directors, board size and diversity from which they discovered there was no significant relationship between financial performance and diversity of board.

Miseda (2012) research found out that corporate governance plays an important role in bank stability, performance and bank ability to provide liquidity in difficult market conditions.

2.7 Theoretical Framework

Over time, there has been a debate on corporate governance due to the complex nature of the subject. The study of corporate governance is complicated in that, the fact that the structure, role and impact of boards studied over time and these different perspectives, there are several governance theories: The agency theory, stewardship and stakeholder theories.

Darus, (2011) the arising of CG consistent problems are generating the poor alignment of managers and investors interests due to the division in control in the ownership of this organizations.

2.8 Summary of Gaps

(Muriithi, 2011) unstable CG mostly ends up in the creation of weak financial performance. In general, the literature on CG includes specific elements for example responsibility, transparency and trustworthy which expressed that transparency enhances trust between firms and stakeholders in relation to the disclosure of financial status like banks. Moreover, the firm earnings, capital adequacy and liquidity is for determining their performance especially in major banking industries.

Researches have been conducted both locally and internationally to establish the relationship between corporate governance and a firm financial performance. Few local studies have looked in this area, on these evident gaps I explored and I was able to discover the truth and filled in the gaps concerning the study in Thika from which it answered questions discussed in (**1.5 research questions**).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this section of chapter, it includes the research design, the study area, measurement of variables, instruments used in the research, techniques for sampling the target population, the analysis of data, the study area and finally ethical considerations and logistics.

3.2 Research Design

In order to investigate corporate governance existing effects on financial performance, the research design used is descriptive design for it was suitable for this research since it provides qualitative and quantitative data collection methods of selecting samples to analyze and discover occurrences. The data will be from the published financial statements and websites of commercial bank in Thika, Kenya and the bank's branches, management and staffs.

3.3 The Study Area

The study area Thika sub-county located in Kiambu County, Kenya. I choose commercial banks in Thika because since I was called to join the Gretsa University I have had a good experience about the town and basically I would love to live and work in here when I graduate in addition to that I have learned their popular language hence communication were much easier.

3.3 Target Population

It comprised of the number of party interests of entire collection of data like people, services, elements and events or household that were involved in the action.

It consisted of eight commercial banks since because the ninth that is chase bank collapsed.

3.4 Sampling Techniques

The study used the available secondary data in addition to the primary data. The filled number of questionnaires in the visited commercial banks served as the primary data. Meanwhile the secondary data source were from the published annual reports spanning five years from the websites; this is to increase reliability in the findings.

3.5 Sample Size

This is the small part of a population, in subject. Usually determines evidence and truth about the targeted are of study.

Sample in this area were of eight commercial banks.

3.6 Measurement of Variables

Variables	Indicators	The Scale	Question number
Board size	The total number of members in the industry	8-14	
Board independence	The overall percentage of non-executive vs the executive	nominal	
Board diversity	The professional making up or who have been appointed on board	nominal	

Table 3.6.1 Measurement table

3.7 Research Instruments

The study will use the content analysis, questionnaire, observation and interviews.

Content analysis it covers both quantitative and qualitative approaches for analysis.

Questionnaires- They were closed questions, filled in by personnel's targeted e.g. workers, staff department and management at large. From which primary data was recorded.

Observation so as to experience, what they do and why they do it that way and to understand their perspective, this was the best approach I used.

Interviews this being not an easy option, it involved booking of appointments and obtaining letters from authorities for permit this letters are for trustworthiness by the respondent for the reliable data source.

3.8 Validity of Measurements

Validity is the actual extent in which defined measurement scores represented the variable they label. The study ensured that the questions in the questionnaire and interview schedule were valid and correctly designed for easy of understanding and getting feedback.In the secondary, the recent published financial reports and news since they contained relevant context.

Content validity for the essence of ensuring specific content and objectives of the study are included in the questionnaires and scheduled interviews.

3.9 Reliability of Measurements

This was for the consistency of measure, to ensure it in the study it pretested the questionnaires using two commercial banks this is to familiarize with their administration.

