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Corporate Governance Practices and Performance of Commercial Banks Listed At the Nairobi Securities Exchange, Kenya

Nicholas Malesi[1] & Dr. Winnie Njeru[2]

1. Nicholas Malesi Works in the Financial Services Sector in Kenya and is the corresponding author.
2. Dr. Winnie Njeru is a lecturer at the University of Nairobi.

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Abstract

This study assesses the role of corporate governance on performance of commercial banks through posing a question; what is the effect of corporate governance on the performance of listed commercial banks in Kenya? The study was based on the stakeholder, shareholder and agency theories. The descriptive cross sectional research design was used for this study. The descriptive cross sectional research design examines the phenomenon at a specific point in time. The target population of this study was eleven listed commercial banks at the Nairobi Securities Exchange (NSE). The study utilized a census sampling method to get three respondents per commercial bank. These respondents were drawn from the operations and finances departments of the bank. The study used two sets of statistics that is the descriptive statistics and inferential statistics. Using regression analysis, the study found that a unit increase in the independence of the board would lead to an increase in the organizational performance of the listed firms with other independent variables kept constant. Similarly, a unit increase in audit committee characteristics would lead to an increase in the organizational performance of the listed firms with the other independent variables kept constant. However, it was concluded that a unit increase in the board size would lead to a decrease in organizational performance of the listed firms with the other variables kept constant. The study concluded that the independence of the board of directors, audit committee characteristics and board size did not have significant influence on the performance of commercial banks listed at the NSE. The study recommends that the banks maintain the practice of having the CEO and chairman of board of directors being two different people to ensure that there is objectivity in decision-making aspects within the board of directors. This will enhance the ability of the board in monitoring the performance of the management by eliminating the conflict of interest factor. Additionally, the size of the audit committee should be emphasized to include members who display a depth of grasp of the issues and will give an impartial view on the operational aspects of the organization. This in turn will give assurance to the board on the viability of the strategies and adherence to its directives and good governance practices. Similarly, the sizes of different board committees should be moderated to limit the number of members to those that can reach a consensus. However, the sizes of these board committees should include sufficient members with expertise, experience and sufficient skills which will allow them to constructively contribute to the proposals kept before them. The study suggests that researchers examine the influence of professional experience of audit committee members and ratio of non-executive/executive directors on the performance of listed firms in future studies.

Keywords: Audit Committee, Board Size, Corporate Governance, Organizational Performance

I. INTRODUCTION

Corporate governance ensures that organizations are operated in an ethical manner through ensuring shareholders get value for their investments (Crittenden & Crittenden, 2014). The corporate governance in an organization also inspires confidence amongst its customers and general public. The customers therefore continue giving business to the corporation while the shareholders continue investing in the organization due to the confidence of the safety of their investments. While corporate governance has numerous positive uses in the organizations, sometimes organizations face diverse challenges leading to lack of proper utilization of the governance practices. This study was anchored on agency, stewardship and stakeholder theories. The agency theory examines competing interests between business owners and managers with delegated authority to run the business (Góis, 2014). The premise of stewardship theory is that stewards seek to give maximum returns to the firm's shareholders and additionally seek to protect this optimal performance with a view of them being more valuable to the organization (Hong, 2015).The stakeholder theory attributed to Freeman in 1984 who conceptualizes a firm as an interrelationship of diverse stakeholders whose influence to the firm's activities is influenced by diverse environmental aspects. For optimal operation of the firm, it must be conscious of its deliverables to the stakeholders and work to actualize those deliverables (Hong, 2015).

The commercial banks play a critical and significant role in the economic prosperity of the county and its citizens. The commercial banks act as important sources of credit for undertaking businesses and personal development that lead to the economic prosperity of Kenyans (Mathu, 2013). The commercial banks also finance the operating and working capital requirements of industries and businesses that lead to job creation, and provision of essential goods and services. Commercial banks in Kenya have over the years been faced with corporate governance challenges especially as relates to its treatment of the Non-Performing Loans as well as insider loans (Mathu, 2013). The 1980s and 1990s was associated with the collapse of diverse banks in Kenya's financial sector. The collapse of these banks was attributed to major factors including deregulation of the banking sector in 1982 and the privatization process of the commercial banks that began in the 1980s (Otwori, 2013). These two critical events were associated with the rapid growth in the banking sector in Kenya leading to poor governance structures. The placement of commercial banks under statutory receivership in the 2015/2016 financial years continue to raise concerns on the practice of corporate governance in the banking sectors as well as the efficiency of diverse stakeholders who are meant to supervise best practices in corporate governance. These stakeholders include the Central Bank of Kenya and various professional auditors contracted to audit the firms.

According to Khodadadi, Khazami, and Aflatooni (2010), corporate governance has been defined as an interrelationships between firms' management, shareholders and stakeholders to eliminate competing interests amongst these groups that may undermine the wellbeing of the firm. On the other hand, Alnaser, Shaban, and Al-Zubi, (2014) corporate governance has been defined as diverse processes and mechanisms that are put in place to ensure that operational success of the organization. Corporate governance has also been perceived as the set of diverse frameworks that dictate the way that the corporation is managed (Armstrong, Guay, & Weber, 2010). Within the context of the banking sector, corporate governance has been taken to include an examination of diverse aspects of the board including independence of board of directors, audit committee characteristics, and board size. The independence of the board of directors refers to the number of non-executive directors within the composition of the board. The independence of the board is critical in ensuring that there is objectivity in decision making aspects within the board of directors (Armstrong et al., 2010). The audit committee is a sub set of the board of directors that seek to ensure that diverse internal and regulator policies are adhered to. Its characteristics therefore impacts on its effectiveness (Khodadadi *et al*., 2010). Finally, the board size refers to the number of the members of the board of directors.

