Corporate Governance Structural Efficiency and Performance of Commercial Banks: Evidence from Banks Listed on the Nairobi Securities Exchange, Kenya

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Abstract: The study investigated corporate governance structural efficiency and bank performance. The study particularly, looked at board structure and composition, transparency and disclosure and corporate governance practices. The data was collected using closed ended questionnaires. The results indicate that there is a strong, positive and significant relationship between corporate governance structural efficiency and performance of commercial banks in Kenya. The study further found that lean boards, with independent board members are more efficient and contribute to better performance of the bank. Transparency and timely disclosure of accurate, comparable and understandable financial information facilitate efficiency improvement in the banking sector in Kenya. The study recommends that, bank managers should strengthen and ensure implementation of efficient corporate governance mechanisms in order to achieve improved performance. Banks need to review and strengthen their board structure and composition, transparency and disclosure mechanisms and embrace good governance practices to guarantee improved performance.

Key Words: Efficiency, Corporate Governance, Return on Assets (ROA), Return on Equity (ROE)

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I. Introduction

Corporate governance refers to a set of mechanisms; institutional and market based, designed to alleviate agency problems that arise from the separation of ownership and control in a firm (La Porta et al, 2002). It is the exercise of power over corporate entities (Tricker, 2000). Simply put, corporate governance can be referred to as the management of corporate entities. Empirical literature on corporate governance indicates that it is an important determinant of bank performance (Diamond and Rajan 2009). The Basel Committee on Banking Supervision (BCBS, 2006) emphasizes that, the efficiency of corporate governance structure and practices, should be reflected in the confidence held by the stakeholders in the banking sector. This confidence is important in determining and directing the level of economic activity for the whole economy and plays a pivotal role in the stability of the financial system. The failure of banking sector corporate governance mechanisms can be strictly associated with financial crises experienced in the recent past. More often than not, it has been considered among the primary causes of the crises (De Haan and Vlahu 2016). The financial crises can therefore, to a great extent be attributed to the failures and weaknesses in the firms’ corporate governance arrangements that do not safeguard against the risk appetite of corporate managers (Kirkpatrick, 2009). The findings in extant literature also show that banks with poor governance are usually engaged in excessive risk taking and have larger losses during a crisis (Beltratti and Stulz 2012). The explanation here is that, the risk tolerance of the managers maybe in conflict with that of the shareholders. The managers may pursue their own personal interests at the expense of the interest of the shareholders causing serious agency problems. From the arguments stated, it is easy to notice that corporate failure is anchored in the conspiracy of managers against the shareholders. The managers work in cahoots to further their self-interest at the expense of the shareholders. This acts amount to breach of the agent-principal relationship subsisting between the shareholders and the managers. Agency is the relationship between the principle and agent. This theory was developed by Jensen and Meckling, (1976). It is constructed on the premise that the agents have more information and knowledge of the firms’ operations than the principal. This leads to the asymmetry of information conjecture. The agents, will therefore tend to pursue their own self-interests as opposed to the interests of the principal. To avoid this situation, there is need for good and efficient corporate governance structures. According to Mat Rabi et al. (2010), having good corporate governance practices facilitates monitoring and controlling of the activities of the agents, which could reduce the managerial opportunism especially in making decisions on innovative investments. This helps to deter the agents from maximizing their own self-interest. The firms of today, face a myriad of problems associated
with management. In particular, the corporate governance challenges of today can be traced back to the agency problem as described above. This challenges have necessitated the need for existence of an efficient corporate governance structure. An efficient corporate governance structure fosters transparency and disclosure, thus mitigating the problem of information asymmetry (Chang and Sun, 2010). Child and Rodrigues (2004) argued that corporate governance structure operates through two agency relationships: between stockholders and management; and between employees and management. This study focused on the former, on the premise that governance structures of banks are well described by their capital and ownership structure. Further the study contends that governance structure efficiency can determine a bank’s investment, growth, profitability and stock returns, hence the selected agency relationship. This type of agency relationship is broad and facilitates a broader perspective of analysis. Poudel and Hovey (2013), investigated the impact of corporate governance on efficiency of Nepalese commercial banks. They found that banks with bigger boards and audit committees, lower frequency of board meetings and lower proportion of institutional ownership had better efficiency in their operations.

