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EFFECT OF CORPORATE GOVERNANCE PRACTICES ON PROFITABILITY OF COMMERCIAL BANKS IN KENYA

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. Primary quantitative data was collected through semi-structured questionnaires while Secondary data was collected from Bank Supervision Reports and Commercial Banks' websites. 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. 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 ($r=.561$, $p=.000$). 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 the implementation requirements of Corporate Governance. It will contribute to the existing body of knowledge on Corporate Governance.

Keywords

Corporate Governance Practices, Profitability, Financial Performance, Commercial Banks.

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