AN ANALYSIS OF THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF BANKS IN KENYA

A SURVEY OF SELECTED BANKS IN KENYA

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ABSTRACT

The corporate governance function is intended to develop ownership structures and corporate governance structures for companies to ensure managers behave ethically and make decisions that benefit shareholders. Many firms have been faced by the challenge of corporate governance that has led to collapse out poor financial performance. The study basically was meant to find out relationship that exists between corporate governance and financial performance of banks in Kenya and various variables are going to be examined that includes, Directors' ownership, Board size, Board Composition and ownership of the banks. Literature has been reviewed on various theories concerning corporate governance that includes agency theory, stewardship theory, stakeholder's theory, Resource dependency theory and transaction cost economics. Various studies have been carried out in the past by other researchers and that is captured in the empirical review of this study. Descriptive research design was applied, and population of the study consists of 20 banks selected from various categories i.e. banks that are locally owned, foreign owned and those that are listed in Nairobi securities exchange. The researcher used purposive sampling. That was done since there was specific information that the researcher wanted and that could only be gotten from specific persons in the organization. Data was collected by use of questioners that covered all questions drawn from all variables of study. Type of data that was used was primary. The data that was collected was analyzed by use of multi-linear regression. The entire research finding provided information that there is a significant relationship between corporate governance practices and financial performance. These factors have made the organizations to properly and effectively manage and observe their financial performances. The extent of board size on financial performances affects financial performances to a great extent, as the number of directors based on activities involved in the bank and also contribution in decision making influences the performances. Also having more directors on the board improves financial performance and improved firm financial performance through proper management involvement and budget allocations. The study recommends that the board size and composition be considered since they affect the financial' performance of the banks. The number of non-executive directors needs to be selected well since they affect financial performance of the bank as compared to those who are executive directors. Further the study recommends that directors' participation in direct corporate governance mechanisms as this will help the entire bank performances.