Alin et al. (2018) showed that implementing rigorous corporate governance structures is associated with higher costs for commercial banks leading to lower level of efficiency and profitability. Yet, during the crisis period, a tight governance mechanism ominously increases banks’ cost and technical efficiency. They also showed that prudent risk management is associated with both higher cost and technical efficiency for highly capitalized banks, while rigid supervisory boards are linked with greater technical efficiency. Caton and Goh (2008) found that firms with democratic governance structures realize significant positive abnormal stock returns on their investment. Therefore, corporate governance mechanisms are critical in protecting the interests of all stakeholders, improving performance, and ensuring that investors get sufficient return on their investment. According to Denis and McConnell, (2003), corporate governance mechanisms can be classified into internal monitoring mechanisms such as ownership structure, board characteristics, outside supervision and executive compensation, and external monitoring mechanisms such as the legal system, active takeover market and production market competition.

Bauer et al. (2004) examined if efficient corporate governance leads to higher stock returns. The results showed that an efficient corporate governance structure positively affected stock return, a finding that further confirms the significance of corporate governance structure efficiency on performance of banks. Corporate governance practices, thus, represent the actual exertions of bank management in designing and enforcing good managerial practices. Aziz, (2003), contends that corporate governance in banks involves the range of practices covering proper conduct of business, values, ethics and the whole culture of organization and staff behaviour. Accordingly, corporate governance not only involves process and financial targets to serve the interest of the shareholders but also the best practices of conduct with depositors, customers and other stakeholders. In line with providing solutions to the conflict of interests occasioned by the agency problem, corporate governance enhances the operating performance of firms and facilitates prevention of fraud. It can therefore be argued that banks with better corporate governance have better performance than those with poor corporate governance due to improved intermediation efficiency. In a study on Kenyan banks, Mang'uni (2011), finds that there is a significant difference between corporate governance and firm performance. This finding could be an indicator of why there is wide disparity in the performance of the banking sector in Kenya. Tandelilin et. al (2007) posits that managers and owners depicting the effort and intention to implement good corporate governance mechanisms increase their market credibility, hence better corporate governance leads to better performance.

1.1 Objective
To analyze the effect of corporate governance structural efficiency on performance of commercial banks in Kenya.

II. Literature Review

2.1 Board structure and composition.

Board structure refers to the schematic categorization or composition and size of the board of directors of the bank. The structure focuses on the background, interests, affiliations, technical skills and competencies that brings about balance in decision making in the interest of the shareholders. Agyemang and Castellini, (2013) contend that there is no consensus in literature on an optimal board structure. Yasser et al., (2017) showed that there is a positive relationship between board structure and firm performance. Specifically, they indicate that board size, minority representation in the board, and family directors in the board, had a positive and significant relationship with firm performance. The findings further provide that, independent directors in the board were negatively associated with firm performance. The Australian Stock Exchange Corporate Governance Council (2003), provides that a company should structure its board to add value. This observation therefore implies that the board should be well constructed as to be able to add value to the bank, a rich source of reference for good corporate governance practice. Botti et al. (2014) indicates that, a large body of corporate
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governance literature provides that the board size of a firm captures the quality of board monitoring of the firm operations. They explain that smaller boards are considered conducive for effective managerial oversight. They argue that, smaller boards are associated with lower coordination costs, better exchange of ideas, and less free-riding among members. As such, directors serving on small boards have fewer communication difficulties, thus allowing them to better coordinate their efforts in limiting managerial opportunistic behavior (Botti et al., 2014). According to Bushman et al. (2004), smaller boards are more likely to deliver superior quality information to investors and also guarantee their interests due to their keen concern on their responsibilities for effective monitoring and high quality disclosure. Tanna et al., (2011), found that board size has a significant effect on bank efficiency and performance. Sakawa and Watanabel (2011), find that banking firms with larger boards underperform their peers. They used the Tobin’s Q, as the proxy for performance, in which they further indicated no significant relationship with the proportion of external directors on the board. Yamori et al. (2017) studied corporate governance structure and efficiencies of cooperative banks in Japan. The results showed that having a large number of board members has negative effects on efficiency. Their findings also indicate that the presence of outside directors has a significant effect on efficiency. Goodstein et al., (1994), noted that larger boards provide a large pool of expertise and a better ability to form reasonable judgment and decisions on matters affecting a corporate entity. From the arguments presented, board structure and its composition are critical in ensuring efficiency of the corporate governance mechanisms of the bank.

