A Survey of the Corporate Governance practices of Commercial Banks listed on the Nairobi Stock Exchange.

By

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A Management Research Project Report submitted in partial fulfillment of the award of Masters of Business Administration (MBA), Strategic Management, Department of Business Administration, School of Business, Kenyatta University

November 2010
DECLARATION

I declare that this research report is my original work, and it has never been submitted to any other institution for any award.

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ACKNOWLEDGMENT

I acknowledge all those who have supported me with valuable information in my area of research during the time of this report preparation.

I also thank my supervisors and the entire administration of Kenyatta University for their patience during this time and the guidance during this research.

I also acknowledge the Almighty God for giving me the opportunity to breathe every day and the strength to continue with my endeavors.
DEDICATION

To my family for standing besides me during this entire study period.
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<tr>
<td>BCCI</td>
<td>Bank of Credit and Commerce International</td>
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<td>CACG</td>
<td>Commonwealth Association for Corporate Governance</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CGI</td>
<td>Corporate Governance Index</td>
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<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<tr>
<td>OECD</td>
<td>Organizations of Economical Co-operation and Development</td>
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<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Stock Exchange</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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ABSTRACT

The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm’s ability to respond to external factors that have some bearing on its performance. Corporate governance is a concept that involves practices that entail the organization of management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors.

This study was designed with three main objectives: to highlight the extent that banks listed in the NSE practice corporate governance; to identify the various corporate governance activities commercial banks practice and to determine the factors that influence corporate governance within the banking industry in Kenya.

A descriptive survey design was used for the study. The population of study comprised of 48 senior managers from commercial banks listed in NSE, that is, six (6) respondents from each head office of the 8 banks. Primary data was collected using questionnaires, which were filled in by the senior managers in these banks.

The data from the questionnaires on corporate governance practices was analysed using descriptive statistics with the help of the Statistical Package for Social Sciences (SPSS). Mean scores and percentages were used to interpret the data. The results were then presented in tables and charts. The Corporate Governance Index (CGI) aims to measure the price and return performances of NSE-listed companies resulting from the assessment of the company's compliance with the corporate governance principles as a whole. This was computed based on the dimensions of corporate governance quality as stipulated by the Capital Markets Authority (CMA) guidelines.
OPERATIONAL DEFINITION OF TERMS

**Corporate governance** is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing share holders long term value while taking into account the interests of the other stakeholders (Capital Market Authority 2002).

**Corporate Governance Index** is the index in which companies applying Corporate Governance Principles are included. NSE Corporate Governance Index aims to measure the price and return performances of NSE-listed companies with a corporate governance rating of minimum 6 over 10. The corporate governance rating is determined by the rating institutions and in its list of rating agencies as a result of their assessment of the company's compliance with the corporate governance principles as a whole.

**Governance** refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (Khandker, 1990).

**Leadership** is the ability to influence the behavior of others. It is also the capacity to establish direction and to influence and align others toward a common goal, motivating and committing them to action and making them responsible.

**Performance** is results achieved against specified objectives. These objectives may be in terms of financial returns, output/productivity, growth and expansion and leadership among other indicators (Otero, 1997).

**Stakeholders** are persons and organizations that have an interest in the development and are often affected by the deficiencies in service provision or infrastructure (Khandker, 1990).
Top Management is that level of managers, which are concerned, with defining the mission and objectives of the firm, and designing strategy to achieve them (Otero, 1997).
CHAPTER ONE

INTRODUCTION

1.0: Overview

This chapter introduces the pertinent issues related to this study which sought to undertake a survey of the corporate governance practices within commercial banks in Kenya taking the commercial banks listed on the Nairobi Stock Exchange (NSE) as a case of the study. This chapter therefore presents the background of the study, statement of the problem of the study, purpose of the study, research questions, significance of the study, limitations of the study and presents the conceptual framework of the study.

1.1: Background of the study

Countries worldwide were hit, some harder than others, by the combination of risky lending and highly leveraged investment strategies by Western financial institutions that quickly engulfed the globe in an economic and financial crisis between 2007 and 2009. "The crisis exposed the interdependencies, and global links between economies. The International Monetary Fund has forecast a weak recovery for 2010, with GDP rising 1.7 percent. Now, the focus is shifting to promoting a sustainable recovery, with banks and investment firms playing a central role (Global Corporate Governance Forum, February, 2010). Discussions on innovative solutions for weathering the crisis’s aftermath and policy responses are now focusing on how banks can improve their governance. In their key roles in the credit and investment process, banks are especially well-placed to benefit from and lead efforts to improve corporate governance as any shortcomings in bank corporate governance can destabilize the financial system and create systemic risks to the economy.

In any country the banking system acts as the medium through which national savings are mobilized for development. The banks do this by providing safe custody for depositors' money and disbursement of loans for development. Through this system, national savings are accumulated and invested in productive sectors of the economy, leading to national
wealth creation in a broader context. Indeed, the bulk of the money that banks give as loans to investors is from such depositors. It is on the basis of high level of trust that depositors keep their money in the bank hoping to collect it at their convenience whenever need arises. The mobilization of savings is crucial in national economic activities since it is these savings that are invested to spur economic growth. A high savings rate is therefore vital to the growth of any economy as it provides vital resources for investment (CBK, 2002).

It is worth noting however, that despite the government's effort to streamline the banking sector by introducing statutory regulatory measures of containment more banks, 32 to be precise, have been liquidated or put under receivership in the period that followed the introduction of these control mechanisms. During this period, more banks collapsed due to the weak internal controls and bad governance and management practices. For instance, the Continental Bank of Kenya Limited and Continental Credit Finance Limited collapsed in 1986, Capital Finance Limited collapsed in 1987, in 1999 Trust Bank, the sixth largest bank in Kenya then in terms of deposits - collapsed mainly due to insider lending to directors and shareholders. Seven banks, which had collapsed, were merged into the Consolidated Bank of Kenya limited in 1989, thirteen banks collapsed in 1993 and five banks collapsed between 1996 and 1999 (CBK, 2002). The most recent bank failure was witnessed in June 2006 when Charter House Bank, was placed under statutory management (CBK, 2002).

Improvement in corporate governance practices can improve the decision making process within and between a company's governing bodies, and should thus enhance the efficiency of the financial and business operations. Better corporate governance also leads to an improvement in the accountability system, minimizing the risk of fraud or self-dealing by company officers. An effective system of governance should help ensure compliance with applicable laws and regulations, and further, allow companies to avoid costly litigation. Also, companies especially the financial institutions in Kenya such as commercial banks should stand to benefit from a better reputation and standing, both at home and in the international community (IFC, 2004).
A number of issues have been identified as reasons for the collapse of a number of commercial banks and other financial institutions in Kenya among which are; weak corporate governance practices, poor risk management strategies, lack of effective internal control mechanisms, weak regulatory and supervisory systems and the problems of insider lending and conflict of interests among the management and other stakeholders (CBK, 2001). It is important to emphasize that good corporate governance practices in the banking industry is imperative if the industry is to effectively play key role in the overall development of Kenya. This study therefore, seeks to determine the factors that influence good corporate governance practices in the banking industry in Kenya. The findings will provide data for the development of effective corporate practices in the sector.

1.1.1: Corporate Governance

There is no single definition of corporate governance that can be applied to all situations and jurisdictions. The various definitions that exist today largely depend on the type of institution.

According to O’Donovan (2004), corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in the firm's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). This framework consists of (1) explicit and implicit contracts between the firm and the wider stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances.

The International Finance Corporation (IFC) defines corporate governance as “the structures and processes for the direction and control of companies” (IFC, 2004). The Organization for Economic Cooperation and Development (OECD, 1999) defines
corporate governance as "the internal means by which corporations are operated and controlled ...which involve a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders, and should facilitate effective monitoring; thereby encouraging firms to use resources more efficiently."

Corporate governance has become an increasingly popular term in business organizations and many organizations have witnessed a transformation in the role of the private sector in economic development and job creation. A number of corporate scandals and collapse, global competition, and various domestic and international efforts have made corporate governance a household name for most organisations. Unfortunately, few companies appear to truly appreciate the depth and complexity of this. Indeed, corporate governance reforms are often introduced superficially and used as a public relations exercise rather than as a tool to introduce the structures and process that could enable the company to gain the trust of its shareholders, reduce vulnerability to financial crises, and increase the company’s ability to access capital. Introducing internal structures and processes built on the principles of fairness, transparency, accountability, and responsibility is a difficult task that requires an ongoing commitment by the company (IFC, 2004).

There is increasing emphasis on the need to develop good corporate governance policies and practices in organisations. An increasing amount of empirical evidences shows that good corporate governance contributes to competitiveness, facilitates corporate access to capital markets, and thus helps develop financial markets and spur economic growth (IFC, 2004).

Today, both domestic and foreign investors place an ever greater emphasis on the way that corporations are operated and how they respond to their needs and demands. Investors are increasingly willing to pay a premium for well-governed companies that adhere to good board practices, provide for information disclosure and financial
transparency, and respect shareholder rights. Well-governed companies are also better positioned to fulfill their economic, environmental, social responsibilities, and contribute to sustainable growth. Improvement in corporate governance practices can improve the decision making process within and between a company’s governing bodies, and should thus enhance the efficiency of the financial and business operations. Better corporate governance also leads to an improvement in the accountability system, minimizing the risk of fraud or self-dealing by company officers. An effective system of governance should help ensure compliance with applicable laws and regulations, and further, allow companies to avoid costly litigation. Also, Russian companies should stand to benefit from a better reputation and standing, both at home and in the international community (IFC, 2004).

In broad terms, corporate governance refers to the process by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Corporate governance is a concept that involves practices that entail the organization of management and control of companies. It reflects the interaction among those persons and groups, which provide resources to the company and contribute to its performance such as shareholders, employees, creditors, long-term suppliers and subcontractors (Brownbridge, 2002).

Corporate governance has become an issue of global significance. The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations. Following the financial crisis of the latter part of the 1990's the issue of corporate governance has risen to the head of the international agenda as an important component of the global financial architecture. The collapse of big organizations has cast doubts in the way corporations are managed and made accountable. Kenya Finance Bank went into liquidation in November 1998 after reporting profits the previous years. The company was quoted in the Nairobi Stock Exchange and had a very high profile. The realization that the profits earlier reported were a farce came as a shock to many
Kenyans. Kane and Rice (1998) reported that the auditors were sued but no meaningful punishment was meted out. Good Governance encourages fairness, transparency, and accountability.

1.2: Statement of the Problem

The subject of corporate governance is a relatively new discipline. This has attracted worldwide attention because of its apparent importance for strategic health of organizations and society in general. This is particularly since the 1990’s, with the concept assuming great importance of late due to the totally unexpected collapse of a few giant corporations in the United States such as World Energy Leader Enron and other biggies like WorldCom, BCCI, Aldephia, Tyco, and Global Crossing (Singh 2005).

Transformation into self-sustaining organizations will mean the introduction of investors as major stakeholders in the industry, which will increase the need for control and accountability (Wainaina 2002). To attract capital flows, there is need for all organizations, to address the mechanism and ways of promoting corporate governance practices. If a company does not have a reputation for strong corporate governance practices, capital will flow elsewhere, if investors are not confident with the level of disclosure, capital will flow elsewhere, and if a company opts for lax accounting and reporting standards capital will flow elsewhere (Knell 2006).

The importance of corporate governance practices cannot therefore, be understated as they are strong determinants in the survival or collapse of corporate bodies (Manyuru 2005). Improvement in corporate governance as found out by researchers such as Nam et al (2002) and Sanda et al (2002) results in improved performance. Locally, there are a few studies in corporate governance though none has focused on commercial banks specifically. For instance, Jebet (2001) focuses on the listed companies, Macuvi (2002) focuses on the motor vehicle industry, Mwangi (2003) focuses on insurance companies, while Wangombe (2003) focuses on cooperative societies while not much information specifically on commercial banks and of those listed on the NSE exists.
As many organisations, commercial banks inclusive decide that they must address the principles of corporate governance, there is a growing need for tools and practices or activities to help them to define and address what good corporate governance means and how to implement it throughout their organisation. This study therefore seeks to carry out a survey and fill in the gap by studying the corporate governance practices of commercial banks listed at the NS in Kenya.

1.3: Objectives of the Study

The main objective of this study was to provide broad information on corporate governance practices of commercial banks in Kenya, taking a case of the commercial banks listed on the Nairobi Stock Exchange (NSE).

