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Board Independence Myth: The Missing Corporate Governance Link on Performance of Commercial Banks in Kenya

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Abstract:
The need to adopt the right corporate governance mechanisms is driven by the monitoring system. The central role of board of directors in this process has therefore been recognized and currently gaining significant attraction. The purpose of the study was to explore the contributing role board indepedence on performance of commercial banks in Kenya. The study was based on internal control theory. A descriptive design was adopted for the study. The unit of analysis was the commercial banks and unit of observation was the board members and managers of the commercial banks yielding a total of 44 chairpersons and 44 managers of the commercial banks. The study used structured questionnaire to collect primary data. On the other hand, secondary data were obtained from published documents to supplement the primary data. A pilot study was conducted to pre-test the validity and reliability of instruments. Data was analysed using both quantitatively and qualitatively using SPSS version 24 and Excel. Quantitative methods involved a descriptive were used to present quantitative data in form of tables and graphs. The study further adopted a regression analysis to determine the relationship among the variables at 5% level of significance. The study results revealed that board independence positively and significantly influence performance of commercial banks in Kenya.

Keywords: *Corporate governance, board independence, performance*

1. Introduction

1.1. Background of the Study

Most organizations and stakeholders the world over and particularly the financial institutions are indulging in all forms of corporate governance practices. Manini and Abdillahi (2015) intone that board of directors dictates the processes, policies, customs and laws which direct organizations' operations administration and control. According to Mugo (2014) the need to adopt the right corporate governance mechanisms for the purpose of such alignment is driven by the agency problem and the associated free-rider problem that makes it difficult for any single investor or stakeholder to bear the cost of monitoring managers. The central role of board of directors in this process has therefore been recognized and currently gaining significant attraction. The relationship between board independence (as a corporate governance device) and firm performance has been highly adopted to enhance performance of financial institutions, while Tarus and Omandi (2015) advocates for the need for appropriate policies to promote board independence as a performance management tool in commercial banks in Kenya.

A study by Kiratu and Moronge (2016) acknowledge the role of board independence as a structure governance to enhance performance of an organization. Core of board independence is the conviction that board independence increases monitoring efficiency and a prerequisite to a sound financial system (Mugo, 2014). Board independence therefore, is expected to mitigate conflicts of interest in commercial banks institutions' stewardship to safeguard stakeholders' interests.

The recent global scandals in various multinational firms are linked to the increased calls for strong and independent institution. The frauds in these organizations have been immensely linked to the failure by the boards of directors to independently monitor and implement policies without favour. United States of America's Enron for instance, grew over a period of 15 years to become USA's seventh largest Company. However, after the collapse, it was found that profits were falsely declared, and that the top executives ignored the signs (Goel & Ramanathan, 2014). However, a study by Bahreini and Zain (2013) showed that the percentage of independent non-executive board of director and percentage of independent non-executive audit committee members have negative correlation with performance of bank.

In the African scene, a number of studies have also contributed to corporate governance and its effect on organizational performance. For instance, a study by Olabisi and Omoyele (2011) concluded that the collapse and failure of

many commercial banks was both as a result of poor audit control and directors' negligence to observe due diligence and acceptable corporate governance standard practices in Nigeria.

With an increase in the number of non-performing accounts in deposit money banks in Nigeria, AfriBank, Spring Bank and Bank PHBwere taken over by the CBN in 2011 through the Assets Management Corporation of Nigeria (AMCON).According to Eluka, Chukwu, and Ngwube (2013), CBN identified poor board performance among others as the major factor that contributed to the failure of the commercial banks. A study by Godfrey (2012) posits that in addition to the South African King Report, there has been a rapid growth in the development of African thinking on attacking the supply side of corruption (company bribes) by complementary anti-corruption measures by the state. The critical areas to be addressed by corporate governance identified as efficient, responsible, transparent and independent board (Mwangi, 2015).

Corporate governance has received prominence in Kenya in the last 15 years due to poor performance of public and private companies (Wathanga, 2017; Mang'unyi, 2011; Wanyama & Olweny, 2013)inspiring the proposed Kenya Stewardship Code, a voluntary mechanism meant to assist the institutional investors in the monitoring and compliance of companies in which they have stake(Gakeri, 2013; Hussein, 2015). In a study to investigate the effect of corporate governance on the occurrence of fraud in commercial banks in Kenya, Ogola, K'Aol and Linge (2016) found significant correlations between prudential control systems and the frequency and amount of fraud loss. However, a study by Manini and Abdillahi (2015) found that board independence has no significant effect on bank profitability.

In Kenya, like other developing countries, there have been a significant amount of trainings of company directors and other key stake holders on the importance of good corporate governance (Mwangi, 2015). While Kenya's effort in training company directors is commendable, the basic question remains whether Kenyan commercial banks players can achieve good corporate governance with the current state of her laws and a code that is designed without sufficient consideration of its murky market conditions. The recent financial scandals witnessed in most corporate entities have shown that Kenya is unable to cope with the self-regulation of its corporations through independent board of directors (Wathanga, 2017).