2.2 Board Meetings and Schedule

According to Fama & Jensen, (1983b) of the agency theory conjecture, the frequency of board meetings as a monitoring tool facilitates the attainment of better governance and improved firm performance. The stewardship philosophy on the other hand, provides that board meetings are irrelevant, citing that, monitoring of firm operations is an endogenous process influenced by factors outside the firm. From this supposition, the relationship between the frequency of board meetings and firm performance maybe insignificant. However, Ntim and Osei (2011) found a positive and significant relationship between the frequency of board meetings and firm performance. They argued that meetings provide a mechanism for monitoring, which positively impacts on firm value. Brick and Chidambaran (2010), find that, the frequency of board meetings positively affects corporate performance. Eluyela et al (2018), found a positive and significant relationship between board meeting frequency and firm performance. From this arguments, the problem of information asymmetry maybe easily eliminated, due to the pressure created by the relatively high number of meetings. Chou et al., (2010), argued that a high attendance rate at board meetings is an important monitoring mechanism of the operations of the firm. The high attendance ensures that the managers obtain first-hand information on the operations of the firm and its management. Mamatzakis and Bermpei (2015) evaluated the impact of various corporate governance measures on the performance of the US investment banks over the 2000–2012 period. The results indicated a negative link between operational complexity and bank performance. The results further showed a positive relationship between CEO power, board share ownership and bank performance.

2.3 Transparency and Disclosure

The focus, on transparency and disclosure, as part of the core values of organizations, shirks the possibility of malpractice that affect the integrity and level of efficiency of operations of the bank. As such, Bushman et al., (2004), defined transparency as the availability of firm specific information to outside stakeholders. The firm specific information is varied. For this study, we focused on staff costs and directors’ remuneration, online publishing of corporate information, ownership & shareholding disclosure, appointment & rotation of auditors and audit fees disclosure. We note that, disclosure of this information is critical in enhancing the reputation of the bank and guaranteeing confidence from investors. Behrmann et al., (2018), argued that disclosure of the individual details of remuneration for each board member, is critical as a transparency mechanism. They aver that, the disclosure provides a factual assessment of decisions on remuneration leading to a potential surge in transparency. Performance-related compensation, is a great motivator for management performance. Compensation based on performance facilitates the alignment of the interests’ shareholders to the objective of the bank and other stakeholders. Stiglauer (2010c), found evidence of the existence of a significant and positive relationship between transparency & disclosure and firm performance. The study used the market-to-book value of equity and total shareholder return. Being highly controlled and regulated institutions, banks must demonstrate their ability to be the custodians of the funds from the surplus income units in the economy and also provide a mechanism for the deficit economic units through the intermediation process, and opportunity to access the funds for investment. Darmadi, (2013), found that the average disclosure level among the sampled Indonesian Islamic banks is relatively low. He argued that that there is need for enhancement of corporate governance disclosure of Islamic banks, to provide confidence for wider acceptance and increased reputation. According to the International Accounting Standards Board (IASB), “the objective of financial
reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers” (IASB 2008). Identifying cost efficient, first and effective mechanisms for provision of such information is imperative. Today, the internet is one of the most powerful tool of communication. It can reach significantly large populations at very minimal cost, and encourages investment (Aly et al., 2010). Adoption of such modes of transmitting information would create cost savings for the user entity. Waweru et al., (2019), investigated Corporate governance and corporate internet reporting in sub-Saharan Africa, with specific reference to Kenya and Tanzania. The results showed that, corporate internet reporting (CIR) was high in both countries, but with Kenya having the highest level of internet reporting. The results further indicate that, CIR increases with foreign ownership, audit committee independence and financial expertise, but decreases with domestic ownership concentration. They also find that, despite the effects of ownership concentration being moderated by country-specific factors, the overall findings demonstrate that effective governance structures may lead to higher levels of CIR (Waweru et al., 2019). Aly et al., (2010), indicate that the level of profitability of a firm positively affects internet financial reporting. According to Ahmed et al., (2002), the more profitable firms tend to disclose more information as a means to acquire bragging rights among their peers. This behaviour enables the said firms to show off their achievements on the internet to portray their positive reputation, thus enabling them to access credit at favourable terms. Therefore, due to the technological advancements and the fact that technology has facilitated significant reduction in operational costs, leveraging on the opportunity provided by technology is of significant importance in the current competitive business environment.

Another significant corporate governance aspect is ownership and shareholding. Dennis and McConnell(2003), indicate that insider ownership can have a positive effect on firm performance. While this argument is true, the extent of disclosure of this information is critical due to the regulatory requirements in different jurisdictions. In Kenya for instance, the insider individual ownership is restricted to a maximum of 5% by the Companies Act. Horner (2010), found a positive and significant relationship between the board of directors’ ownership in a firm and performance. He argued further that firms with concentrated ownership have weak governance structures leading to poor performance. Concentrated ownerships of firms may lead to expropriation of the company assets by adopting the conservatism principle, where they not only expropriate but also conceal their behaviour through manipulation of books of accounts for their own self-interest and conceal firm performance by applying selective accounting choices (Korczak and Korczak., 2009).