1.3.1: Specific Objectives

The study sought to achieve the following:

(i) To investigate the extent to which commercial banks listed in the NSE practice corporate governance

(ii) To identify the various corporate governance practices in commercial banks listed in the NSE

(iii) To determine the various factors that influence corporate governance within the banking industry in Kenya.

1.4: Research Questions

This study attempted to answer the following pertinent questions emerging within the domain of the study problem:

(i) To what extent did the commercial banks listed in the NSE practice corporate governance?
(ii) What were the various corporate governance practices in commercial banks listed on the NSE?

(iii) What were the various factors that influence commercial banks in their practice of corporate governance?

1.5: Significance of the Study

The study would be beneficial to the following groups of people

All levels of managers: The findings and recommendations in this study would be useful to all levels of managers in the various corporate organizations to better manage their firms by providing good corporate governance factors that they need to adopt in their organizations. The findings will be a guide in setting up corporate governance systems within the organisations.

The service industries in Kenya: This study would enable financial institutions especially the commercial banks and other sectors in Kenya revisit the ways they carry out corporate governance activities in their organization with a view of enhancing good corporate governance in their respective areas of activities.

The researcher and future researchers: The study would contribute to the available pool of knowledge on corporate governance by providing research data from commercial banks in Kenya especially in Nairobi. The academicians and students of, Finance, Economics, Management, Marketing, HRD and Organizational Development will find this study thought provoking for further research in this area.

1.6: Challenges, Limitations and Delimitations of the Study:

(i) The respondents were not very open or willing to disclose confidential information concerning the organization. The researcher assured them that the information they would give would be used only for the purpose of the study and that they did not have to
disclose or state their personal identity or the identity of their organization as they filled
the questionnaires.

(ii) Suspicion by the respondents of the intentions of the research. A letter was obtained
from Kenyatta University (KU) which showed that the researcher is a student carrying
out an academic research.

1.7: Scope of the Study

The scope of this study would be the commercial banks listed on the NSE. These were
selected on the basis that they are supposed to adhere to corporate code of governance as
outlined by the CMA being listed companies. They are thus seen as pace-setters in the
industry in terms of good governance. The issues discussed here were on corporate
governance and thus the application should be limited to this scope.
CHAPTER TWO

LITERATURE REVIEW

2.1: Introduction

This section presents a literature review on corporate governance issues in general and in the banking industry. A conceptual framework is then presented followed by a presentation of the gap in literature that the present study sought to bridge.

2.2: Corporate Governance

Governance refers to the manner in which power is exercised in the management of economic and social resources for sustainable human development initiative (McCord, 2002). According to McCord corporate governance refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation’s total portfolio and resources with an objective of obtaining increasing stakeholders value with a satisfaction of other stakeholders within the context of individual organizations corporate mission and vision as spelt out in the strategic plan of an institution. In today’s world governance has assumed critical importance in the socio-economic and political systems.

The Basel Committee on Banking Supervision (1999) stated that from a banking industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management, affecting how banks: set corporate objectives (including generating economic returns to owners); run the day-to-day operations of the business; consider the interest of recognized stakeholders; align corporate activities and behaviors with the expectation that banks would operate in a safe and sound manner, and in compliance with applicable laws and regulations; and protect the interests of depositors.
The Committee further enumerated basic components of good corporate governance to include: the corporate values, codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them; a well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured; the clear assignment of responsibilities and decision making authorities, incorporating hierarchy of required approvals from individuals to the board of directors; establishment of mechanisms for the interaction and cooperation among the board of directors, senior management and auditors; strong internal control systems, including internal and external audit functions, risk management functions independent of business lines and other checks and balances; special monitoring of risk exposures where conflict of interests are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management or key decisions makers within the firm for example traders; the financial and managerial incentives to act in an appropriate manner, offered to senior management, business line management and employees in the form of compensation, promotion and other recognition; and appropriate information flows internally and to the public.

King et al (1993) and Levine (1997) emphasized the importance of corporate governance of banks in developing economies and observed that the importance is because: First, banks have an overwhelmingly dominant position in developing-economy financial systems, and are extremely important engines of economic growth. Second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for the majority of firms.

Third, as well as providing a generally accepted means of payment, banks in developing economies are usually the main depository for the economy's savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/ disinvestments and reducing the role of economic regulation. Consequently, managers of banks in these economies have obtained greater freedom in how they run their banks.
Banking supervision cannot function without "correct corporate governance" Hettes (2002). This is because experience emphasizes the need for an appropriate level of responsibility, control and balance of competences in each bank. Hettes (2002) expounds further on this by observing that correct corporate governance simplifies the work of banking supervision and contributes towards cooperation between the management of a bank and the banking supervision authority.

Crespi et al (2002) contend that corporate governance of banks refers to the various methods by which bank owners attempt to induce managers to implement value-maximizing policies. They observe that these methods may be external to the firm such as the market for corporate control or the level of competition in the product and labor markets. They further contend that there are also internal mechanisms such as a disciplinary intervention by shareholders (what they refer to as proxy fights) or intervention from the board of directors.

2.3: The Need for Good Corporate Governance

Good Corporate Governance aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. The transparency, accountability and probity of organizations make them acceptable as caring, responsible, honest and legitimate wealth creating organs of society. The enhanced legitimacy, responsibility and responsiveness of business enterprises within the economy and improved relationships with their various stakeholders comprising shareholders, managers, employees, customers, suppliers, host communities, providers of finance and the environment enhance their market standing, image and reputation (PSSGT, 2002)

Good corporate governance is necessary in order to attract investors both local and foreign and assure them that their investment will be secure and efficiently managed and in a transparent and accountable process, create competitive and efficient companies and
business enterprises, enhance the accountability and performance of those entrusted to manage corporations and promote efficient and effective use of limited resources (Ledgerwoods, 1981).

Without efficient companies or business enterprises the country will not create wealth or employment. Without investment, companies will stagnate and collapse. If business enterprises do not prosper there will be no economic growth, no employment, no taxes paid and invariably the country will not develop. The country needs well-governed and managed business enterprises that can attract investment, create jobs and wealth and remain viable, sustainable and competitive in the global market place. Good corporate governance therefore becomes a prerequisite for national economic development (Ledgerwoods, 1981).

The Global Corporate Governance Forum (2004), notes in its mission statement that corporate governance has become an issue of worldwide importance. The Corporation has a vital role in promoting economic development and social progress. It is the engine of growth internationally and increasingly responsible for providing employment, public and private services, goods and infrastructure. The efficiency and accountability of the corporation is now a matter of both private and public interest and governance has thereby come to the head of the international agenda (The Pan African Consultative Forum on Corporate Governance, 2004).

The Commonwealth Association for Corporate Governance in its publication "CAGG guidelines Principles for Corporate Governance in the Commonwealth states that the globalization of the market place within this context has ushered in an era where the traditional dimensions of corporate governance defined within local laws, regulations and national priorities are becoming increasingly challenged by circumstances and events having an International Impact (The Pan African Consultative Forum on Corporate Governance, 2004).
2.4: Principles of Good Corporate Governance

The Private Sector Corporate Governance Trust (PSCGT) (2002) report identified three fundamental principles of Corporate Governance as openness, integrity and accountability. The report defined these three principles in the context of the private and public sector.

On the other hand, the report of the Nolan Committee published in May 1995 identified and defined seven general principles of conduct that should underpin an organization's public life. The committee recommended that all public sector entities should draw up codes of conduct incorporating these principles to guide the operation of the company and behaviour of members. The principles are selfless, integrity, objectivity, openness, honesty and leadership.

Corporate Governance seeks to find the appropriate mechanisms for governing the relationships of constituent groups within the organization so as to generate long-term value. It reduces conflict of interest among stakeholders and makes sure that the right people make the decisions. It ensures that corporate power is exercised in the best interest of society. It also helps in the alignment of responsibility and authority to be able to achieve conditions for growth and success (PSSGT, 2002).

Effective Corporate Governance ensures that long term strategic objectives and plans are established and the proper management and management structures are in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the company's integrity, reputation and accountability to its relevant constituents. The right system of checks and balances should be the basis of merit for any Corporate Governance system (Ledgerwoods, 1981).

2.5: The Corporate Governance System

Most definitions that center on the company itself (an internal perspective) do, however, have certain elements in common, which can be summarized as indicated in the figure 2.1 below.
Corporate governance is a system of relationships, defined by structures and processes. The relationship between shareholders and management consists of the former providing capital to the latter receiving a return on their investment (shareholders). Managers have to provide shareholders with financial and operational reports on a regular basis and in a transparent manner. Shareholders elect a Board of Directors or Supervisory Board, to represent their interests and provide strategic direction. Managers are accountable to this supervisory body, which in turn is accountable to shareholders. All parties are involved in the direction and control of the company. Shareholders take fundamental decisions while the Supervisory Board is responsible for guidance, oversight, setting strategies and controlling managers. Executives of the organisation run the day-to-day operations, such as implementing strategy, drafting business plans, managing human resources, developing marketing strategies and managing assets. The effective set up of these structures and processes are done so as to properly distribute rights and responsibilities - and thus increase long-term shareholder value.

2.6: Pillars of Good Corporate Governance

Different authors and management specialists have argued that corporate governance requires laid down procedures, processes, systems and codes of regulation and ethics that
ensures its implementation in organizations. Some suggestions that have been underscored in this respect include the need for banks to set strategies - which have been commonly referred to as corporate strategies - for their operations and establish accountability for executing these strategies.

While examining strategy, corporate governance and the future of the Arab banking industry, El-Kharouf (2000), points out that corporate strategy is a deliberate search for a plan of action that will develop the corporate competitive advantage and compounds it. In addition to this, the Basel Committee on Banking and Supervision (1999) contends that transparency of information related to existing conditions, decisions and actions is integrally related to accountability in that it gives market participants sufficient information with which to judge the management of a bank. The Committee advances further that various corporate governance structures exist in different countries hence there are no universally correct answer to structural issues and that laws do not need to be consistent from one country to another. Sound governance therefore, can be practiced regardless of the form used by a banking organization. The Committee therefore suggests four important forms of oversight that should be included in the organizational structure of any bank in order to ensure the appropriate checks and balances and these include: oversight by the board of directors or supervisory board; oversight by individuals not involved in the day-to-day running of the various business areas; direct line supervision of different business areas, and; independent risk management and audit functions.

In summary, they demonstrate the importance of key personnel being fit and proper for their jobs and the potentiality of government ownership of a bank to alter the strategies and objectives of the bank as well as the internal structure of governance. Hence, the general principles of sound corporate governance are also beneficial to government-owned banks.

The concept of good governance in banking industry empirically implies total quality management, which includes six performance areas as discussed by Khatun (2002). These performance areas include capital adequacy, assets quality, management, earnings,
liquidity, and sensitivity risk. He further argues that the degree of adherence to these parameters determine the quality rating of an organization.

According to Tsui et al (2000), corporate governance mechanisms including accounting and auditing standards are designed to monitor managers and improve corporate transparency. A number of corporate governance mechanisms have been identified analytically and empirically. These, according to Agrawal and Knoeber, (1996), may be broadly classified as internal and external mechanisms.

2.7: Global corporate governance
The World Bank Group and the Organization for Economic Co-operation and Development have established the Global corporate Governance Forum. This forum is set to build a consensus in favor of appropriate policy, regulatory and corporate reforms, co-ordinate and disseminate corporate governance activities, provide corporate development and human capacity building in the associated fields of corporate governance and train the various professionals and other agents who are essential to bringing about a culture of compliance.

2.7.1: The Bank of Credit and Commerce International (BCCI) saga:

The Bank of Credit and Commerce International (BCCI) was founded in 1972 and was Chartered in Luxembourg, but its treasury and other key functions were based in the Cayman Islands and in London before decamping to Abu Dhabi in 1990. The bank had its branches and subsidiaries in 70 countries held together by a complex structure of holding companies, cross-holdings and nominee owners. BCCI's international nature helped the company avoid a large amount of regulation because for most of its history no single regulator or audit team had full jurisdiction over it. Regulation was made difficult by inadequate communication among agencies, and by the high level government connections that BCCI’s leaders cultivated. Although they may not have endorsed the bank’s activities, various influential figures around the world overlooked signs that could have exposed the scandal, and lent the institution a veneer of respectability.
On July 5, 1991, an incident that has been described as the biggest bank fraud in history came to a head when regulators in seven countries raided and took control of branch offices of the Bank of Credit and Commerce International (BCCI). Monetary losses from the scandal were huge, with estimates ranging from $10 billion to $17 billion. BCCI’s activities, and those of some of its officers, included dubious lending, fraudulent record keeping, rogue trading, flouting of bank ownership regulations and money laundering, in addition to legitimate banking activities. The bank’s structure and deal making was so complex that, a decade after the institution was liquidated, its activities are still not completely understood.

