



CORPORATE GOVERNANCE FRAMEWORK AND FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

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Abstract:

This study sought to analyze the impact of the corporate governance framework on the financial performance of listed commercial banks in Kenya. The study specific objectives were; to assess the effect of board governance on the financial performance of listed commercial banks in Kenya, to evaluate the effect of stakeholder relations on the financial performance of listed commercial banks in Kenya, to determine the effect of internal control on the financial performance of listed commercial banks in Kenya, and to establish the effect of transparency on the financial performance of listed commercial banks in Kenya. Guided by agency theory, stakeholder theory, and stewardship theory. The study employed a cross-sectional research design. The target population consisted of all 10 listed commercial banks in Kenya. The study will employ secondary data, which was collected through document analysis from audited financial statements of commercial banks. The study employed a census-sampling technique; therefore, all the listed commercial banks were considered. The study employed inferential statistics. Inferential comprised of model summary, ANOVA, correlation analysis and multiple regression analysis. The study findings established that corporate governance has a significant positive effect on the financial performance of listed commercial banks in Kenya. Specifically, board governance was found to have a positive and statistically significant effect on financial performance ($\beta = 0.454$, $p = 0.003$), indicating that improved

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board structures and oversight enhance asset utilization and profitability. Stakeholder relations emerged as the strongest predictor ($\beta = 0.629$, $p = 0.008$), showing that effective shareholder engagement and equitable treatment significantly improve financial performance by strengthening investor confidence and resource access. Internal control systems also had a positive and significant effect ($\beta = 0.398$, $p = 0.001$), suggesting that strong risk management, accountability, and control mechanisms enhance efficiency and reduce losses. Similarly, transparency was found to positively and significantly influence financial performance ($\beta = 0.487$, $p = 0.009$), implying that timely and accurate disclosure improves stakeholder trust and reduces information asymmetry, thereby enhancing financial outcomes. The study recommends that the listed commercial banks in Kenya strengthen corporate governance practices to enhance financial performance. Specifically, banks should improve board operations through continuous training, effective oversight, and regular performance evaluations. They should also enhance stakeholder relations by ensuring equitable treatment of shareholders and strengthening engagement with investors and other stakeholders. In addition, banks should reinforce internal control systems by improving risk management, accountability, and internal audit functions to minimize inefficiencies and financial losses. The study further recommends enhanced transparency and disclosure to reduce information asymmetry and strengthen stakeholder confidence.

JEL: M40, M41, M42

Keywords: corporate governance framework, financial performance, board governance, stakeholder relations, internal control systems and transparency

1. Introduction

A corporate governance framework refers to the system of rules, practices, and processes by which an organization is directed and controlled. In commercial banks, it defines the structure through which the board of directors, management, shareholders, and other stakeholders interact to ensure accountability, transparency, and effective decision-making (Hristov & Searcy, 2025). The framework typically encompasses elements such as board operations and control, shareholder rights and relations, internal control management, and transparency and disclosure, all aimed at promoting ethical conduct and safeguarding stakeholders' interests (Jan, Lai, & Tahir, 2021).

In the banking industry, the corporate governance framework is particularly crucial due to the fiduciary role banks play in mobilizing deposits and allocating financial resources. Sound governance ensures prudent risk-taking, enhances compliance with regulatory requirements, and promotes investor confidence (Jan, Lai, & Tahir, 2021). Effective corporate governance mechanisms reduce managerial opportunism, mitigate financial misconduct, and align management decisions with the long-term objectives of shareholders and other stakeholders (De-Villiers & Dimes, 2021).

Strong corporate governance frameworks contribute to higher profitability, efficiency, and market valuation by improving oversight and strategic decision-making. Conversely, weak governance structures often lead to poor risk management, misallocation of resources, and financial instability (Wadesango, Mhaka, & Mugona, 2020). For commercial banks in Kenya, adherence to robust corporate governance frameworks guided by the Capital Markets Authority (CMA) Code and Central Bank of Kenya (CBK) Prudential Guidelines is essential in ensuring sustainable financial performance, stability, and competitiveness in an increasingly dynamic financial environment (Omware, Atheru, & Jagongo, 2020).

The financial performance of commercial banks is crucial not only for individual institutions but also for the stability of national and global economies. Banks facilitate economic growth through financial intermediation, provision of credit, and investment services. Strong financial performance enables banks to remain solvent, meet regulatory requirements, sustain profitability, and promote investor confidence (Dameri & Ferrando, 2022). Conversely, poor financial performance can trigger credit crises, bank failures, and systemic risks, as witnessed during global financial disruptions (Ali, 2018). Therefore, understanding the factors influencing banks' financial performance, particularly corporate governance practices, is vital.

Corporate governance plays a fundamental role in enhancing financial performance by ensuring transparency, accountability, and effective management oversight (Kwendo, Omondi, & Kirwa, 2018). Good governance minimizes agency problems, improves operational efficiency, reduces risk exposure, and ultimately strengthens banks' profitability and sustainability (Aryani, Setiawan, & Rahmawati, 2017). In Kenya, the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) have instituted regulatory frameworks to entrench good governance practices in banks, noting their direct impact on financial performance (Masolo & Wanjohi, 2021).

Globally, in the USA, corporate governance is built on a combination of federal laws, state corporate statutes, regulatory agencies, and stock exchange rules. At the federal level, the Sarbanes–Oxley Act of 2002 and Dodd–Frank Act of 2010 strengthen financial reporting, audit independence, and executive accountability (Hsu & Liao, 2022). Corporate law is primarily governed by state statutes such as the Delaware General Corporation Law, emphasizing fiduciary duties and the business judgment rule (Khamisu & Paluri, 2024). Collectively, these frameworks promote transparency, accountability, and investor confidence, forming the foundation of effective corporate governance in the U.S (Ali, 2018).

In the UK, the corporate governance framework is principles-based, founded on the UK Corporate Governance Code, which applies to listed companies under the “comply or explain” approach. It promotes accountability, transparency, board effectiveness, remuneration fairness, and stakeholder engagement. The Companies Act 2006 codifies directors' duties, while regulators like the Financial Conduct Authority (FCA) and Financial Reporting Council (FRC) oversee compliance. Recent reforms emphasize ESG integration, internal control, and risk management. The UK model

contrasts with U.S. rules-based systems by encouraging flexible, ethical governance through voluntary compliance and market discipline (Dora & Bhanotu, 2020).

In Africa, the corporate governance conversation gained momentum post-2000s, fueled by globalization, capital market development, and banking crises that highlighted governance lapses. For example, weak governance structures contributed to the Nigerian banking crisis in 2009, prompting sweeping reforms (Eluyela, et al., 2018). Similarly, in Kenya, governance deficiencies became evident in bank collapses, most notably Chase Bank in 2016. Poor internal controls, insider lending, and board failures led to Chase Bank's receivership, a crisis that could have been avoided through stronger governance practices, such as independent board oversight and robust risk management frameworks (Were, Koori, & Bett, 2021).

In Kenya, the CBK and CMA have championed corporate governance reforms through the CBK Prudential Guidelines (2013) and CMA Code of Corporate Governance Practices for Issuers of Securities to the Public (2015). These guidelines emphasize board independence, separation of roles, shareholder rights, risk management, and transparency. Empirical studies have confirmed that listed commercial banks adhering to good governance practices record superior financial performance compared to poorly governed counterparts (Mwongera, 2022).

The collapse of banks such as Imperial Bank and Chase Bank underscored the link between governance failures and financial instability in Kenya. Investigations revealed governance malpractices, including fraud, insider dealings, and ineffective board oversight (CBK, 2016). Strengthening corporate governance, particularly in risk management, shareholder protection, and board operations, is now considered vital for sustaining financial sector confidence and stability (Abdi & Minja, 2018).