Appointment of external auditors aims at providing quality assurance on the financial statements of the firm. The auditors, appointed through the annual general meeting, can be retained or a new team appointed on rotation basis. Rotation of auditors can either be mandatory or voluntary. Mandatory rotation occurs when firms are required to change their auditors after a fixed period of time. The duration may however vary depending on regulatory requirements (Lu, 2005). On the other hand, voluntary rotation is the discretionary changing of auditors by the firm (Davidson et al., 2005). The rotation can either be, audit firm rotation or audit partner rotation. Auditor rotation is aimed achieving high quality audit and assurance. According to Lu, (2005), mandatory rotation curtails the opportunity of opinion shopping by the auditors leading to better audit quality and financial management advice. This advice is important for facilitating improved organizational performance. Davis et al., (2009), provide that rotation enables different perspectives and insights into the financial statements. They argued that working for the same client for many years impairs professional judgement by the auditor due to the familiarity problem. Other proponents of rotation opine that; it helps in increasing the competition in the audit market by encouraging ‘Small’ Firms to compete against the ‘Big Firms’ by providing equal opportunity. In the event of an audit failure, both the client and the auditor could suffer significant losses. Therefore, where there is rotation, the cost thereof, could significantly be less than the cost of litigation and loss of reputation of the auditor from an audit failure (Jackson et al., 2008). As the key role of audit is to provide assurance on the financial statements, this assurance can only be guaranteed when certain minimum standards are met. Yet, if the bar on the required assurance standards is set too high, the quality of the audit could be compromised. Dye (2011), contends that, strict and tighter auditing standards could diminish audit quality due to liability aversion desire by the auditor. They argued that, strict audit standards are difficult to comply with and therefore could compromise the audit quality. Similarly, Sunder (2014), found that tighter auditing standards impede the auditors’ application of expert decision on the audit process.

Due to the current complex business environment, corporate governance mechanisms are significantly important in for business sustainability and performance. The mechanisms provide a framework in which banks are able to constantly improve their performance by alleviating the agency problem predisposition of the organization. Board structure and composition determine the strategic direction of the bank and its routine operational dynamics. This study therefore seeks to advance the literature on corporate governance with specific reference to the performance of commercial banks in Kenya.

The following hypothesis is therefore developed for this study:
H0: Corporate Governance Structural efficiency has no significant effect on financial performance of commercial banks in Kenya.

Mathematically: \( \beta_{\text{CGSE}} = 0 \)

2.4 Conceptual Framework

![Conceptual Framework](image)

III. Methodology and Data

The study adopted the descriptive research design. The data was collected for commercial banks listed on the Nairobi Securities Exchange (NSE) for the period 2006-2017. The design employed the use of various statistical tools to collect and analyze the data. Regression analysis was used to test the relationship between the response and the predictor variables of the study. Primary data was collected using a structured closed ended questionnaires. Secondary data was collected from the annual financial statements of the banks with content analysis technique used to extract information from the financial statements.

3.1 Econometric Model Specifications

Regression analysis method was used to investigate the relationship between corporate governance structural efficiency and bank performance.

The general regression model is specified as follows:

\[ Y_{it} = \beta_0 + \beta_1 CGSE_{it} + \epsilon_{it} \]

Where:
- \( Y_{it} \) = Financial Performance of Bank \( i \) at time \( t \), using, ROA and ROE as proxies
- \( \beta_0 \) = Intercept
- \( \beta_1 \) = Parameter or coefficient of CGSE
- \( CGSE_{it} \) = Corporate Governance Structural Efficiency of bank \( i \) at time \( t \)
- \( \epsilon_{it} \) = Error term of bank \( i \) at time \( t \)