The test-retest in this research was involved.

3.10 Data Collection Technique

In the establishment of relationship between corporate governance and the performance of commercial banks, secondary data sources were involved. Secondary data collection had the advantage of being less expensive and less time consuming. In the collection of the study data, it was from published financial statements and websites specifically on return on assets, board size, board independence and the board appointments.

3.11 Data Analysis

This study was extended and evaluated by multiple regression analysis in the establishment the corporate governance and performances of commercial banks relationship in Thika ,data was recorded in figures, tables and statistics were obtained for the mean(s) and computation of standard deviation to be calculated. I prefer this method because it widely helps to explain quantitative data. Since the data collected was in raw form, it was further cleaned and coded by use the SPSS for its user friendliness.

Hypothesis	Hypothesis test	Statistical Model
HO	0.05	regression

Regression method

In that;

$R= \alpha + \beta 1M1 + \beta 2M2 + \beta 3M3 + \beta 4M4$

R= Return on assets (Net income Over Total Assets)

M1= The Board Size number

M2= Exact number of Executive Directors

M3= Total Number of Non-Executive Directors

M4= Appointment on board

α= Constant term of the model

β (1,2,3,4) = Co-efficient model

Financial performance being the dependent variable represented as ROA and independent variables represented by the Board size, board independence (executive and non- executive) and board appointments. Errors in the data that may occur due to wrong entry, ineligibility of word or numbers in recording and miscalculations, and for that, the error term comes.

3.12 Logistical and Ethical Considerations

This being one of the key things in this research work, the study ensured the code of conduct, it specifically didn't touch issues that could come to harm the participants in any way.

Information from the banks being involved was involved with extra care and the confidentiality not to disclose it to other parties that can take advantage of the data. In other peoples, work in referencing the APA format as per the guidelines took place to recognize and appreciated their work. In the formulation of the research project, questionnaires and interviews schedule avoided discriminatory language in best possible way.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter comprises of the findings, analysis and results of the study on how they related with the study objectives. It being analyzed from the financial reports of respective banks and also the CBK and some questionnaires administered. Presentation of the results is on corporate governance influence on financial performance of commercial banks in Thika sub-county.

4.2 The response gender data

In here below is the highlighted gender response

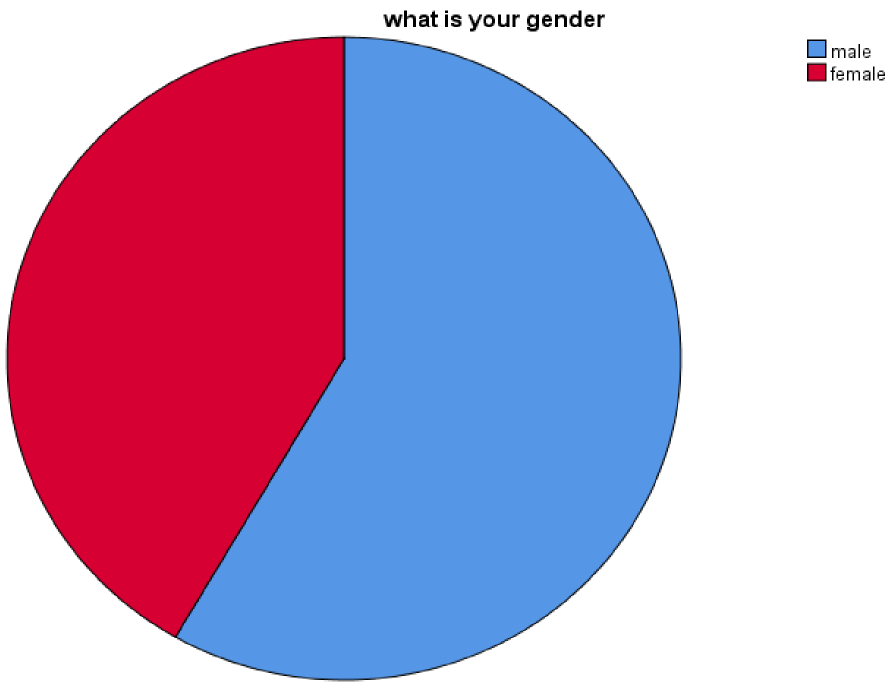

Figure 4.2.1: Percentage of respondents gender

Source: Research data (2017)