Corporate governance practices institutions can pursue including absence of CEO duality, board of directors' independence, presence of audit committee, and CEO tenure amongst other aspects. The CEO duality is the aspect of a single individual holding both the offices of the CEO and board of directors' chairmanship. This has the effect of exerting CEO's dominance over the board leading to poor corporate governance and conflict of interest (Abdul, Ibrahim, & Aharonson, 2014). The board's independence relates to the number of non-executive or independent directors within a board relative to executive directors. These directors are considered independent since they do not have managerial roles in the day to day operational aspects of the organization. The non-executive directors in this context are therefore seen as outsiders and have the ability to present an objective examination on the affairs of the organization (Mcdermott, 2011). Finally, the audit committee under instructions of the board gives an impartial view on the operational aspects of the organization and as such provides an assurance to the board on the adherence to its directives and good governance practices.

There are different conceptualizations of organizational performance. The organizational performance has been defined as the final achievement of an organization and comprises the existence of certain specified targets, a time period for achieving those specified targets and realization of efficiency and effectiveness (Khan & Choudhary, 2015). Onut, Erdem, and Hosver (2008) in the examination of organizational performance with the context of banking sector indicated that performance included diverse metrics. These metrics included profitability levels, customer deposit levels, amount of credit facilities disbursed to customers, level of Non-Performing Loans (NPLs), customer retention levels and market share amongst other factors (Onut et al., 2008).

Armstrong, Guay, & Weber (2010) indicate that organizational performance comprises of the actual output or results of an organization as measured against its intended outputs (or goals and objectives). There are different aspects that can be used for the measurement of the organizational performance including financial performance (profits, return on assets, return on investment, sales growth, profit rate, return on investment, return on sales, return on equity, and earnings per share), product market performance (sales, market share) and Shareholder return (total shareholder return, economic value added) (Kaplan & Norton, 1996). Kenya has a robust banking services sector composed of Central Bank of Kenya and forty four banks. Out of the 44 commercial banks in Kenya, eleven commercial banks are listed at the NSE. These commercial banks include Barclays Bank, Cooperative Bank, KCB group, Standard Chartered Bank, CFC Stanbic Holding, I&M Holding, and Diamond Trust Bank. Other listed commercial banks include HF Group, National Bank of Kenya, NIC Bank, and Equity Group.

Kenya is considered to be over banked due to the high number of commercial banks compared to the population. This is because the country has 45 banks serving 33 million people (Kithaka, 2014). On the other hand, countries like Nigeria have their banks serving a larger population as it has 30 megabanks that serve a population of over 100 million people (Ndukhu, 2014). In the context of profitability, Central Bank of Kenya (2016) the five most profitable banks for the 2015 financial year were Kenya Commercial Bank with a profit before tax of Ksh 23.445 billion. Equity bank had a profit before tax of 22.388 billion while cooperative bank had a profit before tax of 14.073 billion. Other most profitable banks were Barclays Bank and Standard Chartered Bank with 12.074, and 8.974 billion in profit before tax.

There are diverse ways in which corporate governance enhances organizational performance in any given firm. Corporate governance enhances sound management, accountability and transparency in a firm’s management, and efficiency in the running of the organization (Ping, 2015). The accountability and transparency in the running of the organization reduces the incidences of corruption and frauds that negatively impact on the organization’s performance.

Good corporate governance is also associated with high quality services, prudent capital usage, strong organizational brand, public trust, and good labour practices. On the other hand, Nulawadin (2008) indicate that corporate governance leads to enhanced efficiency, reduction of incidences of related parties' transactions as they are mostly sub optimal and the streamlining of operations hence better performance.

There are several corporate governance challenges across the globe that has impacted significantly on the organizational performance of diverse firms. These firms include Enron, WorldCom, Imclone Systems, Tyco, Aldelphia, and Parmalat scandals (Cohen et al., 2004). Some of these firms such as Enron and WorldCom eventually collapsed. In Africa, cases of corporate governance challenges have been documented across the continent. For example in Nigeria, the Cadbury company had falsified their accounting records for three periods preceding 2006. The company had for three consecutive years overstated its profitability. This state of affairs was blamed on an ineffective corporate governance mechanism in its board, audit committee, auditors and management. In 2009, five bank CEOs were sacked by the Central Bank of Nigeria (CBN) for improper provisions for non-performing loans in their accounting books (Imeokparia, 2013).

Three banks collapsed in Kenya in 2015/2016 financial years due to corporate governance failures in diverse aspects including the treatment of insider loans, treatment of the sharia compliant loan products, and compromised board of directors. Sensitivity of bank's operations makes corporate governance a critical component of banking operations. The bank customers want to feel that their money is safe. In this context, the reputation and the public trust of the bank is very important. Diverse scholars examined aspects of corporate governance in firms. Alnaser, Shaban, & Al-Zubi,(2014) examined corporate governance structure and public financial information. The study found that there was a correlation between corporate governance structure and the investors' confidence in public financial information. This study contextually examined the corporate governance structure and investors's confidence in public financial information. This was conceptually different from the current study that examined corporate governance and organizational performance.