IV. Results and Discussions

4.1 Board Structure and Composition

Board size, in line with good corporate governance practice, is critical for efficient management of organizations. Extant literature on corporate governance documents that, board size captures the quality of board monitoring (Botti, et al 2014). As such, directors serving on small boards have fewer communication difficulties, allowing them to better coordinate their efforts in limiting managerial opportunistic behaviour (Botti et al. 2014). The results indicate that 42% of the respondents strongly agreed that their board was lean comprising of less than nine members with mean of 3.6 and standard deviation of 1.6 while 16.7% strongly disagreed. The findings of this study are consistent with Bushman et al. (2004) who argued that small boards are more likely to provide better quality information to outside investors. The findings are further supported by Jensen, (1993) and Lipton and Lorsch, (1992) who found that smaller boards are more preferable, arguing that smaller boards are considered beneficial, as they enable effective managerial oversight and are associated with lower coordination costs, better exchange of ideas, and less free riding among members. The findings are however inconsistent with Poudel and Hovey (2013) who argued that bigger board size and audit committee and...
lower frequency of board meetings led to better efficiency for commercial banks. According to Botti et al (2014), the directors of smaller boards are more concerned about their responsibilities to ensure effective monitoring to guarantee high-quality corporate disclosure. Similarly, Vafeas (2000) argued that board size is negatively associated with earnings disclosure and awareness. From this perspective of argument, it can be inferred that large boards increase the probability of low-quality information disclosure due to potential conflicts between multiple directors (Botti et al. 2014). Therefore, as small boards are more likely to be associated with better supervision and monitoring of firm operations, this is in effect expected to be reflected in better information disclosure and improved firm performance. Further, the study sought to determine whether the boards of commercial banks in Kenya are well constituted to include independent board members. Independent boards are effective in reducing managerial buccaneering and reduction in agency problems and associated costs. The inclusion of independent directors enhances independent monitoring of managerial behaviour. The independent directors may suffer reputational risks if they are not accountable to the shareholders. They will therefore always put bank managers to task and ensure that the interests of the shareholders are protected. The findings indicate that 66.7% and 25% of the respondents agreed and strongly agreed that the boards also comprise independent directors. With a mean of 4.167 and standard deviation of 0.577, the presence of the independent board members cannot be overemphasized. The findings are consistent with Chen et al. (2008) who find strong evidence that the presence of independent directors positively affects the extent of firm voluntary disclosure. As a good corporate governance practice, financial reporting and information disclosure are important as it is an avenue where shareholders informativeness is guaranteed. Independent directors therefore ensure that managers provide as much disclosure as possible to the shareholders. From these arguments, the need for independent directors is apparent in order to safeguard the interest of the shareholders. Similarly, Koh et al. (2007) provide that independent boards provide better monitoring thus enhancing firm performance and the value of financial reporting. Botti et al (2014) intimate that, independent directors have strong incentive to diminish and mitigate the agency problem due to their drive to be accountable to the shareholders. They also facilitate the reduction in the problem of information asymmetry between management and shareholders due to the oversight function that they perform.

Another important aspect of board structure and composition is that of board meetings. The study sought to determine whether meetings are called and on schedule. The results showed that 58.3% and 16.7% agreed and strongly agreed that board meetings were called as scheduled. Despite this general consensus among the respondents, 16.7% disagreed, implying that some banks boards did not follow the almanac of meetings which could impact negatively on performance. The results of the study are consistent with Eluyela et al. (2018), who found a positive and significant relationship between board meeting frequency and firm performance. The board plays a critical role of managing any firm through regular meetings. Board meetings and the frequency thereof, is a critical component of corporate governance as it impacts on the strategy setting and charting of the direction of bank performance. Through the board meetings, the directors discuss the relevant matters affecting the firm. To achieve this objective, the directors need to be persons who are highly knowledgeable and experienced in their respective fields. The experience is applied to the current issues afflicting the firm while at the same time focussing on the going concern objective for business continuity. The higher the frequency of meetings, the stronger the unity of purpose for the board of directors. Specifically, the decisions resulting from the outcomes of the board meetings are key in determining the performance of the firm. Definition of clear roles and functions of the board of directors is of paramount importance. This ensures that ambiguities in the running of the affairs of the bank are eliminated. The findings showed that 66.7% of the respondents agreed while 33.3% strongly agreed that the roles of the board of directors were clearly defined with a mean of 4.3 and standard deviation of 0.5 implying that their decisions are strategically thought out hence impacting positively on bank performance. Clearly defining the roles and functions of the board and management facilitates ease of operations and coordination of the strategic direction of the bank. Duality of the role of the Chief Executive Officer is an important corporate governance aspect causing the problem of information asymmetry. Where the role of the CEO and that of the Chairman are not clearly separated, potential conflict of functions held by the same individual abound. The results indicate that 58.3% of the respondents agreed while 41.7% strongly agreed that there exists separation of the role of chairman and CEO of the bank with a mean of 4.417 and a standard deviation of 0.515. These aspect of separation of the role of Chairman and Chief Executive provides the required control mechanisms that facilitates efficiency in decision making which impact on the overall financial performance of the bank as a result of prudent decision making. This could explain the stellar performance depicted by the banking sector in Kenya.
Table 4.1 Board Structure and Composition