1.1.1. Board Independence and Performance of Commercial Banks

Interest in on the influence of board independence in financial institutions has become widespread. John, Hilscher, Szilagyi and Link (2011) described financial institutions with lack of adequate independent boards leading to poor performance and consequently resulting into cash flow problems. As argued by Tan (2014), Adeyemi (2012) and Kariuki (2013) financial institutions with independent boards tend to perform better than those without, and as a result, a negative relationship between board dependence and performance of financial institutions develops, ensuring bank stability, performance and bank's ability to provide liquidity in difficult market conditions (Susoiu, 2014).

In addition, a study by Malesi and Njeru (2017) revealed a significant and positive relationship between board independence and firm performance. On the other hand, Bahreinin and Zaini (2013) described measures of board independence along with some control variables. The measures of board independence were: CEO tenure; proportion of outside directors on the board and audit committee. These measures of board independence and board committees affect performance of commercial banks. Similarly, Ahmed and Hadi (2017) stated that other dimensions of corporate governance include board committees which have significant role on performance of commercial banks.

1.1.2. Performance of Commercial Banks in Kenya

Nikolaeva and Bicho (2014) argues that performance is the ability of an institution to produce results in a dimension determined in relation to target. The performance indicator measures how well a company can manage its resources and use its assets to generate income (Mary & Kombo, 2019). According to Orazalin, Mahmood& Jung (2016) posits that there are three types of performance measures regularly employed in the strategy literature, namely; objective financial, subjective financial and objective non-financial performance indicators. However, Hope, Thomas and Vyas (2013) simply categorized the organization performance into strategic and financial objectives. However, Extensive reliance on financial performance indicators has been questioned by a number of scholars (Hope, Thomas &Vyas, 2013; Cheng, Dhaliwal& Zhang, 2013; Minnis, 2011).

This study adopted both financial and non-financial measurement to measure performance of commercial banks in Kenya. In its entirety, financial performance measures a company's profitability by showing the extent of profits able to be generated by a company given the amount that the shareholders have injected (Alves, 2014). On the other hand, non-financial performance is viewed as the ability to smoothen operations both internally and externally (Mateus & Belhaj, 2016), aimed at ensuring performance in a commercial bank is all rounded, a direction of evaluating performance which can be made by the board of directors.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). Over the last few years, the banking sector has continued to grow in assets, deposits profitability and product offering. The growth has been mainly underpinned by; an industry wide branch network, expansion strategy both in Kenya and the extensive East Africa community region, automation of a large number of services and a move towards giving greater emphasis on the emerging complex customer needs rather than the traditional "off the shelf" banking products, as well as technological craze of internet and mobile banking which have revolutionised the banking industry (Kahathu, 2016).

During the period ended December 2016, the Kenyan Banking Sector registered improved and tremendous growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in

2015 (CBK, 2016).Key challenges facing the banking industry faces are new regulations from the CBK being brought up from time to time, the financial bill, technological advancement especially the mobile and internet banking craze, emergence of Cooperatives Societies offering cheaper products and front-end services which seem to be better for their members(Malesi&Njeru, 2017). These have forced commercial banks to keep up in order to stay competitive.

1.2. Statement of the Problem

Commercial banks performance in Kenya over the last decade has not been impressive (World Bank, 2016).Kenyan banks have in the recent past experienced a number of corporate failures. The fall of Imperial bank which is now under statutory management and the collapse of Chase bank in 2016 is an indication that the industry is facing issues of poor governance and management practices. In addition, Dubai Bank of Kenya as well as Chase bank were put under receivership for flouting banking guidelines for a spate of years and unsafe financial conditions due to corporate governance related issues (Malesi & Njeru, 2017; Kahathu, 2016).

Further, the bank performance on average has been erratic in Kenya. During the period under review, decreases in Profits before Tax (PBT) were below 12% in2013. PBT decreased by 14.8%; in the year 2014, PBT of the Kenyan banks decreased by 13.2%. In 2016 PBT of the Kenyan commercial banks decreased by 17.2%as compared to the year 2017 when PBT decreased by 12.6%. This trend is not impressive given that a lot of reforms have been done to enhance performance of the banking sector (Sporta, 2018).The question now remains; is ethical governance the actual missing factor for performance of commercial banks? If it has been affected, how has it contributed to improved performance of commercial banks in Kenya?

1.3. Objectives of the Study

The purpose of the study was to determine the influenceof board indepedence on performance of commercial banks in Kenya.

2. Literature Review

2.1. Theoretical Review

The theoretical framework is the structure that supports a theory or theories of a research study and describes reason (s) why the research problem under study exists. According to Trochim and McLinden (2017) theories are formulated to express, predict and understand phenomena, and in many cases to challenge and extend existing knowledge within the limits of critical bounding assumptions. This was guided by internal control theory. This theory, derived by William Glaser is based on the belief that all behaviour is internally motivated. When management maintains a business environment that emphasizes an appropriate level of control consciousness, a company is likely to have an effective internal control system. According to Bedard and Chi (1993), the internal control environment is reflected by management's policies (a well-publicized statement on conduct, enforcement of policies, tight budgetary controls, support of an effective internal auditing function and practices for hiring personnel with competence and integrity) all which have control implications.

