INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Corporate governance plays a key role in the strategic direction of an organization by deciding which strategies to be adopted. The CBK Annual Bank Supervision reports for the period 2018 to 2022 indicated a declining trend in performance of Kenyan commercial banks. Tier-3 Banks consistently indicated a drop in Return on Assets (ROA), falling from -0.73% in 2018 to -1.36% in 2022. Collectively, these banks averaged a -3.5% Return on Equity (ROE) during the same period. This study aimed to explore the influence of corporate governance practices on performance of commercial banks in Nairobi City County, Kenya. The study delved into how practices related to digitization, innovation, board diversity, and organizational structure influence bank performance. The research involved surveying 95 departmental managers and 19 directors as participants, selected from 19 out of the 21 commercial banks categorized as Tier-3 according to the Central Bank of Kenya (CBK) classification for the timeframe 2018 to 2022. A sample survey was conducted using closed-ended and open-ended questionnaires. Secondary data was extracted from published CBK Annual Bank Supervision reports spanning from 2018 to 2022. To ensure the validity of the questionnaire content, subject matter experts including the supervisor and defense panelists were consulted to verify content validity. The reliability of the research instrument was evaluated using the Cronbach alpha test, with an acceptable value of $\alpha \geq 0.7$. Data analysis encompassed descriptive and inferential statistics. Descriptive analysis entailed summarizing data using tables and elucidating characteristics using frequencies, means, and standard deviations. Inferential analysis involved encoding data in the SPSS software, followed by conducting multiple regression analysis to ascertain the adjusted R-square value. The findings were interpreted to understand the correlation between digitization, innovation, board diversity, organizational structure practices, and the performance of commercial banks in Nairobi City County, Kenya. The findings of the study indicated that digitization is statistically significant, board diversity had a strong statistical significance, innovation was marginally significant, while organizational structure had borderline significance in the relationship between corporate governance practices and performance of commercial banks in Nairobi City County, Kenya.

Key words: Corporate governance practices, Digitization practices, Board diversity, Innovation practices, Organizational structure, performance.

INTRODUCTION

Corporate governance is the set of relationships between a company's shareholders, board, management, and other stakeholders. Corporate governance also provides the framework that determines how the company's goals are established, how to achieve them, and how to track its progress. It helps build an environment of trust, transparency, and accountability necessary for fostering long-term investment, financial stability, and business integrity, thereby supporting stronger growth and more inclusive societies OECD, (2015). United States of America corporate governance is best understood as the set of fiduciary and managerial responsibilities that binds a company's management, shareholders, and board within a larger, societal context defined by legal, regulatory, competitive, economic, democratic, ethical, and other societal forces, The US Corporate Governance System, (2023).

Bank of America, a leading bank in the United States upholds the highest standards of corporate governance and ethical conduct. It serves millions of individuals, households, families, and businesses of every size by doing business the right way for its customers, clients, shareholders, and communities. The board of directors provides oversight of the company's affairs and constantly works to improve and build on the company's strong corporate governance practices. Annual revenue for Bank of America in 2021 was $93.851B, a 0.1% increase from 2020, for the twelve months ending September 30, 2022, the bank revenue was $103.331B, a 12.37% increase year-over-year Macrotrends (2023). China's economic reform and policies over the last four decades have succeeded in establishing international standards of corporate governance in the country. This has facilitated the emergence of modern enterprise structures, contributing to the development of one of the largest economies in the world today. Industrial and Commercial Bank of China, the leading bank in China focuses on corporate governance as its primary measure to enhance its core competitiveness and continues to develop its modern corporate governance framework, mechanism and culture with reference to regulatory requirements and best practices of the industry.

Company revenue reports for the Industrial and Commercial Bank of China for 2022 was $141.81 B. In 2021 the company's revenues were $145.30 B an increase over the years 2020 revenue of $128.20B Macrotrends (2023). UK's corporate governance framework is underpinned by a combination of key statutory legislation, capital markets regulation, governance codes, investor expectations and best practice guidance. Corporate governance in the UK operates on a Code established in 2018 stating that a company either states its compliance with a regulatory provision or explains any non-compliance. Barclays PLC applies the principles and provisions of the UK code of conduct and complies in full with it. On average, Barclays has been making USD $27 million year on year from 2018 to 2022 Macrotrends (2023). Nigeria corporate governance operates on the mandatory code of conduct established by the financial reporting council of Nigeria that cuts across all sectors of the corporate world of Nigeria. This has evolved over time to cover most essential areas such as the board composition of directors and the specific requirements for the board structure. Zenith, a leading bank in Nigeria subscribes to several codes of corporate governance among them the securities and Exchange Commission's Code of Corporate Governance and the Nigerian Central Bank's Code of Corporate Governance for Banks.

In the third quarter that ended 30'th September 2022, Zenith Bank Plc announced its unaudited results, a remarkable double-digit growth of 20% in gross earnings from NGN518.7 billion reported in Q3 2021 to NGN620.6 billion in Q3 2022, Zenith Bank (2022). South Africa, a member of the G20, works closely with other members for the implementation of international best practices in financial and market regulation as advised by the corporate governance common laws and statutes. Absa Group Memorandum of Incorporation (MOI) is the foundation for its corporate governance principles and practices. It sets out how the corporate governance provisions in the Company will be put into practice. Further, it acknowledges that there are applicable regulations and codes in its presence in countries outside of South Africa. Absa Group's headline earnings more than doubled to R18. 6 billion in 2021 from previous earnings of R8billion in 2020, well in excess of 2019 earnings, as pre-provision profit increased and as the impairments charge reduced substantially, ABSA (2023).

Institute of Corporate Governance of Uganda (ICGU), is a body that entrenches Corporate Governance principles and practices of Accountability, Transparency, Integrity, Responsibility and Excellence in both public and private organizations. It has a national mandate to execute, train and advise on Corporate Governance principles and practices in Uganda. According to Kasi Fabian, (2020), Centenary Bank of Uganda considers good governance as one of the pillars for the sound operation of its business, performance, and sustainability. Centenary Bank's financial statements, Profit after tax increased from Shs155.9 billion in 2019 to Shs 161.2 billion in 2020 registering an increase of 3.4%. In 2021, its profit grew to Shs 211.5 billion registering an increase of 31.2 percent.

