THE IMPACT OF CORPORATE GOVERNANANCE ON FINANCIAL PERFORMANCE: CASE OF STUDY COMMERCIAL BANKS IN KENYA

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Ahmed Youssouf DIRIR

Supervisor
Assist. Prof. Dr. Akram ALHAMAD

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Ahmed Youssouf DIRIR

Assist. Prof. Dr. Akram ALHAMAD

T.C.
Karabuk University
Institute of Graduate Programs
Department of Business Administration
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THESIS APPROVAL PAGE

I certify that in my opinion the thesis submitted by Ahmed Youssouf DİRİR titled "THE IMPACT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE: CASE OF STUDY COMMERCIAL BANKS IN KENYA" is fully adequate in scope and in quality as a thesis for the degree of Master of Science degree..

Assist. Prof. Dr. Akram Al-HAMAD ....

Thesis Advisor, Department of Business Administration

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Examining Committee Members (Institutions)		Signature
Chairman	: Assist. prof. Essia ABU RIES (KBU)	....
Member	: Assist. prof. AkramALHAMAD (KBU)	....
Member	: Assist. prof. Sertaç ERCAN (Bandirma)	ONLINE

The degree of Master of Science by the thesis submitted is approved by the Administrative Board of the Institute of Graduate Programs, Karabuk University.

Prof. Dr. Müslüm KUZU ....

Director of the Institute of Graduate Programs

DECLARATION

By signing this document, I certify that this thesis is entirely my own creation and that all information was gathered and presented in accordance with the academic standards and ethical guidelines of the institution. Moreover, I vouch for the accurate crediting and citation of any statements, findings, or materials included in this thesis that are not unique to it.

Without respect to deadlines, I take full responsibility for any transgression that violates the above declaration.

Name Surname: Ahmed Youssouf DİRİR

Signature :

FORWARD

The greatest of all time, ALLAH, the Most Gracious, the Most Merciful, deserves a particular thank you from me since he gave me the health, stamina, and patience I needed to finish my Master's degree.

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// ABSTRACT

Corporate governance is the procedure used to manage and oversee firms with the goal of increasing shareholder value and catering to the demands of other customers. The goal is to boost organizational performance and promote an open working environment. Effective corporate governance laws must be put in place as a result of the present global financial crisis of the twenty-first century. Finding out how corporate governance impacted the financial performance of Kenyan commercial banks was the study's main objective. In place of performance ratios, ROA was employed to assess the banks' financial performance. As one of the study's independent variables, the following elements: board size, board independence, and board meetings were used to analyse corporate governance. Using yearly reports that were collected from the banks' official websites, data for one year for each variable was produced for Kenya's commercial banks. The data were examined using econometric analysis in E-views 12.0. The results showed that corporate governance would have some impacts on financial performance of Kenya's commercial banks. The regression analysis showed that Board independence is the most effective practice of corporate governance that positively influences financial performance of Kenya's commercial banks. The research includes recommendations for more research about the management implications and the relevant authorities.

Keywords: Corporate Governance (Return on assets, Board size, Board independence and Board meetings), Financial Performance, Kenya's Commercial Banks.

ÖZ (ABSTRACT IN TURKISH)

Kurumsal yönetim, hissedar değerini artırmak ve diğer müşterilerin taleplerini karşılamak amacıyla firmaları yönetmek ve denetlemek için kullanılan prosedürdür. Amaç, kurumsal performansı artırmak ve açık bir çalışma ortamını teşvik etmektir. 21. yüzyılın mevcut küresel mali krizinin bir sonucu olarak etkili kurumsal yönetişim yasaları yürürlüğe konmalıdır. Kurumsal yönetişimin Kenya ticari bankalarının finansal performansını nasıl etkilediğini bulmak çalışmanın ana hedefiydi. Bankaların finansal performansını değerlendirmek için performans oranları yerine ROA kullanılmıştır. Çalışmanın bağımsız değişkenlerinden biri olarak yönetim kurulu büyüklüğü, yönetim kurulu bağımsızlığı ve yönetim kurulu toplantıları kurumsal yönetişimi analiz etmek için kullanılmıştır. Bankaların resmi internet sitelerinden toplanan yıllık raporlar kullanılarak Kenya ticari bankaları için her bir değişken için birer yıllık veriler üretilmiştir. Veriler, E-views 12.0'da ekonometrik analiz kullanılarak incelendi. Sonuçlar, kurumsal yönetimin Kenya'nın ticari bankalarının finansal performansı üzerinde bazı etkileri olacağını gösterdi. Regresyon analizi, Kurul bağımsızlığının Kenya'nın ticari bankalarının mali performansını olumlu yönde etkileyen en etkili kurumsal yönetim uygulaması olduğunu gösterdi. Araştırma, yönetim uygulamaları ve ilgili makamlar hakkında daha fazla araştırma için öneriler içermektedir.

Anahtar Sözcükler: Kurumsal yönetişim, finansal performans, Aktif karlılığı, Kurul büyüklüğü, Kurul bağımsızlığı ve Kurul toplantıları.

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ARŞİV KAYIT BİLGİLERİ (IN TURKISH)

Tezin Adı	KURUMSAL YÖNETİMİN FİNANSAL PERFORMANS ÜZERİNDEKİ ETKİSİ: KENYA'DAKİ TİCARİ BANKALARA İLİŞKİN BİR ÇALIŞMA ÖRNEĞİ
Tezin Yazarı	Ahmed Youssouf DİRİR
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ABBREVIATIONS

CG : Corporate Governance

FP : Financial Performance

ROA : Return on Assets

BS : Board Size

BI : Board Independence

BM : Board Meetings

CSR : Corporate Social Responsibility

OECD : Organisation For Economic Co-Operation and Development

FTSE350 : Financial Times-Stock Exchange 350 Share Index

SUBJECT OF THE RESEARCH

The Impact of Corporate Governance on Financial Performance: Case of Study Commercial Banks in Kenya.

PURPOSE AND IMPORTANCE OF THE RESEARCH

To be clear, Customers are more inclined to transact with banks in the future if they have a positive association with that bank's board size, board independence, or board meetings. This hypothesis is supported by the dissertation's results.

In light of the financial performance of Kenyan commercial banks, the present research considerably advances knowledge of relational corporate governance. The main components in the research include (board size, board independence, ROA, and board meetings).

METHOD OF THE RESEARCH

The descriptive analysis was used to accomplish the study's goal. The study's design is based on the assumption that the model constructs are positively correlated. This relationship helps to examine the study hypotheses through analysis of data gathered from the annual reports of commercial banks in Kenya's official websites. The data were then tested using E-views regression analysis and correlation. The overall research idea and the multiple steps followed for data collecting are also detailed in great depth. The methodologies for data analysis and other statistical tests applied to the data are also studied in this area of the study.

HYPOTHESIS OF THE RESEARCH / RESEARCH PROBLEM

The findings of **H1**, confirm the detrimental effect of board size on financial performance. The findings of **H2** was validated by hypothesis testing. This suggests that the Board independence at the Banks has a beneficial and advantageous influence

on financial performance. It also confirmed the outcomes. The results of **H3**, showed weak and statistically no significant outcomes, indicating that Board meetings have a negative influence on the financial performance.

As a finding, it might be argued that corporate governance practices still need to be enhanced even when they are well-known and already in place. This is due to a careful analysis of the Kenyan banking sector's performance during the past 20 years. The significance of a robust financial sector in promoting economic development, which may support this concept, cannot be overstated. The links between corporate governance and bank performance have been the topic of numerous recent studies in Kenya, although the results have either been ambiguous or even inconsistent.

POPULATION AND SAMPLE (IF AVAILABLE)

A research population may not normally interact with anybody. This term may be used to refer to any set of items you want to study, including people, groups, nations, species, and other biological entities. The particular group for whom data are sought in statistics is known as the target population. Mugenda (2003), describe a population as a discrete collection of the individuals, services, elements, occasions, or homes under discussion. The 21 commercial banks that are now functioning in Kenya are the study's target population (the methodology chapter includes a list of these institutions).

SCOPE AND LIMITATIONS / DIFFICULTIES

This research explores the link between the commercial banks in question's corporate governance and financial performance. The dependent factor is financial performance, while the independent variable is corporate governance. The use of Commercial Banks is justified by the fact that they are publicly listed businesses, and as it is legally required for such businesses to provide such information, their data may be openly accessible. Kenyan commercial banks served as the study's fieldwork locations. This is a consequence of the data's availability and the fact that the principal offices are the only locations to locate the vast majority of the required strategic

information. As a period of one year is appropriate to give a reliable trend, the study focussed on the year 2021.

1 INTRODUCTION

1.1 Background of Study

The most important and vital banking industry in any nation's economy are its corporations. They are essential to the growth and development of a nation's economy. According to their different distinguishing characteristics, such as the employees (small, medium, or big businesses), skills, hierarchy, and the duties they carry out globally, corporations can be categorized into a wide range of categories. Governments today have less control over citizens due to technology and globalization, thus they must carry out their obligations. These corporations are obligated by law to disclose and maintain their specific financial reports and performances since they are the owners of the shareholders' wealth (due to debt financing). According to a study done by Crane and Matthew, firms' rational business practices and excellent corporate governance boost national economies, and their corporate social responsibility initiatives also have a positive impact on the society in which they operate (Crane & Matthew, 2007). Bank liquidity decreases during crises, when local government does not provide financial help, depositors withdraw funds to deal with economic instability (Goodell 2020; Kozak 2021). Most loan defaults, such as those on mortgages, cars, and personal loans, further erode bank liquidity. Banks, which are depository institutions and heavily reliant on loan interest income, are especially susceptible to the pandemic's potential to disrupt the economy (Goodell 2020; Sivaprasad & Mathew 2021). Corporate governance's main responsibility is to keep an eye on the board's activities. Through a system of oversight and control, the board of directors keeps an eye on management's efforts to boost shareholder value (Jebran & Chen 2020). The ability of corporate governance to safeguard credibility (Brammer and Pavelin 2008), trust (Akhtaruzzaman et al. 2021), and the image of banking firms throughout crises (Buallay 2019; Miralles-Quirós et al. 2019) is one of the most crucial aspects of ESG (environmental, social, and governance) indices. Few studies have been conducted on the significance of both within and outside corporate governance strategies in preserving bank performance during the pandemic (Khatib & Nour 2021).

Additionally, a case study on a global bank has shown how better crisis management is achieved by effective corporate governance practises (Sivaprasad & Mathew 2021). Objectivity-based assessments of management performance served as the foundation for effective corporate governance practises. The bank's board of directors was well-organized, there was a high level of transparency, independent internal committees had appropriate expertise, and there were other elements that increased confidence in the institution. Investigations into non-bank firms confirmed the significance of board objectiveness, and Broadstock et al. (2021) found that these governance frameworks reduced credit risk for the organisations that used them. These governance strategies, according to Scherer and Voegtlin (2020), encouraged organisations to innovate, which improved financial performance. Due to their ability to increase investor confidence and give out good signals to other major stakeholders, many boards were able to effectively communicate with other parties during crises (Song et al. 2020). According to Khatib and Nour (2021), a bigger board of directors could give more varied expertise, better monitoring processes, and more efficient interaction during times of crisis. After the controversy and collapse of numerous well-known firms like Enron, the significance of good corporate governance standards cannot be overstated. The numerous governments as a result and their banking regulatory authorities have already tightened and improved the protocols to prevent major corporate governance concerns from occurring and to safeguard investors' or shareholders' rights in businesses' internal marketplaces or in the open (Kirkpatrick, 2009).

