

# EFFECTS OF INSTITUTIONAL GOVERNANCE ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

## ABSTRACT

Although the banking industry is a very important vehicle for spurring economic development and especially in least developed economies, the Kenyan commercial banks are facing financial performance constraints, leading to collapse and liquidation of numerous commercial banks. Accordingly, borrowers, depositors and shareholders are suffering enormous financial losses; which have dramatic implications for the economy of the country. The crisis in this very crucial industry has associated with poor institutional governance. Although various studies have been undertaken on institutional governance and financial performance, majority of the studies have yielded inconsistent result while others have contextual, conceptual and methodological gaps. So, this study analysed the effect of institutional governance on financial performance of Kenyan commercial banks. It adopted descriptive and diagnostic research designs to outline the characteristics of existing phenomenon. The target population was the 43 commercial banks licensed and operating in Kenya. Since the sample size was easily accessible and manageable the study used census. Data was collected using primary sources using a questionnaire, Data was analysed using quantitative analysis approach to produce descriptive statistics and thereafter multiple regressions to estimate a model. The study found that at 5% significance, level board size, ownership concentration, audit structure and, board composition, positively and significantly affects financial performance of licensed Kenyan Commercial Banks. The study recommends that Kenyan Commercial Banks should review their board size policies, largely focus on having audit committee, and strengthen their board composition guidelines to ensure board diversity comprises.

**Keywords:** *Audit Structure, Board Composition. Board Size. Commercial Banks, Financial Performance, Institutional Governance, Ownership Concentration*

## 1. INTRODUCTION

Nowadays, the banking industry is emerged among the most significant vehicles for stimulating economic growth, especially in emerging economies, where capital markets are underdeveloped (Ahmed, Zannat & Ahmed, 2017). In this respect, commercial banks act as an avenue for channeling funds from those who have saved to those who deserve it in an efficient manner. Commercial banks, which take the loins share in the banking industry, are the amongst the most highly recognized financial institutions for spurring country's economic growth (Ghasemi & Rostami, 2016). Noticeably, financial performance of commercial banks is a necessity for their commitment to the country's economic development as it acts a means for their stability. However, in Kenya there is continued unhealthy financial performance within the commercial banks culminating into collapse numerous commercial banks (Genga, 2016). Notwithstanding, institutional governance structure has been found to influences the ability of a firm to react positively and hence have an effect on financial performance (Bhattra, 2015; Peters & Bagshaw, 2014). The proliferation of accounting scandals among Kenyan commercial banks has prompted the need to improve the relevance of financial performance by setting up good governance structures (Manini & Abdillahi, 2015). In their research, Kobuthi, K'Obonyo and Ogutu (2018) noted that firms can increase their efficiency by good governance.

So, good institutional governance is becoming a pillar to performance of organizations and particularly their financial results (Luyima, 2015). It is for this reason that institutional governance is gaining prominence for its capacity in for enhancing corporate performance through establishing; transparency, accountability and power relationship within firms while ensure that the company shall be managed properly and as well the long-term shareholder interest shall be achieved (Hong, Li, & Minor, 2014). Thus, financial performance demands for banks to importantly seek to promote ethical responsibility and sound institutional governance practices (Mbalwa et al., 2014). Seemingly, institutional governance provides the basis for development of economies by improves the health of the corporate sector and therefore enhancing competitiveness. So, the priorities for any firm should be making good institutional governance a critical factor in improving financial results and increasing investor trust institutional governance (Mbalwa et al., 2014). The practices in institutional governance allows for proper oversight and supervision, thus aligning owners' and management priorities and mitigating stress with the business. Management also makes intervention for the best interests of shareholders and increases the shareholders' wealth (Hong, Li, & Minor, 2014).

Institutional government is categorized by Dewji and Miller (2013) as internal or external; where its internal elements include among others; composition of the board, and concentration of ownership,. Meanwhile Vu and Nguyen (2017) revealed that there is an inverse link between board size and financial performance as well as a strong relationship between board dependence, CEO duality and financial performance of the company (Xavier, Shukla, Oduor, Mbabazize, 2015).. More so, Adekunle and Aghedo (2014) exposed each of board composition and size as positively and significantly affecting performance. Al-Homaidi et al. (2019) showed that there are three dimensions of institutional governance; board size, audit committee and shareholder ownership and all these have a substantial effect on financial performance. Accordingly, the current thesis assessed institutional governance as a determinant of Kenyan CBs' with more focus on size of board, ownership, audit structure and composition.