Armstrong, Guay, & Weber,(2010) examined corporate governance and debt contracting. The study found that credible financial reporting was associated with high corporate governance standards. This study was different from the current study in the context that the current study did not seek to examine the role of financial reporting on corporate governance standards but rather examined corporate governance against organizational performance. Finally, Barako, Hancock, & Izan, (2015) examined attributes of corporate governance and disclosures in annual reports. The disclosures examined were of voluntary nature. The study indicated that voluntary disclosures in annual reports are often associated with higher credibility and corporate governance structures in financial reporting. Conceptually, the studies did not focus on corporate governance and performance of listed banks. This study explored this gap by assessing the role of corporate governance on performance of commercial banks through posing a question; what is the effect of corporate governance on the performance of listed commercial banks in Kenya?

II. RESEARCH OBJECTIVE

The objective of the study was to assess the corporate governance practices and performance of commercial banks listed in the Nairobi Securities Exchange.

III. RESEARCH QUESTION

How does corporate governance practices influence the performance of commercial banks listed at the Nairobi Securities Exchange?

IV. LITERATURE REVIEW

Theoretical Review

This study was based on agency theory. This theory was developed by Berle and Means (1932) and expounded by Jensen and Meckling in 1976 (Góis, 2014). The foundation of this theory is the notion of a large business enterprise having the owners and management of a firm being two distinct groups. The owners of an organization (principals) therefore delegate tasks and authority to the management of the firm (agents) for the purposes of the day to day running of the organization (Abdul et al., 2014). The delegation of the authority and tasks from the principal to the agent occurs due to principal's lack of time, broad scope of activities undertaken by the firm and sometimes principal's lack of expertise to undertake the core functions of the organization (Andersen & Svorst, 2013).

This necessitates the hiring of experts knowledgeable in the core business of the firm to run it on behalf of the principal. The expectation of the principal-agent relationship is that the agent will always act in good faith and to the best of their ability with a view of furthering the principal's interests (Gao & Zhang, 2015). The interests of the principal are prudent management of their firms, growth and expansion of the firm and ultimately the profitability of their investment. However, this is not always the case due to agency problems brought about by information asymmetry and moral hazard challenges.

To reduce the agency challenges, the shareholders appoint the board of directors composed of independent and non-independent board members with a view of monitoring the activities of the management team (Peters & Bagshaw, 2014). The board of directors enables delinking the formulation of policies from their execution enabling elimination of competition of interests amongst the policy formulating team and the execution team (Armstrong et al., 2010). The corporate governance in the context of the agency theory improves corporate performance through the resolving of agency problem. This is achieved through use of the board to monitor the company executives on behalf of the shareholders. Inefficiency in the board and its audit committee may provide an opportunity for the company's executives to pursue their own interests.

Empirical Literature

The board of directors monitors the management activities for the purposes of minimizing or eliminating the agency challenges that might be there (Peters & Bagshaw, 2014). The board of directors examines that the firm is undertaking the right strategies for the purposes of steering the company towards superior financial performance (Oluoch, 2014). In this context, the board of directors must be independent from the management that it seeks to supervise (Kemboi, 2015). The studies by Peters and Bagshaw (2014), Oluoch (2014) and Kemboi (2015) have illustrated the different uses of the board of directors in a company. The studies however fail to illustrate the ways in which the board of directors composition its efficiency and its impact on organizational performance.

Independence of board of directors is measured using diverse proxies. These proxies include the experience and professional expertise of the board of directors, the ratio of independent and non-independent directors, the board members appointment timelines relative to CEO tenure, CEO duality, and the board of directors' tenure (Maranga, 2015). The experience and professional expertise of the board of directors is critical in their independence in operations of a firm. The management will always present critical strategies and policies to the board of directors for the purposes of deliberation and thereafter approval of the same (Josiah & Mauithi, 2014). The board must be in a position to make independent decisions in relations to the viability of the proposed strategies. This includes the evaluation of the viability of the strategies, ability to make constructive feedback, and ability to display a depth of grasp of the issues under deliberations (Kimuyu, 2012).

Therefore, the board composition must have sufficient skills, experience and expertise in order to constructively contribute to the proposals kept before it. In the absence of this skill set, the board of directors is then forced to depend on the management team hence compromising its effectiveness (Ranjbar, 2009). While the studies by Maranga (2015), Josiah and Mauthi (2014), and Kimuyu (2012) illustrate the ways in which board characteristics influences their functionalities, the studies fail to clearly link the functionalities of the board with organizational performance.

The ratio of independent (non-executive) versus non independent (executive) board of directors is also used to examine independence of board of directors. Executive directors also undertake day to day administrative functions of the organization (Nthini, 2013). This may include CEO and Chief Financial Officer (CFO) amongst other management staff dependent on the organization's policy (Ndung'u, 2015). On the other hand, the non-executive directors refer to independent directors that are not part of the firms' management. The non-executive directors should outnumber executive directors so as to infuse skills, knowledge and experience into the board's deliberations including bringing an "outsider" view or perspective into the deliberations (Hong, 2015).

