THE **ANALYSIS OF BOARD COMPOSITION AND FINANCIAL**

PERFORMANCE: A CASE OF THREE BANKS LISTED AT THE

DAR ES SALAAM STOCK EXCHANGE

AFRICAR TONONO KAGEMA

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation titled "The analysis of Board Composition and Financial Performance" in partial fulfillment of the requirements for degree of Master in Business Administration (MBA).

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Dr. S. E. Macha

(Supervisor)

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Date

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DECLARATION

I, **Africar Tonono Kagema**, do hereby declare that, this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

... …………………....................

Signature

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Date

DEDICATION

I dedicate this work to my beloved parents, the late Dads, Tonono Kagema Mwasongwe, Ambangile Kagema Mwasongwe and Robert Kagema Mwasongwe, may your dear souls rest in peace. Also my dedication goes to my cheerful Mum Thresia Kyambiki for laying the foundation of my education. Without their love and sacrifices they made towards the fulfillment of my education I would not be who I am today.

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ABSTRACT

The banks are a dominant component of the Tanzanian Financial System; they are engines of growth of Tanzanian economy. The board of directors, in today corporate, assumed responsibility for devising corporate strategy, evaluating managerial performance, providing strategic direction, putting corporate governance policies in place and ensuring an adequate return for the shareholders. The size and composition of the board of directors constitute of the most essential corporate governance norms. This study made to attempt assessing the performance of listed banks and the relationship with board size, composition of board members, committee meetings, bank age and board meetings. The collapse of major corporations such as Enron, Worldcom and Parmala has stimulated the recent interest in corporate governance and suggest the need for policies to promote the effective, powerful, and balanced board compositions and other aspects of corporate governance. With that in mind, in this study, I would like to answer the following research question: *"What is the relationship between board compositions and bank performance, measured by ordinary least square (OLS) on three listed banks at the DSE?"* In order to examine if there is a relationship between board composition and financial performance, I have done Descriptive and Multiple Regression analyses. Based on the results I can state that there is little evidence to suggest a linear positive or negative relationship between board composition and bank performance since the results show that the independent variables have negative relationship with return on assets and no significant impact on return on equity. Other results show a positive and negative relationship between independent variables with dependent variables.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Research Problem

Over the past years, a new wave of bank privatizations has significantly altered bank ownership structure in many countries. While governments have reduced their ownership stakes in banks, foreigners, and, to a lesser extent, large domestic block holders, including local companies and individuals, have stepped in. Consequently, the banking sector has experienced major transformations in its operating environment. Therefore, an efficient banking sector is better able to withstand negative shocks and contribute to the stability of the financial system.

The Board of Directors has long been recognized as an important corporate governance mechanism for aligning the interests of managers and all stakeholders to the firm. Corporate Governance plays a big role in the maximization of shareholders' wealth; therefore good corporate governance is important in order to increase the market value of a firm while higher financial leverage decreases a firm value by increasing bankruptcy risks (Sheifer and Vishny, 1997). Sound corporate governance mechanisms help assure investors that they will get their capital back and receive an adequate return on their investment.

Oman *et al*. (2003) argue that different forms of composition structures of the boards are associated with different sets of agency problems. In countries such as US and the UK where share ownership is widely diffused, agency problem is more common between managers and shareholders. In contrast, in developing countries

characterized with concentrated equity ownership, agency problem is most predominant between controlling shareholders and minority shareholders. Thus, strengthening board composition and other forms of firm level governance is important, and particularly so in developing countries with weak institutions that need to attract foreign resources.

Beyond helping to resolve agency problems between managers and other stakeholders, corporate governance is important to the economy (Levina, 2004; and Oman *et al*., 2003). In developing countries with weak legal redress when the developing country partner violates a contractual agreement (Collier, 2006), it could be argued that strengthening board structure and other firm level mechanisms of corporate governance could serve as a means of ameliorating the weakness of legal institutions and hence aid the attraction of foreign investment, with significant ramifications to the economy.

Levine (2004) also sees a link between corporate governance and the economy, arguing that it has the capacity to foster economic growth. According to him, sound corporate governance makes it more likely for owners of capital to monitor the activities of managers either directly or through voting on crucial matters or indirectly through the board of directors. This helps to protect shareholders interest, promote savings, investment and economic growth. Oman *et al* (2003) argue along similar lines, but see the importance of corporate governance on growth through a different channel. For them, well – governed firms are better able to raise productivity and aid economic growth.

Financial sector reforms in Tanzania began slowly in the 1984/85 but were intensified in 1986 by the Economic Recovery Program (ERP). The objectives of ERP (among others) were to direct more credit to the private sector. A presidential commission of enquiry into the monetary and banking system in Tanzania was also established in 1988, and a Banking and Financial Institutions Act was passed in 1991. This geared to effect financial sector reform through the restructuring of the existing financial institutions, to promote banking and strengthen the legislative and supervisory powers of the central bank. As from 1992, all banks and financial institutions (domestic and foreign) were now free to enter the banking market. Foreign banks were allowed to enter into the banking system through opening branches, representative offices, or by acquiring shares of local banks.

Experiences from developing countries have shown that bank's performance may vary across nations or between banks. Banking industry in Tanzania is open to entry and therefore it is highly contestable. What is still cloaked is the extent to which board composition affects banks' performance in Tanzania. This study examines the effect of board composition on banks' performance in the three banks listed at the DSE. And it is motivated by the gap that exists in the literature. The performance analysis of the banking sector has recently emerged as an important research trend.

1.2   Statement of the Research Problem

Banks' versatile role in the economic system has caught regulatory and supervisory interest around the world in an effort to inspire high quality corporate governance standards. Board composition, in the sense of board composition, and its impact on

corporate performance constitutes an indisputable and, at the same time, prevalent theme of the corporate governance discussion.

Banks are different from other corporate in important respects, and that makes corporate governance of banks not only different but also more critical. Banks lubricate the wheels of real economy, are the conduits of monetary policy transmission and constitute the economy's payment and settlement system. By the very nature of their business, banks are highly leveraged. Banks are interconnected in diverse, complex and oftentimes opaque ways underscoring theirs ''contagion'' potential. If a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy.

A series of structural reforms raised the profile and importance of corporate governance in banks.

The "composition'' reforms measures included mandating a higher proportion of independent directors on the boards; inducting board members with diverse sets of skills and expertise; and setting up of board committees for key functions like Audit and risk compliances, strategy and innovation, credit, governance management and human resources and nomination.

The collapse of major corporations such as Enron, WorldCom and the Bank of Credit and Commerce International (BCCI) in the UK and US has stimulated the recent

interest in corporate governance and suggest the need for policies to promote the effective, powerful, and balanced boards and other aspects of corporate governance.

The Asian economic crisis also has contributed to the raising profile of corporate governance. In East African Community (EAC), governance has been debated in the context of state ownership of corporations where corruption, mismanagement and government subsidization of failing enterprises have been the defining features. There has been an attempt to address corporate governance challenges in EAC by the privatization policy and the capital markets authorities. There has also been a worldwide effort to improve the effectives of corporate governance.

The issues that have stimulated interests in the phenomenon of corporate governance, point to particular causes of governance crises. These include weak legal and regulatory systems, inconsistent accounting and auditing standards, poor banking practices. The ineffective oversight by corporate boards of directors, and little regard for the rights of minority shareholders are also problems with respect to corporate governance (World Bank, 2000). Most of the studies were done in developed economies therefore contextual differences may yield different results, findings and conclusions of these studies may not apply to firms operating in Tanzania.

This study therefore attempted to see the analysis of board composition and financial performance, a case of three banks listed (i.e CRDB, NMB and DCB) at the Dar es Salaam Stock Exchange.

1.3   Research Objectives

1.3.1   Main Research Objective

The main research objective of this study focused on the analysis of board composition of the selected banks listed at the Dar – es – Salaam Stock Exchange and their performance.

1.3.2   Specific Objectives

The research aims to;

i)   Examine whether there is a significant relationship between board composition and financial performance.

ii)   Analyze the good combination of board members which will come with high performance with respect to three selected banks listed at the Dar –es – Salaam Stock Exchange.

iii)   Evaluate the effect of board meetings related to financial performance of the banks listed at the Dar – es – Salaam Stock Exchange.

1.4   Research Questions

i)   What is the relationship between board composition and bank performance?

ii)   What is the good combination of board composition which will turn to a high corporate governance hence high performance of the bank?

iii)   What are the effects of annual board meetings related to the financial performance?

1.5   Significance of the Study

Banks play pivotal role in reshaping economy of a country by mobilizing necessary

funds for businesses and helping in generating employment, promoting economic activity, improving corporate governance and consequently fostering economic growth. Therefore, well – governed banking sector would help businesses flourish and poorly governed banking sector would retard progress.

Thus, the findings of this study had great importance and benefits to diverse stakeholders including shareholders, investors, researchers and academicians as follows:

a) *To shareholders*; the study has given the direction to shareholders on the important of board composition of executive and non – executive directors in their firm in order to attain high financial performance.

b) *To the investors*; this study has answered the dilemma questions by investors on where to invest in long run performance expectation since the composition of executive and non – executive directors related to the financial performance of banks can be applied even on other firms.

c) *To academic research;* the study is important to them since it has suggested other researchable topics on related topics understudy from other listed and non – listed companies at the Dar – es – Salaam Stock Exchange, to facilitate the continuation of conducting more research in the related field of study.

1.6   Organization of the Study

The study is organized in five chapters; where each chapter states its contents. However, all contents found in each chapter have significant relationship to each other. Chapter one is all about background to the research problem, statement of the

research problem, research objectives, research questions, significance of the study and the organization of the study. Chapter two is about literature review, which comprises of overview, conceptual definitions, theoretical literature review, empirical literature review, policy review, research gap and conceptual and theoretical frameworks. Chapter three concerned with research methodology showing the overview of the study, research design, areas of the study, population of the study, sampling design and sample size, variables and measurement procedures, data collection methods. In additional, the chapter presents; data collection tools, reliability and validity of data, data processing and analysis, ethical considerations and expected research findings.

Chapter four makes interpretation of data, analysis and discussion of the findings. Finally chapter five present summary of the findings and their implications, conclusion, recommendation, limitation of the study and suggested areas for further studies.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Overview

This section reviewed the study on the related field, acknowledgement the contribution made by various scholars publication, business journals, text and periodicals, its identifies the gap and provide the way forward, a critical review is done to identify gaps, thereafter a summary is made on the study. The part has subdivided into five parts, the conceptual definitions, theoretical literature review, empirical literature review, policy review, research gap and the conceptual and theoretical frameworks.

2.2 Conceptual Definitions

The concept "corporate governance" has attracted various definitions. Metrick and Ishii (2002) define corporate governance from the perspective of the investor as "both the promise to repay a fair return on capital invested and the commitment to operate a firm, efficiently given investment". Cadbury Committee (1992) defines corporate governance as "the system by which companies are directed and controlled". Zingales (1998) also defines a governance system as "the complex set of constraints that shape the ex-post bargaining over the quasi rent registered by the firm".

According to Mayer (1997), corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms

are run for the benefit of investors. Corporate governance is concerned with the relationship between the internal governance mechanisms of corporations and society's conception of the scope of corporate accountability (Deakin and Hughes, 1997). It has also been defined by Keasey et al (1997) to include 'the structures, processes, cultures and systems that engender the successful operation of organisations.' Corporate governance is also seen as the whole set of measures taken within the social entity that is an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Maati, 1999).

Zingales (1998) defines corporate governance as a group of mechanisms used by stakeholders to ensure that directors efficiently manage corporate resources, a task that includes the manner in which quasi rents are developed and distributed.

According to Thomsen and Conyon, the board of directors is a group of people, who are elected by the shareholders and are responsible for the strategy of a company, hiring or firing CEO or management team, evaluating a company's performance with the help of financial statements and deciding on number of issues like manager's compensation and auditing (Thomsen & Conyon, 2012, p.142). Earlier the issue of power has been discussed in Mizruchi work (1983). Mainly, the author has questioned whether management or board dominates each other. It was believed that even though the board has a power to hire and fire the managers in reality management dominates board. Mizruchi came to a conclusion that board of directors would dismiss the CEO only in case if the performance of the company fails to meet

their expectations. Moreover, Mizruchi argues that board of directors has a control over long-term goals of the company whereas the management is dealing with daily affairs and often board of directors is not familiar with technical aspects of company's operations (Mizruchi, 1983, p. 433).

Corporate governance generally refers to the set of mechanisms that influence decisions made by managers when there is a separation of ownership and control. As discussed above, some of the independent variables used as measures of corporate governance are Executive Directors, Non − Executive Director, Committee Meeting, Board size, Board Meetings and Bank Age.

Though, corporate governance is considered to involve a set of complex indicators which face substantial measurement error due to the complex nature of the interaction between governance variables and performance indicators, the purpose of this study is to examine the influence of selected corporate governance variables namely Executive Directors (ED), Non − Executive Directors (NED), Committee Meetings, Board Size, Board Meetings and Bank Age have on performance variables of profitability (ROA, ROE, GPM and NPM), efficiency (NIM and OER) and capital adequacy (E/Li, LA/Li). The variables are carefully chosen because of data availability and measurement.

2.3   Theoretical Literature Review

In this section of theoretical literature review, the study mainly discussed the issues of the subject matter in line with the past studies done by other scholars under the guideline of the research objectives.

The literature on the relation between board structure (as a corporate governance device) and bank financial performance has registered significant growth, buoyed mainly by studies from developed, and to a lesser extent some developing, countries. The first element of board characteristics is concerning its composition. A board comprising a reasonable proportion of executive and non – executive directors is more likely to be independent of management than one dominated by executive directors, and therefore more likely to protect the interest of other stakeholders. The importance of non – executive directors has been recognized even at the level of policy, with codes of corporate governance giving a special attention to the need to have a reasonable proportion of them on the board of directors of the firms.