One way to think of the BCCI saga is as an attempt to create the polar opposite of a firm with integrated risk management practices. In this case, certain senior bank personnel and interested parties did not simply overlook risks, but manipulated gaps in the bank’s risk management structure and between its subsidiaries, to serve various purposes. This put at a disadvantage other stakeholders, such as the million or so small depositors around the world and certain institutional depositors attracted by BCCI’s relatively high rates, who provided much of the bank’s funding.

A number of investigations have been carried out on the reasons and causes of the collapse of BCCI and numerous reports written since 1991, it’s difficult to sum up the cause of the BCCI scandal in any simple way. Among the strong areas mentioned in a number of these reports include lax and poor corporate governance, manipulation by bank officers with their own personal agendas, general fraud and failure of risk management structures at the highest level of the bank, with the lax and poor corporate governance being reported as the primary cause of the losses of BCCI to its stakeholders (Global corporate governance, 2010).

2.7.2: Lessons learnt from the BCCI collapse

The collapse of the Bank of Credit and Commerce International has brought to limelight the critical role of senior management and key investors in establishing an honest, open
and prudent bank culture; The need for powerful executives and backers of institutions to be controlled within a secure enterprise-wide corporate governance structure, if the interests of other stakeholders, such as deposit holders, are to be safeguarded; the need for independent and unified regulation and auditing of complex financial conglomerates; the danger that attempts to preserve confidence in a bank, even when well-intentioned, will lead to further cover-ups inside and outside the bank; the oldest lesson of all: the ease with which massive bad loans and trading losses can be covered up in banks by extending further credit, failing to record deposits, and juggling accounts (IFC, 2001).

2.8: Corporate Governance in East Africa

During the October 1997 Commonwealth Heads of Government in Edinburgh it was resolved that, capacity should be established in all Commonwealth countries to create or reinforce corporations to promote good corporate governance in particular, codes of good practice, establishing standards of behavior in public and Private sector should be agreed to secure greater transparency and to reduce corruption. The Commonwealth Association for Corporate Governance (CAGG) was subsequently established and developed. The CAGG Guidelines - Principles for Corporate Governance in the Commonwealth which were adopted at the November 1999 Commonwealth Heads of Government in Durban, South Africa, as guidelines for all Commonwealth countries to develop or enhance their own national corporate governance principles (The Pan African Consultative Forum on Corporate Governance, 2004).

Regional conferences were held in Kampala Uganda, in June 1998 and September 1999 to create awareness and promote regional co-operation in matters of corporate governance. At the June 1998 conference in Kampala, the earlier resolutions were affirmed and recommendations made, to harmonize corporate governance in the East African region under the auspices of the East African Co-operation, through the establishment of regional apex body to promote corporate governance. At the September 1999 Conference, the earlier resolutions were re-affirmed and recommendations made,
encouraging the member states to collaborate with other African initiatives in promoting good corporate governance (Dondo, 2000).

Uganda has established the institute of Corporate Governance of Uganda and is formulating a national code of best practice for corporate governance. Tanzania is in the process of organizing an East African Regional Workshop on corporate governance. In Kenya the Private Sector Initiative for corporate Governance continues to liaise with Uganda and Tanzania toward the establishment of a regional Centre of Excellence in Corporate Governance (Dondo, 2000).

2.9: Corporate Governance in Kenya

Consultative Corporate Sector seminars held in November 1998 and March 1999 resolved that private Sector Initiative for Corporate Governance be formed to formulate and develop a code of best practice for corporate Governance, to explore ways and means of facilitating the establishment of national apex body the National Corporate Sector Foundation to promote corporate governance, to co-ordinate development in corporate governance in Kenya with other initiatives in East Africa, Africa, the Commonwealth and globally (Central Bank of Kenya, 2001).

In October 8, 1999 the Corporate Sector at a seminar organized by the private Sector Initiative for Corporate Governance formally adopted a national code of best practice governance in Kenya, and mandated the Private Sector Initiative to establish the Corporate Sector Foundation, and collaborate with the global Corporate Governance Forum, the Commonwealth Association for Corporate Governance, the African Capital Markets Forum, Uganda and Tanzania in promoting good Corporate Governance (Central Bank of Kenya, 2001).

2.10: Corporate Governance and the banking Industry in Kenya

According to Macey and O'Hara (2003), commercial banks pose unique corporate governance problems for managers and regulators, as well as investors and depositors.
They observe that the intellectual debate in corporate governance has focused on two very different issues. One of the issues is whether corporate governance should focus exclusively on protecting the interests of equity claimants in the corporation or whether corporate governance should instead expand its focus to deal with problems of other groups - stakeholders - or non-stakeholder constituencies. The other issue is whether corporate governance should concern itself exclusively with the challenge of protecting equity claimants and attempts to specify ways in which the corporation can better safeguard those interests.

In addition, they state that the dominant model of corporate governance in law and economics is that the corporation is a "complex set of explicit and implicit contracts" meaning one should view the corporation as nothing than a set of contractual arrangements among the various claimants to the products and earnings generated by the business. The group of claimants includes not only shareholders, but also creditors, employee-managers, the local communities in which the firms operates, suppliers and customers. They contend that in the case of banks, these claimants also include the regulators in their role as insurers of deposits and lenders of last resort and in their capacity as agents of other claimants.

According to Central Bank of Kenya (2002), corporate governance in the banking sector largely relates to the responsibility conferred to and discharged by the various entities and persons responsible for and concerned with the prudent management of the financial sector.

In January 2002 the Capital Markets Authority while responding to the growing importance of corporate governance, issued a Gazette Notice spelling out the guidelines, adherence to which is mandatory to all public listed banks. The Central bank observes that many of the requirements are already taken care of either in the Banking Act or in prudential regulations, but notes further that even though this may be the case, there are some other issues contained in the guideline that the banking sector is yet to adopt and these include disclosure of the ten major shareholders of the company; requirement that no person should hold more than five directorship in any public listed companies at any
one time; executive directors to have a fixed service contract not exceeding five years with a provision for renewal; no person to hold more than two chairmanships in any public listed company at any one time, and; inclusion of a statement on corporate governance in the annual accounts.

The Central Bank has also gone a step further to request all banks including those that are not public quoted to include a statement on corporate governance in their annual accounts. The Central Bank is also committed to encouraging all financial institutions and especially the private ones to adopt the Capital markets Authority guidelines and Commonwealth principles on corporate governance.

2.11: The Conceptual Framework

Agency and contracting at a general level corporate governance can be described as a problem involving an agent - the CEO of the corporation - and multiple principals - the shareholders, creditors, suppliers, clients, employees, and other parties with whom the CEO engages in business on behalf of the corporation. Boards and external auditors act as intermediaries or representatives of these different constituencies. This view dates back to at least Jensen and Meckling (1976), who describe a firm in abstract terms as "a nexus of contracting relationships". Using more modern language the corporate governance problem can also be described as a "common agency problem", that is an agency problem involving one agent (the CEO) and multiple principals (shareholders, creditors, employees, clients [see Bernheim and Whinston (1985, 1986a, b)].

Corporate governance rules can be seen as the outcome of the contracting process between the various principals or constituencies and the CEO. Thus, the central issue in corporate governance is to understand what the outcome of this contracting process is likely to be, and how corporate governance deviates in practice from the efficient contracting benchmark. Standard agency theory of corporate governance, according to Shleifer and Vishny, (1997), focuses on the separation of ownership and control and investigates the mechanisms via which the suppliers of capital influence managerial
decisions with varying degrees of success. Caprio and Levin (2002) develop this further by observing that small shareholders may seek to exert corporate governance by voting directly on major decisions, electing boards of directors, and signing incentive contracts with managers that link pay to performance.

Similarly, debt holders may seek to constrain managerial discretion through covenants, such that default or violation of a covenant typically gives debt holders the right to repossess collateral, initiate bankruptcy proceedings and vote on removing managers. In their discourse on concepts and international observations on corporate governance of banks Caprio and Levin (2002) have offered a conceptual framework for analyzing corporate governance in banks. In this discourse, they observe that banks are particularly opaque (informational barriers) hence it is very difficult for outsiders to monitor and evaluate bank managers. This opaqueness makes it more difficult for diffuse equity and debt holders to write and enforce effective incentive contracts, to use their voting rights as a vehicle for influencing firm decisions, or to constrain managerial discretion through debt covenants. They argue further that government regulations frequently exacerbate corporate control problems in banks.

Deposit insurance virtually eliminates any efforts by small depositors to monitor managers. Given that small depositors are unlikely to play a large corporate governance role even in the absence of deposit insurance, the more destructive effect of deposit insurance is that it reduces the need for banks to raise capital from large, uninsured investors who have the incentives to exert corporate control. More over as Boot and Thakor, (1993) observed, governments themselves are frequently the biggest problem as government regulators and supervisors typically have their own agendas that do not coincide with maximizing bank value. Governments therefore, may directly hurt bank performance and stability by imposing their own preference on bank managers.

According to Caprio and Levine (2002), large informational barriers imply that outside bidders will neither have sufficient information to initiate a take over, nor will outsiders generate a sufficient takeover threat to limit managerial discretion. They argue that
regulatory restrictions on entry and takeovers also reduce competition for corporate control in banking. Thus from many angles, they argue, the opaqueness of the banking industry along with pervasive government regulations severely limits effective corporate governance of banks. In a synopsis, the enhancement of information disclosure system, creation of incentives for private agents to monitor banks, and strengthening legal and bankruptcy systems will fundamentally improve the infrastructure of corporate governance.

In another discourse, Berth et al (2001) demonstrate that regulation and supervisory systems that foster more accurate information disclosure, empower private investor’s legal rights, and do not offer very generous deposit insurance substantially boost banking system performance and stability. Alchin (1950) and Stigler (1958) stress the importance of competition. On the same view, Berth et al (2001) emphasize that competition among banks also do improve corporate governance within them. For example banking systems that permit foreign entry and that allow banks to compete along many dimensions enjoy higher levels of banking development and less banking sector fragility.

From the foregoing discussion the study will adopt the following conceptual framework. This study will adopt a conceptual framework to survey the corporate governance practices of commercial banks in Kenya taking the case of the commercial banks in Nairobi. The study will utilize both independent and dependant variables. Independent variables will include organisational banking regulations, ownership and control of the financial institution, leadership styles in the organisation, corporate social responsibilities undertaken by the institution with corporate management and organizational structure as the intervening variable. Good corporate governance is expected to be the ultimate dependent variable as indicated below.
Within this framework, it can be argued that: First, governments construct the basic legal system underpinning corporate governance. Second, governments may influence the flow of corporate finance by insuring corporate finance and other intermediaries like providing guarantees for holders of the largest mutual funds. Type of ownership and control, directly have a bearing on the shareholders (minority and concentrated shareholders) on how they exert corporate governance through their votes. Information asymmetry between inside and outside investors create more difficulty for equity and debt holders to monitor managers and use incentive contracts.

It makes it easier for managers and large investors to exploit the benefits of control rather than maximize value. It also makes it difficult for potential outside bidders with poor information to generate a sufficiently effective takeover threat to improve governance substantially. Regulations frequently impede natural corporate governance mechanisms.
Government ownership of banks fundamentally alters the corporate governance equation within banks.

2.11.1: Corporate Governance Principles

The key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. In a number of instances of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest and disclosure in financial reports.

Commonly accepted principles of corporate governance include; Rights and equitable treatment of shareholders, interests of other stakeholders, role and responsibilities of the board, integrity and ethical behavior, disclosure and transparency. In respect to the rights and equitable treatment of shareholders organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings. Concerning the interests of other stakeholders' organizations should recognize that they have legal and other obligations to all legitimate stakeholders.

