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Relationship between Frequency of Board Meetings and Performance of Commercial Banks in Kenya

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Abstract

Commercial banks play a major role of collecting investment capital in search of good returns. Commercial banks collect capital and allocate in a way that the board believes that will offer good returns. When the returns are good then it is perceived the bank has made profits. Since the board is involved directly in decision making of collection and allocation of the capital in order to make profits, the need for sound corporate governance practices is critical in enhancing performance and stability in the banking sector. Research on connections between corporate governance practices and commercial banks' performance in terms of profitability has been scanty. This paper explores the issue, directing more attention on the relationship between number of board meetings and the performance of commercial banks in terms of profits in Kenya for the year 2016. Secondary data was obtained from a sample of 28 out of the 43 commercial banks' published financial statements for the year 2016, and also the published general reports from the banks' websites. Bank performance was defined by one key performance variable, namely Net profit. These are the most important measures of Banks' financial performance because they show what the shareholder takes home. Data collected was analyzed using Statistical package for the social sciences and multivariate regression model. The results indicated that board meetings negatively affected banks performance. Likewise, board size negatively affected the banks' profits, while board independence enhanced Banks' performance in terms of profits. The results further showed that Disclosure and Banks' performance displayed no linear relationship. Therefore, if commercial banks in Kenya intend to improve their performance in terms of profitability, they should direct their efforts on board independence and other variables other than disclosure.

Key words and abbreviations : C.E.O -Chief Executive Officer, NSE - Nairobi Security Exchange, OLS - Ordinary Least Square , PSICG- Public Sector initiative for corporate governance, ROA - Return on Asset , ROE - Return on Equity

1. Introduction

Several studies have been done on management and Finance, but not much attention has been given to commercial banks performance and corporate governance practices especially in developing countries like Kenya. Belkhir (2008) noted that corporate governance studies in banking firms and their effects on performance have received less attention as compared to other related studies in industrial firms. Corporate governance practices entail the core values and principles of public services which are expected to spur growth and development of a firm (Mwongozo, 2015). These include Level of education of Board members, Board meetings, and Board size, Disclosure and Transparency and Board Independence. Since decisions are made and implemented by the board of directors, then banks need to make sure that board adhere to those governance practices.

2. Review of related literature

Letting, Aosa and Machuki, (2012) sought to look at board diversity association with the financial performance of firms listed in the Nairobi Securities Exchange. The target population for the research comprised of listed firms in the Nairobi Securities Exchange (NSE) as at 31st December 2010. At that particular period 47 firms were working in different segments of Kenya's economy. The study incorporated all the firms. The findings revealed that board diversity had a weak positive relationship with financial performance apart from the independent outcome of panel study specialty on share return. The findings partly agree with resource dependency and agency theories of corporate governance.

In another study (Murerwa, 2013) assessed the effects of governance on commercial banks' performance in Kenya. The target population for the research was 44 commercial banks in Kenya. The study used Return on Assets and Return on Equity as measures of performance and 3 dependent variables while the independent variables used to measure governance comprised of C.E.O duality, independent directors and board size. The findings revealed that directors' independency enhances banks' performance. Dharmadasa (2014) supports these findings by stating that large board size lead to non-corporation among board members and waste of time therefore the skills remain unutilized. However, Andres and Vallelado (2008), argued that large boards were more efficient in monitoring and creating more value for a firm. Further, the study revealed no evidence on the impact of C.E.O duality or otherwise on commercial banks performance in Kenya.

Barako, Hancock and Izan (2006) sought to determine company's voluntary disclosure impact as well as issues that may clarify such revelation. The research detailed a longitudinal assessment of deliberate confession activities in the listed companies in Kenya's yearly financial reports. The findings of the study indicated that company's attributes of corporate governance, company characteristics and ownership structure affects the degree of voluntary disclosure.

The effects of corporate governance and organization ownership on the performance of firms in Kenya with regard to banks were also examined by Mang'unyi (2011). The final sample size used by the study was 40 bank managers. It was revealed that ownership type had no significant difference with financial performance as well as between corporate governance practices and banks ownership organization. Additionally, the results indicated corporate governance had a significant difference with financial performance of banks. Interestingly, the results showed that foreign-owned banks had a slight better performance than local banks.

