

Analysis of the effects of agency costs on Financial Performance of commercial banks listed at the Nairobi securities exchange in Mombasa County, Kenya

Abstract

Agency costs result from a principal-agent relationship's conflicting interests. The relationship develops because the principal may not be able to manage the business since they are technologically illiterate, numerous, and geographically spread; as a result, they hire the agent. In a commercial bank, there are various relationships that show principal agent relationships, with the most prevalent one being the link between the shareholders and the management. Agency fees are paid with the intention of aligning the agents' and principal's ambitions in order to realize the principal's overarching intentions. Therefore, the perseverance of this study was to analyze agency costs and their effects on financial performance. In this study, the agency cost on financial performance of public commercial banks was analyzed. Specific objectives were; to establish how monitoring cost affect the financial performance of quoted commercial banks in Mombasa County, to assess the effect of bonding cost on financial performance of listed commercial banks in Mombasa county, to examine the extent to which residual loss affect the financial performance of commercial banks in Mombasa county and to determine the effects of restructuring cost on financial performance of listed commercial banks in Mombasa County- directed the study. Theories supporting this study were as follows; agency theories, free cash flow and stakeholder's theory. Descriptive design is a kind of research methodology which establishes the connection between variables. It was used in this study to identify both the broad and the detailed study goals. A census of the 10 listed commercial banks in Mombasa County was conducted as part of the work and purposive sampling was used. This study used qualitative and quantitative methods. Validity was tested through interview while reliability was tested using Cronbach alpha. The data was analyzed using inferential statistics like regression and correlation and descriptive statistics like mean and standard deviation using the Statistical Package for Social Science (SPSS) Version 22.0. The results were presented using cross tabulation, frequency tables, and charts. Findings indicated that there was a significant impact between; monitoring cost, bonding cost and residual cost and the financial performance. Restructuring cost were determined to have a favourable impact on financial performance. Therefore, the study recommends implementing an efficient internal control system by listed commercial bank management. This will assist in cutting down on the cost of auditing, administrative costs, and wasteful and unneeded spending, Managers should be paid more and attaching monetary or share bonuses or option entitlements to particular firm performance and to adopt a type of restructuring that will align with the relevant strategy and objectives.

Key words: Agency cost, Financial performance, Monitoring cost, Bonding cost, Residual loss and Restructuring cost.

1. Introduction

1.1 Background of the study

According to Pankaj Chaudhary (2022), the principal-agent relationship is the source of agency fees. The two parties are involved in a legal contract where the primary appoints the agent of the other party to act on its behalf. Every time the interests of the two parties are out of sync and agency expenses result, the problem will come up. As a result, agency costs are described as in-house business expenses incurred when an agent's interests and the principal's collide.

1.2 Statement of the problem

The performance of banking sector in the last five years have not been consistent because some banks have been recording good performance while others have been recording declining performance. Some banks have steady growth while some have been recording mixed results every year. For example, Equity bank recorded 5.6% in ROA in the year 2018 and 4.7% in ROA in the year 2022. The same case was reported by Diamond Trust bank which recorded 3.3% in ROA in 2018 and 1.8% in ROA in 2022. National bank has been struggling over the last five year and in the year 2022 they reported a very low ROA of 0.6%. It is the same case at Housing finance Corporation which has also been reporting wanting performance and in 2022 they recorded ROA of 0.2% (CBK Supervisory report 2018- 2022).

Abdulrahman (2014) looked at the connection in agency costs and the NSE-listed companies' financial performance. Results showed that agency costs significantly improve financial performance. Rather, Njenga (2012) investigated the impact of agency charges on the financial performance of Saccos in the Githunguri District that were registered with Fosa. The findings were in disagreement with those of Abdirahman (2014).

1.3 Specific objectives

- i. To examine the extent to which residual loss affect the financial performance of commercial banks in Mombasa County

- ii. To assess the effects of bonding cost on the financial performance of commercial banks in Mombasa County
- iii. To establish how monitoring cost affect the financial performance of commercial banks in Mombasa County
- iv. To assess how restructuring cost affect the financial performance of commercial banks in Mombasa County.

1.4 Significance of the study

Stakeholders in Kenyan banking industry will benefit from this research because it will elaborate on the analysis of agency costs on financial performance. Investors will be aware of how much agency expenses need be paid in order to increase their wealth. This report will be useful to the government as well as other regulatory bodies like CBK. It will help with the development of regulations relating to the number and makeup of bank directors. A controlled employee share ownership program would also stop immoral management actions, like hostile takeovers and others. Students and academics alike will gain from this research. The study will be useful in helping various researchers in relevant fields of study develop their literature reviews. The goal of this study is to help Kenyan Commercial Banks create guidelines and policies that will help them classify their clients based on demographic traits, reduce non-performing loans, and better understand what is needed to improve the quality of their loan book. Additionally, CBK can utilize this study to assess various regulations put in place to help supervise banks, with an emphasis on enabling banks to keep up-to-date loan books. Additionally, they would receive the high-quality data needed for effective management.

