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THE STRATEGIC ROLE PLAYED BY CORPORATE GOVERNANCE MECHANISMS IN ENHANCING SUSTAINABLE CORPORATE PERFOMANCE: A SURVEY OF COMMERCIAL BANKS IN KENYA

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Abstract

Purpose: The general purpose of study was to establish the strategic role that corporate governance mechanisms play in the sustainable corporate performance of commercial banking sector in Kenya.

Methodology: The study adopted a descriptive research design. The actual population was also the targeted population was 43 banks since the banks were all accessible. A total of 17 banks were used as an actual sample representing 37% of the total population. The researcher in this study used questionnaire as a data collection tool. The data collected was analyzed by use of both inferential and descriptive statistics.

Results: Study findings indicated that, there was an insignificant relationship between percentage mean of independent directors, top 10 shareholding and ROA. In addition there was an insignificant relationship between board size, percentage mean of independent directors, top 10 shareholding and individual shareholding, and Customer satisfaction index.

Unique contribution to theory, practice and policy: The study recommends that, commercial banks in Kenya should continue adhering to corporate governance requirements since it may have positively contributed to sustainable performance.

***Key words**: Corporate Governance, Performance, Board size*

1.0 INTRODUCTION

1.1 Background of the Study

Wolfensohn (1999) asserts that the years between 2001 and 2002 witnessed the collapse of several corporations, bringing into sharp focus the necessity of good corporate governance. Wolfensohn (1999) further asserted that even though the firms faced with corporate governance issues were from developed countries, for instance, Enron and Parmalat, corporate governance was also an important agenda for corporation in developing countries. This observation was because developing countries are noted to be lacking in good standards and hence adoption of corporate governance would go along way in enhancing their sustainability. The above sentiments were echoed in the following extract of a speech by the former president of World Bank, James Wolfensohn;

"Basic principles whether referring to developing or developed countries are the same everywhere: fairness, transparency, accountability and responsibility being the minimum standards that provide legitimacy to the corporations reduce vulnerability to financial crisis, broaden and deepen access to capital from financial institutions and investors. However, applying these standards across a wide variety of legal, economic and social systems is not easy. This is because capacity is often weak, vested interests and incentives are uncertain". *Source:* James Wolfensohn, Former President of World Bank, (1999).

According to International Finance Corporation Report (2006), corporate governance mechanisms are almost similar across firms, however, the main challenge is to ensure that the principles are tailor made to an individual firms specific circumstances. As such, there is a lot of room for creativity and innovation on the application of corporate governance mechanisms.

International Finance Corporation Report (2006) further notes that, firms which want to be successful must clearly and concisely communicate its unwavering commitment to corporate governance to its stakeholders. It is therefore crucial for the firm to achieve market credibility which can be done by implementing corporate governance one step at a time. In other words, good corporate governance is a journey which is made a step by step and not a destination. As such, it is argued from global literature and experience that good corporate governance mechanisms improve performance and also yield positive returns.

As a foreword note to Claessens (2003) work on 'corporate governance and development' Cadbury (1992) asserted that corporations work within a governance framework. The various means by which the corporate governance framework is set includes the law, company regulation and constitution, based on investors who fund the companies and finally based on the expectations of the individuals that serve the companies, for instance managers. Furthermore, the corporate governance mechanism depended on the history and culture of a country and may therefore differ on a country to country basis.

In the foreword, Cadbury (1992) further stated that, private capital is an important source of funds for investment. To assure themselves that their funds are being used properly (moral hazard) and that the payment of both principal and returns is safeguarded, lending institutions and stock holders are concerned with corporate governance and accountability. The problem of moral hazard has been reduced with the advent of technology. With the proliferation of

technology and communications, lenders and stockholders can now access detailed information about the corporations and their governance frameworks on computers, on the internet, and on the radio. This has enabled institutional investors across the globe to assess some levels of board effectiveness, transparency, accountability, and financial probity.

Specifically, the global banking sector is one of the institutional lenders which take the issue of corporate governance and accountability seriously as conventional wisdom states that borrowers with better corporate governance are more likely to honor their lending covenants compared to those that don't have good corporate governance. This line of thought was best demonstrated by the following excerpt from the foreword by Cadbury (1992) on Claessens (2003) work;

"Businesses throughout the world rely more on banks and on internally generated finance than they do on capital markets. Family businesses are after all the dominant corporate form. Nevertheless, the same issues arise for banks and for those who have the responsibility for allocating funds on behalf of others as they do for institutional investors. They have an equal responsibility for the effectiveness and integrity with which the enterprises they are financing are being directed and controlled. The upshot is that, whatever their source, funds will flow to businesses around the world which are seen to meet internationally accepted standards of corporate governance",(Foreword by Cadbury(1992) on Claessens (2003)).

According to World Bank Global Corporate Governance Forum (2003) on "Promoting Corporate Governance for Sustainable Development", corporate governance was termed as the governing framework for a firm in its relations with its stakeholders such as shareholders, its lenders, and other stakeholders in the business community and society at large. For instance, lenders and investors always look for an assurance that the firm will respect and adhere to the basic principles of corporate governance, that a firm deals with its shareholders fairly and transparently, and the boards of directors are accountable, and that the firm takes responsibility in dealing with its stakeholders. As a result, corporate governance is crucial in ensuring that the company has integrity, efficiency, long-term growth, and profitability.

1.2 Problem Statement

According to Siladi (2006) the crises witnessed in corporations and the subsequent collapse of well-known organizations have heralded growing interest and the importance of corporate governance by the stakeholders. The crises witnessed in corporations suffering from lack of corporate governance has led to increased investor awareness and the increased expectation from directors to manage performance (and any public controversy). This has also led to stakeholders holding the directors held personally accountable for their company's legal compliance and social responsibility. The change in awareness and increased investor expectation came only after a number of highly publicized corporate collapses in Australia (for example: Ansett, Harris Scarfe, HIH) and in USA (for example; Enron, WorldCom, and Parmalat). According to Tomasic (2001), Carver and Oliver (2002), Cadbury (2002); Vinten (2002) and Taylor (2003) this has led to heightened discussion on accountability, regulations and professional codes.