It is widely debated in the corporate governance literature as to whether board composition in the form of representation of outside independent directors may add any economic value to the firm (Kesner *et al.*, 1986); Hermalin and Weisbach, (2003); Petra, (2005). Prior research on board composition mainly focused on firms in advanced economies (Guest, 2008). Studies for example by Kaplan and Reishus (1990), Byrd and Hickman (1992), Brickley *et al.* (1994), and Beasley (1996) found a positive impact from appointing outside independent directors onto the board. Kesner *et al.* (1986) found that, although independent directors are not involved in illegal acts, adding outside independent directors cannot lessen a firm's illegal acts. Fernandes (2005) documented that the firms with non-executive directors have less agency problems and have a better alignment of shareholders and managers' interests.

2.4   Empirical Literature Review

In this section of empirical literature review, the study mainly discussed the issues of the subject matter in line with the past studies done by other scholars under the guideline of the research objectives. These studies have been divided into three parties namely; empirical literature review worldwide, Africa and Tanzania.

2.4.1 Empirical Literature Review Worldwide

Rosenstein and Wyatt (1990) show that the firm share price goes up when an additional outside director is appointed. Denis and Sarin (1999), in a study using a time-series analysis over a 10-year period, found that the changes in ownership and board structure are correlated with one another. Changes in ownership and board structure are strongly related to top executive turnover, prior share price performance, and corporate control threats. Cotter *et al.* (1997) studied the role of independent outside directors during takeover attempts by tender offer. They found that independent outside directors enhance target shareholder's gains from tender offers and a majority of independent directors are more likely to use resistance strategies to enhance shareholders' wealth.

In the view of Pearce and Zahra (1992) and Dalton et al. (1999) argue that as board size increase, the strategic decision making capabilities of the board increase and but Golden and Zajac (2001) argued that smaller boards are assumed to have inadequate confidence and unclear understanding in making strategic changes. If the board size increases the cost associated with it, like coordination cost and communication costs,

also increase (Rahej, 2005). Yermack (1996) empirically demonstrated that there is a negative relationship between board size and firm performance.

It is also suggested that measures of operating efficiency and profitability are negatively related to the board size (Yermack, 1996). Eisenberg et al. (1998), in their study on small firms, also found this negative relation between firm performance and board size. Van Ees et al. (2003) performed a similar study on the listed firms in Netherlands and found that, even though the system of control mechanism is different in Netherlands than in their US counterparts, there is a negative relation between board size and firm performances in Netherlands, similar to the US.

2.4.2 Empirical Literature Review in Africa

Certain measures of board independence (such as board composition and board meeting,) had significant positive while others show negative effect on firm performance on the three banks listed at the DSE. It is obvious that there is relatively mixed results regarding corporate governance and various performance measures among listed firms in Ghana. However, for efficient performance of firms, the adoption of the two-tier board composition and maintaining smaller board sizes that hovers around eight members is critical. Coleman and Biekpe (2008).

Aduda and Musyoka (2011) while looking at corporate governance mechanisms among commercial banks in Kenya found a negative relationship between executive compensation and bank size and this has been attributed to the diminishing influence of key owners as the bank grows in size. Performance ratios and opportunity only

appear to be inversely related to big banks, as their executives appear to subordinate their immediate financial interests to that of the overall goal of the firm, which is to maximize profitability.

Micco *et al.* (2004) examine the relationship between bank ownership and bank performance for banks in 119 countries. They find that in developing countries, state owned banks have lower profitability, higher costs, higher employment ratios, and poorer asset quality than their domestic counterparts.

Cornett, Guo, Khaksari, and Tehranian (2003) examine the differences in performance between state-owned and private banks in 16 Far East countries between 1989 and 1998.

A number of empirical studies on non - executive directors support the beneficial monitoring and advisory functions to firm shareholders (see Brickley & James (1987); Weisbach 1988; Byrd & Hickman (1992); Brickley et al. (1994). Baysinger & Butler (1985) and Rosenstein & Wyatt (1990) showed that the market rewards firms for appointing non - executive directors. Brickley et al (1994) found a positive relation between proportion of non - executive directors and stock-market reactions to poison pill adoptions. Also Kyereboah-Coleman and Biekpe (2005) found a positive relationship between proportion of non - executive board members and performance of MFIs in Ghana. However, Forsberg (1989) found no relation between the proportion of non - executive directors and various performance measures. Hermalin and Weisbach (1991) and Bhagat and Black (2002) found no

significant relationship between board composition and performance. Yemack (1996) also showed that, the percentage of non - executive directors does not significantly affect firm performance.

2.4.3 Empirical Literature Review in Tanzania

There is a no pure linear positive or negative relationship between board composition and bank performance on these three banks listed at the Dar − es − Salaam Stock Exchange. Therefore, effective monitoring mechanisms that aim to foster competition may also yield performance improvements. (Swai and Mbogela, 2014). Okiro et all (2015) shows that there is a positive significant intervening effect of capital structure (leverage) on the relationship between corporate governance and firm performance. From a theoretical perspective, corporate governance not only affects firm performance, but also uncovers the importance of capital structure in a corporate governance system.

The Microfinance Institution's board members are largely aware of their role, a few are either not aware or assertive enough, and this impacts the extent of their influence. Contrary to expectations, less educated, female, and local directors bring about superior financial and social performance of Microfinance Institutions. (Mori and Olomi, 2012).

Based on the review of literature (theoretical and empirical review), this study can confirm the following observations;

i) Some of the independent variables have shown positively related with profitability while others shown negatively related.

ii) In other case some independent variables are positively related while others negatively related with efficiency

iii) The results from capital adequacy show that some of the independent variables show positive related while others show negative related.

2.5   Policy Review

In Tanzania, a poor performance of the state-owned financial sector in late 1980s forced the government to search for new policy directions in 1990, a special presidential commission recommended: (i) increasing competition by encouraging entry of foreign banks; (ii) strengthening the existing financial institutions; and (iii) developing management accountability. Based on these, the government has issued a policy statement on financial sector reform with the aim of creating a market-based financial system, efficient in mobilizing and allocating resources and supporting long-term economic growth. (Mwega, 1992).

Until 1991 financial institutions and banks in Tanzania had been nationalized through the Arusha declaration, and the financial and economic system was fully controlled and owned by the State. In that financial system there were three commercial banks, two insurance companies, five development finance institutions (DFIs), two contractual savings institutions, one hired Purchase Company and the central bank.

In 1991, the Bank of Tanzania introduced some new guidelines to improve the management structure and financial growth and also to stop further mismanagement

in the financial sector. Through these guidelines the Bank initiated the licensing of banks and formed a prudential framework for asset management, accrual of interest and provision for losses. The eligibility to get a license (i.e. the minimum capital requirement) was increased and the demonstration of the ability to operate profitably, efficiently and prudentially was made mandatory for the applicants. To supervise the whole financial system of the country, BOT also strengthened its Supervision Directorate. Tanzanian government witnessed some advantageous effects by implementing financial reform; they included an establishment of new financial institutions and the formation of two banks by 1994.

A new regulatory framework has been introduced, organizational and financial restructuring of the two largest (formerly state owned) banks, the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank, has been implemented, and the sector has been opened to the entry of other financial services providers. The new Banking and Financial Institutions Act approved in the second half of 1991 allowed licensing of new banks, including subsidiaries of foreign banks. The first major foreign bank (Standard Chartered) started operations in 1992, with other international banks following. As at 31 December 2009 there were 40 financial institutions (including non-banking institutions).

2.6   Research Gap

Various studies have been done in context of developed economies however study regarding corporate governance and bank efficiency is very rare in context of developing countries. Dwivedi and Jain (2005), in their study on board size and firm

value, suggested a positive relationship. On the other hand, there are studies which point to a negative relationship between board size and firm performance in Indian context. Ghosh (2006) study on the relationship between financial performance and board parameters which include board size found that larger board size tends to have a negative influence on firm performance.

I in turn conducted a study that will be equally interesting from the finance and corporate governance points of view. I agreed with many other researchers that the health of a company depends not only on ex-post information (financial statements) but also on ex-ante information, where board compositions are considered to be the one. Since majority of previous research studies were mostly done in the developed countries and some other in very selective developing countries, I have decided to analyze the three banks listed in Tanzania markets.

Some research studies reveal that large board size leads to improved firm performance, whereas there have also been evidence of larger boards being inefficient in nature. So, this paper tried to bridge the gaps in the research relationship between corporate governance mechanism and bank performance in Tanzania of selected banks (i.e CRDB, NMB and DCB) listed at the Dar – es – Salaam Stock exchange.

Experiences from developing countries have shown that bank's performance may vary across nations or between banks (Neely, 1997). Banking industry in Tanzania is open to entry and therefore it is highly contestable. What is still cloaked is the extent

to which board composition affects banks' performance in Tanzania. This paper examines the effect of board composition on banks' performance in the three banks listed at the Dar-es-Salaam Stock Exchange.

Figure 2.1: Conceptual Frameworks

INDEPENDENT VARIABLES BOARD COMPOSITION

- Executive Directors
- Non – executive Directors
- Committee Meetings
- Board Size
- Board Meetings
- Bank Age

DEPENDENT VARIABLES FINANCIAL PERFORMANCE

PROFITABILITY
- Return on Asset (ROA)
- Net Profit Margin (NPM)
- Return on Equity (ROE)
- Gross Profit Margin (GPM)

EFFICIENCY
- Net Interest Margin (NIM)
- Operating Efficiency Ratio (OER)

CAPITAL ADEQUENCY
- Equity to Deposits Liability (E/Li)
- Liquid Assets to Deposits Liability (LA/Li)

Source: Author Construction (2016)

2.7 Theoretical Frameworks

The performance of banks can be judged from several angles and previous performance studies, such as Martin and Parker (1997) and Coelli (2002), have suggested that results can be sensitive to particular performance measures. Therefore, in this study I have considered profitability, efficiency and Capital adequacy as a combination of three dependent variables for performance measures. Profitability measures that have been used are Return on Assets (ROA), Gross Profit Margin (GPM), Net Profit Margin (NPM) and Return on Equity (ROE) and Efficiency measures are the Net Interest Margin (NIM) and Operating Efficiency Ratio (OER) because they capture different aspects of performance. However, the Equity to Deposits Liability (E/Li) and Liquid assets to Deposits Liability (LA/Li) had been used to capture for financial soundness of the banks (Capital Adequacy). These measures had also been used in earlier studies of bank ownership and performance Sarkar *et al.* (1998); De (2003) and Davies and Brucato (1987).

Other independent variables which could influence the performance of the banks were also included. These are Board size, Bank age, Board meetings and combination of Board members (Executive and Non − Executive Directors). The banks established for longer period might have enjoyed advantages, such as learning effect and a broader client base, over relative new banks. Larger banks with many branches might have also enjoyed the economics of scale or scope economies that have positive effects on their performance.

This part discusses the relevant theories that address the research objectives above.

There are several theories that can be used to study boards and governance, depending on the research objectives. For the purpose of my study and research objectives, I have chosen to employ the agency theory and resource dependence theory. I further argue that these theories suit this study since the literature review suggests that board roles broadly consist of monitoring (grounded in the agency theory) and advising (grounded in the resource dependence theory) (Dorado & Molz 2005).

2.7.1 Agency Theory

The early research start with the discussion of agency theory problems that arise between different agents involved in the company. In the classical agency theory that started from Jensen & Meckling (1976) and Fama (1980) a firm is viewed as a set of contracts between different agents, who have self-interests and at the same time depend on each other in order to perform better and survive in the market. Jensen & Meckling say that relationships between stockholders and managers are perfectly fitting agency theory representing different agents with self-interests and therefore associated with the "separation of ownership and control", which is extensively discussed in work by Fama & Jensen (1983) , Jensen & Meckling, (1976), p. 1975).

The agency theory assumes that owners of an organization (principals) and those that manage the organization (agents) have different interests. Hence owners will face the problem that managers are likely to act according to their own interests rather than the owners' interests (Fama & Jensen 1983). In this regard, boards are required to monitor managers on behalf of the owners. In performing this role, members are

expected to be independent and monitor the actions of managers as agents of the owners to ensure they are acting in accordance with the owners' interests (Jensen & Meckling 1976). The theory suggests that board composition is important for effectively monitoring top management (Hussein & Kiwia 2009). Boards have to be diverse in terms of skills, experience, and gender balance. This creates a balance on boards and leads to effective monitoring and subsequently to the successful performance of the organization.

Agency theory provides the theoretical underpinning upon which the literature on corporate governance has flourished. The theory states that in the presence of information asymmetry the agent is likely to pursue interests that may hurt the principal, or shareholder (Ross, 1973); Fama, (1980). Within the context of the stakeholder theory, the problem of agency has been widened to allow for multiple principals. Thus, instead of treating shareholders as the sole group whose interest the agent should protect, the stakeholder theory sees other groups such as employees of the firm, creditors, government etc. also as having equally vital stakes in the performance of the firm, a fact amply demonstrated by the thousands of job losses, reduced tax revenues, high costs of litigation etc that came in the wake of such high-profile corporate frauds as occurred at Enron, Global Crossing, Parmalat and Worldcom. Since there are many stakeholders, the agent is sometimes confronted with the difficult choice of meeting competing stakeholder interests.

Agency theory suggests that corporate boards that meet more frequently and are more representative have increased capacity to effectively advise, monitor and

discipline management, and thereby improving corporate financial performance (Ntim & Osei, 2011). An important measure of corporate boards' monitoring power and effectiveness is the frequency of board meetings (Jensen, 1993). This study found a statistically positive association between the frequency of corporate board and committee meetings and corporate performance. Generally the study observed that there is little evidence to suggest that, there is pure linear positive or negative relationship between board composition and financial performance.