The results of the study indicates that 58.3% of the staff in the banking department were male, while female staff members represented the 41%. This clearly shows that there are equal opportunities and that no gender is discriminated in the appointment of staff members.

4.3 Response data

Research aimed at the sample size of 8 respondents obtained from commercial banks in Thika sub-county six filled in to completion and submitted the questionnaires. The response rate was 75% and it was adequate to draw conclusions for the study.

The results obtained are acceptable as supported by Mugenda and Mugenda (2003) “a 50 percentage response rate is satisfactory, 60 percent is good and a response rate of 70 percent and over is excellent.”

Statistics

		field of specialization	how many years have you been in this bank	the bank has good improvement on ROA in the last 3 years	policies and procedures of corporate governance	the bank publishes financial results	your bank provide equal access to information for shareholders
N	Valid	24	24	24	24	24	24
	Missing	0	0	0	0	0	0
Mean		3.0000	2.1667	1.6667	1.5417	1.9583	3.2500
Std. Deviation		1.84155	.76139	.81650	.77903	1.08264	1.29380

4.4 Job position

This are the captured responses from the questionnaires as illustrated below

Figure: 4.4.1 Job position

Source: research data (2019)

As evident above departmental staff members carried the highest number of 41.7% followed by management staff members (29.2%), supervisory staff (20.8%) and lastly the other staff recorded a 8.3% from the sample size of the study.