The board of these organisations need a range of skills and understanding to be able to deal with various business issues and have the ability to review and challenge management performance. There is need for the individual members of the board have an appropriate level of commitment to fulfill its responsibilities and duties. Furthermore there is the need for ethical and responsible decision making, not only important for public relations, but also as a necessary element in risk management. There is need for a code of conduct for the directors and executives that promote ethical and responsible decision making.
In most cases concerning disclosure and transparency, organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

2.11.2: Leadership and Corporate Governance

Appointments to the Board of Directors should, through a managed and effective process, ensure that a balanced mix of proficient individuals is made and that each of those appointed is able to add value and bring independent judgment to bear on the decision making process. The Board of Directors should determine the purpose and values of the corporation, determine the strategy, purpose and implement its values in order to ensure that the corporations survive and thrive and that procedures and values that protect the assets of the corporation are put in place (CBK, 2001).

The board should monitor and evaluate the implementation of strategies policies and management performance criteria and the plans of the corporation. The board should identify the corporation's internal and external stakeholders; agree on a policy or policies determining how the corporation should relate to, and with them, increasing wealth, jobs and sustainability of a financially sound corporation while ensuring that the rights of stakeholders establishes by law or custom are expected, recognized and protected. The Board should ensure that no one person or group of persons has unfettered power and that there is an appropriate balance of power on the Board so that it can exercise objectives and independent judgment (CBK, 2001).

2.11.3: Growth in competition and need for corporate Profitability

The growth in competition among banks in many markets has driven many institutions to better understanding their clients' needs and take a market-led approach to their business.
The well-documented high levels of "drop out, exit" or "desertion" in many traditional banking institutions reinforce this tendency. The development of a more client-responsive, market-led approach to banking is an important watershed in an industry, (Chavex, 1995).

For most banks responding to the market has meant developing new products that meet the needs of their clients. Experience has shown, however, that product development is the strategic entry point into a broader approach to banking. Developing new products inevitably leads the banks to re-examine and possibly overhaul larger institutional issues. Some banks are beginning to move towards a strategic marketing approach that looks at corporate brand and identity, product delivery systems and customer service strategies, in addition to the product strategy. This broader perspective is known as the market-led approach to banking (Chavex, 1995).

There are many benefits in adopting a market-led approach to microfinance for both the banks and their clients. For the banks, a market-led approach enhances customer loyalty and reduces dropouts and thus increases profitability. More appropriate, client-responsive products allow them to better manage their household finances with a variety of financial services and products, in which they have confidence through systems and people that are secure, efficient and satisfying. Seen at the sectoral level, the market-led approach lies at the heart of making financial markets work for the customers. Commercial viability will increasingly depend on achieving large-scale operational efficiencies and the ability to offer value-added products to clients (Chavex, 1995).

2.11.4: Strategic Management

There is need for strategic management of the commercial banks in Kenya to ensure their positive performance. The board of directors should determine the purpose and values of the corporation, determine the strategy that purpose and implement its values in order to ensure that the corporations survives and thrives and that procedures and values that protect the assets of the corporation are put in place, as well as to monitor and evaluate
the implementation of strategies policies and management performance criteria and the plans of the corporation. In addition, the board should constantly review the viability and financial sustainability of the enterprise and must do so at least once a year. The board should also ensure that a proper management structure is in place and make sure that the structure functions to maintain corporate integrity, reputation and responsibility (Small enterprises foundation, 2000).

2.11.5: Risk Factors of Banks and Corporate Governance

People, property, earning capacity (finance) and reputation are the most important assets. Their preservation and security are essential for continued growth and long-term survival (Ledgerwood 1998). The approach of risk management involves identification and assessment of the risks to which a business enterprise is exposed.

It is often assumed that on average owners/investors are risk averse. Thus, investors seek to minimize risk for a given level of return. Therefore, one of the main objectives of corporate governance is taken to be the creation of decision structures, which prevent the agent from engaging in activities, which expose the investor to a higher level of risk than that desired by the shareholders. Therefore, proper governance is deemed to require systems that prevent this problem, such that the agent finds it difficult to take higher risks than desired by owners.

In banks, the framework of action, motivation and behaviour is quite different. Because current banking regulation is concerned first and foremost with the existence of systemic risk, regulation applies to those policy instruments deemed effective in limiting systemic risk. Of those instruments, the lender of last resort and systems of deposit insurance are the ones deemed to be the best means to prevent contagion, bank runs and other threats to system integrity. From a governance perspective, however, the presence of these policy instruments dramatically changes the relationship between the agent and the principal in banks and the conceptual framework required to understand it.
In principle, there appears to be no upper limit to the risk the regulator is willing to bear, the question that arises from a governance perspective is would investors (principals) in banks have an incentive to encourage excessive risk taking by their agents? Banking regulations normally include some attention to risk taking by bank managers. However, they usually do not impose such limits on owners. Therefore, if the shareholders are able to engage in riskier behaviour than considered desirable by the regulator, governance in banking might need to focus on the owner rather than the manager, (Ledgerwood 1998).

2.11.6: Corporate Social Responsibilities of Banks

Social responsibility is the notion that businesses have certain obligations to protect and benefit individuals and society, and to avoid actions that would harm them. Businesses may take three approaches to the idea of social responsibility, the resistive approach, the reactive approach, or the proactive approach. Stakeholders have an interest in or are affected by how a business conducts its operations. Stakeholders may include owners, stockholders, employees, customers, suppliers, and communities (Chavex, 1995).

The fact that banks have a heightened requirement for good, multi-skilled employees, strong personal relationships and successful local engagement means that banks can be a good environment for corporate social responsible to flourish. Therefore there is need to support the efforts of banks to become more socially responsible (Mullei et al., 1999).

2.12: Gaps in Literature

From the current scenario, a big gap exists in terms of corporate governance in Kenya. So far, both private and public corporations have not consistently applied the concept of corporate governance the way it is supposed to be and there is quite scanty information on corporate governance practices specifically in the banking industry in Kenya and therefore, this study seeks to fill this gap and enhance level of awareness on the same.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0: Introduction

This chapter outlines the design of the study indicating the methodology that was used to undertake the study, as well as the factors that were involved in setting it up. The chapter starts by outlining the research design, then the target population. After that, the sample design procedure is outlined, followed by the data collection instrument. The chapter closes with the data analysis procedures to be used.

3.1: Research design

A research design is a general plan of how one goes about answering the research questions (Saunders et al, 2007). The study adopted both a descriptive and exploratory survey of all commercial banks listed on the NSE over the years from 2005 to 2009. This method was considered the most appropriate for the study because it made use of the total population, to obtain an exhaustive data on the areas of the survey.

The descriptive survey helped to locate and obtain secondary data for the study and described issues as they pertained to the areas of the study. Saunders et al, (2007) defines a survey as "an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables." Data was collected using the quantitative method using both open ended and closed ended questionnaires that were circulated to the commercial banks used in the survey.

3.2: Study Population

The population of study comprised all the (8) eight commercial banks listed on the Nairobi Stock Exchange as at December, 2009, (Appendix i). Companies listed on the NSE are publicly quoted and as such have an obligation to avail information to the public. Given that the number of commercial banks listed on the NSE is not so large all the 8 listed banks were then used in the study. At a total of 8, the population size is small
and relatively varied thereby warranting a census survey. Data was therefore collected from all those commercial banks listed on the stock exchange.

3.3: Sample Design

The sampling method used in this study was the purposive sampling. Sampling method refers to the rules and procedures by which some elements of the population are included in the sample.

Sampling is a procedure by which some elements of the population are selected as representative of the total population. Sampling does not entail guess work but involves the use of probability theory to acquire a representative degree of reliability and validity in the selected areas. This method, it was expected was most economical that would provide a desired level of precision. Proportionate stratification with the sample size of each bank proportionate to the population size was used. This meant that each bank on the NSE would have the number in the sample.

The method of sampling used in this study was the purposive sampling. Purposive sampling is where subjects are selected because of some characteristics. Patton (1990) proposed the following cases of purposive sampling. Purposive sampling is popular in qualitative and quantitative research because it enables learning from highly unusual manifestations of the phenomenon of interest; it is more focused, reduces variation, simplifies analysis and facilitates group interviewing. Purposive sampling is also known as stratified purposeful sampling in that it illustrates characteristics of particular subgroups of interest and facilitates comparisons by picking all cases that meet some criterion under study and in the case of this study all those managers in corporate governance.

In using the purposive sampling the researcher mostly used those managers who sit in the boards of their banks as well as those involved in the implementation of corporate governance practices. For convenience in the access of information and to obtain credible data, purposeful sampling was then considered the best to use in this study.
All those banks listed on the NSE have their head offices in Nairobi and six (6) senior managers from each of the bank were selected and used in the study making a total of 48 respondents as the study sample. The respondents were those involved in corporate governance issues such as those who sit on the boards of the banks or those involved in the implementation.

Table 3.1: Sample size of the study:

<table>
<thead>
<tr>
<th>COMMERCIAL BANKS</th>
<th>POPULATION OF STUDY</th>
<th>SAMPLE SIZE</th>
<th>% SAMPLED</th>
</tr>
</thead>
<tbody>
<tr>
<td>BARCLAYS BANK OF KENYA LTD</td>
<td>9</td>
<td>6</td>
<td>67%</td>
</tr>
<tr>
<td>CFC BANK LTD</td>
<td>8</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>KENYA COMMERCIAL BANK LTD</td>
<td>11</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>NATIONAL BANK OF KENYA LTD</td>
<td>10</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>DIAMOND TRUST BANK OF KENYA LTD</td>
<td>12</td>
<td>6</td>
<td>50%</td>
</tr>
<tr>
<td>STANDARD CHARTERED BANK LTD</td>
<td>10</td>
<td>6</td>
<td>60%</td>
</tr>
<tr>
<td>NATIONAL INDUSTRIAL CREDIT BANK LTD</td>
<td>11</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td>EQUITY BANK LTD</td>
<td>11</td>
<td>6</td>
<td>55%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>82</strong></td>
<td><strong>48</strong></td>
<td><strong>59%</strong></td>
</tr>
</tbody>
</table>

SOURCE: AUTHOR, 2010

3.4: Data Collection

3.4.1: Data Collection Instrument

The study was based on primary data collected using a semi structured, undisguised and self administered questionnaire. This data collection tool was considered appropriate as it gave both qualitative and quantitative data that would be required in the study. It helped to gather in-depth information on the aspects of the study under consideration and therefore achieved the research objectives. The questionnaire administered was to be
anonymous in that it did not require respondents to reveal their identities. The questionnaire was distributed through various methods of administration; e-mail, drop and pick with an enclosed self addressed return envelope. This was with the aim of increasing response rate. Follow up was made through telephone, email and personal visits.

3.4.2: Data Collection Procedures

In order to obtain the information from commercial banks listed in NSE, an introductory letter from Kenyatta University was obtained outlining the purpose of the research study. The questionnaires were prepared and pilot tested before distribution. Permission was sought from the management of the relevant commercial banks and once permission was granted, the individuals to participate were approached individually and explanations given to them about the questionnaires.

3.4.3: Validity & Reliability

Pilot testing of the research instrument was carried out basically to reveal errors in design and improper control of extraneous or environmental conditions. The pilot test was also done to check effectiveness, reliability and validity of the data collection tool. At least one respondent from three of the listed banks on the NSE was used for the pilot study. This did not form part of the sample though the findings are as indicated in table 3.2 below. The pilot test helped to refine the questionnaire.

**TABLE 3.2: Reliability scale of study variables**

<table>
<thead>
<tr>
<th></th>
<th>Governance principles and practices</th>
<th>Regulations and supervisory systems</th>
<th>Leadership styles and quality</th>
<th>Management and organisation structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha coefficients</td>
<td>0.7399</td>
<td>0.6522</td>
<td>0.7720</td>
<td>0.6184</td>
</tr>
</tbody>
</table>

All alpha values were considered satisfactory being over 0.5

The original questionnaire was personally administered to the respondents and questions not fully understood identified and explained. Comments made during the pilot study
were considered in the final draft of the questionnaires. Content validity check was performed on the scale items to make it more meaningful to the sample and to capture the issues that were to be measured. The Content Validity Index (CVI) yielded results ranging from 0.6184 to 0.7720 leading to the conclusion that the instruments were valid.