2. Literature Review

The research was based on three theories. Agency theory was the first theory.

Agency theory aims to offer a solution to issues that develop in the connection amid principal and agent and therefore it is suitable for explaining monitoring cost. The foundation of agency theory, according to Nasrin, Rasiah, Baskaran, and Masud (2017), is the notion that corporations ought to

put maximizing shareholder value first. The theory is useful for the present study since it encourages commercial bank management to emphasize on procedure than on structural issues that can maximize profitability. (Mishkin, 2016).

The second theory used was free cash flow. Narwal and Jindal (2015) defined free cashflow as the amount of liquid left over after projects with positive net present values were finished. Free cash flows are frequently referred to as idle cash flows because they are allocated by the company's management. Excessive management spending brought on by an excess of cash flow may affect company's financial performance negatively at the end of the financial term and also in return to shareholders.

Stakeholder theory was the last theory to be used. Stakeholders are important people who affect an organization's performance, continuation, and existence (Ronzoni and Valentini 2015). Stakeholder theory is a structural theory of business and management ethics that considers various sectors that are affected by businesses, including suppliers, employees, creditors, local communities, and others (Lin and Tom 2018). Stakeholder theory also takes into account various kinds of stakeholders in addition to the relationship between managers and shareholders (Nwaobia and Jayeoba 2016).

The theory can be used to explain restructuring cost. According to the notion, management ought to be focused on advancing shareholders' interests in the company's long-term viability and financial performance.

The company's goal is to generate wealth or value for its investors by turning their equity into products and services. A company can maximize the creation of total wealth by giving those who control or contribute critical, specialized inputs (firm-specific human capital) more voice and ownership-like incentives, and by coordinating their interests with those of outside, passive shareholders. Multiple boards representing investors and stakeholders should share control of the company in order to eliminate conflicts of interest and associated agency expenses. Businesses should look for long-term investors, give them a direct say in governance, and designate important

investors, clients, vendors, staff members, and community representatives to the BODs.

2.1 Research Gap

A circumstantial gap in the literature has been identified as a result of the previously mentioned examination of literature about the analysis of the impact of agency cost on the financial performance of listed commercial banks in Mombasa County, Kenya. Since the majority of studies have been conducted in other contexts, not much research has been done in the area of interest for this one. Theoretically, a lot of studies have examined larger aspects of agency cost in relation to other factors including competitiveness, profitability, and performance.

Therefore, it is necessary to fill this research vacuum by examining the relationship between agency expenses and the financial performance of Mombasa County's listed commercial banks. In essence, it adds significantly to our understanding of this area, particularly with regard to the performance of listed commercial banks in developing nations. Furthermore, by looking into the relationship between these monitoring expenses and public commercial banks, the regulatory agencies can evaluate and improve the intervention measures. The concern and stakeholders may find these findings helpful in better understanding the agency expenses' economic justification and their role in the corporate governance of mentioned commercial banks.

3. Methodology

3.1 Research design

For this study, a descriptive research design was adopted. The descriptive research project was appropriate because the study's focus was on examining the effect of agency costs on the financial performance of commercial banks listed in Mombasa County, Kenya, on the Nairobi Securities Exchange.

3.2 Target Population

The target population is clearly defined group of people or things that share certain traits(Mugenda

and Mugenda 2013). For statistical purposes, a population is a set of individuals or things that has been clearly characterized (Collins and Hussey, 2013). The 10 listed commercial banks in Mombasa County which include: Absa bank Kenya PLC, Cfc Stanbic Holding Plc, Diamond Trust bank Kenya Ltd, HF group Ltd, KCB Group Ltd, I and M Bank Ltd, NCBA Group, Standard chartered bank, Equity group holding and cooperative bank (CBK Supervisory report 2022) were the target population.

Table 1 Target population

Category	Population size	Percentage
Regional Manager	10	33.333
Branch Manager	10	33.333
Operations Manager	10	33.333
TOTAL	30	100.00

Source: Researcher 2023

3.3 Sampling procedures and Technique

According to Collins and Hussey (2013), the process of choosing the precise approach that will be utilized to choose the entities in the study is known as the sampling technique. The study used purposive sampling technique.