The CEO duality has often been associated with the lack of board independence. The CEO is the head of the management team that executes the strategies and the day to day functions of the organization (Ibadin, 2012). Therefore, in contexts where the CEO also heads the board which is supposed to monitor the performance of the management then conflict of interest is bound to happen. This leads to ineffective monitoring of the management's functions and performance. The ability to monitor the CEO's performance who should report to the board is hindered by CEO duality. Therefore, where the CEO's decisions and actions undermines the performance of the firm and mismanages the firm then the board is not in a position to curtail such events.

The independence of the board has also been examined from the context of the tenure of the board members. Longer terms of board members lead to inefficiency in the monitoring functions due to development and growth of personal relationship between board members and management teams. This implies that there must be limitations of the tenures of the board members to enable the board to effective perform its role (Josiah & Mauithi, 2014). The board rotation also enables injection of new ideas with time. Similarly, the board members appointed after the CEO takes offices are seen to be more associated with a particular CEO reign compared to those that were appointed before the CEO reign. The study by Josiah and Mauthi (2014) while illustrating the need for limitation of the tenure of the board, does not empirically illustrate in what ways the lack of limitation of board tenure has impacted on organizational performance.

The 2015 companies act directs that all listed firms should have audit committees which should be proportionate to the size of the company and with the requisite knowledge. There are certain audit committee characteristics that ensures that it discharges its mandates in an effective manner including its composition, size, expertise and independence amongst other aspects (Ibadin, 2012). The recommended number of audit committee members are three independent directors to ensure efficiency and effectiveness in discharge of its functions (Cohen et al., 2004). These functions include elimination of the agency problems and examination of the integrity of the financial information presented (Cohen et al., 2004). The studies by Ibadin (2012) and Cohen et al (2004) examined ways in which audit committees discharged their mandates and their composition

V. RESEARCH METHODOLOGY

The research design has been defined as the scheme, outline or plan that is used to answer the research problems or arrangement of conditions for collection and analysis of data in a manner to achieve research objective (Kothari, 2004). The descriptive cross sectional research design was used for this study. The descriptive cross sectional research design examines the phenomenon at a specific point in time. This research design was critical in this study in the context that the corporate governance was being experienced in the banking sector during the period of study and within the context of the prevailing regulatory environment as well as development within the banking sector. This corporate governance may not necessary have been faced in the past or in the future based on the prevailing circumstances at any given time. Population is defined as the total collection of elements in which the researcher wants to make an inference about (Mugenda, 2003). The target population of this study was eleven listed commercial banks at the Nairobi Securities Exchange (NSE) as at December 2015. These commercial banks included Barclays Bank, Cooperative Bank, KCB group, Standard Chartered Bank, CFC Stanbic Holding, I&M Holding, and Diamond Trust Bank. Other listed commercial banks include HF Group, National Bank of Kenya, NIC Bank, and Equity Group. The response rate was examined thorough checking on the issued questionnaires, returned questionnaires, and the analyzed questionnaires as illustrated in Table 1.

Table 1; Questionnaire Response Rate

	Sample Size	Returned Questionnaires	Analyzed Questionnaires	Response Rate
Operations Staff	19	18	17	89.5%
Finance	14	14	13	92.9%
Total	33	32	30	90.9%

The sample size of this study was thirty three respondents and thus thirty three questionnaires were issued to potential respondents. It was only one questionnaire that was not returned. A further two questionnaires were disqualified for having not been fully filled and thus had missing information. Therefore, the analyzed questionnaires were thirty making a response rate of 90.9%. This was considered sufficient as it exceeds the 80% threshold set by (Mugenda, 2003).

VI. RESEARCH FINDINGS AND DISCUSSIONS

Independence of Board of Directors

The independence of the board of directors results were examined in Table 2 below;

Table 2; Descriptive statistics for Independence of Board of Directors

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Higher number of non-executive directors in the board	8 (26.7%)	15 (50.0%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
CEO and chairman of board being two different people	17 (56.7%)	8 (26.7%)	5 (16.7%	0 (0.0%)	0 (0.0%)
The tenure of the board members	11 (36.7%)	13 (43.3%)	5 (16.7%)	1 (3.3%)	0 (0.0%)
Experience of the board members	14 (46.7%)	8 (26.7%)	8 (26.7%)	0 (0.0%)	0 (0.0%)
Professional expertise of the board members	11 (36.7%)	11 (36.7%)	7 (23.3%)	1 (3.3%)	0 (0.0%)

The independence of board of directors was examined by determining which of the five aspects used to measure it had an influence on organizational performance of commercial banks listed at the NSE. These aspects included higher number of non-executive directors in the board, CEO and chairman of board being two different people, the tenure of the board members, experience of the board members, and professional expertise of the board members. Half of the respondents (50.0%) were inclined to agree that a higher number of non-executive directors in the board had an influence on performance of the commercial banks listed at the NSE. Further, 26.7% of the respondents strongly agreed on the same. Slightly more than half of the respondents (56.7%) were in strong agreement that the CEO and Chairman of board being two different people had an influence on performance of the commercial banks listed at the NSE. The tenure of the board members was perceived to have an influence on performance of the commercial banks listed at the NSE by 43.3% of the respondents who chose “Agree” and 36.7% who chose “Strongly Agree”.