According to the Global Corruption Report (2009), Kenya as a developing country was not spared of these corporate collapses either. Lack of corporate governance led to the collapse of firms such as once giant Uchumi Supermarkets, Discount Securities, Francis Thuo, Nyaga stockbrokers, United Insurance Company, Akiba Microfinance bank, Kenya National Assurance

Limited, Charter House Bank just to mention a few of the firms. The untold economic and social damage wrought by the collapse of these firms cannot be overemphasized. On the other hand, firms associated with good corporate governance such as, Equity bank and NIC bank just but to mention a few have consistently reported good profits in the past and are also hoped to continue doing so in the future.

Banking sector according to Central Bank Annual Supervision Report (2010), the sector has continued to report profitability and remarkable growth. While it was plausible to argue that the liberalization of the commercial bank sector through effective policy framework and proper regulation combined with economic recovery affected the reported positive growth, it was also plausible to argue that good corporate governance of the majority of the banks in the sector had a big role to play in the economic fortunes of the sector. Consequently, the study argued that the observed strategic good performance of commercial banking sector was brought about and sustained by effective corporate governance mechanisms. It was therefore important to validate this argument through this study with aim of drawing valid conclusions thereof.

1.3 Research Objectives

The main objectives of the study were:

i. To determine the corporate governance mechanisms implemented by Commercial Banks in Kenya
ii. To establish whether there was any significant differences in sustainable performance between commercial banks with high and low level of corporate governance.
iii. To establish whether there was a correlation between corporate governance mechanisms and sustainable corporate performance at Commercial Banks in Kenya

2.0 LITERATURE REVIEW

2.1Theoretical Review

2.1.1 Agency Relationships

Oba (2004) in his study on corporate governance and agency theory asserted that agency relationships occurs as a result of one person delegating authority (principal) to another (agent). The agency problem arises when the interest of the principal and the agent diverge. This concept was best put forward by Hutton 1995;

“The principal problem rests in the abuse of power by corporate elites; status quo leaves excess power in the hands of senior management, some of whom abuse this in the service of their own interest, the result is damaging for shareholders” (Hutton, 1995)

The basic problem addressed by the agency theory was the question of whether or not managers of a firm will take actions that are in the best interest of the firm's stakeholders (Kidwell & Peterson, 1990). In order to address the agency problem, managers should have moral and legal duty to remain loyal to the aims and interests of the owners. However, this can only be achieved if the principal takes measures to align the interest of the managers to his (principal/owner). Such steps include but are not limited to share options for managers, proper remuneration for managers, monitoring of managers through collection of information about their behavior (actions and decisions).

2.2.2 Separation of Ownership

Jensen and Meckling (1976) and Fama and Jensen (1983) defined separation and control as a situation where the decision agents do not bear a major share of the wealth effects of their decisions. The authors further asserted that the diffusion of ownership has a crucial bearing on the validity of the profit-maximizing goal of firms. This is because the separation of control enables executives to pursue their stakeholders' interests. Corporate Governance thus ensures separation of power is maintained, profitable activities are carried on and eventually the shareholders get their dividends and value of investments.

2.2 Empirical Studies

Ponnu (2008) attempted to establish the relationship between corporate governance structures and the performance of Malaysian public listed companies. One of his main research objectives was to study the effect; if any of CEO duality on the Malaysian public listed companies as measured by return on assets and return on equity. His findings indicated that there was no significant relationship between corporate governance structures and CEO duality on firm performance.

Another study by Anderson & Anthony (1986) who attempted to identify the implications of CEO duality on corporate governance concluded that there was a claim that the operating performance may be improved as a result of less conflict between the CEO and chairman and/or other directors. Donaldson and Preston (1993) in his study found that the CEO duality in fact had a positive effect on firm performance under certain industries (e.g. resource scarcity or high complexity). However, a study by Greenspan (2003) showed that the lack of separation from the CEO had led to corporate board being aligned with management rather than shareholders notwithstanding the presence of independent directors.

According to De Jong et al. (2002) carried out an empirical analysis on international corporate governance and firm performance. One of his objectives was to compare ownership concentration across three countries. According he reported that a large number of studies spanning a few decades had investigated the relationship between ownership structure and corporate performance, but had not yielded clear- cut results. For instance, De jong et al (2002) quotes Morck et al. (1989) who asserted that as ownership concentration increases, the incentives and the abilities of shareholders to properly monitor managers' increase too.

Shivdasani (1993) reported that the presence of large block-holders significantly increased the probability that a firm will be taken over despite the fact that large block-holders help to align the interests of shareholders and managers. The findings compared well with those of Holderness and Sheehan (1988) who found significant changes in performance between a sample of firms in which a single shareholder owned 50% or more of the shares and another where the ownership just exceeded 20%.

3.0 METHODOLOGY

The study adopted a descriptive research design. The actual population was also the targeted population was 43 banks since the banks were all accessible. A total of 17 banks were used as an actual sample representing 37% of the total population. The researcher in this study used questionnaire as a data collection tool. The data collected was analyzed by use of both inferential

and descriptive statistics.

4.0 DATA ANALYSIS AND RESULTS

4.1 Demographic Characteristics

The results showed that majority of respondents 69 percent were male while the remainder 31 percent was female. The majority of respondents in this study, 53 percent were aged between 31-40 years. 39 percent were aged between 21 - 30 years ,5 percent were aged between 41-50 years, and 3 percent were aged over 50 years. The majority of respondents, 47 percent, were from operations department. Finance respondents were 22 percent and Audit respondents were 20 percent. 11 percent were from Sales and Marketing departments. The majority of respondents (47 percent) indicated that they had worked between 1-5 years, 42 percent of the respondent had worked in the bank for over 10 years, while 11 percent of the employees had been in the bank for 5-10 years. The majority of respondents 64 percent indicated that the bank was publicly listed. 36 percent of the respondents indicated that the banks were privately owned. The results also showed that 92% of the respondents indicated that the majority of the banks had operated for over ten years. 6% of the respondents indicated that the banks had operated for 5-10 years. The rest of the respondents indicated that 3% of the respondents indicated that their banks had operated for 1-5 years, mainly the new banks.