Companies nowadays are playing a critical role in advancing economies in an era of globalization and technological growth. By implementing a variety of growth strategies, such as mergers and acquisitions, some banking have grown their operations and enterprises abroad. These tactics have a substantial impact on their financial success. As a result, these organizations now have greater obligations, liabilities, and duties to their shareholders as well as other stakeholders around the world. The topic of the current study has purposefully been investigated in industrialized nations like UK and the USA. Contrarily, there is a study deficit in this area in developing nations like Pakistan and Bangladesh since it has not been properly examined and investigated (Tahir et al., 2012).

"Corporate Governance is a process through which shareholders induce management to act in their interest, creating a level of confidence that is necessary for the functioning of the capital markets" (Rezaee, 2009). It is often referred to as all the processes and techniques used in the management and organization of organizations (Sulaiman & Bidin, 2002). *"Corporate governance"* is the process of running a business in a manner that serves and protects the interests of all parties involved, both separately and jointly (Butt, 2008).

Corporate governance (CG) procedures are crucial to an organization's health. According to the definitions provided above and a review of earlier pertinent literature, CG practices are among the most effective ways to manage and control them. They cover all facets of a corporation, including the administrative or managerial aspects, societal aspects, and legal requirements for publicly and privately traded firms. According to Yusoff and Alhaji (2012), codified code of corporate governance standards improves an organization's financial performance. Some of the most crucial fundamental components for effective corporate governance include accountability, timely reliable information disclosure to the public, and transparency. Finding a balance is crucial in order to satisfy the needs of the many stakeholders. This frequently entails resolving conflicts of interest and making sure the business is handled effectively, meaning that all processes and policies must be in line with the organization's ethical beliefs. These components will make it simpler for businesses to attain sustainability. All of these actions are important to prevent poor management, enable businesses to run more effectively, reduce risks, safeguard stakeholders, and enhance access to finance. In addition to helping businesses become more accountable and transparent, corporate governance also gives them the resources they need to address stakeholder issues. It promotes economic progress, creates job opportunities, and aids in the creation of capital. For a firm, poor corporate governance can have serious consequences. It could result in a loss of revenue, insolvency, corruption, and damage to the company's reputation not just in the business world but also in general society. The use of these procedures is also required to reduce risks and get rid of damaging aspects within an banking industry.

The study is structured as follows:

The literature review paid particular attention to how corporate governance affects a company's financial success. The corporate governance laws of the countries under study are then briefly presented. The study then goes over the information and methodology, then examined the outcomes and conclusions. The conclusion is the last paragraph.

According to Gompers, Ishii, and Metrick (2003), analyse how corporate governance affects company performance in the 1990s in a significant and often referenced work. They discover that over the course of this decade stock returns for businesses with robust shareholder rights have outpaced stock returns for companies with lax rights by an average of 8.5% yearly. Due to the fact that these portfolios may be created using publicly available data, substantial questions regarding the efficient market hypothesis might be raised in light of this discovery. On the policy front, proponents of corporate governance have frequently referenced this finding as proof that strong governance (as determined by GIM) improves business performance.

There are three primary theories that can be used to explain why companies with robust shareholder rights outperform their competitors in terms of returns. In the first place, it's likely that these results are sample-period specific, hence, businesses that had strong shareholder rights during the 2000s would not have had greater return performance. The truth is that Core et al., (2005), carefully show in a relatively recent paper that business with high investor’s rights have not outperformed those with lesser investor’s rights in the current decade in terms of share growth. Incorrect risk-adjustment, or to put it another way, may link the governance component to an unobservable risk factor (s).

Corporate governance largely focuses on how all parties with an interest in how the firm is governed (the stakeholders) cooperate to make sure that executives, managers, and insiders consistently behave morally or create rules that protect the stakeholders' interests. Such operations are required due to the rising significance of ownership and management separation in contemporary organizations. Corporate governance is a system and set of practices utilised to direct and monitor a company's activities to maximise long-term shareholder value while also taking other stakeholders' interests into account (CMA Act, 2002).

The term *"corporate governance"* describes the structure used by businesses for direction and control. It manages a range of connections between firm directors, shareholders, and other stakeholders to govern the director's and controlling shareholder's authority over minority interests, employee rights, creditor rights, and other stakeholder rights (Muriithi, 2009). Management operations are guided and regulated by an internal system of standards, procedures, and personnel who operate objectively, responsibly, and honourably in order to serve the requirements of shareholders and other stakeholders (Mangunyi, 2011). One of the concepts that is most often used in modern business and has gained popularity in recent years is *"corporate governance."*

An expanding collection of literature and empirical study are available in this highly multidisciplinary field. Many and varied stakeholders are involved in the corporate governance sector, and as a result, a wide diversity of information resources that are pertinent to numerous academic fields and professional specialties have emerged. As a result, the corporate governance researcher has to be well-versed on the many roles that various stakeholders play as well as how they "fit" together in the complex corporate governance landscape of today. Business academics and practitioners increasingly consistently base their work on corporate governance, which presents challenges for both them and the information experts who assist them in terms of meeting their information and research demands. Governance is the control of economic and social resources in an effort to advance human progress that is sustainable (McCord, 2002). Corporate governance, according to McCord, is the management of a corporation's entire portfolio and resources with the aim of maximizing stakeholder value and gratifying other stakeholders within the framework of each organization's corporate mission and vision as stated in an institution's strategic plan (McCord, 2002).

In order for a firm to be effectively managed in the worldwide market, it is now necessary to embrace excellent corporate governance procedures. The word *"business governance"* is one that, despite the fact that the issues it tackles have been around for much longer, is relatively new and is utilised in both academic and popular discourse. Hence, during the last 20 years, both the academic literature and public policy dialogues have begun to place a greater emphasis on corporate governance challenges.

Throughout time, corporate governance has been linked to takeovers, financial restructuring, and activist institutional investors. Corporate governance is the process using which investors in businesses are certain that their money will be well spent (Ross et al.,1973).

Corporate governance guidelines ensure that investors will get sufficient returns on their investments (Shleifer & Vishny, 1997). Outside investors would refrain from making loans to businesses or purchasing their stock if these procedures were deficient or non-existent. As a result, businesses would have to completely rely on their own internal cash flows and financial resources to fund both current operations and lucrative investment prospects. As so many potential business opportunities would be lost as a result and financial problems at individual firms would spread swiftly to other businesses, employees, and customers, the economy's overall performance is probably going to decline.

The significant advantages of solid CG practices are clearly described in a review of earlier pertinent material. The economic and financial development of a company, as well as the nation in which it operates, can be aided by excellent CG practices. It aids a company in achieving its objectives and maximizing shareholder wealth. While implementing excellent CG practices can assist an organization achieve its goals, it also helps to protect stakeholder rights while reducing the risk of financial vulnerability, default, and crisis. Organizations with sound CG procedures are crucial to the growth of the financial markets, but, there are drawbacks as well as positives. Conflict has been mentioned in earlier corporate governance research (agency theory). There may sometimes be a tense dynamic between the company's owners, managers (agents), and stakeholders (Javed & Iqbal, 2010). To be able to evaluate the firm's success after the adoption of the code, more study on this topic is crucial.

1.2 Problem of the Study

Recently, the promise of adopting corporate governance, such as improved company performance, has been a major priority in many financial institutions in emerging countries. For instance, as seen by an increasingly growing number of banks that are either now doing badly or have entirely collapsed during the previous 20 years,

this promise does not seem to be sufficiently fulfilled in the Kenyan banking system. 35 banks collapsed between 2019 and 2021 at the very least (Upadhyaya, 2011; Kyere, M., & Ausloos, M.,).

This poor performance has been the subject of several empirical investigations, and it has been determined that ineffective corporate governance methods are to blame (Torku, K., & Laryea, E., 202; 12021Anyiko, J., 2020; Onchomba, M. S., 2020). If corporate governance practices are not adequately evaluated in connection to company performance and emerging difficulties are not addressed, there will likely be more bank collapses. Failure or closure of a bank may have a major impact on a nation's socioeconomic health in a variety of ways, including as the loss of customer deposits, job losses, a drop in GDP contribution, and a general decline in public confidence in the banking sector.

As a finding, it might be argued that corporate governance practices still need to be enhanced even when they are well-known and already in place (Hopt, K. J., 2021). This is due to a careful analysis of the Kenyan banking sector's performance during the past 20 years (Al Zaidanin, J. S., & Al Zaidanin, O. J., 2021; OKOTH, O. W., & MUIA, L., 2020; Ahmed, E., Kilika, J., & Gakenia, C., 2022; Muthoni, M. I., Mwangi, L. W., & Muathe, S. M.,2020). The significance of a robust financial sector in promoting economic development, which may support this concept, cannot be overstated. The links between corporate governance and bank performance have been the topic of numerous recent studies in Kenya, although the results have either been ambiguous or even inconsistent (Hosain, M. S., 2020; Lumbi, H. K., 2021; Njora, J. N., 2021).

According to Nyarige (2012), found that the performance of commercial banks on the African market may be negatively or favorably impacted depending on the degree of interdependence and board size, despite the fact that Mang'unyi (2011), found no correlation between the partnership structure of a bank and its capacity for financial performance. Further empirical study is required to determine if corporate governance influences the financial success of Kenya's commercial banks in light of these inconsistencies in the results.

In accordance with Liu and Fong (2010), one of the most significant tools for corporate governance is the board of directors. The requirement for an independent board has been shown by several studies (Fama & Jensen, 1983; Gillan, 2006). The duty to guarantee that management acts in the most beneficial way for the owners falls to the board of directors, which speak for the shareholders (Liu & Fong, 2010). Corporate governance principles should guarantee that management is effectively supervised by the board and that the company is operated strategically (OECD, 2004). In order to limit conflict between owners and executives and to enhance shareholder profits, the board of directors is in charge of regulating management procedures (OECD, 2004).Corporate governance policies have an effect on the financial performance of the analysed bank, in accordance with a thorough examination of the research in the study's following chapter or section.

1.3 Research Questions

This study identifies the crime-ridden region, performs research there, and answers the following question.

1. Does Board size have impact on financial performance in Kenya Banks?
2. Does Board independence have impact on financial performance in Kenya Banks?
3. Do Board meetings have impact on financial performance in Kenya Banks?

1.4 Research Objectives

This research's main objective is to find out how corporate governance elements impact banks' financial performance as shown by performance. The focus of the research is mostly on the following objectives.

1. To evaluate board size impact on financial performance in Kenya Banks.

2. To evaluate board independence impact on financial performance in Kenya Banks.
3. To evaluate board meetings impact on financial performance in Kenya Banks.

1.5 Significance of Research

The following organisations will benefit from the research, The findings of the research should assist the government in creating and implementing efficient laws for financial institutions in Kenya via the Capital Market Authority and other decision-makers, All managerial levels: managers at all levels in the various business enterprises could benefit from the study's results and suggestions in order to manage their companies more effectively by adopting the excellent corporate governance principles. The conclusions will serve as a manual for firms as they set up corporate governance systems. The investigator and aspiring investigators: By using research data from Kenya's Commercial Banks, the research will increase our corpus of knowledge already accessible on corporate governance. This study should be interesting to academics and students who are interested in the fields of economics, finance, administration, advertising, corporate growth, and the development of human resources. The interaction between the researcher and the respondents could lead to an improvement in the study's comprehension, the researcher's skills, and his or her expertise.

1.6 Research Scope

The relationship between corporate governance and the financial performance of the commercial bank under examination is examined in this research. Financial performance is the dependent variable, while corporate governance is the independent variable. The justification for employing Commercial Banks is that they are publicly traded corporations, and since it is a legal necessity for publicly traded companies to divulge such information, their data may be freely accessed. Several commercial banks in Kenya were the sites of the research. This is a result of the data's accessibility and

the fact that the main offices are the only places to find the majority of the necessary information of a strategic nature. Since a period of one year is adequate to provide a solid trend, the research concentrated on the year 2021.