Accordingly, the board of directors is influential in creating an appropriate internal control environment through effective organization structure, sound management practices, adherence to appropriate standards of ethical conduct, and compliance with applicable laws and regulations (Public Company Accounting Oversight Board, 2004). This theory is relevant to this study in that it reiterates that organization environment which the management maintains influences the performance commercial banks. Hence, the board would result to better performance of the commercial bank.

2.2. Conceptual Framework

Conceptual framework is a figurative illustration explaining the relationships between factors and variables identified, relevant to the study (Mwangi & Jerotich, 2013), and as such, represents the researcher's synthesis of literature on how to explain the interrelationships among study variables (Chepkwei (2019; Mary &Kombo, 2013). Derived from the literature reviewed the independent variable is board independence while dependent variable is performance of commercial banks, as illustrated in Figure 1.

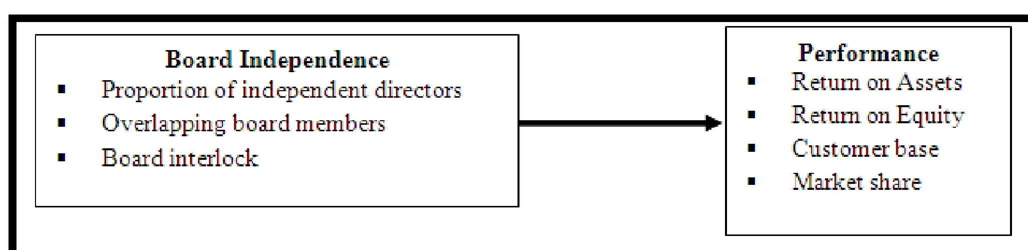

Figure 1: Conceptual Framework Showing Interrelationships between Study Variables

The board of directors is a collective body that should act in the best interest of shareholders. The board requires the combination of executive and non-executive directors to pursue the shareholders' interest. The non-executive directors on the board will not be able to exercise their duties effectively, unless they are independence from management and ensure they provides unbiased business judgment. Independent directors are the person entrusted by shareholders to represent them and will help to reduce agency problems. Further, the Code of Corporate Governance and regulators recommend the composition of board members should be balanced and consist of independent directors. However, mere compliance with the recommendations is not enough if the independent directors fail to exercise their functions effectively (Fuzi, Halim & Khudzari, 2016).

A board interlock is present when a director serves on two or more boards across firms, and thereby creates an interlock between organizations (Iturriaga & Rodríguez, 2014). A board interlock can be more specifically identified as an interlock of independent directors. Aboard interlock is likely to aggravate opportunistic behaviours and is likely to reduce firm performance (Dalton et al., 2007). Overcommitted directors may also be unable to adequately comply with their monitoring roles, and the monitoring intensity will decline causing greater agency costs, and result in reduced firm performance (Ferris et al., 2003). Therefore, it is expected that board interlocks reduce firm performance. Alternatively, resource dependence suggests that a corporation acts as an open mechanism where the firm performance relies on capabilities to use valuable resources from other firms through reciprocal exchanges (Brandes*et al*., 2015). This theory predicts that board interlocks will provide greater resources, and reduce environmental dependence and uncertainty, thereby contributing to the firm performance (Kim, Mauldin & Patro, 2014).

A study by Rashid (2018) on the influence of board independence on a firms 'performance among listed firms in Bangladesh revealed that board independence and firm performance does not positively influence each other. The study concluded that while board independence is an important attribute of corporate board practices in many developed countries, board independence still may be an illusion. However, a research study by Fuzi, Halim and Khudzair (2016) on the effect of board independence and firm performance showed that both independent-director committee overlaps as well as board interlocks of independent directorshave a significantly positive relationship with firm performance.

In addition, a study by Ortas, Alvarez and Zubeltzu (2017) assessed the influence of organizations' board independence on corporate social performance (CSP) using a meta-analytic approach. The results show that independence of a company's board positively influences CSP. Interestingly, the results also show a strong and positive connection between board independence and CSP in civil law countries, but the strength of the influence of the independence of a firm's board on CSP varies significantly in different market conditions.

Uribe-Bohorquez (2018) study examined the relationship between board independence and corporate performance, measured by technical efficiency. Moreover, the study examined the moderating role that institutional factors exert on this relationship through the legal system the content of law and its enforcement. The study supported that board independence increased the firm's technical efficiency. Further, the study revealed that independent directors had a greater and positive impact on efficiency on firms operating in countries with a greater extent of law and enforcement.

3. Research Methodology

3.1. Research Design

A research design describes how this study addresses the specific aims and objectives of this research. The study adopted a descriptive survey design. Descriptive survey attempts to describe characteristics of subjects or phenomena, opinions, attitudes, preferences and perceptions of persons of interest to the researcher (Kumar, 2019; Yin, 2017; Saldana, 2015; Babbie, 2015; Gelman et al., 2013).Moreover, a descriptive survey aims at obtaining information from a representative selection of the population and from that sample the researcher is able to present the findings as being representative of the population as a whole (Bryman, 2016), and is able to establish association between variables by quantifying relationship between the variables using techniques such as correlations, relative frequencies or differences between means. Manly and Alberto (2016) and Chaffield (2018) both concur that descriptive survey allows a researcher to gather information, summarize, present and interpret for the purpose of clarification and conclusions. The design is considered appropriate for the study because it allows the reseacher to describe, record, analyze and report conditions as they existed in the field(Saldana, 2015; Babbie, 2015; Gelman et al., 2013).