Tanzania's' main regulatory framework for corporate governance is provided under the Companies Act, Cap 212 (the CA), and the Capital Markets and Securities Act 1994. CAP 212 is an Act that relates to companies and other associations that provides more comprehensive provisions for regulations and control of companies, associations, and related matters. The Capital Markets and Securities Act 1994 was established for the purpose of promoting and facilitating the development of an orderly, fair and efficient capital market and securities industry in Tanzania. According to Financial Information (GT Bank Tanzania, 2023), Guaranty Trust Bank (Tanzania), is governed by a framework that facilitates checks and balances that ensures that the appropriate controls are put in place to ensure accountability of the Board and Management to stakeholders. In 2021, The Bank Reported a Profit before tax of ₦ 53.7 billion, representing a drop of 7.8% over ₦58.2billion recorded in the corresponding period of March 2020.

Financial institutions in Kenya adopt the Capital Market's Authority (CMA) Corporate Governance Code. CMA provides guidelines on Corporate Governance Practices by Public Listed Companies in Kenya with the "Apply or Explain "approach. This approach requires boards to fully comply with the 2016 code, failure to which, the non-compliant companies must 'disclose to the CMA the reasons for non-compliance and clearly indicate the time frame required and the strategies to be put in place towards full compliance. As per (CBK, 2023), Consolidated Bank of Kenya made a loss of Ksh.351m in 2018, a loss of Ksh.516m in 2019, a loss of Ksh262m in 2020, a loss of Ksh.286m in 2021, and a loss of Ksh.446m in 2022. CBK, (2023), noted that Spire Bank made a loss of Ksh.307m in 2018, a loss of Ksh.453m in 2019, a loss of Ksh.1.2b in 2020, a loss of Ksh.1.1b in 2021, and a loss of Ksh.1.1b in 2022. These trends depict negative Financial performance which can also be noted in other tier-3 banks.

With an inter-censual growth rate of 2.2% and a population of over 50 million people, KNBS (2023), Kenya is one of the most important financial markets for goods and services in East Africa. These trends are either inappropriate or explain weak corporate governance practices due to lack of expertise or financial structures that may not be in tandem. Banks in Kenya are grouped into three tiers based on market share, asset base, and customer deposits. Banks' assessment is based on the Asset Size, Capital and Reserve size, Profitability, Liquidity, and Deposits (CBK, 2023). For the year 2022, there were nine major banks with a combined market share of 75.14 percent, eight medium banks with a combined market share of 16.13 percent, and twenty-two small banks with a combined market share of 8.58 percent as shown in Tables 1,2,3 & 4 (CBK, 2023). Out of the 38 Commercial banks in Kenya, twenty-one of them are Tier-3 banks having a combined market share of 8.58% (Bank Supervision & Banking Sector Reports, 2022). Combined, the Twenty-one banks made Profit/Losses.

Statement of The Problem

CBK Annual Bank Supervision report for the period 2018 to 2022, depicted a declining performance of Kenyan Commercial Banks. Comprising of 21 banks, Tier-3 Banks demonstrated a consistent decline in ROA from -0.73% in 2018 to -1.36% in 2022, with these banks collectively averaging a -3.5% ROE over the same period. In 2018, Jamii Bora Bank made a loss of Ksh.383m, Ksh.1.1b in 2019, and Ksh. 124m in 2020. In 2020, CBK bailed out the bank for Ksh. 20 billion, the same year, Co-operative Bank acquired 90% shareholding in the struggling Bank and rebranded it to Kingdom Bank. In 2021, a senate committee was convened to probe the circumstances surrounding the alleged deception of Mwalimu Sacco in its acquisition of the financially beleaguered Spire Bank. Spire Bank Made a loss of Ksh.307m in 2018, Ksh.453m in 2019, Ksh. 1.2B in 2020, Ksh 1.1B in 2021, and Ksh. 1B in 2022. In January 2023, Equity Bank stepped in and acquired Spire Bank, offering a glimmer of hope for the struggling Bank.

In 2020, Access Bank Plc acquired full ownership of Transnational Bank, which was facing financial challenges. During 2018, the bank reported a loss of Ksh. 98.46 million, followed by another loss of Ksh. 56.23 million in 2019. In 2018, Mayfair Bank reported a loss of Ksh.267.65m, followed by a loss of Ksh.365.88m in 2019, and another loss of Ksh.352m in 2020, the same year, Commercial International Bank acquired 51% shareholding in Mayfair Bank. While existing research has extensively explored the relationship between corporate governance and overall performance of banks, there remains significant gap in understanding the subtle effects of different practices on bank performance, specifically, there is limited research examining how digitization practices, innovation practices, board diversity practices, and organizational structure practices influence performance of commercial Banks in Kenya. Addressing this gap is crucial for developing strategies to enhance positive outcomes among tier-3 commercial Banks.

The declining performance of banks can have far-reaching consequences for the Kenyan economy such as reduction on credit availability, financial instability, erosion of business and investor confidence, slowdown in economic activity, reduced investment, and diminished business sentiment. Ultimately, the consequences of declining bank performance extend to the economy as a whole, affecting employment levels, business profitability, and consumer spending, thus impeding overall economic growth. The researcher held the view that, banks' inability to institutionalize suitable corporate governance practices, which he deemed may improve their performance, had compounded the problem of deteriorating performance. The researcher articulated the perspective that, the adoption of corporate governance practices, including digitalization, innovation strategies, establishing a board comprising of individuals capable of effectively mitigating conflicts of interest within both the board and management levels, along with the enforcement of a well-defined organizational structure could serve as an effective means to reverse the downward trajectory in performance. The goal of the study was to assess how the aforementioned corporate governance practices have influenced the performance of Kenyan commercial banks.

Objectives of The Study

The study sought to Analyze influence of corporate governance practices on performance of commercial Banks in Nairobi City County, Kenya.

The study was guided by the following specific objectives:

i. To establish contribution of digitization practices on performance of commercial Banks in Nairobi City County, Kenya
ii. To examine influence of Board diversity with a diverse range of expertise on performance of commercial Banks in Nairobi City County, Kenya
iii. To establish influence of innovation practices on performance of commercial Banks in Nairobi City County, Kenya
iv. To examine influence of organizational structure on performance of commercial Banks in Nairobi City County, Kenya.