1.7 Key Terms Definition

Corporate Governance: is used to refer to the framework for leading and managing enterprises. The corporate decision-making processes are outlined in the governance structure, which also specifies the roles and responsibilities of the various investor's (such as the board of directors, managerial staff, shareholders, lenders, audit committees, regulatory bodies, and other parties) who make up the organization (Donalson, 1991).

Financial Performance: How responsible a company is to the results of its activities, policies, and other actions for a certain time period may be determined solely based on its financial performance. The kind of financially success in the public sector is determined by the predicted financial outcomes for the public sector company throughout the given time frame (Adams, 2003).

Return on Assets: A financial term known as return on assets (ROA) measures a company's profitability in proportion to its total assets. The return on assets (ROA) of a corporation may be used by analysts, investors, and corporate management to assess how well its resources are being used (Jason Gordon, 2022).

Board Size: *"Board size"* refers to the total number of directors on a board. These ideas are seen to be consistent with older corporate governance literature. bigger boards may not be as effective as smaller ones, claims (Hermalin & Weisbach, 2013).

Board Independence: Board Independence is a proxy for the board's independence is the ratio of independent or non-executive directors to the total number of board members (Latief et al., 2014; Zaman et al., 2015).

Board Meetings: The board of directors' formulated strategic strategy is discussed during a board meeting. The best course of action and the best method for executing it are anticipated to be agreed upon by the directors. A board meeting is just

a meeting when strategy and policies are decided. It is also the number of times the directors met during a year (Vafeas, 1999).

1.8 Thesis Organization

There are five chapters in this master's thesis. The first chapter serves as an introduction to the investigation and provides background information about the study's relationship to financial performance and corporate governance. It also includes a statement of the problem, as well as the goals and justifications for the study. It also discussed the study's importance.

The second chapter of the study carried by various other scholars and investigators, in addition to their findings, are covered in this chapter. It also includes the conclusions they reached after completing extensive study, in addition to the definitions, interpretations, and arguments they provide. The research framework that provides a foundation for the research also articulates the research framework and the hypothesis that guided the model's creation.

The third chapter explains the conceptualization and planning that went into the whole data collection process. This section goes into great length on the study approach and procedures that served as the guidelines for the research. The sampling process used to choose the respondents and the sample that made up the study's participants were both reported by the researcher. The researcher also described their strategy for data collection and the tools they would use to carry it out.

The fourth chapter's contained examination of the many phases used in the research study is covered in depth. The variables employed and their operational meanings are covered in depth in this chapter. The overall study concept and the numerous processes followed for data gathering are also covered in great depth. The techniques for data analysis and different statistical tests applied to the data are also covered in this area of the research.

The fifth chapter contained all discussions of the conclusions and findings of research analysis are provided in this chapter, along with suggestions.

2 LITERATURE REVIEW

2.1 Introduction

In several portions of this chapter, we provide theoretical perspectives and relevant literature on corporate governance and financial performance in corporate organisations. The first portion examines the theoretical side of corporate governance, which connects the idea of corporate governance and discusses its definitions. I'll also go through a few earlier studies on corporate governance. The idea, definitions, and earlier research on financial performance were covered in the second part, which focused on a theoretical element of financial performance. The literature on the topic is covered in this chapter, including (Return on Assets (ROA), Board size, Board independence and Board meetings).

2.2 Overview of the Banking Sector of Kenya

The 52 organizations that make up the Kenyan banking system comprise 8 deposit-taking microfinance companies, 43 commercial banks, and 1 home financing business. Foreign banks (such Standard Chartered, Barclays, etc.) control the majority of the market and pan-African organisations (such as KCB, Equity Bank, etc.). There were 1,974 ATMs and 1063 bank branches nationwide as of December 31st, 2010. The development of e-banking services, which have replaced traditional channels as the preferred method of banking in addition to the traditional banking models, has made the industry in Kenya unique published by (infomania report, 2023).

Kenya's financial sector is undergoing ongoing change. Notwithstanding the significant economic losses that the sector has endured, the industry is nevertheless strong and thriving. Just one of the three banks that were put in receivership has so far recovered and reopened. At the moment, Kenya has 44 banks. Although 13 of the banks are held by foreigners, 31 of the institutions are locally owned. Among the 31 locally held banks, three are commercial banks and three of them, including three that the Kenyan government owns a part in, are focused on mortgage lending (Juma, 2016). During the colonial era, Kenya's treacherous financial journey began. Kenya was

declared to be under the British Empire's sphere of influence in 1865 when the British Empire established the East African Protectorate. In 1920, Kenya received official recognition as a colony. During that time, trade took place throughout the East African region, necessitating the use of money that signals the start of the transformation in the banking sector.

The National Bank of India was founded in 1986, one year following the British Government of Kenya was formed. The Central Indian Bank, which was Kenya's first bank, was actually founded by Indians, contrary to popular belief that the British originally established banks in the nation (Juma, 2016). In 1910, the South African Standards Bank was established. Six years after their arrival in Kenya, the Anglo-Egyptian Bank Ltd. and the National Bank of South Africa merged to become Barclays Bank. In order to become Barclays Bank, the National Bank of South Africa and Anglo-Egyptian Bank Ltd. amalgamated in 1910. 1951 saw the establishment of the General Bank of Netherlands. In 1953, the Bank of Baroda and the Bank of India were created. The 1956 founding year of Habib Bank (overseas) Ltd.

In 1955, a Commercial Bank of Africa and the Ottoman Bank were established. In 1968, Cooperative Bank of Kenya initially became well-known. The National Bank of Kenya assumed the position of the Ottoman Bank in 1968. Moreover, the Merchant Bank Company and the recently established Stanbic Bank, previously known as Grindlays Bank International Ltd. In 1971, Barclays Bank (DC) became Barclays Bank International Ltd, a wholly owned subsidiary of the British Barclays Bank Ltd. In Kenya, First National Bank of Chicago and First National City Bank of New York were the first two American banks to be established (Juma, 2016).In operation in Kenya for more than a century each are Barclays Bank of Kenya, CFC Stanbic Bank, Diamond Trust Bank Kenya, and Equity Group Holdings Ltd.

Despite becoming a publicly traded bank in 2008, Housing Finance Ltd. has operated in Kenya for 51 years, I&M Investing for 44, Kenya Commercial Bank for 41 years under its current name, National Bank of Kenya for 53 years, NIC Bank of Kenya for 57 years, Standard Chartered Bank for 47 years, and Cooperative Bank of Kenya for 51 years (Juma, 2016). The 1980s and 1990s popularity of 10 privatisation methods and the 1982 relaxation of the regulations governing bank licencing have had a significant influence on Kenya's corporate governance structure in the financial

industry. As a result, there were more banks that did not put in place sufficient governance frameworks, which had a detrimental effect on the management and governance practices of the sector (Mwangi,2002). Several attempts to consolidate the banking sector have failed, and numerous banks have either been shut down or placed in receivership. Their demise was attributed to internal control measures, inefficient management practices, and poor governance (Nambiro, 2007).

Total assets for the industry were Ksh 2,330.3 billion (USD 27.01 billion) in 2012, an increase of 15% over the previous year. The top 10 banks accounted for more than 77% of all assets in 2012, indicating that the market is still somewhat consolidated. With a growth rate of 12.5%, loans and advances, which made up the majority of the banks' consolidated balance sheets (55.6%), helped the industry do well. 71% of total gross loans were for personal/household, trade, manufacturing, and real estate, demonstrating banks' potential to offer credit in many areas and so diversify their risk. In 2012, the industry's core capital and total capital to risk-weighted assets ratios were 20% and 23%, respectively, far higher than the equivalent statutory minimums of 8% and 12%. A positive macroeconomic climate, the launch of M-Shwari accounts, a mobile banking savings facility, and a growth in customer deposits of 14.8% in Kenya's banking industry were all contributing factors.

On general, Kenyan banks shown a high level of confidence in their ability to keep their promises. The sector's liquidity ratio improved by 4.7 points from 37% to 41.7% in 2012, above the minimum requirement of 20%. The fact that more deposits are moving into liquid assets than into credits might help to explain this in part (Infomineo, 2023). Almost 64% of the sector's earnings before taxes are accounted for by five banks: KCB, Equity Bank, Co-Operative Bank, Standard Chartered, and Barclays. Its earnings rose by 20.6% between 2011 and 2012, totaling Ksh 107.9 billion (USD 1.25 billion). Instead, just two banks in the sector lost Ksh 0.22 billion in losses in 2011, whereas four banks lost Ksh 2.62 billion (USD 3 million) in losses in 2012. Kenya's economy has recently been driven mostly by the banking sector, which has helped it outperform its neighbours. Just a few of the significant market developments include the quick uptake of ICT (information and communication technology), the rise in minimum capital requirements, the regional expansion of Kenyan banks, the introduction of Islamic banking products, and the strengthening of

the framework against money laundering. Due in significant part to the global economic recovery and a considerable section of Kenya's unbanked population, the sector's prospects are still favourable published by (Infomineo, 2023).

2.3 Financial Performance

2.3.1 Financial Performance Definition

Financial performance affects how well a corporation utilises resources from its main business line and produces income. Additionally, the phrase is used as a broad indicator of the financial stability of a business over the long run. The popular perception of a company's financial success is how effectively and efficiently it uses its resources in its core business to produce profits and enhance shareholder wealth. After adjusting for a reasonable return percentage, a corporation determines the current worth of its anticipated future cash flows, according to Kothari's definition of an organization's worth (Kothari, 2001). According to Eyenubo (2013), a company's worth is determined by how successfully it achieves its goals, aims, and objectives within a specific time frame. The elements of financial performance were presented using the nature of financial statements, which included the balance, important elements of the profit and loss account, extra data, a supplemental statement, include a cash flow statement, a statement of changes in equity, and a business operation report. are all included in the financial statements of the selected businesses. By producing and supplying a variety of financial accounts, accounting actively helps to assessing a company's profitability. Accounting's objective is to make it possible to utilize these finished goods to be able to supply the necessary parties information that is accurate (multum not multa), timely, in the proper tone, and reasonably priced. Accounting functions as a kind of business life reporter and editor. Writers emphasize the completeness of financial accounts since they include both quantitative and qualitative data, (Barone & Kothari 2006). On the other side, financial statements could help its users (Fraser & Ormiston, 2013).

Traders, bondholders, investors, employees, and management are a few examples of stakeholders of a corporation. Each group is eager to monitor financial standing of an organisation. How successfully a corporation earns money, manages its

resources, honours its obligations, and protects the financial interests of its stakeholders and investors is influenced by its financial performance. The fact that analytical examination of the data they include enables the identification and monitoring of the primary financial performance indicators for the company demonstrates the significance of these navigational accounting tools. The associated Corporate Economics, Finance, and Accounting literature does not provide a single description of the syntagmatic of "financial outcomes." Many opinions on this significant component of the organization's overall economic situation arose in theory and practice, and there was no commonly acknowledged definition (Wondem, 2019). Information that will support performance management is the key goal of the performance-oriented financial accounting system. Financial accounting enables it both directly and indirectly. Financial (measured in monetary terms) and non-financial (not stated in monetary units) metrics are used to assess an organization's success (Aydin & Khalil, 2016). There are several ways to evaluate financial success, but they all need to be considered concurrently. In addition to total unit sales, other line categories, such as operational revenue, cash flow from operations, and revenue from operations, may also be included. The analyst or investor could also wish to go a little more into the financial records to look for any signs of growing debt or progressively rising margins. Six Sigma techniques are the ones that are most often employed in this industry.

2.3.2 What Is Return on Assets ?

A financial term known as return on assets (ROA) measures a company's profitability in proportion to its total assets. The return on assets (ROA) of a corporation may be used by analysts, investors, and corporate management to assess how well its resources are being used (Jason Gordon, 2022).

A greater ROA shows the business has fared successfully since it means they have made more money with less investment. A company's management is accountable for making the best use of its resources to maximize profits while minimizing expenditures. The ROA measures its effectiveness as a ratio or

percentage. To evaluate a business's and its management's effectiveness is a very straightforward process (Jason Gordon, 2022).