3.2. Target Population

Glaser and Strauss (2017) defines population as the members of a real or hypothetical set of people, events or objects the researcher wishes to generalize the results of the research. The unit of analysis is the entity that frames what is being analysed in a study, or is the entity being studied as a whole, within which most factors of causality and change exist. The unit of analysis was commercial banks in Kenya. The target population were chairpersons of the boards and CEOs/managers of the commercial banks in Kenya, which formed unit of observation. The chairpersons of the boards and CEOs/managers are seen as the ones understanding the corporate governance in the commercial banks

3.3. Sampling Frame

According to Kumar (2019), a sampling frame is a list of all the elements in the population from which the sample is drawn. In this study, the sampling frame comprised of the list of 44 commercial banks with44chairpersons of the boards and 44 CEOs/managers of the commercial bank operating within Kenya (Kenya Bankers Association, 2019).

Category	Population	Percentage
Chairpersons of the Board	44	50
CEOs/Managers	44	50
Total	88	100

Table 1: Target Population
Source; CBK (2019)

3.4. Sample Size and Sampling Techniques

Sampling design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Yi, 2017). It should be a representative of the whole target population. This study used financial statements of commercial banks regulated by CBK as at 31st December 2018. Creswell and Creswell (2017) describe a sample as a collection of units chosen from the universe to represent it.A census was used since there are 44 commercial banks whose data was accessible; the population was small and therefore manageable for a census. Rashid (2018) argued that sampling will only be necessary if; it will be impracticable to survey the entire population, there is budgetary constraint, there is expected time constraint and the population size is unmanageable.

3.5. Research Instruments

Maxwell (2012) defines data collection instruments as the tools and procedures used in the measurement of variables in research. The study employed structured questionnaire to collect primary data on attitudes, opinions, beliefs, biographical information or other forms of information (Silvermann, 2018; Kumar, 2019; Brymann, 2016;).The instrument was structured in the modified Likert fashion, on a five – point scale, where respondents we required show their degree of (dis) agreement with the statements contained in the instrument.

3.6. Pilot Study

The developed research instrument was pre-tested using an identical sample in the specified strata with the aim of aiding data collection instruments. It helped to ensure that research instruments were stated clearly and have the same meaning to all respondents. It enabled the researcher to modify and remove ambiguous items on instruments. The purpose was to ensure reliability and validity of dthe study tools.

3.6.1.Reliability of Research Instruments

The reliability coefficient of the reseach instruments waschecked aganist Cronbach's alpha whereby a threshold of 0.70 will be used (Sekaran & Bourgie, 2016; Bell, Brymann & Harley, 2018). The standard minimum value of alpha of 0.7 adopted in this study as recommended as the minimum level for item loadings. Higher alpha coefficient values mean there is consistency among the items in measuring the concept of interest. The recommended value of 0.7 was used as a cut-off of reliabilities.

3.6.2.Validity of Research Instruments

The content validity was achieved by extensive review literature as well as empirical past studies. The conceptual frame work variables were hence developed in the subject matter. To test construct validity, the questionnaire was divided into several sections to ensure that each section assessed information for a specific objective, and also ensure that the same closely ties to the conceptual framework for this study (Taylor & Bonsall, 2017; Silverman, 2018; Scott, 2015). Construct validity was established by relating the survey questionnaire to a general theoretical framework. The instrument measuring provides adequate coverage of the investigative questions, criterion-related validity where the instrument should make accurate predictions of expected information and the instrument measures the presence of those constructs that is intended to be measured(Maxwell, 2012; Silverman, 2018; Gelmann et al., 2013;; Glaser & Strauss, 2017; Kline, 2015).

3.7. Data Processing and Analysis

Data analysis is the representation of data gathered during a study (Kline, 2015; Byrne, 2016). This study gathered both quantitative and qualitative data which was coded. Due to large data expected, the study analysed data using Statistical Package for Social Sciences (SPSS) Version 24(Cohen, West & Aiken, 2014; Babbie, 2015). The analysed data was presented in the form of frequency distribution tables and charts. Moreover, quantitative data that was mainly collected was analysed descriptively as well as inferentially through correlation and regression analyses.

Pearson correlation coefficient was used for testing associations between the board independent and the performance of commercial banks. A simple regression analysis was used to establish the nature and the magnitude of the relationship between study variables. Regression models were tested for goodness of fit by computing the R-square statistics that showed the explanatory power of the models. The regression model fitted was tested for general significance through ANOVA and F-statistic. The regression model followed a generic format in the form:

$P = \beta_0 + \beta \ BI + \varepsilon$, Where:

P –Performance of Commercial banks (Dependent Variable)
BI –Board independence
ε -Error term

β0 -Constant (Y- Intercept)
β1 - is the regression coefficients of Board Independence

4. Results and Discussion

4.1. Response Rate

The study targeted 44 commercial banks that are licensed and regulated by CBK out of which two were under statutory management as at 31st December 2018. The study sought to explore the influence of corporate governance on performance of commercial banks in Nairobi City County, Kenya. This is illustrated in Table 2.