<table>
<thead>
<tr>
<th>Board structure and composition</th>
<th>SD(%)</th>
<th>D(%)</th>
<th>N(%)</th>
<th>A(%)</th>
<th>SA(%)</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size of the bank is less than 9</td>
<td>16.7</td>
<td>16.7</td>
<td>0</td>
<td>25.0</td>
<td>41.70</td>
<td>3.5833</td>
<td>1.62135</td>
</tr>
<tr>
<td>There is clear description of the roles of the board of directors</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>66.7</td>
<td>33.30</td>
<td>4.3333</td>
<td>.49237</td>
</tr>
<tr>
<td>The chairman and the CEO are different individuals</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>58.3</td>
<td>41.70</td>
<td>4.4167</td>
<td>.51493</td>
</tr>
<tr>
<td>There are independent directors on the board of directors</td>
<td>0</td>
<td>0</td>
<td>8.3</td>
<td>66.7</td>
<td>25.00</td>
<td>4.1667</td>
<td>.57735</td>
</tr>
<tr>
<td>The board of directors also constitute directors representing minority interests</td>
<td>0</td>
<td>0</td>
<td>16.7</td>
<td>75.0</td>
<td>8.30</td>
<td>3.9167</td>
<td>.51493</td>
</tr>
<tr>
<td>Meetings of board of directors are called as scheduled</td>
<td>0</td>
<td>16.7</td>
<td>8.3</td>
<td>58.3</td>
<td>16.70</td>
<td>4.1667</td>
<td>.57735</td>
</tr>
</tbody>
</table>

4.2 Transparency and Disclosure

As indicated in Table 4.2, the study also sought to determine whether commercial banks in Kenya provide full disclosure in their financial statements. Key aspects of disclosure; remuneration to board of directors, ownership and shareholding, online publication of corporate information and appointment of auditors & audit fees are analyzed. On disclosure of remuneration to the board of directors, the findings indicate that 58.3% and 25% agreed and strongly agreed respectively, that there is disclosure of employee costs as well as directors’ remuneration the financial statements. However, despite this finding, 16.7% were indifferent with a convergence of 4.08 and standard deviation of 0.668. This finding indicates that banks in Kenya provide information relating employee costs and directors’ remuneration in the financial statements. This practice helps to improve the degree of transparency of the bank by availing information to investors to enable informed decisions.

Similarly, the study focused on ownership and shareholding structure disclosure. Board ownership and shareholding provides the managers with an incentive to pursue investment strategies that increase firm value. The disclosure of the information in the financial reports lends confidence to both the existing and the potential shareholders. The results indicate that 75% of the respondents agreed that there is disclosure of ownership and shareholding in their banks since the annual reports were always prepared. Similarly, 25% of the respondents strongly agreed with this view, with a mean of 4.25 and a standard deviation of 0.45. The results of this study are an indication of adequacy in disclosure of the shareholding of the bank in the financial statements. The findings are therefore consistent with Horner (2010) who found a positive and significant relationship between the board of directors' ownership in a firm and performance.

Further, the study sought to find out whether commercial banks leverage on the use of technology in their operations particularly for publication of their annual reports and financial statements. The findings indicate that 83.3% of the respondents agreed that the annual reports and accounts of the bank were published online while 16.7% strongly agreed. This finding implies that banks in Kenya facilitate access to their financial performance information for public scrutiny on all operational aspects of the firm through the use of the internet. The findings are consistent with Bekiaris et al. (2013) who found that, among others, Internet-related financial disclosure is significantly associated with profitability, leverage, firm age and ownership dispersion. This results reinforce the significance of effective corporate disclosure to enhance the mutually beneficial relationship between shareholders and managers. Corporate financial information disclosure is key in facilitating informed decisions by the users of the said information. The information is important for estimation of the value of the firm and access to other details that enhance competitiveness.