3.5: Data Analysis

The data collected from the questionnaires on corporate governance practices was analysed using descriptive statistics. The data collected was summarized, coded and then tabulated before the data was finally analysed. The data collected was analysed and presented using frequency distributions and percentages while mean scores and standard deviations were also computed using the Statistical Package for Social Sciences (SPSS) computer program. The CGI of the organisations was considered based on the CMA documentation and ranking.
CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0: Introduction

This chapter deals with the presentation and analysis of findings of the study. It presents findings on a survey of the corporate governance practices of commercial banks listed on the Nairobi Stock Exchange (NSE) in Kenya using a statistical package for social sciences (SPSS) for the analysis. Data presentation in this chapter is mainly by use of frequency tables (f) for primary analysis. However, for further secondary analysis factor analysis, spearman's correlations and Pearson's chi-square analyses were used.

The findings are presented in a format that reflects the objectives of the study stated earlier on as follows:

(i) To investigate the extent to which commercial banks listed in the NSE practice corporate governance

(ii) To identify the various corporate governance practices in commercial banks listed in the NSE

(iii) To determine the various factors that influence corporate governance within the banking industry in Kenya.

4.1: Characteristics of the sample

A total of 39 respondents returned the questionnaire satisfactorily completed. This formed 81.25% of the targeted population. The characteristics of the samples studied relate to gender, age, level of education, income per month, marital status, duration in the banking profession and in this bank.

The data in this section includes frequency tables that show characteristics of the respondents used in the study. The various demographic factors are presented herein below.
4.1.1: Gender of the Respondents

From the total of 39 questionnaires received, 31 questionnaires were received from male respondents duly completed while the remaining 8 questionnaires issued were received from female respondents as indicated in the table 4.1 below.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
<td>F</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>79.5</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.1.2: Age of the Respondents

The result form the table below, (table 4.1) reveals that only 2.6% of the respondents who are on the Boards of the various banks were below 40 years of age. From the table it is also evident that the majority of those on the boards in most of the banks are male forming 79.5% of the respondents with females the remaining 20.5%. The majority of people who compose boards are in the age group of those over the age of 40 years up to 60 years.

The majority of the male respondents are in the age group 50 -59 years similarly the female respondents were in the age group 40 – 60 years. No female respondent on the
board was over 70 years while there was 1 male respondent representing 3.2% of the male respondents or 5.2% of the total respondents in the study.

**Table 4.2 Age group of the respondents**

<table>
<thead>
<tr>
<th>Age in years</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>Below 30 years</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30 – 39</td>
<td>0</td>
<td>1</td>
<td>12.5</td>
<td>2.6</td>
</tr>
<tr>
<td>40 – 49</td>
<td>11</td>
<td>35.5</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>50 – 59</td>
<td>15</td>
<td>48.4</td>
<td>3</td>
<td>37.5</td>
</tr>
<tr>
<td>60 – 69</td>
<td>4</td>
<td>12.9</td>
<td>1</td>
<td>12.5</td>
</tr>
<tr>
<td>70+</td>
<td>1</td>
<td>3.2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>31</td>
<td>100.0</td>
<td>8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author, 2010

**Figure 4.2 Age of the respondents**

**4.1.3: Highest Level of Education of the Respondents**

The respondents were asked to indicate the highest level of education they had attained. The table below (table 4.3) indicates that 100% of the Board members had attained secondary education (completed either O'Level or A' Level standard of education or both). The respondents also indicated that majority of those in banks have attained post
4.1.4: Duration in the Banking Profession

The above respondents were asked to indicate how long they have been in the banking profession. The table below (table 4.4) indicates that 59% of the respondents had been in the banking profession for between 10 – 20 years of continuous service with 35.9% stating that they have been in the banking profession for between 10 - 14 years and 23.1% having been in the profession for between 15 – 19 years.

The table further indicates that 25.6% of the respondents have been in the banking profession for duration of over 20 years. The majority of the respondents therefore have been in the banking profession for over 10 years with only 15.4% having less than 10 years of professional experience in the banking profession.

The duration of time one has spent in a profession is likely to improve one's understanding of the rules and regulations and practices of the industry and would give the board member opportunity to effectively articulate issues concerning the banking industry.

Table 4.4: Duration in the Banking Profession:

<table>
<thead>
<tr>
<th>Duration in banking profession</th>
<th>f</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 4 years</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 – 9 years</td>
<td>6</td>
<td>15.4</td>
<td>15.4</td>
</tr>
<tr>
<td>10 – 14 years</td>
<td>14</td>
<td>35.9</td>
<td>51.3</td>
</tr>
<tr>
<td>15 – 19 years</td>
<td>9</td>
<td>23.1</td>
<td>74.4</td>
</tr>
<tr>
<td>20+</td>
<td>10</td>
<td>25.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010
4.1.5: Marital Status

According to the table below (Table 4.5) majority of the respondents, total numbers of 33 are married comprising 84.6%. The majority of the respondents who are married were the male respondents, 26 in number, comprising 83.8% of the male respondents comprising 66.7% of the total respondents. The table indicates that only a total of 3 respondents, that is 7.7% were single with 12.5% of the female respondents and 6.5% of the male respondents stating they are single.

Table 4.5: Marital Status:

<table>
<thead>
<tr>
<th>MARITAL STATUS</th>
<th>Respondents</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MALE</td>
<td>FEMALE</td>
</tr>
<tr>
<td></td>
<td>F</td>
<td>%</td>
</tr>
<tr>
<td>Single</td>
<td>2</td>
<td>6.5</td>
</tr>
<tr>
<td>Married</td>
<td>26</td>
<td>83.8</td>
</tr>
<tr>
<td>Divorced</td>
<td>1</td>
<td>3.2</td>
</tr>
<tr>
<td>Widow/er</td>
<td>2</td>
<td>6.5</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author, 2010
4.1.6: Duration worked in this Bank:

The Respondents were asked to indicate how long they have been working for this bank that is how long they have been working for the bank. The table below (table 4.6) indicates that 84.5% of the respondents had been working in this bank for a duration of over 10 years of continuous service with 30.7% stating that they have been working for this bank for between 10 - 14 years and 25.6% stating that they have worked for the bank in which they are currently for duration of between 15 – 19 years.

The table further indicates that 28.2% of the respondents have been in the bank for duration of over 20 years of continuous service. From the responses it is evident therefore that majority of the respondents who are in management positions in the respective banks have in the service of the specific banks duration of continuous service for duration of over 10 years with only 5.2% having less than 5 years of continuous service in the respective organisation.
Table 4.6: Duration worked in this Bank:

<table>
<thead>
<tr>
<th>Duration in this Bank</th>
<th>f</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – 4 years</td>
<td>2</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>5 – 9 years</td>
<td>4</td>
<td>10.3</td>
<td>15.5</td>
</tr>
<tr>
<td>10 – 14 years</td>
<td>12</td>
<td>30.7</td>
<td>46.2</td>
</tr>
<tr>
<td>15 – 19 years</td>
<td>10</td>
<td>25.6</td>
<td>71.8</td>
</tr>
<tr>
<td>20+</td>
<td>11</td>
<td>28.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

Figure 4.6: Years worked in this bank

4.2: Corporate Governance Practices in Banks

This section attempts to establish the respondents' level of agreement concerning corporate governance practices in the respective banks under study.

4.2.1: A valid Policy on Protection of Shareholders Rights

The results from the table below (table 4.6) show that 58.9% of the staffs state that they strongly agree that their bank has a developed a valid policy on the protection of...
shareholders rights in the company while 17.9% of the respondents stated they slightly agree. A total of 97.3% of the respondents used in the study agree that their banks have a valid policy on the protection of shareholders rights, and only 2.7% of respondents disagree stating therefore that their bank has not developed a valid policy on the protection of shareholders rights.

Table 4.7 Existence of valid policy on protection of shareholders rights

<table>
<thead>
<tr>
<th>SCALE</th>
<th>F</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>23</td>
<td>58.9</td>
<td>58.9</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>7</td>
<td>17.9</td>
<td>76.8</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>20.5</td>
<td>97.3</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>2.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.2: Shareholders are treated equitably

The researcher asked the respondents to indicate their level of agreement with the statement that their banks practice equitable treatment of their shareholders. Table 4.7 below show that all respondents 100% stated that they agree with the statement that their bank practices equitable treatment of the shareholders of their banks. Of the responses, 61.5% strongly agree with the statement and 30.8% of the respondents stating that they agree with only 7.7% stating that they slightly agree.

From the table below (Table 4.7) it is also evident that not a singly respondent disagrees with the statement that their banks practices equitable treatment of their shareholders. When the company practices equitable treatment of their shareholders this goes a long way in encouraging them as the financiers of the organization, banks to trust them as the managers.
Table 4.8: Shareholders are treated equitably

<table>
<thead>
<tr>
<th>SCALE</th>
<th>f</th>
<th>%</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>24</td>
<td>61.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>3</td>
<td>7.7</td>
<td>69.2</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
<td>30.8</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.3: Internal Code of Corporate Conduct

From the table below (table 4.9), 84.7% of the respondents used in the study stated that they agree with the statement that their bank has a set of internal documents that their code of corporate conduct with 23.1% stating they strongly agree, 38.5% slightly agree and 23.1% stating they simply agree.

The availability of an internal document which is used as a code of conduct in respect to corporate governance enhances the way in which those in authority practice corporate governance in the respective organization which then in most cases would enhance the effectiveness of the employees in the implementations.

Table 4.9: We have internal code of corporate conduct:

<table>
<thead>
<tr>
<th>SCALE</th>
<th>F</th>
<th>%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>9</td>
<td>23.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>15</td>
<td>38.5</td>
<td>61.6</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>23.1</td>
<td>84.7</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>5.1</td>
<td>89.8</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>7.7</td>
<td>97.5</td>
</tr>
<tr>
<td>Slightly Disagree</td>
<td>1</td>
<td>2.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Author, 2010
4.2.4: Implementation of Corporate Governance plans:

The respondents were asked to indicate their level of agreement with the statement that their bank has taken aggressive steps to the implementation of corporate governance plans. The table 4.10 below shows that 91.3% of the respondents stated that they agreed with the statement that their bank had taken aggressive steps to implement corporate governance. The number that agreed with the statement was 41% who strongly agreed and 18.0% stated they agreed while 33.3% slightly agreed. It is evident that only 7.7% of the respondents disagreed with the statement.

Table 4.10: Implementation of corporate governance plans

<table>
<thead>
<tr>
<th>SCALE</th>
<th>F</th>
<th>%</th>
<th>CUMULATIVE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>16</td>
<td>41.0</td>
<td>41.0</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>13</td>
<td>33.3</td>
<td>74.3</td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>18.0</td>
<td>91.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>3</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.5: Active Reporting System in our Company

The respondents were asked to indicate their opinion whether they agreed with the statement that in their bank everybody has a reporting system on activities in the bank.

The tables 4.11 below shows that 100% of the respondents stated that they agree, slightly agree, and strongly agree that everybody in their bank has a reporting system on the activities in their bank. A total of 35.9% strongly agreed with the statement while 20.5% stated they slightly agreed and 43.6% agreed.
TABLE 4.11: There is a reporting system in the company

<table>
<thead>
<tr>
<th>SCALE</th>
<th>f</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>14</td>
<td>35.9</td>
<td>35.9</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>8</td>
<td>20.5</td>
<td>56.4</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>43.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.6: Information is disclosed appropriately

The respondents were asked to indicate whether they agreed that in their respective banks, information is provided in an understandable, adequate and timely manner.

From the table 4.12 below majority of the respondents 89.8% agreed, slightly agreed and strongly agreed that their company provided information in an understandable, adequate and timely manner. Of the respondents indicated above, 38.5% of them strongly agree, 30.8% slightly agree and 20.5% agree. The table further indicates that 12.2% of the respondents disagree with the statement.

Table 4.12: Information is provided appropriately

<table>
<thead>
<tr>
<th>Scale</th>
<th>f</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>15</td>
<td>38.5</td>
<td>38.5</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>12</td>
<td>30.8</td>
<td>69.3</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>20.5</td>
<td>89.8</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>12.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Slightly disagree</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010
4.2.7: The Significance of Corporate Governance

The respondents were asked to indicate whether they agree that the directors and key executives in their bank understand corporate governance and its significance. From the table 4.13 below, 94.9% of the respondents stated that they agreed, slightly agreed and strongly agreed that the directors and other key executives in their banks understand corporate governance and its significance. Of the respondents who agreed to the statement 48.7% stated they strongly agreed, 25.7% slightly agreed and only 20.5% agreed. The table further indicates that only 5.1% of the respondents stated that they disagree with the statement.