Bank Category	No. of Respondents	Response	Percent (%)
Tier I	14	12	85.71
Tier II	30	22	31.43
Tier III	44	36	62.86
Distributed	88	70	79.55

Table 2: Response Rate

As presented in Table 2, the study managed to collect data from 70 out of 88 respondents from the targeted commercial banks yielding 79.55% response rate. Past studies on commercial banks have reported a response rate lower than 80% including Muiruri (2015) with a response rate of 78% Ngumi (2013) recording a response rate of 62%, Kamau and Ngari (2014) with a response rate of 71.6% except Kosikoh (2014) whose response rate on insurance companies was above 80% translated to approximately 94%. Based on these studies a response rate of 79.55% due to statutory management of Charter House Bank in tier III was considered adequate.

4.2. Reliability Results

The study sought to explain the pilot testing results before conducting the actual study. The results are presented in Table 3 which shows that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.Cronbach's alpha values for all the constructs' measurement scales were above 0.7 as recommended by Kurpius and Stafford (2016) as illustrated; Board Independence (0.880), and Performance of Commercial Banks (0.927). All the items tested for reliability posted a score above the recommended 0.7 an indication that there was internal consistency in the questions.

Scale	Cronbach's Alpha	No. of Items
Board Independence	.880	6
Performance of Commercial Banks	.927	6

Table 3: Pilot Study Results

4.3. Demographic Analysis

This describes the background information of the study participants. It includes age, job experience, highest level of education management level and length of existence of the organization. These factors are included in the study on the premise that demographic profile of employees has direct impact on organizational performance (Mose, 2017).

4.3.1. Age of the Respondents

The survey results in Figure 2 shows that 18% of the respondents were in the range of 20-30 years, 34% were in the range of 31-40 years (indicating that more young employees participated in the study), 30% were in the range of 41-50 years while 18% were 51-and-above years. Those in the age between 31 and 50 years make 64% of the respondents. This is significant because approach of a person towards practical life and vigour varies from time to time; hence it is necessary to assess it bearing age group in consideration. It has been found that in the lower age group of 20-30 years people adopt some professions and work with vigour and zest in pursuit of professionalism (Mose, 2017). However, it has commonly been experienced that novelty of corporate governance and environment does retard efficiency in some professions for this group, which gets set aside, as they ground their existence in the organization. In most organizations the most stable period of service in the organization is in the age bracket of 41-50 years. People gain governance standing in the organization and it fills them with confidence. Figure 2 illustrates the study findings.

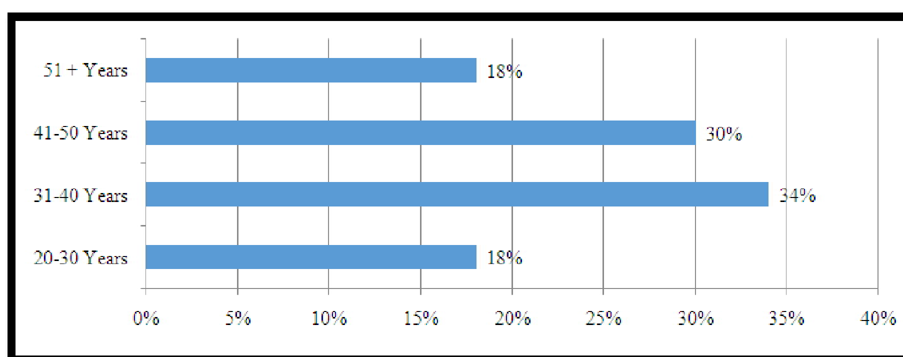

Figure 2: Age of the Respondents

4.3.2. Job Experience

It is envisaged that employees' performance and output vary depending on experience level. The results in Figure 3 show that 30.45% of the respondents have a job of above 15 years, 32.34% have 11-15 years' experience, 24.16% have 5-10 years' experience while 13.05% have below 5 years job experience. During 5-10 years of service many employees build a perception that they have attained adequate experience in their profession. This means that the respondents had adequate working experience with the commercial banks and therefore they possess the necessary knowledge and information which was considered useful for this study. From this perspective, therefore, longevity of service can be linked to low performance in organizations. For example, according to Fuzi, Halim and Khudzair (2016), the sooner such employees are promoted to the higher grade they start to work with passion and drive. In the 11-15 years and above experience, the influence of corporate governance on organization among employees is incremental with impact on performance.