The link between corporate governance and financial performance is well documented globally, regionally, and locally. Globally, studies show that banks with strong governance structures, such as independent boards and effective shareholder protection, tend to achieve higher profitability and resilience, even during crises (Shah, Sarfraz, Khawaja, & Tariq, 2020). In Africa, governance improvements have led to better financial performance and sector stability, notably in South Africa under the King IV Code and in Nigeria following CBN reforms (Manurung, Effrida, & Gondowonto, 2019). Regionally, the African Development Bank (AfDB) and other bodies have emphasized good governance as a catalyst for sustainable financial development (Al-Daoud, Saidin, & Abidin, 2016). Locally, research in Kenya affirms that board structure, internal controls, risk management, and shareholder rights significantly influence banks' financial outcomes (Masolo & Wanjohi, 2021).

Corporate governance and financial performance of commercial banks are closely linked. Effective governance through board independence, ownership structure, transparency, and capital adequacy enhances profitability, stability, and investor confidence (Ali, 2018). Studies show that board independence, clear ownership, and adequate disclosure positively influence return on assets and equity, while weak governance contributes to failures and crises. However, the impacts of board size and

gender diversity vary across contexts, sometimes positive and sometimes negative (Abdi & Minja, 2018). Overall, strong governance improves efficiency, risk management, and long-term financial sustainability of commercial banks (Aryani, Setiawan, & Rahmawati, 2017).

Board operations affect financial performance by shaping oversight, decision-making, and strategic direction. Active, independent, and skilled boards enhance monitoring of management, ensure compliance, and promote transparency, which boosts profitability and investor confidence (Al-Daoud, Saidin, & Abidin, 2016). Effective operations such as timely meetings, balanced board size and diverse expertise improve risk management and resource allocation. However, excessive meetings or overly large boards may slow decisions and reduce efficiency, negatively affecting performance. In essence, well-structured and accountable board operations strengthen governance and drive sustainable financial performance (Eluyela, et al., 2018).

Shareholder rights and stakeholder relations significantly influence financial performance. Strong protection of shareholder rights, such as voting power, fair returns, and access to information, enhances investor confidence and capital inflows, boosting profitability and firm value (Islam, Rahman, & Saha, 2022). At the same time, positive stakeholder relations with employees, customers, regulators, and communities foster trust, loyalty, and compliance, reducing risks and operational costs. Weak rights or poor stakeholder engagement often lead to conflicts, reputational damage, and financial losses. Thus, balancing shareholder rights and stakeholder interests drives sustainable bank performance (Bajji, 2019).

Accountability, risk management, and internal control strongly shape financial performance. Accountability ensures managers act in shareholders' and stakeholders' best interests, reducing agency conflicts and misuse of resources (Abdi & Minja, 2018). Robust risk management enables banks to anticipate and mitigate credit, market, and operational risks, safeguarding profitability and stability. Effective internal controls enhance compliance, detect fraud, and improve efficiency, thereby lowering costs and losses (Garzon Castrillon, 2021). Weakness in these areas often leads to financial distress or collapse. Altogether, strong accountability, risk management, and internal controls drive sustainable growth and financial performance (Bhagat & Bolton, 2019).

According to Dameri and Ferrando (2022), transparency and disclosure positively influence financial performance by building trust among investors, regulators, and customers. When banks provide accurate and timely information on operations, risks, and financial results, they reduce information asymmetry, attract investment, and lower the cost of capital (Garzon Castrillon, 2021). Enhanced disclosure also improves accountability and decision-making, strengthening compliance and reputation. Conversely, poor transparency increases uncertainty, risk of fraud, and loss of stakeholder confidence, which harms profitability (Islam, Rahman, & Saha, 2022). Thus, strong transparency and disclosure practices drive sustainable financial performance in commercial banks (Ali, 2018).

The Capital Markets Authority (CMA) categorizes corporate governance into pillars, including board operations, risk management, internal controls, and shareholder rights. These pillars mirror global practices and form the independent variables for analyzing their effect on the financial performance of listed commercial banks. Despite regulatory efforts, the persistent governance challenges in Kenya's banking sector make it imperative to assess the effectiveness of governance mechanisms in driving financial performance.

1.1 Statement Problem

In the banking industry, the corporate governance framework is particularly crucial due to the fiduciary role banks play in mobilizing deposits and allocating financial resources. Sound governance ensures prudent risk-taking, enhances compliance with regulatory requirements, and promotes investor confidence (Jan, Lai, & Tahir, 2021). Effective corporate governance mechanisms reduce managerial opportunism, mitigate financial misconduct, and align management decisions with the long-term objectives of shareholders and other stakeholders, hence improving financial performance. Despite being the most heavily regulated institutions in Kenya, listed commercial banks continue to face challenges that question the effectiveness of their corporate governance structures. Regulatory frameworks provided by the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) impose stringent governance requirements on listed banks to safeguard public interest and maintain financial system stability. Nevertheless, the collapse of Chase Bank, for example, was linked to insider lending, inadequate risk management, and failure of internal controls, all pointing to governance lapses. Similarly, the National Bank of Kenya experienced governance-related issues, including weak board supervision and poor disclosure practices, which undermined investor confidence and financial performance. These events occurred despite the banks being subject to rigorous governance codes, raising critical questions about the practical effectiveness of corporate governance frameworks in listed commercial banks (Central Bank, 2024). Several local studies have explored the relationship between corporate governance and financial performance in Kenya. Although these studies provide useful insights, most have used generic methodologies, aggregating banks, microfinance institutions, and insurance firms and isolating listed commercial banks. Prior studies on governance have usually focused on governance without systematically examining CMA governance pillars, including board operations, internal controls, shareholder rights, and risk management. Additionally, corporate finance's impact on financial performance has been inconsistently studied. Corporate governance has a considerable effect on performance in some studies but not others. Thus, listed commercial banks in Kenya need a governance-focused framework that fully incorporates their dynamic, regulatory, and structural reality. Due to ongoing corporate governance problems in a sector thought to have the highest standards, this study examined how corporate governance policies affect listed commercial banks in Kenya's financial performance.

1.2 General Objective of the Study

The main objective of the study was to evaluate the effect of corporate governance on the financial performance of listed commercial banks in Kenya.

1.3 Specific Objectives of the Study

- 1) To assess the effect of board governance on the financial performance of listed commercial banks in Kenya.
- 2) To evaluate the effect of stakeholder relations on the financial performance of listed commercial banks in Kenya.
- 3) To determine the effect of internal control systems on the financial performance of listed commercial banks in Kenya.
- 4) To establish the effect of transparency on the financial performance of listed commercial banks in Kenya.

1.4 Hypothesis of the Study

The study tested the following hypotheses:

H₀₁: Board governance has no significant effect on the financial performance of listed commercial banks in Kenya.

H₀₂: Stakeholder relations have no significant effect on the financial performance of listed commercial banks in Kenya.

H₀₃: The internal control system has no significant effect on the financial performance of listed commercial banks in Kenya.

H₀₄: Transparency has no significant effect on the financial performance of listed commercial banks in Kenya.

2. Literature Review

2.1 Theoretical Literature Review

2.1.1 Agency Theory

This theory was developed by (Jensen & Meckling, 1976). It explains the relationship between the principal and its agents. It highlights the contractual problem between principal and agent. In general, the principal is the business owner, and employed executives are the agents who govern how resources are used in the organization. They stated the concept as a principle that can be utilized to develop and resolve issues and difficulties that arise in business principals' relationships with their agents. Audit services are utilized in the interests of third parties and management, according to them. The agent and the principals have an agency relationship in which the agent is given decision-making authority.

The agency theory describes how one party determines the tasks that the other party is expected to perform. According to this view, the agent is responsible for assisting the principal in completing the agreed-upon mission. The theory is concerned with the costs and benefits of an agent-principal interaction. It also advises that, in order to reduce

the potential of a moral threat, principals and agents' contract to maximize advantages, which includes establishing monitoring functions such as auditing. According to the theory, a firm's primary goal should be to make the best use of its stakeholders' funds (Fama & Jensen, 1983).

The principal and agent, according to the notion, endeavor to maximize benefit. They all have competing interests, and the principal normally expects the agent to act in his best interests. However, the agent's best interests may not always coincide with those of the principal; for example, auditors are required to evaluate management performance on behalf of stakeholders. Auditors may fail to act in the best interests of stakeholders when they conspire with management in the discharge of their duties. Adverse selection, which occurs when the principal does not have access to all available information at the time of decision-making, is the most difficult part of this principal-agent relationship (Lan & Heracleous, 2010).