2.7.2 Resource Dependence Theory

The board members are required to provide organizations with resources (Hillman & Dalziel 2003). The provision of resources is linked to the resource dependence theory. This theory holds that organizations are interdependent (Pfeffer & Salancik 1978) in that they depend on each other and various actors for their survival as well as for resources. As a result, they need to find different ways of managing this dependence and ensuring they get the resources and information they need.

From this perspective, the board is seen as one means of reducing uncertainty by creating influential links (Hillman & Dalziel 2003; Peng 2004). Board members provide organizations with various resources through board members' skills, experience, and expertise. Pfeffer and Salancik (1978) also note that 'when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will invariably present it to others, and will try to aid it'.

Diversity in the composition of boards is important if boards are to effectively provide advice and resources. Board members with different skills and experience and of both genders contribute to effective resource provision and to the beneficial performance of organizations. In summary, both theories advocate that boards should have a diversity of competent members who are able to effectively monitor top managers and provide organizations with the resources they need. By performing these roles, board members are able to positively influence the performance of organizations. Although this study finds little evidence to suggest that, there is pure linear positive or negative relationship between board compositions with effect to financial performance on the three banks listed at the DSE but I believe that board members with different skills, experience, good compositions and a highly representative bring highly performance.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Overview

This part focused on the research design used and why it is preferred, area of the research, sampling design and procedures, variables and measurement procedures, methods of data collection, data processing and analysis.

3.2 Research Design

This study used a deductive approach, where the researcher goes through the information, which is known about a certain area or found from the previous studies, and derives an analysis which then is tested through the empirical scrutiny.

The research is a case study of analysis of board composition and financial performance of three selected banks listed at the Dar − es − Salaam Stock Exchange. The approach enabled the research to come up with an in-depth account of not only the analysis of board composition with related to firm financial performance, but also tried to give awareness to the shareholders the good composition of non − executive directors with those of executive directors.

3.3 Area of the Study

The study conducted on three selected banks (i.e CRDB, DCB, NMB) listed at the Dar − es − Salaam Stock Exchange. The reasons for the selections are as follows; first, these are only banks listed at the DSE more than five years and secondly, the control system of banks is different from other corporate because if a bank fails, the

impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy.

3.3.1 CRDB Bank Plc

CRDB Bank Plc ("CRDB Bank" or the "Bank") and its subsidiaries (together, "the Group") provide corporate and retail banking services including microfinance services in Tanzania as well as Burundi. The Bank is a public limited company incorporated under the Companies Act 2002 and domiciled in Tanzania. The Bank and its subsidiaries-CRDB Microfinance Services Company Limited (MFSC) operate in Tanzania; and CRDB Bank Burundi S.A. operates from Bujumbura in Burundi. The Bank's principal activity is the provision of banking and related financial services. The Group's other major subsidiary provides microfinance services through the Bank's branch network.

The Group offers a comprehensive range of Corporate, Retail, Treasury, Premier, and wholesale banking and microfinance services through a network of 103 static and mobile branches, 311 ATMs including 18 Depository ATMs, 1,162 Point of Sales (POS) terminals, 491 Agents (fahari Huduma) and 441 Microfinance partners' institutions.

3.3.2 DCB Bank Plc

Dar es Salaam Community Bank Limited (DCB) is a private microfinance bank dedicated to financing poverty alleviation programmes, aimed at uplifting the standard of living of the majority of low income people in Dar es Salaam. It was

registered in 2001 and incorporated in Tanzania under the Companies Ordinance, and licensed by the Bank of Tanzania under the Banking and Financial Institutions Act, 1991, as a regional unit commercial bank. Dar es Salaam Community bank commenced operations to the public on 15th April 2002. In 2008, DCB became the first bank in Tanzania to be listed to Dar es Salaam Stock Exchange (DSE). In February 2012, the Bank changed its name from Dar es Salaam Community Bank Plc to DCB Commercial Bank Plc and in July 2012, the bank was issued with a license to carry out banking business country wide as a fully-fledged Commercial Bank.

Each DCB branch is installed with onsite shared ATM of Umoja Switch. We offer ATM services through Umoja Switch. There are more than 120 ATMs across the Country shared by 24 banks in Tanzania which are DCB Commercial Bank Plc, Akiba Commercial Bank, Azania Bank, BOA Bank, Twiga Bank, Tanzania Investment Bank, Uchumi Commercial Bank, Access Bank Tanzania Ltd and Commercial Bank of Africa. Others are Tanzania Women Bank, Mkombozi Commercial bank, Peoples Bank of Zanzibar, Tanzania Postal Bank, Kilimanjaro Corporative Bank, Efatha Bank, NIC Bank, Njombe Community Bank, Mwanga Community Bank, Mufindi Community Bank, agera Farmers' Cooperative Bank, Mbinga Community Bank and Amana Bank.

3.3.3 NMB Bank Plc

NMB was established under the National Microfinance Bank Limited Incorporation Act of 1997, following the break-up of the old National Bank of Commerce, by an

Act of Parliament. Three new entities were created at the time, namely: (a) NBC Holdings Limited (b) National Bank of Commerce (1997) Limited and (c) National Microfinance Bank Limited.

Initially NMB could only provide payment services as well as offer savings accounts, with limited lending capabilities, before becoming a fully-fledged universal retail bank.

On the Distribution side, NMB branch network increase from 147 to 153 branches, of which 136 are in rural areas, and 17 are in Dar Es Salaam. Also NMB continues to expand its network of Business Centres, targeted at large corporate, SME's and Government. These are located in Arusha city, Mwanza city and Dar es Salaam. Currently, NMB operates 600 ATMs and has entered into cooperation with Vodacom, a Mobile Network Operator (MNO), and allowing NMB Mobile customers to transact directly to and from their M-Pesa mobile payment platform. This effectively expanded the bank's physical distribution with another 40,000 additional cash-in/cash-out points operated by M-Pesa agents.

3.4   Population of the Study

The target population for this study comprised all the fourteen (14) companies listed at the Dar – es – Salaam Stock Exchange. Due to time factors I will do the analysis for only three banks which have more than five years and have full financial statements from the year 2009 to 2014.

Table 3.1: The list of the Listed Companies at the DSE Is as Shown Below

S/No.	Company	Date Listed	Nature of Business
1.	TOL Gases Ltd	15th April, 1998	Production and distribution of industrial gases, welding equipments, medical gases, etc.
2.	Tanzania Breweries Ltd	9thSeptember,1998	Production, marketing and distribution of malt beer in Tanzania
3.	Tatepa Company Ltd	17th December, 1999	Growing, processing, blending, marketing and distribution of tea and instant.
4.	Tanzania Cigarette Co. Ltd	16th November, 2000	Manufacturing, marketing, distribution and sale of cigarettes.
5.	Tanga Cement Public Co. Ltd	26th September, 2002	Production, sale and marketing of cement.
6.	Swissport Tanzania Ltd	26th September, 2006	Airports handling of passengers and cargo.
7.	Tanzania Portland Cement Company Ltd	29th September, 2008	Production, sale and marketing of cement.
8.	Dar – es – Salaam Community Bank	16th September, 2008	Commercial bank
9.	National Microfinance Bank	6th November, 2008	Commercial bank
10.	CRDB Bank	17th June, 2009	Commercial bank
11.	Precision Air Services Plc	21st December, 2011	Air transport services
12.	Maendeleo Bank Plc	4th November, 2013	Commercial bank
13.	Swala Gas and Oil	11th August, 2014	Mineral Exploration
14.	Mkombozi Commercial Bank	29th December, 2014	Commercial bank

Source: DSE Website (2016)

3.5   Sampling Design and Procedures

3.5.1 Research Design

This research used a case study designed using both the quantitative and qualitative (descriptive) research methods. Quantitative design used in order to get the output of the financial performance while qualitative design used to analyze the board compositions in terms of executive and non – executive directors.

The study conducted through the use of case study designed to focus on a single area (area of study) and various types of data collected were used. Moreover, case study designed gave room for research to analyze the particular unit in detail with its findings being unique from the rest, excels at bringing me to an understanding of a complex issue or object which extended experience or added strength to what is already known through previous research.

3.5.2 Procedures

In order to undergo the research, I got a letter of clearance from The Open University of Tanzania which allowed me to collect data from the three banks listed at the Dar – es – Salaam Stock Exchange aiming to introduce me to the Dar –es – Salaam Regional Administrative Secretary (RAS) so as to request the authority by whom will allow me to collecting Data of their firms.

3.5.3 Sampling Unit

According to Mugenda M. and Mugenda G. (1999) Sampling is the process of selecting a number of individuals for a study in such a way that the individuals

selected represent the large group from which they were selected. With this aspect sampling should be in respect of representative of the whole population with relevant characteristics.

3.5.4 Sample Size

According to Kothari (2007) sample is a collection of some parts of the population to be a true representative of the population. Sample size refers to a number of items to be selected from the population.

The target population for this study conducted based on the sample of three publicly banks among all fourteen (14) companies listed at the Dar − es − Salaam Stock Exchange (DSE). First of all, due to this study I have listed all fourteen (14) companies, the dates of listed and the nature of business and secondly, I chose only banks which have published their annual reports not less than five years from the date of listing. According to the list of companies listed at the DSE the banks which are listed and published their annual reports not less than five are Dar − es − Salaam Community Bank which was listed on 16th September, 2008, National Microfinance Bank listed on 6th November, 2008 and CRDB Bank listed on 17th June, 2009.

3.5.5 Sampling Methods

Sampling method or technique defined as a process of selecting a number of individual or objects from a population such that the selected group contains elements representative of characteristics found in entire group (Kothari, 2007). There are two types of sampling, namely Probability and Non-probability sampling.

In probability sampling, there is equal opportunity for all the elements to be selected, while in non-probability sampling, no equal chance for the element to be selected.

This study used non – probability sampling particularly Purposive Sampling. In this case the study used extreme case sampling. Kombo and Tromp (2006:83), defines extreme case sampling as type of purposive sampling which focuses on the cases that are rich in information because they are special in some way.

3.5.6 Variables and Measurement Procedures

There are two categories of variables for this study, independent variable and dependent variables. The independent variable measures board composition where others dependent variables measure financial performance: ROA, ROE, NPM, GPM, NIM, OER, E/Li and LA/Li.

The variables which used in this study are board size, numbers of executive and non – executive directors, number of meetings (for board composition) as independent variables while return on asset, net profit margin, gross profit margin, return on equity, net interest margin, operating efficiency ratio, equity to deposits liability and liquid assets to deposits liability as dependent variables.

Table 3.2: Description of Variables and Their Measurement

Variables	Measurement
A: Profitability	
1. Return on Asset (ROA)	ROA is measured as the ratio of net profit to total assets during a financial year, to show the return on bank's assets.
2. Net profit margin (NPM)	NPM is measured as the ratio of profit after tax and interest to total income during the financial year, to show the return of net profit on bank's income.
3. Return on equity (ROE)	ROE is measured as the ratio of net profit to shareholders funds (Ordinary share plus reserves). To show the return to shareholders on the bank's earnings.
4.Gross profit margin (GPM)	GPM is measured as the ratio of gross profit to total income during a financial year, to show the return on bank's income.
B: Efficiency	
1. Operational efficiency Ratio (OER) (%)	OER is measured as a ratio of Non interest expenses + Interest expense/ loan & Advances + probable losses. To determine how efficiency the bank has been in making loans. The lower the % the more the efficient the bank is.
2. Net Interest Margin (NIM)	NIM is measured as the difference between interest earned and interest expended to average total assets. NIM measures the efficiency of portfolio management of banks. The higher the % the better.
C: Capital adequacy	
1. Liquid assets to Customer deposit Liabilities (LA/Li) (%)	LA/Li is measured as the Liquid assets / customer deposits. To show how many liquid assets the bank has to cover Customer Deposits i.e. represents a financial variable (liquidity) that enables the assessment of the banks' capability to allocate the borrowed resources.
2. Equity capital to Deposit Liabilities (E/Li) (%)	Total shareholders' funds to total deposits. Shows the extent to which total capital covers the bank's deposit liability.
D: Board Composition	
1. Executive Director	This is a member of the board of directors of a company who is also an employee (usually full time) of that company and who often has a specified are of responsibility.
2. Non – Executive Directors	This is member of the board of directors of company who does not form part of the executive team.
3. Board Size	This is the total number of board members which form a board of Directors
4. Board Meetings	These are the number of board meetings during the year.
5. Committee Meetings	These are the number of committee meetings during the year.
6. Bank Age	This is the number of years since the bank started business.

Source: Authors (2016)

3.5.7 The Model

Ordinary Least Square (OLS) regression model is used to analyze the relationship between mechanism of the corporate governance and performance variables. The model estimated in this study assumes that the bank performance depends on several corporate governance and control variables. The corporate governance variables considered are executive directors, non – executive directors, board meetings, committee meetings and bank age. The dependent variables considered are return on assets, return on equity, net profit margin, gross profit margin, net interest margin, and operational efficiency ratio, equity to deposits liability and liquid assets to deposits liability.

The multiple regression equation shown below has several slope estimates (regression coefficients). When the independent variables are correlated with each other, one of the slope estimates might be influenced by other slope estimates. In this case, the correlation analysis is needed in order to define whether the regression coefficients are reliable. But before that I considered it was important to go through the practical issues, which happened during the analysis.