Almost half of the respondents (46.7%) were inclined to “Strongly Agree” that experience of the board members had an influence on performance of the commercial banks listed at the NSE. An equal number of respondents (36.7% for each) were inclined to agree and strongly agree that professional expertise of the board members had an influence on performance of the commercial banks listed at the NSE. None of the respondents (0.0%= Strongly Disagree) strongly felt that any of the aspects used to measure independence of the Board did not have an influence on performance of commercial banks listed at the NSE. However, there were respondents inclined to disagree that professional expertise of the board members and the tenure of the board members (3.3% of respondents each) had an influence on performance of commercial banks listed at the NSE.

Table 3; Means and Standard Deviation of Independence of the Board

	Mean	Std. Dev.
Higher number of non-executive directors in the board	4.03	0.72
CEO and chairman of board being two different people	4.40	0.77
The tenure of the board members	4.13	0.82
Experience of the board members	4.20	0.85
Professional expertise of the board members	4.07	0.87
Aggregate	4.16	0.81

The mean scores for all aspects used to examine the independence of board influence on performance of commercial banks listed at the NSE were between 3.50 and 4.49. This implies that on average, respondents tended to agree that each of these aspects had an influence on performance of commercial banks listed at the NSE. The mean scores were 4.03 for higher number of non-executive directors in the board, 4.40 for CEO and Chairman of board being two different people, 4.13 for the tenure of the board members, 4.20 for experience of the board members, and 4.07 for professional expertise of the board members. This study's results indicating the importance of a high number of non-executive directors in the board of directors is tandem with the observations of other scholars. In this context, Armstrong et al., (2010) indicated non-executive directors in this context are therefore seen as outsiders and have the ability to present an objective examination on the affairs of the organization (Mcdermott, 2011). The non-executive directors should outnumber executive directors so as to infuse skills, knowledge and experience into the board's deliberations including bringing an "outsider" view or perspective into the deliberations (Hong, 2015). These study findings of the importance of the CEO and Chairman of board being to different people (mean of 4.40) and the influence of this phenomenon on the organizational performance is consistent with reviewed literature.

According to Ibadin (2012), the CEO duality impacts on the board independence leading to ineffective monitoring of the management's functions and performance. The ability to monitor the CEO's performance who should report to the board is hindered by CEO duality. Therefore, where the CEO's decisions and actions undermines the performance of the firm and mismanages the firm then the board is not in a position to curtail such events. Ranking the means from the highest to the lowest made CEO and Chairman of board being two different people, which had the highest mean the aspect with greater influence on performance of commercial banks listed at the NSE. On the other hand, there was moderate consensus amongst respondents that each aspect of the independence of board matrix had an influence on performance of commercial banks listed at the NSE. This was due to standard deviations between 0.50 and 0.99 for each of these aspects. The standard deviations were 0.72 for higher number of non-executive directors in the board, 0.77 for CEO and Chairman of board being two different people, 0.82 for the tenure of the board members, 0.85 for experience of the board members, and 0.87 for professional expertise of the board members.

Therefore, there was moderate consensus amongst respondents and on average respondents tended to agree that higher number of non-executive directors in the board had an influence on performance of commercial banks listed at the NSE (mean=4.03; std. dev.=0.72). Additionally, there was moderate consensus amongst respondents and on average respondents tended to agree that the CEO and Chairman of board being two different people had an influence on performance of commercial banks listed at the NSE (mean=4.40; std. dev.=0.77). Similarly, there was moderate consensus amongst respondents and on average respondents tended to agree that the tenure of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.13; std. dev.=0.82). There was moderate consensus amongst respondents and on average respondents tended to agree that the experience of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.20; std. dev.=0.85). Finally, there was moderate consensus amongst respondents and on average respondents tended to agree that the professional expertise of the board members had an influence on performance of commercial banks listed at the NSE (mean=4.07; std. dev.=0.87).

Audit Committee Characteristics

The audit committee descriptive statistics were presented in Table 4.

Table 4; Descriptive Statistics for Audit Committee Characteristics

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Size of audit committee	14 (46.7%)	9 (30.0%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
Expertise of audit committee	12 (40.0%)	11 (36.7%)	7 (23.3%)	0 (0.0%)	0 (0.0%)
Professional experience of audit committee members	13 (43.3%)	7 (23.3%)	8 (26.7%)	2 (6.7%)	0 (0.0%)
Frequency of audit committee meetings	12 (40.0%)	12 (40.0%)	5 (16.7%)	1 (3.3%)	0 (0.0%)
Independence of audit committee	13 (43.3%)	8 (26.7%)	7 (23.3%)	2 (6.7%)	0 (0.0%)

The audit committee characteristics were examined by establishing the perception of respondents on the influence of size of audit committee, expertise of audit committee, professional experience of audit committee members, frequency of audit committee meetings, and independence of audit committee on performance of commercial banks listed at the NSE. Almost half of the respondents (46.7%) strongly perceived that size of the audit committee had an influence on performance of their bank. This was supported by 30.0% of the respondents who were in agreement that that size of the audit committee had an influence on performance of their bank. Most of the respondents (40.0%) were inclined to strongly agree, and 36.7% were inclined to agree that expertise of the audit committee had an influence on performance of their bank. While 6.7% of the respondents were inclined to disagree that professional experience of audit committee members had an influence on performance of their bank, most of the respondents (43.3%) were inclined to strongly agree that it had influence. Frequency of audit committee meetings have an influence on performance of commercial banks listed at the NSE as perceived by 40.0% of the respondents who chose "Strongly Agree" and an equal number who chose "Agree".