4.2 Commercial Banks Corporate Governance Mechanisms Structures

From the sample size of 17 banks, the mean of the number of directors was 9. This implies that, commercial banks in Kenya have a large board size.

From the sample size of 17 banks, the mean proportion / percentage of the independent directors is 32%. According to Center for the Renewal of Science and Culture (2002), the best corporate governance practice should be that a third of the directors are independent i.e. 33%. This is also supported by clause 49 of the Listing Agreement to the Indian Stock exchange.

From the sample size of 17 banks, the percentage mean of top 10 shareholders was 74%. This implies that majority of banks shareholders are block shareholders.

From the sample size of 17 banks, the percentage mean of total individual shareholding was 25%. This implies that, there was a low individual shareholding and that the majority of bank shareholders were institutional.

The findings are presented as below;

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Table 4. 1: Descriptive Statistics for Commercial Banks Governance Mechanisms Structures

	N	Minimum	Maximum	Mean	Std. Deviation
Directors	17	6.00	11.00	9.0588	1.63824
%Independent Directors	17	14%	55%	.3237	.10802
% Top 10 shareholding	17	55%	85%	.7407	.07923
% Total Individual Shareholding	17	15%	45%	.2523	.06698

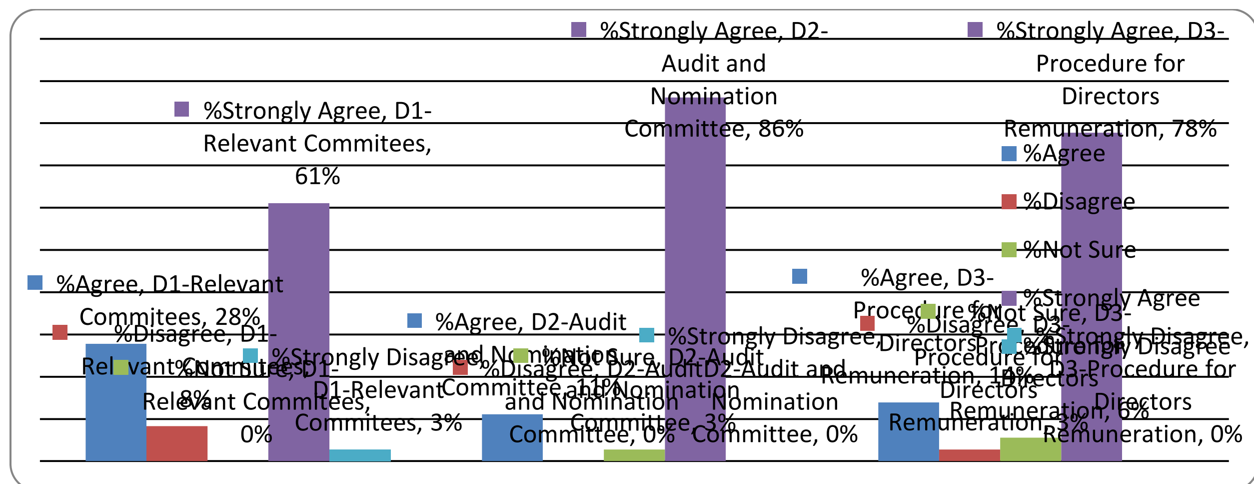
4.3 Board of Directors

One of the objectives of the study was establish corporate governance mechanisms existing in commercial banks in Kenya as executed by the board of directors as stipulated by Capital Markets Authority Act (2002). This was in terms of establishment of relevant committees such as audit and nomination, setting up of formal and transparent procedure for their remuneration, mechanisms to ensure that they are supplied with relevant, accurate and timely information, setting up of formal and transparent procedure for their appointment and setting up of systems that ensure that they submit themselves for re-election at regular intervals.

For ease of analysis, the six statements on were coded as D1, D2,D3, D4,D5,D6 and the analysis was given below;

Study findings indicated that 61 percent of respondents strongly agreed with statement D1 which stated that the boards had established relevant committees. 86 percent of respondents strongly agreed with the statement D2 which stated that the boards had established audit and nomination committees. 78 percent of respondents strongly agreed with the statement D3 which stated that the boards had formal and transparent procedure for remuneration of directors.

Figure 4.2: Structures Set By Board of Directors



4.4 Shareholders and Effective Corporate Governance

According to study findings, 69 percent of respondents strongly agreed with the statement S1 which stated that there is shareholders participation in major decisions of the banks. 72 percent