## 1.2 Statement of the Problem

Despite the importance of Kenya banking sector, commercial banks are facing serious constraints in their financial performance leading to bank failures that have resulted into collapse and liquidation of three prominent Kenyan commercial banks, Chase Bank, Dubai Bank and Imperial Bank (Gathaiya 2017; Genga 2016; Ernst & Young 2015). Chase bank was unable to meet its financial obligation on April 2016 and was put under receivership of CBK. In addition, Dubai Bank had failed to honor some of its financial obligations, such as paying off KES 48 million which it owed to the Bank of Africa Kenya; resulting to its collapse (Gathaiya, 2017). Numerous empirical studies have associated performance of institution with institutional governance (Al-Homaidi et al. 2019; Odilu, 2019; Mansur & Tang, 2018; Karanja, 2017; Kimeu 2017; Tshipa, 2017; Umutesi, 2017; Ene & Bello; 2016). However, these studies yielded mixed results while most studies were restricted in certain industries and geographical areas (contextual gaps), majority had methodological gaps and many had conceptual gaps (Al-Homaidi et al., 2019; Umutesi's (2017; Tshipa, 2017; Ene& Bello; 2016). Accordingly, sought to address these gaps by conducting this research

## 1.3 Purpose of the Study

The purpose of this study was to analyze the effect of institutional governance on financial performance of Kenyan commercial banks.

## 1.4 Research Objectives

- 2 To find out the effect of board size and financial performance of commercial banks
- 3 To establish the effect of ownership concentration on financial performance of commercial banks in Kenya
- 4 To assess the effect of audit structure on financial performance of commercial banks in Kenya
- 5 To establish the effect of board composition on financial performance of commercial banks in Kenya

## 2. LITERATURE REVIEW

### 2.1 Theoretical Framework

This study found certain theories very useful in explaining institutional governance and how it affects financial performance. The study identified and reviewed suitable theories found useful for informing its proposal and concept. These include Agency Theory, Stakeholder Theory, and Institutional Theory

#### Agency Theory

The agency theory as suggested by Jensen and Meckling (1976) suggests that any company only seeks to optimize the wealth of shareholders; with managers playing the role of agents to ensure fulfillment of the wealth maximization goal of shareholders and shareholders taking the place of principal and thus conflicting interest (Shapiro, 2005). As a result, the loss of governance oversight opens the way for administrators who are agents to more likely deviate from the needs of the owners causing the agency's disputes (Fama& Jensen, 1983). As presented by Jensen and Meckling (1976). The Theory offers a theoretical framework for institutional governance, the recognition of governance frameworks that minimize and mitigate conflicts of interest resulting from corporate resource ownership and control (Syriopoulos & Tsatsaronis, 2012). Based on theory, Board of Directors works by splitting up the CEOs and the Chairman, and CEOs work to align the interests of all partners and shareholders and that the CEOs' desires are aligned to those of the Directors (Pelayo-Maciel Calderon-Hernandez, & Serna-Gomez., 2012). Accordingly, the theory is useful to the study by explaining the relationship between board composition and performance of the Kenyan CBs where the board duality ensures effectiveness in financial performance through aligning the CEOs' desires to those of the Directors as submitted by Pelayo-Maciel et al, (2012).

#### Stakeholder Theory

While agency theory has its popularity, the narrow view is restricted that managers are merely opportunistic players who interfere with the interest of stakeholders. In embracing the theory of stakeholders, this constraint is reinforced by the theory of the agency in offering a new lens to measure profitable businesses by the potential of all stakeholders of value-added (Donaldson & Preston, 1995; Freeman, 1984). The stakeholder theory thus clarifies understanding of the viewpoints of stakeholders and corporate justice on institutional governance equality. In the case of stewardship, the CEO duality can be a successful institutional governance strategy, with positive impacts on financial organizational performance due to convergence and unification of the chain of authority that contribute to faster decision making (Mason & Simmons, 2014). Stakeholder theory provides managers with greater power and tools to solve internal challenges in organizations (Al Mamun et al.,2013). The theory clearly shows that institutional governance is key to achieving the financial performance owing to and unification of the chain of authority as indicated by Al Mamun et al. (2013). The theory covers all the areas of institutional governance that is; board size, ownership concentration, audit structure and board composition.

#### Institutional Theory

DiMaggio and Powell are the key contributors to the growth of institutional theory (1983). The theory indicates that directors seek approval and support from a diverse range of stakeholders in order to achieve recognition for their businesses. In order to comply and comply with our own belief structures and to follow the rules and regulations (Puffer & McCarthy, 2011; Surroca, Tribó & Zahra, 2013). In an atmosphere of elevated standards of effective legislation, the viewpoint of institutional theory is best discussed. Institutional governance is thus called an institutional structure that guarantees appropriate returns on investments by investors (Yi et al., 2012). When discussing institutional governance as it relates to financial performance of commercial banks Odilu (2019) identified board size, ownership concentration, audit structure and board composition while conducting research in India Al-Homaidi et al. (2019) found that indicators of institutional governance affecting financial performance included board size, ownership concentration, audit structure and board composition. Accordingly, this study guided by the strengths of these studies identified board size, ownership concentration, audit structure and board composition as indicators of institutional governance

## 2.2 Empirical Review

On institutional governance and effectiveness, several research studies have been examined. These studies helped the current research comprehend the way financial performance is affected by; board size, ownership concentration, audit structure, and board participation.