Independence of audit committee has an influence on performance of commercial banks listed at the NSE as most of the respondents (43.3%) were inclined to strongly agree that it did in respect to their bank. None of the respondents (0.0%) strongly felt that any of the metrics used to examine the audit committee characteristics did not have an influence on performance of their bank as they did not choose "Strongly Disagreed" on any metric. All metrics of the audit committee characteristics matrix had mean scores between 3.50 and 4.49, which implied that on average, the respondents felt that each of these metrics had an influence on performance of their bank. The standard deviations for size of audit committee, expertise of audit committee, frequency of audit committee meetings, and independence of audit committee were between 0.50 and 0.99, which meant that the responses were moderately distributed around the mean implying moderate consensus amongst respondents that each metric had an influence on performance of their bank.

Table 5; Means and Standard Deviations of Audit Committee Characteristics

	Mean	Std. Dev.
Size of audit committee	4.23	0.82
Expertise of audit committee	4.17	0.79
Professional experience of audit committee members	4.03	1.00
Frequency of audit committee meetings	4.17	0.83
Independence of audit committee	4.07	0.98
Aggregate	4.13	0.88

The respondents on average tended to agree and had moderate consensus amongst themselves that size of the audit committee had an influence on performance of their bank (mean=4.23; std. dev.=0.82). The audit committee size is important to the organizational performance as the 2015 companies act directs that all listed firms should have audit committees, which should be proportionate to the size of the company and with the requisite knowledge. Similarly, respondents on average tended to agree and had moderate consensus amongst themselves that expertise of the audit committee had an influence on performance of their bank (mean=4.17; std. dev.=0.79). There was moderate consensus amongst respondents and on average they tended to agree that frequency of audit committee meetings had an influence on performance of their bank (mean=4.17; std. dev.=0.83). This was consistent with the findings of Madawaki (2012) on a study on the characteristics of audit committees on financial reporting of listed firms in Nigeria. The study noted that amongst the audit committee characteristics that affected financial reporting included audit committee formation, independence, expertise and number of meetings that it held.

On average, respondents tended to agree and had moderate consensus that independence of the audit committee had an influence on performance of their bank (mean=4.07; std. dev.=0.98). However, the responses were widely distributed around the mean which implied there was no consensus amongst respondents (std. dev =1.00) that professional experience of audit committee members had an influence on performance of their bank. On average the respondents tended to agree (mean=4.03) that professional experience of audit committee members had an influence on performance of their bank.

Board Size

The board size descriptive statistics were examined through Table 6 below. The study sought to examine the influence of board size on the performance of commercial banks listed at the NSE using various metrics. These included overall board size, ratio of non-executive to executive directors, ratio of male to female directors, and sizes of different board committees. Majority of the respondents that is 43.3% were inclined to strongly agree that overall board size had an influence on performance of their bank. A sizeable number of respondents (33.3%) also tended to agree that overall board size had an influence on performance of their bank. However, some respondents (20.0%) were uncertain about the influence of overall board size on performance of their bank, while a negligible 3.3% of respondents felt that it did not have an influence on performance of their bank. The ratio of non-executive to executive directors was perceived to have a strong influence on performance of the bank by 43.3% of the respondents who chose "Strongly Agree". However, 26.7% of the respondents were uncertain as to whether the ratio of non-executive to executive directors influenced performance of their bank.

Table 6; Descriptive Statistics for Board Size

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Overall board Size	13 (43.3%)	10 (33.3%)	6 (20.0%)	1 (3.3%)	0 (0.0%)
Ratio of Non-Executive/Executive directors	13 (43.3%)	7 (23.3%)	8 (26.7%)	2 (6.7%)	0 (0.0%)
Ratio of Male/Female directors	14 (46.7%)	7 (23.3%)	7 (23.3%)	2 (6.7%)	0 (0.0%)
Sizes of different board committees	12 (40.0%)	11 (36.7%)	7 (23.3%)	0 (0.0%)	0 (0.0%)

Similarly almost half of the respondents (46.7%) were inclined to strongly agree that the ratio of male to female directors influenced performance of their bank even though 23.3% of the respondents were uncertain and 6.7% disagreed. Sizes of different board committees have a strong influence on performance of commercial banks listed at the NSE, as was the opinion of most of the respondents (40.0%). This was further supported by 36.7% of the respondents who were in agreement that sizes of different board committees have an influence on performance of their bank. The respondents who were uncertain about the influence of sizes of different board committees on performance of their bank were 23.3%.

On average, the respondents tended to agree (mean score between 3.50 and 4.49) that each metric of the board size matrix had an influence on the performance of commercial banks listed at the NSE. Sizes of different board committees and overall board Size had greater influence on the performance of banks than the other metrics of the board size matrix since they had the highest mean scores (4.17 each). The size of the board relates to its ability to function optimally with small board sizes being inefficient and large board size being difficult to control. The ideal board size must therefore be achieved. The mean scores for ratio of non-executive to executive directors, and ratio of male to female directors were 4.03, and 4.10 respectively.