3.4 Sample size

A sample, according to Chandran's (2013) definition, is a chosen portion of the entire population. It also involves selecting individual in a large selected group (Bayoh 2010). The study used census since all quoted commercial banks in Mombasa County were the subject of this investigation.

3.5 Construction of research instrument

In this study, questionnaire was used as a method to gather primary data because it is relatively inexpensive method. Likert scales was also be employed because they reveal how strongly a respondent agrees with a certain topic and how much it affects responders.

3.6 Validity and reliability test

Validity and reliability tests were done to ensure the planned content, consistency and accurate results were achieved. In this inquiry, both qualitative and quantitative analyses were applied. The data was assessed, edited, and sorted to make sure that all of the study questions had been addressed and that the collected data were comprehensive.

The Cronbach alpha coefficient was employed in the study to assess the reliability of the research tool and to test the consistency of the instruments utilized in the investigation. The average Cronbach's reliability for all variables was 0.833, higher than 0.7, indicating the reliability of the questionnaire's items

3.7 Data Analysis and presentation

The fact that the data was encoded implies that it was converted into numerical codes that stand in for the attributes or measurements of the variables (Mugenda and Mugenda 2013). The data was analyzed using both inferential statistics, such as regression and descriptive statistics, such as mean and standard deviation. Multiple regression analysis was conducted to determine the relationship between dependent and independent variables.

The following is description of the multiple regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where; Y = Financial performance of the firm (ROA), X₁ = Monitoring cost of the firm, X₂ = Bonding cost of the firm, X₃ = Residual loss of the firm, X₄ = Restructuring cost, e = error term

4. Research Findings and Description

4.1 Response rate

Out of 30 questionnaires that were distributed 25 were completed and successfully returned, translating to rate of 83.33 percent. This feedback rate met the requirement for the investigator to come up with satisfactory deductions from the study

Table 2: Response rate

Category	Frequency	Percentage
Returned	25	83.333
Unreturned	5	16.667

Total 30 100.00

Source: Researcher 2023

From 2 above a total number of questionnaires returned were 25 out of 30. This corresponds to a total success rate of 83.333%. Those who did not respond represent 16.667%. A feedback rate of 50% or more is adequate (Mugenda and Mugenda 2013)

4.2 Test of Reliability

All of the variables showed appropriate Cronbach Alpha values, as shown in Table 2, with values greater than 0.7. The scales employed in this study were deemed to be reliable in collecting factors since they had a high degree of dependability.

The reliability of the data for the different variables is shown in Table 2. All of the variables were valued using the Cronbach's alpha reliability coefficient over 0.7. Monitoring cost was dependable (= 0.833), bonding cost was effective (= 0.833), residual loss was efficient (= 0.833), and was restructuring cost high (= 0.833). As a result, the study's conclusion said that the instrument was trustworthy and that more research might be done using it.

Table 3: Reliability results

Variable	Cronbach's Alpha	Number of items	Comment
Monitoring cost	0.833	3	Accepted
Bonding cost	0.833	3	Accepted
Residual loss	0.833	3	Accepted
Restructuring cost	0.833	3	Accepted

Source: Researcher 2023

4.3 Test of Validity

The representative's opinions were evaluated in order to improve the validity of the questionnaire's content. This included adding missing linkages, eliminating vague or broad material, or substituting it with structures that were easy to understand.

4.4 Descriptive Statistical analysis

The report looked at a number of recommendations regarding Mombasa County's listed commercial banks' performance and agency costs. The viewpoints of the personnel of listed commercial banks were represented using the Likert scale. Five (SA), four (A), three (N), two (D), and one (SD) on that standard scale stand for strongly disagree, disagree, neutral, agree, and strongly agree.

4.4.1 Monitoring cost

The research needed to establish, on a scale of 1 to 5, how applicable certain claims about cost monitoring in their companies were to the human subjects.

Table 4: Descriptive Statistics for Monitoring cost

	N	Minimum	Maximum	Mean	Std. deviation
Staffing cost are high	25	3.00	4.00	4.0800	.27689
Cost of budget control are high	25	3.00	5.00	3.9927	.40000
Auditing cost are high	25	3.00	4.00	3.0400	.20000

Compensation costs are high	25	2.00	3.00	3.9600	.20000
Directorship costs are high	25	2.00	3.00	3.8800	.33166
Valid N (listwise)	25				

Source: Research data 2023

From the previously mentioned table 4, (Mean = 4.0800, SD= 0.27689) indicating that staff costs are high. The respondents also indicated that the cost of budget was high (Mean= 3.9927, SD= 0.4000). Again, the study sought the view of the participants' on how high were auditing cost. Majority of the participants showed that auditing cost are neutral (Mean= 3.04, SD= 0.2000). The participants indicated that compensation cost is high (Mean= 3.96, SD= 0.2000). The respondents indicated that the directorship cost was high. (Mean= 3.88, SD= 0.33166). On aggregate, most respondents agreed that monitoring cost were high (Mean= 4.1600, SD = 1.46287).