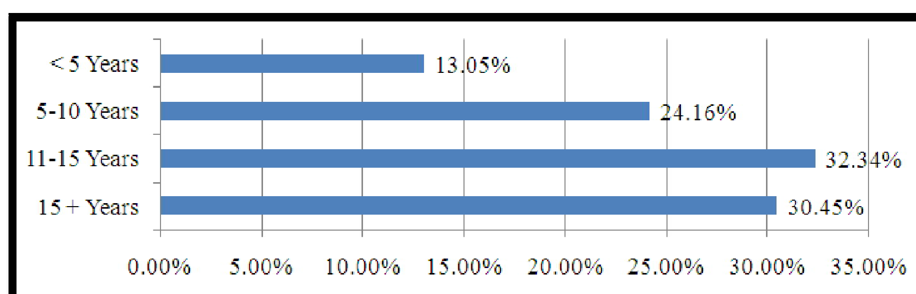

Figure 3: Job Experience

4.3.3. Education Level of Respondents

The findings in Table 3 show that 11.99% of the respondents had Ph.D as highest qualification, 20.59%, had Masters level of education, 54.45% had Bachelor's degree, 12.97% had diploma while 3.4% were those with other qualifications. This is highly expected since the respondents are at different management level (top, middle and lower) where the skills, knowledge and competencies needed is supposed to be high. This indicates that the respondents were well educated and quite informed and therefore furnished this study with better information which added value.

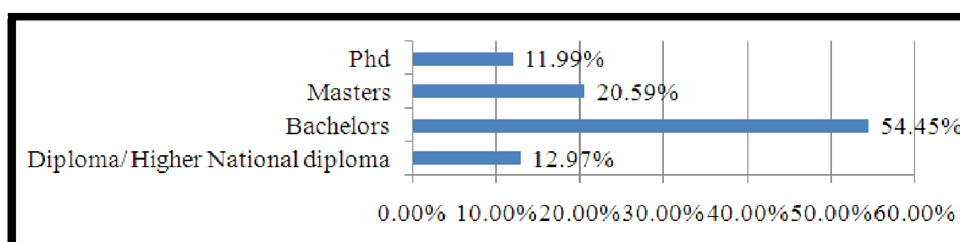

Figure 4: Respondents Level of Education

The study finding corroborates with findings by Muhammad (2018) stated that the educated employees make a large proportion of workforce in any organization. However, standard of education varies from organization to organization on account of assigned role and task (). It becomes a great concern to study corporate governance and its role in performance, through various levels of education. The respondents were placed in five groups on the basis of highest level of education and their approach towards corporate governance was evaluated. It was found that the majority of the respondents 92.9% had university education. O'level is the basic entry requirement into commercial banks in Kenya.

4.4. Board Independence

The study sought to assess the influence of board independence on performance of commercial banks in Kenya and results presented in Table 4. The study respondents agreed that the board was composed of independent directors who oversee management of the bank (Mean=4.111; Std= .236), and that they perform monitoring role effectively on management of the bank (Mean=4.098; Std= .389). generally, the independent directors were trained on procedures, tasks and responsibilities in regard to management of the bank (Mean= 4.218; Std=. 725), and such that the independent directors reviewed and evaluated the threats and risks related to the bank (Mean=4.278; Std= .098). The independent directors set the pace for the current operations and future bank operations (Mean=3.998; Std=. 376), while the independent directors set the pace for its current operations and future bank operations (Mean=3.996; Std=. 008).The measurement items had an overall mean of 4.141.

Board Independence	Mean	Std. Dev
The board is composed of independent directors who oversee the bank	4.111	.236
The independent directors perform monitoring role effectively on bank operations	4.098	.389
The independent directors are trained on procedures, tasks and responsibilities in regard to bank operations	4.218	.725
The independent directors review and evaluate threats and risks relating to the bank	4.278	.098
The independent directors set the pace for its current operations and future bank operations	3.998	.376
Average Mean	4.141	

Table 4: Influence of Board Independence on Performance of Commercial Banks

4.5. Performance of Commercial Banks

The study hypothesized that the performance of commercial banks in Kenya is influenced by board independence. The performance of commercial banks in was measured based on; customer base, market share, return on assets (ROA) and return on equity (ROE). The ROA aimed at determining the annual asset performance of the bank. Figure 5 show that performance of the listed commercial banks has been decreasing substantially since 2014 whereby a low ROA of the listed commercial banks of 0.98% was attained. Specifically, despite a drop in the ROA of the listed commercial banks to 0.76% in 2015, the ROA decreased to 0.58% in 2016 and decreased even further to close at 0.43% in 2017. The decrease on how the listed commercial banks perform was largely due to the decreased economic efficiency, poor continuous productivity, decreased innovations for financial products and decreasing GDP. This shows that the performance of the listed commercial banks was determined greatly by the corporate governance of the commercial banks.

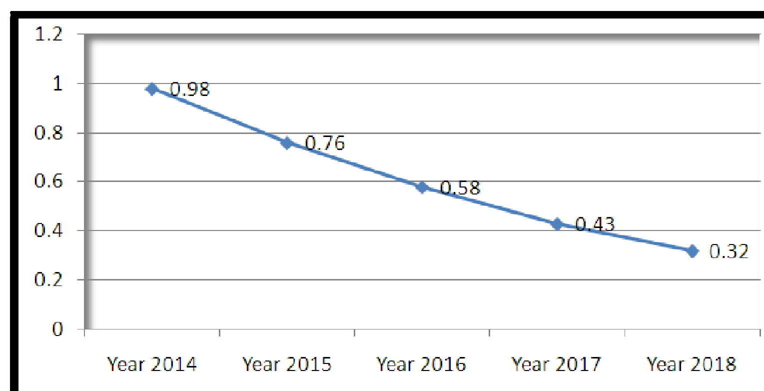

Figure 5: Return on Assets

Figure 6 presents the descriptive statistics for the measure of ROE for each year across the 5 years. Across the period, the maximum annual mean returns on equity ranged from 0.248 (lowest) for the year 2016 and 2.654 (highest) in 2015. The mean ROE thus seems to have no linear trend against time with means between 1.678 in 2014 and 1.438 in the year 2017.