Therefore the model took the following form:

Bank performance = f (corporate governance variables, control variables)

More specifically,

Bank performance = $\beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$, which can simplified more as;

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

Where,

Y = a measure of performance (ROA, ROE, NPM, GPM, NIM, OER, E/Li and LA/Li)

β_0 = the intercept term

β_1 = Coefficient of board size

β_2 = coefficient of number of executive directors

β_3 = coefficient of number of non – executive directors

β_4 = coefficient of board meetings

X_1 = board size

X_2 = number of executive directors

X_3 = number of non – executive directors

X_4 = number of board meetings

ε = error term

''The goal of the regression is to arrive at the set β values, called regression coefficients that bring the Y values predicted from the equations as close as possible to the Y values obtained by the measurement'' (Tabachnick & Fidel, 2007, p. 118).

3.6   Data Collection

The data collection of this study will be done through annual reports, which are considered as objective, because they are developed and published based on certain regulations that companies must follow (IFRS : IAS 1). The way they are presented and designed might be different in other areas, but general rules and regulations they follow are similar. Popper (cited in Coldwell, 2007, p. 3) suggests that there is a

possibility to use subjective thoughts as objective ideas that exist independent from the individuals who initially spoke or wrote about them. Even though there is possibility that annual reports, which are written by managers, who can unconsciously add their subjective thoughts or judgements concerning a company's performance, one could still consider annual reports as a product of objective decisions, since not only a manager who is responsible for a company's financial statement.

In this study, the collection of financial information with the help of annual reports is necessary. I believe that annual reports as a secondary information source are objective and trustable, therefore I will not be biased and I have no intention to present misleading results. Based on that, I argue that my research is objective.

3.6.1 Data Collection Methods

The study used secondary data which were obtained from a review of audited financial statements. Through audited financial statements I managed to calculate the Return on Assets (ROA), net profit margin (NPM), return on equity (ROE), gross profit margin (GPM), net interest margin (NIM), operating efficiency ratio (OER), equity to deposits liability (E/Li) and liability assets to deposits liability (LA/Li) as independent variables. However, apart from that I managed to collect data for the combination of Board members (Executive and Non – Executive Director), board size, bank age and board meeting.

The periods of the study were 2010, 2011, 2012, 2013 and 2014. This period is significant because it signifies when at least every bank was about one year after first

listed (i.e DCB bank was first listed on 16th September, 2008, NMB bank on 6th November, 2008 and CRDB bank on 17th June, 2009) at the DSE.

3.6.2 Data Collection Tools

The data for this study were extracted from the audited financial statements and other annual reports from DSE, banks websites and other different sources. I used secondary panel data from the three banks sourced from the audited annual reports. The study period is from 2010 to 2014.

During the pilot study, I also collected brochures, leaflets, journals, books, research articles, magazines, board policies, board TORs, and other relevant information from the offices of the three banks visited, as well as from websites such as www.emaraldinsight.com, www.jstor.org, www.4shared.com , www.oro.open.ac.uk and www.scholar.google.com, http://crdbbank.com, http://www.nmb.com, htt://www.dse.co.tz and http://www.dcb.co.tz. Some of which had a clear description of their mission, vision, target groups, and in some cases even board composition. The secondary information proved useful for asking focused or follow-up questions. Data analysis continued during and after data collection and focused on identifying patterns, differences, similarities, and apparent links in the data. A system of categories for collecting and sorting data greatly facilitates identifying scripts. Although the types of categories used depend on the research project, experienced field researchers typically employ several broad categorization schemes for collecting observational data. Furthermore, I clustered information that addressed primary questions such as what, why, who, how, and when (Lofland 1976). This

clustering allowed me to identify emergent themes in the data without introducing premature analytical bias.

3.6.3 Reliability and Validity of Data

The study used the reliable and valid data from yearly audited financial statements for five years from 2010 to 2014 of the three banks listed at the Dar − es − Salaam Stock Exchange.

Reliability is concerned whether the techniques and methods used in a research would produce similar results if this research was repeated in another occasion or by another researcher. It is not so easy to ensure the reliability of the research, thus it is important to remember and avoid some threats, which we are going to mention. One of them is researcher error, which might happen if some of the factors like a researcher's mood might influence his interpretation. Another important threat that might take place is researcher's bias, which implies that a researcher may allow being very subjective. (Saunders et al., 2012, p. 192).

Reliability according to Bryman, concerns with the issues of consistency of measures (Bryman, 2012, p. 168). Moreover, Bryman states that reliability has three factors that make a study reliable. The first factor is stability, which looks at the measures as stable over time. In other words, the measures used in a study should lead to the same results and do not fluctuate over time (Bryman, 2012, p. 169). For our study, we believe those measures we used can be reliable. We have only taken one-year financial information of companies, representing the financial results for the year

2012. We are sure that taking the same financial year data, another researcher will end up with the same results. Our measures are also stable, since they are unchanged financial results for the past 2012 year. Another factor that Bryman mentions is internal reliability. This factor is applicable for multiple-indicator measures, which should be related between each other (Bryman, 2012, p. 170). For our study, this factor is not applicable; our data collection has not been done with the help of multiple questions. The last factor of reliability is inter-observer consistency. It is relevant when a research has been conducted by more than one researcher, in this case subjectivity can give a rise.

For my study, I have followed the same steps in collecting and analysing the data. The segmentation of companies is done according to Altman's categorization. The information about the board has been collected from annual reports and the numbers presented are objective. The statistical analyses have been conducted accordingly and interpreted with high level of objectivity.

Validity is concerned with how accurate the measure represents a concept (Zikmund et al., 2013, p.304). Validity according to Bryman refers to issue whether an indicator used can really be used in order to measure the concept (Bryman, 2012, p. 171). There are internal and external validity. Internal validity mostly relates to causality, where there is a causal relationship between variables (Bryman, 2012, p. 47). Simply, can my selected independent variables of the board composition structure be used in explaining the financial performance? I have based my decision on numerous previous research studies, where the board compositions have already

been tested and showed the connection with financial performance conditions. Thus, I can be sure that my measures can in fact be used to measure the financial performance.

External validity is concerned with the question whether the same results can be applied to the population, based on the samples (Bryman, 2012, p.47). I in my study have selected three banks listed not less than five years at the DSE. I believe that even though some of the companies were eliminated from the study due to time factors, the same results would be obtained if they could be included in the study. Measurement validity is concerned with the question whether a measure used in defining the concept does really reflect that concept (Bryman, 2012, p. 47). For my study, dependent variable is expressed by regression model, which was proved to indicate the financial conditions of banks and be a recognized prediction model for financial performance. The rest independent variables were expressed either in real numbers or percentage ratios. The same measurements were used in previous research studies, which make me sure that my measurements are reliable.

3.6.4 Data Processing and Analysis

Two methods of data analysis were employed and the results were therefore divided into two to reflect this categorization. The first type of analysis was descriptive analysis, which provides some percentages, mean, trends and averages of board size, numbers of executive and non – executive directors, number of board meetings (for board composition structure) as independent variables. The second type of analysis was regression especially fixed effects approach which was used to measure the

return on asset, net profit margin, gross profit margin, return on equity, net interest margin, operating efficiency ratio, equity to deposits liability and liquid assets to deposits liability as dependent variables. Presentations of the results were in a form of table and charts. Finally, the conclusion and recommendations are based on the findings of the research.

3.7   Ethical Consideration

Ethical refers to the standards of behavior that guide researchers' conduct in relation to the rights of those who become the subject of research, or are affected by it (Saunders, Lewis & Thornhill, 2012).

When conducting research studies it is not only important to take into consideration all the required steps when doing certain studies, but it is also very vital to be aware of ethical issues. Ethics by itself is a very broad concept, but if we look at it from the research perspective it might be defined as a code or a set of rules how researchers supposed to behave when conducting a research (Wells, 1994, p. 284). In addition, social norms of behaviour are affecting researchers' actions. Social norms are the type of behaviour that a researcher needs to adopt in a particular situation (Saunders, 2000, p.131). Hence, it is important to consider ethical issues during the research conduction and be aware of how this study might influence the ones whom the researcher is approaching and those, who might be affected by this research.

The nature of business research refers that in most of the cases a researcher will be involved in the data collection where individuals from the real world will take part

through interviews, observations or surveys. For example, a researcher who is conducting his studies in a certain organization should be sensitive to the fact that his presence is temporal and his studies will not lead to unpleasant consequences in the environment of employees who participated in this research (Saunders, 2000, p. 131).

According to Lindorf (2007), p. 22, there are three ethical principles, which are important to take into consideration when conducting research. The first one is justice which requires that the "benefits and burdens" of the studies should be equally distributed among groups. It happens in the situations where employees might be forced to participate in the research due to their belonging to a certain company. In addition, because they are working in a certain company or an area they should not be contacted at inappropriate times or forced to disclose any information. Since I collected data from the downloaded audited annual reports that I find in companies' home pages, I believe that in my case the justice is present. The information used in my study is secondary and truthful.

The main goals of the research conducted are different from different perspectives. For example, researchers conduct studies in a company due to their desire to define new knowledge, whereas shareholders are seeking for new ways for increasing their welfare. Thus interests of society are usually complex and dependent on different dimensions. The consequence of those interests might be because of complexity to provide fair and transparent information. There might be a situation where the organization which sponsored the research will not be happy if researchers will publish any negative issues related to this company (Lindorf, 2007, p. 23).

The second ethical principle is "beneficence", which requires researchers to secure the well-being of participants through maximizing the benefits they provide with the research and minimizing the risks of harm during and after the research is conducted. For example, the qualitative research strategy involved in data collection can affect a life of participants even if they are recorded as anonymous (Lindorf, 2007, p. 24). Since I used the secondary information in my research paper which is open publicly, therefore I suppose that risks of making harm to a certain company by using its annual report in my research studies are close to zero.

The third principle is respect of participants which is shown through considering them as "autonomous agents" and providing protection to them. Many researchers can consider that study, which benefits the organization as beneficial to society in general. Many explain it from the perspective of the shareholder theory, where the researchers are helping the shareholders in the enhancement of their welfare (Lindorf, 2007, p. 26). I suppose that my research from the social aspect will be beneficial to shareholders and investors when making a decision about investing to a certain company looking at its board composition in case there is a relationship between composition and financial performance. My research might influence the regulations and companies' acts when it comes to board composition. The characteristics of the board under examination in this study might show influence on the financial performance, thus, some new regulations or reconsiderations can be made. As it was mentioned above, Lindolf (2007) stated that many researchers consider the contributions to the enhancement of shareholders' welfare as an impact to society. My research is valuable to the investors and shareholders who are

outsiders and do not have enough information when considering the financial condition of a certain company. Thus I also consider that my research will make a contribution to society from perspective of shareholders and investors.

Since I collected data through annual reports, I was very attentive to avoid misinterpretations of companies' financial statements. I didn't work face-to-face with companies' board of directors or managers, thus ethical issues that might arise I tried to avoid by interpreting the information provided in a correct way without any misleading. Another example is when secondary data might be concerned with privacy. It might be due to the case when a researcher wants to get an access to the employees' personal data, which has a high level of confidentiality. I also didn't work with confidential information therefore I considered privacy issues were not significant in my research. Besides, that is the privilege of a company to choose which information they are considering as publicly available. Therefore, any secret information was not provided in annual reports. In addition, there is another important aspect to pay attention to the data collection stage, which is engaged with a number of ethical considerations like issues related to the method of data collection. One of the main principles when collecting data is to stay objective. In this context objective means that a researcher should collect data accurately and without involvement of any subjective decisions or judgements (Saunders et al., 2000, pp. 134-135).

In this study, the researcher ensured that there is confidentiality of the data provided by the banks. In addition, researcher ensures anonymity of participant's identities.

Before collecting the data, banks were informed the purpose of the study and the way the results were used for. The study complied with standards, rules, regulations and ethical requirements on collecting data and reporting those data.

3.8   Expected Research Findings

The findings revealed the relationship between corporate governance and firm performance and confirm the significant intervening effect of board composition on the relationship between corporate governance and firm performance.

CHAPTER FOUR

4.0 INTERPRETATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Overview

This chapter provides data analysis and discuss the findings for the objectives in the first chapter. It starts by presenting data collected from the field, it proceeded by providing analysis of what was found in the field and finalise by providing discussion though making comparison with what other schoolars have found in their studies.

4.2 Interpretation of Results

4.2.1 Presentation of Collected Data

4.2.1.1 Total Assets

Table 4.1 below shows the increase of total assets for both banks, the total assets for NMB had been increased from Tshs. 2,107,081,000,000 equals to 14.79% in 2010 to Tshs. 3,881,995,000,000 which is equals to 27.25% in 2014, the same to CRDB bank which has been increased from Tshs. 2,304,573,278,000 equals to 14.62% in 2010 to Tshs. 4,124,729,000,000 equals to 26.17% in 2014 while the total assets for DCB bank have been increased from Tshs. 95,212,873,479 equals to 15.52% in 2010 to Tshs. 157,512,830,000 which is equals to 25.67% in 2014. This shows that the total assets of CRDB banks have increased more compared to NMB and DCB banks. The figure 4.1 below shows how the total assets for both banks have been increased from year 2010 to 2014.