THEORETICAL REVIEW

Agency Theory

Proposed by Jensen and Meckling (1976), the theory explains the important relationship that exists between principals and agents in an organization. The principal, whether an individual or an entity such as shareholders and investors, heavily relies on an agent to make specific financial decisions that may result in various outcomes. The agent refers to an entity or an individual such as company executives, fund managers and the C.E.O who carries out responsibilities assigned to them by the principal and are expected to operate in the principal's best interests.

Relationships between the principal and the agent may result in conflicts of interests. In a banking context, shareholders are the owners of the bank, while top executives and management act as agents responsible for day-to-day operations and strategic decisions. The effectiveness of agency mechanisms significantly impacts bank's performance. When governance mechanisms, such as executive compensation contracts, performance benchmarks, and board oversight, are well-designed and aligned with shareholder interests, they motivate managers to make decisions that enhance the bank's financial health over the long term. Conversely, weak governance can lead to misaligned incentives and potentially detrimental decisions that can adversely affect performance of a bank.

Agency theory ensures that organizational structure aligns the interests of principals and agents by facilitating appropriate decision-making and power distribution throughout the organizational hierarchy. It emphasizes the significance of harmonizing management's interests with those of shareholders, recognizing the value of strategic initiatives such as embracing emerging trends like digitization, fostering innovation, and investing in research and development. Additionally, board diversity is recognized as a pivotal component of effective governance, as it brings together diverse perspectives and expertise, further enhancing decision-making processes and promoting accountability. These practices collectively contribute to enhanced performance.

Stakeholder Theory

Advanced by Edward Freeman in 1978, the theory is founded on the belief that a business should consider the interests and concerns of various stakeholders beyond just shareholders. It argues that businesses have ethical and moral obligations to not only maximize shareholder value but also to take into account the well-being of other stakeholders such as employees, customers, suppliers, the community, and other parties affected by the company's actions McAbee, (2023). The theory suggests that by fulfilling the needs and expectations of a broader set of stakeholders, a company can achieve sustainable success and long-term profitability.

Prioritizing stakeholders, and integrating practices such as digitization, innovation, board diversity, and organizational structure, significantly contributes to a positive performance of banks. Stakeholder Theory emphasizes the necessity of addressing a diverse range of interests beyond shareholders. By embracing digitization and innovation, banks cater to tech-savvy customers, leading to positive word-of-mouth and customer loyalty, in line with Stakeholder Theory's focus on satisfaction and engagement. Furthermore, digitization optimizes internal operations, trimming costs, and enhancing shareholder value.

Positive supplier relationships lead to favorable terms, cost savings, and efficient resource management, lowering operational expenses. Board diversity, featuring members from varied backgrounds, enriches decision-making, reflecting multiple stakeholder perspectives, while enhancing accountability and transparency. This inclusive approach resonates with Stakeholder Theory, ultimately contributing to improved financial outcomes. Additionally, organizational structures that facilitate open communication and cross-functional teams amplify stakeholder engagement, aligning employee objectives with stakeholder needs as stipulated by Stakeholder Theory. This alignment often leads to heightened customer satisfaction, innovation, and superior performance.

Resource Dependency Theory

Advanced by Pfeffer and Salancik (1978), resource dependency theory explains how an organization is influenced by the external resources it has access to. External resources such as capital, information, technology, human expertise, and raw materials are vital in the effective operations of the organization. These resources are often distributed across multiple external sources, such as suppliers, customers, regulators, and competitors. Procuring these resources is critical to the strategic direction of an organization. Key corporate governance practices including digitization, innovation, board diversity, and organizational structures, significantly influence performance. Digitization, a crucial resource for organizations enhances operational efficiency, customer engagement, and market reach, enabling banks to provide convenient services and attract more customers thus diversifying resource channels and potentially leading to improved performance.

Innovation, which is a strategic resource, differentiates organizations and fuels competitive advantage. Innovative financial products and services delivery, can lead to increased customer satisfaction, improved brand perception, and potentially bring new revenue streams. This reduces reliance on conventional practices, thereby enhancing the ability to adapt and thrive. Organizations must interact with diverse external entities to access diverse resources. Board diversity contributes to a broader range of perspectives and expertise in decision-making. It is better equipped to navigate a complex and dynamic environment and acquire varied resources, partnerships, and opportunities that enhance performance. Meanwhile, a flexible and adaptable organization structure facilitates efficient collaborations and partnerships, allowing organizations to access critical resources. A structure that encourages cross-functional teams and open communication enhances the acquisition of resources, reduce dependency on a single channel, and promotes financial stability.

Conceptual Framework

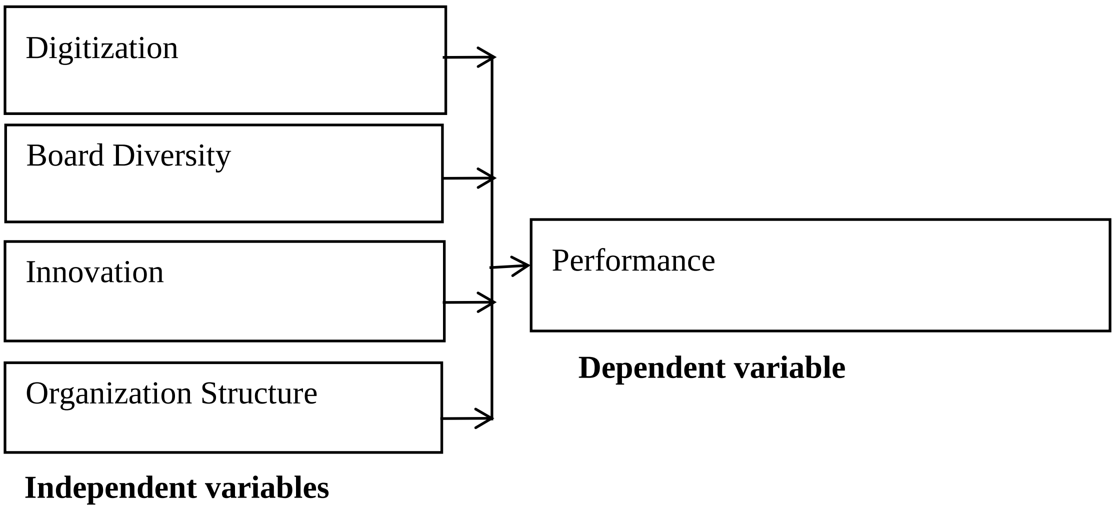

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

Research Design

This study adopted a mixed-methods research design in analyzing the relationship between corporate governance practices and performance of commercial banks in Nairobi City County, Kenya for the period 2018 to 2022. Utilizing Qualitative and Quantitative data collection and analysis research methods within a single study provides the researcher with a more comprehensive understanding of the research problem, objectives and questions of the research compared to when relying solely on one methodology, Ussif1 et al (2020). A sample survey was conducted to collect data exclusively from the headquarter branches of all 21 Tier-3 commercial banks in Nairobi City County, Kenya, rather than encompassing data from every single branch across the entire census population.

