ABSTRACT

Corporate Governance is important to all financial institutions for its contribution to firm performance. Despite being critical to the world economic stability, the banking industry has experienced severe financial challenges since the 2007 global financial crisis, which negatively affected economic performance of most countries. Whereas the Kenyan banking sector remained stable in profit during 2015; from Kshs. 3.2 trillion in 2014 to Kshs. 3.5 trillion in 2015, the period 2012 to 2016 registered declining trends despite the slowdown in global economic growth to 3.1% in 2015 from 3.4% in 2014. Studies relating to Corporate Governance and profitability of Commercial Banks have also given mixed results; where some scholars argue that it improves Commercial Banks profitability while others observe the contrary. Consequently, this study sought to analyze the effect of Corporate Governance practices on profitability of Commercial Banks in Kenya. The specific objectives of this study were to establish the association between qualification of Board of Directors and profitability of Commercial Banks in Kisumu, to determine the relationship between role definition and profitability of Commercial Banks in Kisumu, to assess the relationship between operational and ethical controls and profitability of Commercial Banks in Kisumu, to analyze the relationship between board performance and compensation and profitability of Commercial Banks in Kisumu and to determine the relationship between risk management and profitability of commercial banks in Kisumu. The study was anchored on Stewardship theory and Stakeholder theory. The study used Correlation research design. Primary quantitative data was collected through semi-structured questionnaires while Secondary data was collected from Bank Supervision Reports and Commercial Banks' websites. Validity of the questionnaire was ensured through finance expert review and opinion, a Cronbach's Alpha technique was adopted to ensure reliability of the questionnaire. A survey was conducted on 13 Commercial Banks in Kisumu County. The target population was 75 top Managers of Commercial banks in Kisumu County. The collected data was analyzed using SPSS Version 20.0. Multiple regression analysis was used to determine the effect of Corporate Governance practices on profitability. The research findings were presented in tables for clarity. The findings revealed that there is a positive significant correlation between board of directors and profitability of commercial banks (r=.270, p=.023), role definition among commercial banks and bank profitability (r=.373, p=.001), operational ethical control and bank profitability (r=.623, p=.000), board performance& compensation and bank profitability (r=.335, p=.004) and risk management and bank profitability (r=.561, p=.000). Finally, the Regression results indicated that corporate governance practices accounted for 63.7% adjusted to 60.9% change in bank profitability; with Board performance, qualification, ethical control and risk management yielding significantly positive contribution to profitability. The study concluded that corporate governance has an effect on bank profitability. It was recommended that all the corporate governance selected dimensions be improved to ensure maximum bank profitability. This study may help banking policy makers understand the need to streamline Corporate Governance implementation requirements. It will contribute to the existing body of knowledge on Corporate Governance.