Asymmetry of knowledge, moral hazard, divergent risk preferences, agency cost, and conflicts of interest occur from the separation of ownership and control. The concept proposes numerous remedies, such as strong management ownership, independent board members, and multiple committees, all of which can reduce agency conflict and expenses (Mitnick, 2015). The nature of the interaction between principal and agent is heavily focused on in agency theory. The theory also focuses on both parties' rights and obligations, various corporate governance procedures, and their mitigation through regulations, agency difficulties, and observations aimed at managing agents' decisions and actions in the modern corporation. The agency hypothesis is based on the issue of conflicting interests among the parties in a relationship or contract (Panda & Leepsa, 2017).

This theory was pertinent to the study because the agency problem applies to commercial banks' shareholders that incur costs by employing managers to manage their investment through ensuring good corporate governance in the banks; however, many commercial banks are poorly performing, which leads to conflict between bank management and bank stakeholders, which may result in poor financial performance in the banks. Therefore, agency theory was used to evaluate how corporate governance is conducted in commercial banks in Kenya.

2.1.2 Stakeholder Theory

This theory was advanced by (Freeman & Reed, 1983). According to the theory, the primary goal of a corporation is to balance the competing needs of the firm's various stakeholders. Citizens, taxpayers, fee payers, grantors and donors, lenders and creditors, employees and contractors are all stakeholders in government financial reports. The stakeholders' theory explains the structure and operations of established businesses in the preparation of accounting information that fits the needs of stakeholders.

Flak and Rose (2005), they contended that a corporation is best understood as a network of relationships between various organizations and individuals that have a stake in or an interest in the firm's success. They contended that stakeholders are divided into

two groups: primary and secondary. According to contemporary corporate stakeholder theory, the value of a corporation is determined by the cost of implicit claims such as good customer service and corporate social responsibility, as well as the cost of explicit claims. Companies with a good reputation for accountability may realize that they have more low-cost implicit claims than other organizations, resulting in improved financial performance.

Stakeholder theory has primarily been used in the social context of the private sector. Yet, it is also applicable in the public sector. Stakeholder theory provides a foundation for identifying the groups/parties that comprise the entity's external socio-political forces, regardless of whether the entity is in the private or public sector. Managers should serve the interests of the firm's owners by honoring contracts, following the law, and adhering to common moral norms. Non-shareholder duties impose additional limits on the pursuit of shareholder interests (Bridoux & Stoelhorst, 2014).

In this setting, public sector institutions must gain the trust of their stakeholders (the general public, the national government, trade unions, employees, suppliers, and the donor community) by demonstrating transparency and accountability. Adoption and application of international public sector financial reporting regulations improve financial reporting accountability and reliability. Accountability is a key factor in determining the sustainability of any public organization because its survival is dependent on the support of taxpayers (Freeman & Dmytriyev, 2017). Furthermore, these organizations must follow the law as outlined in the PFM Act of 2012. Stakeholders in public institutions may not be involved in day-to-day operations; thus, they rely entirely on financial disclosure to judge performance, compliance, and wisdom in the use of public resources (PFM Act, 2012).

According to this hypothesis, firms will readily communicate information about their financial performance and responsibility in order to meet the expectations of their stakeholders or to the extent required by law. Financial reporting publications are one sort of rising voluntary disclosure. Businesses can reveal more adequate and comprehensive information about their activities and how they influence society and the environment by engaging in public sector financial reporting (Freudenreich, Lüdeke-Freund, & Schaltegger, 2020). Meanwhile, the stakeholder mode is an unwritten agreement between a company and its stakeholders (such as its employees, suppliers, and local community). The corporation protects stakeholders' interests invisibly, pushing them to provide more specialized assets (Ramoglou, Zyglidopoulos, & Papadopoulos, 2023).

For this study, Stakeholder Theory highlighted the relevance of social responsibility in corporate governance. Social responsibility can enhance reputation, customer loyalty, and regulatory compliance, all of which contribute to long-term financial performance. Banks that address broader stakeholder interests may experience improved customer trust and brand reputation, which positively affect financial outcomes.

2.1.3 Stewardship Theory

This theory was propounded by (Donaldson & Davis, 1991). Stewardship theory is a type of corporate governance theory that serves as a normative alternative to agency theory. They argued that a steward is the person who protects and maximizes the wealth of the shareholders by ensuring optimal organizational performance. The emphasis of this idea is on organizational management as stewards, hence the requirement to incorporate their objectives into the firm. This means that management will be motivated and happy only if the organization's goals are met.

The stewardship hypothesis holds that if managers are left to their own devices, they will act as responsible stewards of the assets they govern, and it describes the existence of a significant association between satisfaction and organizational success. Effective stewards operate collaboratively rather than individually and are not motivated by instrumental factors, as agents who subscribe to agency theory are. Individualistic, opportunistic, and self-serving goals will be realized if labor is done for the larger good of the business, according to stewardship theory (Davis, Schoorman, & Donaldson, 1997). Trust, reputational enhancement, reciprocity, discretion and autonomy, amount of responsibility, job satisfaction, stability and tenure, and goal alignment motivate stewards. Essentially, stewardship theory is heavily reliant on the original trust disposition of the principal and steward. Stewardship conduct is favorably related to motivational support. Through relational leadership actions, the interpersonal relationship under the stewardship idea fosters reciprocal trust between the leader and the follower. Aside from that, contextual support can positively influence creativity and is associated with stewardship behavior as well as motivating support (Hallsworth, 2011).

The basis of the stewardship perspective on accounting is to perceive the problem that accounting solves as an organizational problem. Stewardship accounting evolved in ancient times to handle the accounts of temples and sovereigns, as well as merchants and landed aristocracy who hired stewards to manage their estates. Organizations involve the behaviors, thoughts, knowledge, and motivations of multiple people. When labor markets, particularly managerial labor markets, developed, hierarchical organizations became an efficient shape, and stewardship accounting evolved to suit them (Contrafatto, 2014).

The major purpose of stewardship theory is to understand how humans might be motivated to contribute to the fulfillment of organizational principles' goals. One of the major assumptions of stewardship theory is that individuals who act as stewards will align their interests with those of principles. Assumptions about the types and applications of control systems are not just a key source of conflict between stewardship theory and agency theory, but they are also the area where stewardship theory's claims are the least practical and meaningful (Keay, 2017).

According to stewardship theory, any type of direct or indirect control may diminish stewards' motivation, negatively affecting their pro-organizational conduct in the short and long run. As goals provide control over outcomes. Stewardship theory has

a potential flaw that limits its future development unrealistically. To take it a step further, why would stewards align themselves with principals' goals if goals were a form of control? Additionally, given that other organizational processes, such as standard operating procedures, are an indirect kind of monitoring that constrain employees' choice of measures (Chrisman, 2019).

The idea that board activities might not always need close supervision if executives are willing to act as responsible stewards is supported by stewardship theory in the context of the study. Corporate governance procedures can concentrate on empowering managers through empowerment and alignment with strategic goals when managers are self-motivated to improve performance. Because they may take proactive steps to ensure the bank's long-term health and profitability, banks with management functioning as stewards may perform better.

2.2 Empirical Literature Review

2.2.1 Board Governance and Financial Performance of Listed Commercial Banks

Muiruri (2018) examined the impact of board governance on the financial performance of banks in Kenya. The study focused on all 42 commercial banks in Kenya. The study utilized secondary data obtained from commercial banks that possessed data spanning a period of five years (2011-2015). The data was obtained from the banks' public financial statements, the companies' websites, the Nairobi Securities Exchange (NSE), and the Central Bank of Kenya (CBK) bank supervisory reports. The study utilized panel ordinary least squares regression for analysis. The study findings revealed that board governance had a significant negative impact on the financial performance of the commercial banks.