Choosing a sample survey in research holds significant importance for various reasons. It is more cost-effective as it requires less resources in terms of time, manpower and budget, Dillman, et al (2014). Additionally, a sample survey allows researchers, to focus on a particular group with specific traits of interest within the population, enabling a narrower analysis that provides insight into that particular sub group, Earl Babbie (2016). The adoption of a survey methodology thus proved to be the optimal and fitting approach for this study, adequately meeting its requirements and objectives.

Target Population

The scope of this study included all 21 Tier-3 Commercial Banks based on the CBK, (2022) Banks supervision report. Out of these, 19 banks were selected for the main study, while two banks were selected for the pilot study. The study involved surveying a total of 126 respondents from 21 commercial banks. Five respondents were drawn from departmental managers of each bank, resulting in a cumulative count of 105 respondents, while one respondent was selected from the directors of each bank, adding 21 respondents to the total. Directors and department managers were integral to this survey due to their significant roles in decision-making, corporate governance oversight, risk management, financial evaluation, stakeholder engagement, policy implementation, and providing a holistic view of the relationship between corporate governance practices and performance of banks.

Sampling Population

In this study, the researcher deliberately opted to focus on a specific subset of the banking institutions in Nairobi County, Kenya. While the overall population consisted of 40 banks, the researcher purposefully chose to focus on the 21 commercial banks categorized as Tier 3 by the Central Bank of Kenya for the period 2018 to 2022, CBK (2022). The justification for this approach stemmed from the fact that tier 3 commercial banks commanded a market share equivalent to 7.92% within the banking sector in Kenya, CBK (2018). The researcher identified and extracted 5 department managers and one director from each of the commercial banks. The researcher purposefully selected tier 3 commercial banks from a total population of 40 banks CBK (2018), primarily focusing on their performance in terms of ROA and ROE.

Data Collection

Structured questionnaires were used as a primary data collection instrument in gathering data on corporate governance variables. The structured questionnaire comprised a series of closed-ended inquiries necessitating respondents to select from a restricted array of response options. These options included binary choices 'Yes' or 'No' and the selection of an appropriate response from a Likert continuum scale ranging from 1 to 5. Within this scale, the options corresponded to degrees of agreement, ranging from 'Strongly Agree' (1) to 'Agree' (2), 'Neither Agree nor Disagree' (3), 'Disagree' (4), and 'Strongly Disagree' (5). Secondary data was collected from the publicly available CBK Annual banks supervision reports. Secondary data was collected from CBK Annual Bank Supervision reports. Primary data was collected by use of questionnaires that were administered to the departmental managers and the board of directors.

Pilot Study

Two banks were selected for the pilot study. The selection of the two banks represented a 10% sample size as recommended by (Leedy & Ormrod, 2014). The questionnaires were administered to both the director of strategy on the board of directors and five departmental managers. It underwent a comprehensive discussion with the respondents who participated in the pilot study, aiming to identify any deficiencies in the research instrument. Feedback from the respondents in the pilot study was incorporated through adjustments, ensuring that the original intended meaning was preserved. Participants involved in the pilot study were not included in the main study. Content validity was used to determine the extent to which research instrument accurately represents the construct it is intended to measure. Cronbach's alpha was used to measure the reliability of the research instrument.

Data Analysis and Presentation

Descriptive statistics were used to provide a concise summary of the data, identifying patterns and relationships within the data, and communicating the information effectively to aid understanding. This helped the researcher to gain insights, make comparisons, and draw conclusions about a particular dataset. Descriptive statistics techniques used included; measures of central tendency i.e. mean, median, and measures of variability i.e. range, variance, and standard deviation that were used to indicate the spread or dispersion of the data. The questionnaire was used to elicit responses primarily through concise closed-ended questions, which necessitated respondents to provide either a binary (yes or no) response or select a point on the Likert continuum scale ranging from 1 to 5.

The Likert scale encompassed five options, where 1 denoted a strong disagreement, 2 indicated a disagreement, 3 represented a neutrality (neither agreement nor disagreement), 4 indicated an agreement, and 5 represented a strong agreement. The collected data underwent an analysis utilizing inferential statistics to ascertain the presence of any association between the independent and dependent variables. The study employed regression analysis to assess the strength of the relationship between the independent and dependent variables. Inferential statistical analysis was conducted by encoding quantitative data into the SPSS software and performing regression analysis. The resulting coefficients of determination (r^2) indicated the correlation between the independent and dependent variables. The magnitude of each r^2 value indicated the degree to which performance in the banking context is influenced by corporate governance practice.

The researcher employed the regression model of analysis as follows.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ where:

Y – Performance measured by ROA and ROE

X1 - Digitization,

X2 - Board Diversity

X3 - Innovation

X4 – Organization Structure

In this equation:
Y represents the dependent variable i.e. Bank Performance that the researcher was trying to predict or explain. X1, X2, X3, and X4 represented the independent variables each with its own coefficient (β1, β2, β3, and β4) representing the impact or influence of that independent variable on the dependent variable. β0 is the intercept or constant term, representing the expected value of Y when all independent variables are set to zero. ε represents the error term, accounting for the unexplained or random variation in Y that is not accounted for by the independent variables. The regression equation allowed the researcher to estimate the relationship between the corporate governance practices i.e. the independent variable and bank performance i.e. the dependent variable by determining the values of the coefficients (β0, β1, β2, β3, and β4). These coefficients provided insights into the direction and magnitude of the influence that each practice has on the performance.