Moreover, return on assets (ROA), one of the most popular and useful financial statistics (ROA). It has been employed in industry since at least 1919, when the DuPont Companies made ROA the point of their ratio triangle approach. The ratio, known as return on investment at times, was calculated as Profit / Total Assets. The DuPont triangle was built on the enlarged ROA calculation, which now takes profit and capital turnover ratio (sales / total assets) into account (Horrigan, 1968). The importance of ROA for educators and practitioners is highlighted by three considerations. To start, the majority of business textbooks provide at least one computation of ROA. ROA was the third most often cited ratio in an examination of 77 business textbooks, appearing in 70 of them (Mankin & Jewell, 2010).

Utilized assets include things like inventory, real estate, plants, and facilities as well as receivable accounts (debtors). Businesses must increase their capital's productivity and evaluate the effectiveness and quality of their assets in light of rising inflation and dwindling cash. So, it is important to evaluate the turnover of each asset as well as how it affects the related costs. the time frame needed to transfer funds from fixed assets to funds received from customers may be used to quantify an asset's turnover (Steward 1995; Bhagwat & Sharma, 2007). Profit before taxes and interest is the definition of return on assets. Information on the rate of return on equity is available from the assessment of whole cash flow duration (Gunasekara et al. 2004). With the use of the equations ROI / ROE = after-tax profit and preference for equity dividends, the return on investment (ROI) for all assets is determined. Senior management is then able to assess the potential benefits of any capital expenditure made in the business.

The indicator is often determined as a proportion of a company's average assets and net profit. A corporation is more successful and efficient at controlling its financial position to produce profits when its ROA is greater; on the other hand, a lower ROA indicates opportunity for development. In business, efficiency is crucial. Profit-to-sales ratios are a useful operational metric, but the viability of an organization's survival can be determined by comparing those earnings to the resources required to achieve those profits. Return on assets is the simplest of these

company’s return on investment indicators. It displays the profits generated by assets or invested money.

ROA for publicly traded corporations can differ greatly and depends heavily on the industry in which they operate, so it is not necessarily the case that a tech business's ROA is equivalent to that of a food and beverage company. As a result, it is advised to compare ROA to a firm's historical ROA values or the ROA of a similar business when using it as a comparison statistic.

The ROA statistic reveals to investors how well the business turns capital into net income. The greater the ROA, the more money the company might make with less investment. A higher ROA, by definition, suggests better asset efficiency. The ratio of net income to total assets is used to calculate a company's return on assets (ROA). The formula is as follows:

Return on Assets= Net Income/Total Assets

2.4 Corporate Governance

2.4.1 Corporate Governance Definition

Corporate governance was brought into sharp focus in the twenty-first century by greater globalisation, company failures, and economic competitiveness. Since structural problems led to these disasters, corporate governance is much more crucial. According to King Report (2002) Corporate Governance, this was the century of the entrepreneur since it was during this time that the basis for modern organisations was laid. The 20th century was known as the century of management. The 21st century seems to be a century of governance as focus switches to the efficacy and legitimacy of the exercise of power over corporate organisations internationally.

Over the last three decades, the term *"corporate governance"* has grown to become a stand-alone academic field (Denis, 2001).

The foundation for this change in corporate governance was laid by rising financial institution activity and awareness of expenditures, rising outsourcing shifts over the past 20 years, the concept of conglomerates through mergers and actuations since the 1980s, collisions in Southeast Asia as a result of the Asian Financial Crisis

in 1997, and operational integration of capital markets. This reform in corporate governance was also influenced by corporate scandals and the collapse of American multinational titans. Corporate governance has developed into a multidisciplinary study that incorporates law, business ethics, accounting and finance, organisational behaviour, business management, economics, and politics as a result of the topic's great increase in breadth (Solomon, 2007).

2.4.2 Board Size

"Board size" refers to the total number of directors on a board. These ideas are seen to be consistent with older corporate governance literature. bigger boards may not be as effective as smaller ones, claims (Hermalin & Weisbach, 2013). Notwithstanding the possibility of free riding on the part of certain directors, overcrowded boards might cause agency problems. They said that when a board gets too large, it often loses emphasis on its administrative responsibilities and shifts more toward being a symbolic entity. Yet, as opposed to bigger boards, extremely tiny boards do not benefit as much from the exchange of expert ideas and recommendations.

Companies having directors that are the smallest (minimum of five board members), according to Vafeas (2010), are better equipped to keep track of their financial performance. The listed firm values of Singaporean and Malaysian companies are at their highest when the board comprises five members, per (Mak & Yuanto, 2013). Examined were Danish small- and medium-sized tightly owned businesses. Bennedsen et al. (2011) discovered that there was no influence when the board size was six or less; however, they discovered a substantial negative link when the board size was seven or greater. Bonn et al., (2011) found that board size and performance (as determined by the market-to-book ratio and return on assets) were negatively correlated for Japanese firms but not for their Australian counterparts when comparing the effects of board structure on firm performance between Japanese and Australian firms. The Australian sample had a positive impact on the proportion of female directors and outside directors to all board members, in contrast to the Japanese businesses (Bonn et al., 2011).

According to Mak et al., (2011), larger boards are meant to perform better. For instance, when 147 Singaporean enterprises using 2014 data were reviewed, they performed worse. The findings of Mak and Li's (2011) OLS investigation, however, disprove the notion that board composition is endogenously determined. Instead, they show how elements like board size, leadership style, and firm size all contribute to corporate performance. In the US banking sector, Adams & Mehran, (2011) found a connection between board size and performance (as determined by Tobin's Q).

An abundance of directors on a board might be detrimental and expensive to maintain. Planning, job coordination, decision-making, and holding regular meetings may be challenging when there are several board members. Conflicting findings have come from empirical investigations on the connection between board size and corporate performance. According to Ahmadu et al. (2011), Mustafa (2011), Beiner et al. (2011), Bhagat and Black (2012), and Limpaphayom and Connelly (2011), larger boards did not correspond with worse performance.

According to Jensen and Meckling (1976), administrative proprietorship and the ownership emphasis have an impact on how successfully a business functions. Administrative proprietorship was shown to have a significant inverse association with firm value (McConnel & Servaes, 1990). The two aforementioned criteria do not have a beneficial association with one another, as (Miguel et al. 2004). There was no evidence that significant investors and business success were associated (Mehran,1995). Similar studies by (Chen et al., 2005) showed that there was no correlation between attentiveness and business value. On the other hand, Thomsen et al. (2006) were unable to discover a beneficial correlation between these two variables. (Short, 1994) employed a single condition model to pinpoint a tenuous link between them. No proof has been found to relate the importance of ownership to worth, say others (Fazlzadeh et al., 2011). The correlation between focused possession and firm presentation was shown to be positive (Pathirawasam et al. 2012).

One of the important elements affecting a company's financial choices and acceptance of its strategic goals is the size of the board. Ensuring the business has the resources required to enhance operations in a productive, secure, and competitive manner (Adusei & Obeng, 2019; Detthamronget et al., 2017). So, a boardroom's

effectiveness is essential to a company's success. Yet, there is no exact advice on the ideal boardroom size (Detthamronget al., 2017). Considering the idea of resource reliance, the boardroom connects the firm to the external resources needed for operation (Germain, et al., 2014).According to agency theory, a business with a large board is seen as being well-managed and encourages access to outside financing. A large boardroom further provides more options for communication with the outside world. Due to lenders' belief that these companies have effective monitoring systems, the general public desires additional leverage to increase company value (Abor, 2007). In 2004, Anderson et al. Yet, as of 2004, Anderson et al., the findings of prior research are still unclear and contradictory (Sewpersadh, 2019).

2.4.3 Board Independence

A situation where all or the majority of a board of directors' members have no connection to the business other than their roles as directors. They might not be related to the company's founders, influential figures, or important workers, for instance. The SEC and individual exchanges in the US demand board independence. Boards must take measures to prevent insiders and executive owners from having undue influence over their operations and decision-making in order to be effective, both in their organizational structures and in their nomination processes.Whenever independent outside executives serve as the board's chair, the top executives often experience tougher monitoring (Wen et al., 2002). Fund providers judge the company to be more creditworthy since it is properly supervised by more independent directors. So, obtaining long-term cash via debt financing will be simple. Also, companies with more independent directors will have more influence since they may represent a larger variety of viewpoints and experiences and have access to more financing sources. It encourages a company to take on more favourable terms for the loan as a consequence (Berger et al., 1997). While both ideas suggest a favorable correlation, the findings of earlier research vary (Sheikh & Wang, 2012; Alveset al., 2015). The organisational structure of the board is another element of corporate governance that may be significant. The majority of boards are composed of both executive and non-executive directors. Non-executive directors refer to dependent directors as independent directors (Shahadat, 2011). At least one-third of the board must be made up of independent

directors for the board to operate efficiently and get fair oversight. Because they have access to information about the firm that outside directors do not, dependent directors are essential. For instance, they could take use of this information for themselves by exploiting the money of other investors (Beasly, 2014). a board made up of people who are not in-laws, blood relatives, corporate leaders, investors, or in-laws (Gallo, 2011).

The Board's primary goals are to create the organization's strategy and carry out its necessary supervision responsibilities at all times throughout business operations (Ahmadi, et al. 2018). Independent directors must advocate for themselves and participate actively in board meetings. In the corporate board, they will speak for the shareholders. They must make sure that they participate and succeed in society as an independent person, unaffected by management or insider influence. To supervise the performance of executive directors and senior management, the corporation appoints independent directors. They will then pursue shareholder goals while working to grow shareholder wealth. Ahmadi, et al., (2018) suggested that independent directors carry out a number of responsibilities that would aid in the effective creation of the strategy firm. They must express their concerns on the markets in which the company operates, the product market categories, and the important customers within those market segments (Fuzi et al., 2012).

The proportion of independent or non-executive directors to the total number of board members serves as a proxy for the board's independence (Latief et al., 2014; Zaman et al., 2015).

2.4.4 Board Meetings

The board of directors' formulated strategic strategy is discussed during a board meeting. The best course of action and the best method for executing it are anticipated to be agreed upon by the directors. A board meeting is just a meeting when strategy and policies are decided. It is also the number of times the directors met during a year. Depending on how developed a firm is, board meetings might differ. While bigger firms often adhere to stringent criteria designed to assist offer order and structure, start-ups and tech companies can embrace a more pragmatic approach. Even still, a lot

of the elements of these board sessions are still extremely similar. Due to the time and financial expenditures associated with board meetings, their frequency have a detrimental impact on a company's performance in the current year. also found that a year later, company performance dramatically improves (Vafeas, 1999).

For instance, 2003–2007 research of 328 publicly listed businesses in Malaysia found that having frequent board meetings had a detrimental effect on business success (Amran, 2011). Francis et al. (2012) looked at how much corporate boards influence business performance using a financial crisis as a sample period. The findings demonstrated that a company's skills to respond effectively to a crisis depended on the board meetings, director attendance patterns, and directors' ages. In contrast to earlier research, Horváth & Spirollari, (2012) examined, in a sample of 136 companies listed on the S&P 500 Index from 2005 to 2009, the association between firm performance and a variety of board of directors' attributes, including the frequency of board meetings. The frequency of board meetings and company performance were not shown to be correlated. The impact of board meetings on business success is an important topic in transition literature. According to a contrary viewpoint, board meetings are not always beneficial since the little time that external directors spend together is not used for an intelligent discussion with management (Jensen, 1993). This proves that regular board meetings produce intelligent decisions and enhance the board members' ability to keep an eye on company activities. These findings support those of (Kyereboah 2008; Johl et al. 2015; Mangena & Tauringana 2008). Stronger company financial performance resulted from the board members' better abilities to advise, supervise, and manage when they had frequent meetings.

