CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN MACHAKOS COUNTY, KENYA

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTERS OF MANAGEMENT AND LEADERSHIP OF THE MANAGEMENT UNIVERSITY OF AFRICA.

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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This research project has been submitted for examination with my approval as the University Supervisor.

Signature ………………………………　　　　**Date ……………………......................**

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DEDICATION

I dedicate this research project to my family especially my wife Susan, my sons Samuel, Simeon and Shemaiah.

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For the good favor, strength, and health that has enabled me to complete this research project, I give thanks to the Almighty. I'd want to express my deep appreciation to the Management University of Africa and my advisor Dr. John Cheluget for all of his help, input, criticism, and direction while I continue working on this research project. In the same spirit I appreciate all the commercial banks located in Machakos county for willingly providing data that greatly helped me comprehensively carry out this study.

ABSTRACT

The banking industry in Kenya and the world by extension is characterized by ever changing and turbulent competitive business environment in terms of products and services offered to their customers all geared towards the commercial banks performance. To overcome the above strains and remain profitable commercial banks need to adopt corporate governance practices that would aid them enhance their performance. This will make identification and pursuit of the right corporate governance practices as a source of superior performance to become a predominant priority in all organizations nevertheless the application of the right corporate governance practices is still a concern in most of the commercial banks. Hence, the purpose of the research was to examine how the services provided by commercial banks in the country affect the customers' satisfaction, regulatory framework compliance, employee motivation and retention, and overall transparency and accountability. Between January 2023 and August 2023, researchers in Machakos County gathered data. The anchor theory of the research was stakeholder theory and agency theory and stewardship theory were supporting theories. Data was gathered using surveys utilizing a descriptive research methodology. Commercial banks in Machakos County were the focus of this research. Because of its central location within the metro area and its excellent infrastructure, Machakos County was chosen due to the region's tremendous economic potential. Machakos county has a total of 26 commercial banks spread across its 9 sub counties and were all involved in the study. The data collection tool was piloted in Makueni County. Collected data was coded and entered into the SPSS version 22 program; the tool that aided in data analysis. Descriptive statistics was used to summarise the data including percentages and frequencies. Tables and other graphical presentations deemed appropriate were used to present the data collected for ease of understanding and analysis. Pearson correlation, was used to test the relationship between the dependent and independent variables. Both the correlation and regression results were used to establish whether any form of influence between transparency and accountability, employee motivation and retention, regulatory framework compliance, customer satisfaction and performance of commercial banks in Kenya. The study found out that there exists a positive relationship between the specific aspects of corporate governance under study and the financial performance of commercial banks. these findings have also been related to the findings of other previous researches. From the findings of the study, the research recommends that to ensure there is sufficient Compliance to Regulatory Framework the management of the commercial banks, the legislature and the central bank which is the supervising authority needs to put in place policies to ensure the bank is compliant to the provisions. This research recommends that further research be carried out in other locations as well as the supervisory authority to establish its commitment in ensuring that the corporate governance is fully complied with. Further the research recommends that, further research be carried out in other financial institutions such as insurance companies, micro finance institutions and savings and credit cooperative societies.

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LIST OF ABBREVIATIONS AND ACRONYMS

ATMs	**:**	Automatic Teller Machines
AVE	**:**	Advertising Value Equivalent
BBL	**:**	Barclays Bank of Kenya Limited
CBK	**:**	Central Bank of Kenya
CDs	**:**	Certificate of Deposits
CRB	**:**	Credit Reference Bureau
FAHS	**:**	Fin Access Household Survey
FDI	**:**	Foreign Direct Investment
GCR	**:**	Global Competitive Report
KBA	**:**	Kenya Bankers Association
KCB	**:**	Kenya Commercial Bank
MFBs	**:**	Micro-Finance Banks
MPI	**:**	Media Publicity Index
NCBA	**:**	National Commercial Bank of Africa
SACCO	**:**	Savings and Credit Corporative Society
SBM	**:**	State Bank of Mauritius
TOC	**:**	Theory of Constrains
TQM	**:**	Total Quality Management
WEF	**:**	World Economic Forum

OPERATIONAL DEFINITION OF TERMS

Accountability	Is the willingness for an individual or a corporate entity to admit the responsibility for its own causes for action. It shows the willingness to monitor actions with a view of managing the outcome to be favorable to the general society to avoid implicative costs.
Continuous Improvement:	This is an ongoing initiative to better the banking industry's products, services, and processes to meet the demands of a growing client base and intense market rivalry (Korir, 2015).
Customer satisfaction	Whether or not the scales A metric for gauging consumer satisfaction with a business or organization's offerings and services.
Employee motivation	Employees' propensity to go above and beyond in terms of effort, innovation, and dedication to the company's success is a direct outcome of the conscious efforts of the company's leadership and its owners to foster a culture of intrinsic motivation.
Employee retention	This is the ability of an existing company to keep its current employees which it has competitively sourced, trained and deployed. It is used to reduce employee turnover which translates to heavy costs in human resource procurement and training.
Regulatory framework compliance	It is a combination of best practices and guidelines that companies keep in track to strengthen security, carry out continuous improvement of processes and meet regulatory requirements.
Transparency	Is creation of an environment under which, institutional, legal, economic and objectives of policy decisions are made rationally, while financial and monetary policies' information are availed to the public in a timely, accessible and comprehensive format.

CHAPTER ONE

1.0 Introduction

This chapter provides a synopsis of the study as well as its rationale, issue statement, broad and narrow goals, research questions, and significance and scope.

1.1 Background of the Study

World Bank policy goals have recently shifted to prioritize the growing corporate governance significance in an economy. The African, Asian and Caribbean markets have embraced this emerging concept in a bid to compete with the global economies. The Asian economic crisis coupled with African market below average financial performance has compelled the conceptualization of corporate governance, (Dalton and Dalton, 2013).

Corporate governance envisions a situation where systems are utilized to manage and control corporate entities with the least friction being experienced. Management bodies in corporates gives a clear perception on the distribution of rights and privileges as well as responsibilities and duties. The obligations of each participant is also managed among the key stakeholders including; shareholders, board of directors, creditors, managers, auditors, other stakeholders and regulators. It further informs the procedures and guidelines to be adhered to by the relevant personnel bestowed with the duty of making crucial decisions, (Enobakhare, 2020). Through an effective system of corporate governance, an organization makes its objective achievement path very short in employing a structured system while concentrating on market frameworks, regulatory framework and social dimensions of growth of processes and procedures of the contextualized operational environment (Enobakhare, 2020). Governance can therefore be used to explain management policies, monitoring process, operational decisions and (Mullins, 2014).

The agency theory defines the process of governance as to include; board composition and size, sensitivity to the performance of the CEO, shareholders' rights, ownership structure, directors and stakeholders support and goodwill. Where the mechanisms of governance, should be changed, the management interests are to aligned with the shareholders' and stakeholders interest to maintain a higher value, growth or achievement of the firm. Corporations that have an effective governance structure have a faster financial growth than their counter parts with ineffective governance structure. Stable frameworks of corporate governance are important to corporation in that they guarantee credit access, spontaneous growth, less investment capital and favourable terms of engagement from stakeholders. Risky financial patterns, slow growth, and macroeconomic crises are precipitates of weak structures to manage corporate governance of an entity. Increased market liquidity and confidence of investors is also a result of effective corporate governance (Ren, L. 2014).

Transparency and accountability is characterized by increase in the flow of reliable timely and comprehensive information on social, economic, investors prospects, political climate and influence on the financial outcome of the corporation, utilization of credit facilities and corporate creditworthiness, changes in fiscal and monetary policies and international activities influencing the operational environment of the business. Denial of access to information or providing misleading information either intentionally or without knowing leads to lack of transparency and accountability or if the information provided is untimely, incomplete or misrepresented. Therefore, an understanding of transparency and accountability should have the following ingredients; reliability, relevance, access, quality and comprehensiveness of information provided (Vishwanath & Kaufmann, 2001). The economics and finance definition of full disclosure is a systematic process of making available, accessible, understandable and visible the information relating to; actions, decisions, existing conditions and threats to the continued operations of the corporate entity.

According to the American International Financial Journal, a conflict of interest may emerge between shareholders and management or between minority and controlling shareholders, transparency and accountability. The common driver of the above listed conflicts is the lack of transparency and accountability. A common prerequisite of shareholder-management conflict is the low effort by the management and unproductive investment. The minority-controlling shareholder conflict is precipitated by expropriation or private benefits control (Goodstein, 2019).

According to Pfeffer 2012, south Africa has the leading enthusiasm of transparency and accountability. The outer forces enjoy utilization of power counterbalance instruments which include; legal climatic and regulatory framework and adequacy of corporate governance enforcement, discouraging detrimental insiders actions, allow corporate and judicial channels intervention for the affected stakeholders without any probability of insiders' intervention.

Corporate governance coupled with employees' delivery in developing economies taking into account the Southern African economic block. The greatest outcome was the Impact of employee motivation in ensuring corporate governance is achieved.

Freeman, Wicks and Parmar asserts that, employees are key to achieving corporate governance. In their findings they clarify that, despite employees being mere implementers and managers, the shareholders and directors only develop the strategic direction and employees choose how to implement the directives. Well-motivated employees implement cooperate governance with great ease and less conflict and such institutions reap the maximum benefit of corporate governance for their growth. Corporate governance boosts development and performance by encouraging employee engagement and protecting shareholder value (Freeman, Wicks and Parmar, 2014).

Effective compliance to regulatory framework leads to stabilized corporate governance and performance. Non-compliance leads to legal battles with the states and in return, institutions end up spending too much funds and time on legal costs (Khaled, 2019). In Nigeria, several cooperates were barred from operations due to non-compliance in tax disclosures, where the companies were underreporting incomes and over stating expenses to minimize the amount of taxes due and payable to the state Kumudini (2018).

Back in Kenya, several companies have been on the run without attaining full compliance. In 2021 for example, Keroche industries was closed down by the Kenya Revenue Authority for non-compliance of tax reporting and payment. In the same year, several companies along Nairobi river and athi river were also put on notice by the National Environment Management Agency (NEMA) for draining their waste in to the rivers without following the due procedure as provided by the agency. The collapse of Uchumi Supermarkets, Mulleys supermarkets, several financial institutions and parastatals is a classic example of the need for corporate governance in institutional management Kumudini (2018).

Customer satisfaction is key to any business success as it helps in building a stable customer base (Enobakhare, 2020). Several agencies and state corporations have been put in place to monitor and protect consumers from scrupulous business entities such as the Kenya Bureau of Standards (KEBs).

Customer retention and profitability in commercial banking are more open to speculation in economies still getting their feet under them. For instance, when there is more information available, there is less of a chance that an error was made when estimating the return distribution (Clarkson et al., 2016). According to research by Vander and Willekens (2018), businesses in the European Union with a larger concentration of ownership provide less information to the public than those in common law nations. The relationship between disclosure quality, credibility, and management incentives was examined in Core's (2021) assessment of the empirical disclosure literature. One possible justification for companies sharing data is social responsibility (Gelb & Strawser, 2021).

1.1.1 Transparency and Accountability and Financial Performance of Commercial Banks

Good corporate governance is a means to create a business environment of trust, transparency and accountability that supports investment, financial stability and sustainable economic growth. Corporate Governance can be explained as a process and structure used to direct and manage affairs of the company towards enhancing prosperity with the ultimate goal or objective of realizing shareholders long term value while taking into account the interests of other stakeholders. The other definition of corporate governance was advanced by Tate and Bals (2017) as the way individuals in authority in an organization exercise their power in realization of the objective of maximization of the shareholder wealth. According to Fanta, Kemal and Waka (2013), good corporate governance ethical values include: responsibility, accountability, fairness and transparency with its main purpose being increasing the value

and benefits to a firm, cutting financial and business risks, prevent dishonest and fraudulent operational activities, refuse unethical work behavior and increase the confidence levels that the shareholders and investors have on the firm. It is on the basis of the above that many organizations / countries have invested heavily in terms of finances and resources in setting up ideal corporate governance structures to support and implement corporate governance practices. The corporate governance structure of any organization generally specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs (Bokpin, 2013). In doing this, it provides the structure through which the company's objectives are set, the means of attaining those objectives and the instruments for monitoring performance. Corporate governance involves the relationship between different stakeholders all tied to a singular organization. The actions of the board, administrators and top management staff are instrumental in developing strategies, objectives and assigning tasks to the implementers. However, it is paramount for all the stakeholders to abide by the regulations and codes of conduct for a successful business unit (Gitonga, 2016).

1.1.2 Employee Motivation and Retention on Financial Performance of Commercial Banks

All organizations are concerned with what should be done to achieve sustained high levels of performance through people. Managers are looking for the best way to manage so as to accomplish an objective or mission with the least inputs of materials and human resources available (Forson, 2012). The success or failure of an organization largely depends on the efficiency of human capital. This has made the human resource management function key in achievement of organizational goals. The Human resource management function is responsible for the maintenance of human relationships and managing the physical wellbeing of employees to enhance their productivity and efficiency at work (Appleby, 1994). It is argued that a motivated employee is a productive employee. Motivation is the process through which people choose between forms of behaviour in order to achieve goals (Cole, 2002). It is the guiding principle and force that pushes individuals to focus on a particular path to achieve a set goal or desire. Motivation is a psychological concept concerned with the intrinsic forces operating within an individual, which impel him or her to act or not to act in a particular way. A motive is a personal and internal feeling. The process of motivation is dynamic and continuous as it deals with human beings who are ever changing modifying themselves from time to time. Due to their changing nature, people must be provided with the stimulus to work because the satisfaction of one need gives rise to another.

Robbins (2001) defines motivation as the forces that energizes, direct and sustains a person’s effort. Motivation is an important determination of human behaviour. It is the one which moves one towards the achievement of the goals and objectives. Motivation is an art targeted to getting people work willingly, and an art of inducing one to behave in a particular manner to achieve a task. Motivation is the reason why employees want to work hard and work effectively for the business. It is the desire to achieve a goal. Some people are self -

motivated. This means that they have driven to achieve goals on their own. They do not need any encouragement. However, others need to be motivated. They need a push, a pressure, or incentives. The employee motivation is very important because, if a business has a well-motivated workforce, it will perform better. Labour productivity will be higher and therefore, profits are likely to be high. The main benefits of well-motivated employees are lower absenteeism, higher production, more innovation, pleasant working environment, more co-operations, lower staff turnover (Jones, 2011).

1.1.3 Regulatory Framework Compliance on the Financial Performance of Commercial Banks

Annual reports are a source of information stockholders and all interested parts can assess yearly banks operations, hence helping them to make informed decisions (Graybeal, Franklin & Cooper, 2018). Thus, qualitative and quantitative reports are a source of commercial banks information, consequently bank should provide both qualitative and quantitative reports to avoid misleading stakeholders (Boussanni, Desrochers & Préfontaine, 2008).

Some of the qualitative measurements indicators may include client survey scores measured through customer feedback or customer satisfaction records, average time taken to sort out queries from customers, customer won or customer loss, services levels and delivery, effective and efficiency among other indicators (Khadka & Maharjan, 2017). On other hand quantity measurements may be evaluated through operating expenses as a percentage of assets (OER), assets under management (AUM) measured quarterly, percentage of AUM above benchmark used to evaluate how a particular bank rank compared to its competitors, return on equity (ROE) which evaluates returns on shareholder's equity, return on assets (ROA) which assesses the net income generated by the bank divided by the total assets or return on capital employed (ROCE) which determines a company's profitability and efficiency which should be higher than the capital cost (Ghebregiorgis & Atewebrhan, 2016; Alshatti, 2015).

In essence, qualitative indicator of performance are assessed through non-financial data which are the best measurements for reflection of the strategic performance and implementation of strategic plan of a company. However, non-financial measures may be time consuming to evaluate and may also produce conflicting information from different sources of reactions. Moreover, non-financial data are measured in many ways, hence they lack a common denominator varying from time, quality or percentages which at the end may not produce concrete results due to lacking links which companies could have failed to state before choosing the type of indicator. They also lack statistical reliability which are bases for financial measures.

1.1.4 Customer Satisfaction on the Financial Performance of Commercial Banks

Banks have a key role in meeting customer satisfaction in Kenya and this can be achieved through offering quality and reliable banking services. A bank is financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses. The Kenyan banking industry is one of the broadest and most developed in sub-Saharan Africa with 49 financial institutions, comprising 43 commercial banks, 1 mortgage finance company and five deposit-taking microfinance institutions (CBK 2011). These institutions, along with the Kenya Post Office Savings Bank, make up Kenya"s formal banking sector and serve 22.6 percent of Kenya"s adult population, according to Fin Access household survey (Beck et al., 2010).