4.5 Board size

In the line chart

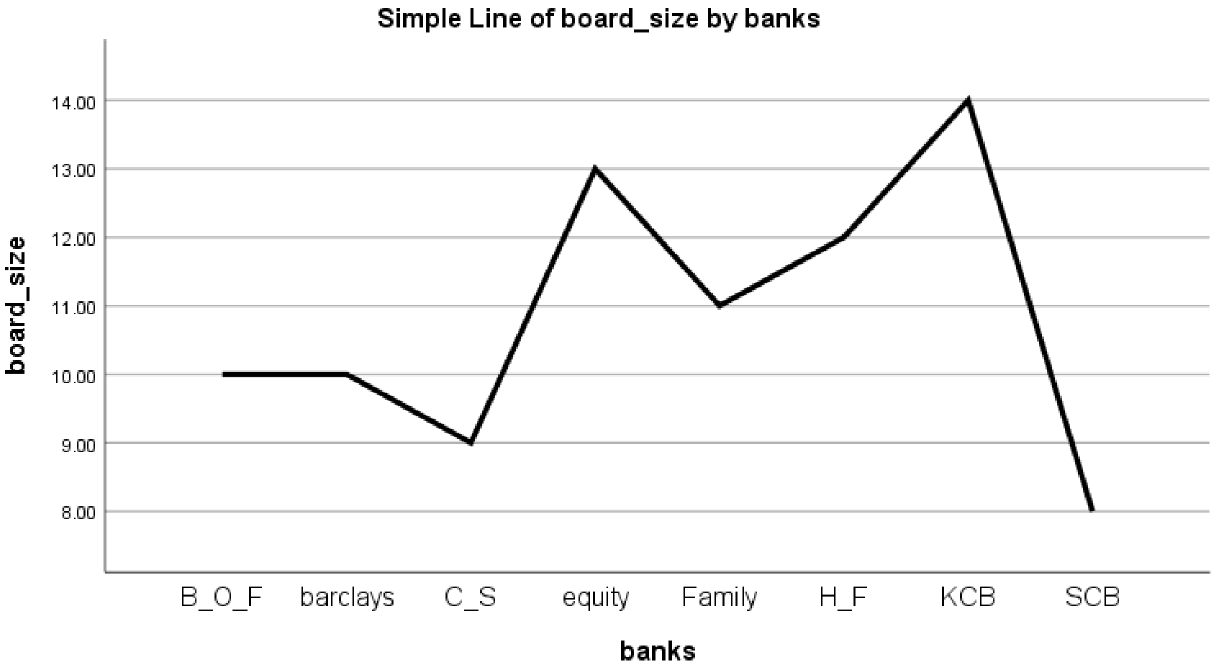

Figure 4.5.1: Board size frequency bar graph

In here, two banks have a board size of 10 members respectively while others ranged from eight members to fourteen. The highest bank had fourteen member and the lowest recorded eight members in the data collected from the sample of eight banks in Thika sub-county. This suggest that commercial banks have an average board size.

4.6 Board appointment

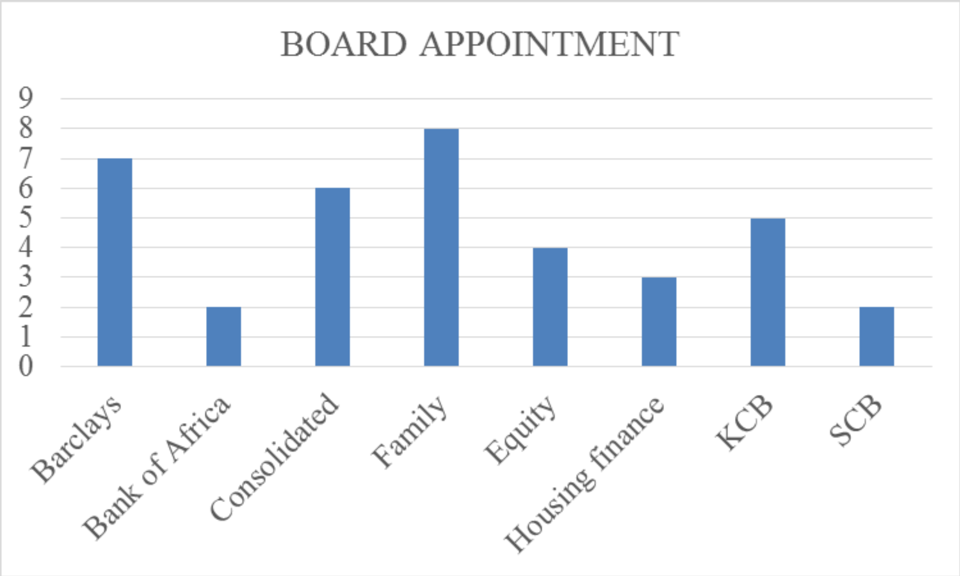

Figure 4.6.1 Board appointment

From the chart above two banks, appoint two directors, which generally they represent the lowest number while the highest appointed eight directors in its bank others ranged mostly between four and six. Therefore, board widely has the controlling hand on these commercial banks in Thika other than the government.

4.7 Field of specialization and normal curve

field of specialization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	finance	7	29.2	29.2	29.2
	audit	4	16.7	16.7	45.8
	accounting	5	20.8	20.8	66.7
	marketing	2	8.3	8.3	75.0
	procurement	2	8.3	8.3	83.3
	other fields	4	16.7	16.7	100.0
	Total	24	100.0	100.0	