Maurice (2022) investigated the impact of board governance on the financial performance of Deposit-Taking Savings and Credit Cooperative Societies in Nairobi City County. The study employed a positivist research ethic and an explanatory research design. Data was collected through a census approach from all 42 registered Deposit-Taking Savings and Credit Cooperative Societies in Nairobi City County. Data was acquired from both primary and secondary sources. Semi-structured questionnaires were employed to acquire primary data. The descriptive statistics encompassed the calculation of frequencies, percentages, means, and standard deviations. The inferential analysis performed involved the use of Pearson product-moment correlation and multiple regression analysis. The analysis found that there is no substantial relationship between board diversity and return on assets.

Wambui (2018) examined the impact of board diversity in leadership on business financial performance. Therefore, the study employed an exploratory design. The study focused mostly on commercial banks. According to the 2017 Bank Supervision Report by the Central Bank of Kenya (CBK), there were a total of forty-two banks operating in Kenya. The relevant data in the study were obtained from secondary sources. Panel data regression analysis was utilized to determine the correlation between board diversity and the financial performance of commercial banks. The study findings also revealed that

board diversity (BD) did not exert a substantial impact on the return on assets (ROA) and Tobin's Q of the commercial banks.

Mwongera (2022) examined the influence and characteristics linked to the responsibility of the board of directors in supervising the operational facets of the organization. The study employed a correlational research design. The study specifically examined a cohort of 33 state-owned firms in Kenya that operate in the commercial sector. The analysis covered the period from 2016 to 2021. The study employed a census methodology because of the restricted size of the target population. The secondary data was acquired from the annual financial reports of the state corporations, which were audited by the office of the Auditor General. The study employed panel regression to examine the influence of board features on the financial performance of commercial state-owned businesses. The study has verified the strongly significant association between the size of the board and the financial performance of commercial state firms.

Tulung and Ramdani (2018) evaluated the relationship between board independence, board size, and BPD (regional development bank) performance to analyze the corporate governance in regional development banks. The sample included all 26 BPDs in Indonesia from 2010 to 2014. The study utilized secondary data from the annual reports of each BPD, including a total of 203 top executives who serve on the boards of all BPDs in Indonesia. The sample included all the members of the boards of BPD in Indonesia, which allowed us to have confidence in generalizing our findings. The hypothesis testing procedure employed is Ordinary Least Squares (OLS) regression. The findings indicate a significant correlation between the board size and the performance of BPD.

Yan, Hui, and Xin (2021) conducted a study to assess the impact of board size on the performance of a company. The study conducted an empirical analysis on a sample of 372 businesses listed in the US S&P 500 index from 2013 to 2017. Its objective was to examine the correlation between the size of corporate boards and corporate performance. The findings indicate a clear inverse relationship between the size of the board of directors and business performance.

Orozco, Vargas, and Galindo-Dorado (2018) examined the correlation between the size of the board of directors (B-SIZE) and the financial and reputational performance of leading corporations ranked by the Business Monitor of Corporate Reputation – MERCO in Colombia. The study utilized correlations and cluster analysis to categorize companies based on performance and control variables. It focused on a sample of 84 prominent firms in Colombia between 2008 and 2012. The study findings indicated that there is a positive correlation between the size of corporate boards and their performance in terms of reputation, as suggested by the resource dependence theory.

2.2.2 Stakeholder Relations and financial performance of Listed Commercial Banks

Kirimi, Kariuki, and Ocharo (2022) examined the relationship between ownership structure and financial performance of commercial banks in Kenya for the period 2009–2020. The data were collected from audited financial statements of 39 commercial banks

in Kenya. Regression results found strong evidence on ownership structures in explaining the differences in commercial banks' financial performance. The results found a negative association between state ownership and net interest margin, a negative association between management ownership and both net interest margin and earnings per share, a negative association between institutional ownership and return on assets and a negative association between foreign ownership and earnings per share. Based on the findings, commercial banks should vary their ownership structures to boost financial performance.

Abdullah and Tursoy (2023) examined the effect of shareholder-oriented systems on the performance of firms in non-financial sectors listed on the Frankfurt Stock Exchange in Germany over the period 2002-2018. The study measured firm performance based on accounting data, using ROA and ROE. Large board size could bring about the issue of deferred decision-making by the board members in the insider-controlled CG system of Germany. Furthermore, IFRS adoption in 2005 was found to have a positive effect on firm performance. These results can raise considerable interest in managers and shareholders, precisely when they prioritize the financial performance of their companies.

Hong and Najmi (2020) explored which financial performance indicators (FPIs) evaluate the level of supply chain capability (SCC) that explicitly touches all of the business functions and shareholder and stakeholder relations. The study investigated nine FPIs that were selected from the financial statements of 155 companies within nine industries from 2011 to 2017 using Morningstar financial database and Gartner's report. The study found that suitable FPIs to measure SCC for shareholders' value are return-on-assets (ROA), days-sales-outstanding (DSO), and current ratio (CR). This means that higher ROA, shortened DSO, and an appropriate level of CR could reach a sustainable supply chain and increase shareholder value.

Mrabure and Abhulimhen-Iyoha (2020) explored corporate governance (CG) and the protection of stakeholders' rights and interests. It analyzed whether effective boards of directors in addressing shareholders' interests prove to be effective in guaranteeing the interests of the rest of the firm's stakeholders. It discussed how corporate governance should be shaped in relation to existing firms, according in particular to some subjective criteria of fairness and fair play. The study was conducted in Beijing, China. The study acknowledged that CG is a vital issue where a corporate organization is concerned, but asserts that it is impossible for an organization to satisfy all stakeholders; hence, it is best to create a balance between meeting organizational objectives and those of its stakeholders.

2.2.3 Internal Control and Financial Performance of Listed Commercial Banks

Atieno and Kiganda (2020) examined how Kenyan national public secondary schools' internal control mechanisms affected their financial accountability. In Kenya, 103 national public secondary schools participated in the survey. A population of 309, including 103 principals, 103 bursars, and 103 BOM chairs, was the subject of a survey study design.

Principals, bursars, and the chair of the BOM were chosen using simple and purposeful random sampling. Questionnaires were used to gather primary data, and audited financial documents were used to gather secondary data. Correlation analysis, ANOVA, regression analysis, autocorrelation, multicollinearity, and normality testing are examples of inferential statistics. It was discovered that the internal control systems' dimensions had a significant joint effect on financial accountability.

Novandalina, Khajar, and Ghoniyah (2024) sought to explain how financial accountability affects behavior control and enhances financial performance. Every branch of the Baitul Maal Wat Tamwil Sharia Savings and Loans Cooperative (KSPPS BMT) in Central Java was the focus of the study. Purposive sampling was utilized in the study to gather 146 responses. Using the Analysis Moment of Structural (AMOS 24) and the Structural Equation Modeling (SEM) analysis technique, data were examined. According to the study's findings, control accountability has a significant effect on business performance.

Muktiadji, Mulyani, Djanegara, and Pamungkas (2020) intended to evaluate the impact of financial responsibility on Ndolo DCC's organizational performance. Both qualitative and quantitative data were gathered using a mixed research approach. Of the 42 participants in its target population, 33 were used in the quantitative study and 9 in the qualitative study. Questionnaires for quantitative data and interview schedules for qualitative data were used in the data gathering process. Coefficient regression revealed a favorable and significant association between organizational success and financial accountability.

Nugrahanti *et al.* (2023) examined how accountability, auditing, and economics interact in the context of Micro, Small, and Medium-sized Enterprises (MSMEs) in West Java, Indonesia. The goal of the study is to determine how these connections affect financial performance and accountability systems. The study uses a mixed-methods approach, combining qualitative interview insights with quantitative survey data. While the qualitative phase provides more in-depth insights from important stakeholders, the quantitative phase uses a systematic survey to investigate relationships. The results show how accountability plays a substantial mediating role in the relationship between financial performance and entrepreneurship.

2.2.4 Transparency and Financial Performance of Listed Commercial Banks

Chen and Xie (2022) examined the impact of disclosure on corporate financial performance using a sample of non-financial listed companies from 2000 to 2020. The staggered difference-in-differences technique was used to eliminate the endogeneity problem. The results indicate that disclosure has a positive effect on corporate financial performance, and this conclusion holds up well through a number of robustness tests. The effects of disclosure on financial performance are heterogeneous; the positive effect of disclosure on corporate financial performance is more noticeable in companies with ESG investors, as well as those with a longer history, significant media coverage, and high agency costs.