The study by Ene and Bello (2016) analyzed the impacts of institutional governance on the Nigerian banks' financial performance using the technique of OLS regression. The study concludes that the right arrangement of members in the institutional governance team is a panacea for the ongoing banking crisis in Nigeria. In 2016, Chidziva carried out a multi-caset study to determine the role played by institutional governance in Zimbabwe in avoiding bank defaults. The findings shows that institutional governance positively impact economically by creating and maintaining employment and growing people's living conditions through a healthy and efficient banking system.

The exploratory study by Al-Homaidi et al. (2019) showed that the earning per share (EPS) was completely affected by the size of the board. Subsequently, their size influences normally monetary result estimations while that study by Odilu (2019) recommend that the Board's size decidedly affects financial presentation. In the research by Retta (2018) it was discovered that the board scale had a negative yet measurably peripheral impact on the determined outcomes with Return on Assesst (ROA). The study carried out by Karanja (2017) found that the size of the board was compared favorably with the ROA and Retrn On Equity (ROE). In research by Kimeu (2017), outcomes demonstrate that the size of the Board in the assessment of the financial presentation of commercial banks was measurably peripheral while Chukwuma and Ibiam (2017) show that the board scale adversely affects Nigeria's DMBs liquidity weakness. Meanwhile in the study by Umutesi (2017), ROA and ROE were discovered to be positively and significantly correlated with the board's size, so an increase in board size caused an increase in ROA and ROE. The investigation by Tshipa (2017) found that the size of the board had an impact on both the bookkeeping and market-based returns of the organizations listed on the Johannesburg Stock Exchange while Abdulazez, Adeyeye, Ndibe and Dokochi (2016) showed that the bigger Board adds to the financial exhibition of store cash banks in Nigeria in a positive and huge way.

In thier study Al-Homaidi et al. (2019) suggest that the impacts of institutional property on ROA are significant, affecting while in research by Odilu (2019), the results showed a beneficial and marginal effect on management ownership, while the concentration of ownership in Nigeria had a negative insignificant impact on the financial performance.

Mansur and Tang (2018) i showed that institutional ownership has a more significant financial impact than family ownership and is particularly important for businesses listed on the Amman Stock Exchange while The review by Retta (2018) demonstrates that its measurably negligible impact on ROA is positive for the board. In their article, Kamazima et al. (2017) show that the possession structure and financial execution of recorded banks in Kenya contribute in a negative and critical way to ROA and ROE. while Nganga (2017) discovered that institutional possession and block proprietorship are significant and significant for improving business banks' monetary presentation. In a multi-Regression data panel study, Atuahene (2016) revealed that there is a positive negligible interaction between foreign ownership and ROE profitability. Through a correlation analysis, Darweesh (2015) researched the relationship between institutional governance systems, financial performance and business assessments in Kingdom of Saudi Arabia. The findings showed that institutional governance systems and corporate financial performance have a statistically significant relation

In the research by Al-Homaidi et al. (2019), it was revealed that ROA fundamentally affects EPS, while that by Magembe (2017) found that the audit structure has a very negative association with the degree of efficiency of the loan, such that as the audit structure improves, the NPLs also reduce the length of meetings and the increase in the number of independent auditors reduces the NPLs that lead to better loan performance. The CEO's duality shows a strong relationship with the NPLs such that the separation between the CEO's office and the chair contributes to a decline in the NPLs resulting in better loan performance. The a study by Mwanzia and Ochand (2017) suggest that commercial banks have implemented a set of internal governance principles for the Board structure, in order to

improve their respective firms' financial stability. The Kebede (2016) study shows that the Audit Committee has a negative impact on financial performance. The Nodeh (2016) study results suggest that financial quality is positively related to internal governance, as well as financial success of banks in the independent audit committee. Darweesh (2015) research proposed that managers should consider reliable and robust governance in a small number of board committees' systems in order to improve corporate financial performance. Kimaite (2016) research revealed a high relationship between openness and operational performance while reseaech by. Owino and Kivoi (2016) discovered a beneficial influence on banking performance, board performance, and the strength of auditing and reporting activities.

As indicated by Retta's (2018) uncovered that to upgrade monetary solidness in their particular organizations, most business banks studied follow different corporate administration standards as far as the board structure while research by Ibiam and Chinedu (2017) indicates a reduction in the way commercial banks in Nigeria treat their risk of liquidity by rising the number of board committees. The study indicates that in order to be competitive and efficient in its risk control functions, the number of commercial bank boards in Nigeria should be limited. Kagema (2017) studyfindings imply that there is no evidence of a linear relationship between the Board's composition and the bank's success. Awhile the research by Kimeu's (2017) shows that the number of committees has a statistically significant favorable impact on the financial performance of commercial banks. Reseaech by Chukwuma and Ibiam (2017) showed that the Board's construction impacted the liquidity risk well and emphatically while that by . Karanja (2017) showed a positive ROA and ROE connection between the higher free chiefs' proportion. The study carried out by Ene and Bello (2016) found that proper organization is a response to Nigeria's current bank crisis for corporate governance stakeholders. The results of the review of Tshipa (2017),revealed that additional corporate governance structures could be enforced while minimal checks and balances such as the Management Board, regardless of performance, were similar. The Kebede (2016) research findings showed that the board structure was related favorably to financial performance.