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). According to central bank of Kenya the Kenyan Banking Sector continued to register improved performance with the size of assets standing at Ksh. 2.3 trillion, loans and advances worth Ksh. 1.32 trillion, while the deposit base was Ksh. 1.72 trillion and profit before tax of Ksh. 80.8 billion as at 30th September 2012. During the same period, the number of bank customer deposit and loan accounts stood at 15,072,922 and 2,055,574 respectively (Ndome, 2012).

1.1.5 Commercial Banks in Machakos County

The Kenya's banking industry is divided into three tiers with a total of 43 banking houses. These include both commercial and public banks although strictly speaking, there is no such thing as a public bank since all of them aim to make profits openly with common burdens of unpaid loans as well as risky ventures in their day to day operations. The Central Bank of

Kenya (CBK) reports that there are 43 banks currently operating in Kenya with 6 banks found in the top tier controlling almost 50 percent of the market followed by 16 Tier 2 banks that control another 42 percent of the market leaving out a paltry 8 percent of the market controlled by Tier 3 banks which are mainly 21 small private banks.

Machakos county was selected due to its strategic position in the metropolis region with a myriad of economic activities and its potential to spur economic growth. The establishment of the Konza Techno city in its bonder with Makueni and Kajiando counties also provides a great potential for the county in terms of technological investment which provides a great platform for commercial banks to operate. Machakos county has a total of 26 commercial banks spread across its nine sub-counties. Since the population was deemed manageable, census was used to select all the commercial banks in Machakos county.

1.2 Statement of the Problem

The connection between corporate governance and economic success has been the subject of numerous studies. It's worth noting that this line of inquiry is part of a growing body of literature as more and more businesses recognize the value of good corporate governance in fostering economic growth through increased financial performance. It's also worth noting that, to date, the vast majority of academic study on corporate governance has been conducted in first-world nations. The study aims to fill this void in the literature. Commercial banks are an integral part of the economic fabric of any country. Because they safeguard the assets of all the other businesses and ensure the viability of the other industries by extending credit, they deserve special recognition for their crucial role in the economy. This study aimed at filling a significant information gap by conducting the first comprehensive analysis of corporate governance and financial performance across Kenya's commercial banks.

The study's primary objective was to determine whether or not commercial banks' financial performance is affected by their level of openness and accountability. Publication of yearly financial accounts, disclosure of board decisions, disclosure of willingness to report changes in the board of directors and top management, and disclosure of business alliances are all ways in which transparency and accountability can be gauged. The study also intended to determine whether or not commercial banks' financial performance is correlated with their employees' levels of motivation and commitment to the company. Banks were evaluated on their use of monetary and non-monetary inducement schemes to keep their staff engaged, while employee turnover was used to gauge how well they are doing at retaining their current workforce.

The purpose of this research was to determine if there is a connection between commercial banks' levels of compliance with the regulatory environment and their financial success. The rules were separated into those that apply to commercial banks in Kenya specifically. When determining compliance, the number of times a given institution has been warned for not following the rules should be used. The number of closed accounts due to dissatisfied consumers and reports of customer feedback was used to gauge customer satisfaction. The profitability of commercial banks over the course of a fiscal year served as the dependent variable by which their financial performance was evaluated.

The total net assets in the banking sector stood at Ksh.6.0 trillion as at December 31, 2021, compared to Ksh.5.4 trillion as at December 2020, recording a growth of 11.4 percent. There were 20 operating local private commercial banks and 2 operating local public commercial banks, which accounted for 68.3 percent and 0.5 percent of total net assets respectively (CBK, 2021). A total of 17 operating commercial banks were foreign owned and accounted for 31.2 percent of the sector's assets. For the year ended December 31, 2021, there were 9 large banks with a combined market share of 74.76 percent, 8 medium banks with a combined market share of 16.41 percent and 22 small banks with a combined market share of 8.82 percent. The mobile money ecosystem has experienced transformation over the last fifteen years. According to CBK's statistics on mobile payments, the use of mobile money in Kenya hit a historic high in December 2021, after the users transacted Ksh.622.14 billion on phones (CBK, 2021)

Commercial banks have been for a very long time operated in a very regulated framework and with less competition with very strict entry requirements. In the recent past, commercial banks have had to endure a growing challenge of the entry into the sector by other forms of financial service providers such as micro finance institutions, savings and credit cooperative societies (SACCOs), Mobile Money transfer, savings and lending platforms. This means that, commercial banks are at a threat of a more competitive environment than recently was. It is also worth noting that, commercial banks have faced several challenges in the recent past majorly being cash flow changes to meet their depositors' requirements and even some of them being handed over to receivers and buy outs. Examples of such include; Imperial bank, National Bank of Kenya, Chase bank, Mwalimu National, K-Rep Bank among others.

1.3 Objectives of the Study

The general objective of this research was to analyze corporate governance and financial performance of commercial banks in Machakos County, Kenya.

1.3.1 Specific Objectives

Specific goals for the study were as follows:

i. To analyze transparency and accountability and financial performance of commercial banks in Machakos County, Kenya.
ii. To find out the influence of employee motivation and retention on financial performance of commercial banks in Kenya case of Machakos county.
iii. To establish the influence of regulatory framework compliance on the financial performance of commercial banks in Kenya case of Machakos county.
iv. To determine the influence of customer satisfaction on the financial performance of commercial banks in Kenya case of Machakos county.

1.4 Research Questions

The study was looking to answer the following questions;

i. What is the influence of transparency and accountability on the financial performance of commercial banks in Kenya?
ii. To what extent does employee motivation and retention influence financial performance of commercial banks in Kenya?
iii. What is the influence of compliance to regulatory framework on the financial performance of commercial banks in Kenya?
iv. How does customer satisfaction influence the financial performance of commercial banks in Kenya?

1.5 Significance of the Study

The study will be very important to future scholars who will deep themselves in the analysis of corporate governance. Banking sector being a cross function which affects both the private, public sector and as well as cross border transactions; this research forms a great basis for the theory of corporate governance in relation to the backbone of all industries.

Policy makers such as the national assembly, senate, the national treasury and the commercial banks regulator central bank of Kenya will use these research findings to put in place policies which enables corporate governance inclusion in the operations of the commercial banks. Financial institutions in Kenya, the region, and the world at large will benefit from the study's conclusions, as will the government bodies responsible for overseeing commercial banks and other financial institutions.

This research will be used by commercial bank management and, by extension, the management of other financial institutions to determine whether or not implementing best practices in corporate governance boosts the growth of commercial banks. For commercial bank and other financial institution managers interested in implementing corporate governance practices, this research serves as a user manual for developing monitoring and evaluation tools for the corporate governance journey and drafting the corporate governance strategic plan.

1.6 Scope of the Study

The commercial banks in Kenya make up the lion's share of the banking system and are therefore extremely important. Commercial banks in Kenya today offer the whole gamut of services given by other types of financial institutions, including mobile money transfers, insurance services, deposits, currency exchange, and credit issuing. This research examines the following aspects of corporate governance: openness and accountability, employee motivation and retention, adherence to regulatory framework, and focus on the needs of the customer base. Commercial banks in Machakos county was contacted to obtain this data. Both primary and secondary sources was used in the investigation. Between the months of January and October of 2023, the study was carried out

1.7 Chapter Summary

This chapter looked at how corporate governance works and how it can improve the bottom lines of businesses on a global, regional, and local scale. In addition, the chapter details the regional issues that stem from the problem's stated absence of cooperative governance. The study's overarching goal is laid out, as are its more narrowly focused aims, their significance, and the breadth of its application.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews previous researched on the relationship between transparency and accountability, employee motivation and retention, regulatory framework compliance, customer satisfaction and financial performance.

2.1 Theoretical Literature

The study was anchored on the stakeholders' theory and the agency theory and stewardship theory was supporting theories.

2.1.1 Stakeholders Theory

The stewardship theory was advanced by Puxty and McDonald in the year 1997. The theory holds that firms are not merely shareholders' instruments but they are however driven by the need to realize additional responsibility to the community where they operate. In other words, any business activity has the objective of generating profits as well as meeting the expectations of the community from which it is established or it operates. Abrams (1951) indicated that a firm strives to ensure that there is equality and balance between the community and stakeholders' interests as well as the ones guiding the firm. In most cases, these two types of interests may be conflicting (Abrams, 1951). The theory greatly supports the impact of employees, customers, shareholders as well as the consumers of financial information of the commercial banks. this theory supports transparency and accountability in that, stakeholders should be provided with the right information by the management of the commercial bank as well as supports the fact that employee motivation and retention as well as customer satisfaction is key towards improving financial performance of the commercial banks.

Wheeler et al. (2002) indicate that two schools of thought formed the basis of development of the stakeholder theory; the organizational as well as the sociological school of thought. The theory concerns the beliefs as well as values in regards to the link between the state, people as well as the businesses. The theory incorporates the need to balance between powers, responsibilities as well as accountability all throughout the community. Blair (1995) defined stakeholders to be those actors who have interest in specific assets. Stakeholders can also be defined as any person or entity affected by the firm's actions or inactions. Stakeholders can also be considered as individuals or group of people that either can effect or are affected by the progress and success of the firm as it strives to attain the formulated goals and objectives. The theory indicates the management team of an organization should be aware and manage networks both internal and external including trade payables, partners as well as staff of the firm. Blair (1995) further holds that corporate governance need to be considered and understood as institutional interconnection that govern how stakeholders add value to the firm. It is acknowledged that the interrelated networks are key in shaping corporate governance mechanisms in an organization.

It is believed that firms have a duty to ensure that it compensate all the parties affected by the operations. It therefore requires that the management as well as the oversight body (directors) in an organization should have greater accountability and responsibility as they go by doing their various duties and responsibilities. Organizations need to seek a balance and ensure all parties receive some degree of satisfaction. Freeman et al., (2004), value is created whenever individuals and employees in an organization unite and come together in the name of realizing the formulated goals and objectives.

The view of stakeholder theory is on the efficiency of the firm structures in working to realize or attain investment on long term horizon and commitment between numerous stakeholders (Williamson, 1985). According to Kester (1992), the key issue with governance is ensuring that there an adequate system of rewarding the efforts of employees in the organization. Such a system should also strive to ensure that resources of the business are properly safeguarded while safeguarding continuity in operations of the firm. This theory states the importance of stakeholder participation in the sustainability and decision making of banks. The managers are supposed to act in the interests of the stakeholders as well as the corporate while safeguarding the long-term stakes of each party. The theory suffers from a number of criticisms. For instance, Jones and Wicks (1999) indicate that it focuses on single value objective. It is documented that one should not limit assessment of organizational performance in terms of the gains that accrue to its stakeholders. There exist other key issues which are key that need to receive consideration for instance the cash inflows of the firm, relationship between individuals at a personal level as well as interrelationship etc.

2.1.2 Agency Theory

Agency theory is the foundation of corporate governance issues and matters in an economic system. From the initial studies by Berle and Means (1932), the key focus of corporate governance has been separating ownership from control of the firm. However, this brings about the principal agent issues and concerns. The principals (shareholders) own the company, but the agents (managers) control it. The pure finance view of the firm is that managers must maximize the shareholders 'wealth. The shareholder wealth maximization may not work because of the agency problem (Peter Rawlings Osebe, 2016). In most cases the principal's trust that the agents will act and make decisions aligned to their goals. The Agents on the contrary may not necessarily make decisions in the best interests of the principals, resulting to a conflict of interest between the two parties. Berle and Means (1932) viewed corporate governance as a mechanism where a board of directors is an essential monitoring device to minimize the problems brought about by the principal-agent relationship. From corporate governance context, there are two critical factors as far as governance of a corporation is concerned. Cannella, Dalton and Daily (2003) gave the first factor as the firms and entities which are completely compressed into two players; the shareholders as well as the management team. The assumption made is that each of these parties has clear as well as consistent assumptions. A second notion is that humans are self-interested and unwilling to sacrifice their personal interests for the interests of the others.

As a result of the above many organizations end up designing their own concepts and /mechanisms e.g., auditing, budgeting, control and compensation systems to ensure that the cost associated with such divergent interests is minimal as this will affect the organizations performance in terms of profitability and over time if this is not well checked it will affect the value of the company in terms of shareholders' value. In most cases the share price paid by shareholders usually reflects such costs and hence to increase the value of the firm, one must reduce the agency costs.

2.1.3 Stewardship Theory

To the degree that executives feel that their future fortunes are bound to their current corporate employers through an expectation of future employment or pension rights, then the executives may perceive their interest as aligned with that of the corporation and its owners, even in the absence of any shareholding by that executive. The executive manager, under this theory, far from being an opportunistic seeker, essentially wants to do a good job, to be a good steward of the corporate assets i.e. protect and generate revenues for equity owners (shareholders) of the entity.

Unlike agency theory, the model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options / individualism and integrating their goals as part of the organization. This type of person is motivated by doing what's right for the organization, because he/she believes that he/she will ultimately benefit when the organization thrives. Donaldson, Schoorman and Davis (1997) argue that stewards play important roles as far as protection and maximization of shareholders' wealth is concerned. This is because doing this brings about maximization of the utility functions of managers as stewards of the firm. This is best achieved through working, protecting and generating profits by use of either assets or equities of the business entity. This was supported by (Mallin, 2010) who believed that a steward manager main focus is to maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization. The managers are satisfied and motivated when the organizations that they are working for are successful.

2.2 Empirical Literature Review

Several studies have been propagated to establish the effects, impact and influence of corporate governance to growth, profitability and sustainability of corporate entities in divergent sectors of economies both developed as well as developing economies. According to a research by Dalton and Dalton, 2013, World Bank policy goals have recently shifted to prioritize the growing importance of corporate governance in both developed and developing economies (2015). The African, Asian and Caribbean markets have embraced this emerging concept in a bid to compete with the global economies. The Asian economic crisis coupled with African market below average financial performance has compelled the conceptualization of corporate governance, (Dalton and Dalton, 2013).

Corporate governance envisions a situation where systems are utilized to manage and control corporate entities with the least friction being experienced. Management bodies in corporates gives a clear perception on the distribution of rights and privileges as well as responsibilities and duties. The obligations of each participant is also managed among the key stakeholders including; shareholders, board of directors, creditors, managers, auditors, other stakeholders and regulators. It further informs the procedures and guidelines to be adhered to by the relevant personnel bestowed with the duty of making crucial decisions, (Enobakhare, 2020). Through an effective system of corporate governance, an organization makes it possible to achieve its goals and objectives through a structured system while concentrating on market frameworks, regulatory framework and social dimensions of growth of processes and procedures of the contextualized operational environment (Enobakhare, 2020). Governance can therefore be used to explain management policies, monitoring process, operational decisions and (Mullins, 2014).

According to a research conducted by Chirchir (2014), the process of governance as to include; board composition and size, sensitivity to the performance of the CEO, shareholders' rights, ownership structure, directors and stakeholders support and goodwill. Where the mechanisms of governance, should be changed, the management interests are to aligned with the shareholders' and stakeholders interest to maintain a higher value, growth or achievement of the firm Chirchir (2014). Kumudini (2018) found out that, corporations that have an effective governance structure have a faster financial growth than their counter parts with ineffective governance structure. Stable frameworks of corporate governance are important to corporation in that they guarantee credit access, spontaneous growth, less investment capital and favourable terms of engagement from stakeholders. Risky financial patterns, slow growth, and macroeconomic crises are precipitates of weak structures to manage corporate governance of an entity. Increased market liquidity and confidence of investors is also a result of effective corporate governance (Ren, L. 2014).

Transparency and accountability is characterized by increase in the flow of reliable timely and comprehensive information on social, economic, investors prospects, political climate and influence on the financial outcome of the corporation, utilization of credit facilities and corporate creditworthiness, changes in fiscal and monetary policies and international activities influencing the operational environment of the business. Denial of access to information or providing misleading information either intentionally or without knowing leads to lack of transparency and accountability or if the information provided is untimely, incomplete or misrepresented. Therefore, an understanding of transparency and accountability should have the following ingredients; reliability, relevance, access, quality and comprehensiveness of information provided (Vishwanath & Kaufmann, 2001). The economics and finance definition of full disclosure is a systematic process of making available, accessible, understandable and visible the information relating to; actions, decisions, existing conditions and threats to the continued operations of the corporate entity.