Another study by Black (2001) sought to examine the connection between corporate governance and firm value. The target population for the study was 21 Russian firms. Results of the study revealed that a change in corporate governance significantly increases firm market value and scores from the lowest to the highest rank. The study further indicated that performance may compel to a certain degree a stronger conformity with corporate governance requirements. Hence, investigation to resolve a set of corporate governance policies for a specific company may result in a proper condition of the corporate governance predicament in the situation of performance analysis and assume endogeneity in deliberation.

Utilizing a total of 450 firms in two sets as the sample in a study to evaluate corporate governance and its conflict of interest over compensation (Agrawal and Knoeber, 1998), two effects were identified to have immense significance. Consequently resulting in *ceteris paribus*, a higher pay results from a lower takeover threat through the competition effect in harmony with the false perception of misalignment of interests between shareholders as well as managers.

To establish the influence of corporate governance on managerial labor market as well as mutual monitoring by managers (Fama, 1980), it was established that the executives are entitled to close to one-third fewer positions on other companies managerial boards. Furthermore, the labor market differentiates between two types of managers; those who are displaced from their prior positions based on reasons outside their control as well as managers who were directly associated with the institution's failure. Additionally, it's argued that managers laid off because of banks that collapse for reasons indisputably outside their control are twice more expected to reclaim similar banking positions than the other category of managers who cause bank failure. Although the weight of revising the wage ought to be adequate in order to resolve any unforeseeable challenges, market imperfections lead to the models fail since managers will constantly be rewarded for the alignment extent they achieve with the interest of the shareholders.

3. Research Methodology

Data analysis is a systematical identification, arrangement, organization samples were paired so that the researcher can calculate the correlations coefficient between dependent and independent variables. Statistical tool for analysis Statistical Package for the Social Sciences and regression model was used to analyze data.

3.1 Regression Model

A multivariate regression model was used to establish the effect of corporate governance practices on financial performance of commercial banks in Kenya. A multivariate regression model was considered since the independent variables are more than one.

$Y= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3+ \beta_4X_4 +\varepsilon$

Where:

Y is the Financial Performance (Net profits)

X_1 is Independence of the board

X2 is Board size

X3 is Number of board meetings

X4 is Disclosure

β_0 is the regression constant or intercept,

β_1, β_2, $\beta_{3,}$ and β_4 are the unknown parameters (regression coefficients)

ε is the error term,

4. Findings

The study used both descriptive and inferential statistics in analysis. The descriptive results included both measures of central tendency and trend analysis while inferential comprised of the correlation analysis and regression analysis.

4.1 Descriptive Statistics of the Variables

Descriptive statistics were carried out to establish the measures of central tendency of the study variables. These include mean, standard deviation, minimum and maximum values for all the variables under study. The results are presented in Table 4.1.

Table 4.1 Descriptive Statistics of the Variables

Variable	Minimum	Maximum	Mean	Std. Deviation
Non-Executive Members	3	14	7.79	2.807
Executive Members	1	6	2.00	1.361
Board Independence	0.60	12.00	5.2446	2.93357
Board Size	6	20	9.79	3.392
Board Meetings	4	21	7.67	4.715
Disclosure	1	1	1.00	0.000
Net Profit (KSH)	-326431.0	306165.0	4039.26	122848.69

The results showed that commercial bank with the lowest non-executive board members had 3 while those with highest had 14. However, majority of the banks had 7 non-executive members as shown by the mean of 7.79. The findings further showed that majority of the selected commercial banks had 2 executive board members with the banks with maximum having 6 executive members. The study computed board independence by dividing the numbers of non-executive members by that of executive members. The high ratios of non-executive members to executive members indicated high board independence. The finding indicated that 4.1 which implied that majority of the commercial banks had many non-executive board members compared to executive members.

It was further established that majority of the commercial banks had a board size of 9 members with the highest having 20 while that with the least number having 6 (table 4.1). These findings implied that majority of the commercial bank neither had a lean or bloated board size. In regards to the number of board meetings held by the commercial banks boards, it was found that majority of the commercial banks held 7 meetings per years as shown by the mean. The results further showed that 21 and 4 were the maximum and minimum number of meeting held respectively by boards of commercial banks in Kenya. Finally it was established that all the banks disclosed their annual financial reports. Therefore, this variable had no effect.