Table 4.13 Directors understand corporate governance

<table>
<thead>
<tr>
<th>SCALE</th>
<th>f</th>
<th>%</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>19</td>
<td>48.7</td>
<td>48.7</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>10</td>
<td>25.7</td>
<td>74.4</td>
</tr>
<tr>
<td>Agree</td>
<td>8</td>
<td>20.5</td>
<td>94.9</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>5.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.8: Performance measurement based on Corporate Values

The respondents were asked to indicate whether they agreed with the statement that in their bank they use performance measurement based on corporate values and business targets.

The results from the table 4.14 below, indicates that 43.6% of the respondents stated they strongly agreed while 23.1% slightly agreed and 28.2% agreed. This gives a cumulative amount of 94.9% of the respondents that agreed to the statement. Only 5.1% of the respondents slightly disagreed that they use performance measurement based on corporate values and business targets. This means majority of the banks align their corporate performance management on corporate values and the targets of their organization.
Table 4.14: Performance measurement is based on corporate values and targets

<table>
<thead>
<tr>
<th>SCALE</th>
<th>F</th>
<th>%</th>
<th>Cumulative %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>17</td>
<td>43.6</td>
<td>43.6</td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>9</td>
<td>23.1</td>
<td>66.7</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>28.2</td>
<td>94.9</td>
</tr>
<tr>
<td>Not sure</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Slightly disagree</td>
<td>2</td>
<td>5.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.2.9: Adoption of Corporate Governance Code of Ethics

The respondents were asked to state their level of agreement with the statement that their bank has adopted a company level corporate governance code of ethics.

Results from table 4.15 below indicate that a majority of the respondents, 82.1% stated that their company has adopted a company level of corporate governance code of ethics while 17.9% stated their bank has not adopted a company level corporate governance code of ethics. The adoption of a company wide corporate governance code of ethics would ensure ethical corporate governance activities in the bank.

Table 4.15 Adoption of corporate governance code of ethics

<table>
<thead>
<tr>
<th>Level of agreement</th>
<th>Yes</th>
<th>No</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>%</td>
<td>F</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>82.1</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Author, 2010
4.2.10: Factors influencing Good Corporate Governance:

The respondents were asked to state how important in their opinion the factors listed below are in influencing good corporate governance in the organization. The results of the importance of the factors are as indicated in the table 4.16 below.

The results from table 4.16 below, the importance of serving customers professionally and friendly was ranked highest with 92.3% of the respondents stating it is very important in ensuring good corporate governance and 7.7% stated it is fairly important. It is evident that 100% of the respondents stated that the way they serve customers, professionalism and friendliness was important to good corporate governance. Another factor considered as important in influencing good corporate governance in their organization is the ability of the organization developing professional human capital. In this respect 82% of the respondents considering this a very important factor in good corporate governance and 15.4% stating it was fairly important. Only 2.6% were not sure of the importance of developing professional human capital.

In respect to the banks giving equal opportunities to all those who qualify for positions in the bank was ranked third with 76.9% of respondents stating that it was very important in influencing good corporate governance in the banks and 17.9% stating it is fairly important. Of the respondents, only 5.2% were not sure of the importance of this as a factor in influencing good corporate governance in their bank.
Appreciating and promoting staff based achievements were another factor that influenced good corporate governance with 74.4% of respondents stating it was very important. It is further evident that 15.4% of the board members stated it is fairly important while 5.1% stated it was not important while 5.2% were not sure of the importance of appreciating and promoting staff based achievements in influencing good corporate governance.

In respect to the importance of prioritizing customers’ interests, 69.2% of the respondents stated that it was very important in influencing good corporate governance and 23.1% stated it is fairly important with only 7.7% stating they were not sure whether it was important. One other factor influencing good corporate governance was the banks offering competitive products. From the results of the study this was ranked number five (5) of the seven factors stated and 48.7% of respondents stated this was very important and 41% stating it is fairly important. Only 10.3% were not sure of the importance of this factor in influencing good corporate governance in their bank.

Table 4.16: Factors influencing good corporate governance

<table>
<thead>
<tr>
<th>Factors</th>
<th>Not important</th>
<th>Not sure</th>
<th>Fairly important</th>
<th>Very important</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serve customer friendly and professionally</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>36</td>
<td>39</td>
</tr>
<tr>
<td>Develop professional human capital</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>32</td>
<td>39</td>
</tr>
<tr>
<td>Equal opportunities to all qualified</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>30</td>
<td>39</td>
</tr>
<tr>
<td>Appreciate and promote staff achievements</td>
<td>2</td>
<td>5.1</td>
<td>2</td>
<td>7</td>
<td>39</td>
</tr>
<tr>
<td>Prioritising customers interests in serving them</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>9</td>
<td>39</td>
</tr>
<tr>
<td>Offer competitive products</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>16</td>
<td>39</td>
</tr>
<tr>
<td>Open management and work with all employees</td>
<td>4</td>
<td>10.2</td>
<td>17</td>
<td>18</td>
<td>39</td>
</tr>
</tbody>
</table>

Source: Author, 2010
The need to demonstrate open management and to work together effectively with all the employees of the organization was ranked as the last factor that are important in influencing good corporate governance in the banks. This factor was considered very important by 46.2% of the respondents and 43.6% as fairly important giving a cumulative amount of 89.8% of respondents who considered this factor as important and only 10.2% were not sure of the importance of the factor in influencing good governance to the organisation.

4.3: Inferential Statistics
4.3.1: Factor Analysis
A factor analysis of the items in the questionnaires was carried out to determine how the items loaded on the study variables. Under factor analysis various underlying variables were identified to explain patterns of correlation between the dependent variables and independent variables. Factor analysis allowed the grouping of variables into factor-based correlations between them and their values derived by summing up the values of the original variables into factors.

The purpose was to measure the degree of association among the variables. The principal component analysis and the varimax rotation method were used in the study and Kaiser-normalization used to yield rotated factor matrix. The use of the rotated component matrix is to reduce the number of factors on which the variables under investigation have high loadings. A loading of 0.30 was taken as the minimum absolute value to be interpreted. The Kaiser’s criterion was used to determine how many factors to retain in the study. Only factors having Eigen values greater than 1.0 were considered essential and were retained. The tables that follow below give item loadings greater than 0.3 on these factors.

4.3.2: Corporate Governance Practices Factor Analysis
The results revealed that three (3) factors with Eigen Values greater than 1 exists that account for 81.86% of the total variance in corporate governance activities in the
companies. The common variance in corporate governance practices is accounted for by: valid policies (33.49%), a code of corporate conduct (27.63%) and information disclosure (20.74%) as indicated in table 4.17 below.

Table 4.17: Corporate Governance Practices

<table>
<thead>
<tr>
<th>Variables</th>
<th>Components</th>
<th>Valid policies</th>
<th>Code of conduct</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>The bank has developed a valid policy to protect shareholders rights</td>
<td>0.988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We practice equitable treatment of our shareholders</td>
<td></td>
<td>0.809</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have internal documents that is our code of corporate conduct</td>
<td>0.901</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have developed company level corporate governance code of ethics</td>
<td></td>
<td>0.851</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We provide information that is understandable, adequate &amp; timely</td>
<td></td>
<td></td>
<td>0.780</td>
<td></td>
</tr>
<tr>
<td>A specific manager is responsible for corporate governance policy</td>
<td></td>
<td></td>
<td>0.779</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2.010</td>
<td>1.658</td>
<td>1.244</td>
<td></td>
</tr>
<tr>
<td>% of variance</td>
<td>33.49</td>
<td>27.63</td>
<td>20.74</td>
<td></td>
</tr>
<tr>
<td>Cumulative % variation</td>
<td>33.49</td>
<td>61.12</td>
<td>81.86</td>
<td></td>
</tr>
</tbody>
</table>

Extraction method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalisation

Source: Author, 2010

From the table 4.17 above three components were identified as corporate governance practices namely; valid policies concerning corporate governance, code of conduct for the implementation of good corporate governance and disclosure. Banks in ensuring they have valid policies have developed valid policies in respect to corporate governance to protect shareholders rights. In further ensuring the bank has valid policies in respect to good corporate governance there is the existence of internal documents that is the code of corporate conduct.
The second element important in corporate governance is code of conduct. This element requires the banks to practice equitable treatment of the shareholders and the need for the bank to develop company level corporate governance code of ethics.

The third factor in the practice of corporate governance is that of disclosure which requires the banks to provide information that is understandable, adequate and timely to all and the need for the bank to appoint a specific manager to be responsible for corporate governance policy.

4.3.3: Factors for Good Corporate Governance

The inference from the factor analysis below is that the three attributes are perceived by staff to be the most important attributes. Each of the factors identified is an indication of the importance and how heavily they influence good corporate governance in the banks as indicated in table 4.18 below. The three components identified as the factors that would enhance good corporate governance in the banks were effective customer service, human resource and a good working environment.

In respect to the customer service as a factor for good corporate governance, two items were identified which are that the banks prioritise customers' interests in serving them and serving their customers professionally and friendly. This is an indication of the bank being customer oriented also known as a marketing oriented organization which aims at customer satisfaction. The second factor or component identified is human resources having two items to be considered by the banks. The human resource factors would require the banks to develop a professional human capital. There is also the need to appreciate and promote staff based on their individual achievements being important in corporate governance. The third element identified in this factor for good corporate governance is the working environment in the organization. The elements of good work environment identified included the need for open management that encourages staff to work together and the other is the aspect that the employees demonstrate high working environments. This is an indication of the interest the employees have in working in the
organization enhancing the implementation of good governance by the individual employees.

Table 4.18: Rotated factor matrix for good corporate governance:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer service</td>
</tr>
<tr>
<td>Prioritise customers interests in serving them</td>
<td>0.846</td>
</tr>
<tr>
<td>Serve customers professionally and friendly</td>
<td>0.813</td>
</tr>
<tr>
<td>Develop a professional human capital</td>
<td></td>
</tr>
<tr>
<td>Appreciate and promote staff based achievements</td>
<td></td>
</tr>
<tr>
<td>Open management and work together with all employees</td>
<td></td>
</tr>
<tr>
<td>Employees demonstrate high working environments</td>
<td></td>
</tr>
<tr>
<td>Eigen value</td>
<td>5.974</td>
</tr>
<tr>
<td>% of variance</td>
<td>66.38</td>
</tr>
<tr>
<td>Cumulative % of variations</td>
<td>66.38</td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.4: Analysis of Variance with Variables (ANOVA)

This section established whether demographic factors made a significant difference on the way people responded to the various study variables (independent and dependent). Analysis of variables (ANOVA) test was carried out with the following demographic variables gender, age, marital status, and duration as an employee to the service provider as independent variables and these results are presented in the tables that follow.