Table 4.7.1 Field of specialization

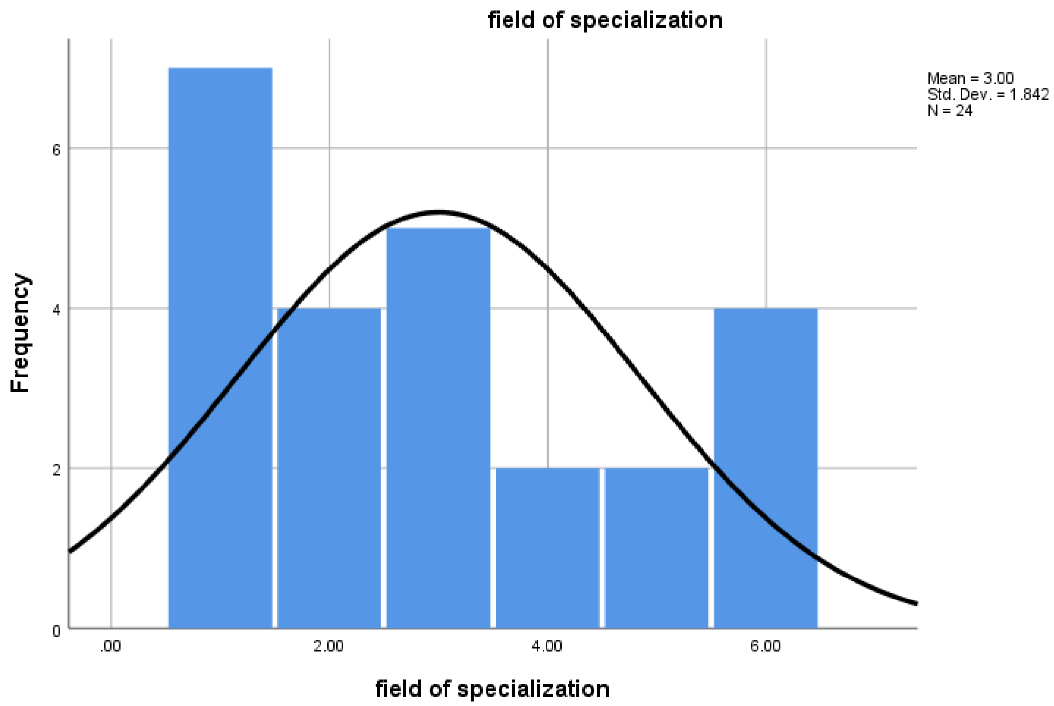

Figure 4.7.2 normal curve

The two data come to form a conclusion since the normal curve touches the bars. The standard deviation is 1.842 and mean is 3.00 as show above

4.8 Descriptive statistics

The research considered mean, standard deviation, minimum and maximum. Standard deviation in this study shows how the variables are scattered around their means and the minimum is the least value while maximum is the highest value of the specific indicator considered.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return_on_assets	8	1.02	4.12	2.4288	1.01566
Board_size	8	8.00	14.00	10.8750	2.03101
Board_indipendence	8	3.00	7.00	4.6250	1.59799
Board_diversity	8	2.00	8.00	4.6250	2.26385
Valid N (listwise)	8				

Table 4.7.1 Descriptive Statistics Summary

The findings displayed above and appendix the ROA had maximum of 4.12, and minimum of 1.02, the mean was 3.505 this shows that most banks operating in Thika do make solid financial positioning profits regardless of the sectoral inherent challenges and completion this is due to good corporate governance within the banking sector. The sample board size was at a maximum of 14 board members and a minimum of three board members and mean was members this implies that board size of executive is recommended for this banks.

The board should be neither too large like 15 members and above nor too small like four so as not to compromise the inter-active discussion in the board meetings that boosts its effectiveness.

Seven is the ideal number of board size according to the studies while nine is the average in the existing banks.

4.9 Regression Analysis

In order to establish the relationship and the effect between return on assets and the independent variables that are board size, board independence, board diversity & appointment. The findings are as shown.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901[a]	.812	.671	.58264

a. Predictors: (Constant), Board_diversity, Board_size, Board_indipendence

Coefficient of determination explains the extent to which the changes in the dependent variable can be affected by changes in the independent variable. From the analysis, the independent variable studied here had a strong relationship with dependent variables as explained by adjusted R square of 0.812. Therefore, it deduced that the relationship between return on assets and the independent variables was strong; in order to test the significance of the model the study conducted an analysis of variance as shown.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.863	3	1.954	5.757	.062[b]
	Residual	1.358	4	.339		
	Total	7.221	7			