4.2 Trend Analysis of Corporate Governance and Performance

The findings of the trend analysis that indicate the relationship between corporate governance of various selected banks and their respective performance as measured by the net profits are presented in figures 4.1 to 4.2.

4.2.1 Trend Analysis of Board Independence and Performance

Figure 4.1 illustrates the trend in board independence and performance of selected banks in Kenya.

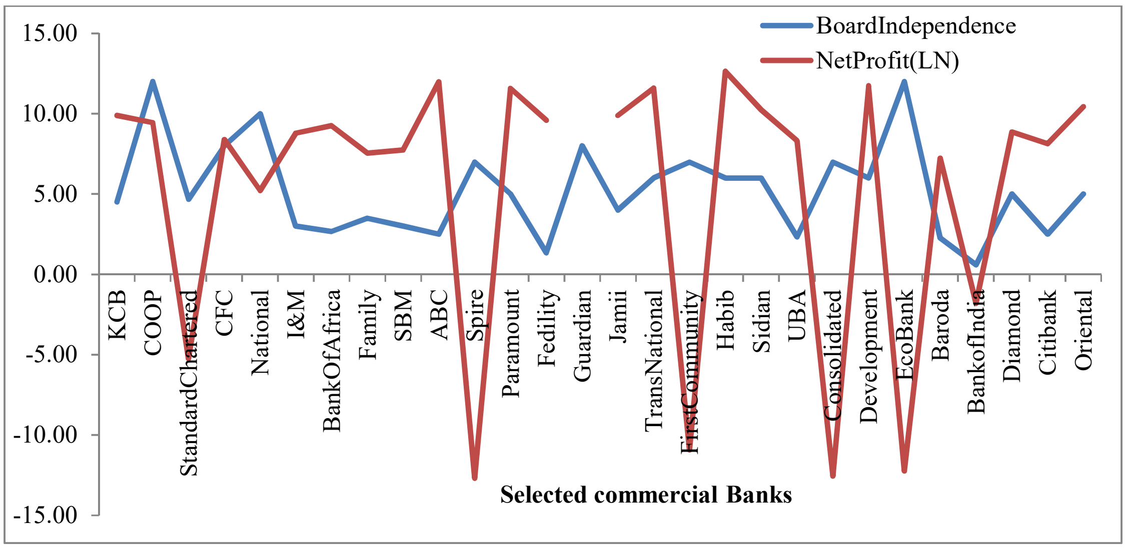

Figure 4.2 Trend Analysis of Board Independence and Performance
It can be clearly seen that board independence fluctuated across different banks. Cooperative bank and Eco bank had the highest board independence among the selected banks. These findings implied that there was a change in board independence across various selected commercial banks. The findings implied that different commercial banks practiced different level of board independence.

4.2.2 Trend Analysis of Board Size and Performance

The relationship between board size and performance of selected commercial banks in Kenya are presented in figure 4.2. Trend analysis for board size and performance across various selected commercial banks are indicated.