4.4.1: Gender of the respondents

From table 4.19 below, male respondents differed significantly from the female respondents at 0.05 significance level on a specific manager is in charge of corporate governance ($f=4.354$, $df=1$, $p=0.044$); and a set of internal documents are code of corporate conduct ($f=4.419$, $df=1$, $p=0.043$).
Table 4.19: Gender of the Respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>Category</th>
<th>N</th>
<th>M</th>
<th>df</th>
<th>F</th>
<th>sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>We have valid policy on</td>
<td>Female (F)</td>
<td>8</td>
<td>5.667</td>
<td>1</td>
<td>3.616</td>
<td>0.065</td>
</tr>
<tr>
<td>protection of shareholders</td>
<td>Male (M)</td>
<td>31</td>
<td>4.8276</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>specific manager in charge</td>
<td>F</td>
<td>8</td>
<td>5.667</td>
<td>1</td>
<td>4.354</td>
<td>0.044</td>
</tr>
<tr>
<td>corporate governance</td>
<td>M</td>
<td>31</td>
<td>4.6897</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A set of documents as</td>
<td>F</td>
<td>8</td>
<td>5.1111</td>
<td>1</td>
<td>4.419</td>
<td>0.043</td>
</tr>
<tr>
<td>code of corporate conduct</td>
<td>M</td>
<td>31</td>
<td>6.1724</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information is provided in</td>
<td>F</td>
<td>8</td>
<td>5.6667</td>
<td>1</td>
<td>2.524</td>
<td>0.121</td>
</tr>
<tr>
<td>an understandable manner</td>
<td>M</td>
<td>31</td>
<td>4.7931</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

4.4.2: Duration worked in the banking profession

Table 4.20: Duration as an employee in the Bank:

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>CATEGORY</th>
<th>N</th>
<th>M</th>
<th>df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board of our bank has set up relevant</td>
<td>1 – 4 years</td>
<td>2</td>
<td>6.0833</td>
<td>4</td>
<td>5.264</td>
<td>0.028</td>
</tr>
<tr>
<td>committees dealing in corporate governance</td>
<td>5 – 9 years</td>
<td>4</td>
<td>4.7647</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10 – 14 years</td>
<td>12</td>
<td>4.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15 – 19 years</td>
<td>10</td>
<td>4.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20+</td>
<td>11</td>
<td>5.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Everybody from the manager has a reporting</td>
<td>1 – 4 years</td>
<td>2</td>
<td>5.0000</td>
<td>4</td>
<td>4.344</td>
<td>0.045</td>
</tr>
<tr>
<td>system on activities in our bank</td>
<td>5 – 9 years</td>
<td>4</td>
<td>5.2941</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10 – 14 years</td>
<td>12</td>
<td>4.6000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15 – 19 years</td>
<td>10</td>
<td>3.5000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20+</td>
<td>11</td>
<td>5.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We use performance measurement based on</td>
<td>1 – 4 years</td>
<td>2</td>
<td>5.8333</td>
<td>4</td>
<td>4.682</td>
<td>0.038</td>
</tr>
<tr>
<td>corporate governance and business targets</td>
<td>5 – 9 years</td>
<td>4</td>
<td>5.8235</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10 – 14 years</td>
<td>12</td>
<td>4.200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15 – 19 years</td>
<td>10</td>
<td>6.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20+</td>
<td>11</td>
<td>4.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010

The respondents who have stayed with the organization for a longer duration of time differed significantly from those respondents who have not on the following as indicated in table 4.20 above. The boards have established relevant committees in corporate
governance \( (f=5.264, \text{df}=4, p=0.028) \). On the issue that everybody in the organization has a reporting system on the activities in the bank \( (f=4.344, \text{df}=4, p=0.045) \) and that the banks use performance measurement based on corporate values and business targets \( (f=4.682, \text{df}=4, p=0.038) \).

4.5: Chi Square tests

Chi Square test is a test of statistical significance that is used to determine the degree of confidence one can have in accepting or rejecting a hypothesis. This test is done to find out whether or not two samples are different enough in some characteristics to generalize. A chi square probability of 0.05 or less is interpreted as a justification for rejecting the null hypothesis. This section looks at the tests that were made in determining the degree of relationships between the dependent and independent variables under study. Spearman’s correlation coefficient method was used to measure the relationships in the variables of the study. The relationships measured were between corporate governance practices and factors for good corporate governance.

4.5.1: Relationship between Corporate Governance and factor for good governance

The researcher in this section wanted to determine the association between corporate governance practices or activities and factors that would determine good corporate governance. The null hypothesis that there is no association between the two is the starting point.

<table>
<thead>
<tr>
<th>Method</th>
<th>Value</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson’s chi-square</td>
<td>133.884</td>
<td>0.000</td>
</tr>
<tr>
<td>Spearman’s correlation coefficient</td>
<td>0.95</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Author, 2010

There is a relationship between corporate governance practices and the factors that would determine good corporate governance as shown by Pearson’s chi-square of 113.884 with
a significance value of $P=0.0000$. The relationship is significant with Spearman's coefficient of 0.95 and a significance of $P=0.000$.

4.6: **Inter-correlation between the variables**
Correlation is an analysis computed to examine the linear relationship between two variables. This analysis provides two important statistics namely:

(a) The $(r)$ value which is the correlations coefficient. The nearer it is to 1 indicates a strong positive correlation while nearer to -1 indicates a strong negative correlation.

(b) The other statistic is the $(P)$ value which refers to the probability that the obtained correlation $(r)$ is due to chance alone.

A correlation is significantly different from chance if $p$ is less that 0.05 for a 2 tailed significance test. This is when you are looking for a relationship but you have no hypothesis regarding the specific direction predicted.

4.6.1: **Corporate Governance Practices and Governance factors**
This relationship was computed in order to determine if there exists any relationship between the relationship quality and customer satisfaction variables and to express their relationship numerically indicating their correlation. The presence of a significant correlations between the variables would imply the existence of direct causation i.e. one variable being the cause of the other as per the circumstance of the study. The table below (Table 4.21) indicates the correlations between corporate governance practices and the corporate governance factors and is explained in the following section.

**Equitable treatment of shareholders and valid policy**
There is a significant correlation between the banks developing a valid policy on the protection of shareholders and the equitable treatment of the shareholders ($r=0.338; p<0.041$). In essence when the organization has a valid policy on the practices of corporate governance the shareholders will be treated more equitably by the employees in the organisation.
Code of Corporate Conduct & Treatment of Shareholders

When the organization has a code of corporate conduct then the employees will ensure there is an equitable treatment of shareholders of the company. There was a significant positive correlation \((r=0.488; p<0.002)\). There was also a positive and significant correlation between the reporting system in the banks and code of corporate conduct \((r=0.918; p<0.000)\). There was also a high positive significant correlation between systems of disclosure of information the code of corporate conduct in the organisation \((r=0.658; p<0.000)\).

These mean that the availability of corporate conduct will have effects on the way the shareholders are treated, directs the reporting systems in the organization and the how information is provided in an understanding, adequate and timely manner to all.

Table 4.22: Governance practices and good governance factors

<table>
<thead>
<tr>
<th>Variables</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid policy</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equitable treatment of shareholders</td>
<td>0.338**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Code of corporate conduct</td>
<td>0.140</td>
<td>0.488**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.410</td>
<td>0.002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting system in our bank</td>
<td>0.077</td>
<td>0.428**</td>
<td>0.918**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.651</td>
<td>0.008</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prioritise customer interests</td>
<td>-0.023</td>
<td>-0.044</td>
<td>-0.089</td>
<td>0.205</td>
<td>0.223</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.894</td>
<td>0.796</td>
<td>0.601</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Develop human capital</td>
<td>0.121</td>
<td>0.101</td>
<td>0.188</td>
<td>0.218</td>
<td>0.197</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.457</td>
<td>0.551</td>
<td>0.265</td>
<td>0.194</td>
<td>0.212</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A System of disclosure</td>
<td>0.044</td>
<td>0.336</td>
<td>0.658**</td>
<td>0.647**</td>
<td>0.262</td>
<td>0.429**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.796</td>
<td>0.042</td>
<td>0.000</td>
<td>0.000</td>
<td>0.171</td>
<td>0.008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open management</td>
<td>0.262</td>
<td>-0.114</td>
<td>0.170</td>
<td>0.655**</td>
<td>0.352*</td>
<td>0.398*</td>
<td>0.452**</td>
<td>1.00</td>
</tr>
<tr>
<td></td>
<td>0.177</td>
<td>0.503</td>
<td>0.330</td>
<td>0.000</td>
<td>0.032</td>
<td>0.015</td>
<td>0.005</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2010. *Correlation significant at the 0.05 level (2 tailed).
CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0: Introduction
This research set out to survey corporate governance practices of commercial banks listed on the Nairobi Stock Exchange in Kenya. The previous four chapters provide the premise on which to now wind up the report of this study.

In chapter 1, the background and problems of the study were given and the study variables indicated in the conceptual framework of the study. The independent variables are used to explain the dependent variable. Research questions were posed as a way of determining the impact of the independent variables on the dependent variable.

In chapter 2, a detailed review of literature on both the independent and dependent variables were done. Chapter 3 presented the methodology of the study while Chapter 4 presented the findings and interpretation of the study. In this chapter, the results of the study as presented in chapter 4 are discussed and conclusions are drawn upon which recommendations and areas thought necessary for further research will be identified.

This chapter is divided into four parts. Section 5.1 of this chapter deals with the discussions, section 5.2 deals with the conclusions while section 5.3 highlights the recommendations and section 5.4 finally looks at areas of further research on this topic.

5.1: Discussion of Findings
The discussions in this section are on the findings of the study in relation to the three research questions.

5.1.1: Study Results relating to Research Questions
The research was intended to achieve the main objective of establishing the corporate governance practices of commercial banks listed on the Nairobi Stock Exchange in Kenya. The study was further designed to accomplish three specific objectives as follows:
1. To investigate the extent to which commercial banks listed in the NSE practice corporate governance

2. To identify the various corporate governance practices in commercial banks listed in the NSE

3. To determine the various factors that influence corporate governance within the banking industry in Kenya.

5.1.2: Extent to which Commercial Banks practice Corporate Governance

The first objective was achieved through establishing the extent which commercial banks listed on the Nairobi Stock Exchange practice corporate governance. Banks practice corporate governance through the development of valid policies to protect the rights of the shareholders. These policies state out clearly the codes of corporate conduct in the institutions.

Shareholders commonly rely on the rights they receive in return for their investment. For most, this includes the right to participate in the profits of the company. Other rights such as the right to vote in annual general meetings in order to elect board members; approve the company's major decisions, capital changes, the annual report and financial statements, and the right to access information about the company and its activities. These rights give shareholders some comfort that the managers of the company will not misappropriate their investment. Where internal laws are protective of shareholders and well-enforced, shareholders are willing to invest their capital.

Commercial banks have also taken aggressive steps in the implementation of their corporate governance plans where everybody in the institutions from the managers downwards has a reporting system on the activities in the bank. It was also evident from the responses that boards of these institutions have set up relevant committees to oversee the implementation of their corporate governance practices where a number of them use performance measurement based on corporate values and business targets in implementing corporate governance practices.
5.1.3: Various Corporate Governance practices in Commercial Banks

The corporate governance practices highlighted by the respondents included the banks having valid policies on the protection of the rights of their shareholders. This was to ensure equitable treatment of these shareholders. Then there is the need of to have a specific manager in charge of corporate governance issues. To ensure effective corporate governance the banks also need to have committees relevant in implementing corporate governance. Internal documentations on procedural matters concerning corporate governance such as codes of corporate conduct also have to be clearly stated out.

For good corporate governance a timely and accurate disclosure is essential in banks. The disclosure of essential information for shareholders, potential investors, regulatory authorities, and other stakeholders are vital. The availability of material information helps shareholders understand and protect their rights thereby improves their ability to make sound economic decisions. Disclosure makes it possible to assess and oversee management, as well as to keep management accountable. Disclosure allows banks demonstrate accountability, acts transparently towards the markets and maintains public confidence and trust. Information is also useful for creditors, suppliers, customers, and employees to assess their position, respond to changes, and shape their relations with companies (IFC, 2009). Tight regulations on disclosure among listed companies are needed because of potential fraud when a company may have many thousands of shareholders. Given the importance of capital markets in a modern economy, governments are keen on ensuring the integrity of the financial system.

Corporate plans to include corporate governance issues and information provided in an understandable, adequate and timely manner to the employees, that is there should be full disclosure of relevant information. Corporate planning is the process of ensuring that the company has systems and strategies in place for the development and implementation of corporate governance. This process is important to conducting corporate governance in any organisation to ensure effective management of corporate governance. Many banks have developed and adopted corporate governance codes of ethics and the principles of follows the internationally best practices of corporate governance policy.
Another important corporate governance activity undertaken by commercial banks in Kenya is internal control systems. The board of commercial banks usually ensures that management establishes and maintains an efficient system of internal controls to safeguard shareholders’ investment and company assets. Internal control is a process conducted jointly by the board, the management and the company’s employees, the aim of which is to provide reasonable guarantees that the company objectives are met, reliable and accurate financial reporting done, efficient and effective operations are carried out, and the company is compliant with legislation and its own internal rules and guidelines.

One of the internal control systems is internal audit whose function is a key component of a successful internal control framework. Internal audit can be defined as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations (IFC, 2009). It helps a company accomplish its objectives by introducing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls, and corporate governance processes.

Internal control systems should always review and ensure reliability and integrity of information, compliance with policies and regulations, cost-effectiveness and efficient use of resources, safeguarding assets of the organisation and attainment of established operational goals and objectives.

5.1.4: Various factors that influence corporate governance in the banking industry
The following were stated by respondents as factors that would ensure the success of corporate governance practices in organisations.

Effective corporate governance requires due diligence in rallying the support and commitment of the broad network of business stakeholders, including shareowners, employees, customers and communities. Therefore, these groups’ needs are increasingly interconnected. Boards that recognize the value of a holistic approach to stakeholder engagement, particularly in the environmental, social and governance realms, find that
shareowners are similarly committed to such issues. This includes the organisations ongoing communication with its various stakeholders.