Table 4.1: Total Assets

BANKS	YEARS (Tshs)					
	2010	2011	2012	2013	2014	TOTAL
NMB	2,107,081,000,000	2,170,250,000,000	2,800,747,000,000	3,287,175,000,000	3,881,995,000,000	14,247,248,000,000
CRDB	2,304,573,278,000	2,713,124,000,000	3,074,816,000,000	3,545,220,000,000	4,124,729,000,000	15,762,462,278,000
DCB	95,212,873,479	99,358,956,475	117,440,069,000	143,969,471,000	157,512,830,000	613,494,199,954

Source: Banks Audited Financial Statements

Figure: 4.1: Total Assets
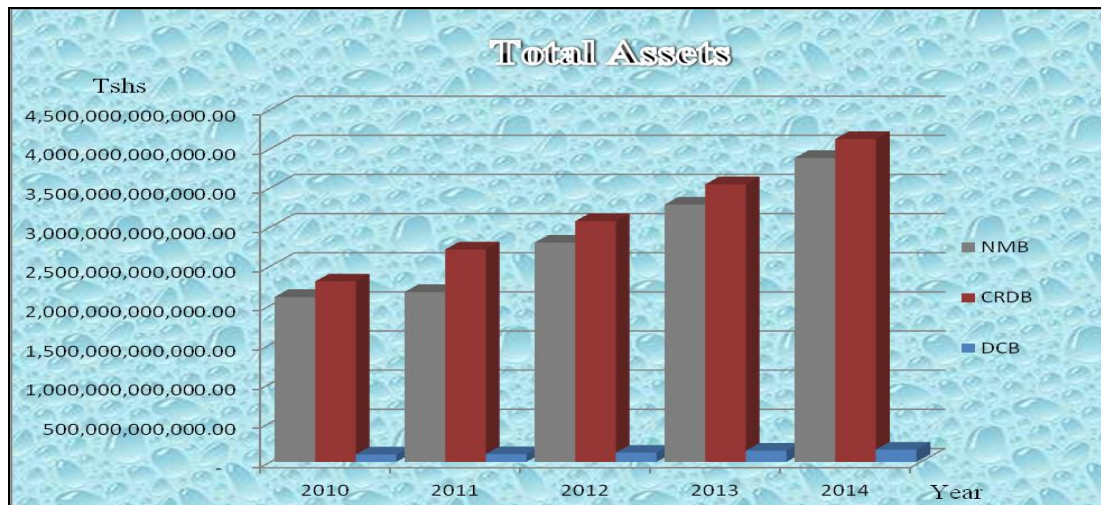
Source : Banks Audited Financial Statements

4.2.1.2 Net income

Table 4.2 below shows the fluctuation of the net income for both banks, the net income of NMB have been increased from Tshs. 275,282,000,000 equals to 14.48% of the total net income of five years in 2010 to Tshs. 561,622,000,000 equals to 29.54% in 2014, where the net income for CRDB bank has been increased from Tshs. 225,496,000,000 equals to 12.82% in 2010 to Tshs. 511,266,000,000 equals to 29.06% in 2014 while the net income for DCB bank have been increased from Tshs. 16,429,637,231 equals to 14.17% in 2010 to Tshs. 32,259,256,000 equals to 27.82% in 2014. This show that NMB banks leads to have net income increased to 30% compared to CRDB and DCB banks which their net income have been increased to 29% and 28% respectively in year 2014 to total income for five years. The figure 4.2 below shows how the histograms of net income for both banks from year 2010 to 2014.

Table 4.2: Net Income

BANKS	YEARS (Tshs)					
	2010	2011	2012	2013	2014	TOTAL
NMB	**275,282,000,000**	**212,614,000,000**	**382,513,000,000**	**468,989,000,000**	**561,622,000,000**	1,901,020,000,000
CRDB	**225,496,000,000**	**246,612,000,000**	**356,001,000,000**	**419,976,000,000**	**511,266,000,000**	1,759,351,000,000
DCB	**16,429,637,231**	**18,577,210,707**	**21,062,323,000**	**27,632,887,000**	**32,259,256,000**	115,961,313,938

Source: Banks Audited Financial Statements

Figure 4.2: Net Income

Source: Banks Audited Financial Statements

4.2.1.3 Gross Profit

The gross profit for both NMB, CRDB and DCB banks on table 4.3 below have increased from Tshs. 92,734,000,000 ,Tshs. 119,429,000,000 and Tshs. 12,341,052,557 equal to 9.54%, 11.96% and 16.85% respectively in 2010 to Tshs. 287,881,000,000 ,Tshs. 300,286,000,000 and Tshs.18,102,830,000 equal to 29.61%, 30.07% and 24.72% repectively in 2014. These results show that NMB and CRDB banks have experienced higher gross profit increase to 30% compared to DCB bank which gross profit has increased only to 25% in year 2014. This can be seen on figure 4.3 below which shows the graph of gross profit for both banks for the period.

Table 4.3: Gross Profit

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	**TOTAL**
NMB	**92,734,000,000**	**123,226,000,000**	**207,367,000,000**	**261,092,000,000**	**287,881,000,000**	972,300,000,000
CRDB	**119,429,000,000**	**115,955,000,000**	**211,143,000,000**	**251,824,000,000**	**300,286,000,000**	998,637,000,000
DCB	**12,341,052,557**	**12,924,440,756**	**12,440,477,000**	**17,412,669,000**	**18,102,830,000**	73,221,469,313

Source: Banks Audited Financial Statements

Figure 4.3: Gross Profit
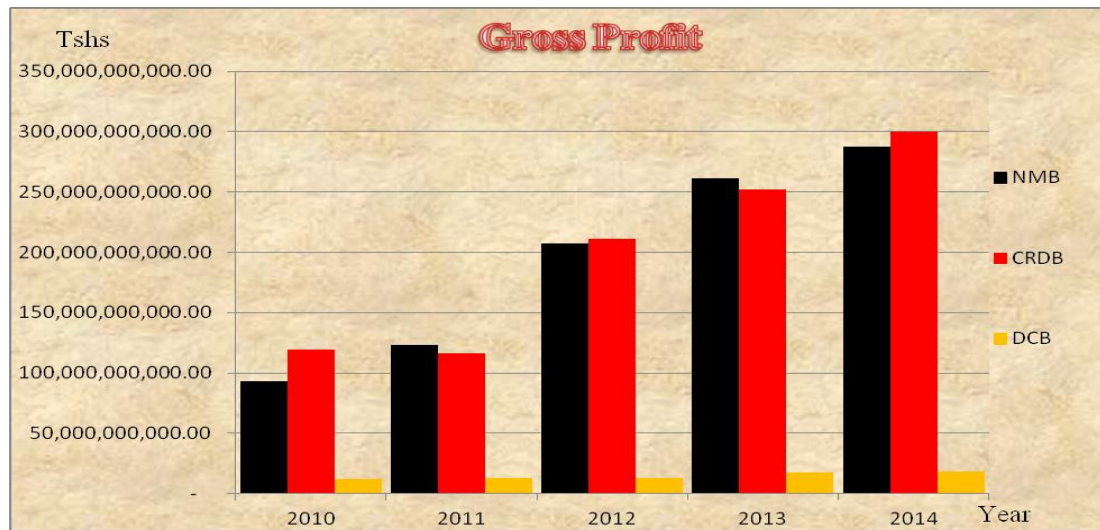
Source: Banks Audited Financial Statements

4.2.1.4 Net Profit

The table 4.4 below shows that the net profit of CRDB had been decreased from Tshs. 46,355,000,000 in 2010 equals to 20.56% of the net income to Tshs. 36,322,000,000 in 2011 equals to 14.73% of the net income before being increased to Tshs.77, 806,000,000 equals to 21.86% of the net income in 2012 and Tshs. 95,304,000,000 which was equal to 18.64% of the net income in 2014. The net profit for NMB bank had increased from Tshs. 53,981,000,000 in 2010 equals to 19.61% of the net income to Tshs. 155,623,000,000 equals to 27.71% of the net income for 2014 while the net profit for DCB bank had been fluctuating from Tshs. 3,166,457,462 equals to 19.27% of the net income in 2010 to Tshs. 3,776,624,000 which was equal to 11.71% of the net income in 2014, these results can also be seen in figure 4.4 below.

Table 4.4: Net Profit

BANKS	YEARS (Tshs)					
	2010	2011	2012	2013	2014	TOTAL
NMB	**53,981,000,000**	**71,839,000,000**	**97,322,000,000**	**133,638,000,000**	**155,623,000,000**	512,403,000,000
CRDB	**46,355,000,000**	**36,322,000,000**	**77,806,000,000**	**83,607,000,000**	**95,304,000,000**	339,394,000,000
DCB	**3,166,457,462**	**3,261,648,081**	**1,908,430,000**	**3,711,123,000**	**3,776,624,000**	15,824,282,543

Source: Banks Audited Financial Statements

Figure 4.4: Net Profit
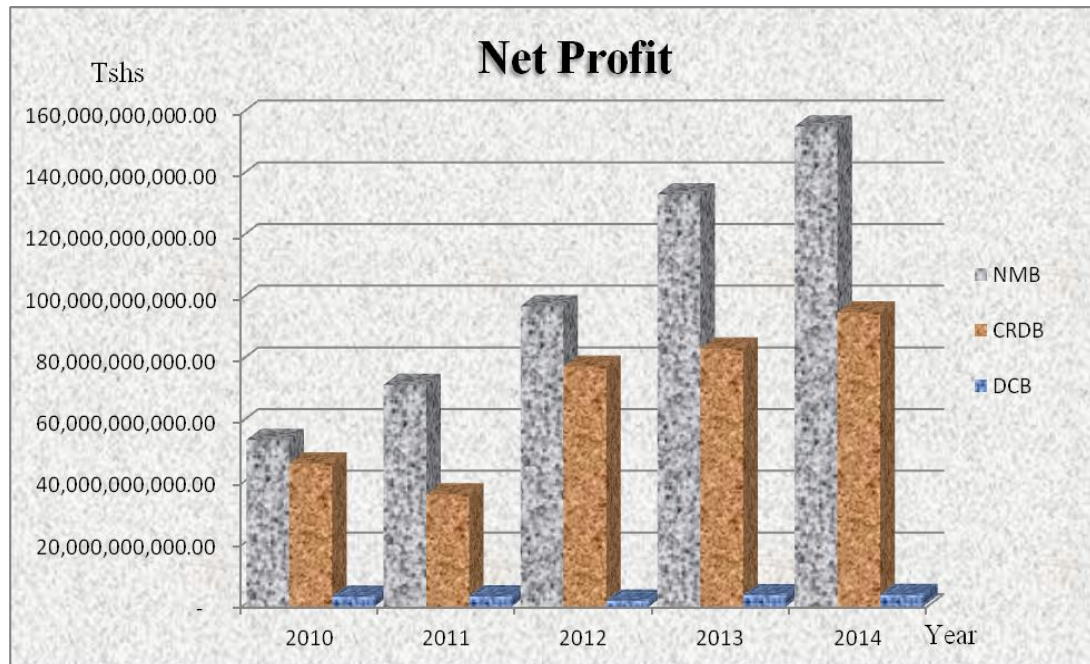
Source: Banks Audited Financial Statements

4.2.1.5 Equity (Ordinary Shares plus Reserves)

The table 4.5 below shows the increase of equity of both NMB, CRDB and DCB banks from Tshs. 230,520,000,000, 140,933,000,000 and 14,818,210,979 in 2010 to Tshs. 567,221,000,000, Tshs. 434,236,000,000 and Tshs. 33,926,956,000 in 2014 respectively. The results shows that the ordinary share plus reverse of NBM bank has been increased from 12.16% in 2010 to 29.93% in 2014, where the CRDB bank has been increased from 9.65% in 2010 to 29.74% in 2014. On the other hand the ordinary share plus reserve of DCB bank has been increased from 12.20% in 2010 to 27.93% in 2014 as it has shown on figure 4.5 below.

Table 4.5: Equity (Ordinary shares plus Reserve)

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	**TOTAL**
NMB	**230,520,000,000**	**284,359,000,000**	**356,310,000,000**	**456,666,000,000**	**567,221,000,000**	1,895,076,000,000
CRDB	**140,933,000,000**	**201,501,000,000**	**312,958,000,000**	**370,284,000,000**	**434,236,000,000**	1,459,912,000,000
DCB	**14,818,210,979**	**16,524,983,732**	**24,202,479,000**	**31,981,687,000**	**33,926,956,000**	121,454,316,711

Source: Banks Audited Financial Statements

Figure 4.5: Equity (Ordinary shares plus Reserve)
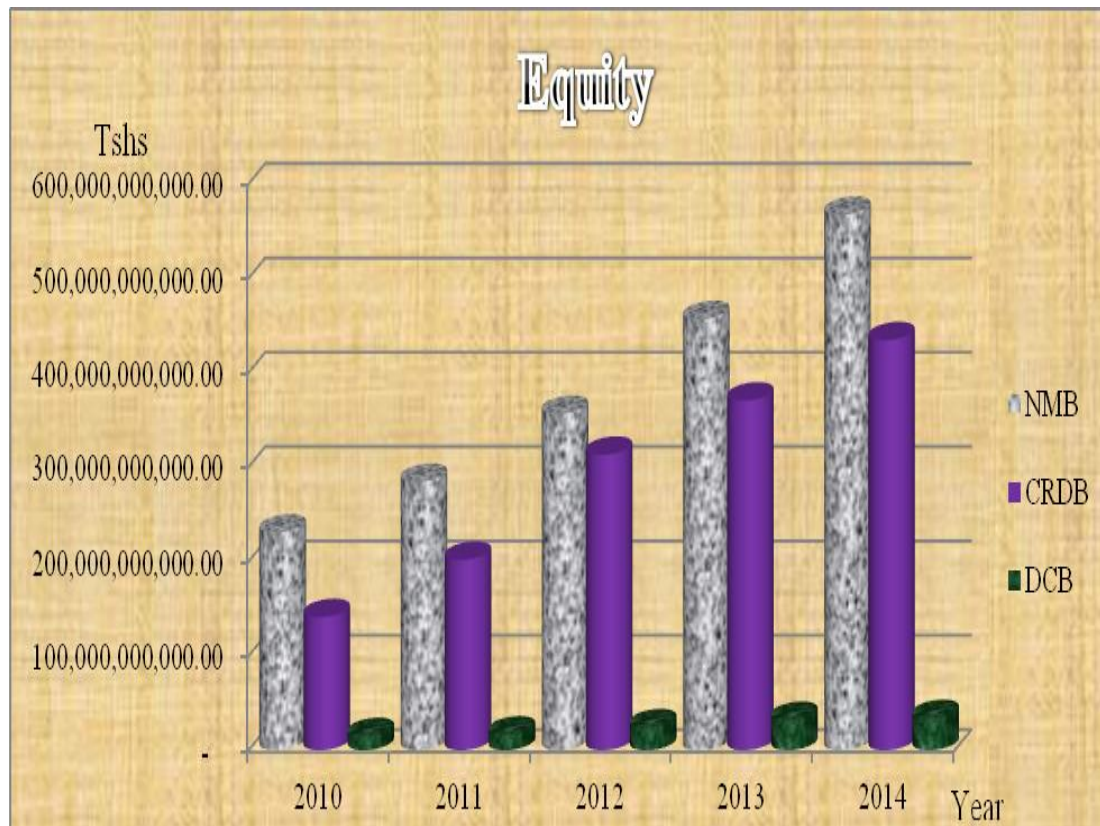
Source: Banks Audited Financial Statements

4.2.1.6 Net Interest

The table 4.6 and figure 4.6 below show the increase in net interest of both NMB, CRDB and DCB banks from Tshs. 128,736,000,000, 100,817,000,000 and 8,261,298,517, equals to 10.53%, 11.96% and 13.35% in 2010 to Tshs. 361,750,000,000, Tshs. 237,673,000,000 and Tshs. 17,584,871,000 equals to 29.59%, 28.20% and 28.42% in 2014 respectively.

