

**INFLUENCE OF BOARD MEETING ATTENDANCE AND NON-EXECUTIVE DIRECTORS ON THE
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED AT NAIROBI SECURITIES EXCHANGE**

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ABSTRACT

The objective of this study was to determine the influence of board meeting attendance and non-executive directors on the financial performance of commercial banks listed at Nairobi securities exchange. This study presumed that the influence of board's attendance and non-executive directors on the financial performance of commercial banks listed at NSE is not significant. This study is anchored on the assumptions of agency theory. Descriptive research design was employed in this study. The target population in this study consisted of all eleven (11) commercial banks listed at NSE. This study used secondary panel data which consisted of time series and cross sections sourced from published annual financial statements on the company's websites and NSE hard books. In the analysis correlation analysis, descriptive statistics and multiple regression analysis were adopted. The findings clearly showed that there is a weak negative relationship between return on assets and board meetings attendance which implies that an increase in board meeting decreases the financial performance of commercial banks. The relationship between return on assets and proportion of non-executive directors was found to be negatively significant which means that increase in non-executive directors in the corporate boards of commercial banks decreases the financial performance. The association between proportion of non-executive directors and board meetings attendance was found to be weak and insignificant

KEYWORDS: Non-Executive Directors, Board Meeting Attendance, Financial Performance, Nairobi Securities Exchange, Commercial Banks

1.0 INTRODUCTION

Corporate Governance is defined as the mechanisms used to align the interests of the managers to those of the shareholders. Some of the corporate governance mechanisms revolve around the nature of corporate boards, executive compensation, executive and non-executive shareholding, institutional investors and market for corporate control. Corporate governance is stipulated as a direct substitute or complements of traditional governance supervision and controls which is stronger in companies compared to other sectors (Prowse, 1997). From corporate governance definitions the central point on especially who is working out to obtain returns for investments is the individual behaviors. Structures of governance in companies affect their ability to respond to external factors affecting performance. The greatest difference between CG systems in countries is control and ownership of the firms (Maher & Anderson, 1999). These systems are distinguished according to the ownership and degree of control. Some have ownership that is widely dispersed while others have concentrated control or ownership. Conflicts in ownership or control determine the director's interest, their meeting frequency, the number of members in the board, the number of non-executive directors in the corporate boards and educational background. These developments affect the financial performance. Large boards are believed to cause difficulties when it comes to making decisions on financial performance improvement compared to smaller ones. Existence of board subcommittees to address specific issues increases the financial performance potential in a firm. Chief Executive Officer (CEO) duality is linked to poor performance. Agency theory which is the basis for corporate governance argues that there is a conflict of interest between principal and agent (Jensen & Meckling, 1976). To ensure adequate supervision and control in implementing good corporate governance, it is necessary to meet the trust of the stakeholders and the international world as an absolute requirement for the company to be able to have a good and healthy growth to achieve the ultimate goal, which is to improve financial performance. Commercial banks act as financial intermediaries with a purpose of mobilizing financial resources domestically and globally. The role of commercial banks in Kenya is very crucial because they play important role in formulation of monetary policy and provide means for facilitating payment for goods and services in the domestic and global market. The Banking industry in Kenya is governed by the Central Bank of Kenya Act, Companies Act and the Banking Act. The operational guidelines are issued by the Central Bank of Kenya (CBK) which falls under the Ministry of Finance with mandate of formulating and implementing monetary policy and ensuring liquidity, solvency and proper functioning of the financial system. This study will measure population parameters for all commercial banks listed to ensure true measure of population and eliminate any potential bias occurring through sampling

techniques. This study seeks to address the research question: What are the effects of board meeting attendance and Non-executive directors on the financial performance of the commercial banks listed at Nairobi Securities Exchange?