2.5 Underpinning Theories

2.5.1 Agency Theory

Every company's continual and important goal is to increase the value of the investor's assets. According to the CG's thesis, there is a conflict between the owners and the managers (agents) (investors). Investors are concerned about management's level of financial profitability despite the fact that they realize that management only acts in their own interests (Berle & Means 1932; Jensen & Meckling, 1976).

Administrators and specialists may pursue a range of goals, including the knowledge, uniqueness, and other advantages they value. Also, having insider knowledge of a company's operations may provide them an advantage over the company's outside investors.

The governing body acts as a check between the director and the investors. The BODs filter them to reduce the possibility of disagreements between the two sessions (Mallin, 2004). Researchers have all offered recommendations for the best potential checks and parity on them, along with investment chances for managers, motivators, frameworks of observation, and explanations for how to solve problematic of agency between the principles and the operators. To ensure that the supervisors are acting in the best interests of investors, this verification may be independent or include the governing body (Fama & Jensen, 1983). According to Jensen and Ruback (1983), a CEO of a company should be sacked if they are not acting in the best interests of their stockholders. In dire situations, the business can even be forcibly taken over by rivals.

The agency model shown in the picture makes the assumption that every business's confluence point is made up of only two components: the manager and the essential connection. The second assumption made by professionals is that people are always selfish and look out for themselves. and that their advantage and aims to be attained must be obvious and consistent among them, (Cannella, et al., 2003).As it examines how corporate governance, or the relationships between owners and management, influences business performance, agency theory serves as the primary paradigm for this topic. The agency problem is lessened and value maximization is improved by the agency theory, which addresses the interests of the shareholders. Investors' primary goal is to maximize value.

The fact that the research only takes the agent and the principal into account is one of its key merits. Notwithstanding the fact that shareholders (i.e., principals) are more motivated by return on investment or business value, it is simpler to assess their viewpoints. The agency hypothesis states that when managers' (assumed logical but opportunistic) interests diverge from the owners', conflicts of interest arise in partnerships. To help in understanding the relationships between shareholders and managers and to give answers to the agency challenges they encounter, the theory provides a solid theoretical framework and testable assumptions. As a result, agency

conflicts are reduced, shareholder earnings are increased, and company performance is enhanced (Fama & Jensen, 1983; Jensen & Meckling, 1976).

According to the literature, managers who under- or overinvest, use free cash flow, keep a larger portion of their earnings, and shirk are to blame for these issues (Dhumale, 1998; Jensen, 1986, 1993; Jensen & Murphy, 1990; Shleifer & Vishny, 1986). The agency theory's underlying premise that executives are likely to act in their own self-interest, often to the detriment of interests of businesses and investors is consistent with the fact that management personnel frequently get a sizable salary. This is owing to the fact that when objectives are not met as a result of subpar monitoring, teamwork, or reward, managers often act in their own self-interest. The success of the corporate is determined by the management team's capacity to create and execute strategic decision-making (Liu & Fong, 2010).

Large corporation may have an organizational structure that divides between principals and agents, ownership and control, especially in those that are publicly traded. Its Owners (Principals) designate the Managers (Agents) to manage the Business in the Owners' best interests and to be compensated for such management (for instance, via compensation and incentives) (Hart, 1995; Jensen & Meckling, 1976; Sappington, 1991). This structure may lead to conflicts of interest since shareholders' and management's interests collide.

The agency theory has been used to create the potentially problematic connection between principals and agents (Fama & Jensen, 1983; Jensen & Meckling, 1976). When management and shareholder interests vary, there are conflicts of interest in economic transactions (where the actors are said to be rational yet opportunistic). This is the central tenet of agency theory. According to the following principles of agency theory, managers may prioritise their own interests over those of the business (Demsetz, 1983; Jensen & Meckling, 1976); arbitrariness in contract drafting or enforcement is prohibited; knowledge is improperly shared between principals and agents; and (4) The parties have finite or limited rationality. According to the theory, managers and shareholders receive different amounts of information, making it difficult for principals to evaluate the work of managers who are familiar with the complex nature of the business's activities (i.e., it is the cost of the owners, though both sides may incur some costs).

According to Jensen and Meckling, (1976) agency charges may consist of monitoring fees, bonding expenses, and remaining losses. The costs that shareholders pay to observe management's activities are known as monitoring expenses. Institutions or policies must be put in place to guarantee that managers behave in the best interests of the shareholders or to make up for any failure to do so. The expenses incurred in this process, whether they be financial or non-financial, are referred to as "bonding costs" by (Jensen & Meckling 1976). Even after monitoring and bonding procedures have failed, there are still losses due to the behavior mismatch that serves the principal's and agent's self-interest. Tthe residual loss is the amount of profit lost as a consequence of the entire costs of contract enforcement being more than the benefits of the contract (Fama & Jensen,1983).

The agency hypothesis holds that owners hire managers and pay them to manage the business for benefit (Jensen & Meckling, 1976; Hart, 1995; Sappington, 1991). This arrangement resembles the conventional principal-agent one. It is difficult for the principle to appropriately assess and reward the agent's efforts because of knowledge asymmetry. This makes the case that the risk-averse individual ought to get a larger reward since they are less inclined to exert effort. The effectiveness or result is influenced by the agent's level of effort and the accompanying dangers (Sappington, 1991).

The adverse selection and moral hazard problems are related to the information asymmetry problem. As they are unable to exactly check the abilities or traits an agent claims to have at the time of the transaction, principals must deal with the problem of adverse selection (or employing). They may not be able to choose the right candidate or determine if the agent is effectively carrying out the necessary tasks as a result (Eisenhardt, 1989).When managers neglect to take the crucial management activities to safeguard the interests of the principal, moral hazard agency problems—first recognized by (Jensen & Meckling 1976). It's possible that the principal is unaware of this, thus information is required to monitor and assess the level of labor so that it can be adequately compensated. As principals and agents must really trade off incentives, the incentive-risk sharing issue leads to the agency problem (Hart, 1995).

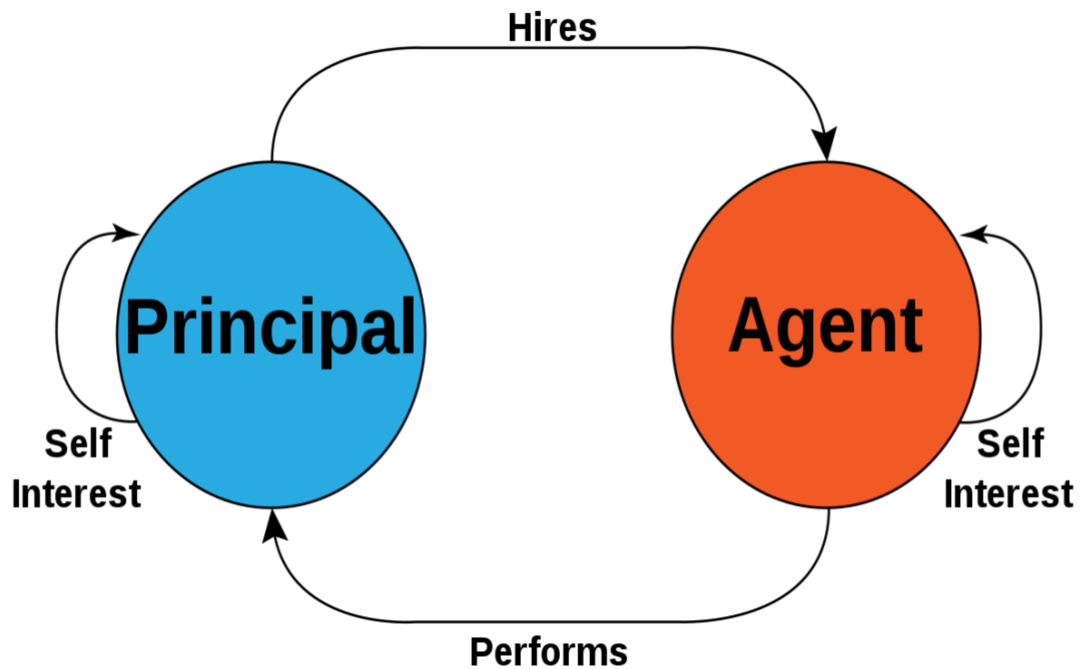

Figure 1: Agency Theory Model

Source: Agency Theory Model taken from (Abdullah, H. 2009).

2.6 Hypothesis of the Study

2.6.1 The Relationship Between Board Size (BS) and Financial Performance

The great majority of research on the link between corporate administration and business execution have been done in a single nation environment. 51 suggestions were included in thorough proportion on corporate management (Caylor's 2004). Using as an example 2327 organizations. The study's conclusions indicate that improved administration increases production and the value of a business. Utilizing IRRS, Gompers et al. (2003) found that organizations have low value and benefit when investors have significant influence but low value. They showed that such businesses profited from increased investor value estimations, company worth, better deal development, and fewer capital expenditures. According to Jensen (2004), reducing board size may increase company performance since bigger boards balance repayments with subpar communication and a fundamental leadership process that is modest. Yermack (1996), examined the adverse correlation between gainfulness and

board size. Due to the fact that obligation holders believed bigger organizations would be managed more effectively, Anderson et al. (2004) found that the cost of obligation is low in the case of larger banks. In contrast to companies with bigger boards, smaller organizations grew from six to fifteen, also Darker and Caylor (2004) found that their presentation greatly improved. The scientists also discovered how board freedom affected execution, but they were unable to pinpoint their crucial impact.

A important topic at the moment is the creation of boards and how they affect business activity. Lately, the board of directors has been the subject of the great majority of examinations (Jensen, 1993). To emphasize the benefits, importance, and effects of corporate management, the author utilized a few hypothetical ideas (Corbetta et al. 2004). A expert may choose any of the superior systems; it is not obligatory to choose one of the speculative options (Corbetta et al., 2004; Minichilli et al., 2009). In the case, the organization hypothesis has often been employed as a conceptual framework. The office supposition states that organization is a connection of understanding that enables a small group of individuals to work together to accomplish tasks (Jensen & Meckling 1976).

Economic theories emphasise the board of directors' importance to a company's corporate governance framework (Fama & Jensen, 1983). Investors worry about the board of directors' capacity to lead and monitor management to make sure they work in the best interests of the owners. A big board is often thought to increase the likelihood of effective supervision, which might improve organizational performance. According to Anderson, et al., 2004) and a big board is more likely to possess the particular talents required for improved performance (Williams, et al., 2005). Financial success and the size of the board were shown to be strongly associated by (Haniffa & Hudaib, 2006). Scholars have presented a different perspective on how board size affects performance, contending that doing so instead enhances communication and decision-making (Akshita & Sharma, 2015; Christensen et al., 2010; Jensen, 1993; Lipton & Lorsch, 1992; Yermack, 1996). There shouldn't be more than 10 people on the board, according to (Lipton and Lorsch 1992). It was shown that there is a negative link between board size and Tobin's Q market value (Yermack, 1996). In this regard, an intriguing discovery by Akshita and Sharma (2015) revealed that having a large board

of directors was seen as a costly affair for a corporation, negatively affecting the performance of the organisation.

H1: There is a positive relationship between Board size and financial performance.

2.6.2 The Relationship Between Board Independence and Financial Performance

According to Staikouras et al. (2013) found that despite a significant connection between board composition and performance, it had no effect on business performance. These findings support Adusei's, (2010) study, which found no link between independent boards and financial performance. In Ghana, board composition and bank performance are linked even though it increases bank efficiency. In 2014 and 2013, 66 banks in OECD (Organisation for Economic Co-Operation and Development) countries were simultaneously inspected by (Alonso & Gonzalez, 2011). There have been mixed findings from earlier research on the connection between board makeup and financial success. Studies by Dehaena et al. (2011), Omar (2013), and others found a correlation between NED and financial performance (Rhoades et al., 2010). For instance, it has been shown that board composition (the percentage of independent directors on the board) and business performance are positively correlated (Krivogorsky et al., 2011).