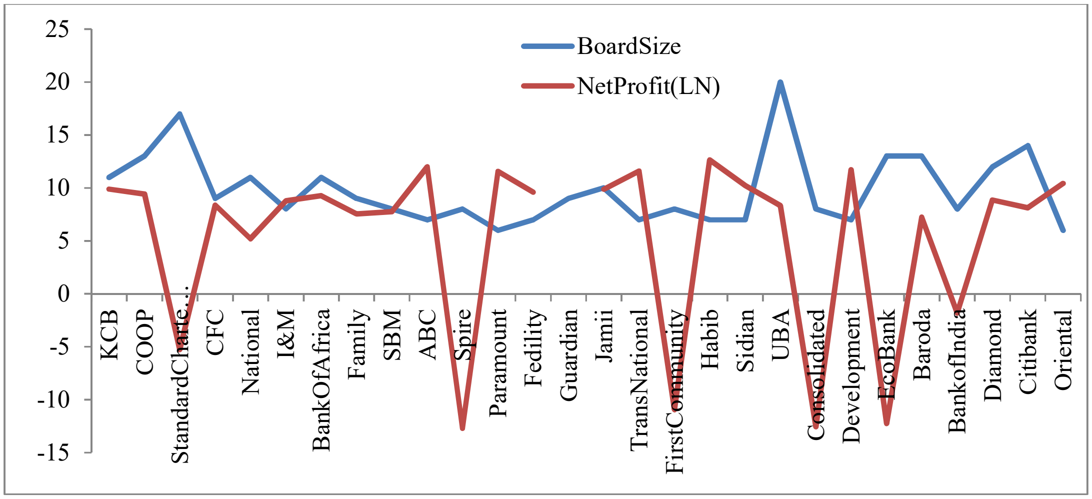

Figure 4.2 Trend Analysis of Board Size and Performance

The size of the board varied from one commercial bank to the other. The bank with the largest board size was UBA bank while paramount bank had the smallest board size. Standard chartered bank was realized to have the largest board size which coincided in loss in performance. Generally the banks with moderate board size recorded high performance (figure 4.2). These included ABC, Paramount and Habib among others. These findings could imply that having moderate board size enhances the performance of commercial banks.

4.3 Trend Analysis of Board meetings and Performance

Finally the relationship between the number of board meetings and performance as measured by the net profits are presented in figure 4.3 for selected commercial banks in Kenya.

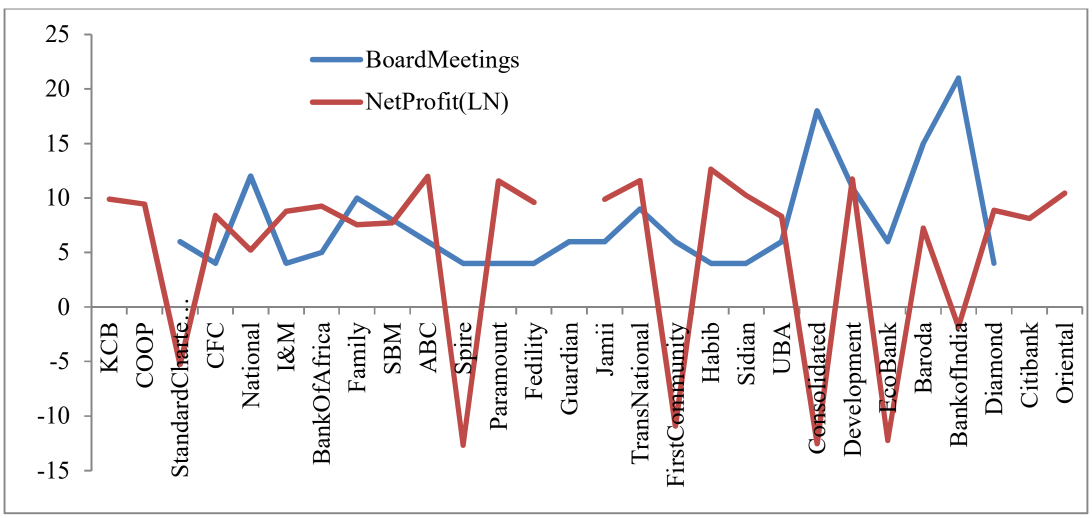

Figure 4.3 Trend Analysis of Board Meetings and Performance

It was revealed that consolidated bank and Bank of India were the banks that held numerous board meetings. The banks with the least board meetings were among others CFC Stanbic Bank, I&M Bank, Paramount Bank and Diamond Banks among others. The trend analysis further showed that commercial with moderate number of meetings also recorded good performance. However, consolidated banks and Bank of India that held many board meetings also recorded negative performance during the time of the study. These findings could imply that many board meetings arise from the need to address poor performance the banks could be experiencing.

4.4 Inferential Statistics

Inferential statistics performed included correlation and regression analysis. The study used correlation analysis to test the association between the study variables while regression was used to test the relationship between independent variables and dependent variable.

4.4.1 Correlation Test Results

Pearson correlation was adopted to test the association between corporate governance practices and performance of commercial banks in Kenya. The findings are presented in table 4.4.