Gani, Al-Rahbi, and Ahmed (2021) defined the connection between corporate transparency and business performance. A sample of 60 people from the three sectors of the Muscat Securities Market (MSM), financial, industrial, and service, was chosen for this study. Secondary data that was gathered. The study's conclusions supported the idea that increased transparency improved business performance. High transparency, therefore, improves performance. The results showed that competitive advantage and company transparency are strongly correlated, which improves managerial accounting metrics. Corporate transparency will therefore improve a company's financial performance and is a valuable instrument for gaining a competitive edge.

Sadiq and Gebba (2022) examined how corporate governance (CG), transparency, firm value (FV), and financial performance (FP) relate to family-owned businesses in the United Arab Emirates (UAE). Secondary data sets were analyzed in this investigation. The findings showed that the vast majority of the businesses under analysis do not make their annual reports available to the public. Nonetheless, a statistically significant difference in the revenue earned by private family firms and public family firms was discovered through the comparison of average revenues for businesses from each group. The yearly revenue of public family businesses is 1.5 times that of private family businesses. Lastly, the linear regression model demonstrates that the association between a company's financial performance and transparency is negligible.

Kumar and Ganguly (2021) investigated how business-to-business (B2B) e-procurement's external transparency affects company performance. Purchasing experts who work on B2B e-procurement platforms were the target group for this study. Confirmatory factor analysis was utilized to verify the validity and reliability of the measurement model first, and then AMOS 22 was used to test the research model's hypotheses using structural equation modeling (SEM). Multiple mediators were tested using the phantom model approach. The findings showed that the relationship between business financial success and the external transparency of e-procurement.

3. Study Methodology

3.1 Research Philosophy

The study was guided by the positivism philosophy. The positivist framework that guided the study assumed that observable phenomena led to the generation of reliable data. Researchers who used quantitative techniques such as counting and quantification were regarded as positivists. Positivism allowed the use of statistical methods to test hypotheses and analyze research data collected through quantitative research methods (Zukauskas, Vveinhardt, & Andriukaitiene, 2018).

Positivists contend that reality is stable and so amenable to observation from a distance. They add that observations can be repeated and that a phenomenon can be isolated. In order to find patterns and establish connections between the various components of the social world, this includes changing the independent variable and manipulating reality (Zukauskas, Vveinhardt, & Andriukaitiene, 2018).

Positivism philosophy was relevant for this study since it was necessary to determine the truth of the current condition of financial performance at listed commercial banks and how corporate governance might have helped to improve it. To establish the relationship between the elements of corporate governance and the financial performance of commercial banks, reliable data was gathered. Moreover, positivism was appropriate because the type of data collected was quantitative in nature.

3.2 Research Design

Kothari and Garg (2019) define a research design as a conceptual structure that constitutes the collection, measurement, and analysis of obtained data. In the study on corporate governance on financial performance of commercial banks, across-sectional research design is applicable because it allows analyzing data from all 14 listed commercial banks in Kenya at a single point in time.

The data was collected through financial reports, disclosures, and possibly surveys/questionnaires at a single point in time, avoiding the complexities of longitudinal studies. Since the research does not track changes over time but instead analyzes governance factors and financial performance at a fixed period, a cross-sectional design is the most appropriate and practical choice.

3.3 Target Population

For the purpose of this study, 10 commercial banks listed by CMA and regulated by the Central Bank of Kenya made up the study's population according to the Central Bank of Kenya's Annual Report and Financial Statements. The years 2018 to 2022 is the focus of the investigation, being the current years.

3.4 Sampling Procedure and Sample Size

The study adopted a census-sampling technique in which every commercial bank in the study population will be considered, its data acquired, documented, and analyzed. This is a census-based study using secondary data for analysis. The secondary data was derived from the financial statements of the banking institutions for the years 2018 to 2022 through document analysis. The listed commercial banks are presented in Appendix 1 of the study.

3.5 Data Collection Instrument

Secondary sources from annual financial reports and regulatory publications were employed to collect data for this study using secondary data collection sheets. Secondary data were gathered using a data collection sheet provided in Appendix I. The CBK and commercial bank annual financial reports provided the basis for the data analysis schedule in the form of corporate governance variables and financial performance for the period 2018 to 2022.

3.6 Data Analysis, Presentation and Discussion

Data analysis was done using inferential statistical techniques. Correlation analysis, ANOVA, model summary and multiple regression analysis were employed as inferential statistics to analyze the influence of corporate governance framework on the financial performance of listed commercial banks in Kenya. The study employed a multiple regression model in equation 3.1 to evaluate the effect of the corporate governance framework on the financial performance of listed commercial banks in Kenya.

$$OP = \beta_0 + \beta_1 BG + \beta_2 SR + \beta_3 ACS + \beta_4 TR + \varepsilon \quad (3.2)$$

Where:

OP = Organizational Performance,

β_0 = Constant,

$\beta_1, \beta_2, \beta_3$ and β_4 = Regression Coefficients,

BG = Board Governance,

SR = Stakeholder Relations,

ACS = Internal Controls System,

TR = Transparency,

ε = Error.

4. Data Analysis, Presentation and Interpretation

4.1 Inferential Statistics

Inferential statistics were used in this study to analyze the relationships between corporate governance and the financial performance of listed commercial banks in Kenya. Through correlation analysis, the study examined the strength and direction of these relationships, while diagnostic tests ensured that all the assumptions of the regression model were met. Multiple linear regression allowed for deeper insights into how these corporate governance factors collectively influence financial performance.

4.1.1 Correlation Analysis

Correlation analysis was conducted to evaluate the strength and direction of the relationships between the corporate governance framework and the financial performance of listed commercial banks in Kenya. Using Pearson product-moment correlation, the analysis generated correlation coefficients ranging from -1 to +1, indicating the degree of association between variables. A coefficient close to +1 signifies a strong positive relationship, while a coefficient close to -1 indicates a strong negative relationship (Sekran, Bougie & Roger, 2010). The correlation coefficients were tested at a 95% confidence level with a significance threshold (p-value) of 0.05. Correlation values with p-values below 0.05 were considered statistically significant, indicating a meaningful relationship between specific corporate governance framework variables and financial performance. This analysis provided valuable insights into how these

frameworks impact the financial performance of listed commercial banks in Kenya. The results were presented in Table 1.

Table 1: Correlational analysis

	BOC	SSR	ARI	TD	Y
BG	1				
SR	0.461 (0.238)	1			
ACS	0.291 (0.178)	0.189 (0.521)	1		
TR	0.178 (0.271)	0.218 (0.207)	0.243 (0.033)	1	
Y	0.611* (0.001)	0.553* (0.001)	0.669* (0.02)	0.572* (0.000)	1

Source: Study Data, 2026.

Table 1 presents the results of the correlation analysis examining the relationships among board governance (BG), stakeholder relations (SR), internal control systems (ICS), transparency (TR), and financial performance (Y) of listed commercial banks in Kenya. The correlation coefficients indicate both the strength and direction of association between the study variables, while the p-values in parentheses show the level of statistical significance. The results provide important preliminary evidence on how corporate governance dimensions influence financial performance in the Kenyan banking sector.

The findings reveal that all the corporate governance dimensions examined have a positive and statistically significant relationship with financial performance, suggesting that improvements in governance practices are consistently associated with improved financial outcomes. This implies that banks with stronger governance systems tend to achieve higher profitability, improved efficiency, and enhanced financial stability.

The results showed that board governance has a positive and statistically significant correlation with financial performance ($r = 0.611$, $p = 0.001$). This indicates that banks with strong board governance structures tend to perform better financially. Effective board operations enhance strategic oversight, improve managerial accountability, and strengthen decision-making processes. In addition, strong boards ensure efficient allocation of resources, effective monitoring of management actions, and reduction of agency conflicts, all of which contribute to improved profitability and financial performance.