Table 4.6: Net Interest

BANKS	YEARS (Tshs)					
	2010	2011	2012	2013	2014	TOTAL
NMB	128,736,000,000	173,421,000,000	252,725,000,000	306,027,000,000	361,750,000,000	1,222,659,000,000
CRDB	100,817,000,000	122,169,000,000	179,747,000,000	202,510,000,000	237,673,000,000	842,916,000,000
DCB	8,261,298,517	10,901,081,279	10,710,999,000	14,412,516,000	17,584,871,000	61,870,765,796

Source: Banks Audited Financial Statements

Figure 4.6: Net Interest
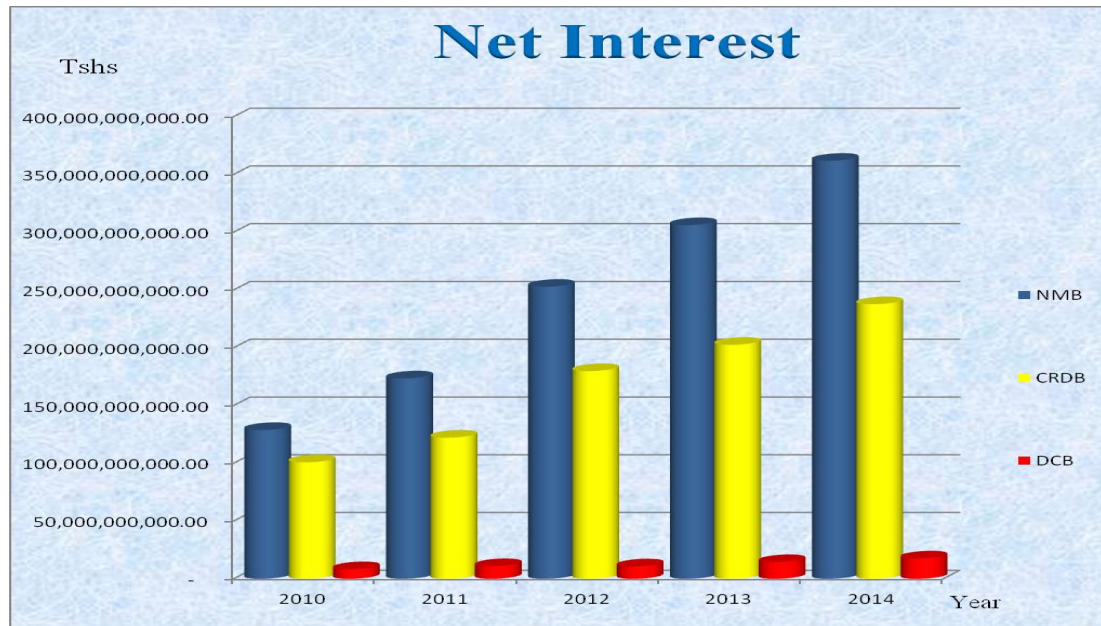
Source: Banks Audited Financial Statements

4.2.1.7 Operational Costs

The table 4.7 below shows the increase of operational costs of all banks. The operational costs for NMB bank had been increased from Tshs. 134,169,000,000 equals to 11.54% in 2010 to Tshs. 336,963,000,000 equals to 28.99% in 2014, where the operational costs for CRDB bank had been increased from Tshs. 162,406,000,000 equals to 12.55% in 2010 to Tshs. 381,258,000,000 equals to 29.46% in 2014, while the DCB bank operational costs had been increased from Tshs. 12,186,382,913 equals to 12.96% in 2010 to Tshs. 27,036,373,000 equals to 28.76% in 2014. The figure 4.7 below shows the graph of operational costs for both banks from year 2010 to 2014.

Table 4.7: Operational Costs

BANKS	YEARS (Tshs)					
	2010	2011	2012	2013	2014	TOTAL
NMB	134,169,000,000	172,496,000,000	237,772,000,000	280,957,000,000	336,963,000,000	1,162,357,000,000
CRDB	162,406,000,000	197,737,000,000	252,093,000,000	300,694,000,000	381,258,000,000	1,294,188,000,000
DCB	12,186,382,913	14,139,943,530	18,221,757,000	22,412,753,000	27,036,373,000	93,997,209,443

Source: Banks Audited Financial Statements

Figure 4.7: Operational Costs

Source: Banks Audited Financial Statements

4.2.1.8 Loans and Advances

The loans and advances for both NMB, CRDB and DCB banks on the table 4.8 below have increased from Tshs. 1,010,091,000,000 ,Tshs. 1,418,761,000,000 and Tshs. 65,034,477,646 in 2010 to Tshs. 2,148,297,000,000 ,Tshs. 2,784,056,000,000 and Tshs.99,607,316,000 in 2014 repectively. These results show that CRDB bank has experienced higher loans and advances followed by NMB bank, where DCB bank experienced less amount paid as loans and advances as it can be seen on the figure 4.8 below.

Table 4.8: Loans and Advances

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	**TOTAL**
NMB	**1,010,091,000,000**	**1,296,255,000,000**	**1,548,994,000,000**	**1,767,669,000,000**	**2,148,297,000,000**	**7,771,306,000,000**
CRDB	**1,418,761,000,000**	**1,639,964,000,000**	**1,820,556,000,000**	**2,304,098,000,000**	**2,784,056,000,000**	**9,967,435,000,000**
DCB	**65,034,477,646**	**66,332,814,751**	**73,696,541,000**	**93,487,550,000**	**99,607,316,000**	**398,158,699,397**

Source: Banks Audited Financial Statements

Figure 4.8: Loans and Advances
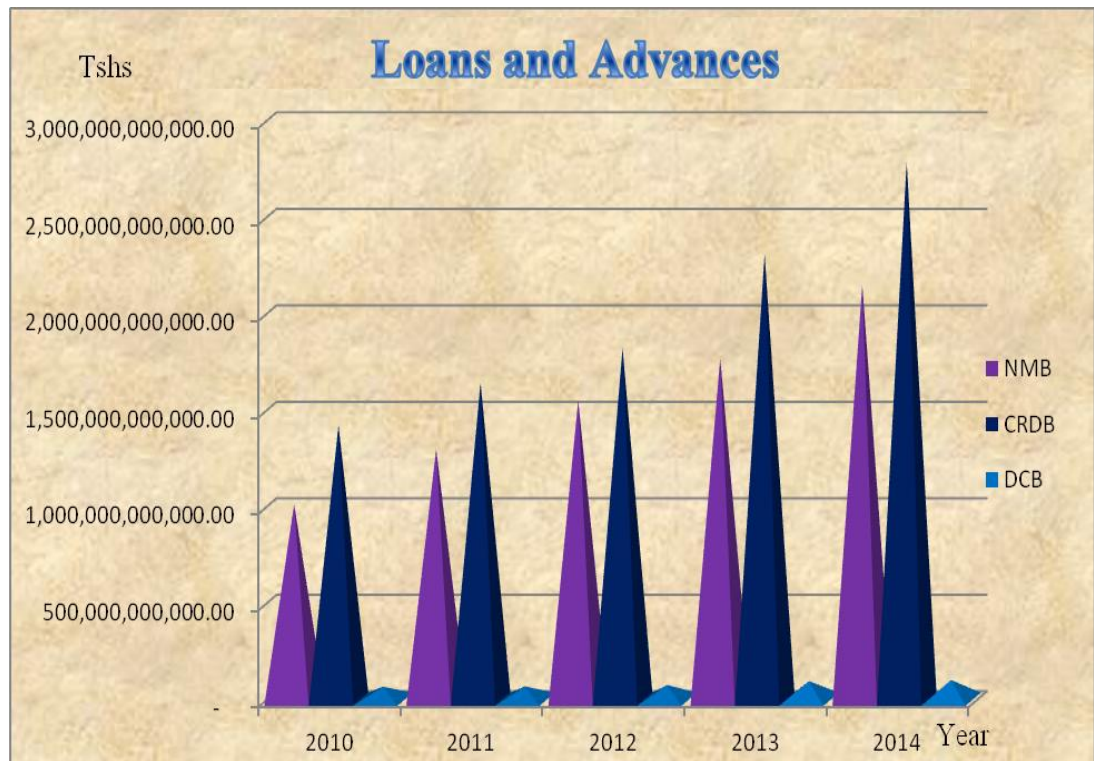
Source: Banks Audited Financial Statement

4.2.1.9 Customer Deposits Liability

The results from table 4.9 and figure 4.9 below show that the CRDB bank has a higher customer deposits liability of Tshs. 2,019,937,000,000.00 in 2010 to Tshs. 3,361,995,000.00 in 2014, where the NMB bank customer deposits liability were increased from Tshs. 1,812,647,000,000.00 in 2010 to Tshs. 2,974,068,000,000.00 in 2014 at the same time the customer deposits liability for DCB bank were the least of Tshs. 64,941,498,399.00 in 2010 to Tshs. 92,916,405,000.00 in 2014.

Table 4.9: Customer Deposits Liability

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	**TOTAL**
NMB	**1,812,647,000,000**	**1,804,699,000,000**	**2,289,979,000,000**	**2,582,625,000,000**	**2,974,068,000,000**	**11,464,018,000,000**
CRDB	**2,019,937,000,000**	**2,408,986,000,000**	**2,583,050,000,000**	**3,008,452,000,000**	**3,361,995,000,000**	**13,382,420,000,000**
DCB	**64,941,498,399**	**64,963,720,158**	**71,645,881,000**	**84,132,600,000**	**92,916,405,000**	**378,600,104,557**

Source: Banks Audited Financial Statements

Figure 4.9: Customer Deposits Liability
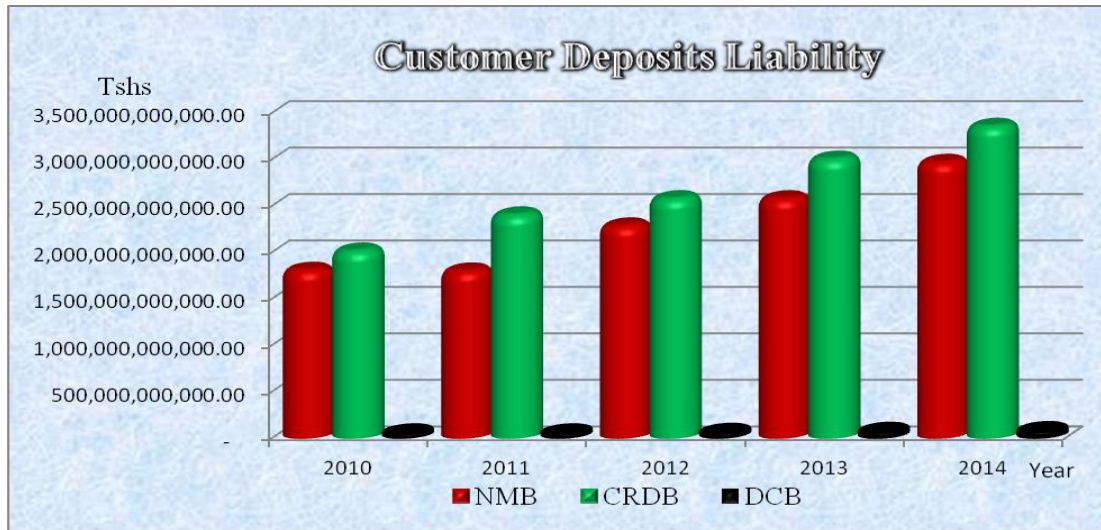
Source: Banks Audited Financial Statements

4.2.1.10 Liquid Assets

The table 4.10 below shows that the liquid assets of NMB bank had been increased from Tshs. 2,061,322,000,000.00 in 2010 to Tshs. 3,796,148,000,000.00 in 2014, where the CRDB bank were increased from Tshs. 2,237,360,000,000.00 in 2010 to Tshs. 3,999,881,000,000.00 in 2014, at the same time the liquid assets for DCB bank were increased from Tshs. 94,215,031,213.00 in 2010 to Tshs. 148,787,989,000.00 in 2014. The graph for liquid assets can be seen on figure 4.10 below.