### 3. METHODOLOGY

#### 3.1 Research Design

This study used both descriptive and diagnostic research designs (survey design) to outline the characteristics of existing phenomenon for obtaining information oninstitutional governance and financial performance of CBs in Kenya. Adopting both designs combined two considerations: economy and safeguard against errors in each of the components of the design. Descriptive research design was useful since it significantly described the variables of interest by analyzing their relationships and providing valuable and accurate answer to the research questions (Kombo& Tromp, 2006)

#### 3.5 Target Population

The target population was the 43 commercial banks licensed and operating in Kenya.

#### 3.4 Sampling Procedure

ince the sample size was small, easily accessible and manageable the study used census, a non-probability method where the entire target population participated in the research. This was informed by Mugenda and Mugenda (2003) who indicated that a census is employed when the target population does not exceed 100 subjects. So, the sample size was 43 respondents, comprising of the 43 Kenya Commercial Banks

#### 3.5 Research Instruments

In this study, data was acquired from primary sources utilizing a structured questionnaire containing closed-ended questions. The questionnaire was recommended because it was free of participants bias and the responses obtained are in the participants' own words; it gave them sufficient time to provide well-thought-out responses; it used large samples to make findings more accurate and reliable; it was less expensive, especially when the universe was large and geographically dispersed; and it includes all respondents.

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#### 3.6 Data Analysis

Using quantitative analysis, the thesis analyzed the data to generate descriptive statistics. Descriptive statistics was used to identify patterns, trends and relationships. The regression was then conducted to approximate financial performance using board size, ownership concentration, audit structure and board composition on the basis of the following regression model.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots \dots \dots (i)$$

Where:

Y = financial performance of Kenyan commercial banks

X<sub>1</sub> = Board size.

X<sub>2</sub> = Ownership concentration.

X<sub>3</sub> = Audit structure.

X<sub>4</sub> = Board composition.

β<sub>0</sub> is a constant (which is the value of dependent variable; Y, when all the independent variables are 0).

β<sub>1-4</sub> is the regression coefficients or change induced by board size, ownership concentration, audit structure and board composition.

□ = error term

The study tested the hypotheses using Analysis of Variance (ANOVA at 0.05 level of significance (p-value <= .05). The study made various interpretations using the regression results to establish the significance of the model, at the 95% confidence level or 0.05(5%) level of significance.

#### 4. RESULTS AND DISCUSSIONS

The study analysed the data using quantitative analysis to produce descriptive statistics that helped establish patterns and relationships. 43 respondents, 40 (93.02%) returned completely filled questionnaire while 3 (6.98%), did not respond.

##### 4.1 Descriptive Analysis

The study analyzed data contained in the questionnaire as guided by the objectives using quantitative approach to obtain descriptive statistics. These statistics were important for explaining the properties of the variables as well as describing effects of independent variables (IVs) on the dependent variable (DV). This data was collected on a 5-point Likert Scale; strongly Disagree = 1: disagree= 2: neutral = 3: agree =4: strongly agree = 5. The study obtained Mean (M) and standard deviation (SD) for each indicator of the IVs or the DV. Since these statistics are continuous, the study transformed the results into continuous using means and the scales moderated such that; strongly Disagree = 1 to 1.8: disagree= above 1.8 to 2.6: neutral = above 2.6 to 3.4: agree = above 2.6 to 4.2: strongly agree = above 4.2 to 5

##### Effect of board size on financial performance

The first objective was to establish the effect of board size on financial performance of licensed Kenyan Commercial Banks. Using the answers from the questionnaire, the study analysed the data to produce results in Table 1.

**Table 1: Effect of board size on financial performance**

Board size	M	SD
Our bank has adequate number of board members	2.18	1.32
The independent directors are more than half of the total board size	2.28	1.47
The chairman is an independent non-executive director	2.08	1.42
The board independence in managing banks operations	3.73	1.09
The presence of the non-independent members enhances financial performance of the banks	4.00	0.88
<b>Effect of Board size</b>	<b>2.85</b>	<b>1.23</b>

##### Source: Research Data (2022)

The results on effect of board size on financial performance of licensed Kenyan Commercial Banks in Table 2 show that the respondents disagreed with the assertion that the bank had adequate number of board members to help the licensed Kenyan Commercial Banks to achieve high financial performance (M = 2.18; SD = 1.32). They also disagreed to the assertion that the independent directors were more than half of the total board size enough for improving financial performance (M = 2.28; SD = 1.47). Although they disagreed to the proposition that chairman was an independent non-executive director which improved the financial performance of the licensed Kenyan Commercial Banks (M = 2.08; SD = 1.42), they agreed that board independence in managing banks operations of our bank which was essential to the bank for improving the financial performance (M = 3.73; SD = 1.09) and as well agreed that presence of the non-independent members enhanced financial performance of the banks (M=4.00; 0,88). These

results show that on average, board size had a moderate effect on financial performance of licensed Kenyan Commercial Banks (M = 2.85; SD = 1.23).