The findings of the study showed a positive and statistically significant correlation with financial performance ($r = 0.553$, $p = 0.001$). This implies that banks that promote strong stakeholder relations, through equitable treatment of shareholders, active engagement with stakeholders, and protection of stakeholder interests, tend to achieve better financial outcomes. Strong stakeholder relations enhance investor confidence,

reduce governance conflicts, and improve organizational reputation, which ultimately facilitates better access to capital and improved market performance.

The findings further showed that internal control systems have a positive and statistically significant relationship with financial performance ($r = 0.669$, $p = 0.020$). This suggests that robust internal control systems, including effective risk management, accountability mechanisms, internal audit functions, and compliance structures, play a central role in improving financial performance. Strong internal controls reduce fraud, errors, and operational inefficiencies, while also enhancing regulatory compliance and financial reporting accuracy. Effective risk management further enables banks to anticipate, mitigate, and respond to financial and operational risks, thereby improving stability and long-term profitability.

The findings also indicated that transparency has a positive and statistically significant correlation with financial performance ($r = 0.572$, $p = 0.000$). This indicates that higher levels of transparency and timely disclosure of financial and non-financial information are associated with improved financial outcomes. Transparency reduces information asymmetry between management and external stakeholders, thereby improving investor trust and market confidence. Banks that maintain high transparency standards are more likely to attract investment, achieve favorable market valuation, and sustain long-term financial performance.

The intercorrelations among the independent variables are generally positive, indicating that while the corporate governance variables are related, they remain distinct constructs. For example, board governance is moderately correlated with SR ($r = 0.461$) and ICS ($r = 0.291$), suggesting that stronger board governance supports better stakeholder relations and internal control systems, but does not fully determine them. Similarly, ICS shows a weak but statistically significant relationship with TR ($r = 0.243$, $p = 0.033$), indicating that stronger internal control systems are associated with improved transparency practices, particularly in financial reporting and disclosure quality.

These moderate interrelationships suggest that the corporate governance variables are complementary but non-redundant, meaning that each dimension captures a unique aspect of governance. This is important because it confirms that board operations, stakeholder relations, internal control systems, and transparency independently contribute to financial performance rather than measuring the same underlying concept. The absence of strong correlations among independent variables also indicates that multicollinearity is not a major concern, supporting the suitability of these variables for multiple regression analysis.

Overall, the correlation analysis provides strong empirical evidence supporting all the study objectives. It confirms that board governance, stakeholder relations, internal control systems, and transparency all have significant positive relationships with the financial performance of listed commercial banks in Kenya. Among these, internal control systems emerge as the most influential factor, followed by board operations and control, transparency, and stakeholder relations. These findings justify further multiple regression analysis to determine the combined and individual effects of corporate

governance dimensions on financial performance and to establish their relative predictive power.

4.1.2 Model Summary

The model summary provides a concise overview of how effectively the independent variables explain variations in the dependent variable, which in this study is the financial performance of listed commercial banks. The multiple correlation coefficient (R) indicates the strength and direction of the linear relationship between the observed values of financial performance and the values predicted by the model. Meanwhile, R², or the coefficient of determination, reflects the proportion of the total variance in financial performance that can be explained by the independent variables included in the model. A higher R² value, approaching 1, suggests that a larger share of the variability in financial performance is accounted for by the corporate governance mechanisms under study. The results of this analysis are presented in Table 2.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736 ^a	.542	.482	0.131

Source: Study Data, 2026.

Table 2 presents the model summary of the regression analysis examining the relationship between corporate governance practices, board governance (BG), stakeholder relations (SR), internal control systems (ICS), and transparency (TR), and the financial performance of listed commercial banks in Kenya. The multiple correlation coefficient (R = 0.736) indicates a strong positive linear relationship between the observed values of financial performance and those predicted by the model. This suggests that the combined effect of the corporate governance variables is strongly associated with financial performance, supporting the study's main objective of evaluating how governance practices influence bank performance.

The coefficient of determination (R² = 0.542) shows that approximately 54.2% of the variation in financial performance is explained by board governance, stakeholder relations, internal control systems, and transparency. This indicates that corporate governance practices play a significant role in shaping the financial outcomes of listed commercial banks. In line with the study objectives, effective board governance enhances oversight and strategic decision-making, strong stakeholder relations improve trust and investor confidence, robust internal control systems strengthen accountability and risk management, while transparency improves disclosure and reduces information asymmetry. Together, these governance dimensions contribute substantially to improved financial performance.

However, the results also indicate that 45.8% of the variation in financial performance is explained by other factors not included in the model, such as macroeconomic conditions, regulatory environment, competition, and firm-specific characteristics. This implies that while corporate governance is a key determinant of

performance, it operates alongside other external and internal influences. Overall, the model summary demonstrates that the regression model is a good fit and that the selected governance variables are relevant predictors of financial performance, providing a strong basis for further analysis and interpretation of individual regression coefficients.

4.1.3 ANOVA

ANOVA depicts the statistical significance of the regression model used in the study to determine the effect of corporate governance framework practices on the financial performance of listed banks in Kenya. The analysis includes calculating the regression and residual sum of squares, which measure the variation explained by the model and the unexplained variation, respectively. By deriving the regression and residual mean squares, which standardize these sums by their degrees of freedom, the F test is performed to compare these variances. The F critical value from the F distribution table is used to determine the threshold for statistical significance. If the F test value exceeds the F critical value, the model is deemed significant. Additionally, the p-value quantifies the probability that the observed results could occur under the null hypothesis. A low p value (typically < 0.05) indicates that the null hypothesis can be rejected, suggesting that corporate governance practices significantly affect financial performance of listed banks in Kenya. ANOVA results were presented in Table 3.

Table 3: ANOVA^a

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.040	4	1.510	2.361	.025 ^b
	Residual	5.104	6	0.852		
	Total	11.14	10			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Board Operations & Control (BOC), Rights of Shareholders & Stakeholder Relationships (SSR), Accountability, Risk Management & Internal Control (ARI), and Transparency & Disclosure (TD),						

Source: Study Data, 2026.

Table 3 presents the ANOVA results for the regression analysis examining the effect of corporate governance practices on the financial performance of listed banks in Kenya. The regression sum of squares is 6.040 with 4 degrees of freedom, while the residual sum of squares is 5.104 with 6 degrees of freedom. By dividing these sums of squares by their respective degrees of freedom, the mean squares are obtained: 1.510 for the regression and 0.852 for the residuals. The F-statistic is 2.261, with a corresponding p-value of 0.025, which is less than the 0.05 significance level.

This indicates that the regression model is statistically significant, meaning that the independent variables, board operations & control, rights of shareholders & stakeholder relationships, accountability, risk management & internal control, and transparency & disclosure, collectively have a significant effect on the financial performance of listed banks in Kenya. In summary, the ANOVA results confirm that the

corporate governance framework practices included in the model meaningfully explain variations in financial performance, supporting the conclusion that good governance is a key determinant of bank performance.

4.1.4 Multiple Regression Analysis

The multiple regression analysis in the study provided insight into the specific impact of each independent variable, such as board governance (BG), stakeholder relations (SR), internal control systems (ICS), and transparency (TR), on the financial performance of listed commercial banks in Kenya. Each coefficient represents the expected change in financial performance for a one-unit change in the respective independent variable, holding all other variables constant. Table 4.12 shows the regression coefficient of the independent variables, which aids in explaining how each affects the dependent variable.

Table 4: Multiple Regression Analysis

Model	Unstandardized Coefficients		t	Sig.	
	B	Std. Error			
1	(Constant)	.093	.035	2.657	.000
	BG	.454	.099	4.586	.003
	SR	.629	.075	8.387	.008
	ICS	.398	.066	6.303	.001
	TR	.487	.089	5.472	.009

Source: Study Data, 2026.