According to the American International Financial Journal, if a conflict of interest emerges between shareholders and management or between minority and controlling shareholders, transparency and accountability of the corporation. The common driver of the above listed conflicts is the lack of transparency and accountability. A common prerequisite of shareholder-management conflict is the low effort by the management and unproductive investment. The minority-controlling shareholder conflict is precipitated by expropriation or private benefits control (Goodstein, 2019).

According to Pfeffer 2012, south Africa has the leading enthusiasm of transparency and accountability. The outer forces enjoy utilization of power counterbalance instruments which include; legal climatic and regulatory framework and adequacy of corporate governance enforcement, discouraging detrimental insiders actions, allow corporate and judicial channels intervention for the affected stakeholders without any probability of insiders' intervention. Corporate governance coupled with employees' delivery in developing economies taking into account the Southern African economic block. The greatest outcome was the Impact of employee motivation in ensuring corporate governance is achieved.

Freeman, Wicks and Parmar asserts that, employees are key to achieving corporate governance. In their findings they clarify that, despite employees being mere implementers and managers, the shareholders and directors only develop the strategic direction and employees choose how to implement the directives. Well-motivated employees implement cooperate governance with great ease and less conflict and such institutions reap the maximum benefit of corporate governance for their growth. Corporate governance boosts development and performance by encouraging employee engagement and protecting shareholder value (Freeman, Wicks and Parmar, 2014).

Effective compliance to regulatory framework leads to stabilized corporate governance and performance. Non-compliance leads to legal battles with the states and in return, institutions end up spending too much funds and time on legal costs (Khaled, 2019). In Nigeria, several cooperates were barred from operations due to non-compliance in tax disclosures, where the companies were underreporting incomes and over stating expenses to minimize the amount of taxes due and payable to the state Kumudini (2018).

Back in Kenya, several companies have been on the run without attaining full compliance. In 2021 for example, Keroche industries was closed down by the Kenya Revenue Authority for non-compliance of tax reporting and payment. In the same year, several companies along Nairobi river and athi river were also put on notice by the National Environment Management Agency (NEMA) for draining their waste in to the rivers without following the due procedure as provided by the agency. The collapse of Uchumi Supermarkets, Mulleys supermarkets, several financial institutions and institutional scandals clearly point out on the need for good corporate governance Kumudini (2018).

Customer satisfaction is key to any business success as it helps in building a stable customer base (Enobakhare, 2020). Several agencies and state corporations have been put in place to monitor and protect consumers from scrupulous business entities such as the Kenya Bureau of Standards (KEBs). Consumer protection plays a critical role in the open market systems were forces of demand and supply are left to control the consumption behavior. This is because, unscrupulous business entities thrive more in open markets were there are little or no regulations governing the markets. Kenya’s banking sector is highly safeguarded and controlled through several legislations as well as international treaties. Locally, the commercial banks are controlled by the central bank of Kenya which is supervised by world bank.

Customer retention and profitability in commercial banking are more open to speculation in economies still getting their feet under them. For instance, when there is more information available, there is less of a chance that an error was made when estimating the return distribution (Clarkson et al., 2016). According to research by Vander and Willekens (2018), businesses in the European Union with a larger concentration of ownership provide less information to the public than those in common law nations. The relationship between disclosure quality, credibility, and management incentives was examined in Core's (2021) assessment of the empirical disclosure literature. One possible justification for companies sharing data is because it is the "socially responsible thing to do" (Gelb & Strawser, 2021).

2.2.1 Transparency and Accountability and Financial Performance

Marcinkowska (2012) used information from commercial banks in his research into the impact of openness and accountability on financial performance of commercial banks in south Africa. Namely, the study examined problems associated with commercial bank accountability and transparency, as well as possible remedies to such problems. The research focused on markers of openness and responsibility, such as sharing data on financial performance, distributing customer feedback, and reporting dividends to shareholders. The research findings were that, commercial banks play a very crucial role in economic growth and their growth should be paramount. The researchers further established that, customers would relatively consume services from the commercial banks that were more transparent and accountable as compared to the others that were not. While this research aims to analyze commercial banks, it was conducted in South Africa whose main economic activities is manufacturing unlike Kenya whose main economic activity is agriculture and trading.

Research by Aljifri and Moustafa (2012) examined the impact of internal and external transparency on the performance of 51 Ugandan retail chains. The study found that the financial performance of the surveyed companies improved significantly once they instituted more consistent financial reporting. Research into the impact of airlines' corporate social responsibility on their financial success in Tanzania found little evidence of a correlation between the two metrics. Shares were issued and dividends were paid based on the financial results of 20 Rwandan companies that were publicly traded between 2010 and 2012. He discovered that the financial health of listed companies was strongly impacted by the degree to which their operations were open and accountable to the public. He singled out the fact that transparent businesses could survive even in unfavorable economic conditions, saying that they had easy access to finance. This result is consistent with the results of a similar study conducted on the topic of insurance company transparency and financial success in Tanzania, which revealed that the increased openness of the industry led to a rise in policyholders (Loderer and Peyer, 2012).

Kariuki (2015) investigated the relationship between financial sector openness and sustainability in Kenya. Based on the information gathered, it is clear that commercial banks in Kenya's financial sector need to make transparency and accountability central tenets of their corporate governance in order to secure a viable future for the industry. Receivership cases of various insurance companies and the Imperial bank and national bank were examined.

2.2.2 Employee Motivation and Retention and Financial Performance

Bouten and Hoozée (2015) examined the influence of employee motivation and financial performance of commercial banks within the territorial boundaries of Belgium. They found out that, corporate governance was a key driver which was greatly driven by the employees to strategize and achieve results. Moreover, it generates a more complete picture of the organizations capacity to enhance other corporate governance aspects.

Darker and Caylor (2014), carried out a study to establish the influence of employee motivation and retention on financial performance of listed security firms in France. The aspects of employee motivation put to test were; timely remittance of salaries, additional incentives, competitive remuneration, training and capacity development schemes, guaranteed study leaves with full salary, health insurance cover for their families and education policy for their children. They found out that firms that motivated and retained their employees had the highest chances of retaining their customers as well and additionally could grow their customer base very fast.

Lipton and Lorsch (2012) conducted a study in Liberia on the influence of motivated workforce on growth of corporate governance culture among commercial banks. the study adopted descriptive research design and focus groups were used to gather the data for analysis. They found out that more contend workforce grew their loan book at a faster rate than the ones that did not have well motivated employees. Although the methods of motivating the employees were not put to test, the scholars recommended that commercial banks should consider both monetary and monetary motivational schemes for the employees.

Kumudini (2018) conducted an elaborate study to disengage the individual aspect of employee motivation on growth of firms listed in the Nairobi Securities Exchange. The study adopted both primary and secondary sources of data. Descriptive research design was utilized while correlation was used to establish whether there existed any influence and to what extent the influence was. He found out that, monetary motivation had a great impact on the growth of firms in the short run and firms which adopted monetary employee motivational schemes could not retain the employees in the long run and hence they were characterized by high employee turnover rates. On the other hand, firms which adopted non-monetary employee motivational schemes such as capacity development schemes, fully funded studies in line of operations, sufficient health insurance and educational policies among others could easily retain their workforce and the growth of such firms was more sustainable, (Donaldson and Davis, 2014). These findings agree with the findings of Dalton, C. M. and Dalton, D. R. (2013) who contend that a well, non-monetary motivated workforce is a well spread of expertise that is sure of its role and how to get to the ultimate goal, not easily poachable and not willing to leave and chase any financial offer place on the table.

2.2.3 Compliance to Regulatory Framework and Financial Performance

Researchers Jensen and Mackling (2016) looked at the impact of regulations on the bottom lines of companies that emit greenhouse gases and are traded on the New York Stock Exchange. Tax provisions, local ordinances, and rules addressing the effects of climate change were also factors in the evaluation. Research along these lines was also carried out in France (Fama and Jensen 2013). Both the agency theory and the stewardship theory were examined because of their relevance to the topic of regulatory compliance. Surveys and secondary data collection forms were used to acquire information from a stratified random sample of the population of interest. According to the results, companies that followed the rules fared better financially than those that didn't. Analogous results were also observed by (Lam and Lee 2018).

The research went further and exposed the effects of each of the specific aspects of compliance that were under review. It was elaborated that, tax compliance had the largest drain to the resources of the firms which ranged between 50% to 70% of the annual gross turnover. This greatly impacted the financial performance of the firms with a good percentage of its income being consumed as legal fees to settle the tax non-compliance. Compliance to municipal regulations was ranked as the second largest consumer of income which was ranged between 18% to 33% of the annual gross turnover. Although compliance to climate change adaptations regulations was ranked as the least costly non-compliance with fines only ranging between 2.5% to 7%, the firms that were fully compliant to climate change adaptations regulations, enjoyed a faster growth in terms of customer base and its new products were easily accepted in the market. Such companies also enjoyed great customer retention as compared to the ones that were non-compliant similar findings were realized in a similar study in the United Kingdom (Donaldson and Davis, 2014).

Internal governance frameworks and financial performance of Indian firms were studied by Jackling and Johl (2019). Compliance and financial performance of the companies were both found to benefit from the investigation's focus on their combined efforts. Ujunwa (2021) backed up the findings by establishing that non-compliance is correlated negatively with the financial performance of enterprises in Nigeria.

Freeman et al. (2014) indicated that, compliance to regulatory framework strikes harmony between the interests of a corporation’s stakeholders fulfillment and the general interests of the public as propagated by the regulatory agents. In his study influence of regulatory framework on growth of financial institutions in south Africa, he found out that regulatory framework doesn’t disenfranchise firms but rather creates a very harmonious environment for business entities to carry out trade and get the benefit of good relationship with the members of the public. He further elaborated that, the government doesn’t tax corporates as a punishment but only to ensure that it has the financial capacity to provide public goods. He asserted that, financial institutions are some of the entities which operate under a very strictly regulated environment due to its risky nature. He recommended that, financial institutions should have a compliance department under corporate governance structure to ensure full compliance to the regulatory provisions at all levels.

As full compliance to regulatory framework accelerates the fundamental operating process and evacuates avoidable internal and legal issues, Laing and Weir (2016) looked into the relationship between full compliance to regulatory framework and financial performance. Findings suggested that noncompliance had an effect, since some compliances are expensive, but this had major consequences in the long run. Bhagat and Bolton (2021) looked on how adhering to regulations impacted financial outcomes between 2016 and 2020. In addition to bribery of authorities to avoid compliance, the inquiry revealed other hidden expenditures that negatively impacted company performance.

A study by Munyao (2021) looked into the connection between construction firms' tax compliance and their financial success in Kenya. The researchers focused on the building industry because of the country's rapid rate of infrastructure expansion. Ten counties were chosen at random to take part in the study. The primary data was gathered through interviews with company executives in the construction industry. Tax compliance has been one of the greatest challenges of firms across the country since the introduction of itax to monitor tax compliance in the country. For a company or an enterprise to secure a government tender, the directors have to ensure that the company acquires a tax compliance which is auto generated from the itax system (Ahmed, 2016). In his findings, he found out that, entities that were not tax compliant were not eligible to participate in public tendering. He also established that some private corporates and commercial banks had also starting barring entities which were not compliant from participating in their tendering process more so the companies listed with the Nairobi Securities Exchange (NSE) (Goodstein, 2019). This study was however carried out among construction companies which have a different operational and compliance framework as compared to commercial banks and this is the gap that this study seeks to address.

2.2.4 Customer Satisfaction and Financial Performance

A study by Arasli et al. (2019) indicated that customer happiness has a beneficial effect on the financial results of the banking industry. According to the findings of the study he conducted in Nigeria, client loyalty is directly proportional to the level of pleasure with the service received. The impact of happy customers on a bank's bottom line was studied by Akhtar et al. (2021). He then used a clear strategy to evaluate how customers of different banks felt about their experiences.

What's more, as Hossain and Leo (2019) have discovered in Qatar, happy customers are a good indicator of future profits. The approach was applied to customer satisfaction, which was discovered to have an effect on the company's bottom line. The test companies' institutional growth was directly correlated with the extent to which their customers were satisfied.

According to Korda and Snoj (2020), manufacturers in Nakuru were studied to determine if there was a correlation between customer happiness and financial success. In addition, they researched how customers' feelings about service quality affected the company's bottom line. Among four major subsectors of the financial industry, Lai et al. (2019) found that customer happiness was the most important factor in driving growth.

According to research conducted by Akhter et al. (2021), customer happiness has a direct and beneficial effect on a company's bottom line. They looked examined how the financial sector's bottom line would fare if it prioritized customer value and loyalty over other factors including trust, contentment, commitment, communication, image, complaint handling, and service quality. It was discovered that factors such as a company's brand image, customer loyalty, dedication, perceived quality, and customer satisfaction all had a favorable effect on a telecom company's bottom line. Furthermore, it was discovered that brand credibility, as a construct that influences both customer satisfaction and financial success, has a cross-impact on both.

Customer switching costs have a direct impact on financial performance and mediate the relationship between customer satisfaction and financial success, as studied by Varki and Colgate (2021). Results like these are consistent with those discovered by Munyao (2021), who studied the microfinance banks of Kenya and found that customer satisfaction improvement strategies improved the banks' bottom lines.

2.3 Summary and Research Gaps

Table 1: Research Gaps

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
Marcinkowska (2012)	Impact of openness and accountability on financial performance of commercial banks in South Africa.	Primary data was gathered through questionnaires and analyzed with the help of the SPSS software. The respondents included CEOs, top management members of the boards of the commercial banks. The research focused on markers of openness and responsibility, such as sharing data on financial performance, distributing customer feedback, and reporting dividends to	The research findings were that, commercial banks play a very crucial role in economic growth and their growth should be paramount. The researchers further established that, customers would relatively consume services from the commercial banks that were more transparent and accountable as compared	The study suggests similar studies be conducted in other areas, and this creates a methodological and contextual gap that can be filled by researching the current study.	While this research aims to analyze commercial banks, the previous study was conducted in South Africa whose main economic activities is manufacturing unlike Kenya whose main economic activity is agriculture and trading.

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
		shareholders..	to the others that were not		
Aljifri, & Moustafa, K. (2012).	Impact of internal and external transparency on the performance of 51 Ugandan retail chains	The study used interview schedules to collect primary data from the management of the retail outlets and relied on financial performance for five years to assess how they performed in the specific years that they changed their policies.	The study found that the financial performance of the surveyed companies improved significantly once they instituted more consistent financial reporting.	The study suggests similar studies be conducted in other economic activities and jurisdictions, and this creates a methodological and contextual gap that can be filled by researching the current study.	While this research aims to analyze commercial banks, it was conducted in Kenya to establish if transparency and accountability has an influence on the growth of commercial banks.
Darker, C. C. & Caylor, C. W. (2014).	Influence of employee motivation and retention on financial performance of listed security firms in France.	The aspects of employee motivation put to test were; timely remittance of salaries, additional incentives, competitive remuneration, training and capacity	They found out that firms that motivated and retained their employees had the highest chances of retaining their customers as	The study suggests similar studies be conducted in developing economies and this creates a methodological and contextual gap that can be filled by researching the current study.	The current study focuses on employee motivation and retention as a tool for advancing financial performance and growth of commercial banks.

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
		development schemes, guaranteed study leaves with full salary, health insurance cover for their families and education policy for their children. Data was collected using confidential questionnaires	well and additionally could grow their customer base very fast		
Kumudini (2018).	Individual aspect of employee motivation on growth of firms listed in the Nairobi Securities Exchange.	The study adopted both primary and secondary sources of data. Descriptive research design was utilized while correlation was used to establish whether there existed any influence and to what extent the influence was.	He found out that, monetary motivation had a great impact on the growth of firms in the short run and firms which adopted monetary employee motivational schemes could not retain the	The study suggests similar studies be conducted in other areas and utilize other research methodology and this creates a methodological and contextual gap that can be filled by researching the current study.	The current study focuses on employee motivation as an aspect of financial growth of commercial banks located within Machakos county.