The investigation discovered that board size modestly affected monetary execution of authorized Kenyan Business Banks and as certain marks of board size were displayed to significantly affect monetary execution, an equivalent number were displayed to affect monetary execution of authorized Kenyan Business Banks. This agrees to the concentrate by Odilu (2019) who found that the board size vehemently influences CBs' money related show In any case, Retta (2018) found that the board scale minorly affected the decided results with ROA. Notwithstanding, Kamazima et al. (2017) found that the board size has negative repercussions on the money related execution of recorded business banks. Moreover, the examination of Kimeu (2017) show that the size of the board in the evaluation of the money related display of business banks was quantifiably minor. On using various backslide, Chukwuma and Ibiam (2017) hoped to break down the money related accomplishment results of institutional organization in a past kind of gather in Nigeria's monetary industry. The outcomes show that the board scale adversely affects Nigeria's DMBs liquidity weakness. This was affirmed by Umutesi (2017) who found that the size of the board had a positive and significant connection with ROA and ROE's monetary presentation, so the ascent in the size of the board prompted an expansion in ROA and ROE. Abdulazez et al. (2016) found that the bigger Board adds to the monetary presentation of store cash banks in Nigeria in a positive and critical way. The findings showed that the board dimensions were favorable, but insignificantly related to ROA and ROE's profitability.

### Effect of ownership concentration on financial performance

The study assessed the second objective which was to establish the effect of ownership concentration on financial performance of licensed Kenyan Commercial Banks, obtaining results in Table 2.

**Table 2: Effect of ownership concentration on financial performance of licensed Kenyan Commercial Banks**

<b>Ownership concentration</b>	<b>M</b>	<b>SD</b>
Since management in our banks have shares, they are highly committed in implementing financial decisions	4.05	1.108
Government ownership portrays a positive public image and confidence to investors hence increased performance	3.48	1.062
Foreign shareholding enables our company to penetrate foreign market	3.25	0.899
Foreign shareholding helps our bank in establish collaborative linkages and networks	3.28	1.075
Local shareholding enhances reputation of our banks and increases the turnover	3.73	1.012
Local shareholding influences the financial performance of our bank	3.54	0.942
Block ownership enhance financial performance of our bank	3.23	1.097
Concentrated ownership enhances financial performance decision making processes in our banks	3.70	0.791
<b>Effect of Ownership concentration</b>	<b>3.53</b>	<b>0.998</b>

### Source: Research Data (2022)

Table 2 results shows that ownership concentration had a high effect on financial performance of licensed Kenyan Commercial Banks (M = 3.53; SD = 0.998). The results show that the respondents agreed that management in our banks have shares, they are highly committed in implementing financial decisions which helped the licensed Kenyan Commercial Banks to improve their financial performance (M = 4.05; SD = 1.18). They showed that Government ownership portrayed a positive public image and confidence to investors hence increased financial performance of the bank (M = 3.48; SD = 1.062). The respondents also showed neutrality on the assertion that foreign shareholding enabled the bank to penetrate foreign market (M = 3.25; SD = 0.889) but they are also not sure whether foreign shareholding helped the bank in establishing collaborative linkages and networks to achieve high financial performance or not (M = 3.28; SD = 1.075). The results indicated that the respondents agreed that local shareholding enhances reputation of our banks and increases the turnover hence increase financial performance of licensed Kenyan Commercial Banks (M = 3.73; SD = 1.012). Although they agreed that local shareholding influenced the financial performance of licensed Kenyan Commercial Banks. (M = 3.54; SD = 0.942) they were not sure whether Block ownership enhance financial performance or not (M = 3.23; SD = 1.097) but agree that concentrated ownership enhanced financial performance decision making processes among licensed Kenyan Commercial Banks (M = 3.70; SD = 0.791).

The study found that the effect of ownership concentration on financial performance of licensed Kenyan Commercial Banks was high. The findings confirm the study by Odilu (2019) showed a beneficial and marginal effect on management ownership, while the concentration of ownership in Nigeria had a negative insignificant impact on the

financial performance of CBs. However, the research of Retta (2018) shows that the board will benefit from its statistically negligible impact on ROA. The ownership structure and financial performance of Kenya's listed banks have a negative and considerable impact on ROA and ROE, according to Kamazima et al.'s (2017) article. Government ownership had a detrimental impact on CBs' financial performance, whereas the percentage of foreign investments had a beneficial impact. According to Atuahene's (2016) research, there is a slight positive relationship between foreign ownership and ROE profitability.

### Effect of audit structure on financial performance of licensed Kenyan Commercial Banks

The third objective was to evaluate how the audit system affects the financial performance of licensed Kenyan commercial banks. Data acquired during data collection was utilized to evaluate the goal, providing the results shown in Table 3.