2.0 LITERATURE REVIEW

2.1.1 AGENCY THEORY

Theoretical positions have clearly explained governance control issues but there is no practical solution of theories which can be applied to reconcile increasing developments in developing countries. Jensen & Meckling (1976) developed agency theory to describe association between two parties such as principal and agent, seller and buyers, employers and employees and companies and creditors. An agency relationship arises when one or more parties known as principal(s) contract another known as agent to act on their behalf. The contract involves delegation of some authority to agents in decision making. Conflict arises between principals and agents when the managers fail to maximize shareholders wealth as expected. Agency cost theory suggests that ownership separation and management leads to natural conflicts of interest because to safeguard shareholders wealthy they have to incur monitoring and controlling costs to align their interests with agents' (Jensen & Meckling, 1976). Agency theory also believes that corporate governance is mainly concerned with agency conflicts between management and shareholders which is used by investors to shield themselves against insiders.

2.1.2 STAKEHOLDERS THEORY

According to Freeman (1989) stakeholder theory documents that organizations includes parties within and without that have different and defined interest in the financial performance and status of a company in a particular period of time and thus management should work to safeguard that interest by ensuring there is a balance in the interest of all stakeholders factored in their decisions. The principal-agent association defined in the stakeholder theory is aligned with interest conflict on resource allocation. According to Kock et al. (2012) management and stakeholders' interests sometimes differ but the external environment helps in alignment of their interests. This can be through regulation by the government or corporate guidance making provision for a basis that is legitimate for stakeholders to define their management wishes and potentially create a dilemma in decision-making for managers.

2.1.3 STEWARDSHIP THEORY

Stewardship theory on the other hand suggest that agents act as stewards of the shareholders wealth and thus there is no justification to incur monitoring and controlling costs because management work faithfully to safeguard the interests of owners (Donaldson, 1990). Stewardship

theory presents a management model in which managers are believed to be good stewards to act in owners' best interest (Donaldson & Davis, 1991). Where wealth of shareholders is maximized, the utilities of stewards are also maximized since the success of an organization serves the firm requirements enabling managers to have a mission that is clear (Smallman, 2004). Stewardship theory finds a relationship that is strong between firm success and managers. Stewards maximize and protect the wealth of shareholders through performance. Successful performance improvement satisfies stakeholders whose interests are well served when organizational wealth is increased (Davis, Schoorman & Donaldson, 1997). The theory assumes that managers are stewards who are trustworthy and focus on betterment of the firm rather than their own interests.

2.2 EMPIRICAL REVIEW

A study by Chen & Jaggi (2000) found a direct link between independent NEDs and financial disclosures extent. The association between family ownership and firm's financial disclosure was found to be very weak. Caspar (2005) carried out a study to determine whether board representation by females influences the performance of firms because board diversity is a major issue in corporate governance. Results found no existence of a significant association between foreign ownership proportion, educational background and female inclusion on boards, and firm performance. Wang & Xiao (2006) investigated association between CG characteristics and financial distress risks in the transitional economy in China. Results indicated that large shareholding, state ownership and independent NEDs' proportion are associated negatively with distress. Agency management costs affect the financial status of a company. Findings also indicated that balanced ownership degree, board size and CEO duality did not affect performance significantly.

Nguyen et al., (2017) carried out a study investigating impact independent directors have on the performance of Vietnam firms and identified how different types of ownership structures and presence of controlling shareholders influence performance. This study used ordinary least squares regressions in the estimation of the association between NEDs and firm performance. Findings showed that NEDs had a negative effect on firm operating performance because of information asymmetry, expertise disadvantage and the dominance of ownership concentration that prevents the fulfilment of the monitoring and control function by the independent directors. Further, the findings showed the existence of a relationship that is negative between NEDs and firm performance where the state is a controlling shareholder or the main investor.