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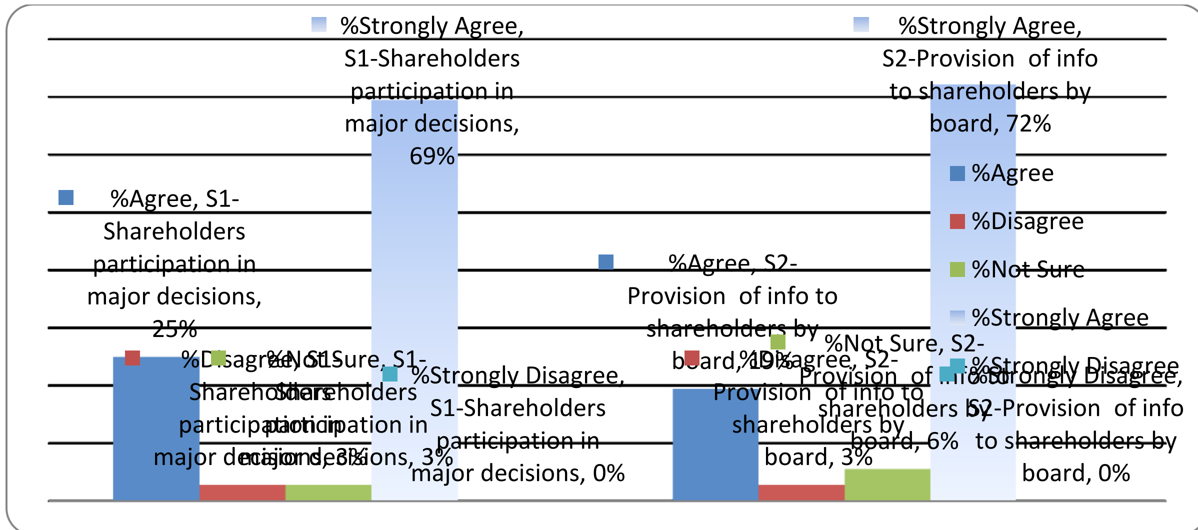
of respondents strongly agreed with the statement S2 which stated that the board provided all its shareholders with sufficient, timely information concerning the date, location and agenda of the annual general meetings. The findings are presented as below;

Figure 4: Shareholders



4.5 Corporate Governance and Ceo Duality

Analysis was given below;

78% percent of respondents strongly agreed with the statement which stated that there is a clear separation of the role and responsibilities of chairman and chief executive or managing director. The findings imply the presence of good governance among commercial banks in Kenya. The findings are consistent with those of Capital Market Authority Act, which asserts that, there should be a clear separation of the role and responsibilities of the chairman and chief executive, which will ensure a balance of power of authority and provide for checks and balances such that no one individual has unfettered powers of decision making. Where such roles are combined a rationale for the same should be disclosed to the shareholders in the annual report of the Company. The findings are presented as below;

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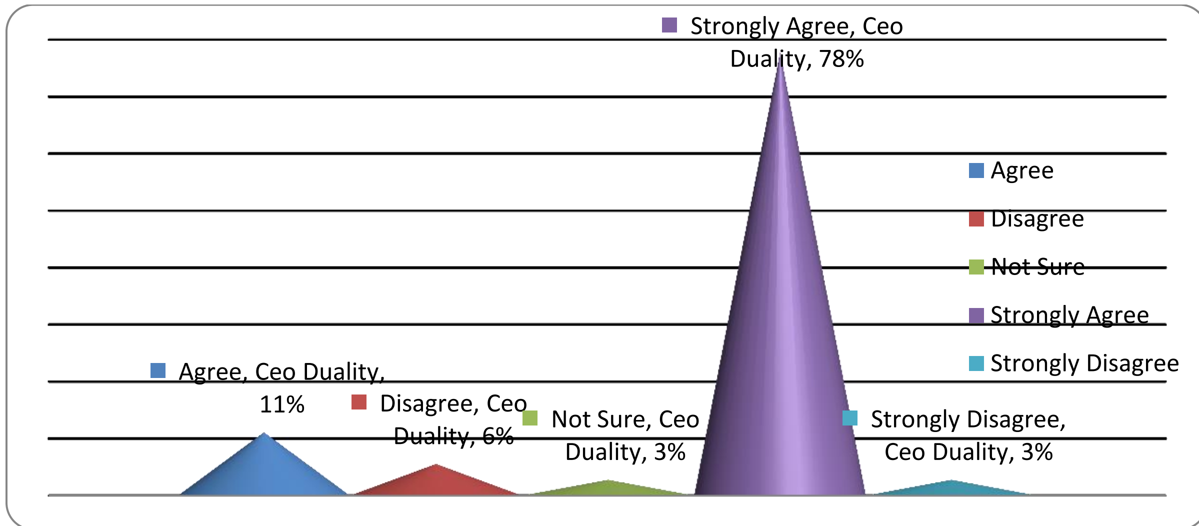
Figure 4.3: CEO Duality



4.6 Accountability and Audit on Corporate Governance

From the research, 75% strongly agreed that the boards ensured that accounts were presented in line with International Accounting Standards. 81% of the respondents strongly agreed that the boards maintained a sound system of internal controls. 61% of the respondents strongly agreed that the boards allowed the shareholders to effect the appointments of independent auditors at each AGM. These findings agree with the requirements of Capital Markets Act, which states that, the board should present an objective and understandable assessment of the Company's operating position and prospects. In addition, Capital Markets Authority requires that, the board should ensure that accounts are presented in line with International Accounting Standards. For a bank with best practice (Capital Markets Authority Act, 2002), the board should ensure that accounts are presented in line with International Accounting Standards, the board should maintain a sound system of internal controls and also, should allow the shareholders to effect the appointments of independent auditors at each AGM.

The findings were presented as below;