The study, also sought to determine whether auditors were appointed on rotational basis and disclosure of audit fees. The findings indicate that 66.7% of the respondents agreed that appointment of auditors on rotation occurs, and also concurred that payments of audit fees is disclosed in the financial statements. This result is consistent with the view held by the proponents of auditor rotation. Lu, (2005), Davis et al., (2009), Kim et al. (2007) and Jackson et al., (2008). However, 16.7% were in a dilemma with a mean of 4.0 and a standard deviation of 0.6. This indicates that some banks did not rotate their auditors or disclose the audit fees payments which is against good corporate governance practice. From this finding, it can be argued that rotation of auditors has no consequence. This can be buttressed by the fact that due to the fear of potential litigations, the auditor shall endeavor to perform the audit assignment diligently so as to protect their reputation. Similarly, the cost of auditor rotation maybe unaffordable to both the auditor and the client hence making it undesirable. Kim et al. (2007) and Lu, (2005), indicate that a fixed auditor tenure increases the auditor lack of independence and objectivity, leading to sloppiness in their audit assignment. Non rotation of auditors also creates an avenue
where the client is viewed by the auditor as a source of cash flow into perpetuity. This leads to development of the dependency syndrome hence compromise the objectivity of the auditor and the resultant financial statements.

Table 4.2 Transparency and Disclosure Descriptive Statistics

<table>
<thead>
<tr>
<th>Transparency and disclosure</th>
<th>SD(%)</th>
<th>D(%)</th>
<th>N(%)</th>
<th>A(%)</th>
<th>SA(%)</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is full disclosure of remuneration to the board of directors and staff</td>
<td>0</td>
<td>0</td>
<td>16.7</td>
<td>58.3</td>
<td>25.0</td>
<td>4.0833</td>
<td>.66856</td>
</tr>
<tr>
<td>The annual report of ownership and shareholding is prepared</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>75.0</td>
<td>25.0</td>
<td>4.2500</td>
<td>.45227</td>
</tr>
<tr>
<td>Information on employee ownership is stated</td>
<td>0</td>
<td>0</td>
<td>25</td>
<td>50.0</td>
<td>25.0</td>
<td>3.7500</td>
<td>1.13818</td>
</tr>
<tr>
<td>There is rotation of the appointment of the auditors</td>
<td>0</td>
<td>0</td>
<td>8.3</td>
<td>66.7</td>
<td>25.0</td>
<td>4.1667</td>
<td>.57735</td>
</tr>
<tr>
<td>The annual reports and accounts are available online</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>83.3</td>
<td>16.7</td>
<td>4.2500</td>
<td>.45227</td>
</tr>
<tr>
<td>Payments to auditors for consultancy services is disclosed</td>
<td>0</td>
<td>0</td>
<td>16.7</td>
<td>66.7</td>
<td>16.7</td>
<td>4.0000</td>
<td>.60302</td>
</tr>
</tbody>
</table>

4.3 Regression and descriptive Statistics

The research used regression analysis to determine the statistical relationship between corporate governance structural efficiency and bank performance. The null hypothesis was tested using the regression model. The linear regression model showed $R^2 = 0.454$. This means that a 45.4% change in financial performance of commercial banks in Kenya can be explained by a unit change of corporate governance structural efficiency, while the remaining 54.6% can be attributed to other factors. The result is shown in Table 4.3. This implies that corporate governance is an important predictor of performance of commercial banks in Kenya.

Table 4.3 Model Summary of corporate governance structure efficiency

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.674</td>
<td>.454</td>
<td>.452</td>
<td>3.27753</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate governance structure efficiency

The ANOVA of the results show that the model used is statistically significant. This is shown by the F-statistic of 212.851 with p value, $p = 0.000$, less than 0.05 as indicated in Table 4.4. This implies that there is a positive and significant relationship between corporate governance structural efficiency and financial performance of commercial banks in Kenya, indicating that corporate governance structural efficiency is a good predictor of bank performance.

Table 4.4 Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression</td>
<td>2286.491</td>
<td>1</td>
<td>2286.491</td>
<td>212.851</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2750.005</td>
<td>256</td>
<td>10.742</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5036.496</td>
<td>257</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Corporate governance structural efficiency