Table 4.10: Liquid Assets

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	**TOTAL**
NMB	**2,061,322,000,000**	**2,110,599,000,000**	**2,729,205,000,000**	**3,198,427,000,000**	**3,796,148,000,000**	13,895,701,000,000
CRDB	**2,237,360,000,000**	**2,634,384,000,000**	**2,982,800,000,000**	**3,436,115,000,000**	**3,999,881,000,000**	15,290,540,000,000
DCB	**94,215,031,213**	**95,401,917,295**	**112,507,416,000**	**136,644,998,000**	**148,787,989,000**	587,557,351,508

Source: Banks Audited Financial Statements

Figure 4.10: Liquid Assets
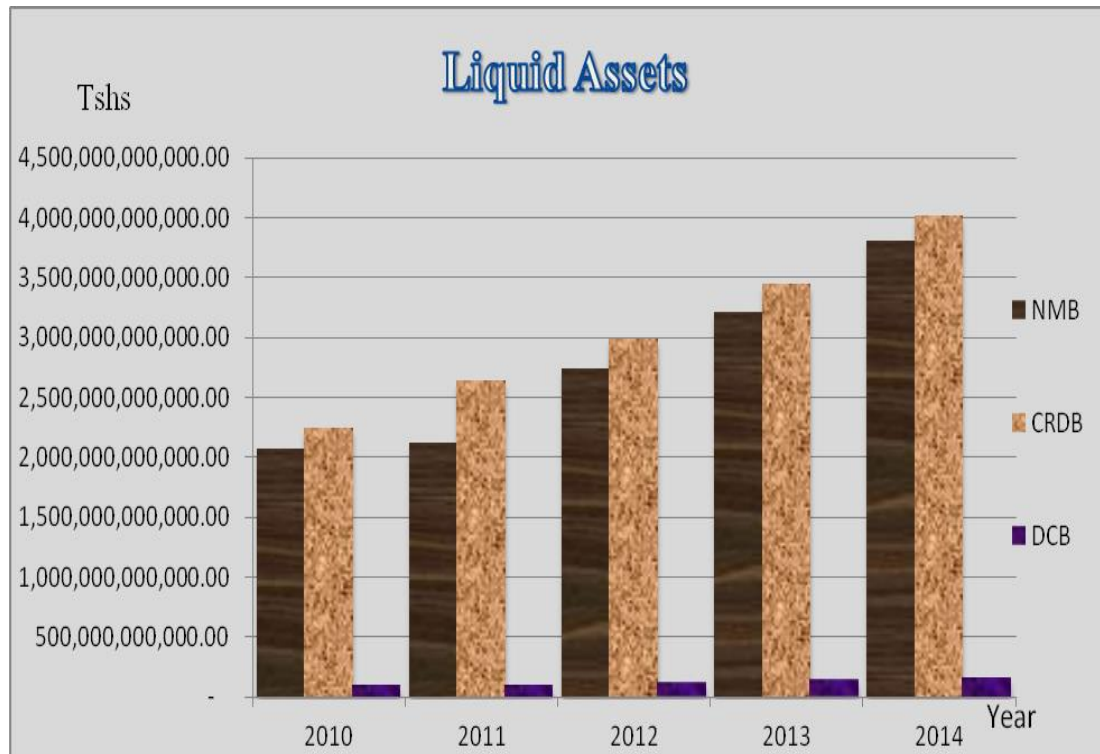
Source: Banks Audited Financial Statements

4.2.1.11 Total Deposits Liability

On examining table 4.11 below, it can be observed that, the total deposits liabilities of CRDB is higher compared to other banks since were increased from Tshs. 2,036,224,000,000 in 2010 to Tshs. 3,398,063,000,000.00 in 2014 followed by NMB bank where the total deposits liabilities were increased from Tshs. 1,842,089,000,000.00 in 2010 to Tshs. 3,011,884,000,000.00 in 2014. Also the results from figure 4.11 below show that the total deposits liabilities for DCB bank were increased from Tshs. 79,165,500,523.00 in 2010 to Tshs. 113,105,180,000.00 in 2014.

Table 4.11: Total Deposits Liability

BANKS	YEARS (Tshs)					
	2010	**2011**	**2012**	**2013**	**2014**	TOTAL
NMB	**1,842,089,000,000**	**1,836,669,000,000**	**2,360,731,000,000**	**2,584,026,000,000**	**3,011,884,000,000**	11,635,399,000,000
CRDB	**2,036,224,000,000**	**2,411,577,000,000**	**2,718,630,000,000**	**3,062,307,000,000**	**3,398,063,000,000**	13,626,801,000,000
DCB	**79,165,500,523**	**81,072,141,149**	**90,933,319,000**	**102,730,362,000**	**113,105,180,000**	467,006,502,672

Source: Banks Audited Financial Statements

Figure 4.11 :Total Deposits Liability
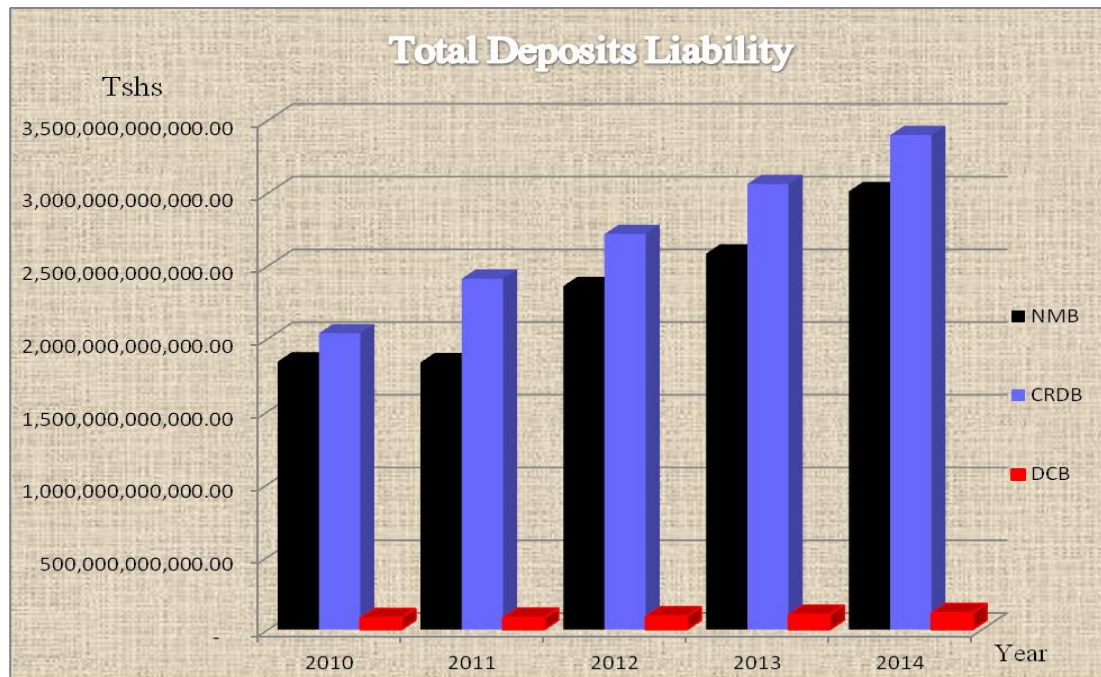
Source: Banks Audited Financial Statements

4.2.1.12 Board Composition

Board composition in this study refers to the number of membership held by the executive directors and that of non – executive directors. A control of board size is considered to be the natural logarithms of total board members. Whether the executive directors would have a great influence on board structure and their capacity to monitor management depend on the distribution of power between the chairperson of the board and the CEO (Finkelstein and Hambrick, 1996). With reference to the table 4.12 below the executive directors for NMB and CRDB have an average of 2 members while NMB has 8 members for non – executive directors and CRDB has 10 for the whole five years at the same time the DCB bank has only 1 executive director and 9 non- executive directors.

Table 4.12: Board Composition

BANK	ED	NED	TOTAL
NMB	**2**	**8**	**10**
CRDB	**2**	**10**	**12**
DCB	**1**	**9**	**10**

Source: Banks Audited Financial Statements

Figure 4.12: Board Composition

Source: Banks Audited Financial Statements

4.2.1.13 Bank age

The three banks have different years since they started their operations. I control the age of the bank since banks established for longer period might have enjoyed advantages, such as learning effect and a broader client base, over relative new banks. The control variable from the regression results show that age for both banks mostly appears to have positively coefficients, which implies that the age of the banks and its fee based activities does have a favourable impact on financial

soundness of the bank. Larger banks might have enjoyed scale or scope economies that have positive effects on their performance. This can be seen by comparing DCB bank and others. Table 4.13 below shows NMB, CRDB and DCB were established in 1997, 1996 and 2002 respectively but all have more than five years listed at the Dar – es – Salaam Stock Exchange**.**

Table 4.13: Bank Age

BANK	ESTABLISHMENT	YEARS SERVED
NMB	1997 - 2014	18
CRDB	1996 - 2014	19
DCB	2002 - 2014	13

Source: Banks Audited Financial Statements

Figure 4.13: Bank Age
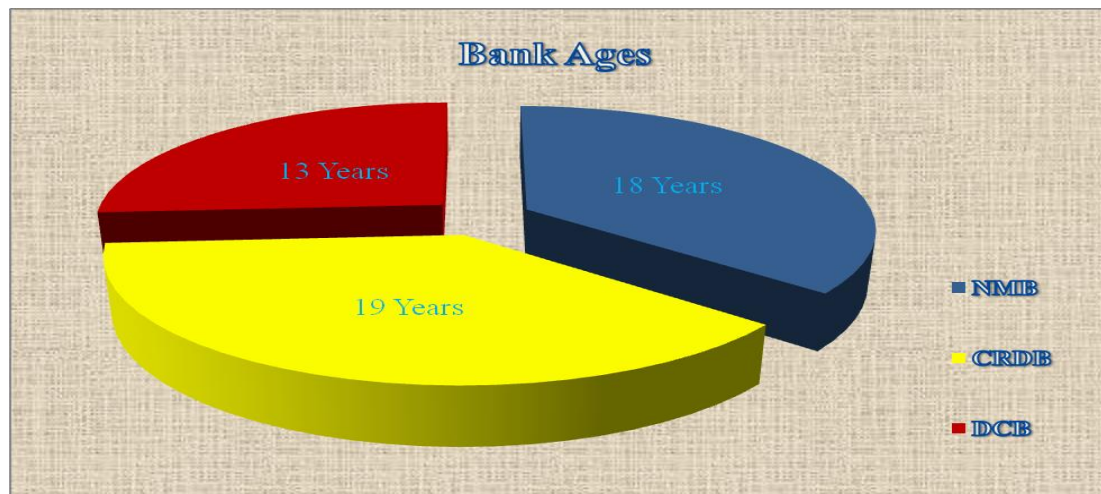
Source: Banks Audited Financial Statements

4.2.1.14 Board / Committee Meetings

There were four ordinary board meetings and other extra – ordinary meetings for all banks. The banks had divided their board committees into five, six and four for

NMB, CRDB and DCB respectively. NMB bank had a highest average of 12 meetings with Board of Credit Committee compared to other committees, where CRDB bank had a highest average of 9 meetings with Board of Directors and Board of Credit Committee while DCB bank had a highest average of 9 meetings with Board of Audit & Risk Compliance Committee as shown in tables 4.14, 4.15, 4.16 and figures 4.14, 4.15, 4.16 below respectively.

Table 4.14: NMB Bank Board Committees

BANK	COMMITTEE	YEARS (Number)					
		2010	2011	2012	2013	2014	Average
NMB	BOD	6	8	6	6	7	7
	BEC	4	2	0	0	0	1
	BARCC	5	6	4	4	4	5
	BHRRC	3	4	5	5	4	4
	BCC	15	10	11	14	11	12
	TOTAL	33	30	26	29	25	29

Source: Banks Audited Financial Statements

Figure 4.14: NMB Bank Board Committees
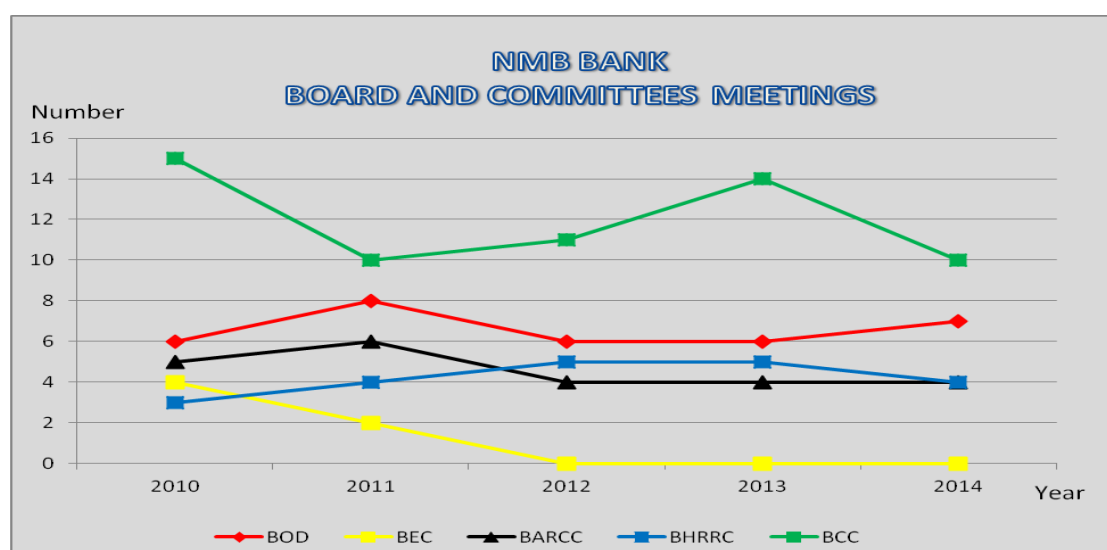
Source: Banks Audited Financial Statements