**Table 3: Effect of audit structure on financial performance of licensed Kenyan Commercial Banks**

<b>Audit structure</b>	<b>M</b>	<b>SD</b>
Audit committee comprise non-executive members with responsibility for the independent review control and of the external audit process	3.73	1.01
The Audit committee assists the board in the oversight function through the review and evaluation of the financial reporting process and adequacy and effectiveness of the system of internal controls	3.38	1.10
The audit committee supervises internal audit and accounting procedures to drive the financial performance of our banks	3.48	0.93
The audit committee in our bank is chaired by an independent director	3.58	0.90
The external auditors are unrelated to the bank	3.90	1.05
The audit committee is independent during decision making	3.28	0.88
<b>Effect of Audit structure</b>	<b>3.56</b>	<b>0.98</b>

Source: Research Data (2022)

The outcomes in Table 3, audit design show that the respondents demonstrated they concurred that Review panel contained non-chief individuals with obligation regarding the autonomous survey control and of the outer review process concerning the monetary exhibition of the authorized Kenyan Business Banks (M = 3.73; SD = 1.01). Regardless of the way that they showed that they were don't realize on whether audit chamber helped the board in the oversight capacity through the overview and evaluation of the monetary uncovering cycle and adequacy and ampleness of the game plan of inside controls which chipped away at the monetary execution of the banks (M = 3.38; SD = 1.10), they agreed that survey board directed inward survey and bookkeeping procedures to drive the monetary show of the banks (M = 3.48; SD = 0.93). These respondents agreed that audit board in the bank was driven by an independent boss to update monetary execution of the approved Kenyan Business Banks M = 3.58; SD = 0.90).

The outcomes show that respondent concurred that the outside evaluators were inconsequential to the bank that impacted the financial presentation of the organization decidedly (M = 3.90; SD = 1.05). Nonetheless, they were uncertain about whether the financial exhibition was likely to review council being autonomous during navigation or not (M = 3.28; SD = 0.88). The investigation discovered that review structure affected financial execution of authorized Kenyan Business Banks (M = 3.56; SD = 0.98)

The investigation discovered that review structure profoundly impacted on financial execution of authorized Kenyan Business Banks emphatically by moving along. These discoveries consent to the finish of the concentrate by Magembe (2017) who found that greater sheets, less executive gatherings and less free chiefs had a positive relationship to the degree of credit execution of business banks by having a tendency to diminish the degree of NPLs, adding to a more elevated level of credit execution for banks. Mwanzia and Ochand (2017) study findings suggest that commercial banks have implemented a set of internal governance principles for the Board structure, in order to improve their respective firms' financial stability. The Nodeh (2016) study results suggest that financial quality is positively related to internal governance, as well as financial success of banks in the independent audit committee.

### Effect of the board composition on financial

The fourth purpose was to determine how the makeup of the board of directors influences the financial performance of licensed Kenyan commercial banks. The findings of the study, which studied how the makeup of the board of directors affects the financial performance of Kenyan commercial banks with licenses, are summarized in Table 4.

**Table 4: Effect of the board composition on financial performance**

<b>Board composition</b>	<b>M</b>	<b>SD</b>
In our bank the board diversity based on academic disciplines	4.05	0.93
Our bank has a proper mix of competent directors with the appropriate skills, knowledge and experience to enable them to effectively drive financial performance	3.10	1.17
Our bank always considers integrity of board members during board composition	3.53	1.04
When appointing board member, there is gender balance	3.35	1.00
The board diversity in our bank is based on age	3.67	1.06
Board members in our bank possess the required knowledge and skills required for enhancing financial performance	3.78	1.10
The board members have the capability of assessing monetary and financial documents	3.62	1.02
The board members of the bank is competent to handle the operations of the bank	3.20	1.09
<b>Effect of Board composition</b>	<b>3.54</b>	<b>1.05</b>

Source: Research Data (2022)

The results of board composition in Table 4 show that the respondents agreed that the board diversity was based on academic disciplines which assisted the licensed Kenyan Commercial Banks to achieve high financial performance (M = 4.05; SD = 0.93). Although, they showed that they were not sure whether bank had proper mix of competent directors with the appropriate skills, knowledge and experience to enable them to effectively drive financial performance (M = 3.10; SD = 1.17), they agreed that banks always considered integrity of board members during board composition to achieve high financial performance (M = 3.53; SD = 1.04).

According to these results, the respondents agreed that board members in the banks possessed the required knowledge and skills required for enhancing financial performance for ensuring improvement of the financial performance of licensed Kenyan Commercial Banks (M = 3.78; SD = 1.10). They also agreed that the board members had the capability of assessing monetary and financial documents to promote the financial performance (M = 3.62; SD = 1.02). The respondents showed that they were neutral on the assertion that board members of the bank were competent to handle the operations of the bank important for increasing the financial performance (M = 3.20; SD = 1.09). These results show that board composition had high effect on financial performance of licensed Kenyan Commercial Banks (M = 3.54; SD = 1.04)

The investigation discovered that board organization impacted the monetary execution of authorized Kenyan Business Banks decidedly which affirms the discoveries in the concentrate by Retta (2018) who found that ROA has a positive however measurably negligible impact on the quantity of board panels. Notwithstanding capability, proper involvement with explicit regions is important to deliver a fundamental commitment to the better effectiveness and following abilities. The individuals from the passing top managerial staff of a related area are not made adequately wide to make a significant commitment to results. The ongoing creation of individuals from the top managerial staff makes minimal significant commitment to better execution. The Board committees can also engage in specialized committees dealing with building and control roles which would improve productivity and tracking capability substantially. In any case, The Kagema (2017) observed that the chief was affected decidedly and altogether, despite the fact that its impact on the non-Leader Orders and Board Gatherings was extremely huge and negative. The examination by Kimeu (2017) shows that the quantity of panels impacts monetary execution of business banks emphatically and genuinely. The report informs that a number regarding commissions ought to make a move to reinforce their monetary presentation.