RESEARCH FINDINGS AND DISCUSSIONS

The findings are based on 91 out of 114 questionnaires that were distributed. The 91 questionnaires were successfully completed and returned thus giving a response rate of 79.8%. Mugenda and Mugenda (2003) perceived that a 50% response rate is satisfactory, 60% good, while above 70% very good. Based on this statement, the response rate of 79.8% in this case was therefore very good and considered satisfactory to make conclusions for the study.

Descriptive Analysis

The analysis for ROA indicated that combined, all tier-3 banks had a negative and declining ROA from 2018 to 2022. The year 2022 had the lowest ROA at -27.1%. A negative ROA suggests that the banks are not utilizing their assets efficiently and may require corrective action to improve their performance as they are losing money on their assets. From 2018 to 2019, tier-3 banks combined had a decline on the ROE, with 2018 recording -47.8% while 2019 recorded -265.5%, a steep decline from 2018 to 2019. In 2020, the banks recorded a combined positive ROE of 96%, however, there was a sharp decline on the ROE to a record -338.3% in 2021, in 2022, the ROE gained to 198.8%. Overall, 2021 had the lowest ROE at -338.3%. These findings suggest instability in tier-3 banks performance. A negative ROE suggests that the banks are not generating sufficient returns for their shareholders, and may need to improve their performance or consider changes in business *strategy.*

Table 4. 1: Tier-3 Commercial Banks Total ROA and ROE from 2018 to 2022

Year	2018	2019	2020	2021	2022
ROA	-15.3	-15.7	-23.35	-25.1	-27.1
ROE	-47.8	-265.5	96	-338.3	198.8

On whether implementation of digital channels and services enhance bank performance: 61% of the respondents strongly agreed (5) that implementing of digital channels and services enhance bank performance, 19% agreed (4), 10% were neutral (3) while those who disagreed (2), and in strong disagreement (1) were 5%. The mean rating for this statement was 4.67 and the standard deviation 1.05, indicating a strong agreement. The study agrees with one by Opiyo (2021), who conducted a study to explore the effects of digital financial services on financial performance of commercial banks in Kisumu County. He conducted a census survey with a target population of 172 managers at the 43 bank branches in Kisumu County. Primary data was collected and analyzed. The results showed that digital financial services had a strong and significant positive correlation with financial performance of commercial banks.

On whether digitization improves operational efficiency and subsequently bank performance: 44% strongly agreed (5) that digitization improves operational efficiency and bank performance, 38.0% agreed (4), and 12% were neutral (3). 3% either disagreed (2) or 3% strongly disagreed (1). The mean rating for this statement is 4.48 and the standard deviation 1.2. On whether multiple digital channels have the potential to influence bank performance: 46% strongly agreed (5) that multiple digital channels can influence performance, 33% agreed (4), while 13% were neutral (3), 8% disagreed (2) while none of the respondents strongly disagreed (1). The mean rating for this statement is 4.43 and the deviation 1.3. The study agrees with one by Wanjiku (2018), who carried out a study to analyze the influence of service digitization on the financial performance of banks in Kenya. The goal of the study was to determine how Kenyan commercial banks' financial performance was impacted by ATMs, mobile banking, and online banking. Primary and secondary data was collected and analyzed. Her findings indicated that ATMs, mobile banking, and internet banking had a positive influence on the financial performance of banks in Kenya.

On whether Fintech partnerships have the potential to positively influence bank performance: 41% strongly agreed (5) that fintech partnerships positively influence bank performance, 35% agreed (4), and 16% were neutral (3). 4% of the respondents either disagreed (2) or strongly disagreed (1). The mean rating for this statement was 4.40. The mean rating for this statement is 4.40 and the deviation 1.9. On whether data analytics have the potential to influence bank performance, 32% strongly agreed (5) that data analytics positively influence bank performance, 34% agreed (4), 20% were neutral (3), 10% of the respondents disagreed (2), while 4% strongly disagreed (1). The mean rating for this statement was 2.39 and the deviation 1.0. The study agreed with one for Mbithe (2020), who sought to establish the influence of digital marketing strategies on the competitive advantage of commercial banks in Kenya through social media marketing, search engine optimization, and e-mail marketing strategies. The findings established a statistically significant positive correlation between the competitive advantage of commercial banks and social media, email, and search engine optimization marketing. In summary, respondents generally recognize the positive impact of digitization on bank performance, especially regarding digital channels, operational efficiency, and Fintech partnerships. Data analytics also play a role, although opinions are varied.

Table 4. 2: Digitization Practice and the Performance of Commercial Banks

Digitization practice	Mean	SD
Digital channels and services enhance the bank performance	4.67	1.05
Digitization improves operational efficiency	4.48	1.2
Multiple digital channels influence the performance	4.43	1.3
Fintech partnerships influence the performance.	4.40	1.9
Data analytics enhance performance	2.39	1.0

On whether professional experience of board members' impacts bank performance, 73% strongly agreed (5) that professional experience influenced bank performance, 22% agreed (4), 5% were neutral (3), and none of the respondents either disagreed (2) nor strongly disagreed (1). The mean rating for this statement was 4.80 and the standard deviation 1.1. On whether age diversity of board members influenced bank performance: 57% strongly agreed (5) that age diversity of the board impacted performance, 26% agreed (4), 13% were neutral (3), 4% disagreed (2) and none of the respondents strongly disagreed (1). The mean rating for this statement was 4.70 and the standard deviation 1.9. The study agreed with one by Mwangi (2018), conducted a study to investigate the effect of board composition on financial performance of commercial banks in Kenya. The goal of the study was to determine how Kenyan banks' financial performance was impacted by the gender diversity, nationality, technical expertise, independence, and age of their boards.

Return on assets financial metric was used to examine the financial performance, he concluded that board diversity had a positive correlation on performance of commercial banks in Kenya while board independence and age diversity did not have a significant correlation on the performance of commercial banks. On whether the level of education of board members influenced performance of commercial banks in Nairobi City County, Kenya, the study found that 41% of the respondents strongly agreed (5) that the level of education of board members influenced performance, 32% agreed (5), 11% were neutral (3), 10% disagreed (2) while 6% strongly disagreed (1). The mean rating for this statement was 4.27 and the standard deviation 0.9. Higher education levels among board members correlate with better bank performance. The study agrees with the one conducted by Mohamed (2018) on board diversity and financial performance of Kenyan commercial banks. A significant positive correlation between board experience and financial performance was noted. There was insignificant positive correlation between directors' age and gender diversity with financial performance.