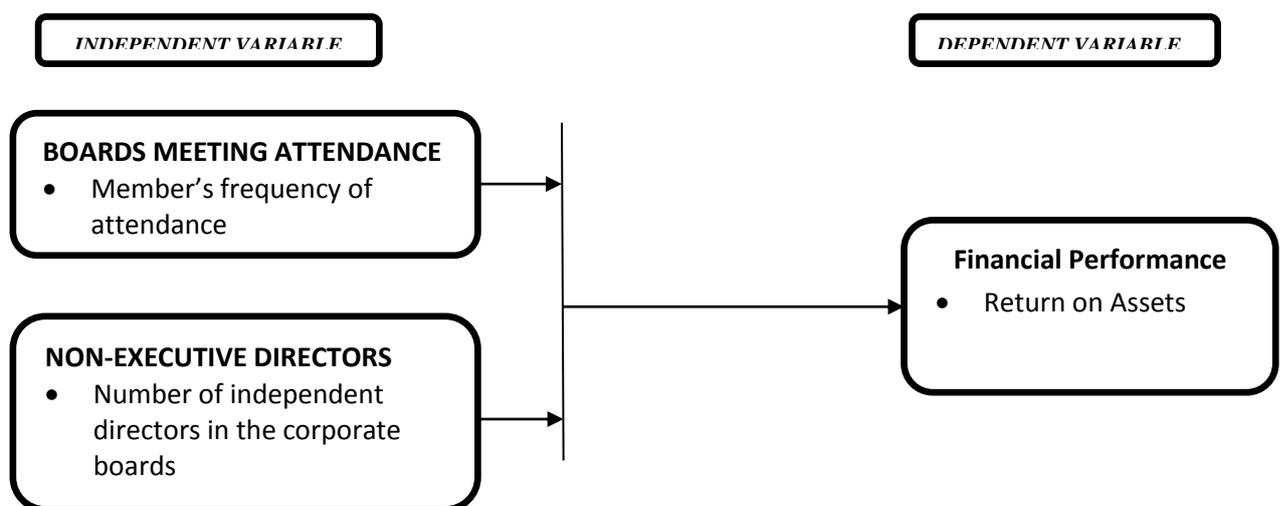
Lishenga (2012) revealed that board meetings increases frequently due to poor performance which leads to improved firms performance as a result of improved communication between management and board of directors. On the study carried out by Palaniappan (2017) to examine if certain board

characteristics impact the financial performance of Indian manufacturing firms by looking at 275 firms listed on NSE from 2011 to 2015. The study used a multiple regression models to determine effects board characteristics like CEO duality, size and independence have on performance regarding market and financial performance measures that are accounting based. The results revealed an opposite association between scope characteristics and the firm performance measures. Results revealed significant negative association between performance measured by Tobins Q, ROA and ROE, and size of boards. Shapiro (2006) stated that most NEDs may increase their control on managers who are self-interested. There is mixed empirical evidence on existence of an association between CG quality and independent NED proportion. For instance, previous studies indicated the existence of more board NEDs improves performance of firms (Daily & Dalton, 1994). Other researchers found no association between independent NEDs and better performance of companies (Hermalin & Weisbach, 1991).

2.3 CONCEPTUAL FRAMEWORK

Conceptual framework can be defined as a set of broad ideas and principles from relevant inquiry fields used in structuring subsequent presentations. Board meeting attendance and proportion of non-executive directors are presumed to influence financial performance. This assumption is supported by Agency theory showed which defines internal CG influence on financial performance. Previous research on links among board meeting attendance, proportion of non-executive directors and financial performance of companies is conflicting, inconclusive, and ambiguous showing positive, negative or unrelated relationships.

CONCEPTUAL FRAMEWORK



2.4 CONCEPTUAL HYPOTHESIS

H₀: The influence of board meeting attendance and Non-executive directors on the financial performance of commercial banks listed at NSE is not significant.

3.0 DATA AND RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

Descriptive research design was employed to determine the influence of board meeting attendance and proportion of non-executive directors on the financial performance of commercial banks listed at NSE.

3.2 TARGET POPULATION

Target population in this research comprised of all eleven (11) commercial banks listed at NSE as at 31st December 2016. This research used panel data which consist of time series and cross sections to improve on the quality and quantity of the data.