4.4.2 Bonding cost

The study asked wanted to understand on how participants would rate the relevance of various bonding cost statements to their own organizations. The result is shown in Table 5 below.

Table 5: Descriptive Statistics for Bonding cost

	N	Minimum	Maximum	Mean	Standard deviation
The advertising expenditure	25	3.00	5.00	3.7200	.61373

are high					
The license fee is high	25	4.00	5.00	4.2800	.45826
The accounting cost is minimal	25	2.00	3.00	3.8000	.40825
The travel and vehicle costs are high	25	3.00	5.00	3.6800	.61373
The maintenance and repair cost are high	25	3.00	5.00	3.7400	.711811
Valid N (listwise)	25				

Source: Researcher 2023

From table 5, it was enquired on whether the advertising expenditure were high. The majority of responders (Mean = 3.72, SD = 0.61373) agreed that advertising expenditure was excessive. Again, most agreed that license fee to a great extent was high (Mean= 4.28, SD= 0.45826). Most of the participants were in agreement that minimal were their accounting cost (Mean=3.8, SD= 0.40825). Thus, it can be argued that accounting costs have no effect on financial performance of listed commercial banks in Mombasa County. Therefore, there is a feeble correlation amid the two variables. Most participants agreed that to a great extent their travel and vehicle expenses were high (Mean = 3.68, SD= 0.61373). The majority of human subjects (Mean=3.74, SD=0.71181) concurred that their maintenance and repair expenses were excessive to a considerable degree. On aggregate, most human subject concurred that bonding cost were high (Mean= 3.9200, SD = 1.70587).

4.4.3 Residual loss

The opinion of respondents from the commercial banks in Mombasa County were sought in relation to residual loss. Their views are summarized in Table 6 below

Table 6: Descriptive Statistics for Residual loss

	N	Minimum	Maximum	Mean	Standard deviation
Perks beyond remuneration package	25	2.00	3.00	2.8800	0.33166
The firm has expanded workforce	25	2.00	4.00	4.0800	0.40000
The firm has expenses considered wasteful	25	1.00	3.00	3.5200	0.71414
Interest expenses are a concern in the firm	25	2.00	5.00	4.2000	0.76376
There is high debt ratio	25	1.00	5.00	3.7200	0.84261
Valid N (listwise)	25				

Source: Research Data (2023)

Participants were asked to rate the extent to which the management received incentives beyond compensation on a 5-point scale, based on table 6. The majority of participants (Mean= 2.88, SD = 0.33166) were neutral in their opinion that the management received high-quality benefits beyond compensation. This suggests that benefits provided to the management have a zero impact on the financial performance of listed commercial banks in Mombasa County. The majority concurred that their company had increased its personnel (Mean= 4.08, SD= 0.4000). Increased labor force is a sign of agency costs. The majority of participants (Mean=3.5200, SD=0.71414) agreed that certain firm expenses were largely deemed wasteful. The majority of respondents (Mean = 4.200, SD = 0.76376) agreed that interest expense was a worry in their cranialization. The majority of respondents (Mean= 3.72, SD= 0.84261) agreed that debt ratios were excessive in most cases. On aggregate, most respondents agreed that residual loss were high (Mean= 4.3400, SD = 1.49666).

4.4.4 Restructuring cost

Regarding restructuring costs, the survey asked specific employees of Mombasa County's listed commercial banks for their opinions. Table 10 displays the pertinent findings.

Table 7: Descriptive Statistics for Restructuring cost

	N	Minimum	Maximum	Mean	Standard deviation
You have added more products/services	25	4.00	5.00	4.8800	0.33166
Diversified your product offering	25	3.00	5.00	4.8400	0.55377
Modified some products to match with customer needs	25	2.00	5.00	4.4000	0.91287

Downsized the organization by shutting down some branches	25	1.00	3.00	3.56	0.71181
Laid off some employees	25	1.00	3.00	2.4000	0.91287
Valid N (listwise)	25				

Source: Research Data (2023)

Based on table 7, the majority of respondents agreed that companies have significantly increased the number of products they offer (Mean = 4.8800, SD = 0.33166). Once more, the majority concurred that the companies have greatly diversified their product offerings (Mean= 4.84, SD= 0.55377). The majority of respondents (Mean=4.4000, SD=0.91287) concurred that their company has changed its products. The majority of respondents (Mean = 3.5600, SD = 0.71181) agreed that their firm had significantly reduced staff. The majority of respondents (Mean = 2.4000, SD = 0.91287) disagreed that their percentage of laid-off employees was high.