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
			employees in the long run and hence they were characterized by high employee turnover rates. On the other hand, firms which adopted non-monetary employee motivational schemes such as capacity development schemes, fully funded studies in line of operations, sufficient health insurance and educational policies among others could easily retain their workforce and the growth of		

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
			such firms was more sustainable		
Jensen, M. C. & Mackling, H. (2016).	Impact of regulations on the bottom lines of companies that emit greenhouse gases and are traded on the New York Stock Exchange	Tax provisions, local ordinances, and rules addressing the effects of climate change were also factors in the evaluation. Both the agency theory and the stewardship theory were examined because of their relevance to the topic of regulatory compliance. Surveys and secondary data collection forms were used to acquire information from a stratified random sample of the population of	According to the results, companies that followed the rules fared better financially than those that didn't. The research went further and exposed the effects of each of the specific aspects of compliance that were under review. It was elaborated that, tax compliance had the largest drain to the resources of the firms which ranged between 50%	The study suggests similar studies be conducted in other areas and this creates a methodological and contextual gap that can be filled by researching the current study.	The current study focuses on regulatory compliance as an aspect of financial growth of commercial banks located within Machakos county.

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
		interest.	to 70% of the annual gross turnover. This greatly impacted the financial performance of the firms with a good percentage of its income being consumed as legal fees to settle the tax non-compliance. Compliance to municipal regulations was ranked as the second largest consumer of income which was ranged between 18% to 33% of the annual gross turnover. Although compliance		

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
			to climate change adaptations regulations was ranked as the least costly non-compliance with fines only ranging between 2.5% to 7%, the firms that were fully compliant to climate change adaptations regulations, enjoyed a faster growth in terms of customer base and its new products were easily accepted in the market. Such companies also enjoyed great customer		

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
			retention as compared to the ones that were non-compliant.		
Akhter, W., Abbasi, A.S., Ali, I. and Afzal, H. (2021).	Customer happiness has a direct and beneficial effect on a company's bottom line performance and sustainability.	They looked examined how the financial sector's bottom line would fare if it prioritized customer value and loyalty over other factors including trust, contentment, commitment, communication, image, complaint handling, and service quality.	It was discovered that factors such as a company's brand image, customer loyalty, dedication, perceived quality, and customer satisfaction all had a favorable effect on a telecom company's bottom line. Furthermore, it was discovered that brand credibility, as a construct that influences both	The study suggests similar studies be conducted in other areas and this creates a methodological and contextual gap that can be filled by researching the current study.	The current study focuses on customer satisfaction as an aspect of financial growth of commercial banks located within Machakos county.

Author and Year	Title	Methodology	Findings	Research Gap	Focus on the current study
			customer satisfaction and financial success, has a cross-impact on both.		

2.4 Conceptual Framework

The diagrammatical representation of the variables is as shown below.

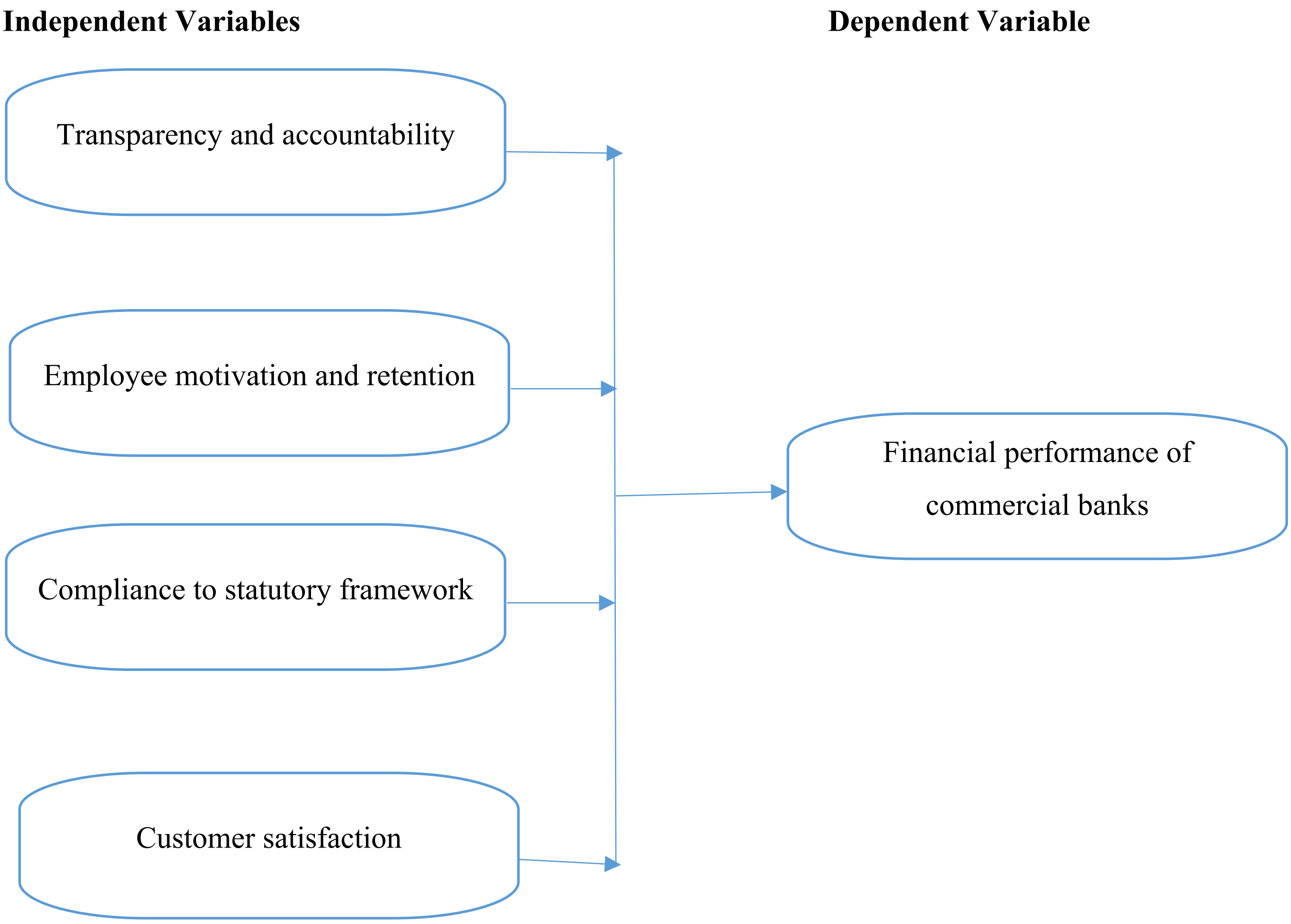


Figure 1: Conceptual Framework

2.5 Operationalization of Variables

The profitability of commercial banks over the course of a fiscal year will serve as the dependent variable by which their financial performance was evaluated. The specific measures are as provided in table 2 below.

Table 2: operationalization of Variables

Variables	Predictors	Tools of Analysis	Measurement Scale
Financial performance	Profitability for the last three years Loan book value to customer deposits ratio Opening of new branches Advancing to new markets Development and introduce new products	Inferential and Descriptive statistics	Percentages Frequencies SPSS
Transparency and accountability	Publication of yearly financial accounts Disclosure of board decisions, Disclosure of willingness to report changes in the board of directors and top management Disclosure of business alliances	Inferential and Descriptive statistics	Percentages Frequencies SPSS
Employee motivation and retention	Staff Qualifications and Level of skills Staff experience and training Monetary motivation schemes Non-monetary motivation schemes Rate of employee turnover	Inferential and Descriptive statistics	Percentages Frequencies SPSS
Compliance to regulatory framework	Compliance to the provisions of anti-banking fraud Compliance to the provisions of the anti-money laundering Compliance to the provisions of the data protection act Compliance to monetary and fiscal policies as guided by the CBK Bank records are open for inspection by supervisory authorities Compliance to tax policies in the country	Inferential and Descriptive statistics	Percentages Frequencies SPSS
Customer satisfaction	Meeting of promised time-frames for Customer responses Accuracy of customers banking records Employees trustworthy Adequate support from the headquarter	Inferential and Descriptive statistics	Percentages Frequencies SPSS

	Bank give each customer individualized attention Operational hours convenient to all customers	

2.6 Chapter Summary

This chapter provided a summary of the study's theoretical underpinnings, focusing on the study's three core theories: agency theory, stewardship theory, and stakeholders' theory. The chapter's empirical review section, summary, and research gaps all provided in-depth analyses of the prior scholarly works. Both the theoretical underpinnings and the variables' operationalization were detailed.

CHAPTER Three

RESEARCH METHODOLOGY

3.0 Introduction

Information about the study's rationale, demographic, sample size and sampling methods, pilot test, instruments, data collection and analysis processes, and ethical considerations are all laid out here.

3.1 Research Design

Kothari and Garg (2015), define a research design as an arrangement of the research purpose with procedure hence it's the conceptual structure within which the research study is conducted. This study used a descriptive research approach to illustrate the existing relationship between transparency and accountability, staff motivation and retention, compliance to regulatory framework, and customer satisfaction and financial performance of commercial banks in Kenya. Several researchers have utilized this method successfully to find correlations like (Nguru, 2016 and Shipho, 2011). This method has the advantage of helping researchers to plan and carry out studies that provide in-depth details about people, places, or particular phenomena under study. Since the main objective is frequently to have a better understanding of the research study, the research study adopted a quantitative research design, the results obtained by the study should be in a position to be used in generalizing findings of any type of research carried out in any setup.

3.2 Target Population

This study targeted commercial banks in Machakos county. Machakos county was selected due to its strategic position in the metropolis region with a myriad of economic activities and its potential to spur economic growth. The establishment of the Konza Techno city in its bonder with Makueni and Kajiando counties also provides a great potential for the county in terms of technological investment which provides a great platform for commercial banks to operate. Machakos county has a total of 26 commercial banks spread across its nine sub-counties. Since the population was deemed manageable, census was used to select all the commercial banks in Machakos county. The population of the study has been summarized in table 3.

Table 3: Target and Sample Population

S/No.	Name of the commercial bank	Number of commercial bank branches	No. of Branch Managers
1.	Equity	5	5
2.	ABSA Bank	1	1
3.	KCB	5	5
4.	Cooperative	4	4
5.	Standard Chartered	1	1
6.	National bank	1	1
7.	Family Bank	3	3
8.	SBM Bank	1	1
9.	Credit Bank	1	1
10.	Sidian Bank	2	2
11.	Diamond Trust Bank	1	1
12.	NCBA	1	1
	Total	**26**	**26**

Source: Director of Trade and Social Economics, Department of Finance, Machakos County, 2023.

3.3 Data Collection Instrument

Saunders (2004) argues that closed-ended items are simpler to interpret and more reliably measure quantitative variables than open-ended items, hence these was used exclusively in the study. The study will gather secondary data on the indicators of the dependent variables; internal growth and market share, and obtain primary data using a questionnaire.

3.4 Pilot Test

The research instrument was piloted in Makueni county involving six commercial banks located in Wote town which plays host to the county headquarters. The six branches of the commercial banks were chosen at random. The researcher conducted a self-administered data collection procedure so as to interact with the pilot test respondents. Low dependability falls into the 0.3–0.5 range, moderate reliability falls between 0.5 and 0.7, and high reliability falls between 0.70 and 0.90. (0.90 and above). Every sections of the survey with the same sort of items underwent reliability testing. The findings of the pilot test were only be used to improve on the reliability and the validity of the research tool and do not form part of the final data analysis.

3.4.1 Validity Test

Saunders, Lewis, and Thornhil (2018) refer to validity as the correctness, and the capacity of a research instrument to deliver expected results is called validity. The reason why the study conducted a validity test was to iron out any deficiencies in the research instrument and rectify them before being administered to the sample population. This was carried out during the piloting phase of the instruments (Saunders, Lewis, & Thornhill, 2018). The goal of the process was to establish if responses from the instruments were to provide the expected feedback that helps the study to achieve its goals as outlined in the methodology. The other reason why the pilot study was important is that it established reliability as well as the validity of research data collection tools (Cooper & Schindler, 2018).

The study also adopted content, face, construct, internal and external, statistical conclusion and criterion related validity with assistance from the supervisor, and professionals in the field. The study validity was assured by the adherence to measure the existing knowledge of how the variables, the ability to cover all aspects of the variables as conceptualized and the relation of the result in comparison with other valid measures of both the independent variables and the dependent variable.

3.4.2 Reliability Test

During the piloting, the study also conducted a reliability test. Saunders, Lewis, and Thornhill (2018), described reliability as the ratio in which study questionnaires are measured for consistency. The study adopted the Cronbach Alpha to test reliability that was pegged at the coefficient of 0.7. According to Kothari and Garg (2015), research instruments are expected to yield the same results if it is reliable and should provide the same results as the ones for pilot study when its administered to the actual sample size, this is echoed by Cooper and Schindler (2018). Reliability tests can either be external or internal. The research instrument should be able to pass external reliability by producing the same results regardless of the time or number of repeated observations (Bordens & Abbott, 2017). This is by use of testing and

retesting method. The research instrument was measured for internal reliability on consistency by using Cronbach alpha score metrics, during the pilot run tests.
Cronbach alpha score metrics is the widely used measure of internal reliability, on the primary data collection instrument. The score metrics range from 0 to 1, the appropriate cut-off threshold point for proposed research instruments should be a score of 0.7. The findings of the test and retest results assisted inappropriate amendments being affected on the instrument.

3.5 Data Collection Technique

The researcher distributed the questionnaires to the bank management of the various bank branches in Machakos County. The respondents were given adequate time to fill the questionnaires, approximately seven days before they were collected for coding and cleaning in preparation for data analysis. Because of the sensitivity associated with commercial banks in relation to giving information, it was more appropriate for the researcher to carry out the data collection process personally. This is because the contracted assistant researchers may not have had the required skills to convince the study participants to give the required accurate and reliable data.

3.6 Data Analysis and Presentation

Data analysis according to Yin (2003) involves examining, categorizing, tabulating or otherwise combining the evidence to address the initial propositions of a study. Before data entry, the screening was done. Data screening ensures that responses are legible and understandable and that reactions are within an acceptable range and are complete, and all of the necessary information has been included (Kothari, 2004). Collected data was coded and entered into the SPSS version 22 program; the tool that aided in data analysis. Descriptive statistics was used to summarise the data including percentages and frequencies. Tables and other graphical presentations deemed appropriate was used to present the data collected for ease of understanding and analysis. Pearson correlation, was used to test the relationship between the dependent and independent variables.

Multiple regressions were used to determine the prediction factor of dependent variable caused by independent variables.

The regression model to be used was;

Regression Model: $Y= C+\beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta_4X_4+\alpha$

Where: -

β_1, β_2, β_3 and β_4 are the regression coefficients of the independent variables

Y = Performance of Commercial Banks,

C = Constant, $\beta_1 - \beta_4$ = Model Coefficients

X_1 = Transparency and accountability,

X_2 = Employee Motivation and Retention,

X_3 = Compliance to Regulatory framework,

X_4 = Customer Satisfaction and

α is the error term.

3.7 Ethical Considerations

3.7.1 Informed consent

Informed consent means, permission granted in full knowledge of the possible consequences Yin (2003). The researcher obtained a permit to collect data within the allocated time frame, on the designated topic, and among the designated population. In addition, the researcher wrote to the corporate headquarters of the commercial banks included in the sample to request permission to conduct the survey.

3.7.2. Voluntary participation

Voluntary participation means that all respondents are free to choose to participate without any pressure or coercion Schindler (2018). All participants are able to withdraw from, or leave, the study at any point without feeling an obligation to continue. Participants were asked and requested if they can participate in the study. This was done through verbal communication.

3.7.3 Confidentiality

Confidentiality refers to a condition in which the researcher knows the identity of a research subject, but takes steps to protect that identity from being discovered by others (Kothari, 2004). Respondents' confidentiality was guaranteed by the research and data was only used for writing a project report as per requirements of the university.

3.7.4 Privacy

Privacy in research refers to protecting the individual's right to control access to their participation in a study (i.e., extent, timing, circumstances) Schindler (2018). Furthermore, participants were informed that their identity was protected the data will exclusively be utilized for academic purposes.

3.7.5 Anonymity

Anonymity is one form of confidentiality – that of keeping participants' identities secret. However, confidentiality also includes keeping private what is said by the participants, something only achievable through researchers choosing not to share parts of the data (Kothari, 2004). Respondents' anonymity was upheld and the questionnaires should not have names written on them.

3.8 Chapter Summary

The chapter has pointed out to the research process the research shall adopt descriptive research design and shall target all commercial banks operational in Machakos county. The research will use a questionnaire to collect primary data which was pilot tested in Makueni county to enhance validity and reliability. Data collected shall be analyzed by use of SPSS.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.0 Introduction

This section presents the findings of this study. The study sought to investigate the corporate governance and financial performance of commercial banks in Machakos County. The section also presents a discussion of the analysis of the response rate and the background information of the respondents as well as the main findings of the study discussed as per the study specific objectives. The other information presented in this section includes a detailed analysis of the descriptive and inferential statistics of the study showing the influence of each independent variable as indicated in each objective on the dependent variable. The main findings of the study are presented in tables and charts.