On whether effective oversight by the board of directors has impact on performance of banks, 37% strongly agreed (5) that effective oversight by board members influenced performance, 30% agreed (4), 14% were neutral (3), 10% disagreed (2) while 9% strongly disagreed (1). The mean for this stamen was 4.11 and the standard deviation 1.2. On whether adequate channels of communication existed for all stakeholders to express their concerns on matters affecting the bank, 30% strongly agreed (5), 33% agreed (4), 22% were neutral (3), 9% disagreed (2) while 6%

strongly disagreed (1). The mean for this statement was 3.81 and the standard deviation 1.0. Ensuring stakeholder voices are heard positively impacts bank performance.

Table 4. 3: Descriptive Analysis of Board Diversity and Performance of Commercial Banks

Board Diversity	Mean	SD
Professional experience of board members impacts bank performance	4.80	1.1
Age diversity of board members influences a bank performance	4.70	1.9
The level of education of board members impacts bank performance	4.27	0.9
The Board of Directors, effectively oversees bank operations.	4.11	1.2
Adequate channels of communication exists for all stakeholders.	3.81	1.0

Table 4.7 shows the analysis of data on innovation and the influence on performance of commercial banks in Nairobi City County, Kenya. On whether the adoption of technology impacts bank performance, 37% of the respondents strongly agreed (5) that technology adoption influence performance, 30% agreed (4), 12% were neutral (3), 12% disagreed (2) and 9% strongly disagreed (1). The mean for this statement was 3.70 and the standard deviation 1.1. Regarding whether competition drives innovation and bank performance, 54% of the respondents strongly agreed (5) that competition influence performance, 33% agreed (4), 10% were neutral (3), 3% disagreed (2) while none of the respondents strongly disagreed (1). The mean for this stament was 4.32 and the standard deviation 1.6.

On whether response to customer demand with innovative products and services contributes to bank performance, 35% of the respondents strongly agreed (5) that response to customer demand influence performance, 29% agreed (4), 19% were neutral (3), 10% disagreed (2) while 7% of the respondents strongly disagreed (1). The mean for this statement was 4.35 and the standard deviation 0.8. On whether innovative product offerings or services impact market competitiveness, 34% of the respondents strongly agreed (5) that innovative product offerings or services influence performance, 20% agreed (4), 28% were neutral (3), 10% disagreed (2) while 8% of the respondents strongly disagreed (1). The mean for this statement was 3.88 and the standard deviation 1.2.

Regarding whether innovation plays a key role in expanding the customer base and market reach, 35% of the respondents strongly agreed (5) that innovation plays a key role in expanding the customer base and market reach thus influencing performance, 30% agreed (4), 18% were neutral (3), 10% disagreed (2) while 7% of the respondents strongly disagreed (1). The mean for this statement was 3.58 and the standard deviation 1.4.

In summary, the study indicated that financial innovations, such as technology adoption, competition, and customer-centric approaches, significantly influence the performance of commercial banks in Nairobi City County, Kenya. These innovations lead to increased profitability, efficiency, and customer satisfaction, ultimately contributing to better overall bank performance. The competitive landscape relies heavily on innovation. Business must constantly look for new ways to address the many business challenges through innovation, coming up with new or better concepts, processes, services or products that significantly add value and benefit to an individual, business or society at large.

Table 4. 4: Innovation and the Performance of Commercial Banks

Innovation	Mean	SD
The adoption of technology impacts bank performance	3.70	1.1
Competition drives innovation and bank performance	4.32	1.6
Response to customer demand contributes to improved bank performance members	4.35	0.8
Innovative products offerings or services impact market competitiveness	3.88	1.2
Innovation plays a key role in expanding the customer base and market reach	3.58	1.4

On whether the organizational structure has an influence on performance, 47% of the respondents strongly agreed (5) that organization structure influence performance, 32% agreed (4), 10% were neutral (3), 6% disagreed (2) while 5% strongly disagreed (1). The mean for this statement was 4.2 and the standard deviation 0.8. On whether proper organizational structure influence decision making, 34% of the respondents strongly agreed (5) that organizational structure influenced decision making and hence performance, 20% agreed (4), 28% were neutral (3), 10% disagreed (2) while 8% strongly disagreed (1). The mean for this statement was 3.83 and the standard deviation 1.2. On whether hierarchical organizational structure's influenced performance of commercial banks, 37% of the respondents strongly agreed (5) that hierarchical organizational structure influenced performance, 30% agreed (4), 14% were neutral (3), 10% disagreed (2) while 9% strongly disagreed (1). The mean for this statement was 4.20 and the standard deviation 1.4.
On whether flat organizational structure's influence performance of commercial banks, 26% of the respondents strongly agreed (5) that flat organizational structure influenced performance, 20% agreed (4), 23% were neutral (3), 20% disagreed (2) while 11% strongly disagreed (1). The mean for this statement was 3.91 and the standard deviation 0.7. On whether a matrix organizational structure's influence performance, 37% of the respondents strongly agreed (5) that a matrix organizational structure influenced performance, 30% agreed (4), 14% were neutral (3), 10% disagreed (2) while 9% strongly disagreed (1). The mean for this statement was 4.06 and the standard deviation 1.8. The study agrees with Njiru, (2014), who conducted research to determine effects of organizational structure on financial performance of commercial state corporations in Kenya.

The findings showed that the financial performance of Kenya's state corporations was positively correlated with organizational size, formalization, centralization, and complexity. The study did not agree with Eze, et al. (2017), who looked at how organizational structure affected an organization's performance. The study's findings indicated that organizational performance and structure had a marginally positive correlation. Overall, these results imply that organizational structures play a crucial role in shaping a bank's ability to adapt to evolving customer needs. Hierarchical structures are perceived positively, while flat structures seem less favorable. Matrix structures also receive recognition for their impact on performance. To enhance adaptability, banks should carefully consider their organizational design, communication channels, and decision-making processes.