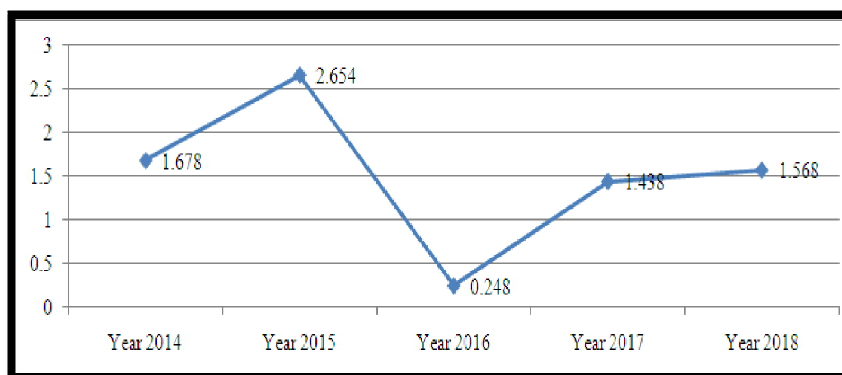

Figure 6: Annual Mean Returns on Equity (RoE)

4.5.1. Market Share

On market share, the study findings were as tabulated in Table 5. The study respondents generally agreed thatthe bank was committed to develop innovative products for the market (Mean=4.219; Std= .876), that the banks invested in market intelligence to enhance market expansion (Mean= 4.327; Std=. 925), that there was customer brand loyalty in the bank (Mean=3.987; Std= .368). in addition, the respondents agreed that they provided the banks with a unique image in the market place its operating in (Mean=4.128; Std=.098), giving an overall mean of 4.165. The study findings indicate that the commercial banks are striving to enhance the customer base to increase profits.

Market Share	Mean	Std. Dev
The bank is committed to R&D so as to develop innovative products for the market	4.219	.876
The bank invests in market intelligence to enhance market expansion	4.327	.925
There is customer brand loyalty in the bank	3.987	.368
Provide the bank with a unique image in the market place its operating in	4.128	.098
Average Mean	4.165	

Table 5: Market Share

The study determined customer base in the commercial banks in terms of level of defection, requests for loan top ups, active accounts and percentage of shares. The data was collected from the different indicators of the variable customer base which was ordinal categorical. The data was therefore presented in frequency tables with the mode being used as the appropriate measure of central tendency. The study established the rate of requests for loan top-ups in the bank, 58% of the respondents indicated 0-9%, 4% posited 10-19%, 12% indicated 20-39%, 18% stated 40-49%, 8% indicated over 50%. The modal class is of the respondents who had0%-9% rate of requests for loan top-ups in the bank. The modal class was found to be 1 which implies that on average the rate of requests for loan top-ups in the bank for the last one year was between 0%-9%.

Further, the study also established the extent of active accounts was, 64% of the respondents indicated 0-9%, 10% stated 10-19%, 8% indicated 20-39%, 10% stated 40-49%, 18% indicated over 50%. The modal class is of the respondents' stated 0%-9% extent of active accounts. The modal class was found to be 1 which implies that on average active accounts for the last one year was between 0%-9%.Finally, the study also sought to examine the percentage of shares. According to the study results 62% of the respondents indicated 0-9%, 20% stated 10-19%, 12% indicated 20-39%, 3% stated 40-49%, 3% indicated over 50%. The modal class is of the respondents' stated 0%-9% percentage of shares are clients withdrawing. The modal class was found to be 1 which implies that on average the level of percentage of shares are clients for the last one year was between 0%-9%.

Statement	0%-9%	10%-19%	20%-39%	40%-49%	Over 50%	Mode
What is the level of customer defection rate in the last one year in your bank?	60	5	10	20	5	1
What rate do you get requests for loan top-ups	58	4	12	18	8	1
What percentage of active accounts does your organization have	64	10	8	10	18	1
What percentage of shares they clients have contributed for the past one year	62	20	12	3	3	1

Table 6: Customer Base

4.6. Correlation Analysis

The association between the study variables was analysed to test the direction and nature of association between study variables using Pearson product-moment correlation coefficient. Study results as presented in table 4.5 show a positive correlation between board independence and performance of commercial banks in Kenya(r (70) = 0.811; p<0.05). This shows that board independence had a significant effect on performance of commercial banks in Nairobi City County, Kenya.