4.1 Presentation of Research Findings

4.1.1 Pilot Test

Piloting of the data collection tool; the questionnaire, was carried out on six (6) bank managers from randomly selected bank branches in the neighboring Makueni County. The questionnaires were administered and the respondents were allowed a period of 7 days to complete them before they were collected in readiness for entry and analysis with an aim of improving its ability to capture the reliable and valid data on the variables which were studied. The basic information of the respondents on whom the questionnaire was piloted was summarized in tables.

4.1.2 Piloted Commercial Banks

Responses were received from the six commercial banks as shown in the table below; Equity Bank, Currently ABSA, Cooperative Bank, Family Bank, NIC Bank and Kenya Commercial Bank. The researcher aimed at getting a response from the manager of each of the banks.

Table 4: Piloted Commercial Banks

Commercial Bank	Frequency	Percent	Valid Percent	Cumulative Percent
Equity Bank	1	20.0	16.66	16.66
Barclays	1	10.0	16.66	33.32
Cooperative Bank	1	20.0	16.66	49.98
Family Bank	1	20.0	16.66	66.64
NCBA Bank	1	20.0	16.66	83.30
Kenya Commercial Bank	1	10.0	16.66	100.0
Total	6	100.0	100.0	

As indicated in the table 4.1, the response was received from one branch manager of the six commercial banks.

4.1.3 Reliability Testing of the Questionnaire

Reliability is the consistency across the parts of a measuring instrument (Huck, 2007). A scale is said to have high internal consistency reliability if the items of a scale "hang together" and measure the same construct (Huck, 2007, Robinson, 2009). The most commonly used internal consistency measure is the Cronbach Alpha coefficient. It is viewed as the most appropriate measure of reliability when making use of Likert scales (Whitley, 2002, Robinson, 2009) as was mostly the case in this study. Usually, the reliability is split into four levels which include low (0.3-0.5), Moderate (0.5-0.7), high (0.70-0.90) and excellent reliability (0.90 and above). Reliability testing was carried out for same type of items in every section of the questionnaire. The questionnaire had a Cronbach Alpha coefficient of 0.872 suggesting an excellent and high level of reliability. Generally, the key items in the questionnaire were reliable hence suitable for use in actual data collection for this study.

4.1.4 Response Rate

The target population of this study consisted of the management staff of twenty-six (26) branches of the Commercial Banks in Machakos County. The response rate was summarized and presented in table 4.2.

Table 5: Response Rate

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Returned Questionnaires	23	88.5	88.5	88.5
	Unreturned Questionnaires	3	11.5	11.5	100.0
	Total	26	100.0	100.0	

The study sample size consisted of 26 managers of commercial banks branches located in Machakos county, as shown in table 5 above. The sample size of the study was 26 respondents. Questionnaires were prepared and administered on a sample size of the 26 study participants. However, only 23 respondents managed to successfully complete and return their questionnaires hence a response rate of 88.5% as shown in table 5.

The study collected data from all the branches of the twelve commercial banks branches in Machakos county. Equity, ABSA Bank, KCB, Cooperative, Standard Chartered, National bank of Kenya, Family Bank, SBM Bank, Credit Bank, Sidian Bank, Diamond Trust Bank and NCBA. The distribution of the respondents from every bank was as shown in table 6.

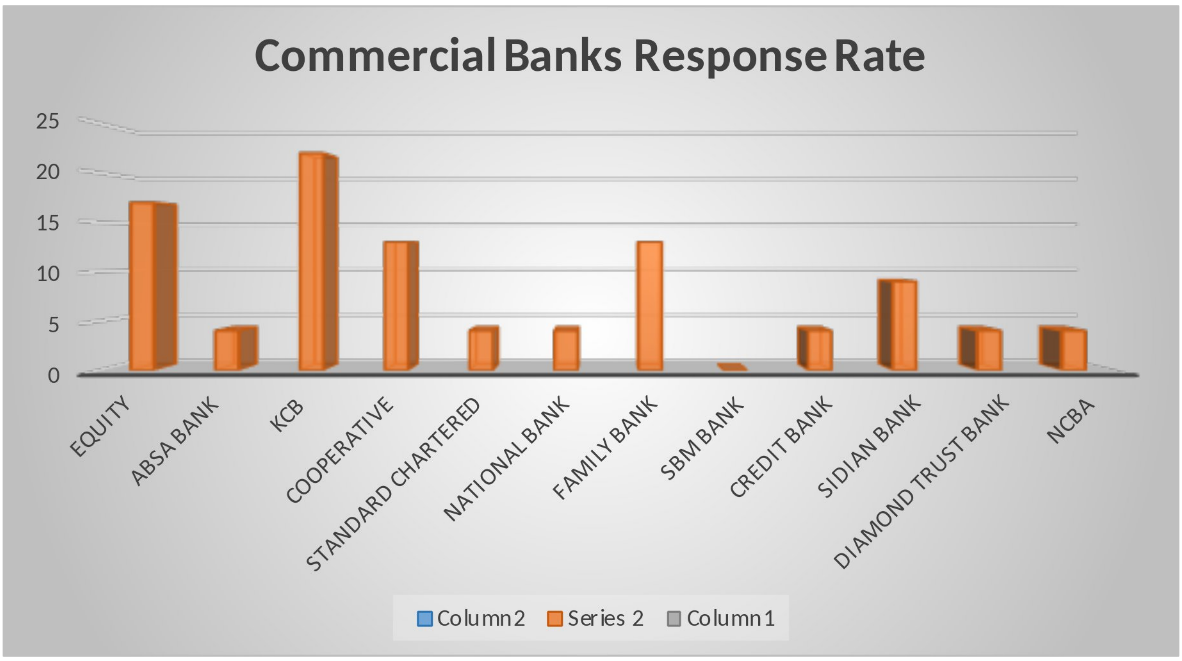
Table 6: Commercial Banks Response Rate

S/No.	Commercial Bank	Frequency	Valid Percentage	Cumulative Percentage
1	Equity	4	17	17
2	ABSA Bank	1	4	21
3	KCB	5	22	43
4	Cooperative	3	13	56
5	Standard Chartered	1	4	60
6	National bank	1	4	65
7	Family Bank	3	13	78
8	SBM Bank	0	0	78
9	Credit Bank	1	4	82
10	Sidian Bank	2	9	91
11	Diamond Trust Bank	1	4	95
12	NCBA	1	4	**100**

Total	23	100

Table 6 suggests that majority of the respondents 22% were from Kenya Commercial bank while the least of the respondents (4%) were drawn several commercial banks including ABSA Bank, Standard Chartered, National bank of Kenya, Credit Bank, Diamond Trust Bank and NCBA. The researcher however did not get any response from SBM bank which only has one branch located within Machakos county. The respondents from the other banks were as follows; Equity 17%, Cooperative 13%, Family Bank 13% and Sidian Bank 9%. This clearly shows that most of the commercial banks who are present in Machakos county were represented. Further the response rate is way above the response rate that is given for a researcher to make conclusions from a study for example, Schindler (2018) recommends that a minimum percentage of 66% of the response rate must be attained for a researcher to make conclusions, while Kothari (2004) recommends a response rate of 60%. The distribution shown in the table above was also presented using the Figure 2.

Figure 2: Commercial Banks Response Rate



4.1.5 Gender of the Respondents

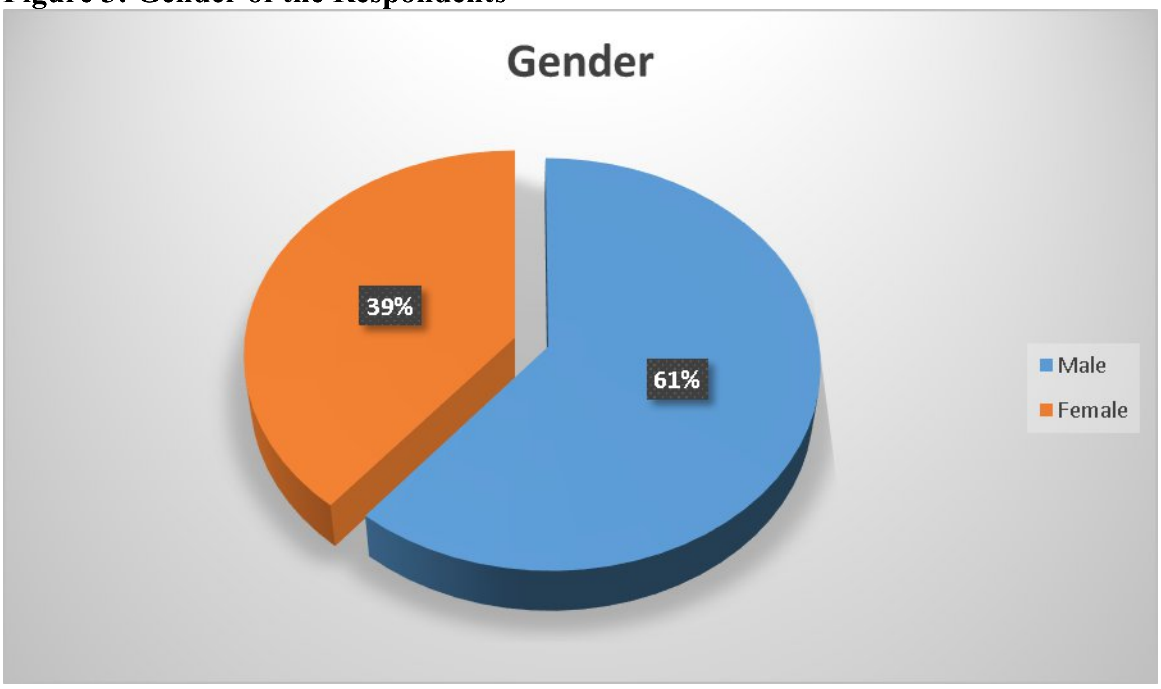
The data collected from the respondents showed that, fourteen of the bank managers in the area of study were male making a 61% (Sixty-one) percent of the respondents while nine making a 39% were female. The data is as shown in table 7.

Table 7: Gender of the Respondents

Gender of the Respondents	Frequency	Valid Percentage	Cumulative %
Male	14	61	61
Female	9	39	100
Total	**23**	**100**	

This data clearly shows that gender parity is reducing in the managerial roles of commercial banks. According to a research conducted by Munyao 2016, on commercial banks in Nairobi metropolis region only 20% of the branch managers were females, and this study seems to have the gap reduced. However, this conclusion can be challenged on the basis that, the area of research is slightly smaller hence the disparity in the figures.

Figure 3: Gender of the Respondents



4.1.6 Respondents' Level of Education

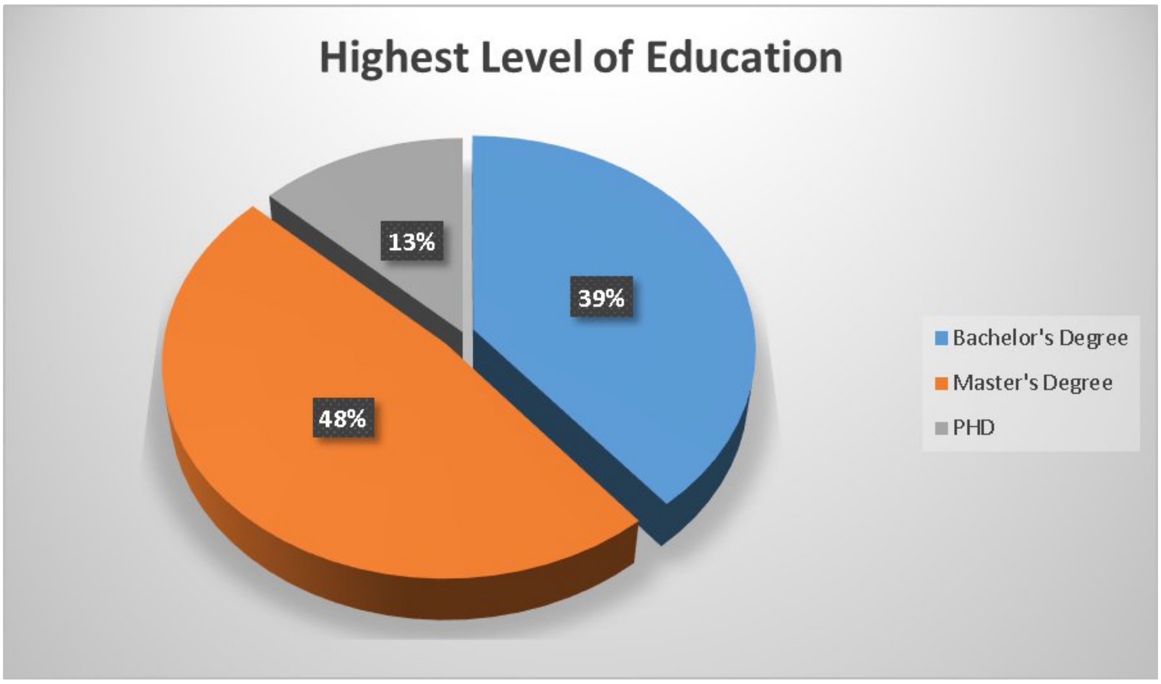
The level of education for the respondents was classified into four classes; diploma, bachelor's degree, master's degree and PhD. Their level of education was analyzed and presented in table 8.

Table 8: Respondents' Level of Education

Level of Education		Frequency	Percent	Cumulative Percent
	Bachelor's Degree	9	39	39
	Master's Degree	11	48	87
	PhD	3	13	100.0
	Total	**23**	**100.0**	

An analysis of the data presented in table 8 on the respondents' level of education revealed that majority of the respondents had a master's degree as their highest level of education at 48% respondents while the least of the respondents (13%) had PhD as their highest level of education. Those with a bachelor's degree were nine (9) making 39%. This indicated the academic achievement among the study participants.

Figure 4: Respondents' Level of Education



4.1.7 Respondents' Working Experience

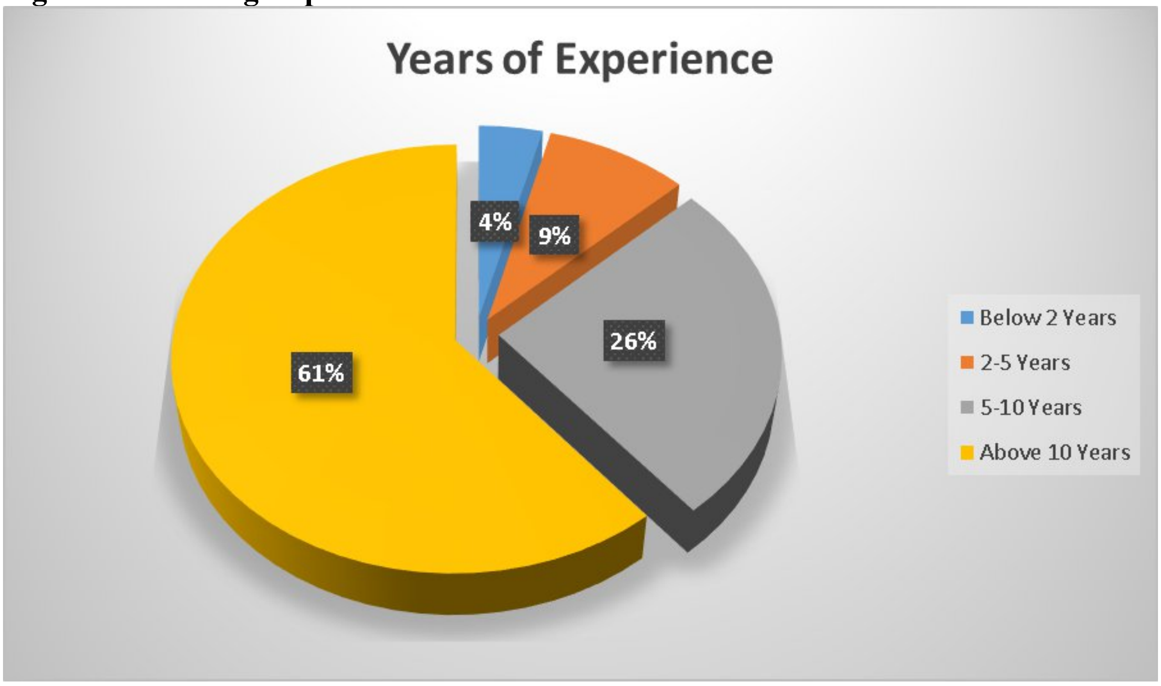
The respondents were asked to state the length of time they had worked in the banking industry. The experience period was classified into four levels; less than two years, 2 to 5 years, 5 to 10 years and above 10 years. The data was analyzed and presented in table 4.6.