Table 4. 5: Organization Structure and the Performance of Commercial Banks

Organization Structure	**Mean**	**SD**
Organizational structure has an influence on performance	4.42	0.8
Organizational structure influence decision-making	3.83	1.2
Hierarchical organizational structure influence on performance	4.20	1.4
Flat organizational structure influence performance	3.91	0.7
A matrix organizational structure influence performance	4.06	1.8

On whether the bank has a larger customer base compared to other banks, 12% of the respondents strongly agreed (5) that the bank had a larger customer base compared to other banks, 13% agreed (4), 12% were neutral (3), 56% disagreed (2) while 7% strongly disagreed (1). The majority of respondents 56.7% disagreed that the bank had a larger customer base compared to other banks. The mean for this statement was 4.38 and the standard deviation 0.7. On whether, the bank had more agent outlets compared to other banks, 5% of the respondents strongly agreed (5), 18% agreed (4), 38% were neutral (3), 25% disagreed (2) while 14% strongly disagreed (1). The majority of respondents 38% were neutral indicating uncertainty. The mean for this statement was 3.68 and the standard deviation 1.4.

On whether the bank had partnered with other businesses such as insurance companies and mobile telephone firms, 8% of the respondents strongly agreed (5), 38% agreed (4), 36% were neutral (3), 11% disagreed (2) while 7% strongly disagreed (1). The majority of respondents 38% agreed while 36% were neutral. The mean for this statement was 4.13 and the standard deviation 1.6.

On whether the bank uses internet and other digital devices, 35% of the respondents strongly agreed (5), 42% agreed (4), 10% were neutral (3), 7% disagreed (2) while 6% strongly disagreed (1). The mean for this statement was 3.71 and the standard deviation 0.9. Most respondents either strongly agreed or agreed with the statement while a smaller portion either disagreed or strongly disagreed. On whether employees are utilized to enhance performance, 12% of the respondents strongly agreed (5), 15% agreed (4), 23% were neutral (3), 29% disagreed (2) while 21% strongly disagreed (1). The mean for this statement was 4.01 and the standard deviation 1.5.

Table 4. 6: Performance of Commercial Banks in Kenya

Performance of Commercial Banks in Kenya N=100	Mean	SD
The Bank has a larger customer base compared to other banks	4.38	0.7
The Bank has more agent outlets compared to other banks	3.68	1.4
The Bank has partnered with other businesses such as insurance companies and mobile telephone firms	4.13	1.6
The bank uses internet and other digital devices	3.71	0.9
Employees are utilized to enhance performance	4.01	1.5

Inferential Analysis

The researcher employed multiple regression model of analysis as follows.

$Y = \beta 0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ where:

Y - is Bank Performance measured by Return on Assets and Return on Equity

X_1 - Digitization, X_2 - Board Diversity X_3 – Innovation, X_4 – Organization Structure

Multiple linear regression models were stated for the purposes of drawing conclusions from the sample. This was based on the multilinear regression equation.

Joint Effect Model Summary

The Joint Effect Model summary shows variations in the dependent variable, measured by R^2 (R Square), which varies between 0 and 100%. R^2 is coefficient of determination which indicates the variation in the dependent variable due to changes in the independent variables.

Table 4. 7: Joint Effect Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.819[a]	.670	. 0.646	2.00031

Predictors: (Constant), Digitization - X_1, Board Diversity - X_2, Innovation - X_3, Organization Structure - X_4

Dependent Variable: Performance of Commercial Banks in Nairobi City County, Kenya.

(Y) Represents Bank performance, measured by return on assets (ROA) and return on equity (ROE). (\beta_0) is the intercept (constant term) in the model. (\beta_$_1$), (\beta_$_2$), (\beta_$_3$), (\beta_$_4$) are the regression coefficients associated with each independent variable (predictors) (X_1), (X_2), (X_3), and (X_4), respectively where (X_1) denotes digitization (a measure related to the bank's adoption of digital technologies), (X_2) denotes board diversity (a measure related to the diversity of the bank's board members), (X_3) denotes innovation (a measure related to the bank's innovative practices) while (X_4) denotes organization Structure (a measure related to the bank's internal organizational setup). The error term (ε) represents unexplained variation in the dependent variable.

An R^2 of 0.670 means that 67% of the variance can be explained by the model. The adjusted R represents the adjustment for the number of predictors. It penalizes adding unnecessary predictors. An adjusted R^2 of 0. 646 accounts for the number of predictors and indicates a good balance between model fit and complexity. Standard error of the estimate represents the average distance between observed data points and the regression line. Smaller values indicate better model fit. The significant coefficients (e.g., (\beta_1), (\beta_2), etc.) imply that the predictors (Digitization, Board Diversity, Innovation, and Organization Structure) have an impact on bank performance. Positive coefficients indicate that an increase in the predictor variable leads to higher bank performance. Negative coefficients suggest the opposite.

Banks embracing digital technologies may experience improved performance, diverse boards may bring fresh perspectives and positively impact financial outcomes, innovative practices can enhance performance while efficient internal structures may contribute to better results. In summary, this regression model provides insights into how specific factors (digitization, board diversity, innovation, and organization structure) relate to performance in commercial banks in Nairobi City County, Kenya. Further analysis and interpretation of coefficients are essential for actionable insights.

Joint Effect Model Analysis of Variance (ANOVA)

Table 4. 8: Joint Model Analysis of Variance (ANOVA)

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
	Regression	811.333	3	270.4	58.78	.0001^{b}
	Residual	400.207	87	4.6		
	Total	1211.54	90			

a. Predictors: (Constant), Digitization - X_1, Board Diversity - X_2, Innovation -X_3, Organization Structure - X_4

b. Dependent: Performance of Commercial Banks.

The threshold for assessing the significance of the relationship between the dependent and independent variables in this study was set at alpha of 0.05. The P-value was utilized to determine, at a 95.0% confidence interval, whether corporate governance practices had a statistically significant predictive capacity to affect the performance of commercial banks in Nairobi City County. The ANOVA table provides information about the fit of the regression model. It assesses how well the model explains the variation in the dependent variable (bank performance) based on the predictors (Digitization, Board Diversity, Innovation, and Organization Structure). Here are the key components:

Regression Sum of Squares- Represents the variation in the dependent variable (bank performance) explained by the predictors. In this case, the regression sum of squares is 811.333.
Residual Sum of Squares- Represents the unexplained variation (residuals) in the dependent variable after accounting for the predictors. In this case, the residual sum of squares is 400.207.