According to the agency hypothesis (Beasley, 1996; Christensen et al., 2010; Fama & Jensen, 1983), the board of directors can successfully lead if they are not carefully scrutinised. One common misconception is that in order to preserve their reputations, external directors must utilise their authority to make choices (Christensen et al., 2010; Fama & Jensen, 1983). Beasley (1996) asserts that non-executive board members lessen the risk of falsifying financial statements. Using text analysis and a panel data set from UK FTSE350 companies, Yekini et al. (2015) discovered a high correlation between board independence and information disclosure as assessed by the percentage of non-executive directors. According to their study, non-executive director organisations are more likely than other companies to disclose information that might boost organisational performance. According to Rosenstein & Wyatt (1990), the

percentage of independent directors has a favourable effect on the stock price and financial performance of the company. According to the agency hypothesis (Yekini et al. 2015; Rosenstein & Wyatt, 1990), non-executive directors' capacity to have an impact on managers may enhance business performance. On the other hand, the stewardship model maintains that inside directors have understanding of the company and are thus aware of crucial resources that increase business performance (Donaldson, 1990). Internal directors are effective administrators of a company's resources and enhance performance, according to several studies (Donaldson & Davis, 1991; Nicholson & Kiel, 2007). Agrawal et al. found a substantial negative correlation between company success and the proportion of independent directors between 1996 and 1998. asserts that a company's ROA performance is significantly impacted by the participation of non-executive directors (Hasnah, 2009). However, it has been shown that the performance of a firm was negatively impacted by having outside directors (Coles et al. 2011).

A research by Erickson et al. (2011) also found a link between rising board independence and poor financial performance. Nevertheless, neither Bhagat and Black (2012) nor De Andres et al. (2011) were able to conclusively link the board's structure to the company's value. The explanation given above and taking into account the agency theory would allow for a scientific analysis of the following claim: A board that includes more non-executive members may be able to cut down on agency expenses. This assumption is supported by research by Kee et al. (2013); Hutchinson and Gul,(2013), which demonstrates that increasing the proportion of nonexecutive board members reduces the unsatisfactory correlation between the firm's performance and investment possibilities. There isn't much of a link between performance and the representation of non-executive directors, claim (Weir et al., 2012). Performance in the UK is inversely connected with number of non-executive directors, according to study by (Weir et al., 2010).

Moreover, compact boards have a higher market value, per (Yermack, 2014). Event study analysis provides more strong proof of the positive impacts of non-executive directors. According to Shivdasani and Yermack (2011), non-executive directors increase a company's value.

H2: There is a positive correlation between Board independence and Financial performance

2.6.3 The Relationship Between Board Meetings (BM) and Financial Performance

What connection is there between a board meeting and the operation of a bank? The answer to this topic is still hazy and ambiguous 22 years after Vafeas' ground breaking study (1999), which showed a weak link between board meeting and business performance. According to theorists frequent board meetings are advantageous for shareholders (Allegrini & Greco, 2013; González & Garca-Meca, 2014; Nguyen et al., 2021). This idea holds that directors on boards with frequent meetings are more likely to do their obligations in the best interests of the shareholders. For instance, earlier research found that while the quantity of board and audit committee meetings decreased the levels of discretionary current accruals, it increased firms' transparency and both environmental and financial performance (Allegrini & Greco, 2013; González & Garca-Meca, 2014; Xie et al., 2003; Abdul Gafoor et al., 2018).

On the other hand, directors' capacity to execute their duties is constrained by their hectic schedules and meetings required for their outside jobs (Fich & Shivdasani, 2012; Westphal & Carpenter, 2001). As the board's dominating CEOs not only decide the agenda but also oversee board meetings and processes, the board barely allocates 48% of the total time for director meetings to its monitoring duty (Jensen, 1993). These factors add up to make board meetings ineffective, which has an adverse influence on productivity. A bigger number of board meetings are associated with past performance Vafeas (1999), business and governance characteristics Brick and Chidambaran (2010), indicating that they are more of a reactive value-decreasing strategy than a proactive one (Khanna et al., 2015).

In transition literature, the effect of board meetings on company success is a significant topic. According to a contrary perspective, board meetings are not always beneficial since the short time that external directors have together is seldom used for an effective idea-exchange with management (Jensen, 1993).

Similar amounts of data indicate that board meetings are significant performance indicators across Africa (Kyereboah-Coleman, 2008; Eluyela et al., 2018; Ntim & Osei, 2011). King II's principles are especially supported by Ntim and Osei (2011), who point out that boards should convene at least four times annually. In addition, given the non-linear link between corporate board meetings and economic success, they questioned the "one-size fits all" approach. However, these research are subject to several limitations. Examples are Kyereboah and Coleman, (2008) and Ntim and Osei (2011), both of which utilized data from 2001 and 2007, respectively. Eluyela et al(2018)'s study concentrated on Nigeria's listed sample deposit money banks.

Regular board meetings helped the members hone their management, monitoring, and consultative skills, which improved the company's financial performance. Irshad and Ali came to similar results, finding that the quantity of independent directors, the frequency of board meetings, and the size of the board were all associated with improved firm performance as shown by coefficients of Q and returns on assets (ROA). In his analysis of 79 Nigerian listed firms between 2010 and 2012, Akpan et al.,(2015) found equivalent outcomes.

H3: There is a positive relationship between Board meetings and Financial performance

2.7 Research Framework

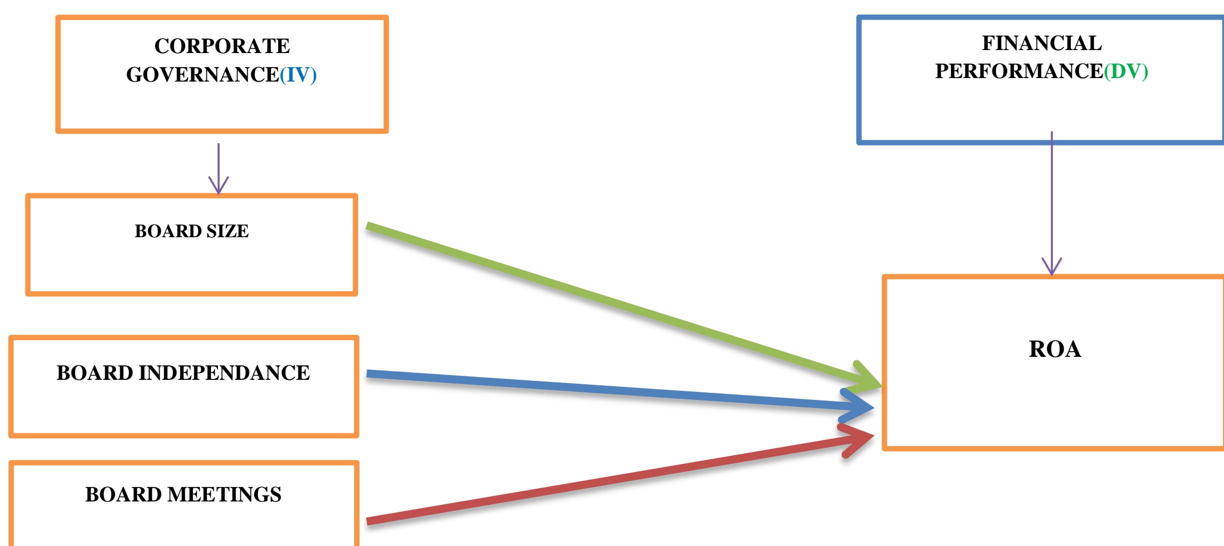

Figure 2: Research Framework Model

2.8 Research Gap

There have been several of domestic and international studies on the relationship between corporate governance and a firm's financial success. Whereas earlier research focused on only one in order to produce a more thorough understanding of the relationship between corporate governance and Kenyan banks performance, this study will incorporate three additional corporate governance measurement tools.

The results of this study are expected to be richer than those of several other studies, which narrowed their attention to a single time point without taking into consideration factors that highlight the dynamic character of principal-manager relationships over time. In this study, four variables of data collected over the course of a year in 2021 from the financial institutions for each bank will be examined using time series data analysis.

2.9 Empirical Review

The independent variables board size, board independence, and board meetings are important predictors of company performance, according to the empirical analysis of numerous corporate governance theories on the performance of Kenyan banks undertaken by (Aduda et al., 2013).

Significant, widely reported accounting mistakes have undermined investor trust and sparked a number of questions regarding the efficiency of internal control systems and governance frameworks at various companies. Corporate governance has, in fact, been a popular issue in recent years.

3 RESEARCH METHODOLOGY

3.1 Introduction

The many steps utilized in the research are covered in depth in the current chapter of this study. This chapter offers a full overview of the variables utilized and operational definitions. The overall study concept and the numerous processes followed for data gathering are also covered in great depth. The techniques for data analysis and different statistical tests applied to the data are also covered in this area of the research.

3.2 Research Design

Research design is the broad technique to carrying out research that sets a precise and logical course of action for answering the research questions via the collection, interpretation, analysis, and presentation of data.

That is exploratory research, says the study's current portion. For the year 2021, secondary data for Kenya's commercial banks was gathered. The data was obtained in order to evaluate how corporate governance affected the financial performance of Kenyan banks. The bank's annual reports and financial statements were served to collect data. For the research, secondary data were gathered, and the organization acted as the analytical unit (bank). The data was analysed using E-Views. For time-series focused econometric analysis, E-Views is a statistical software programme for Windows. It is created by Quantitative Micro Software. Access to broad statistical and economic studies, including cross-section and panel data analysis, time series estimation, and forecasting, is provided to academics and students via E-Views. E-Views mixes the conventional duties found in statistics software with relational database and spreadsheet technologies Griffiths (Hill et al., 2012).

As a quantitative research methodology is most suited for this sort of analysis, it is the method utilized in this research. The scientific method incorporates a system of inquisition by connecting a number of factors that may be quantified and applied to the whole population (Finnerty et al., 2013). The inputs of the study participants are

the primary focus of quantitative research, and the findings may be readily retrieved, comprehended, and applied to the topic under investigation. Quantitative outcomes also rely the author's area of expertise and the made arguments in support of the concept and conclusions. It shows a procedure whose knowledge advancement mainly depends on systematic empirical links. This study used quantitative research to look at how corporate governance impacts the commercial banks' monetary performance.

3.3 Population and Sample

3.3.1 The Target Population

A research population may not normally interact with anybody. This term may be used to refer to any set of items you want to study, including people, groups, nations, creatures, and various other biological entities.

The particular group for whom data are sought in statistics is known as the target population. Mugenda and Mugenda (2003), describe a population as a discrete collection of the individuals, services, elements, occasions, or homes under discussion.

Many items and sample size are shown to be related (Hinkin et al., 1997; Kozak, 2002; Tinsley & Tinsley, 1987). Big size is essential for getting reliable findings from the analysis because, as demonstrated by, growing the sample size reduces sampling error (Osborne & Costello, 2004;Uhl& Schoner,1969).The target population of study is 21 commercial banks operating in Kenya. The names of the selected banks are presented in the following table:

Table 1: List of selected banks

V I C T O R I A C O M M E R C I A L B A N K
DEVELOPMENT BANK OF KENYA LIMITED
DIAMOND TRUST BANK
EQUITY BANK KENYA

FAMILY BANK
CREDIT BANK
COOPERATIVE BANK OF KENYA
BANK OF BARODA
SBM BANK KENYA
CONSOLIDATED BANK OF KENYA
PARAMOUNT UNIVERSAL BANK
GUARANTY TRUST BANK KENYA
GUARDIAN BANK
I&M BANK
STANDARD CHARTERED KENYA
MAYFAIR BANK
MIDDLE EAST BANK KENYA
M ORIENTAL BANK
NCBA BANK KENYA
PRIME BANK
UNITED BANK FOR AFRICA

3.4 Elements of Analysis

A specific case study's studied entities are referred to in analysis elements. Organization, community, and person analysis components are separated out into the marketing research (Kumar et al., 2013). This study's primary goal is to examine how corporate governance affects the financial performance of Commercial Banks in Kenya.