		Performance of Commercial Banks
Performance of Commercial Banks	R	1.000
	Sig. (2-tailed)	.
Board Independence	R	.811
	Sig. (2-tailed)	.000
	N	70

Table 7: Correlation Analysis for Board Independence on Performance of Commercial Banks

The study findings corroborate with the findings by Amollo (2015) sought to establish the effect of board composition on financial performance of companies listed in Nairobi Securities Exchange. From the multiple regression model and independent sample t-test was also used determine whether there was significant performance between executives and non-executives. The study findings revealed that board independence had significant relationship with the firm's management by enhancing the knowledge of the Board members in overseeing the management of the Institutions (r = 0.436; p<0.05). Contrary, Mutunga (2015) study sought to establish the relationship between Board profile and financial performance of companies listed in the NSE. Specifically, it sought establish the effect of corporate governance on the financial performance of the firms listed at the NSE between 2008-2014 with emphasis on board independence. The study established that the relationship between financial performance and board of director's independence was not significant (r = 0.216; p>0.564).

4.7. Regression Analysis

The study objective sought to establish whether board independence influence performance of commercial banks in Kenya.The results of the regression analysis as presented in Table 8shows the proportion of variation in the performance of commercial bank explained by the regression model. The study results reveal that board independence accounts for 25.20% variation in the performance of the commercial banks (R^2 = 0.252.

					Change Statistics				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**R Square Change**	**F Change**	**df1**	**df2**	**Sig. F Change**
1	.502a	.252	.235	.076	.532	22.908	1	68	.000

Table 8: Regression Statistics (Board Independence and Performance)
a. Predictors: (Constant), Board Independence

The overall relationship was statistically significant (F = 22.908, p<0.05). It has a significance level of 0.000 this means that the chances are zero that the result of regression model are due to random events instead of a true relationship, implying that the linear regression model is a good fit for the data and hence can be used to predict the influence of board independenceon the performance of commercial banks.

Model		Sum of Squares	d.f	Mean Square	F	Sig.
1	Regression	17.365	1	17.365	22.908	.000
	Residual	51.543	68	.758		
	Total	68.908	69			

Table 9: ANOVA Statistics (Board Independence and Performance)

Table 9 represents the ANOVA statistics. Since the F – statistic = 22.908, and is greater that one, the model is a good fit. Moreover, Table 10 shows coefficients of the independent variable and the dependent variable. These findings show that the performance of commercial banks in Kenya will have an index of 1.564 when board independence is held constant. In addition, the Beta coefficient was 0.343 for the relationship between board independence and the performance of commercial banks in Kenya. This shows that a unit improvement in board independence would lead to a 0.304 improvement in the performance of commercial banks in Kenya. The relationship is significant as the P-value (0.000) was less than the significance level (0.05). following the results, the generic regression model is in the form:

$P = 1.564 + 0.309 + \varepsilon$

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.564	.569		2.749	.000
	Board Independence	.309	.130	.252	2.377	.000

Table 10: Regression Coefficients (Board Independence and Performance)
a. Dependent Variable: Performance of Commercial Banks

The study findings are in tandem with the findings by Karanja (2017) investigated the effect of corporate governance on firm performance of commercial banks listed in the Nairobi Securities Exchange (NSE) specifically on the effect of board independence. The study results showed that higher ratio of independent directors was positively related with ROA and ROE.

5. Summary, Conclusion and Recommendations

5.1. Summary of the Findings

The study was designed to explore the extent to which board influences performance of commercial banks in Kenya. From the descriptive statistics the study established that the board was composed of independent directors who oversee management of the bank. The study findings indicated that that independent director's performed monitoring role effectively on management of the banks.The independent directors were trained on procedures, tasks and responsibilities in regard to management of the bank. The independent directors reviewed and evaluated the threats and risks related to the bank. The independent directors set the pace for the current operations and future bank operations. Further, from the correlation analysis, the study found that there is a positive relationship between board independence and performance of commercial banks in Kenya. The regression analysis results also indicated that board independence positively and significantly influence performance of commercial banks in Kenya. In relation to the challenges faced in the implementation of board independence, the study found that most common challenges include proportion of independent directors, overlapping board members and board interlock.

5.2. Conclusion

The study concludes that there is a positive and significant relationship between board independence and performance of commercial banks in Kenya. The study revealed that most of the commercial banks lack board independence. In addition, the proportion of independent directors, overlapping board members and board interlock affected performance of commercial banks. The challenges experienced in board independence has affected performance of commercial banks in terms of customer base, market share, return on assets and return on equity.

It is also notable that there is a positive and significant relationship between board committees and performance of commercial banks in Kenya. Various aspects that contribute to adherence of board committees' establishments include establishment of audit, nomination and executive committees to enhance oversight role in the commercial banks. The board of directors and committee effectiveness has significant influence on the level of information disclosure to enhance market share, customer base, return on assets and return on equity of the commercial banks in Kenya.

5.3. Recommendations

On the premise of these study findings, the study also recommends that policy makers should set an index on corporate governance to act as a base to all banks so that the efficiency of board committees can be enhanced. This will create a management momentum among the committees mandated for corporate governance issues.

5.4. Areas for Further Research

The area of independence of board is an essential area in most sectors both within and without the country and therefore the area requires urgent contribution. There are still many more board constructs and financial performance measures that have not been covered by the study. Therefore, regarding future line of research, effort should be put at corporate governance variables to explore more constructs of the independence of the board that may influence the performance of commercial banks in Kenya.

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