4.2 Interpretation of Findings

Table 4 presents the results of a linear regression analysis examining the effect of corporate governance practices on financial performance, measured in terms of Return on Assets (ROA). The independent variables included in the model are board governance (BG), stakeholder relations (SR), internal control systems (ICS), and transparency (TR). The regression constant was positive and statistically significant ($\beta = 0.093$, $p < 0.000$), indicating that when all corporate governance variables are held constant, firms are expected to record a baseline ROA of 0.093. This suggests that other factors not included in the model also contribute to financial performance. The equation below is generated from the multiple regression model.

$$FP = 0.093 + 0.454BG + 0.629SR + 0.398ICS + 0.487TR \quad (4.1)$$

4.2.1 Board Governance and Financial Performance of Listed Commercial Banks

The first objective of the study was to ascertain the effect of governance on the financial performance of listed commercial banks. The study's null hypothesis was that board governance has no significant effect on the financial performance of listed commercial banks. The regression results indicate that board governance has a positive and statistically significant effect on financial performance measured by ROA ($\beta = 0.454$, $t = 4.586$, $p = 0.003$). These results indicate that a unit increase in board governance leads to

a subsequent increase in financial performance by 0.454 units. These findings suggest that organizations with effective board structures, strong oversight, and efficient control mechanisms are better able to utilize their assets to generate profits. Improved board operations enhance strategic decision-making, monitoring of management, and compliance with governance standards, which in turn lead to higher returns on assets. Therefore, the study concluded that board operations and control positively and significantly affect the financial performance of listed commercial banks in NSE.

4.2.2 Stakeholder Relations and Financial Performance of Listed Commercial Banks

The second objective of the study was to ascertain the stakeholder relations on the financial performance of listed commercial banks. The study's null hypothesis was that stakeholder relations have no significant effect on the financial performance of listed commercial banks. The results show that rights of stakeholder relations have a positive and statistically significant effect on ROA ($\beta = 0.629$, $t = 8.387$, $p = 0.008$). These results indicate that a unit increase in stakeholder relations leads to a subsequent increase in financial performance by 0.629 units. Stakeholder relations are the most influential predictor in the regression model, indicating that organizations that protect shareholder rights, ensure equitable treatment, and maintain strong relationships with stakeholders achieve superior financial performance. Effective stakeholder engagement and shareholder participation enhance investor confidence, reduce conflicts, and improve access to resources, thereby improving the firm's ability to generate higher returns from its assets. Therefore, the study concluded that the rights of stakeholder relations positively and significantly affect the financial performance of listed commercial banks in NSE.

4.2.3 Internal Control Systems and Financial Performance of Listed Commercial Banks

The third objective of the study was to ascertain the effect of internal control on the financial performance of listed commercial banks. The study's null hypothesis was that internal control has no significant effect on the financial performance of listed commercial banks. The regression analysis reveals that the internal control system has a positive and statistically significant influence on ROA ($\beta = 0.398$, $t = 6.303$, $p = 0.001$). These results indicate that a unit increase in the internal control system leads to a subsequent increase in financial performance by 0.398 units. This implies that organizations with strong accountability mechanisms, effective risk management practices, and robust internal controls are better positioned to minimize losses, prevent inefficiencies, and optimize asset utilization. Therefore, the study concluded that internal control positively and significantly affects the financial performance of listed commercial banks in NSE.

4.2.4 Transparency and Financial Performance of Listed Commercial Banks

The last objective of the study was to ascertain the effect of transparency on the financial performance of listed commercial banks. The study's null hypothesis was that transparency has no significant effect on the financial performance of listed commercial

banks. The study findings indicated that transparency has a positive and statistically significant effect on ROA ($\beta = 0.487$, $t = 5.472$, $p = 0.009$). These results indicate that a unit increase in transparency leads to a subsequent increase in financial performance by 0.487 units. This suggests that timely, accurate, and comprehensive disclosure of financial and non-financial information reduces information asymmetry and enhances stakeholder trust. Increased transparency improves investor confidence and reduces the cost of capital, thereby enabling firms to use their assets more efficiently and achieve higher returns. Therefore, the study concluded that transparency and disclosures positively and significantly affect the financial performance of listed commercial banks in NSE.

4.3 Discussion of the Findings

The discussion interprets the empirical findings within the theoretical and contextual framework of corporate governance and financial performance, linking the statistical results to the relevant theories and existing empirical evidence. The analysis highlights how the corporate governance framework influences the financial performance of listed commercial banks in Kenya.

4.3.1 Board Governance and Financial Performance of Listed Commercial Banks

The results of the study provide strong empirical evidence that board governance plays a crucial role in enhancing the financial performance of listed commercial banks. The regression findings reveal a positive and statistically significant relationship between board operations and control and return on assets (ROA), as indicated by a coefficient of $\beta = 0.454$ and a p-value of 0.003. This implies that improvements in board operations and control mechanisms lead to a corresponding increase in financial performance. Consequently, the null hypothesis that board operations and control have no significant effect on financial performance is rejected. The magnitude of the coefficient further suggests that board effectiveness is a key determinant of how efficiently banks utilize their assets to generate profits.

These findings underscore the importance of effective board governance in fostering sound corporate governance within commercial banks. Strong board oversight enhances strategic decision-making by ensuring that management actions align with organizational objectives and shareholder interests. Through regular monitoring and evaluation of management performance, boards are better positioned to minimize agency problems, reduce operational inefficiencies, and promote prudent risk management. Such governance practices are particularly critical in the banking sector, where poor oversight can expose institutions to financial instability and regulatory sanctions.

Moreover, efficient board operations and control mechanisms contribute to improved compliance with regulatory and governance standards, which enhances stakeholder confidence. Banks with active and well-functioning boards are more likely to implement robust internal controls, transparent reporting systems, and ethical business practices. These factors not only protect bank assets but also improve operational efficiency, thereby translating into higher returns on assets. The statistically

significant relationship observed in the study highlights the practical relevance of governance reforms aimed at strengthening board effectiveness.

The findings align well with agency theory, which emphasizes the role of effective board operations and control in monitoring management and reducing agency conflicts between shareholders and managers, thereby improving asset utilization and profitability. From a stakeholder theory perspective, strong board oversight ensures accountability, transparency, and compliance, balancing the interests of various stakeholders such as regulators, depositors, and investors, which enhances overall financial performance. Consistent with stewardship theory, the positive effect suggests that effective boards support and empower management to act as good stewards of organizational resources, leading to improved strategic decisions and higher returns on assets.

4.3.2 Stakeholder Relations and Financial Performance of Listed Commercial Banks

The findings of the study demonstrate that the stakeholder relations have a strong and significant influence on the financial performance of listed commercial banks. The positive regression coefficient ($\beta = 0.629$) and high t-value (8.387) indicate that this governance dimension is a powerful predictor of return on assets (ROA). The statistically significant p-value (0.008) leads to the rejection of the null hypothesis, confirming that the protection of shareholder rights and effective stakeholder engagement contribute meaningfully to improved financial outcomes. Being the most influential variable in the model, the results suggest that governance practices centered on inclusivity and fairness are critical to bank performance.

These results imply that banks that uphold shareholder rights, such as voting rights, access to information, and equitable treatment, benefit from enhanced investor confidence and reduced agency conflicts. When shareholders are assured that their interests are protected, they are more likely to support management decisions and provide long-term capital, which strengthens financial stability. Additionally, strong stakeholder relations promote cooperation with key groups, including regulators, employees, customers, and the broader community, all of which are essential in the highly regulated and trust-dependent banking sector.

Furthermore, effective stakeholder engagement improves access to critical resources and supports risk management by fostering transparency and accountability. Constructive relationships with regulators reduce compliance risks, while positive employee and customer relations enhance operational efficiency and service quality. These factors collectively improve asset utilization, enabling banks to generate higher returns from their existing resources.

The results strongly align with agency theory, which argues that protecting shareholder rights and promoting active participation reduce agency conflicts and managerial opportunism, leading to improved financial performance. From a stakeholder theory perspective, the strong positive effect highlights the importance of maintaining effective relationships with stakeholders such as regulators, employees,

customers, and communities, which enhances trust, access to resources, and organizational stability. Consistent with stewardship theory, the findings suggest that when shareholders' rights are respected and stakeholders are engaged, managers are motivated to act as responsible stewards of organizational assets, resulting in superior asset utilization and higher returns on assets.

4.3.3 Internal Control and Financial Performance of Listed Commercial Banks

The results of the study indicate that internal control has a positive and statistically significant effect on the financial performance of listed commercial banks. The regression coefficient ($\beta = 0.398$) suggests that improvements in these governance mechanisms lead to higher returns on assets, while the high t-value (6.303) and low p-value (0.001) provide strong evidence to reject the null hypothesis. This confirms that effective internal governance systems are essential in enhancing the ability of banks to generate profits from their asset base.