Financial performance

The study's objective was to analyze the effect of agency costs on the financial performance of commercial banks in Mombasa County that are listed on the Nairobi Securities Exchange. As indicated in Table 8, the data was collected from the poll respondents as well as the CBK reports and financial report of the specific bank.

Table 8: Financial Performance

	Return on Asset (%)	Return on Equity (%)
2022	3.6	26.45
2021	3.1	21.43
2020	1.974	13.24

2019	3.39	23.08
2018	3.47	22.93

Source: CBK Supervisory report (2018 – 2022)

Financial performance can be measured by different indicators. Return on asset and return on equity were used for this study. The study used CBK supervisory report from 2018 to 2022. In 2018, the average ROA for listed commercial banks was 3.47% with ROE of 22.93%. These rates dropped to 3.39% and 23.04% for ROA and ROE respectively. The figures further dropped in 2020. This was due to Covid 19 pandemic. The average ROA and ROE was 1.974% and 13.24% respectively. In 2021 there was an improvement since the listed commercial banks registered 3.1% in ROA and 21.43% in ROE. The performance further improved in 2022. The average ROA and ROE were 3.6% and 26.45% respectively.

4.5 Inferential statistics

4.5.1 Model Summary

The model summary includes the correlation coefficient (R) and the determination coefficient (R²). The determination ratio (R²) demonstrates how changes in independent factors (monitoring cost, bonding cost, residual loss, and restructuring cost) forecast changes in dependent variables (financial performance), while the ratio (R) indicates the kind and intensity of the link between the variables.

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.692 ^a	.479	.457	.21658

a. Predictors: (Constant), monitoring cost, bonding cost, residual loss, restructuring cost

Source: Research data (2023)

Table 9 findings demonstrate that there was a positive association (R = 0.692) between financial performance and the forecasting factors (monitoring cost, bonding cost, residual loss, and restructuring cost). According to the corrected R-square (0.457), monitoring, bonding, residual loss, and restructuring costs accounted for 45.7% of the variations in financial performance. There

was a 54.3% shift in financial performance (from 100 to 45.7) due to factors not covered in this study.

4.5.2 Analysis of Variance (ANOVA)

To ascertain the model's power to explain the link between the dependent variable (financial performance) and the independent variables (monitoring cost, bonding cost, residual loss, and restructuring cost), the research team performed an ANOVA, as indicated in Table 6. Significance F in the table indicates the adoption of a retrospective model with a significance level of 5%. The financial performance of the study and its financial management strategies are demonstrated to be significantly correlated if the p value is smaller than the alpha.

Table 10: ANOVA

Model	Sum of Squares	df	Mean square	F	Sig
Regression	.022	4	.005	.116	.975
Residual	.938	20	0.047		
Total	0.960	24			

Source: Researcher data 2023

Table 10 findings demonstrate that, at a 5% significance level, the model was significant ($P = 0.975$) in explaining the relationship between changes in financial performance and the costs of monitoring, bonding, residual loss, and restructuring. The findings indicate that changes in financial performance can be predicted using at least one of the variables taken into consideration (monitoring cost, bonding cost, residual loss, and restricting cost). The regression relationship was significant in predicting how monitoring, bonding cost, residual loss, and restricting cost affected listed commercial banks' financial performance, as indicated by the likelihood value of 0.047.

4.5.3 Coefficients^a

Table 11: Coefficients^a

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	2.954	.151		19.618	.000
Monitoring cost	.011	.041	0.078	.258	.000
Bonding cost	.008	.0040	0.065	.190	.000
Residual loss	-0.003	.041	-0.022	-0.072	.000
Restructuring cost	.006	.039	0.055	0.162	.000

a - Dependent Variable: Financial Performance

Source: Research Data (2023)

Results from Table 11 demonstrate that the constant was 2.954 units. This means that the financial performance would be 3.212 units if the costs associated with monitoring, bonding, residual loss, and restructuring were all constant. The study's model of choice was;

$$Y = 2.954 + 0.011X_1 + 0.008X_2 - 0.003X_3 + 0.006X_4 + \epsilon.$$

Table 11 demonstrates that there was a substantial effect ($\beta_1 = 0.011$, $p < 0.05$) of cost of monitoring on banks' financial performance. The findings indicate that a one-unit shift in monitoring costs will cause the financial performance of commercial banks listed in Mombasa County to vary negatively by one unit, or 0.011. The findings indicate that increases in monitoring expenses will result in decrease in listed commercial's financial performance (Quayes 2015)

The bonding cost and financial performance of listed commercial banks have a positive and significant association. ($\beta_2 = 0.008$, $p < 0.05$). Thus, this finding validates or establishes the second goal, which was to evaluate whether bonding expenses and financial performance among Mombasa County's listed commercial banks are related.