Table 7; Mean and Standard Deviation of Board Size

	Mean	Std. Dev.
Overall board Size	4.17	0.87
Ratio of Non-Executive/Executive directors	4.03	1.00
Ratio of Male/Female directors	4.10	0.99
Sizes of different board committees	4.17	0.80
Aggregate	4.11	0.92

The responses for overall board size, ratio of male to female directors, and sizes of different board committees were moderately distributed around the mean. This implied that there was moderate consensus (std. dev between 0.50 and 0.99) amongst respondents on the influence of each of these metrics on performance of banks. However, responses for ratio of non-executive to executive directors were widely distributed around the mean (std. dev.=1.00) which implied that there was no consensus amongst respondents on the influence of this metric on performance of banks. The respondents on average however tended to agree that the ratio of non-executive to executive directors had an influence on the performance of their bank (mean=4.03).Therefore, there was moderate consensus and on average respondents tended to agree that overall board size had an influence on the performance of their bank (mean=4.17; std. dev. 0.87). There was also moderate consensus and on average respondents tended to agree that the ratio of male to female directors had an influence on the performance of their bank (mean=4.10; std. dev. 0.99). Similarly, there was moderate consensus and on average respondents tended to agree that the sizes of different board committees had an influence on the performance of their bank (mean=4.17; std. dev. 0.80).

Organizational Performance

The study sought to examine which aspects of organizational performance had been influenced by corporate governance aspects that is, the independence of the board, audit committee characteristics and the board size of the commercial banks listed at the NSE. These aspects included market share, profitability, staff retention level, and customer retention levels. The results presented in Table 8 shows the outcome of this examination.

Table 8; Descriptive Statistics for Organizational Performance

	SA Freq. (%)	A Freq. (%)	U Freq. (%)	D Freq. (%)	SD Freq. (%)
Market share	8 (26.7%)	12 (40.0%)	7 (23.3%)	3 (10.0%)	0 (0.0%)
Profitability	9 (30.0%)	10 (33.3%)	8 (26.7%)	3 (10.0%)	0 (0.0%)
Staff Retention Level	10 (33.3%)	9 (30.0%)	9 (30.0%)	2 (6.7%)	0 (0.0%)
Customer Retention Levels	6 (20.0%)	15 (50.0%)	5 (16.7%)	4 (13.3%)	0 (0.0%)

Most of the respondents (40.0%) were inclined to agree that the corporate governance aspects had influenced the market share of their bank. In respect to profitability, 33.3% of the respondents were inclined to agree and 30.0% of the respondents were inclined to strongly agree that the corporate governance aspects of their bank had influenced profitability. However, 26.7% of the respondents were uncertain whether the corporate governance aspects had influenced the profitability of their bank. Respondents who strongly felt that the corporate governance aspects had influenced the staff retention levels were 33.3% while those who felt they had not been influenced were 6.7%. Half of the respondents were inclined to agree that the corporate governance aspects had influenced the customer retention levels of their banks. An additional 20.0% of the respondents were inclined to strongly agree that the corporate governance aspects had influenced the customer retention levels of their banks. Respondents who felt that corporate governance aspects had not influenced the market share, profitability, and customer retention levels ("Disagreed") were 10.0%, 10.0%, and 13.3% respectively. None of the respondents (0.0%) tended to strongly disagree that the corporate governance aspects had influenced the customer retention levels of their banks.

Table 9; Means and Standard Deviations for Organizational Performance

	Mean	Std. Dev.
Market share	3.83	0.95
Profitability	3.83	0.99
Staff Retention Level	3.90	0.96
Customer Retention Levels	3.77	0.93
Aggregate	3.83	0.96

The respondents on average tended to agree (mean scores between 3.50 and 4.49) that the corporate governance aspects of their banks had influenced market share (3.83), profitability (3.83), staff retention level (3.90), and customer retention levels (3.77). Responses were moderately distributed around the mean for all metrics of the organizational performance matrix. This implied that there was moderate consensus (standard deviations between 0.50 and 0.99) amongst respondents of these metrics had been influenced by the corporate governance aspects of their banks. Therefore, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their banks had influenced the market share of the bank (mean=3.83; std. dev=0.95). Additionally, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their banks had influenced the profitability of the bank (mean=3.83; std. dev=0.99). On average, respondents tended to agree and had moderate consensus amongst themselves that corporate governance aspects had influenced the staff retention levels at their bank (mean=3.90; std. dev=0.96). Finally, there was moderate consensus amongst respondents and on average they tended to agree that the corporate governance aspects of their bank had influenced the customer retention levels of the bank (mean=3.77; std. dev=0.93).

Inferential Statistics

In order to examine on the influence of the independent variables (board size, independence of the board, and audit committee characteristics) on organizational performance, the multiple linear regression was undertaken. These results are presented in Table 10 below.