These findings highlight the importance of accountability mechanisms in ensuring that management actions are aligned with organizational objectives and regulatory requirements. Clear accountability structures promote transparency and ethical behavior, reducing the likelihood of fraud, mismanagement, and resource wastage. In the banking sector, where trust and prudence are critical, such mechanisms enhance operational efficiency and safeguard institutional assets.

Moreover, effective risk management practices enable banks to identify, assess, and mitigate financial, operational, and compliance risks. By proactively managing risks, banks can reduce exposure to losses arising from credit defaults, market volatility, and operational failures. Robust internal controls further support this process by ensuring accurate financial reporting, compliance with policies, and early detection of irregularities. Together, these systems improve decision-making and asset utilization.

The results are consistent with agency theory, which emphasizes accountability, internal controls, and risk management as mechanisms for monitoring managers and reducing agency problems, thereby protecting shareholders' interests and improving financial performance. From a stakeholder theory perspective, strong risk management and internal controls enhance transparency, regulatory compliance, and protection of depositor and customer interests, strengthening trust and long-term relationships that support profitability. In line with stewardship theory, the positive effect suggests that when accountability systems are well established, managers act as responsible stewards of organizational resources, managing risks prudently and optimizing asset utilization to achieve higher returns on assets.

4.2.4 Transparency and Financial Performance of Listed Commercial Banks

The findings indicate that transparency has a positive and statistically significant effect on the financial performance of listed commercial banks. The regression results ($\beta = 0.487$, $t = 5.472$, $p = 0.009$) provide sufficient evidence to reject the null hypothesis, confirming that enhanced transparency contributes meaningfully to improved return on assets

(ROA). This suggests that banks that openly and accurately disclose financial and non-financial information are better positioned to achieve superior financial outcomes.

These results emphasize the role of transparency in reducing information asymmetry between management, investors, regulators, and other stakeholders. Timely and comprehensive disclosures enhance the credibility of financial reports, enabling stakeholders to make informed decisions. In the banking sector, where confidence and reputation are critical, transparent reporting strengthens trust and reduces uncertainty regarding a bank's financial health and risk exposure.

Furthermore, increased transparency improves investor confidence and can lower the cost of capital, as investors perceive transparent institutions to be less risky. Improved disclosures also promote stronger market discipline and internal accountability, encouraging management to use resources more efficiently. As a result, banks are able to optimize asset utilization, minimize inefficiencies, and enhance profitability.

The results align with agency theory, which views transparency and disclosure as key tools for reducing information asymmetry and monitoring managerial behavior, thereby limiting agency costs and improving financial performance. From a stakeholder theory perspective, enhanced disclosures build trust and accountability with investors, regulators, customers, and the public, strengthening relationships that support long-term profitability. Consistent with stewardship theory, the positive effect suggests that transparent reporting reflects managers' commitment to act as good stewards of organizational resources, promoting responsible decision-making, efficient asset utilization, and higher returns on assets.

5. Conclusions and Recommendations

5.1 Conclusions

The findings of this study provide robust empirical evidence that corporate governance practices have a significant and positive influence on the financial performance of listed commercial banks in Kenya. Across all governance dimensions examined, board governance, stakeholder relations, internal control, and transparency, the results consistently demonstrated statistically significant relationships with financial performance, measured by Return on Assets (ROA). This study concludes that corporate governance is not merely a regulatory or compliance requirement but a strategic tool that enhances efficiency, profitability, and sustainability in the banking sector.

The study established that effective board governance mechanisms significantly enhance financial performance. Boards that exercise strong oversight, strategic direction, and rigorous monitoring of management actions enable banks to utilize their assets more efficiently, make better strategic decisions, and comply with regulatory and governance standards. The significant positive relationship observed aligns with agency theory, which emphasizes the role of boards in mitigating conflicts of interest between management and shareholders. Additionally, from a stewardship perspective, effective boards empower management to act responsibly, optimizing asset utilization and

profitability. This underscores the importance of maintaining well-structured and active boards to strengthen oversight and governance practices in banks.

This governance dimension emerged as the most influential predictor of financial performance in the study. Banks that uphold shareholder rights, ensure equitable treatment, and engage effectively with stakeholders are better positioned to achieve superior financial outcomes. Effective stakeholder engagement and protection of shareholder interests enhance investor confidence, reduce agency conflicts, and improve access to resources, which translates into higher returns on assets. The findings affirm stakeholder theory, demonstrating that inclusive governance practices build trust and long-term stability, while also supporting the agency and stewardship theories, which emphasize alignment of interests and responsible management of organizational resources.

Robust internal controls were found to positively influence financial performance. These practices allow banks to identify, assess, and mitigate operational, financial, and compliance risks while ensuring accurate reporting and adherence to policies. By reducing inefficiencies, preventing losses, and enhancing decision-making, these governance mechanisms directly contribute to improved profitability and operational resilience. This study concludes that comprehensive internal governance is essential for sustainable performance, especially in the banking sector, where trust, prudence, and regulatory compliance are critical.

Transparency of financial and non-financial information was also positively and significantly associated with financial performance. Banks that provide accurate, timely, and comprehensive disclosures reduce information asymmetry, strengthen stakeholder trust, and enhance investor confidence. Improved transparency lowers the cost of capital and promotes efficient asset utilization, thereby boosting returns. This finding aligns with agency theory, which highlights disclosure as a tool for monitoring management, as well as stakeholder theory, which emphasizes accountability and trust-building with key stakeholders.

Overall, the study concludes that a well-designed and effectively implemented corporate governance framework is critical to the performance of listed commercial banks. The complementary nature of the governance dimensions indicates that an integrated approach, rather than isolated practices, maximizes financial outcomes. Collectively, the results suggest that banks with strong governance structures are better equipped to enhance profitability, maintain operational stability, meet regulatory requirements, and foster long-term stakeholder trust.

5.2 Recommendations

Based on the findings of this study, it is recommended that banks strengthen their board operations and control mechanisms. Well-structured and active boards that provide strategic guidance, rigorous oversight, and continuous monitoring of management actions significantly enhance financial performance. Banks should ensure that board members are appropriately trained in governance best practices, risk management, and

regulatory compliance. Regular evaluations of board performance are also essential to maintain effectiveness and ensure that boards contribute meaningfully to strategic decision-making and organizational oversight.

The study further recommends that banks enhance shareholder rights and stakeholder engagement. Policies that protect minority shareholders and ensure equitable treatment of all stakeholders are vital for building trust and confidence. Institutions should implement mechanisms for regular and meaningful communication with investors, employees, customers, and other stakeholders. Such engagement reduces agency conflicts, strengthens investor confidence, and improves access to resources, ultimately contributing to superior financial outcomes.

It is also recommended that banks focus on improving accountability, risk management, and internal control systems. Robust internal governance practices enable banks to identify, assess, and mitigate operational, financial, and compliance risks effectively. By fostering a culture of accountability and ethical decision-making, institutions can reduce inefficiencies, prevent losses, and enhance operational resilience. Regular reviews and updates of internal controls are critical to sustaining long-term performance, particularly in the highly regulated banking sector.

The study highlights the importance of transparency and disclosure in promoting financial performance. Banks should ensure that both financial and non-financial information is accurate, timely, and accessible to relevant stakeholders. Transparent reporting reduces information asymmetry, strengthens stakeholder trust, and lowers the cost of capital. Adoption of international reporting standards and adherence to regulatory guidelines can further enhance credibility and investor confidence.

Finally, the study recommends that banks adopt an integrated approach to corporate governance rather than implementing isolated practices. Viewing governance as a strategic tool, rather than merely a regulatory requirement, allows institutions to optimize profitability, maintain operational stability, and foster long-term stakeholder trust. Regulators should continue to provide guidance and frameworks to support effective governance, while periodically monitoring practices across the sector to ensure adherence to high-performance standards.

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Conflict of Interest Statement

The authors declare no conflicts of interest.

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