#### **4.4.5 Financial performance of licensed Kenyan Commercial Banks**

The study assessed the financial performance of licensed Kenyan Commercial Banks and the results obtained captured in table 5.

**Table 5: financial performance of licensed Kenyan Commercial Banks**

<b>Financial performance</b>	<b>M</b>	<b>SD</b>
Our bank has been registering increasing sales volumes for the last 5 years	3.60	0.98
The amount of money that our bank has been earning in interest on loans compared to the amount it is paying in interest on deposits has been increasing	3.30	0.88

In the last five years, profitability has been increasing steadily with respect to shareholder equity	3.48	0.85
In our bank, profit generated from bank assets has been increasing in the last five years	3.60	0.67
The bank's return on investment in or bank has been growing over the last 5 years	3.97	1.04
The customer base of our banks has been growing over the years	2.15	1.15
<b>Average Financial performance</b>	<b>3.35</b>	<b>0.93</b>

**Source: Research Data (2022)**

The results in Table 5 indicate that average financial performance of licensed Kenyan Commercial Banks was moderate (M = 3.35; SD = 0.93). Although the respondent agreed that the licensed Kenyan Commercial Banks been registering increasing sales volumes for the last 5 years (M = 3.60; SD = 0.98), they showed that were not sure whether the amount of money that our bank had been earning in interest on loans compared to the amount it was paying in interest on deposits had been increasing or not (M = 3.30; SD = 0.88). They agreed that profitability had been increasing steadily with respect to shareholder equity t (M = 3.48; SD = 0.85) and also agreed that the profit generated from bank assets has been increasing in the last five year (M = 3.60; SD = 0.67). Although they agreed that bank's return on investment in or bank had been growing over the last 5 years (M = 3.97; SD = 1.04), they disagreed to the proposition that the customer base of the banks had been growing over the years (M = 2.05; SD = 1.14).The study found there was moderate average financial performance of licensed Kenyan Commercial Banks was moderate.

**4.2 Inferential analysis**

The study regressed all the IV's; board size, ownership concentration, audit structure, and board composition, against the DV; Financial performance of licensed Kenyan Commercial Banks to estimate the study model.The results are captured in Table 6.

**Table 6: Analysis by Regression Results**

Coefficients	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	1.125	.456		2.469	.019
Board size	.331	.141	.404	2.347	.025
Ownership concentration	-.403	.179	-.435	-2.250	.031
Audit structure	.324	.114	.390	2.854	.007
Board composition	.390	.131	.492	2.990	.005

a. Dependent Variable: Financial performance of licensed Kenyan Commercial Banks firms

**Source: Research Data (2022)**

The outcomes (T= 2.347; p-value= 0.025) show p-value as being 0.025 which is under 0.05 intending that at  $\alpha = 0.05$  board size fundamentally affects financial execution of authorized Kenyan Business Banks and there is adequate proof that board size is a helpful assessor of monetary execution of authorized Kenyan Business Banks . As indicated by the outcomes, (T= 2.250; p-value = 0.031), the p-esteem is under 0.05 which suggests that there exists a huge connection between proprietorship focus and monetary execution of authorized Kenyan Business Banks. At  $\alpha = 0.05$ , 5% importance level there is adequate proof that the possession fixation are helpful assessors of monetary execution of authorized Kenyan Business Banks. From the outcomes, (T= 2.854; p-value= 0.007), the p-esteem is under 0.05 means that there is a huge connection between review design and income assortment execution. Thusly, at  $\alpha = 0.05$ , there is sufficient proof that the review structure is a valuable assessor of financial execution of authorized Kenyan Business Banks. In light of these outcomes, (T= 2.900; p-value= 0.005), the p-value is under 0.05 which really intends that there is a huge connection between board organization and income assortment execution and at  $\alpha = 0.05$ , there is sufficient proof that the board structure is a helpful assessor of monetary execution of authorized Kenyan Business Banks.