3.3 DATA COLLECTION

Secondary data was sourced from published annual and financial statements of commercial banks listed at NSE website or extracted from NSE hand books. The targeted statement includes statement of financial position, income statement and available account notes during 2012-2016. To examine the influence of board meeting attendance and proportion of non-executive directors on the financial performance, data was obtained using score card approach developed from the published financial reports. Composite or comprehensive score which is the measure of board meeting attendance and proportion of non-executive directors was used based on regression weighting mean given by $(A*1) + (B*0.5) + (C*0)$ where A (Full CG compliant), B (Partial CG compliant) and C (Non-CG compliant). Higher score means better board meeting attendance and proportion of non-executive directors in the corporate boards. This provides comprehensive measures of the extent to which commercial banks have adopted best recommended practices as revealed in CG annual reports.

3.4 DATA ANALYSIS

The data was analyzed using descriptive statistics and inferential statistics such as correlation analysis and multiple regression analysis. SPSS version 22 was used in this research to analyze data. Hausman test was undertaken to determine the appropriate model for this study.

3.4.1 MULTIPLE REGRESSION MODEL

The multiple linear regression were given as follows:

$$FP_{it} = \alpha + \beta_1 BMI_{it} + \beta_2 NEI_{it} + \mu_{it}$$

Where:

FP_{it} = Financial Performance measured by the return on assets (ROA)

GDI_{it} = Comprehensive score of board meeting attendance variable measured by the proportion of corporate board meetings attendance

EDI_{it} = Comprehensive score of non-executive directors variable measured by the proportion of non-executive board members in the corporate board

μ = Error term

4.0 RESULTS AND DISCUSSIONS

The study used both descriptive statistics (measures of central tendency and standard deviations) and inferential statistics such as correlation and regression in the analysis.

4.1 DESCRIPTIVE STATISTICS OF THE VARIABLES

Descriptive statistic was carried out to establish the measures of central tendency of the board meeting attendance, non-executive directors and financial performance variables of commercial banks listed at Nairobi Securities Exchange. These include mean, standard deviation, minimum and maximum values for all the variables under study. The results are as shown in Table 4.1 below.

Table 4.1 Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---------------------------------------|----|---------|---------|-------|----------------|
| Return on assets | 11 | .00 | .07 | .0367 | .02386 |
| Proportion of non-executive directors | 11 | .50 | .92 | .7754 | .12833 |
| Board meeting attendance | 11 | .86 | .97 | .9075 | .03703 |
| Valid N (listwise) | 11 | | | | |

Table 4.1 above shows descriptive statistics of board meeting attendance frequency, proportion of non-executive directors and financial performance measured by return on assets included in this study. The financial performance measured by return on assets ratio was found to have a low ratio of 0.00 and high ratio of 0.07 with a mean of .0367. The average of independent or explanatory variables explained by frequency board meeting attendance, proportion of non-executive directors was found to have a mean of 0.9075 and 0.7754 respectively. Proportion of non-executive directors was found to be 0.50 and high of 0.92 with boards meeting attendance having lows of 0.86 and highs of 0.97. Return on assets was found to have the lowest standard deviation of 0.239 with proportion of non-executive directors having the highest standard deviation.

4.2 INFERENCE STATISTICS

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

4.2.1 CORRELATION COEFFICIENTS TESTS

Pearson correlation was used to test the association among board meeting attendance, non-executive directors and financial performance variables of commercial banks listed at Nairobi Securities Exchange. The findings are presented in table 4.2 below.

Table 4.2 Correlation Coefficient between Return on assets and Explanatory variables

| | | Return on assets | Board meeting | Proportion of non-executive directors |
|---------------------------------------|---------------------|------------------|---------------|---------------------------------------|
| Return on assets | Pearson Correlation | 1 | | |
| | Sig. (2-tailed) | | | |
| | N | 11 | | |
| Board meeting | Pearson Correlation | -.065 | 1 | |
| | Sig. (2-tailed) | .849 | | |
| | N | 11 | 11 | |
| Proportion of non-executive directors | Pearson Correlation | -.308 | -.100 | 1 |
| | Sig. (2-tailed) | .356 | .770 | |
| | N | 11 | 11 | 11 |

Table 4.2 above shows that there is a weak negative relationship between return on assets and board meetings attendance ($p = -.065$, $p > 0.05$) which means increase in board meeting decreases the financial performance of commercial banks. The relationship between return on assets and proportion of non-executive directors was found to be negatively significant ($p = -.308$, $p > 0.05$) which means that increase in non-executive directors in the corporate boards of commercial banks decreases the financial performance. The association between proportion of non-executive directors and board meetings attendance was found to be weak and insignificant ($p = -.100$, $p > 0.05$).