a. Dependent Variable: return_on_assets, profitability

b. Predictors: (Constant), Board_diversity, Board_size, Board_indipendence

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.703	1.239		.375	.241
	Board_size	3.742	9.194	1.484	3.835	.019
	Board_indipendence	14.625	13.272	.984	2.299	.083
	Board_diversity	9.226	3.140	.505	1.614	.182

a. Dependent Variable: return_on_assets

The following regression equation was obtained

Y=7.703+3.3.742X1+14.625X2+9.226X3+E

From the regression model obtained above, holding all the other factors constant, Return on assets will be 7.703%. A unit change in board size holding the other factors constant will lead to change of Return on assets by 3.742%. A unit change in executive directors holding the other factors constant will change the Return on assets by 30.806%. A unit change in non-executive directors holding the other factors constant will change the Return on assets by 7.787%, while a unit changes in board appointments holding the other factors constant will change the Return on assets amount worth by 16.789 %. This implied that executive directors had the highest influence on the Return on assets, followed by board appointments, then non-executive directors and finally board size.

The obtained regression equation further implied that there was a direct relationship between Return on assets and board size, executive directors, non-executive directors and board appointments. The analysis being set at 5% significance level. This was to compare if the variables used in the study are significant on the applied models α=0.05. The predictor variables which were significant in the model include; board size, executive directors, non-executive directors and board appointments their probability values were less than α=0.05. As they were 0.034 and 0.015 respectively, board size and non-executive directors were insignificant in the model as its probability value was 0.179 and 0.121 which was greater than α=0.05 that was used in the whole study.

4.9.1 Summary and the Interpretation of Findings

From this study as shown in figure 4.1 above and appendix i, the ROA had maximum 0f 0.25 and the minimum of -0.0709, the mean was 6.54624 this shows that most banks in Kenya do make profits regardless of the sector inherent challenges and completion this is due to good corporate governance within the banking sector. The sample board size was at maximum of 14 board members and a minimum of 8 board members and the mean was 3.05.

This is consistent with other empirical studies such as Sanda et al, (2003) who implies that most commercial Banks have their boards with more than a third of non-executive directors. Despite that, the study is in agreement with other studies like that of John and Senbet (1998) who argue that boards of directors are more independent as the proportion of their outside directors increases. This enables them to run their issues without any undue optimistic influence from the inside directors.

Most of the commercial banks in Thika have the board appointed by the board themselves as represented by a mean of 7 directors out of 10 in the board, the other 3 directors could be appointed by the government or shareholders as shown by fig. 4.1. Therefore, the board is observed to have an upper hand in the control of most commercial banks other than government (figure 4.1). Most of the board appointees are qualified graduates and professionally skilled as accountants, auditors, lawyers, marketers, and financial analysts like in central bank of Kenya. A small number of Kenyan banks have no committee of non-executive directors on their boards, with only two banks (constituting 5% of the sample population) none on their Board of Directors.

Moreover, there is no difference in results whether there are one, two or three women on the board, and these women are usually professionally oriented.

The relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company. Corporate governance brings new outlook and enhances a firm's corporate entrepreneurship and competitiveness. The study examined the role of corporate governance and its effect on the performance of commercial banks in Kenya. From table 4.5, it was evident that there is a positive relationship between return on assets (ROA) and board size, executive directors, non-executive directors and board appointments of all commercial banks in thika since their coefficient estimates are positive and the P-values less than 0.05.since the significance value is 0.031.

These research findings are consistent with earlier research by Kihara (2006) who observes that unlike inside directors, outside directors are better and able to challenge the CEO hence a minimum of three outside directors is required on the board. It also concurs with Jensen

(1993) who voices his concern that, lack of independent leadership makes it difficult for boards to respond to failure in top management team. However, a standard deviation of 2.434 suggests that while some commercial banks have relative large board sizes, others have relatively small board sizes with board composition, on average of about 3 directors chosen from outside the commercial bank (non-executive board members). The study reveals that most of the boards are deemed independent and it concurs with John and Senbet (1998) who argue, that boards of directors are more independent as the proportion of their outside directors increases.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of conclusions all keyed down and are drawn from the findings highlighted and policy recommendations that were made. Conclusion and recommendations were in quest of addressing research objective of establishing corporate governance influence on financial performance of commercial banks in Thika sub-county.