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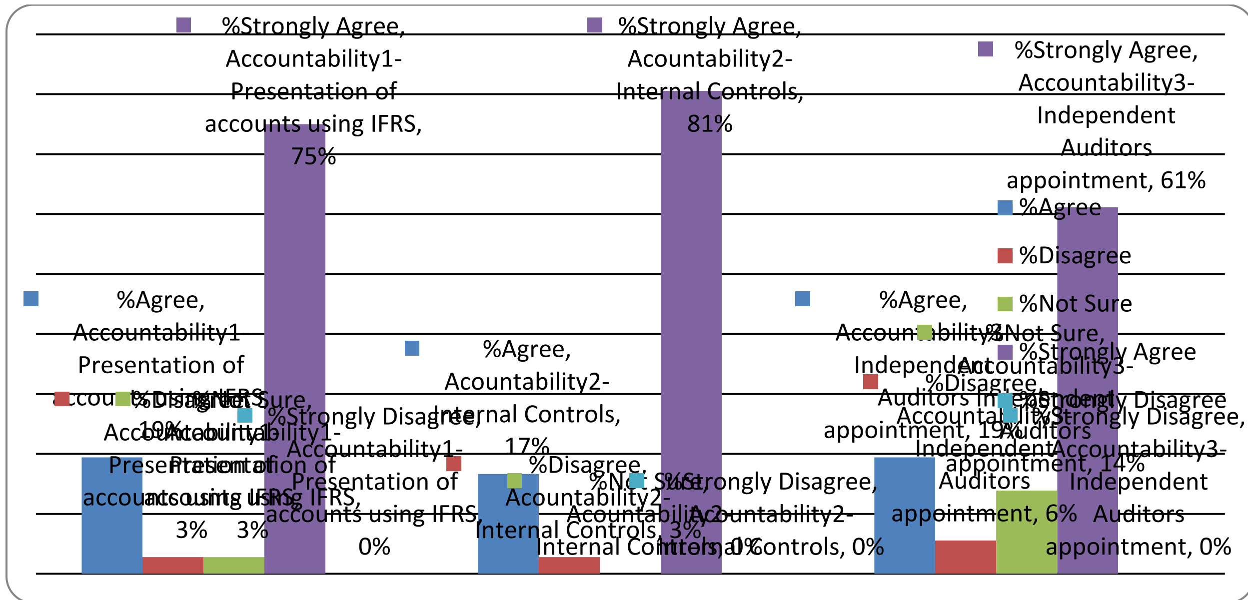
Figure 4.4: Accountability and Audit on Corporate Governance

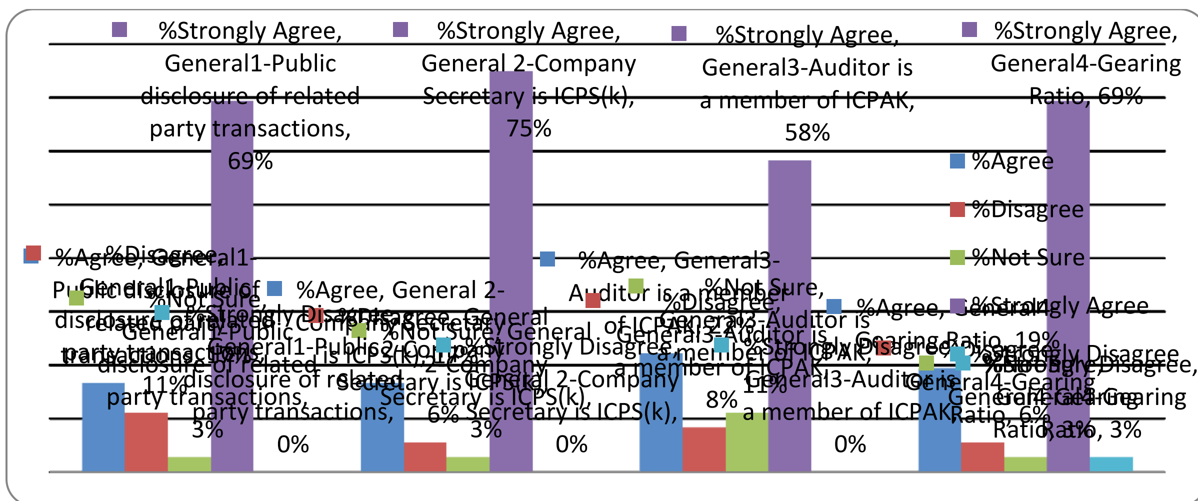


4.7 General Corporate Governance

From the research, 69% of the respondents strongly agreed that there was a public disclosure of related party transactions to avoid conflict of interests. 75% of the respondents strongly agreed that, the company secretary was a member of ICPS(K). 58% of the respondents strongly agreed that, auditor was a member of ICPA(K). 69% of the respondents strongly agreed that, the banks had a high gearing ratio. This findings agrees with Capital Markets Act (2002) which requires that, there should be public disclosure of related party transactions to avoid conflict of interests, the company secretary must be a member of ICPS(K) and also auditor is a member of ICPA(K).

The findings were presented as below;

Figure 4. 5: General Governance



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4.8 Balance Score Card Approach to Corporate Governance

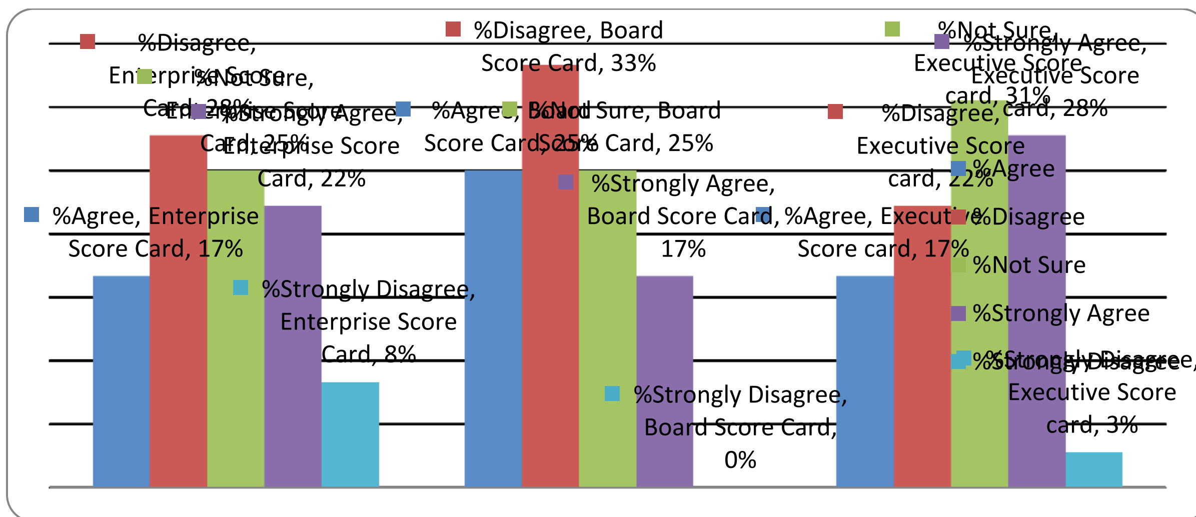
From the research, only 17% the respondents agreed that the banks used enterprise score card while 22% strongly agreed. This represented a total response rate of 49%. The rest of the response 51% either disagreed strongly disagreed or were not sure. This implied that, commercial banks in Kenya, were lagging behind in the adoption of the enterprise score card which is one of the score card advocated for by the Balance Score Card Approach to Corporate Governance

From the research, only 25% the respondents agreed that the banks used board score card while 17% strongly agreed. This represented a total response rate of 42%. The rest (58%) disagreed, strongly disagreed or were not sure. This implied that commercial banks in Kenya are lagging behind in adopting the boards score card advocated for by the Balance Score Card Approach to Corporate Governance.