3.5 Data Collection Method

Examining how corporate governance practises impact banks' financial success is the aim of the current study. Many independent and dependent factors were used to assess this link. Secondary data were used in this quantitative analysis. The study's dependent variable is return on assets (ROA), which is used to assess how the corporate governance affects the banks' financial success. The study's independent factors include board size (BS), board independence (BI), and frequency of board meetings (BM). The information for the dependant and independent variables is gathered from the 21 bank's annual financial reports, which are accessible on their official websites for the year of 2021.

3.6 Measurement of Variables

3.6.1 Financial Performance (DV)

The effectiveness and efficiency with which a company utilizes its resources in its core businesses to produce profits and boost shareholder value is often considered as a firm's financial performance. Kothari (2001) states that the current value of a company's anticipated future cash flows, after accounting for a proper rate of return, is the worth of an organization. The value of a company, according to Eyenubo (2013), is the accomplishment of its goals, aims, and goals within a certain time frame.

3.6.2 Return on Assets

The accounting-based measure of corporate performance known as ROA is extensively utilized, according to (Weir & Laing, 1999; Finkelstein & Aveni, 1994). Return on assets refers to the profits a corporation makes by putting money into its capital assets (Cereola & Epps, 2008). In other words, ROA is a measurement of a company's overall capital investment profits. It allows all users, stakeholders, and other authorities to evaluate how well and how efficiently the company's corporate governance framework is safeguarding and motivating the company’s management (Chagbadari, 2011).

A company's profitability in relation to its total assets is determined by its return on assets (ROA), which Jeff Schmidt (2023) describes as a kind of return on investment (ROI) statistic. This ratio assesses an organization's performance by contrasting net income with the amount invested in assets. When management uses available resources more effectively and efficiently, the return is higher. The ROA computation and formula are broken out in this paragraph.

	Company #1	Company #2
Net Income	$50,000,000	$10,000,000
Start of Period Assets	$505,000,000	$14,000,000
End of Period Assets	$495,000,000	$16,000,000
Average Assets	$500,000,000	$15,000,000
ROA	**10.0%**	**66.7%**

Figure 3: ROA model

Source: “The ability of a company to generate returns on its total assets” by (Jeff Schmidt, 2023).

The ROA number may show investors how well a business turns capital into net profits. The corporation may earn more money with less investment the higher the ROA. Simply defined, a higher ROA indicates greater asset efficiency. The return on assets (ROA) of a company is determined by dividing net income by total assets. The equation reads as follows:

Return on Assets= Net Income/Total Assets

3.7 Corporate Governance (Independent Variables)

3.7.1 Board Size

Board size was first discussed in writing by (Lipton & Lorch in 1992). According to Jensen (1993), the tendency toward smaller boards is a result of organizational and technical development, which eventually results in cost-cutting and downsizing. According to Hermalin and Weisbach's (2003) argument, larger boards may not be as advantageous as smaller ones. Boards with too many members may have more agency issues, even if some directors may free-ride. According to Lipton and Lorch (1992), a board should only have seven to eight members since any more would make it difficult for the CEO to exert authority. As it may be difficult and time-consuming to speak in front of a huge crowd, which often outcomes in a lack of coherence on the board, a big board may also lead to less meaningful involvement (Lipton & Lorch, 1992).

The coordination problem surpasses the benefits of having more directors, according to Jensen (1993), and when a board becomes too large, it often takes on a more symbolic role rather than carrying out its core duty as a part of management (Hermalin & Weisback, 2003). On the other side, extremely small boards do not have access to a larger variety of professional perspectives and suggestions compared to bigger boards. A wider diversity of backgrounds, skills, genders, and nations are also more likely to be represented on bigger boards (Dalton & Dalton, 2005). By putting the aforementioned hypotheses to the test with real data, Yermack (1996), Eisenberg et al. (1998), and Barnhart and Rosenstein (1998) demonstrated a shaky correlation between board size and performance.

Yermarck (1996) frequently found a no significant correlation between board size and business value while studying a sample of 452 prominent American industrial enterprises between 1984 and 1991. This was true regardless of the kind of regression analysis model used, including fixed effects, random effects, or OLS estimates.

It contains every member of the board in its entirety. "Natural Log of the Total Number of Members in the Board" is the formula for determining the size of a board (Latief et.at., 2014).

3.7.2 Independence of the Board

Although independent directors often have little to no financial interest in the corporation on which they serve, conflicts of interest are uncommon. Independent boards are made up of individuals with no connection to the company at all. Independent directors are essential, according to Mak and Yuanto (2013) and Jacobs (2011), since inside or dependent directors may not have access to the outside resources and expertise that outside or independent directors of the firm have (such as CEOs of other companies, former government officials, investment bankers, social workers or public figures, major suppliers).

Staikouras et al. (2013) found that although board composition was connected to performance, business performance was unaffected. These results are consistent with those of Adusei (2010), who, despite the board's beneficial influence on banking efficacy, found no association between board composition and bank performance in Ghana. In 2014 and 2013, 66 banks in OECD nations underwent simultaneous reviews (Alonso & Gonzalez 2011). They found an inverted U-shaped link between board size and bank performance measures (Tobin's Q, ROA, and annual market return of a bank shareholder), which they feel promotes a big board while imposing a size limit. The paper claims that by keeping an eye on and reining in management's opportunistic conduct, boards with a majority of NEDs or outsiders may be able to lessen the agency issue (Rhoades et al 2010).

Results of earlier research on the connection between board composition and financial performance have been ambiguous. The possession of a NED is associated with obtaining financial success, according to researchers (Dehaena et al. 2011; Omar 2013; Rhoades et al., 2010). For instance, Krivogorsky and colleagues (2011) discovered a significant relationship between board composition (the percentage of independent members) and corporate success (Limpaphayom & Connelly 2011). The study found a significant correlation between non-executive directors and ROA-measured organisational performance (Hasnah, 2009). Nonetheless, it has been shown that external directors have a detrimental effect on the functioning of the organisation (Coles et al., 2011).

Moreover, research has shown a correlation between a more independent board and a lower company value (Erickson et al., 2011). According to Kee et al. (2013) and Hutchinson and Gul (2013), increasing the number of non-executive board members reduces the poor correlation between the company's investment prospects and performance, lending credence to this theory.According to the argument, there is no clear correlation between performance and non-executive directors' representation (Weir et al. 2012). Nevertheless, (Weir et al. 2010) discovered that non-executive director participation was adversely related to performance in the United Kingdom.

Also, the market value of little boards is higher, as (Yermack, 2014). Event study analysis provides more persuasive evidence of the favorable impacts of non-executive directors. According to a research (Shivdasani & Yermack 2011), non-executive directors increase the value of a firm.

3.7.3 Number of Board Meetings

A board meeting is described by Hindle, (1998) as a gathering of two or more people for problem-solving or decision-making at a prearranged time and place. Formal meetings are conducted in accordance with a specified agenda at established times and places, often lasting for predetermined amounts of time. A board of directors meeting is described as a formal assembly of an organization's board members. This meeting is regularly held to discuss significant organizational challenges and policy concerns.

How many board meetings were conducted overall in a particular year. It describes the total number of business meetings that have occurred. It displays how often the board of directors meets over a certain amount of time, such a year (Tariq et. al., 2014).

3.8 Data Analysis Techniques

3.8.1 Descriptive Statistics

The descriptive statistical analysis's frequency, mean, percentages, and standard deviation indicate respondents' general perceptions of each subject area (Cavana et al.,

2001). Since they correctly represent characteristics like a person's, group's, organization's, or situation's behaviour, as well as their opinions, skills, beliefs, and knowledge, descriptive statistics are chosen. This is in line with current research that looks at bank activities and gathers information to test a theory. Descriptive statistics, as noted earlier, include calculating the mean, median, and standard deviation from interval data (Wen, 2006).

For determining the underlying trend and degree of volatility in the data distribution, the mean score and standard deviation are very helpful. Given that the Likert scale was used to evaluate the results of the variables' measurement outputs, there are three ways to interpret the mean score: There are three classifications for scores: high, average, and low. Mean scores between three and four are seen as moderate, those between one and two are regarded as low, and those between five and seven are regarded as high (Oliveira et al., 2012).

Table 2: Summary of Descriptive Analysis.

Mean score	Interpretation
1.00 – 1.99	Low
2.00 – 3.49	Moderate
3.50 – 5.00	High

Source: (Oliveira et al., 2012).

3.8.2 Correlation Analysis

By contrasting the fluctuation in one set of variables with another, the correlation is generated (Sekeran et al., 2001). So, it is essential to do statistical analysis to establish if two variables are correlated (Bewick et al., 2003). based upon (Hair et al 2007), the correlation coefficient's R-value also covers three objectives in particular:

(1) Ascertain the correlation coefficient's statistical significance.

(2) To evaluate the strength of the connection.

(3) To comprehend if a positive or negative connection between the variables.

According to Coakes et al., (2010) and Sekaran (2003), a relationship is considered to be fully positive when its value is 1.0 (plus 1). A correlation value of -1 would be expected in the absence of this (minus 1). Both positive and negative indicators highlight the association's direction, and its value shows how strong it is (Coakes et al., 2010).

3.8.3 Multiple Regression Test

According to Erik Gregersen (2009), an estimated regression equation is an equation created to describe the relationship between dependent and independent variables. The relationship between the dependant and independent variables is first postulated using a simple regression model or a multiple regression model. The most popular technique for choosing model parameters is the least squares method. The least squares estimates of the model parameters are denoted by b0 and b1, respectively, in basic linear regression.

Assuming that the blood pressure of a sample of 20 individuals and the outcomes of a stress test were both recorded (Erik Gregersen 2009). The example's scatter diagram, which graphically illustrates the data, The values of the independent variable, stress test score, are shown on the horizontal axis, while the values of the dependent variable, blood pressure, are shown on the vertical axis. The calculated regression equation, = 42.3 + 0.49x, is graphically represented as the line that connects the data points. Using the least squares method, the parameter estimates b0 = 42.3 and b1 = 0.49 were generated.

The points on the line in the image correspond to the values predicted by the developed regression equation, and the dots strewn around the line in the picture reflect the actual blood pressure measurements. "Residual" refers to the discrepancy between the observed value of y and the value of y predicted by the estimated regression equation. To reduce the sum of the squared residuals, the parameter estimates are calculated using the least squares method (Erik Gregersen, 2009).

Regression is a statistical method that is used in banking, investment, and other fields to ascertain the degree and nature of the relationship between one dependent variable (typically denoted by Y) and a number of other variables (Brian Beers, 2022).

3.9 Summary

This section served as a roadmap for carrying out this research. The construction of the questionnaire and data collecting are covered at the beginning of this chapter, followed by discussions of the many stages of the research design and processes. This section also summarizes the analytic tools that have been adapted for use in this study endeavour. After collecting the necessary data from the Banks annual reports, the research utilize the E-views version 12.0 programs for analysis and interpretation. This chapter also includes a description of the organization and process for study design, measurement, data gathering, and data analysis techniques.

4 RESULTS AND FINDINGS

4.1 Introduction

The three portions of this chapter are as follows: The research's demographic characteristics are discussed in the first section, which is followed by a section on the scales' psychometric properties, especially the regression, correlation, and descriptive analyses. In the third and last section, a discussion on the analysis of study subjects is presented. This study's goal was to determine how corporate governance affected the financial performance of Commercial Banks in Kenya. The research’s time frame was 2021.