5.2 Summary of study

with the in-depth consideration of both theoretical and empirical literatures in the previous chapters with aim of investing corporate governance influence on financial performance of commercial banks in Thika sub-county. it reveals that corporate governance (board size,) majorly affect or determine financial performance (ROA) of organizations. From the findings majority () of the respondents recorded the male gender and the minority were basically the female gender. From the research, many are seen to have specialized in the finance field; audit as the latter and the rest follow in their respective places.

Concerning corporate governance practices, it confirmed that this banks in Thika indeed most of them have put into measures the suitable corporate practices. As there reports show clearly and the internal audits records.

Board of directors responded and recorded to have been conducting regular meeting in their operational routine. Risk department is also runned, managed, and other committees. In addition, there exist a set of conduct and procedure covering all parties involved in the bank i.e. right of shareholders and confidentiality. This banks have a positive indicator on their financial ratios has they have been growing from the past three years the study can conclude his is boosted and achieved through the corporate governance which is kept on toes and followed to the latter for full completion and gain of results. Other factors could have contributed to these good reports in the system.

From the regression analysis, it was found out that holding all variables constant, when board sizes changes it will affect the financial department positively if the number exceeds and the change is also vice versa. Generally the board size and board independence are key variables to this section in that if any change occurs the financial performance is affected and finally board diversity seals it in terms of creative decision-making.

5.3 Conclusion

The relevance of corporate governance cannot be over-emphasized since it constitutes the organizational climate for the internal activities of a company. The research crosschecked the influences on the performance of the banks in Thika sub-county by using ROE that was the independent measure. Confidently, corporate governance is the major success booster in all operating organization. From regression method conducted, the results here goes a notch higher in the focus are of positive financial outcomes.it is concluded that the existence of a base large practices in the policies of corporate area will enhance and increase not only a bank but overall organization firms and institutions.

On basis of the overall results, it can be noted board diversity also help in the decision boosting for effective and positivity of the outcomes to be obtained from the financial reports generally.

5.4 Policy Recommendation

The findings provide shareholders in any institution with knowledge on how they can improve and enact new measures in the banks for the operations to be further boosted and the main goal of improved financial performance will be achieved on this measure when applied fully. The concerned ministry must be willing to ensure supervisory role is positively relevant to the regulations that are to be put into place or rather implemented to action.

The CBK is to be on the front line to lead by example on matters concerning these operations in the bank required. When the Corporate governance practices are put into place it will assist in putting into line that banks not only in Thika but nationwide maintain the level of risk they can handle and give depositors sufficiently safe level of their savings and investments.

All banks are to adopt and ensure training programs majorly on its or their managerial personnel, as well as for board members, this will to the aim of improving and advancing their corporate governance practices within the organization**.**

5.5 Limitation of study

The research results are limited in an explanation of the relationship between return on assets and corporate governance in commercial banks in Kenya. First, the study focused on only one year. It is not known how the results would have turned out if the study was to be extended to earlier years. The study does not provide an explanation of what the situation might be like before or after 2019/2020

The analysis of the annual reports is on the population sample of nine commercial banks in Kenya in the year 2019-2020. Thus, a longitudinal study in different time settings may offer further glitter on the issue to know corporate governance influence on financial performance of commercial banks in Thika across time on annual reports.

This study was based on past, secondary and statistical data which may not be an accurate approximation of the current status of the factors in determining investment in the firms under consideration. The study under went through financial circumstances, time factor for the period was limited hence exhaustive and extremely comprehensive in the research period.