Table 9: Work Experience in the Banking Industry

Working Experience	Frequency	Percent	Cumulative Percent
Less than 2 Years	1	4	4
2-5 Years	2	9	13
5-10 Years	6	26	39
More Than 10 Years	14	61	100.0
Total	23	100.0	

Analysis of the respondents' working experience revealed that majority (61%) of them had worked in the banking industry for over 10 years while the least (4%) had a working experience of less than 2 years. Those who had a working experience of 2-5 years and 5-10 yeas were 9% and 26% respectively. The results in the table above were also presented in figure 5

Figure 5: Working Experience



From figure 5, it is evident that those with working experience of above 10 years were the majority, followed by those with working experience of between 5-10 years, then those with 2 to 5 and the least were those with less than 2 years working experience.

4.1.8. Working Experience in the Current Bank

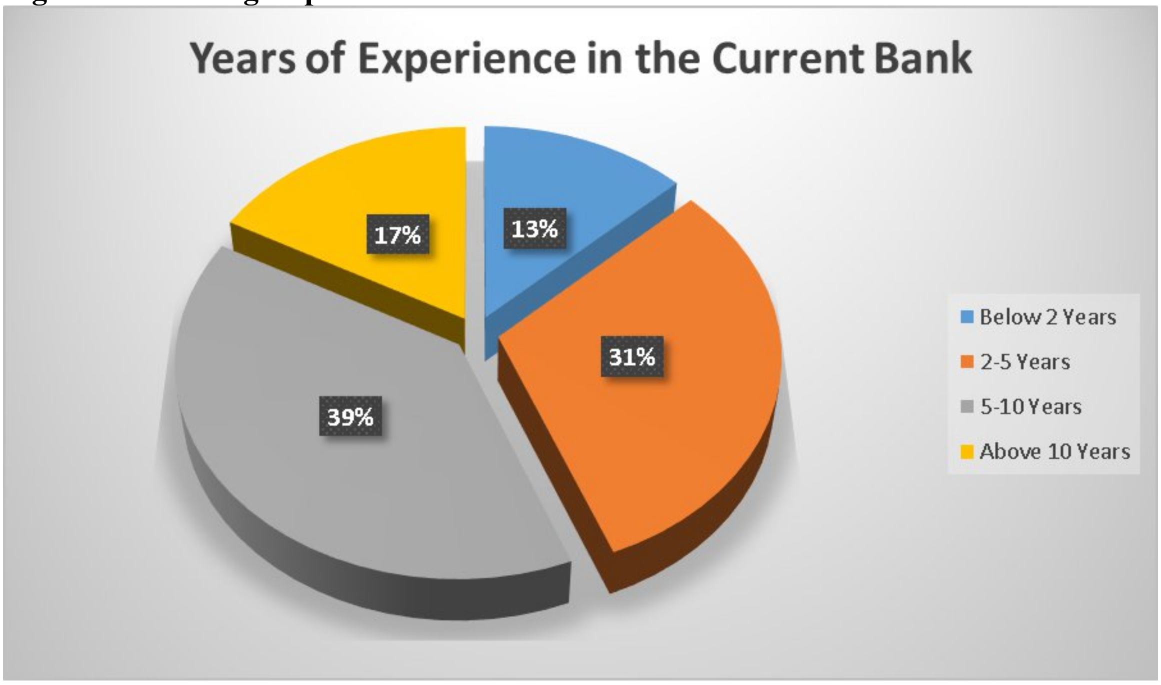
The respondents were also asked to state the length of time they had worked in the current bank/station. The length of working of experience was classified into four categories; less than two years, 2 to 5 years, 5 to 10 years and above 10 years. The data collected was analyzed and presented in table 10 below.

Table 10: Working Experience in the Current Bank

	Frequency	Percent	Cumulative Percent
Less than 2 years	3	13	13
2-5 Years	7	31	44
5-10 Years	9	39	83
More than 10 Years	4	17	100.0
Total	23	100.0	

Analysis of the respondents' working experience in the current bank revealed that majority (39%) of them had worked in the current station for a period between 5and 10 years while the least (13%) had a worked in the current station for less than 2 years. Those who had worked in the current station for a period of between 2 and 5 years and above 10 years were 31% and 17% respectively. The results were also presented in figure 6.

Figure 6: Working Experience in the Current Bank



4.1.9 Financial Performance of Commercial Banks

All the respondents stated that their banks had made profits in the last three years. The branch managers however stated that they were not in a capacity to respond on the exact number of branches opened in the last three years and the new products launched in the market but they were confident that the banks they are working in a re the best in both fields. The researcher chose to analyze the question of loan assets since all the respondents gave a feedback on this specific issue and was deemed to be very paramount in establishing the financial position of the commercial banks. The study participants were also asked to state the approximated value of their loan assets. The responses were summarized and presented in table 11.

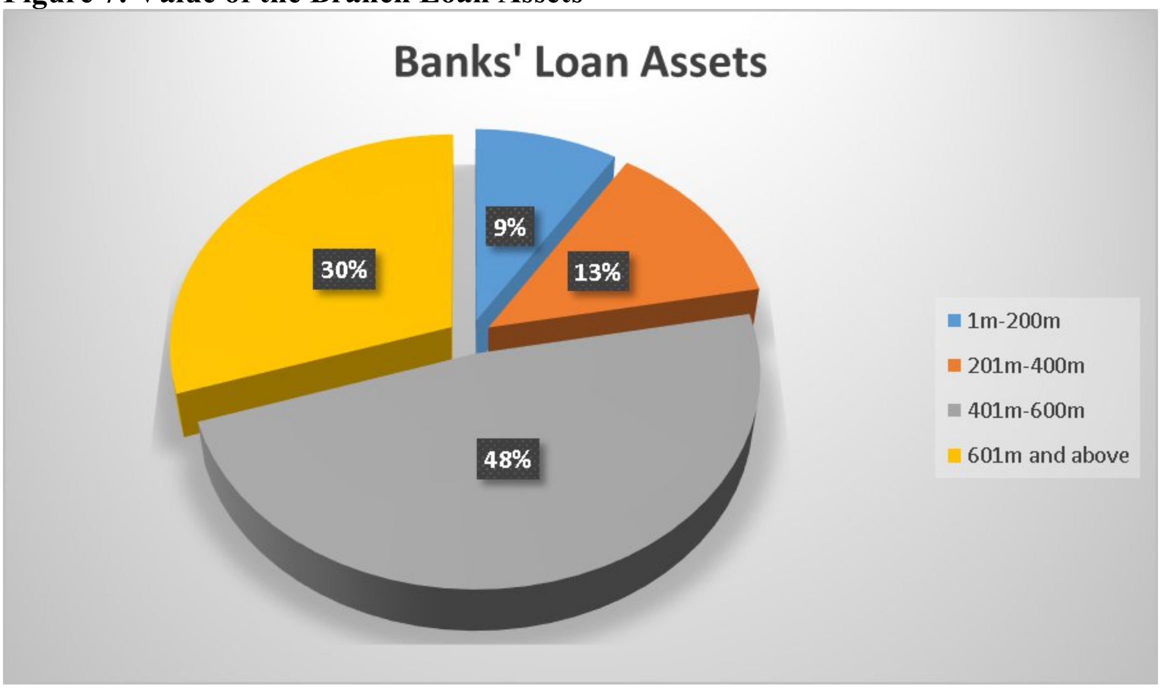
Table 11: Value of the Branch Loan Assets

	Frequency	Percent	Cumulative Percent
1m-200m	2	9	9
201m-400m	3	13	22
401m-600m	11	48	70
601m and above	7	30	100.0

Total	23	100.0

The study findings in table 11 revealed that majority (48%) of the commercial banks had accumulated loan assets to values of between 401 to 600 million Kenya shillings, followed by (30%) who had loan assets valued above 601 million Kenya shillings. The least proportion (9%) of the commercial banks had unrecovered assets valued between 1 million and 200 million Kenya shillings while the rest (13%) had a loan asset of between 201 and 400 Million Kenya shillings.

Figure 7: Value of the Branch Loan Assets



4.1.10 Empirical Findings

On a scale of 1 to 5, the respondents were requested to rate several corporate governance factors influencing the financial performance of commercial banks in Machakos county. In the analysis, a higher mean can be interpreted to mean that, the corporate governance factor influenced the financial performance of commercial banks and the vise versa is true. A large variance would mean that the data was spread on the scale while a small variance would mean that the data was concentrated within a certain value. The standard deviation shows how the data deviated from the central value which is the mean. A large standard deviation means that, the data deviated from the central mean by a large margin but does not mean that the data is wrong but the opinions are diverse.

4.1.11. Descriptive Statistics for Transparency and Accountability Financial Performance of Commercial Banks

The first objective of the study sought to establish the relationship between transparency and accountability and financial performance of commercial banks in Machakos county. Generally, the objective sought to look into the Publication of bank governance structure such as majority shareholders, composition of the board; Regular publication of annual, semi-annual and quarterly financial reports; Disclosure of Financial market, inflation index, deposit insurance systems and protection of stockholder's rights; Disclosure of operational ratios such as debt-to-equity ratio; Composition of audit committee members being professionally qualified people; At least the audit Committee meeting internal & external auditors' quarterly; At least two of the audit committee members being independent directors; Audit Committee allow Supervisory Authority CBK to inspect bank any time; The audit committee being transparent to management, staffs and public; The bank management being honest; The management making pronouncements on any changes in the bank to all stakeholders; Employees and management trust each other; The assets of the bank are kept safely The findings are as tabulated in table 4.8 and discussions thereafter.

Table 12: Descriptive Statistics for Transparency and accountability and Financial Performance of Commercial Banks

Aspect of Transparency and Accountability on Financial performance of commercial banks	N	$\sum (f)(x)$	Mean μ	VARIANCE(σ^2)	STANDARD DEV. (σ)
Publication of bank governance structure such as majority	23	109	4.7	0.4	1.32

shareholders, composition of the board					
Regular publication of annual, semi-annual and quarterly financial reports	23	112	4.9	0.2	1.04
Disclosure of Financial market, inflation index, deposit insurance systems and protection of stockholder's rights	23	107	4.7	0.5	0.71
Disclosure of operational ratios such as debt-to-equity ratio	23	98	4.3	0.4	0.5
Composition of audit committee members being professionally qualified people	23	103	4.5	0.7	0.84
At least the audit Committee meeting internal & external auditors' quarterly	23	88	3.8	0.9	1.03
At least two of the audit committee members being independent directors	23	81	3.5	1	0.67
Audit Committee allow Supervisory Authority CBK to inspect bank any time	23	107	4.7	0.2	0.75
The audit committee being transparent to management, staffs and public	23	112	4.9	0.1	0.43
The bank management being honest	23	101	4.4	0.3	0.98
The management making pronouncements on any changes in the bank to all stakeholders	23	103	4.5	0.2	1.03
Employees and management trust each other	23	106	4.6	0.4	0.25
The assets of the bank are kept safely	23	100	4.3	0.8	0.36

The findings of the study showed that there is great relationship between aspects of transparency and accountability and financial performance of commercial banks in Machakos county. The least of the mean of the aspects of transparency and accountability was 3.5 on the scale of 1 to five for At least two of the audit committee members being independent directors indicating that most of the out of the respondents agreed that aspects of transparency have a contribution to the financial performance of commercial banks in Machakos county. The variance and the standard deviation of the data collected was compressed with the highest being a variance of 1 and standard deviation of 1.32 to show how the response was spread in the options given.

The findings were that there exists a strong relationship between transparency and accountability and financial performance of commercial banks. this means that to a great extent, transparency and accountability influences the financial performance of commercial banks. These findings agree with the findings of Marcinkowska (2012), who used information from commercial banks in his research into the impact of openness and accountability on financial performance of commercial banks in south Africa. Namely, the study examined problems associated with commercial bank accountability and transparency, as well as possible remedies to such problems. The research findings were that, commercial banks play a very crucial role in economic growth and their growth should be paramount. The researchers further established that, customers would relatively consume services from the commercial banks that were more transparent and accountable as compared to the others that were not.

4.1.12 Descriptive Statistics for Employee Motivation and Financial Performance of Commercial Banks

The second objective of the study sought to establish the relationship between employee motivation and financial performance of commercial banks in Machakos county. Generally, the objective sought to look into; Salary and other monetary benefits, Assurance of Job security, Insurance schemes such as Pension scheme, Medical Insurance, Training (Internal & External) for higher responsibilities, Coaching, Mentorship for succession, Academic & professional sponsorship, Seminars, conferences for skills advancements and professional networking within the bank, Salary and other monetary benefits, Assurance of Job security, Insurance schemes such as Pension scheme, Medical Insurance and Training (Internal & External) for higher responsibilities

Table 13: Descriptive Statistics for Employee Motivation and Financial Performance of Commercial Banks

Aspect of Employee Motivation and Financial performance of commercial banks	N	$\sum (f)(x)$	Mean μ	VARIANCE(σ^2)	STANDARD DEV. (σ)
Salary and other monetary benefits	23	104	4.7	0.4	1.02
Assurance of Job security	23	113	4.9	0.2	1.04

Insurance schemes such as Pension scheme	23	107	4.7	0.5	0.71
Medical Insurance	23	98	4.3	0.4	0.5
Training (Internal & External) for higher responsibilities	23	103	4.5	0.7	0.84
Coaching, Mentorship for succession	23	88	3.8	0.9	1.03
Academic & professional sponsorship	23	99	4.1	1.1	0.67
Seminars, conferences for skills advancements and professional networking within the bank	23	107	4.7	0.2	0.75
Salary and other monetary benefits	23	112	4.9	0.1	0.43
Assurance of Job security	23	101	4.4	0.3	0.98
Insurance schemes such as Pension scheme	23	103	4.5	0.2	1.03
Medical Insurance	23	106	4.6	0.4	0.25
Training (Internal & External) for higher responsibilities	23	100	4.3	0.8	0.36

The findings of the study showed that there is great relationship between aspects of employee motivation and financial performance of commercial banks in Machakos county. The least of the mean of the aspects of transparency and accountability was 3.8 on the Likert scale of 1 to five for coaching and Mentorship for succession indicating that most of the out of the respondents agreed that aspects of employee motivation have a great contribution to the financial performance of commercial banks in Machakos county. The variance and the standard deviation of the data collected was compressed with the highest being a variance of 1.1 and standard deviation of 1.04 to show how the response was highly concentrated along the scale.

The findings were that there exists a strong relationship between Employee motivation and financial performance of commercial banks. This means that to a great extent, employee motivation influences the financial performance of commercial banks. These findings agree with the findings of Bouten and Hoozée (2015) who examined the influence of employee motivation and financial performance of commercial banks within the territorial boundaries of Belgium. They found out that, corporate governance was a key driver which was greatly driven by the employees to strategize and achieve results. Moreover, it generates a more complete picture of the organizations capacity to enhance other corporate governance aspects.

Further, the findings of the study were that; monetary motivation had a great impact on the growth of firms in the short run and firms which adopted monetary employee motivational schemes could not retain the employees in the long run and hence they were characterized by high employee turnover rates. On the other hand, firms which adopted non-monetary employee motivational schemes such as capacity development schemes, fully funded studies in line of operations, sufficient health insurance and educational policies among others could easily retain their workforce and the growth of such firms was more sustainable, these finding are consistent with the findings of Dalton, C. M. and Dalton, D. R. (2013) who contend that a well, non-monetary motivated workforce is a well spread of expertise that is sure of its role and how to get to the ultimate goal, not easily poachable and not willing to leave and chase any financial offer place on the table.

4.1.13 Descriptive Statistics for Regulatory Framework Compliance and Financial Performance of Commercial Banks

The third objective of the study sought to establish the relationship between employee motivation and financial performance of commercial banks in Machakos county. Generally, the objective sought to look into; Regulatory Framework Compliance, Bank is compliant to the provisions of anti-banking fraud, Bank is compliant with the provisions of the anti-money laundering, Bank is compliant with the provisions of the data protection act, Bank is always compliant with credit rates, transaction charges, and any other charges as guided by the CBK, Bank records are open for inspection by supervisory authorities (CBK), Bank follows the regulations put in place by CBK, The audit committee scrutinizes all the accounts produced by the bank, The management takes actions on anomalies reported, The management gives employee feedback on their performance, The Chairman of the board issues statement of responsibility yearly, Stakeholders of the bank are allowed to check freely for information they need, Management, staff and customers air their views in the banks bulletin, Management is aware of international financial reporting standards (IFRS), The bank is responsive to economic changes in the banking sector.