Residual loss has noeffect on Financial performance as shown in Table 7 ($\beta_3 = -0.003$, $p < 0.05$).

A 0.3% drop in financial performance would result from a unit change in residual loss. Cost monitoring has a statistically minor impact on an entity's financial performance at the 5% significance level. The aforementioned figures show a significant correlation between Mombasa County's listed commercial banks' financial performance and residual loss. According to the interpretation, Mombasa County's listed commercial banks' financial performance is adversely affected by residual loss.

Restructuring cost indicate a positive and significant effect on financial performance ($\beta_4 = 0.006$, $p < 0.05$). This suggests that favorable adjustments to restructuring costs will have a positive impact on the listed commercial banks in Mombasa County's financial performance. The analysis indicates that 0.006 units' financial performance will vary significantly in response to positive adjustments in restructuring cost per unit.

4.6 Discussion of Findings

Analyzing the effects of agency expenses on the financial performance of commercial listings at Mombasa County's Nairobi Securities Exchange was the goal of the study. The study's findings were then connected to previously obtained experimental data. The monitoring, bonding, residual loss, and restructuring costs were operationalized as agency costs in the current study. These were, in essence, the primary research hypotheses that the study set out to investigate in connection with Mombasa County's listed commercial banks' financial performance.

Thus, the primary goal of the study was to ascertain how Mombasa County's listed commercial banks' financial performance and monitoring expenses related to one another. The operationalization of the monitoring expenses variable included staffing, budget control, auditing, remuneration, and directorship costs. The findings in this theme area included the rating of monitoring costs as extravagant, including staffing, auditing, and budget control costs. It was discovered that the directorship monitoring proxy with the lowest expenses had used the fewest resources. The majority of the human subjects as a whole agreed that their monitoring expenses were quite high. The interpretation is that there is a relationship between listed commercial banks' financial performance and their monitoring expenses. Inferring that cost monitoring has a detrimental impact on the financial performance of listed businesses, this study's goal was established.

This result agrees with many earlier studies, but it also differs from them. Quayes (2015), for example, concurs with the current study that higher levels of management and staffing expenditures have an impact on an organization's performance. This conclusion is supported by Ahmed, Bhuiyan, Ibrahim, Said, and Salleh (2016), who found that foreign firms record higher agency-related costs since these organizations have a policy of hiring highly skilled individuals to perform the best audits because the principals are located far away.

The argument is supported by the finding by Bortych (2017) from a study done in the USA that MFIs employ top-notch auditing employees. MFI with operations in several nations offer financial disclosures that are more detailed than companies with operations in only one country (Blanco-Oliver et al 2016). It should take a lot of time and highly qualified persons to audit these extensive reports. Due to this, the auditor must charge a hefty audit fee, raising agency expenses.

The second goal was to determine the relationship between Mombasa County's Listed commercial banks' financial performance and their bonding costs. The operationalization of bonding costs included charges for advertising, license fees, accounting, travel and vehicle expenses, as well as maintenance and repair costs. Every kind of bonding cost, or proxy, received a very high rating. Overall, the respondents were in agreement that bonding expenses were excessively expensive. The total or combined rating shows a very high positive correlation between Mombasa County's listed commercial banks' financing performance and bonding costs. Thus, this finding validates or establishes the second goal, which was to evaluate whether bonding expenses and financial performance among Mombasa County's listed commercial banks are related. While many earlier research support this conclusion, some do not, according to this finding. High agency expenses are associated with businesses that have excess cash flow (Amaoko and Goh 2015). The extra free cash flow is invested by managers in non-value-maximizing enterprises.

Accordingly, Abdulrahman (2014) found that agency expenses and financial success are related. In a similar vein, Acharya, Dupatti, and Locke (2015) found a strong correlation between agency expenses and performance. In a similar vein, Adabenege and Yahaya (2015) concurred with the

findings of the current investigation, arguing that agency expenses are significantly correlated with financial performance.

Ahmed, Bhuiyan, Ibrahim, Said, and Salleh (2016) found that block-holders, or concentrated ownership, equitably reduce agency costs in their UK study. However, Bortych (2017) discovered that family-owned businesses control agency costs more effectively than concentrated forms of corporate ownership, which have been shown to not reduce agency costs in Indonesia.