The regression coefficient of the resulting model is presented in Table 4.5. The results show a coefficient of 0.986 and a constant, $b = -3.473$. This implies that, a unit increase in corporate governance structural efficiency leads to an increase in bank performance by 0.986. On the contrary, a nil increase leads to a decrease in performance of commercial banks in Kenya by 3.473. The result is supported by the t value of 14.589 and p value of 0.000. The null hypothesis is therefore rejected.
The results indicate that there is strong, positive and significant relationship between corporate governance structural efficiency and performance of banks in Kenya. On board structure and composition, the results indicate that (42%) of the banks in Kenya favour lean board, while 66.7% show that there is existence of independent directors on the board. From this findings, small boards are associated with better supervision and monitoring of firm operations while independent board members are effective in reducing managerial buccaneering and agency problems and associated costs, thus enhancing efficiency. With regard to board meetings, 58.3% and 16.7% of the respondents agreed and strongly agreed that board meetings were called as scheduled, implying that the board plays a critical role of managing the affairs of the bank through regular meetings. Through the board meetings, the directors discuss the relevant matters affecting the firm currently and in the future, thus defining the banks’ strategic direction. With respect to role and function specificity, 66.7% of the respondents agreed while 33.3% strongly agreed that the roles of the board of directors were clearly defined with a mean of 4.3 and standard deviation of 0.5 implying that, their decisions are strategically thought out hence impacting positively on bank performance. In this connection, clearly defining the roles and functions of the board and management facilitates ease of operations and coordination of the strategic direction of the bank. Further, the results indicate that 58.3% of the respondents agreed, while 41.7% strongly agreed, that there exists separation of the role of Chairman and CEO of the bank with a mean of 4.417 and a standard deviation of 0.515. These aspect of separation of the role of Chairman and Chief Executive, provides the required control mechanisms that facilitates efficiency in decision making, which impact on the overall financial performance of the bank as a result of prudent decision making. This finding could explain the stellar performance depicted by the banking sector in Kenya, implying that the chairman and CEO of most banks in Kenya are different individuals. The study also finds that the banking sector in Kenya has upheld transparency and disclosure of key aspects of corporate management. This include; remuneration to board of directors, ownership and shareholding, online publication of corporate information and appointment of auditors & audit fees are analyzed. The study recommends that the banking sector should continue to adopt and embrace efficient corporate governance mechanisms so as to guarantee improved performance. The banks should ensure that an optimal board structure is established, ensure transparent disclosure of corporate information and adhere best corporate governance practices.

4.4 Conclusions and Recommendations

The study sought to determine the effect of corporate governance structural efficiency on financial performance of commercial banks listed on the Nairobi Securities Exchange. The results indicate that there is strong, positive and significant relationship between corporate governance structural efficiency and performance of banks in Kenya. On board structure and composition, the results indicate that (42%) of the banks in Kenya favour lean board, while 66.7% show that there is existence of independent directors on the board. From this findings, small boards are associated with better supervision and monitoring of firm operations while independent board members are effective in reducing managerial buccaneering and agency problems and associated costs, thus enhancing efficiency. With regard to board meetings, 58.3% and 16.7% of the respondents agreed and strongly agreed that board meetings were called as scheduled, implying that the board plays a critical role of managing the affairs of the bank through regular meetings. Through the board meetings, the directors discuss the relevant matters affecting the firm currently and in the future, thus defining the banks’ strategic direction. With respect to role and function specificity, 66.7% of the respondents agreed while 33.3% strongly agreed that the roles of the board of directors were clearly defined with a mean of 4.3 and standard deviation of 0.5 implying that, their decisions are strategically thought out hence impacting positively on bank performance. In this connection, clearly defining the roles and functions of the board and management facilitates ease of operations and coordination of the strategic direction of the bank. Further, the results indicate that 58.3% of the respondents agreed, while 41.7% strongly agreed, that there exists separation of the role of Chairman and CEO of the bank with a mean of 4.417 and a standard deviation of 0.515. These aspect of separation of the role of Chairman and Chief Executive, provides the required control mechanisms that facilitates efficiency in decision making, which impact on the overall financial performance of the bank as a result of prudent decision making. This finding could explain the stellar performance depicted by the banking sector in Kenya, implying that the chairman and CEO of most banks in Kenya are different individuals. The study also finds that the banking sector in Kenya has upheld transparency and disclosure of key aspects of corporate management. This include; remuneration to board of directors, ownership and shareholding, online publication of corporate information and appointment of auditors & audit fees are analyzed. The study recommends that the banking sector should continue to adopt and embrace efficient corporate governance mechanisms so as to guarantee improved performance. The banks should ensure that an optimal board structure is established, ensure transparent disclosure of corporate information and adhere best corporate governance practices.

References


Table 4.5 Coefficient for corporate governance structure efficiency

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-3.473</td>
<td>1.678</td>
<td>0.74</td>
<td>-2.070</td>
</tr>
<tr>
<td>1</td>
<td>Corporate governance structure</td>
<td>0.68</td>
<td>14.589</td>
<td>0.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance
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