Then there are the employees. Workers at all levels can be a major obstacle to the successful implementation of corporate governance and eventual improvements of corporate governance practices. Typically, this is due to: lack of awareness, discomfort with the ways things are being done, fear of losing their jobs and concern about an overload of additional responsibilities.

A number of other factors considered important in influencing good corporate governance in organizations, especially the banking institutions includes the organisation prioritizing customers' interest when serving their customers. This means that the employees should be marketing oriented and this would ensure they value customers and works towards satisfying the interests of the customer. Furthermore for corporate governance to effectively have any meaning the employees need to be professional in their dealings with the wider stakeholders of the organisation. There should then be a deliberate effort by the organisation to develop a professional human capital for their firm as this would ensure the employees demonstrate high working commitments both to the organisation and the stakeholders especially the customers.

There is the need for the organisation to forge a relationship with management by developing robust interactions between directors and management so as to build a high-impact, effective board by getting the right set of experiences in the boardroom and ensuring directors have access to critical information from inside and outside the firm.

5.2: Conclusion

5.2.1: Extent to which commercial banks practice corporate governance

This study reveals that there exist corporate governance practices. Corporate Governance refers to the way that boards oversee the running of a company by its managers, and how board members are held accountable to its shareowners and the company. This has implications for company behavior not only to shareowners but also to employees,
customers, investors, and other stakeholders, including the communities in which the business operates. For corporate governance activities to be practiced in any organisation there must be valid policies on the protection of shareholder rights, the shareholders are treated equitably, the existence of a code of corporate conduct in the organisation.

Investors are increasingly willing to pay a premium for well-governed companies that adhere to good board practices, provide for information disclosure and financial transparency, and respect shareholder rights. Well-governed companies are also better positioned to fulfill their economic, environmental, and social responsibilities, and contribute to sustainable growth.

Improvement in corporate governance practices can improve the decision making process within and between a company’s governing bodies, and should thus enhance the efficiency of the financial and business operations. Better corporate governance also leads to an improvement in the accountability system, minimizing the risk of fraud or self-dealing by company officers. An effective system of governance should help ensure compliance with applicable laws and regulations, and further, allow companies to avoid costly litigation. Also, companies should stand to benefit from a better reputation and standing, both at home and in the international community.

5.2.2: The various corporate governance practices in commercial banks
While every firm needs to practice sound corporate governance, it is especially critical for banks because they are highly leveraged and rely extensively on deposits from the public. It is important that the boards of commercial banks take responsibility for the sound stewardship of these funds for the benefit of their customer base. This is because if not done well it will cause problems in the banking system which can pose systemic risks for the banks. These factors underscore the need to maintain the financial sector’s integrity and public confidence for the sake of financial stability. Weak oversight, poor risk management, weak internal controls and market failures arising from lack of information and spiraling problems make financial institutions vulnerable and ultimately lead to financial system instability (Juliet McKee, 2009).
The World Bank in its definition states that corporate governance is a set of rules, standards and organizational concepts that regulate the behavior of companies, directors and managers and according to John (1983) Corporate governance is a mechanism in which shareholders of a business entity exercise control over management and/or other parties within the company to ensure that all their interests are protected (John and Senbet, 1983).

Institutional failures due to weak governance increase taxpayers' costs and especially banks, negatively affect the economy in significant ways. With the growing complexity of financial markets and systems, comprehensive governance practices throughout institutions have become necessary. This involves a number of key elements – skilled and capable directors who would be responsible and accountable for corporate governance issues, competitive demand for talent, strong risk management practices where the banks take aggressive steps to implementing corporate governance plans.

There is also the need for effective checks and balances through controls and procedures by the use of internal documents that become the code of corporate conduct for in the organisation, and clear accountability and responsibilities on the management of the firms or institutions. Strong corporate governance is an important pillar of financial institution strength because effective boards of directors complement the regulatory oversight. Regulatory and supervisory frameworks alone cannot guarantee financial stability. Strong corporate governance acts as a first line of defense against any impending crisis and unethical business practices. Various corporate governance practices in commercial banks include the existence of valid policies concerning corporate governance. These banks developing valid policies to protect the shareholders rights and the banks having an internal document that is used as the corporate conduct guidelines in the bank.

The banks also practicing equitable treatment of their shareholders and they develop company level corporate governance code of ethics. Another practice banks undertake in corporate governance is providing information that is understandable, adequate and
timely besides having a specific manager being responsible for corporate governance in the banks.

5.2.3: Factors that influence corporate governance within the banking industry

Strong corporate governance is an important pillar of financial institution strength because effective boards of directors complement the regulatory oversight. Regulatory and supervisory frameworks alone cannot guarantee financial stability. Strong corporate governance acts as a first line of defense against any impending crisis and unethical business practices.

Responsible management creates a business ethos and environment where the employees demonstrate high working environment that builds both a company's integrity and trust of its stakeholders especially shareholders of the company. A good working environment in the banks is also enhanced by open management and all work together with all employees. It is also important that organisations have to develop a professional human capital who would undertake the implementation of good corporate governance. The banks appreciating and promoting staff based on their achievements improves corporate governance in the banks. When the organisation is customer oriented when it prioritises customers' interests when serving them and the employees serve their customers professionally and friendly. The effective implementation of corporate governance practices will therefore enable organisations develop a strong business for the shareholders. To further promote good corporate governance organisations would need to ensure the following: effective leadership in the organisation through the set up of committees. It is also important for banks to promote corporate values and ethical values set out in the banks internal corporate governance guidelines.

5.3: Recommendations

This part of the report brings forward recommendations based on the results of the study, would help improve the cases that have been observed. However, these recommendations do not apply to the banking industry only but to all other organizations that would want to undertake corporate governance practices.
5.3.1: Extent to which commercial banks practice corporate governance

A number of firms in the banking industry have undertaken to strengthen corporate governance in their organisations, in particular enhancing their board’s effectiveness and accountability, audit committee effectiveness, internal and external audit functions, internal controls and shareholder protection among other improvements.

For better protection of shareholder rights and to significantly improve on corporate governance, organisations need to incorporate effective information disclosure regimes. The corporate governance standards set forth in the Code of Corporate Conduct must set up comprehensive benchmark for corporate governance practices and standards of corporate ethics. Organisations must have laid down procedures, processes, systems and codes of regulations and ethics that would ensure the implementation of corporate governance. Compliance with the Code of Corporate Conduct will make companies more transparent and thus attractive to potential investors. There is the need for banks to develop corporate strategies for their operations and accountability in executing the strategies. For banks it is important to have personnel fit and professionalism in their operations. Corporate governance improvements are important for competitive advantage and a necessary precondition to participate in the capital markets.

5.3.2: The various corporate governance practices in commercial banks

Taking into account a holistic approach to promoting good corporate governance would require that the organisations have the following; effective organisational leadership, promoting corporate values, culture and ethical values (embedded in various risk management and prudential guidelines). The need to put in place, regulations and supervision guidelines (through revised guidelines on lending, internal audit functions and proper personnel) this it is expected will enhance organisational transparency (e.g., through the requirement for the statement of internal controls and Corporate Governance statement in the annual reports of financial institutions and proper accounts and financial reporting).
5.3.3: Various factors that influence corporate governance in the banking industry

The banking industry need to come up with a fixed term service contract for the directors not exceeding five years with a provision for renewal and that no person is to hold more than two chairmanships in any public listed company at any one time. This would enable the eventual entry into the management of banks younger blood who it is expected would bring in new ideas and foster growth of the organisations. This is indicated by the study where 52% of the directors are over 50 years of age.

There is the need for banks to consider gender balanced management team in their respective organisations as women are not adequately represented as managers in banks at the levels of directors.

Internal code of corporate conduct and reporting systems in the banks need to be improved in order to ensure effective implementation of corporate governance plans within the organisations. These need to be coupled by having active reporting system where vital information is disclosed appropriately to all in the bank so as to understand the activities of the banks.

5.4: Areas for Further Research

The other area of study in Corporate Governance in which further research is needed should include the following:

1. Corporate governance structure. This should help shed more light on the specifics of the distribution of rights and responsibilities among different participants in the implementation within the corporation, such as the board, managers, shareholders, and the stakeholders and spell out the rules and procedures for making decisions on corporate affairs in organisations.

2. Corporate governance and organisational behavior of companies to find out the impact of good corporate governance practices on organisational behavior of directors and managers.
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APPENDIX I: LIST OF COMMERCIAL BANKS ON THE NSE

1. Barclays Bank of Kenya Ltd.
2. CFC Bank Ltd.
5. Diamond Trust Bank of Kenya Ltd
6. Standard Chartered Bank Ltd
7. National Industrial Credit Bank Ltd
8. Equity Bank Ltd
APPENDIX II: LETTER OF INTRODUCTION

June, 2010

Dear Respondent,

RE: MBA RESEARCH PROJECT

The questionnaire is designed to gather information on corporate governance practices undertaken by the commercial banks in Nairobi, Kenya. Your bank has been chosen to participate in this study. This study is being carried out for a Management project paper as a requirement in the partial fulfillment of the award of the Degree of Master in Business Administration (MBA), Kenyatta University.

Your responses will be treated in strict confidence and in instance will your name be mentioned in the report.

Your cooperation will be highly appreciated.

Yours faithfully,

Susan N. Kairima.

D53/R1/11750/04
APPENDIX III: QUESTIONNAIRE

CONFIDENTIAL

Please answer the following questions. Where applicable please place a tick (\checkmark) in the relevant box provided appropriately.

SECTION A: BACKGROUND INFORMATION

1. Gender of the respondent [ ] Male [ ] Female
2. Marital status [ ] Single [ ] married [ ] divorced [ ] widow/er
3. Age group of the respondent [ ] Below 30 years [ ] 30 - 39 [ ] 40 - 49 [ ] 50 - 59 [ ] 60 - 69 [ ] 70+
4. Highest level of education attained [ ] O’ Level [ ] A’ Level [ ] Diploma [ ] Degree [ ] Masters [ ] PhD [ ] Others
5. Vocational or professional qualifications or training acquired (Tick any three)
   [ ] CPA (K) [ ] CIPS [ ] CIM
   [ ] ACIB [ ] Certificate in Banking [ ] Diploma in Banking
   [ ] Others (list them)

6. How long have you been in the banking profession [ ] 1 - 4 years [ ] 5 - 9 years [ ] 10 - 14 years [ ] 15 - 19 years [ ] 20+
7. What is your position in this bank
8. Which department in the bank are you employed
9. For how long have you been working in this bank? [ ] 1 - 4 years [ ] 5 - 9 years [ ] 10 - 14 years [ ] 15 - 19 years [ ] 20+
Section B:

Please indicate your level of agreement by ticking appropriately (✓) the following statements concerning corporate governance practices in your bank. Use the scale given below.

1. Strongly disagree
2. Slightly disagree
3. Disagree
4. Not sure
5. Agree
6. Slightly agree
7. Strongly agree

10. The bank has developed a valid policy on the protection of shareholder rights

11. We practice the equitable treatment of shareholders

12. The board has established relevant committees

13. A specific manager is responsible for corporate governance policies in the bank.

14. We have a set of internal documents that are our Code of Corporate Conduct

15. Our bank has taken aggressive steps to implement corporate governance plans.

16. Everybody from manager downward has a reporting system on activities in our bank

17. Information in our bank is provided in an understandable, adequate and timely manner (disclosure).

18. The Directors and key executives understand corporate governance and its significance

19. We use performance measurement based on corporate values and business targets

20. Has your bank adopted a company level corporate governance code of ethics?

If not why not .................................................................
21. Our bank follows internationally best practices of corporate governance policy

[ ] True [ ] undecided [ ] untrue

State how important in your opinion the following factors are in influencing good corporate governance in your organization. Please rate them by ticking appropriately (✓) in order of their importance using the following scale:

1. Not important at all
2. Not important
3. Not sure
4. Fairly important
5. Very important at all

22. To prioritise customers’ interests in serving our customers


23. Serve our customers professionally and friendly.


24. Endeavour to offer competitive products to customers


25. Develop a professional human capital


26. Give equal opportunities to all qualified to work for us


27. Appreciate and promote staff based achievements


28. Demonstrate open management and work together effectively with all employees


29. Our employees demonstrate high working commitments


THANK YOU VERY MUCH FOR YOUR CO-OPERATION