Table 14: Descriptive Statistics for Regulatory Framework Compliance and Financial Performance of Commercial Banks

Aspect of Regulatory framework compliance on Financial performance of commercial banks	**N**	$\sum (f)(x)$	**Mean** μ	**VARIANCE**(σ^2)	**STANDARD DEV.** (σ)
Regulatory Framework Compliance	23	101	4.7	0.5	0.91
Bank is compliant to the provisions of anti-banking fraud	23	111	4.9	0.2	0.24
Bank is compliant with the provisions of the anti-money laundering	23	109	4.3	0.5	0.93

Bank is compliant with the provisions of the data protection act	23	89	3.8	0.4	0.5
Bank is always compliant with credit rates, transaction charges, and any other charges as guided by the CBK	23	103	4.5	0.7	0.84
Bank records are open for inspection by supervisory authorities (CBK)	23	88	3.8	0.9	1.03
Bank follows the regulations put in place by CBK	23	96	3.9	0.9	0.28
The audit committee scrutinizes all the accounts produced by the bank	23	107	4.7	0.2	0.75
The management takes actions on anomalies reported	23	111	4.7	0.3	0.53
The management gives employee feedback on their performance.	23	101	4.6	0.3	0.88
The Chairman of the board issues statement of responsibility yearly	23	102	4.5	0.2	1.03
Stakeholders of the bank are allowed to check freely for information they need	23	107	4.6	0.4	0.25
Management, staff and customers air their views in the banks bulletin	23	101	4.3	0.8	0.36
Management is aware of international financial reporting standards (IFRS)	23	86	3.7	0.2	0.23
The bank is responsive to economic changes in the banking sector	23	98	3.9	0.1	0.31

The findings of the study showed that there is great relationship between aspects of Regulatory framework compliance and financial performance of commercial banks in Machakos county. The least of the mean of the aspects of Regulatory framework compliance was 3.7 on the Likert scale of 1 to five for Management is aware of international financial reporting standards (IFRS) indicating that most of the out of the respondents agreed that aspects of Regulatory framework compliance have a great contribution to the financial performance of commercial banks in Machakos county. The variance and the standard deviation of the data collected was compressed with the highest being a variance of 0.9 and standard deviation of 1.03 to show how the response was highly concentrated along the scale.

The findings were that there exists a strong relationship between Compliance to Regulatory Framework and financial performance of commercial banks. This means that to a great extent, Compliance to Regulatory Framework influences the financial performance of commercial banks. Researchers Jensen and Mackling (2016) looked at the impact of regulations on the bottom lines of companies that emit greenhouse gases and are traded on the New York Stock Exchange. Tax provisions, local ordinances, and rules addressing the effects of climate change were also factors in the evaluation. Research along these lines was also carried out in France (Fama and Jensen 2013).

Both the agency theory and the stewardship theory were examined because of their relevance to the topic of regulatory compliance. Surveys and secondary data collection forms were used to acquire information from a stratified random sample of the population of interest. According to the results, companies that followed the rules fared better financially than those that didn't. Analogous results were also observed by (Lam and Lee 2018).

4.1.14 Descriptive Statistics for Customer Satisfaction and Financial Performance of Commercial Banks

The fourth objective of the study sought to establish the relationship between customer satisfaction and financial performance of commercial banks in Machakos county. Generally, the objective sought to look into; Bank meets their promised time-frames for Customer responses, Bank is sympathetic and reassuring, when a customer has problems, Bank services at the times promised, Bank has accurate records, Bank Employees are trustworthy, Bank customers feel safe when transacting with employees, Employees get adequate support from the headquarter to serve their customers well, Bank tells customers exactly when the service was performed, Prompt service from Bank employees, Bank give each customer individualized attention, Bank employees fully understand the needs of the customer, Bank employees have the best interests of the customer at heart, Bank operate at hours convenient to all customers.

Table 15: Descriptive Statistics for Customer Satisfaction and Financial Performance of Commercial Banks

Aspect of Customer Satisfaction on Financial performance of commercial banks	N	$\sum (f)(x)$	Mean μ	VARIANCE(σ^2)	STANDARD DEV. (σ)

Bank meets their promised time-frames for Customer responses	23	102	4.4	0.4	0.93
Bank is sympathetic and reassuring, when a customer has problems	23	107	4.7	0.2	0.64
Bank services at the times promised	23	109	4.7	0.5	0.51
Bank has accurate records	23	112	4.9	0.4	0.48
Bank Employees are trustworthy	23	94	3.9	0.7	0.84
Bank customers feel safe when transacting with employees	23	100	4.3	0.9	0.83
Employees get adequate support from the headquarter to serve their customers well	23	112	4.9	1.0	0.67
Bank tells customers exactly when the service was performed	23	99	4.3	0.2	0.75
Prompt service from Bank employees	23	103	4.5	0.1	0.43
Bank give each customer individualized attention	23	113	4.9	0.3	0.98
Bank employees fully understand the needs of the customer	23	101	4.4	0.2	0.93
Bank employees have the best interests of the customer at heart	23	92	4.0	0.4	0.25
Bank operate at hours convenient to all customers	23	97	4.2	0.8	0.36

The findings of the study showed that there is great relationship between aspects of customer satisfaction and financial performance of commercial banks in Machakos county. The least of the mean of the aspects of customer satisfaction was 3.9 on the Likert scale of 1 to five for Bank Employees are trustworthy indicating that most of the out of the respondents agreed that aspects of customer satisfaction have a great contribution to the financial performance of commercial banks in Machakos county. The variance and the standard deviation of the data collected was compressed with the highest being a variance of 1.0 and standard deviation of 0.98 to show how the response was highly concentrated along the scale.

The findings were that there exists a strong relationship between Compliance to Regulatory Framework and financial performance of commercial banks. This means that to a great extent, Compliance to Regulatory Framework influences the financial performance of commercial banks. A study by Arasli et al. (2019) indicated that customer happiness has a beneficial effect on the financial results of the banking industry. According to the findings of the study he conducted in Nigeria, client loyalty is directly proportional to the level of pleasure with the service received. The impact of happy customers on a bank's bottom line was studied by Akhtar et al. (2021). He then used a clear strategy to evaluate how customers of different banks felt about their experiences.

What's more, as Hossain and Leo (2019) have discovered in Qatar, happy customers are a good indicator of future profits. The approach was applied to customer satisfaction, which was discovered to have an effect on the company's bottom line. The test companies' institutional growth was directly correlated with the extent to which their customers were satisfied.

4.1.15 Regression Analysis

To establish the factors, influence of the four factors on the financial performance of commercial banks in Machakos county, a multiple regression analysis was conducted to establish the relative influence of the independent variables on the dependent variable. The regression model was as shown below:

$Y=\beta_O + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

$Y = \beta_O + \beta_1 X_1$ (transparency and accountability) + $\beta_2 X_2$ (employee motivation) + $\beta_3 X_3$ (regulatory framework compliance) + $\beta_4 X_4$ (customer satisfaction) + ε

Regression analysis also produced correlation, coefficient of determination and analysis of variance (ANOVA). Correlation sought to show the nature of relationship between dependent and independent variables and coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables. The ANOVA was conducted at 95% confidence level.

A correlation matrix was run in order to identify the existence of relationship between the variables. Pearson Product Moment Correlation coefficient was used for the correlation analysis; the (r) was used to determine the linear relationship between the variables of interest to the study, the (R^2) coefficient of determination was equally meant to identify the goodness of fit. The correlation coefficient (r) yielded a statistic that varied in ranges in value from -1 to 1 (Mugenda, 2003). A zero value of 'r' indicates that there was no association between the two variables. When r = (+) 1, it indicates perfect positive correlation and when it is (–) 1, it indicates perfect negative correlation, meaning thereby that variations in independent variable explain 100% of the variations in the dependent variable. It also means that a unit change in independent variable, if there happens to be a constant change in the dependent variable in the same direction, correlation will be perfect positive (Kothari, 2004).

Table 16: Model Goodness of Fit

R	R^2	ADJUSTED R^2	STANDARD ERROR OF ESTIMATION
0.971	0.87	0.932	0.06227

a. Predictors: (Constant), transparency and accountability, employee motivation, regulatory framework compliance, customer satisfaction.
b. Dependent Variable: Y Performance of commercial banks

Regression analysis was used to establish the relationship between Y and the factors that affects variables. The results showed a correlation value (R) of 0.971 which depicts that there is a good linear positive dependence of transparency and accountability, employee motivation, regulatory framework compliance and customer satisfaction on performance of commercial banks.

R^2 is a statistic that will give some information about the goodness of fit of a model. In regression, the R^2 coefficient of determination is a statistical measure of how well the regression predictions approximate the real data points. An R^2 of 0.87 was achieved indicating that the regression predictions perfectly fit the data.

With an adjusted R^2 of 0.932, the model shows that transparency and accountability, employee motivation, regulatory framework compliance and customer satisfaction explain 93.2 percent of the variations in performance of commercial banks while 6.8 percent is explained by other factors not in the model. The standard error of estimation was at 6.22% meaning the model was perfect at a 94.78%.

Table 17: Analysis of Variance

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4.181	3	1.394	3.135	0.038a
Residual	15.562	35	.445		
Total	19.744	38			

ANOVA statistics was conducted to determine the differences in the means of the dependent and independent variables thus show whether a relationship exists between the two. The P-value of 0.038 implies that performance of commercial banks has a significant joint relationship with transparency and accountability, employee motivation, regulatory framework compliance and customer satisfaction which is significant at 3.8 percent level of significance. This also depicted the significance of the regression analysis done at 96.2% confidence level.

Table 18: Regression Coefficient Results

	Un-standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	7.724	0.038		3.87	0.038
transparency and accountability	0.719	0.720	0.791	3.87	0.038
employee motivation	0.456	0.827	0.662	3.87	0.038
regulatory framework compliance	0.034	0.197	0.838	3.87	0.038
customer satisfaction	0.865	0.698	0.687	3.87	0.038

a. Dependent Variable: Y performance of commercial banks

From the data in table 18, there is a positive relationship between Y (performance of commercial banks) and transparency and accountability, employee motivation, regulatory framework compliance, customer satisfaction

The established regression equation was:

Y (performance of commercial banks) = 7.724 (constant) + 0.791 (transparency and accountability) + 0.662 (employee motivation) + 0.838 (regulatory framework compliance) + 0.687(customer satisfaction) + 0.038

4.1.16 Interpretation of Findings

This section attempts to provide vivid interpretation of the findings obtained relating to the objective of the study. To establish the relationship between corporate governance and financial performance of commercial banks in Machakos County**,** a multiple regression analysis was conducted to establish the relative influence of the factors under study on the performance of commercial banks. The results showed a correlation value (R) of 0.771 which depicts that there is a good linear dependence of Y (financial performance) on transparency and accountability, employee motivation, regulatory framework compliance, customer satisfaction. ANOVA statistics was conducted to determine the differences in the means of the dependent and independent variables thus show whether a relationship exists between the two. The P-value of 0.038 implies that performance of commercial banks has a significant joint relationship with transparency and accountability, employee motivation, regulatory framework compliance, customer satisfaction which is significant at 3.8 percent level of significance. This also depicted the significance of the regression analysis done at 96.2% confidence level.

The regression results show that, when transparency and accountability, employee motivation, regulatory framework compliance, customer satisfaction have zero values, the dependent value would be 7.724. It is also established that a unit change in transparency and accountability result in a 0.791 positive change on the financial performance of commercial banks and a unit change in employee motivation would lead to a positive 0.662 change on the financial performance of commercial banks, a unit change in the regulatory framework compliance would lead to a positive change of 0.838 on the financial performance of commercial banks and a unit change on the customer satisfaction would lead to a positive change of 0.637 on the financial performance of commercial banks. This statistic had a t-value of 3.87 at 0.038 showing that the statistic is significant at 96.2% confidence level.

4.2 Limitations of the Study

The main limitation of the study was the bureaucratic nature of the commercial banks with some of the bank managers demanding that the researcher seeks authorization from their headquarters which are mostly based in Nairobi. This challenge was addressed by explaining to them that, the data collected would only be used for research purposes and would not be advanced to any other purposes whatsoever and therefore would be kept very confidential. The other main limitation was the busy schedule of the bank managers with some of the managers not meeting the time allowed to fill the questionnaires. This challenge was addressed by allowing some more time to have the questionnaires filled.

4.3 Chapter Summary

This chapter contains presentation of the research findings from the pilot test results, the response rate of the data collection, the background information of the respondents including; gender, level of education, work experience and term served in the current bank. The chapter further contains; findings on the financial performance of the commercial banks, the empirical findings on the relationship between the independent variables and the dependent variable, descriptive statics for each of the variables, regression analysis, interpretation of the findings and limitations of the study.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter contains, summary of the findings in relation to the previous research works, recommendations of the study and conclusions drawn from the study.

5.1 Summary of Findings

The findings of the study are as provided below

5.1.1 Transparency and Accountability and Financial Performance of Commercial Banks

The findings were that there exists a strong relationship between transparency and accountability and financial performance of commercial banks. this means that to a great extent, transparency and accountability influences the financial performance of commercial banks. These findings agree with the findings of Marcinkowska (2012), who used information from commercial banks in his research into the impact of openness and accountability on financial performance of commercial banks in south Africa. Namely, the study examined problems associated with commercial basnk accountability and transparency, as well as possible remedies to such problems. The research findings were that, commercial banks play a very crucial role in economic growth and their growth should be paramount. The researchers further established that, customers would relatively consume services from the commercial banks that were more transparent and accountable as compared to the others that were not.

Further the findings agree with the findings of Aljifri and Moustafa (2012) who examined the impact of internal and external transparency on the performance of 51 Ugandan retail chains. The study found that the financial performance of the surveyed companies improved significantly once they instituted more consistent financial reporting. Research into the impact of airlines' corporate social responsibility on their financial success. They also discovered that the financial health of listed companies was strongly impacted by the degree to which their operations were open and accountable to the public. They singled out the fact that transparent businesses could survive even in unfavorable economic conditions, saying that they had easy access to finance.

Further these finding are in agreement with the findings of Kariuki (2015) who investigated the relationship between financial sector openness and sustainability in Kenya. Based on the information gathered, it is clear that commercial banks in Kenya's financial sector need to make transparency and accountability central tenets of their corporate governance in order to secure a viable future for the industry. Receivership cases of various insurance companies and the Imperial bank and national bank were examined.

5.1.2 Employee Motivation and Retention and Financial Performance

The findings were that there exists a strong relationship between Employee motivation and financial performance of commercial banks. This means that to a great extent, employee motivation influences the financial performance of commercial banks. These findings agree with the findings of Bouten and Hoozée (2015) who examined the influence of employee motivation and financial performance of commercial banks within the territorial boundaries of Belgium. They found out that, corporate governance was a key driver which was greatly driven by the employees to strategize and achieve results. Moreover, it generates a more complete picture of the organizations capacity to enhance other corporate governance aspects.

Further, the findings of the study were that; monetary motivation had a great impact on the growth of firms in the short run and firms which adopted monetary employee motivational schemes could not retain the employees in the long run and hence they were characterized by high employee turnover rates. On the other hand, firms which adopted non-monetary employee motivational schemes such as capacity development schemes, fully funded studies in line of operations, sufficient health insurance and educational policies among others could easily retain their workforce and the growth of such firms was more sustainable, these finding are consistent with the findings of Dalton, C. M. and Dalton, D. R. (2013) who contend that a well, non-monetary motivated workforce is a well spread of expertise that is sure of its role and how to get to the ultimate goal, not easily poachable and not willing to leave and chase any financial offer place on the table.

The findings further agree with the findings of Darker and Caylor (2014), who carried out a study to establish the influence of employee motivation and retention on financial performance of listed security firms in France. The aspects of employee motivation put to test were; timely remittance of salaries, additional incentives, competitive remuneration, training and capacity development schemes, guaranteed study leaves with full salary, health insurance cover for their families and education policy for their children. They found out that firms that motivated and retained their employees had the highest chances of retaining their customers as well and additionally could grow their customer base very fast.