From the research, only 17% the respondents agreed that the banks used executive score card while 28% strongly agreed. This represented a total response rate of 45%. The rest (55%) disagreed, strongly disagreed or were not sure. This implied that commercial banks in Kenya are lagging behind in adopting the executive score card advocated for by the Balance Score Card Approach to Corporate Governance.

The findings were presented as below;

Figure 4.61: Balance Score Card Approach to Corporate Governance



4.8.1Testing for significant differences in sustainable performance between commercial banks with high and low level of corporate governance

One of the objectives of the this study was to establish whether there was any significant differences in sustainable performance between commercial banks with high and low level of corporate governance. The performance analysis was presented as below;

Table 4. 2: Commercial Banks Performance

	N	**Mean**	**Std. Deviation**	**Minimum**	**Maximum**
ROA	**17**	**1.4329%**	**2.37087%**	**-3.42%**	**5.39%**
Customer Satisfaction Index	17	63.8235%	5.82275%	54.00%	75.00%
Process Improvement	17	67.8824%	9.57785%	54.00%	88.00%
Employee satisfaction Index	17	67.3529%	7.21926%	58.00%	80.00%
CEO Duality	17	1.00	.000	1	1
Directors	17	9.0588	1.63824	6.00	11.00
%Independent Directors	17	.3237	.10802	.14	.55
% Top 10 shareholding	17	.7407	.07923	.55	.85
% Total Individual Shareholding	17	.2523	.06698	.15	.45

N= Banks Sample Size

Another objective of the study was to establish whether corporate governance mechanisms differs between high performing and low performing commercial banks. One test of the study was to establish whether there is significant difference in mean board size between high performing and low performing commercial banks. The argument was that there is no significant difference between board size of high performing and low performing commercial banks. From the t-test, p= 0.188 (which is >0.05) implies that there is very high probability that the difference between board size of high performing and low performing commercial banks was by chance. This means that the difference in board size is insignificant. In other words, there is very high probability that the study argument is true. Therefore, the study accepts the argument and rejects the alternative hypothesis that there is significant difference between board size of high performing and low performing commercial banks. The findings further imply that, board size does not contribute to whether a bank performs better than another.

Another test of the study was to establish whether there is significant difference in mean percentage of independent directors between high performing and low performing commercial banks. The argument was that there is no significant difference in mean percentage of independent directors between high performing and low performing commercial banks. From the t-test, p= 0.001 (which is <0.05) implies that there is very low probability that the difference between mean percentage of independent directors of high performing and low performing commercial banks was by chance. This means that the difference was significant. In other words, there is low probability that the study argument is true. Therefore, the study rejects the argument and accepts the alternative hypothesis that there is a significant difference in mean percentage of independent directors between high performing and low performing commercial banks. The study further implies that, higher percentage of independence directors could have been responsible for one group of banks performing better than the other.

Another test of the study was to establish whether top 10 shareholding differs between high performing and low performing commercial banks. The argument was that there is no

significant difference between top 10 shareholding of high performing and low performing commercial banks. From the t-test, p= 0.001 (which is <0.05) implies that there is very high probability that the difference between top 10 shareholding of high performing and low performing commercial banks was by chance. This means that the difference was significant. In other words, there is low high probability that the study argument is true. Therefore, the study rejects the argument and accepts the alternative hypothesis that there is significant difference between top 10 shareholding of high performing and low performing commercial banks. The findings further imply that, that the percentage of top 10 shareholding does contribute to whether a bank performs better than another.

The argument was that there is no significant difference in mean percentage of between high performing and low performing commercial banks. From the t-test, p= 0.01 (which is <0.05) implies that there is very low probability that the difference between mean percentage top 10 shareholding of high performing and low performing commercial banks was by chance. This means that the difference was significant. In other words, there is low probability that the study argument is true. Therefore, the study rejects the argument and accepts the alternative hypothesis that there is significant difference in mean percentage of top 10 shareholding between high performing and low performing commercial banks. The study further implies that, higher percentage of top 10 shareholding could have been responsible for one group of banks performing better than the other.

Another test of the study was to establish whether individual shareholding differs between high performing and low performing commercial banks. The argument was that there is no significant difference between individual shareholding of high performing and low performing commercial banks. From the t-test, p= 0.006 (which is >0.05) implies that there is very low probability that the difference between individual shareholding of high performing and low performing commercial banks was by chance. This means that the difference was significant. In other words, there is very low probability that the study argument is true. Therefore, the study rejects the argument and accepts the alternative hypothesis that there is significant difference between individual shareholding of high performing and low performing commercial banks. The findings further imply that, that individual shareholding could have contributed to whether a bank performs than another. The analysis was presented by two independent sample test (Group Statistics) as below;

Table 4. 3 :Independent Two Samples Test (Group Statistics) on Banks Performance

	CATEGORY	N	Mean	Std. Deviation	Std. Error Mean
CEO Duality	High Performance	8	1.00	.000(a)	.000
	Low Performance	9	1.00	.000(a)	.000
Directors	High Performance	8	9.6250	1.76777	.62500
	Low Performance	9	8.5556	1.42400	.47467
%Independent Directors	High Performance	8	.4047	.08773	.03102
	Low Performance	9	.2517	.06482	.02161
% Top 10 shareholding	High Performance	8	.8002	.02653	.00938
	Low Performance	9	.6878	.07242	.02414
% Total Individual Shareholding	High Performance	8	.2085	.02841	.01004
	Low Performance	9	.2912	.06819	.02273

4.9 Relationship Between ROA And Corporate Governance

A regression analysis was done to establish whether there is a relationship between ROA and corporate governance. From the findings below, R squared of 0.973 reveals that 97.3% percent of the variation in ROA can be explained by variation in corporate governance. This implies the overall fit of the model was satisfactory.