5.6 Suggestions for further studies

The existence of literature reviews examining and evaluating related issues clearly shows that the results found in them are completely not conclusive. The study suggests a research into other non-banking industries such as insurance industry or manufacturing sector. Since the study involved only one year and nine banks. A study is recommended focusing more duration of time to capture time effects clearly. Finally, a similar study for all licensed commercial banks that are inclusive of banking institutions not involved in this study. Researchers should also find out the interrelationships of other factors not included in the study with financial performance indicators.

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APPENDIX

APPENDIX 1 LETTER OF INTRODUCTION

Dear personnel,

RE: <u>RESEARCH PROJECT</u>

I am a student at Gretsa University pursing bachelor of commerce currently at my final year. As a requirement of my study, I am conducting a research on the corporate governance influence on financial performance of commercial banks in Thika sub-county. The completion and success is based and collected from your feedback and response to exchange the specific data required.

I humbly request that if there is a room and a chance that I have a short exchange of information that is designed for this purpose of study only on an interview bases; and all feedback will be treated in absolute confidence and anonymity as agreed.

Special thanks for your feedback

Yours faithfully,

Kelvin Kyalo.

APPENDIX 2 QUESTIONNAIRE

Section A: General Information

(Tick appropriately in the space provided)

1. What is your Gender?

   Female [ ]   Male [ ]

2. Indicate age category

   Below 20 years [ ] 21-30 years [ ] 31-40 years 41-50 years Over 50 years [ ]

3. Please indicate your highest education level

   Post Graduate [ ] Graduate [ ] Diploma [ ] Certificate [ ]

4. What was your field of specialization

   Finance [ ] audit [ ] accounting [ ] marketing [ ] procurement [ ] other [ ]

5. For what period of years have you been in this bank

   Less than one year [ ] 2-5 years [ ] above 5 years

   In which department? ………………………………………………………..

6. Indicate which among the following positions best describe you.

   Management staff [ ] Supervisory Staff [ ] Departmental Staff [ ]

   Other (Please Specify) …………………………………………………………

SECTION B

Indicate your level of agreement for the following by marking the appropriate box.

Criteria/key on answering

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

	QUESTIONS	**SA**	**A**	**U**	**D**	**SD**
A	Board of directors has regular meetings					
B	There are potential conflict of interest between the company and the members of BOD					
C	The board of directors is responsible for the vision, mission and strategic planning					
D	The companstay provides formal performances appraisal review of the BOD regularly					
E	The policies and procedures of corporate governance are used					
F	Audit committee functions in the bank are done					
G	Your bank provides equal access to information for shareholders and investment analyst					
H	The bank publishes and distributes its financial results and management for analysts					
i	Shareholders are encouraged to attend and vote					

	during annual general meetings					
J	The bank posts its financial statements in the net					
K	The bank has had good improvement on return on equity in the last three years					

Table 2.1.2 questionnaire

BANK	Y	X1	X2	X3
	ROA %	BOARD SIZE	BOARD INDIPENDENCE	BOARD APPOINTMENT
Barclays	2.76	10	3	7
Bank of Africa	1.94	10	6	2
Consolidated	1.02	9	3	6
Family	2.23	11	4	8
Equity	3.59	13	5	4
Housing finance	1.73	12	7	3
KCB	4.12	14	6	5
SCB	2.04	8	3	2

Table 2.1.2 banks data

List of the Banks Thika Branch

- Bank of Africa
- Barclays Bank (U) ltd
- Consolidated Bank of Kenya
- Family Bank
- Fina Bank
- Housing Finance Co. Ltd
- Kenya Commercial Bank ltd
- Standard Chartered bank

Research Costs and Budget

DESCRIPTION	COST(ksh)
Questionnaires and Pens	5000
Transport	4000
Food	3300
Emergency	2500
Total	14800

Table 2.1.3 budget cost

Research Work Plan

ACTIVITIES	MAY - JUNE	JULY-AUGUST	SEPTEMBER	NOVEMBER
Proposal creation	Completed			
Proposal defense		competed		
Data collection			completed	
Data analysis			completed	
Research presentation				Completed

Table 2.2.5 Project work plan