Further, the study findings agree with the findings of the research conducted by Lipton and Lorsch (2012) on the influence of motivated workforce on growth of corporate governance culture among commercial banks in Liberia. the study adopted descriptive research design and focus groups were used to gather the data for analysis. They found out that more contend workforce grew their loan book at a faster rate than the ones that did not have well motivated employees. Although the methods of motivating the employees were not put to test, the scholars recommended that commercial banks should consider both monetary and monetary motivational schemes for the employees.

5.1.3 Compliance to Regulatory Framework and Financial Performance

The findings were that there exists a strong relationship between Compliance to Regulatory Framework and financial performance of commercial banks. This means that to a great extent, Compliance to Regulatory Framework influences the financial performance of commercial banks. Researchers Jensen and Mackling (2016) looked at the impact of regulations on the bottom lines of companies that emit greenhouse gases and are traded on the New York Stock Exchange. Tax provisions, local ordinances, and rules addressing the effects of climate change were also factors in the evaluation. Research along these lines was also carried out in France (Fama and Jensen 2013). Both the agency theory and the stewardship theory were examined because of their relevance to the topic of regulatory compliance. Surveys and secondary data collection forms were used to acquire information from a stratified random sample of the population of interest. According to the results, companies that followed the rules fared better financially than those that didn't. Analogous results were also observed by (Lam and Lee 2018).

The research went further and exposed the effects of each of the specific aspects of compliance that were under review. It was elaborated that, tax compliance had the largest drain to the resources of the firms which ranged between 50% to 70% of the annual gross turnover. This greatly impacted the financial performance of the firms with a good percentage of its income being consumed as legal fees to settle the tax non-compliance. Compliance to municipal regulations was ranked as the second largest consumer of income which was ranged between 18% to 33% of the annual gross turnover. Although compliance to climate change adaptations regulations was ranked as the least costly non-compliance with fines only ranging between 2.5% to 7%, the firms that were fully compliant to climate change adaptations regulations, enjoyed a faster growth in terms of customer base and its new products were easily accepted in the market. Such companies also enjoyed great customer retention as compared to the ones that were non-compliant similar findings were realized in a similar study in the United Kingdom (Donaldson and Davis, 2014).

Internal governance frameworks and financial performance of Indian firms were studied by Jackling and Johl (2019). Compliance and financial performance of the companies were both found to benefit from the investigation's focus on their combined efforts. Ujunwa (2021) backed up the findings by establishing that non-compliance is correlated negatively with the financial performance of enterprises in Nigeria.

Freeman et al. (2014) indicated that, compliance to regulatory framework strikes harmony between the interests of a corporation's stakeholders fulfillment and the general interests of the public as propagated by the regulatory agents. In his study influence of regulatory framework on growth of financial institutions in south Africa, he found out that regulatory framework doesn't disenfranchise firms but rather creates a very harmonious environment for business entities to carry out trade and get the benefit of good relationship with the members of the public. He further elaborated that, the government doesn't tax corporates as a punishment but only to ensure that it has the financial capacity to provide public goods. He asserted that, financial institutions are some of the entities which operate under a very strictly regulated environment due to its risky nature. He recommended that, financial institutions should have a compliance department under corporate governance structure to ensure full compliance to the regulatory provisions at all levels.

As full compliance to regulatory framework accelerates the fundamental operating process and evacuates avoidable internal and legal issues, Laing and Weir (2016) looked into the relationship between full compliance to regulatory framework and financial performance. Findings suggested that noncompliance had an effect, since some compliances are expensive, but this had major consequences in the long run. Bhagat and Bolton (2021) looked on how adhering to regulations impacted financial outcomes between 2016 and 2020. In addition to bribery of authorities to avoid compliance, the inquiry revealed other hidden expenditures that negatively impacted company performance.

A study by Munyao (2021) looked into the connection between construction firms' tax compliance and their financial success in Kenya. The researchers focused on the building industry because of the country's rapid rate of infrastructure expansion. Ten counties were chosen at random to take part in the study. The primary data was gathered through interviews with company executives in the construction industry. Tax compliance has been one of the greatest challenges of firms across the country since the introduction of itax to monitor tax compliance in the country. For a company or an enterprise to secure a government tender, the directors have to ensure that the company acquires a tax compliance which is auto generated from the itax system (Ahmed, 2016). In his findings, he found out that, entities that were not tax compliant were not eligible to participate in public tendering. He also established that some private corporates and commercial banks had also starting barring entities which were not compliant from participating in their tendering process more so the companies listed with the Nairobi Securities Exchange (NSE) (Goodstein, 2019). This study was however carried out among construction companies which have a different operational and compliance framework as compared to commercial banks and this is the gap that this study seeks to address.

5.1.4 Customer Satisfaction and Financial Performance

The findings were that there exists a strong relationship between Compliance to Regulatory Framework and financial performance of commercial banks. This means that to a great extent, Compliance to Regulatory Framework influences the financial performance of commercial banks. A study by Arasli et al. (2019) indicated that customer happiness has a beneficial effect on the financial results of the banking industry. According to the findings of the study he conducted in Nigeria, client loyalty is directly proportional to the level of pleasure with the service received. The impact of happy customers on a bank's bottom line was studied by Akhtar et al. (2021). He then used a clear strategy to evaluate how customers of different banks felt about their experiences.

What's more, as Hossain and Leo (2019) have discovered in Qatar, happy customers are a good indicator of future profits. The approach was applied to customer satisfaction, which was discovered to have an effect on the company's bottom line. The test companies' institutional growth was directly correlated with the extent to which their customers were satisfied.

According to Korda and Snoj (2020), manufacturers in Nakuru were studied to determine if there was a correlation between customer happiness and financial success. In addition, they researched how customers' feelings about service quality affected the company's bottom line. Among four major subsectors of the financial industry, Lai et al. (2019) found that customer happiness was the most important factor in driving growth.

According to research conducted by Akhter et al. (2021), customer happiness has a direct and beneficial effect on a company's bottom line. They looked examined how the financial sector's bottom line would fare if it prioritized customer value and loyalty over other factors including trust, contentment, commitment, communication, image, complaint handling, and service quality. It was discovered that factors such as a company's brand image, customer loyalty, dedication, perceived quality, and customer satisfaction all had a favorable effect on a telecom company's bottom line. Furthermore, it was discovered that brand credibility, as a construct that influences both customer satisfaction and financial success, has a cross-impact on both.

Customer switching costs have a direct impact on financial performance and mediate the relationship between customer satisfaction and financial success, as studied by Varki and Colgate (2021). Results like these are consistent with those discovered by Munyao (2021), who studied the microfinance banks of Kenya and found that customer satisfaction improvement strategies improved the banks' bottom lines.

5.2 Recommendations

The following are the recommendations drawn from the findings of the study.

5.2.1 Transparency and Acountability and Financial Performance of Commercial Banks

From the findings of the study, the research recommends that to ensure there is sufficient transparency and accountability, the banks management needs to make publication of bank governance structure such as majority shareholders, composition of the board, make regular publication of annual, semi-annual and quarterly financial reports, make full disclosure of Financial market, inflation index, deposit insurance systems and protection of stockholder's rights, make full disclosure of operational ratios such as debt-to-equity ratio and other ratios, ensure that the composition of audit committee members being professionally qualified people, ensure that at least the audit Committee meeting internal & external auditors' quarterly, ensure that at least two of the audit committee members being independent directors, ensure that the audit Committee allow Supervisory Authority CBK to inspect bank any time, implement full audit committee transparency to management, staffs and public, ensure the highest degree of management honesty, the management making pronouncements on any changes in the bank to all stakeholders, employees and management trust each other and the assets of the bank are kept safely.

5.2.2 Employee Motivation and Retention and Financial Performance

From the findings of the study, the research recommends that to ensure there is sufficient employee motivation, the management of the commercial banks should ensure that there is sufficient salary and other monetary benefits awarded and reviewed every year, provide assurance of Job security, contribute to the insurance schemes such as Pension scheme for the employee as well as medical Insurance. The management should develop sufficient policies for training (Internal & External) for higher responsibilities, coaching, Mentorship for succession and practice academic & professional sponsorship to Seminars, conferences for skills advancements and professional networking within the bank.

5.2.3 Compliance to Regulatory Framework and Financial Performance

From the findings of the study, the research recommends that to ensure there is sufficient Compliance to Regulatory Framework the management of the commercial banks, the legislature and the central bank which is the supervising authority needs to put in place policies to ensure the bank is compliant to the provisions of anti-banking fraud, bank is compliant with the provisions of the anti-money laundering, bank is compliant with the provisions of the data protection act, bank is always compliant with credit rates, transaction charges, and any other charges as guided by the CBK, bank records are open for inspection by supervisory authorities (CBK), bank follows the regulations put in place by CBK, the audit committee scrutinizes all the accounts produced by the bank, the management takes actions on anomalies reported, the management gives employee feedback on their performance, the chairman of the board issues statement of responsibility yearly, stakeholders of the bank are allowed to check freely for information they need, management, staff and customers air their views in the banks bulletin, management is aware of international financial reporting standards (IFRS), the bank is responsive to economic changes in the banking sector

5.2.4 Customer Satisfaction and Financial Performance

From the findings of the study, the research recommends that to ensure there is sufficient customer satisfaction the management of the commercial banks, bank meets their promised time-frames for Customer responses, bank is sympathetic and reassuring, when a customer has problems, bank services at the times promised, bank has accurate records, bank employees are trustworthy, bank customers feel safe when transacting with employees, employees get adequate support from the headquarter to serve their customers well, bank tells customers exactly when the service was performed, prompt service from bank employees, bank give each customer individualized attention, bank employees fully understand the needs of the customer, bank employees have the best interests of the customer at heart, bank operate at hours convenient to all customers.

5.2.5 Recommendations for Further Research

This research recommends that further research be carried out in other locations as well as the supervisory authority to establish its commitment in ensuring that the corporate governance is fully complied with.

Further the research recommends that, further research be carried out in other financial institutions such as insurance companies, micro finance institutions and savings and credit cooperative societies.

Further the research recommends that, further research be carried out in other geographical areas such as other counties to establish if the same factors influence financial performance of commercial banks, other financial institutions and other lending institutions.

The uptake of mobile money transfer systems seems to be at a very fast rate in the country, the research therefore recommends a further research to be carried out on corporate governance of mobile money companies as well as mobile money lending institutions.

5.3 Conclusion

It is worth noting that, commercial banks in Kenya have faced several challenges in the recent past majorly being cash flow changes to meet their depositors' requirements and even some of them being handed over to receivers and buy outs. Examples of such include; Imperial bank, National Bank of Kenya, Chase bank, Mwalimu National, K-Rep Bank among others. It is this main reason that compelled the researcher to investigate the relationship between corporate governance and financial performance of commercial banks including; transparency and accountability, employee motivation and retention, regulatory framework compliance, customer satisfaction. The study has found out that there exists a positive relationship between the specific aspects of corporate governance under study and the financial performance of commercial banks. these findings have also been related to the findings of other previous researches.

5.4 Chapter Summary

The chapter contains a summary of the findings for each of the objectives, as well as the recommendations for each of the objectives. The chapter further contains recommendations for further research as informed by the findings of these study and a conclusion of the study.

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APPENDIX I: INTRODUCTION LETTER

Ndeto Shadrack Mbithi
P.O BOX 3534-90100
Machakos.

Dear Respondent,

<u>Re: Request to Fill in the Attached Questionnaire</u>

I am a postgraduate student at Management University of Africa, pursuing Master of Management and Leadership degree. As part of the requirements of my course, I am conducting a research study entitled, ***"Corporate Governance and Financial Performance of Commercial Banks in Kenya".*** You are kindly requested to fill the attached questionnaire to enable the researcher achieve the objectives of this study. The information you will provide was treated with utmost confidentiality and it was used purely and exclusively for academic purposes. For any queries and clarifications, you can contact the researcher through the contact details provided below.

Thank you for your time and cooperation.

Yours faithfully

Ndeto Shadrack Mbithi
MOBILE: +254 725 639 140
EMAIL: shadmto@gmail.com

APPENDIX II: STUDY QUESTIONNAIRE

Section A: Background Information

(Write your answers in the spaces provided and tick accordingly)

1. Name of the commercial bank...

2. Position of the respondent...

3. Your highest level of academic qualification

a) Diploma [ ]

b) Bachelor's Degree [ ]

c) Master's Degree [ ]

d) PhD [ ]

4. Number of years served in the banking industry

a) Less than 2 years [ ]

b) Between 2-5 years [ ]

c) Between 5-10 years [ ]

d) More than 10 years [ ]

5. Number of years served in the current bank

a) Less than 2 years [ ]

b) Between 2-5 years [ ]

c) Between 5-10 years [ ]

d) More than 10 years [ ]

Financial performance of commercial banks

1. How have the banks' profits been faring for the last three years?

   ____

2. What is the current Loan book value to customer deposits ratio and how has this been changing for the last three years?

   ____

3. How many new branches has the bank opened in the last three years?

   ____

4. Has the bank been advancing to new markets for the last three years?

   ____

5. Has the bank been able to develop, pilot and introduce new products in the market?

   ____

Transparency and Accountability and financial performance of commercial banks

1. On a scale of 1 to 5, 1 being the least influence and 5 having the highest influence, how would you rate the influence of the following aspects of transparency and accountability influence on performance of commercial banks in Kenya.

Aspect of transparency and accountability	**1**	**2**	**3**	**4**	**5**
Publication of bank governance structure such as majority shareholders, composition of the board					
Regular publication of annual, semi-annual and quarterly financial reports					
Disclosure of Financial market, inflation index, deposit insurance systems and protection of stockholder's rights					
Disclosure of operational ratios such as debt-to-equity ratio					
Composition of audit committee members being professionally qualified people					
At least the audit Committee meeting internal & external auditors' quarterly					
At least two of the audit committee members being independent directors					
Audit Committee allow Supervisory Authority CBK to inspect bank any time					
The audit committee being transparent to management, staffs and public					
The bank management being honest					
The management making pronouncements on any changes in the bank to all stakeholders					
Employees and management trust each other					
The assets of the bank are kept safely					

Employee Motivation and Retention and Financial Performance of Commercial

2. On a scale of 1 to 5, 1 being the least influence and 5 having the highest influence, how would you rate the influence of the following aspects of Employee Motivation and Retention influence on performance of commercial banks in Kenya.

Employee Motivation and Retention	**1**	**2**	**3**	**4**	**5**
Salary and other monetary benefits					
Assurance of Job security					
Insurance schemes such as Pension scheme					
Medical Insurance					
Training (Internal & External) for higher responsibilities					
Coaching, Mentorship for succession					
Academic & professional sponsorship					
Seminars, conferences for skills advancements and professional networking within the bank					

Regulatory framework compliance and financial performance of commercial

3. On a scale of 1 to 5, 1 being the least influence and 5 having the highest influence, how would you rate the influence of the following aspects of Regulatory framework compliance influence on performance of commercial banks in Kenya.

Regulatory Framework Compliance	1	2	3	4	5
Bank is compliant to the provisions of anti-banking fraud					
Bank is compliant with the provisions of the anti-money laundering					
Bank is compliant with the provisions of the data protection act					
Bank is always compliant with credit rates, transaction charges, and any other charges as guided by the CBK					
Bank records are open for inspection by supervisory authorities (CBK)					
Bank follows the regulations put in place by CBK					
The audit committee scrutinizes all the accounts produced by the bank					
The management takes actions on anomalies reported					
The management gives employee feedback on their performance.					
The Chairman of the board issues statement of responsibility yearly					
Stakeholders of the bank are allowed to check freely for information they need					
Management, staff and customers air their views in the banks bulletin					
Management is aware of international financial reporting standards (IFRS)					
The bank is responsive to economic changes in the banking sector					

Customer satisfaction and financial performance of commercial banks

4. On a scale of 1 to 5, 1 being the least influence and 5 having the highest influence, how would you rate the influence of the following aspects of Customer satisfaction influence on performance of commercial banks in Kenya.

Customer satisfaction	**1**	**2**	**3**	**4**	**5**
Bank meets their promised time-frames for Customer responses					
Bank is sympathetic and reassuring, when a customer has problems					
Bank services at the times promised					
Bank has accurate records					
Bank Employees are trustworthy					
Bank customers feel safe when transacting with employees					
Employees get adequate support from the headquarter to serve their customers well					
Bank tells customers exactly when the service was performed					
Prompt service from Bank employees					
Bank give each customer individualized attention					
Bank employees fully understand the needs of the customer					
Bank employees have the best interests of the customer at heart					
Bank operate at hours convenient to all customers					