Table 4.2 Correlation Matrix

		Board Independence	Board Size	Board Meetings	Net Profit
Board Independence	Pearson Correlation	1			
	Sig. (2-tailed)				
Board Size	Pearson Correlation	-0.600	1		
	Sig. (2-tailed)	0.001			
Board Meetings	Pearson Correlation	-0.434	0.454	1	
	Sig. (2-tailed)	0.024	0.017		
Net Profit	Pearson Correlation	0.552	-0.475	-0.431	1
	Sig. (2-tailed)	0.003	0.012	0.028	
	N	28	28	28	28

From Table 4.2 it could be seen that board independence and Net profits of commercial banks had a strong, positive and significant association. This was shown by the Pearson Correlation value of 0.552 and p-value of 0.003. These implied that an increase in board independence could lead to an increase in net profit of commercial banks in Kenya.

Similarly, board size and Net profits of commercial banks had a strong, negative and significant association. This was shown by the Pearson Correlation value of -0.475 and p-value of 0.012. These findings implied that an increase in board size could lead to a decrease in net profit of commercial banks in Kenya.

Finally, the study sought to establish the association between board meetings and net profits of commercial banks. The correlation results (Table 4.2) indicated the existence of a weak negative and significant relationship between board meetings and net profits of commercial banks in Kenya. This was shown by the Pearson Correlation value of -0.431 and p-value of 0.028 which implied that increasing the number of board meeting leads to decrease in performance. Overall it is realized that corporate governance practices significantly affected the performance of commercial banks in Kenya.

4.4.2 Multivariate Regression Results

Multivariate regression analysis was employed to test the relationship between the independent variables and the dependent variable. The findings of multivariate regression analysis are presented in table 4.3 to 4.5.

Table 4.3 Model Summary

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	0.901	0.812	0.786	3.9227499

a. Predictors: (Constant), Board Meetings, Board Independence, Board Size

Corporate governance practices (board meetings, board independence and board size) jointly accounted for 81.2% (as shown by R-Square =0.812) of the variation in the commercial banks' net profits (table 4.3.) These findings could be deduced to imply that corporate governance practices accounts for the larger percentage in the variation of performance of commercial banks.

Table 4.4 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1457.452	3	485.817	31.571	.000
1	Residual	338.535	22	15.388		
	Total	1795.987	25			

a. Dependent Variable: Net Profit
b. Predictors: (Constant), Board Meetings, Board Independence, Board Size

Analysis of Variance (ANOVA) (table 4.4) indicate that the model used to link the predictor variables (corporate governance practices) to the performance of commercial banks was statistically significant as shown by F-statistics=31.571 and p-value =0.000. Implying that board independence; board size and board meetings were significant predictors of performance of commercial banks.

Table 4.5 Regression Coefficients Results

Predictor Variables	**Beta**	**Std. Error**	**t-statistic**	**Sig.**
(Constant)	10.349	4.235	2.444	0.023
Board Independence	1.026	0.286	3.584	0.002
Board Size	-0.984	0.274	-3.597	0.002
Board Meetings	-0.501	0.201	-2.496	0.021

a Dependent Variable: Net Profit

It was further confirmed that board independence had positive and significant relationship with net profits (β=1.026, p=0.002) (table 4.5) which indicated that an increase in board independence would lead to increase in net profits of commercial banks. Hence, a unit increase in board independence would results to an increase of 1.026 units in the net profits of commercial banks in Kenya.

On the relationship between board size and net profits, the regression results indicated that there existed a negative and significant relationship between board size and net profits (β=-0.984, p=0.002). Therefore increase in board size lead to a reduction in net profits. A unit increase in board size would result in reduction of -0.984 units in net profits of commercial banks in Kenya.

Regarding the relationship between number of board meetings and performance of commercial banks in Kenya, regression analysis showed that the number of board meetings was negatively and significantly related to the net profits of commercial banks in Kenya. Increasing board meetings negatively reduce the performance of commercial banks.

5. Conclusions

The study established the existence of significant relationship between corporate governance and performance of commercial banks in Kenya. It could therefore be concluded that, first, commercial banks that have non-executive board members enhance independence. Independence in board ensures that no biased in the decision making by the board. This ensures all decision made are made with the interest of the banks and not individual benefits. Secondly that to enhance performance commercial banks board independence must be realized. Boards of commercial banks must have high level of independence, diversity, size and have quality meetings in order to execute their roles and mandate effectively. This will enhance the quality of their financial performance.

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