The p-value (sig= 0.069) indicates that the relationship between ROA and board size (directors) is insignificant. This conclusion results from the acceptance of the hypothesis that the coefficient/slope of directors (board size) is not significantly different from zero. Moreover, there is a negative relationship between the ROA and directors (board size) as reflected by a coefficient of -0.219. This means that the smaller the board size, the larger the ROA. In other words, an increase in board size by 1% leads to a decrease in ROA by 0.219%.

The p-value (sig= 0.004) indicates that the relationship between ROA and independent directors is significant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of independent directors is not significantly different from zero. Moreover, there is a positive relationship between the ROA and independent as reflected by a coefficient of 8.016. This means that the larger the independent directors, the larger the ROA. In other words, an increase in board size by 1% leads to an increase in ROA by 8.016%.

The p-value (sig= 0.006) indicates that the relationship between ROA and top 10 directors is significant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of 10 directors is not significantly different from zero. Moreover, there is a positive relationship between the ROA and top 10 directors as reflected by a coefficient of 19.890. This means that the larger the independent directors, the larger the ROA. In other words, an increase in top 10 directors by 1% leads to an increase in ROA by 19.890%.

The p-value (sig= 0.546) indicates that the relationship between ROA and individual shareholding is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope individual shareholding is significantly different from zero. Moreover, there is a negative relationship between the ROA and individual shareholding as reflected by a coefficient

of -3.768. This means that the smaller the individual shareholding, the larger the ROA. In other words, an increase in individual shareholding by 1% leads to a decrease in ROA by -3.768%.

Table 4. 4: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.986(a)	.973	.964	.4487315%	2.025

a Predictors: (Constant), % Total Individual Shareholding, Directors, %Independent Directors, % Top 10 shareholding

b Dependent Variable: ROA

Table 4.5: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-12.958	5.635		-2.300	.040
	Directors	-.219	.110	-.151	-2.000	.069
	%Independent Directors	8.016	2.279	.365	3.518	.004
	% Top 10 shareholding	19.890	5.945	.665	3.346	.006
	% Total Individual Shareholding	-3.768	6.072	-.106	-.621	.546

[a]Dependent Variable: ROA

4.10 Relationship between Customer Satisfaction Index and Corporate Governance

A regression analysis was done to establish whether there is a relationship between customer satisfaction index and corporate governance. From the findings below, R squared of 0.888 reveals that 88.8% percent of the variation in customer satisfaction index can be explained by variation in corporate governance. This implies the overall fit of the model was satisfactory.

The p-value (sig= 0.825) indicates that the relationship between customer satisfaction index and board size is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of board size (directors) is significantly different from zero. Moreover, there is a negative relationship between the customer satisfaction index and board size as reflected by a coefficient of -0.124. This means that the smaller the board size, the larger the customer satisfaction index. In other words, an increase in board size by 1% leads to a decrease in customer satisfaction index by -0.124%.

The p-value (sig= 0.009) indicates that the relationship between customer satisfaction index and

independent directors is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of independent directors is significantly different from zero. Moreover, there is a positive relationship between the customer satisfaction index and independent directors as reflected by a coefficient of 35.858. This means that the larger the independent directors, the larger the customer satisfaction index. In other words, an increase in independent directors by 1% leads to an increase in customer satisfaction index by 35.858%.

The p-value (sig= 0.313) indicates that the relationship between customer satisfaction index and top 10 shareholding is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of top 10 shareholding is significantly different from zero. Moreover, there is a positive relationship between the customer satisfaction index and top 10 shareholding as reflected by a coefficient of 31.447. This means that, the larger top 10 shareholding the larger customer satisfaction index. In other words, an increase in top 10 shareholding by 1% leads to an increase in customer satisfaction index by 31.447%.

The p-value (sig= 0.782) indicates that the relationship between customer satisfaction index and total individual shareholding is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of total individual shareholding is significantly different from zero. Moreover, there is a positive relationship between the customer satisfaction index and total individual shareholding as reflected by a coefficient of 8.645. This means that the larger total individual shareholding the larger customer satisfaction index. In other words, an increase in total individual shareholding by 1% leads to an increase in customer satisfaction index by 8.645 %.

Table 4. 5: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.942(a)	.888	.850	2.25319%	1.448

a Predictors: (Constant), % Total Individual Shareholding, Directors, %Independent Directors, % Top 10 shareholding

b Dependent Variable: Customer Satisfaction Index

Table 4. 6: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	27.868	28.294		.985	.344
	Directors	-.124	.550	-.035	-.226	.825
	%Independent Directors	35.858	11.441	.665	3.134	.009
	% Top 10 shareholding	31.447	29.850	.428	1.053	.313
	% Total Individual Shareholding	8.645	30.490	.099	.284	.782

[a] Dependent Variable: Customer Satisfaction Index

4.11 Relationship between Employee Satisfaction Index and Corporate Governance

A regression analysis was done to establish whether there is a relationship between employee satisfaction index and corporate governance. From the findings below, R squared of 0.821 reveals that 82.1% percent of the variation in employee satisfaction index can be explained by variation in corporate governance. This implies the overall fit of the model was satisfactory.

The p-value (sig= 0.09) indicates that the relationship between employee satisfaction index and board size is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of board size (directors) is significantly different from zero. Moreover, there is a negative relationship between the employee satisfaction index and board size as reflected by a coefficient of -2.666. This means that the smaller the board size, the larger the employee satisfaction index. In other words, an increase in board size by 1% leads to a decrease in customer satisfaction index by -2.666 %.