4.2 Descriptive Analysis

The findings of applying descriptive statistics to the data set are shown in the tables below. For the investigation's dependant and independent variables, descriptive statistics are produced. Board size (BS), board independence (BI), board meetings (BM), and return on assets are the independent and dependent variables in the current study (ROA).

Scores below 1.99 were considered poor, while those over 3.50 were seen to be high, according to Lopes. The readings (2.00-3.49) were considered to be in a moderate or neutral range (Lopes, 2012).

Table 3: Results for ROA.

Variable	Minimum	Maximum	Mean	Std. Deviation
ROA	**0.00**	**0.39**	**0.04**	**0.09**

The ROA has a standard deviation of **0.09** and a mean value of **0.04**.

Table 4: Results for board size.

Variable	Minimum	Maximum	Mean	Std. Deviation
ROA	**0.00**	**0.39**	**0.04**	**0.09**

The mean value of the BS is **9.40**, and the standard deviation is **2.59.**

Table 5: Results for board independence.

Variable	Minimum	Maximum	Mean	Std. Deviation
BI	**2.00**	**12**	**6.54**	**2.32**

The mean and standard deviation of the BI are **6.54** and **2.32**, respectively.

Table 6: Results for board meetings.

Variable	Minimum	Maximum	Mean	Std. Deviation
BM	**4**	**12**	**5.50**	**2.22**

The mean and standard deviation of the BM are **5.50** and **2.22**, respectively.

Table 7: Summary of Descriptive Findings.

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	**0.00**	**0.39**	**0.04**	**0.09**
BS	**5.00**	**16.00**	**9.40**	**2.59**
BI	**2.00**	**12**	**6.54**	**2.32**

BM	4	12	5.50	2.22

4.3 Correlation Findings

In order to evaluate the significance of the relationship between the dependant factor and the independent factors, such as board size, board independence, and board meetings, correlation analysis was used in this study (Return on Assets). The investigation into Kenyan banks produced the results listed in the table below. How closely each independent variable is related to the dependant variable may be determined by a correlation study.

Table 8: Correlation results for variables

	ROA	BS	BI	BM
] ROA	1.00			
] BS	-0.32	1.00		
] BI	-0.42	0.81	1.00	
] BM	-0.18	-0.11	-0.27	1.00

significant level 0.05

The preceding table displays the link between the study's independent and dependent variables. The findings reveal a combination of positive and negative correlations as well as strong and weak relationships.

The investigation of the link between BS and BI reveals a positive and hopeful relationship. The correlation between BI and BS is 0.81. There is also a negative

relationship, BI with ROA (-0.42), BI with BM (-0.27), BM with ROA (-0.18) and BS with ROA (-0.32) and finally BS with BM (-0.11).

4.4 Regression Findings

In order to determine the strength and type of the link between one dependent variable (often represented by Y) and a number of other variables, regression is a statistical approach that is used in banking, investment, and other disciplines (Brian Beers 2022). (often referred to as independent variables). Because of a study that looked at the association between fathers' and sons' heights, the term "regression" became well-known in the scientific world. Sons "regress to" the demographic mean rather than generally being shorter than their dads, according to his research (Sir Francis Galton, 1885).

Table 9: Summary of multiple regression results.

Variables	T	Sig.	R-Square	F	Sig.
BS	**0.58**	**0.56**	**0.29**	**2.55**	**0.08**
BI	**-1.92**	**0.06**			
BM	**-1.69**	**0.10**			

According to the findings of the multiple regression, in the case of the 21 selected banks in Kenya, there is a statistically significant link between BI and ROA. Their probability is 0.06. While BS and BM have no significant relationship with ROA (0.56) and (0.10).

The results of the multiple regression analysis are used to display the study's findings in the table below.

Table 10: Summary of Hypotheses.

Hypotheses	Results	
H:1	**There is a positive relationship between Board size and ROA**	Rejected
H:2	**There is a substantial correlation between Board independence and ROA**	Supported
H:3	**There is a positive relationship between Board meetings and ROA**	Rejected

H2 revealed a statistically significant increase and favorable correlation with the relevant variable, as shown in the summary of hypothesis table (ROA). H1 and H3, however, show a negative connection. In conclusion, H2 is verified, hence confirming the viability of the research's recommended model. H1 and H3 are turned down, however.

4.5 Chapter Summary

This party expanded on the concepts covered in the previous chapter. The research required the use of E-views Version 12.0 to conduct the essential analyses, which comprised a descriptive analysis, a correlation analysis, and a regression test. The presumed model was also discussed in this chapter in order to analyse the indicators of suitability's quality, confirm the connection between board size and ROA, and determine the effects of board meetings, and board independence on return on assets.

5 DISCUSSIONS AND CONCLUSION

5.1 Introduction

The results of the hypothesis testing presented in chapters two were evaluated in the previous chapter. This chapter analyses the collected data in order to achieve the thesis goals and the four research questions specified in the first chapter. The researcher evaluates the outcomes in relation to the underlying hypothesis using the data they have collected and earlier findings that have been published in the literature. This chapter also discusses its advantages, disadvantages, and potential future study areas.

5.2 Recapitulation of the Study

This study's main objective was to examine the relationship between corporate governance elements and banks' financial success as shown by performance (profitability) measures. The focus of the research is mostly on the following objectives.

To examine board size, board independence, and board meetings effect financial performance.

Statistics from the 21 Bank's annual reports for 2021 were used in this study, which used quantitative research using Banks as the population in Kenya. For descriptive analysis, regression test, and correlation analysis, the ultimate virtual model has been validated.

The findings of **H1**, confirm the detrimental impact of board size on financial performance. The findings of **H2** was validated by hypothesis testing. This suggests that the Board independence at the Banks has a beneficial and advantageous influence on financial performance. It also confirmed the outcomes. The results of **H3**, showed weak and statistically no significant outcomes, indicating that Board meetings have a negative influence on the financial performance.

5.3 The Relationship Between Board Size and Financial Performance

According to the first hypothesis, there is only a tenuous correlation between BS and ROA, and the actual data support this with a significance of (0.56). Additionally, Cao Chu Yan et al.'s study from 2021 discovered a negative correlation between board size and financial success. Board size and ROA have consistently been shown to be negatively correlated (Lipton & Lorsch, 1992; Jensen, 1993). Eisenberg et al. (1998) also examined the connection between board size and financial success in their research of 879 Finnish companies from 1992 to 1994. The aforementioned research made use of generalised linear models and instrumental variables. The analysis's findings revealed a negative connection between ROA and board size. These results were interpreted as indicating a higher likelihood of coordination and communication issues in companies with larger boards. According to studies, a company's financial performance is negatively impacted by the size of its board of directors (Hermalin & Weisbach, 2003). Mak and Kusnadi (2005), identified a negative relationship between Board size and financial performance of businesses in Malaysia and Singapore, which corroborated the conclusions of this research.

5.4 The Relationship Between Board Independence and Financial Performance

The same hypothesis further shown a positive relationship (0.06) between board independence, return on asset, and the outcome it fosters. Despite a substantial relationship between board independence and financial success, Staikouras et al. (2013) observed. Board independence and financial success were shown to be positively correlated in studies by (Dehaena et al., 2011: Omar, 2013: Rhoades et al., 2010). For instance, it has been shown that there is a favourable correlation between board independence and company success (Krivogorsky et al., 2011). Using text analysis and a panel data set from UK FTSE350 businesses, Yekini et al. (2015) discovered a significant correlation between board independence and financial success as assessed by the percentage of non-executive directors. According to Rosenstein & Wyatt (1990), the percentage of independent directors has a beneficial effect on the company's financial performance. Internal directors are effective administrators of a

company's resources and enhance performance, according to several studies (Donaldson & Davis, 1991; Nicholson & Kiel, 2007). Agrawal et al. found a substantial negative correlation between company success and the proportion of independent directors between 1996 and 1998. asserts that a company's ROA performance is significantly impacted by the participation of non-executive directors (Hasnah, 2009). However, it has been shown that the performance of a firm was negatively impacted by having outside directors (Coles et al. 2011).

5.5 The Relationship Between Board Meetings and Financial Performance

The third variable in the hypothesis, financial performance, was predicted to be impacted by board meetings, and the data revealed a very negative value (0.10). In his research, Vafeas (1999) found a tenuous correlation between board meetings and financial success. Vafeas (2009), Vafeas (1999), and Musleh Alsartawi (2019) add that meeting-related costs, such as refreshments, travel expenses, and meeting fees, increase agency costs in a manner similar to this. These, in turn, may have a detrimental effect on financial results. Board meetings, according current study (Rodriguez-Fernandez et al., 2014), have a detrimental impact on financial performance. In addition, a research from 2003 to 2007 that included 328 Malaysian listed businesses found that the frequency of board meetings had a detrimental impact on financial performance (Amran, 2011). 136 firms that were traded on the S&P 500 Index (Standard and Poor's 500) between 2005 and 2009 were used as a sample in Horváth and Spirollari's (2012) study on the relationship between financial success and board meeting frequency. They found no relationship between the number of board meetings and financial results.

5.6 Theoretical Contributions

The need of sound corporate governance principles cannot be stressed in light of the controversy and failure of some well-known companies, like Enron. Thus, the regulatory agencies of the different governments and their organizations have already tightened and improved the processes to prevent violations of significant corporate

governance concerns and to safeguard investors' or shareholders' rights in businesses' open financial markets (Kirkpatrick, 2009).

In order to determine if the corporate governance practises of the Bank of Africa had an impact on its financial performance, the present research study took into account a variety of independent and dependent variables. Board meetings, board independence, and board size are the research's independent factors (BM). The dependent variable in this research is return on assets (ROA). The yearly financial reports for Kenya's commercial banks for 2021 served as the study's secondary source of data. In this quantitative research, the impact of CG on bank financial performance was evaluated using regression analysis, descriptive statistics, and the correlation test.

5.7 Limitations

These are some of the present research’s limitations as a result of the researcher's time and financial limits. The fundamental shortcoming of the current study is that it only considered Kenya's banking business, leaving out other economic sectors including the cement, textile, and pharmaceutical industries. Not all Kenyan banks are included in the current analysis. So, any future research may be done by looking at the whole banking industry in the nation. This research adopted a quantitative data collecting. To verify and broaden the breadth of the overall results, further research may employ a variety of data types, such as qualitative data.

5.8 Recommendations for Future Research

An analysis of the banking industry indicated a correlation between corporate governance procedures and business financial performance. The only Three corporate governance indicators addressed in this research were board size, board independence, and meeting frequency. Although the return on assets (ROA) is the sole measure used to assess the performance of the firm in the ebb and flow study, accepting other execution fractions may also serve as a reference for future research. Future studies may examine a variety of factors to determine how corporate governance affects

performance as example Ceo Duality, Firm size and Firm Age for independent variables and ROE and Earning per share for dependent variables.

5.9 Conclusion

Finally, the findings of H1 were validated using hypothesis testing. This suggests that the size of the Board at the Banks has an unfavourable and incorrect impact on financial results. It also disregarded the outcomes. Now let's move on to H2, which was also backed by the data gathered to show how board independence affected financial success. The findings were tentative and statistically insignificant, demonstrating that board meetings had a negative impact on the company's ability to succeed financially. The gathered data also supported the conclusion that H3, the last hypothesis put out, was incorrect and that board meetings had a detrimental impact on financial performance.

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CURRICULUM VITAE

Ahmed Youssouf Dirir, finished his primary education from Lycee de Balbala High school. In 2018, he was honored with bachelor degree from ETIGE school in Morroco in logistic & transport department and he is currently a master's student at Karabuk University. In addition, he has worked with IBTITEX in FES city (Morroco) for 1 month as internship. In addition, he is fluent in French, English, Turkish, Somali and Arabic.