Accordingly, the board size, ownership concentration, audit structure, and board composition are estimators of financial performance of licensed Kenyan Commercial Banks, Kenya The model from the results is derived from Table 6 to obtain linear regression equation.

$$\text{Financial performance of licensed Kenyan Commercial Banks } (\hat{Y}) = 1.125\text{cons} + 0.331\text{board size } (X1) - 0.403\text{ownership concentration } (X2) + 0.324\text{ audit structure } (X3) + 0.390\text{board composition } (X4)$$

Thus, financial performance of licensed Kenyan Commercial Banks increases by 1.125 units regardless of whether the competitive strategic responses explanatory variables for are present or not. The fitted model additionally shows

the effect the exploratory factors of serious key reactions have on the financial execution of authorized Kenyan Business Banks. One-unit change in the board size (X1) prompts a 0.331-unit expansion in the financial execution of authorized Kenyan Business Banks as well as the other way around. One-unit change expansion in proprietorship fixation (X2) prompts a reduction pace of 0.403 unit in the financial execution of authorized Kenyan Business Banks as well as the other way around. A one-unit expansion in review structure (X3) prompts a 0.324-unit expansion in the financial execution of authorized Kenyan Business Banks, and a one-unit expansion in board organization (X4) prompts a 0.390 unit expansion in the financial execution of authorized Kenyan Business Banks.

**Table7: Model Summary**

Model Summary				
R	R Square	Adjusted R Square	Std. Error of the Estimate	
.706 <sup>a</sup>	.4988	.4415	.45735	

a. Predictors: (Constant), Board composition, Ownership concentration, Audit structure, Board size

b. Dependent Variable: Financial performance of licensed Kenyan Commercial Banks

**Source: Research Data (2022)**

According to the findings in Table 7, the coefficient of determination (Adjusted R2) of 0.4415 indicates that board size, ownership concentration, audit structure, and board composition explain 44.15% of the change in financial performance of licensed Kenyan commercial banks. The Analysis of Variance (ANOVA) statistics to establish whether the beta value;  $\beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$  (i.e. the coefficients of the IVs are all zero) which implies an insignificant in estimating financial performance of licensed Kenyan Commercial Banks or at least one  $\beta_i \neq 0$  which implies a significant model in estimating financial performance of licensed Kenyan Commercial Banks. The results are captured in Table 8.

**Table 8: ANOVA**

ANOVA <sup>a</sup>					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.286	4	1.821	8.708	.000 <sup>b</sup>
Residual	7.321	35	.209		
Total	14.606	39			

a. Dependent Variable: Financial performance of licensed Kenyan Commercial Banks

b. Predictors: (Constant), Board composition, Ownership concentration, Audit structure, Board size

Source: Research Data (2022)

The results show that in (F= 8.708, P-value= 0.000), p-value = 0.000 which is less than p-value < 0.05. Since p-value < 0.05, then at 5% significance level ( $\alpha = 0.05$ ), there is enough evidence to conclude that at least one of the board size, ownership concentration, audit structure, and board composition is useful explaining financial performance of licensed Kenyan Commercial Banks.

## 5. CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Conclusions

In conclusion, the study proposes that, at a 5% significance level, board size is an important factor for improving financial performance of licensed Kenyan Commercial Banks firms by having an adequate number of board members, independent directors who are more than half of the total board size, where the chairman is an independent non-executive director, having board independence in managing the bank's operations, and the presence of non-independent members. More specifically, board size has a significant impact on the financial performance of Kenyan Commercial Banks with a license (p=.025; = 2.347).

The study concludes that ownership concentration has a statistically significant and positive effect on financial performance of licensed Kenyan Commercial Banks. It was established that ownership concentration affects financial performance of licensed Kenyan Commercial Banks firms positively. This is enhanced by hacking management with shares. Allowing for Government ownership, ensuing foreign shareholding for collaborative linkages and networks as well local shareholding, block ownership and concentrated ownership.

The study concludes that audit structure has a statistically significant positive effect on financial performance of licensed Kenyan Commercial Bank. The audit structure focuses on having audit committee; comprising non-executive members which assist the board in the oversight function, supervision and chaired by an independent director.

According to the study, the board of directors has a positive and significant impact on the financial performance of licensed Kenyan commercial banks. Board diversity, an educated board, director competencies, skills, knowledge, and experience, gender balance, and board diversity all contribute to this.

## 5.2 Recommendations

The study suggests that Kenyan Commercial Banks evaluate their board size policy to guarantee that the chairman is always an independent non-executive director and that independent directors make up at least half of the entire board size. To improve their financial performance, the policies ought to promote the inclusion of non-independent members.

The study recommends that ownership concentration principles should motivate the management to hold shares so that they may be more committed in implementing financial decisions and the Government ownership should be strong.

The study recommends that the licensed Kenyan Commercial Banks firms should strengthen their audit structure and mainly focus on having audit committee; which comprises non-executive members with responsibility for the independent review control and of the external audit process, to assist the board in the oversight function through the review and evaluation of the financial reporting process and adequacy and effectiveness of the system of internal controls, for supervising internal audit and accounting procedures to drive the financial performance, chaired by an independent director and which is independent during decision making. The external auditors should be unrelated to the bank.

The study suggests that the licensed Kenyan Commercial Banks need to strengthen their board composition guidelines to ensure board diversity comprises on always engaging educating members, having a combination of appropriate skills, knowledge and experience among the board, making sure that they have high integrity and importantly ensure gender balance.

### 5.4.2 Recommendations for future Research

There is need to undertake similar research in the other financial sectors such as Microfinance Institutions (MFIs) in order to generalize the study findings..

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