Furthermore, 0% agency cost was found in businesses where the owner also serves as the management by D'Espallier, Goedecke, Hudon, and Mersland (2017) since this structure guarantees that the interests of the owners and managers are aligned. Advocates of agency theory maintain that efficient governance significantly reduces agency costs. Furthermore, the study found that large and powerful boards of directors provide extremely effective governance. However, Mishkin (2016) argues that businesses should be run by smaller boards or boards with fewer directors. While Randoy, Strom, and Mersland (2015) demonstrated the opposite—that is, the fewer directors on a board, the lower the agency costs—Nurmakhanova, Kretschmar, and Fedhila (2015) linked lower agency costs with a board that has more directors.

However, Casselman, Sama, and Stefanidis (2015) found that an independent board is responsible for lower agency costs. Additionally, Kiaritha (2015) agreed with a study conducted in 2014 by Wangai, Bosire, and Gathogo, which also looked into the possibility of reducing shareholder and management conflict through the usage of debt in capital structure.

Determining the connection between residual loss and financial performance was the third goal. The operationalization of this research variable included benefits beyond compensation, a larger workforce, a high debt ratio, unnecessary spending, and greater interest costs. Indifferent Remaining losses or expenses such benefits that go beyond compensation, hiring more people, having a large debt load, unnecessary spending, and paying more interest.

Regarding whether residual loss was an issue for their organizations, the respondents as a whole were divided. It is important to note that, despite the overall rating suggesting a negligible correlation between residual loss and financial performance, three of the five proxies for residual loss showed a strong negative correlation with financial performance, suggesting that the majority

of this variable has a significant negative impact on financial performance.

Likewise, there has been agreement and disagreement in earlier research regarding the impact of residual loss on a firm's financial success. Additionally, Kleynjans and Hudon (2016) demonstrated the connection between agency expenses and free cash flow. ROA and ROE were used to operationalize a company's performance. They proved that residual loss had no bearing on a company's financial performance.

Examining the impact of restructuring costs on the financial performance of listed commercial banks was the study's ultimate goal. The operationalization of restructuring costs included expanding the product line, diversifying it, altering some of the offerings, and shrinking the company by closing locations and terminating staff. While firing employees received a bad rating, adding more products, diversifying the products, and altering some products received high ratings. Most people agreed that restructuring costs were excessive. This indicates a correlation between the financial performance of Mombasa County's listed commercial banks and the cost of restructuring. This result is in line with earlier research. The current study was in agreement with Harwood et al. (2016). He came to the conclusion that, while not statistically significant, restructuring has a favorable impact on business performance. In a similar vein, Lawrence et al. (2020) conducted research on the effect of corporate restructuring on the financial performance of commercial banks in Nigeria and came to the conclusion that the sector's restructuring and bank profit performance are closely related. The results of this investigation did not agree with those of a study conducted by Zhang, Jiang, Qu, and Wang (2013). They looked examined the connection between market concentration, risk-taking, and bank performance using a special dataset from the BRIC (Brazil, Russia, India, and China) banks over the years 2003–2010. They discover a negative correlation between bank performance and market concentration. The study also verified the inverse relationship between risk-taking and bank performance, showing that better performance is correlated with lower risk levels.

As a result, Hoepner, Liu, Sandberg, and Wilson's (2017) findings were in line with the tenets of agency theory, which holds that a CEO's dualism does not translate into large profits. On the other hand, Banerjee, Karlan, and Zinman (2015) noted the opposite and recommended further research on the impact of board structure on returns. In another study, Wijesiri, Yaron, and Meoli (2017) discovered a significant positive relationship between the agency costs and performance of family-owned and managed businesses. Agency cost was found to grow with free cash flow by Aribi and Arun (2015). According to Alabdullah (2016), agency costs and an organization's profitability are positively correlated.

Additionally, Ayuma, Namusonge, and Iravo (2015) found that there are direct agency linkages between government agencies and higher education institutions. These relationships manifest

themselves in policy, parliamentary legislation, establishment, financing of higher education, collaboration, and research. In a similar vein, Biwott, Asienga, Oketch, and Mutai (2015) demonstrated that certain management behavior variables and agency cost had an impact on business performance.

Overall, the answers above support the notion that Mombasa County's listed commercial banks' financial performance is impacted by residual loss, bonding expenses, and monitoring costs. Because of their conflicting interests, agent-principal adversarial relationships have a negative impact on a firm's financial success. Restructuring costs, however, have a favorable impact on financial performance. Ultimately, regression and correlation confirmed the previously stated results.