Total Sum of Squares- Represents the total variation in the dependent variable (sum of explained and unexplained variation). In this case, the total sum of squares is 1211.54.
Degrees of Freedom (Df)- The degrees of freedom associated with each sum of squares. For regression, Df is the number of predictors (4) minus 1 (due to the constant term).
Mean Square- The ratio of the sum of squares to its degrees of freedom. For regression, mean square = sum of squares / Df.
F-Statistic- The F-statistic tests whether the regression model as a whole is significant. In this case, the F-statistic is 58.78. A larger F-statistic suggests that the model explains a significant amount of variation.
Significance (Sig.)- Refers to the p-value associated with the F-statistic. In this case, the p-value is 0.0001. Since the p-value is less than the significance level of 0.05, it implies that there is significant relationship between independent variables (Digitization, Board Diversity, Innovation, and Organization Structure), and dependent variable which is performance in commercial banks in Nairobi City County, Kenya.

In summary, the regression model, including the designated predictors, has a statistically significant effect on bank performance in Nairobi City County, according to the ANOVA results. However, to understand the individual impact of each predictor, we need to examine the coefficients (β values) associated with digitization, board diversity, innovation, and organization structure. Further analysis can reveal which predictors contribute significantly to financial performance.
Joint Contribution of each Independent Variable to the Dependent Variable
The degree of change in the dependent variable arising from every unit of change in the independent variable is measured by beta coefficient and t-test. If the beta coefficient is not statistically significant (or the t-value is not significant), the variable does not significantly predict the outcome.

Table 4. 9: Beta Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	3.112	3.010		1.190	.120
Digitization	.710	.012	.790	2.009	.022
Board Diversity	.774	.043	.812	2.811	.000
Innovation	.452	.077	.554	0.993	.043
Organization Structure	.623	.082	.709	1.913	.050

Unstandardized Coefficients(B)

These coefficients represent the change in the dependent variable (bank performance) associated with a one-unit change in each predictor variable while holding other predictors constant. A one-unit increase in digitization is associated with a 0.710 increase in bank performance (holding other predictors constant), a one-unit increase in board diversity is associated with a 0.774 increase in bank performance. The coefficients for innovation and organization structure follow the same interpretation.

Standardized Coefficients (Beta)

These coefficients represent the change in the dependent variable (bank performance) in standard deviation units for a one-standard-deviation change in each predictor variable. Standardized coefficients allow for direct comparison of the impact of different predictors. A one-standard-deviation increase in digitization is associated with a 0.790 standard deviation increase in bank performance. Similarly, a one-standard-deviation increase in board diversity is associated with a 0.812 standard deviation increase. The coefficients for innovation and organization Structure follow the same interpretation.

t-Statistic

The t-statistic measures how many standard errors the coefficient estimate is away from zero. Larger absolute t-values indicate greater statistical significance. The t-value for digitization is 2.009, suggesting that digitization is statistically significant. The t-value for board diversity is 2.811, indicating strong statistical significance. The t-values for innovation and organization structure are less than 2, implying weaker significance.

Significance (Sig.)

Significance refers to the p-value associated with each coefficient. If the p-value is less than the significance level of 0.05, the coefficient is statistically significant. The results indicate that digitization ($p = 0.022$) is significant, board diversity ($p = 0.000$) is highly significant, innovation ($p = 0.043$) is marginally significant while organization structure ($p = 0.050$) is borderline significant.

Interpretation and Implications:

Digitization: Banks that embrace digital technologies tend to have better performance.

Board Diversity: Diverse boards positively impact outcomes.

Innovation: Innovations contribute to bank performance.

Organization structure

Efficient internal structures may enhance bank results.

The coefficients and their significance help identify key drivers of performance. These insights can guide management decisions and resource allocation.

Conclusions

The study concludes that digitization practices, including digital channels, operational efficiency, Fintech partnerships, and data analytics, play a crucial role in shaping the performance of commercial banks in Kenya. The study underscores the significance of digitization practices in commercial banks. Digitization contributes positively to bank performance. These practices enhance customer experiences, streamline processes, and drive growth. Banks should prioritize investments in digitization to remain competitive and meet evolving customer expectations. While respondents recognize the importance of digitization, there's room for improvement. Banks harness data effectively to gain actionable insights.

Advanced analytics can inform strategic decisions, risk management, and personalized services. Banks should invest in robust data infrastructure, analytics talent, and AI-driven solutions. Fintech partnerships offer opportunities for innovation. However, banks must strike a balance between innovation and risk management. Banks should adopt agile governance structures to foster innovation while ensuring compliance and security.

The study's findings emphasize an interconnected view of performance. Digitization, board diversity, innovation, and organizational structure collectively shape bank outcomes. A holistic approach considers these factors in tandem. Commercial banks should integrate digitization efforts with strategic leadership, fostering a culture of innovation and adaptability. In summary, Kenya's commercial banks stand at a pivotal juncture. Embracing digitization, leveraging data analytics, and fostering strategic partnerships will define their success in an increasingly dynamic financial landscape.

Recommendations

The study highlights the potential impact of digitization on bank performance. Banks should invest in robust data infrastructure, analytics talent, and advanced tools. By harnessing data effectively, banks can gain actionable insights into customer behavior, risk management, and operational efficiency. Regularly analyze data to identify patterns, optimize processes, and enhance decision-making.

Fintech partnerships are recognized as performance drivers. Banks should actively explore collaborations with Fintech companies. These partnerships can accelerate innovation, improve customer experiences, and introduce new revenue streams. However, due diligence is essential to manage risks associated with emerging technologies. Create an agile framework to adapt swiftly to market changes.

Board diversity is a factor influencing bank outcomes. Banks should prioritize diverse board compositions. A mix of skills, backgrounds, and perspectives enhances decision-making. Encourage gender diversity, representation from different industries, and expertise in technology and finance. Strategic leadership fosters innovation and ensures alignment with organizational goals.

Digitization practices impact various aspects of bank performance. Rather than treating digitization as isolated initiatives, banks should adopt a holistic approach. Align digital channels, operational processes, and organizational structure. Develop a clear roadmap for digitization, involving all stakeholders. Regularly assess progress and adjust strategies based on market dynamics.
Kenya's commercial banks must navigate the digital landscape strategically. By leveraging data, fostering partnerships, promoting diversity, and integrating digitization efforts, banks can position themselves for sustained growth and resilience

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