4.2.2 MULTIVARIATE REGRESSION TESTS

Multivariate regression analysis was used to test the relationship between the independent variables and the dependent variable. The findings of multivariate regression analysis are presented in table 4.3, 4.4 and 4.5 below.

Table 4.3 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .323 ^a | .104 | -.119 | .02524 |

a. Predictors: (Constant), Proportion of non-executive directors, Board meeting

The results show R² value of 10.4% variation of explanatory variables on the return on assets. This study documents that these independent variables accounts for small percentage of the financial performance measured by return assets of the commercial banks listed at Nairobi Securities Exchange.

Table 4.4 Analysis of Variance (ANOVA)

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|------|-------------------|
| 1 | Regression | .001 | 2 | .000 | .466 | .643 ^b |
| | Residual | .005 | 8 | .001 | | |
| | Total | .006 | 10 | | | |

a. Dependent Variable: Return on assets

b. Predictors: (Constant), Proportion of non-executive directors, Board meeting

Using a significance level of 5%, the numerator df =2 and denominator df =8, critical value 2.74, Table 4.4 above shows F value as .466. This confirms that the multiple regression model used in this study is not statistically significant at 0.643. This means that the multiple regression models cannot be generally applied to explain the effect of independent variables on financial performance of commercial banks as measured by return on assets ratio.

Table 4.5 Test of Coefficients using Regression Analysis

| Model | Un-standardized Coefficients | | Standardized Coefficients | T | Sig. |
|---------------------------------------|------------------------------|------------|---------------------------|-------|------|
| | B | Std. Error | Beta | | |
| (Constant) | .139 | .207 | | .672 | .520 |
| 1 Board meeting attendance | -.063 | .217 | -.097 | -.289 | .780 |
| Proportion of non-executive directors | -.059 | .063 | -.318 | -.946 | .372 |

a. Dependent Variable: Return on assets

Considering 5% acceptable significance level, explanatory variable with a significant value more than 5% is assumed not statistically significant. The findings show that board meetings attendance measured by the frequency of members in the corporate board meeting and proportion of non-executive members in the corporate boards are not statistically significant ($\beta = -.063$, $p = 0.780$) and

($\beta = -0.059$, $p = 0.372$). This means that increase in board meetings and proportion of non-executive directors would result in decrease of commercial banks financial performance. This means increase in unit increase of board meetings frequency and proportion of non-executive director's results to -0.063 and -0.059 decreases in the financial performance of commercial banks listed at Nairobi securities exchange respectively.

4.3 CONCLUSIONS

This study documents that there is a weak negative relationship between return on assets and board meetings attendance, return on assets and proportion of non-executive directors and the association between explanatory variables (proportion of non-executive directors and board meetings attendance) was found to be weak and insignificant. With significant unexplained variance this study documents that these variables insignificantly influences the financial performance of commercial banks listed at Nairobi securities exchange measured by return assets. That means the multiple regression model used in this study is not statistically significant cannot be generally applied to explain the effect of independent variables on financial performance of commercial banks as measured by return on assets ratio.

This study provides a divergent view from the studies carried out by Chen & Jaggi (2000) which documented a direct link between independent NEDs and financial disclosures extent. Lishenga (2012) revealed that board meetings increases frequently due to poor performance which leads to improved firms performance as a result of improved communication between management and board of directors. Daily & Dalton, (1994) indicated that the existence of more board NEDs improves performance of firms. This study supports findings by Wang & Xiao (2006) which indicated that large shareholding, state ownership and independent NEDs' proportion are associated negatively with distress. Nguyen et al., (2017) NEDs have a negative effect on firm operating performance because of information asymmetry, expertise disadvantage and the dominance of ownership concentration that prevents the fulfillment of the monitoring and control function by the independent directors. Shapiro (2006) stated that most NEDs may increase their control on managers who are self-interested.

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