5.Summary, Conclusions and Recommendations

5.1 Summary of findings

Monitoring cost were high – this was the agreement by most respondents. This suggests a connection between listed commercial banks' financial success and cost monitoring. This suggests that expense monitoring has a detrimental impact on listed commercial banks' financial performance, supporting the study's main finding.

Evaluating the impact of bonding costs on the financial performance of Mombasa County's listed commercial banks was the study's second goal. The inference is that bonding costs have a detrimental impact on listed commercial banks' financial performance.

Examining the impact of residual loss on the financial performance of Mombasa County's listed commercial banks was the other study goal. The modified R squared value was 0.457, indicating that changes in residual loss caused a 45.7% shift in financial performance. At the 5% significance level, changes in residual loss explained 45.7% of the variation in financial performance. There is a high positive correlation between the residual loss and financial performance, as indicated by the R value of 0.692.

The final goal was to evaluate the impact of restructuring costs on Mombasa County's commercial banks' financial performance. The majority concurred that the companies have greatly broadened their product offerings. The results indicate that financial performance and product diversification are positively correlated. The majority of respondents concurred that their company has changed its product offerings. It is reasonable to conclude from this assessment that there is a favorable correlation between some product modifications and financial performance. The purpose of the study was to find out from the participants how much their company has shrunk by closing certain branches. The majority of respondents agreed that there has been significant downsizing at their company. The majority of respondents said that they had fired a significant number of employees. This research suggests a substantial yet favorable correlation between Mombasa County's listed commercial banks' financial performance and their decision to fire certain personnel.

5.2 Conclusion

Examining the impact of monitoring expenses on the financial performance of Mombasa County's listed commercial banks was the first goal. According to the study, monitoring expenses did, in fact, have a statistically significant impact on listed commercial banks' financial performance. This can be because the strict monitoring systems deter managers and employees from misappropriating funds.

The study's second goal was to determine how bonding expenses affected the financial performance of Mombasa County's listed commercial banks. It was discovered that financial performance was impacted by bonding costs. This is explained by improved awareness of the numerous human resource difficulties, sharing, and interpersonal relationships. This can lessen the strain and exhaustion that could cause employees to cheat.

Determining the impact of residual loss on the financial performance of listed commercial banks in Mombasa County was the other goal. Financial performance was found to be statistically strongly impacted by residual loss. This might be the result of less funding available for expansion, which could increase future profitability and, consequently, financial performance.

The final goal was to evaluate the impact of restructuring costs on Mombasa County's commercial banks' financial performance. Restructuring costs were determined to have a favorable impact on financial performance. The study concludes that effective communication and the careful application of specific tactics are necessary to avoid negative outcomes.

5.3 Recommendations

The study's findings provide clear evidence that the financial performance of Mombasa County's listed commercial banks is significantly correlated with agency costs such as monitoring, bonding, residual loss, and restructuring. Therefore, in light of these findings, the study suggests that:

1. Effective internal control systems should be implemented by listed commercial bank management. This will assist in cutting down on the cost of auditing, administrative costs, and wasteful and unneeded spending.
2. Even the most challenging companies should make an effort to improve their performance. Leveraging cash flow, paying managers more, or attaching monetary or share bonuses or option entitlements to particular firm performance targets can all serve as positive incentive

mechanisms, reduce agency costs, and enhance firm performance.

3. Restructuring should be a method used by the banks to increase productivity and competitiveness. Banks that are eager to undergo restructuring must carefully analyze the type of restructuring they must do, such as financial, portfolio, and organizational restructuring. These modes address various needs to align with the relevant strategy and objective, each with its own set of implications.

5.4 Areas for Further Research

This study only examined a few topics, and the following recommendations for additional research are made:

- i. The current study's main focus was agency costs. Other scholars might consider looking into other aspects of corporate governance, such as the makeup, compensation, competence, and structure of the board. This is due to the fact that the current study's conclusions are restricted to agency expenses as a component of corporate governance.
- ii. Future research may look at non-financial aspects of corporate performance, while the current study concentrated on financial performance. This is due to the fact that focusing only on profits is no longer a viable approach to conducting business in this day and age. Customer focus, learning and growth, and company process are some other crucial performance characteristics.
- iii. The current study concentrated on Kenya's Mombasa County. It might be of interest to other academics to concentrate on studying the similar occurrence in other Kenyan counties.
- iv. The research design adopted in this study was descriptive. It is possible for other researchers to investigate the same phenomenon with a different research design.

Ethical Approval:

The requested information was collected in a way that was permitted by law. No respondent was coerced or compensated into providing information. The investigator requested authorization from the commercial banks to undertake the investigation. Respondents vouched for confidentiality and anonymity, and the collected data was applied for this study only, never in a way that jeopardizes the interviewees' wellbeing.

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