The p-value (sig= 0.02) indicates that the relationship between employee satisfaction index and independent directors is significant. This conclusion results from the acceptance of the hypothesis that the coefficient/slope of independent directors is significantly different from zero. Moreover, there is a positive relationship between the employee satisfaction index and independent directors as reflected by a coefficient of 69.176. This means that the larger the independent directors, the larger the employee satisfaction index. In other words, an increase in independent directors by 1% leads to an increase in employee satisfaction index by 69.176%.

The p-value (sig= 0.949) indicates that the relationship between employee satisfaction index and top 10 shareholding is insignificant. This conclusion results from the rejected of the hypothesis that the coefficient/slope of top 10 shareholding is significantly different from zero. Moreover, there is a negative relationship between the employee satisfaction index and top 10 shareholding as reflected by a coefficient of -3.054. This means that an increase in top 10 shareholding by 1% leads to a decrease in employee satisfaction index by -3.054%.

The p-value (sig= 0.457) indicates that the relationship between employee satisfaction index and total individual shareholding is insignificant. This conclusion results from the rejected of the hypothesis that the coefficient/slope of total individual shareholding is significantly different from zero. Moreover, there is a negative relationship between the employee satisfaction index and total individual shareholding as reflected by a coefficient of -36.634. This means that an increase in total individual shareholding by 1% leads to a decrease in employee satisfaction index by -36.634. %.

Table 4. 7: Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.906(a)	.821	.762	3.5231%	2.011

a Predictors: (Constant), % Total Individual Shareholding, Directors, %Independent Directors, % Top 10 shareholding

b Dependent Variable: Employee satisfaction Index

Table 4. 8: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	80.612	44.240		1.822	.093
	Directors	-2.666	.861	-.605	-3.098	.009
	%Independent Directors	69.176	17.889	1.035	3.867	.002
	% Top 10 shareholding	-3.054	46.674	-.034	-.065	.949
	% Total Individual Shareholding	-36.634	47.674	-.340	-.768	.457

[a]Dependent Variable: Employee satisfaction Index

4.12 Relationship between Process Improvement and Corporate Governance

A regression analysis was done to establish whether there is a relationship between process improvement and corporate governance. From the findings below, R squared of 0.895 reveals that 89.5% percent of the variation in process improvement can be explained by variation in corporate governance. This implies the overall fit of the model was satisfactory.

The p-value (sig= 0.182) indicates that the relationship between process improvement and board size is insignificant. This conclusion results from the rejection of the hypothesis that the coefficient/slope of board size is significantly different from zero. Moreover, there is a negative relationship between the process improvement and board size as reflected by a coefficient of -1.124. This means that the increase in board size by 1% leads to a decrease in process

improvement by -1.124%.

The p-value (sig= 0.021) indicates that the relationship between process improvement and independent directors is significant. This conclusion results from the acceptance of the hypothesis that the coefficient/slope of independent directors is significantly different from zero. Moreover, there is a positive relationship between the process improvement and independent directors as reflected by a coefficient of 48.107. This means that the increase independent directors in by 1% lead to an increase in process improvement by 48.107%.

The p-value (sig= 0.127) indicates that the relationship between process improvement and top 10 shareholding is insignificant. This conclusion results from the rejecting of the hypothesis that the coefficient/slope of independent directors is significantly different from zero. Moreover, there is a positive relationship between the process improvement and top 10 shareholding as reflected by a coefficient of 77.838. This means that an increase in top 10 shareholding by 1% leads to an increase in process improvement by 77.838%.

The p-value (sig= 0.884) indicates that the relationship between process improvement and total individual shareholding is insignificant. This conclusion results from the rejecting of the hypothesis that the coefficient/slope of total individual shareholding is significantly different from zero. Moreover, there is a positive relationship between the process improvement and total individual shareholding as reflected by a coefficient of 7.232. This means that an increase in total individual shareholding by 1% leads to an increase in process improvement by 7.232%.

Table 4. 9: Model Summary (b)

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.946(a)	.895	.860	3.58187%	2.267

a Predictors: (Constant), % Total Individual Shareholding, Directors, %Independent Directors, % Top 10 shareholding

[b] Dependent Variable: Process Improvement

Table 4.10: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.065	44.978		.090	.929
	Directors	-1.240	.875	-.212	-1.417	.182
	%Independent Directors	48.107	18.188	.543	2.645	.021
	% Top 10 shareholding	77.838	47.453	.644	1.640	.127
	% Total Individual Shareholding	7.232	48.470	.051	.149	.884

[a]Dependent Variable: Process Improvement

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

Corporate governance is the key foundation which can guarantee any organization strategic and sustainable performance. Many organizations have very good strategic plans but because of poor or weak corporate governance, implementation becomes a problem. Sustainable performance is also realizable with a good corporate governance since organizations are able to access capital, attract investors through increased confidence which raises good returns of publicly listed companies at stock markets. This also improves social and economic development of any country. Due to great interests and importance of corporate governance, world bank have set corporate governance centres in most countries across the globe in order it to be advocated amongst governments and corporation.

5.2 Recommendations

The study recommends that, commercial banks in Kenya should continue adhering to corporate governance requirements since it may have positively contributed to sustainable performance.

The study also recommends that commercial banks in Kenya should adopt the balance score card approach to corporate governance i.e. the enterprise score card, board score card and executive score card. This recommendation is in line with Kaplan and Palepu (2003) who argued that, past board results had often not been outstanding and the challenging current climate makes board performance even more difficult. Effective boards were those that take the initiative to design clear and focused forward-looking agendas, concentrating board energy on a company's specific value drivers, and then employing tools and information systems to help them monitor the company's performance. The Balanced Scorecard approach has evolved into a tool that could be used to help companies create greater value at the corporate business and functional levels of business.

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