Table 10; Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635[a]	.403	.335	.44914

a. Predictors: (Constant), Board Size, Independence of Board, Audit Committee

The results revealed a multiple linear correlation coefficient of 0.635 which implied that the three independent variables cumulatively were positively and moderately correlated with organizational performance of the listed firms. This implied that an increase in the independent variables would lead to an increase in the organizational performance. The results also revealed a coefficient of determination of 0.403 which implied that the three independent variables accounted for 40.3% of the variance in the organizational performance. There was therefore a 59.7% of the variance in the organizational performance that was attributed to other factors not in the model. The one way ANOVA was utilized for the purposes of determining on whether the regression model was good fit for data. This was tested at 5% level of significance. The test rule was that the regression model was good fit for data if the observed level of significance is less than 5%.

Table 11; ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.547	3	1.182	5.861	.003[b]
	Residual	5.245	26	.202		
	Total	8.792	29			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Board Size, Independence of Board, Audit Committee

The ANOVA results indicated that the regression model was good fit for data since the observed level of significance is 0.003, which is less than the test value of 5% (0.05). Therefore, the regression model being good fit for data led to the regression coefficients being calculated. The regression coefficients were calculated in order to gain insights into the influence of individual independent variable on the organizational performance and to be able to rank the individual variables based on their predictive power over the dependent variable.

Table 12; Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.523	.635		2.398	.024
	Independence of Board	.452	.231	.456	1.959	.061
	Audit Committee	.766	.490	1.072	1.562	.130
	Board Size	-.665	.448	-.951	-1.485	.150

a. Dependent Variable: Organizational Performance

The regression coefficients of 0.452, 0.766, and -0.665 of the independence of board, audit committees, and board size led to the following regression model;

$Y=1.523 + 0.452 (x_1) + 0.766 (x_2) - 0.665 (x_3)$ where y is organizational performance, and x_1, x_2, and x_3 are independence of board, audit committee and board size respectively.

The regression model revealed that a unit increase in the independence of the board would lead to a 0.452 increase in the organizational performance of the listed firms with other independent variables kept constant. Similarly, a unit increase in audit committee would lead to a 0.766 increase in the organizational performance of the listed firms with the other independent variables kept constant. Finally, a unit increase in the board size would lead to a 0.665 decrease in organizational performance of the listed firms with the other variables kept constant. The study found that the three independent variables did not have statistically significant relationship on the dependent variable.

Discussion of Findings

The independent of the board had an aggregate mean of 4.16 and a standard deviation of 0.81. This implied that the respondents on average tended to agree that independence of the board played a critical role in the organizational performance of listed commercial banks. These finds are consistent with the reviewed literature. According to Josiah & Mauithi (2014), the management will always present critical strategies and policies to the board of directors for the purposes of deliberation and thereafter approval of the same (Josiah & Mauithi, 2014). The board must be in a position to make independent decisions in relations to the viability of the proposed strategies. This includes the evaluation of the viability of the strategies, ability to make constructive feedback, and ability to display a depth of grasp of the issues under deliberations (Kimuyu, 2012). Therefore, the board composition must have sufficient skills, experience and expertise in order to constructively contribute to the proposals kept before it. In the absence of this skill set, the board of directors is then forced to depend on the management team hence compromising its effectiveness (Ranjbar, 2009).

The audit committee had an aggregate mean of 4.13 and a standard deviation of 0.88 that implied that the respondents on average tended to agree that audit committee characteristics played a critical role on organizational performance. The audit committee characteristics ensure that the organization discharges its duties effectively. There are certain audit committee characteristics that ensures that it discharges its mandates in an effective manner including its composition, size, expertise and independence amongst other aspects (Ibadin, 2012). The recommended number of audit committee members are three independent directors to ensure efficiency and effectiveness in discharge of its functions (Cohen et al., 2004).

These functions include elimination of the agency problems and examination of the integrity of the financial information presented (Cohen et al., 2004). The board size had an aggregate mean of 4.11 and a standard deviation of 0.92 that implied that on average the respondents tended to agree that the board size influenced on the organizational performance of listed commercial bank. Using regression analysis, the study did not find any significant influence of the independent variables on the dependent variable. This was attributed to lack of diversity of practices in relations to board size, audit committee and independence of the board in the listed commercial banks.

VII. CONCLUSION OF THE STUDY

The study concluded that the independence of the board of directors, audit committee characteristics and board size did not have significant influence on the performance of commercial banks listed at the NSE. Further, the study concluded that a unit increase in the independence of the board would lead to an increase in the organizational performance of the listed firms with other independent variables kept constant. Similarly, a unit increase in audit committee characteristics would lead to an increase in the organizational performance of the listed firms with the other independent variables kept constant. However, the study concluded that a unit increase in the board size would lead to a decrease in organizational performance of the listed firms with the other variables kept constant.

VIII. RECOMMENDATIONS OF THE STUDY

The study recommends that the banks maintain the practice of having the CEO and Chairman of board of directors being two different people to ensure that there is objectivity in decision-making aspects within the board of directors. This will enhance the ability of the board in monitoring the performance of the management by eliminating the conflict of interest factor. Additionally, the size of the audit committee should be emphasized to include members who display a depth of grasp of the issues and will give an impartial view on the operational aspects of the organization. This in turn will give assurance to the board on the viability of the strategies and adherence to its directives and good governance practices. Similarly, the sizes of different board committees should be moderated to limit the number of members to those that can reach a consensus. However, the sizes of these board committees should include sufficient members with expertise, experience and sufficient skills which will allow them to constructively contribute to the proposals kept before them.

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