Table 5.15: CRDB Bank Board Committees

BANK	4COMMITTEE	YEARS (Number)					
		2010	**2011**	**2012**	**2013**	**2014**	**Average**
CRDB	BOD	10	9	8	8	8	9
	AC	5	5	5	5	6	5
	GHRC	5	5	3	5	5	5
	CC	11	11	9	10	6	9
	REC	0	0	1	1	1	1
	RC	0	0	3	4	4	2
TOTAL		31	30	29	33	30	31

Source: Banks Audited Financial Statements

Figure 4.15 CRDB Bank Board Committees
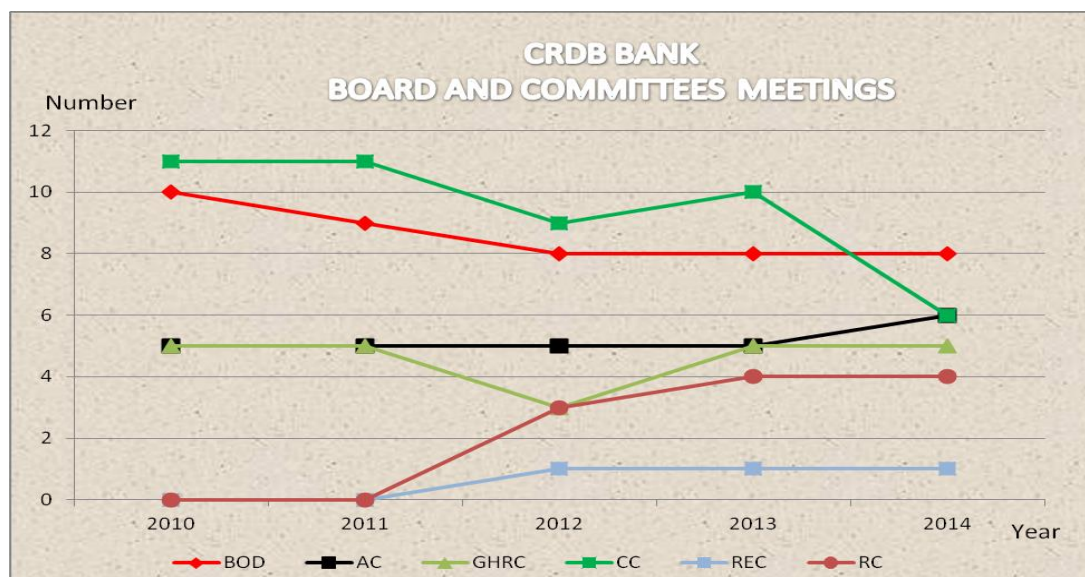
Source: Banks Audited Financial Statements

Table 4.16: DCB Bank Board Committees

BANK	COMMITTEE	YEARS (Number)					
		2010	**2011**	**2012**	**2013**	**2014**	**Average**
DCB	BOD	8	8	8	8	10	8
	BARCC	10	9	10	7	9	9
	BSI	6	7	7	8	8	7
	BNHR	6	5	8	9	11	8
TOTAL		30	29	33	32	38	32

Source: Banks Audited Financial Statements

Figure 4.16: DCB Bank Board Committees
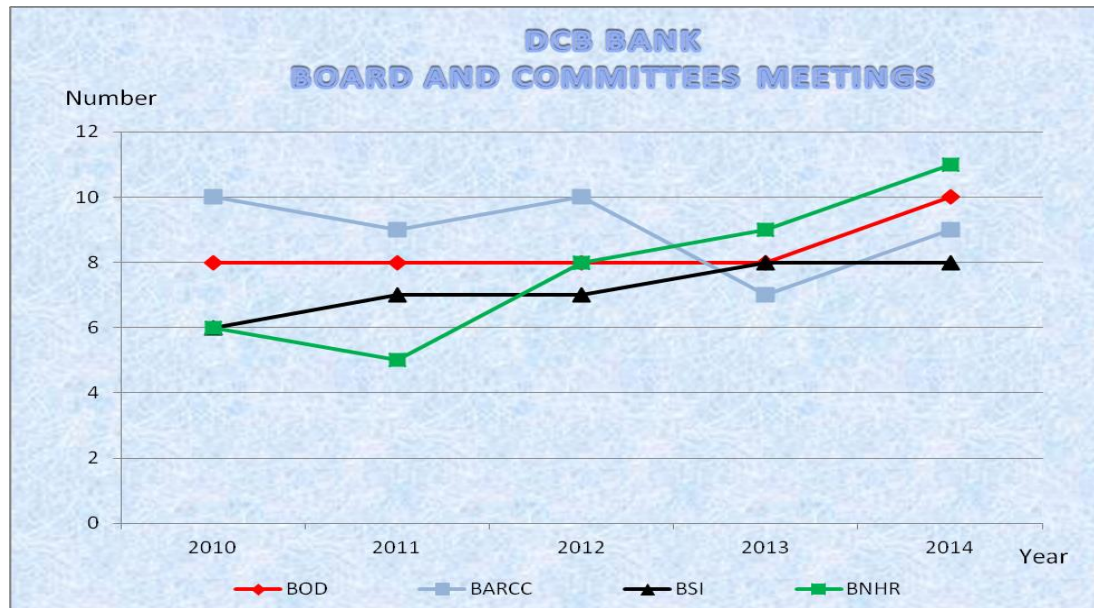
Source: Banks Audited Financial Statements

4.3   Data Analysis

4.3.1 Results from Ratio Analysis

4.3.1.1 Profitability

4.3.1.1.1   Return on Assets (ROA)

Return on assets reflects the institution's ability to use its assets productively in generating income compared to others. Thus the higher values of return on assets show that business is more profitable while the lower the return the lower the profit. An increasing of ROA indicates that the profitability of the company is improving conversely, a decreasing trend means that profitability is deteriorating.

The return on assets which were measured from table 4.17 and figure 4.17 below show that the ROAs for NMB bank have been slightly increased from almost 2.56%

in 2010 to 4.01% in 2014, while the ROAs for CRDB bank have been fluctuating from 2.01% in 2010 to 2.31 in 2014 where the ROAs for DCB bank have decreased from 3.33% in 2010 to 1.63% in 2012 before being increased from 2.58% in 2013 to 2.64%in 2014. This means that NMB bank has a good performance on utilizing its assets of an average of 3.48% followed by DCB bank with an average of 2.64% where the CRDB bank has utilized its assets on an average of 2.11% for five years. This narrations also show that NMB bank had utilized its assets profitably compared to CRDB and DCB banks.

Table 4.17: Return on Assets

BANKS	YEARS (%)					
	2010	**2011**	**2012**	**2013**	**2014**	**AVERAGE**
NMB	2.56	3.31	3.47	4.07	4.01	3.48
CRDB	2.01	1.34	2.53	2.36	2.31	2.11
DCB	3.33	3.28	1.63	2.58	2.40	2.64

Source: Author Calculated (2016)

Figure 4.17 Return on Assets (ROA)
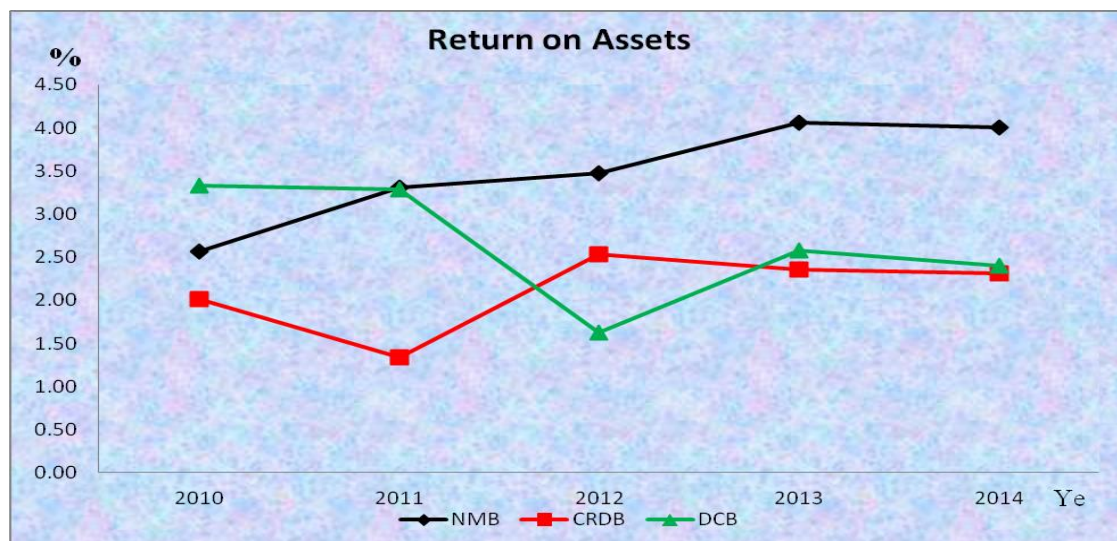
Source: Author Calculated (2016)

4.3.1.1.2 Gross Profit Margin (GPM)

The gross profit margins for the three banks from table 4.18 below show that all banks have at least reached a gross profit margin above 50%. Higher values indicate that more cents are earned per shilling of income which is favorable because more profit will be available to cover non- production costs. But gross profit margin ratio analysis may mean different things for different kinds of business. For example, in case of large manufacturer, gross profit margin measures the efficiency of production process. For retailers it gives an impression of pricing, strategy of the business.

In that case higher gross margin ratio means that the retailer charges higher markup on goods sold but in the case of bank industries higher gross profit margin means that the bank has minimized the operation costs as much as possible. Therefore from figure 4.18 below DCB bank had a highest gross profit margin of an average of 64.58% and in fact reached a peak of 75.11% in 2010 compared to NMB and CRDB banks which had an average of 50.56% and 55.60% respectively.

Table 4.18 Gross Profit Margin

BANKS	YEARS (%)					
	2010	**2011**	**2012**	**2013**	**2014**	**Average**
NMB	33.69	57.96	54.21	55.67	51.26	50.56
CRDB	52.96	47.02	59.31	59.96	58.73	55.60
DCB	75.11	69.57	59.07	63.01	56.12	64.58

Source: Author Calculated (2016)

Figure 4.18: Gross Profit Margin
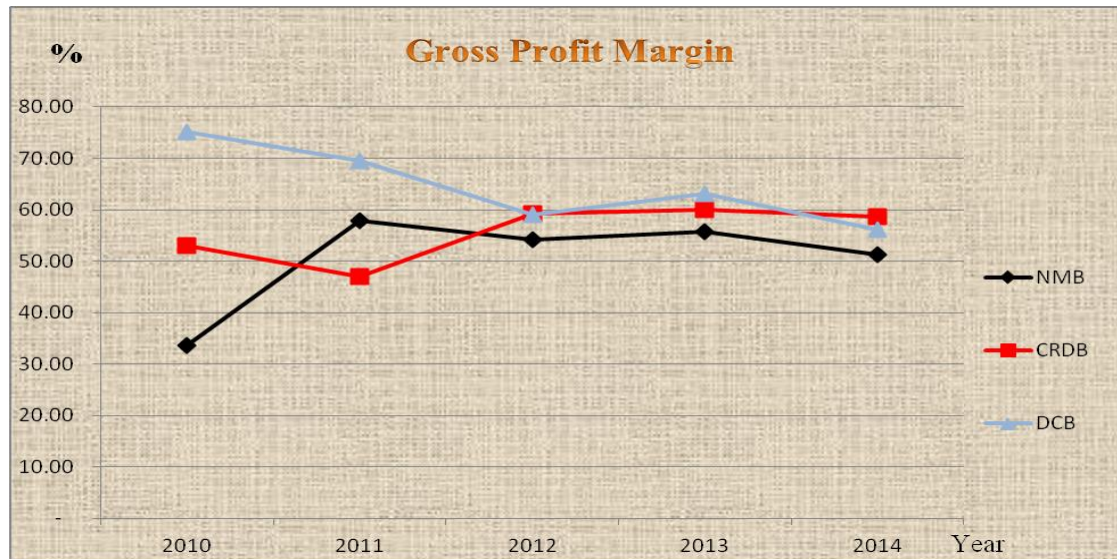
Source: Author Calculated (2016)

4.3.1.1.3 Return on Equity (ROE)

Return on equity or return on capital is the ratio of net profit of a business during a year to its stockholders' equity during that year. It is a measure of profitability of stockholders' investments.

The table 4.19 below shows how the return on equity of NMB bank had been increased from 23.42% in 2010 to 29.26% in 2013 before been decreased to 27.44% in 2014 while both the ROE of CRDB and DCB banks had been decreased from 32.89% and 21.37% in 2010 to 21.95% and 11.13% in 2014 respectively. In this case the investors of NMB bank will enjoy the higher returns of an average of 26.54% compared to the investors of CRDB and DCB banks who will have an average returns of 24.06% and 14.35% respectively for the five years as it has shown on figure 4.19 below.

However, relying solely on ROE for investment decisions is not safe because it can be artificially influenced by the management, for example, when debt financing is used to reduce share capital there will be an increase in ROE even if the income remains constant.

Table 5.19: Return on Equity

BANKS	YEARS (%)					
	2010	2011	2012	2013	2014	AVERAGE
NMB	23.42	25.26	27.31	29.26	27.44	26.54
CRDB	32.89	18.03	24.86	22.58	21.95	24.06
DCB	21.37	19.74	7.89	11.60	11.13	14.35

Source: Author Calculated (2016)

Figure 4.19: Returns on Equity
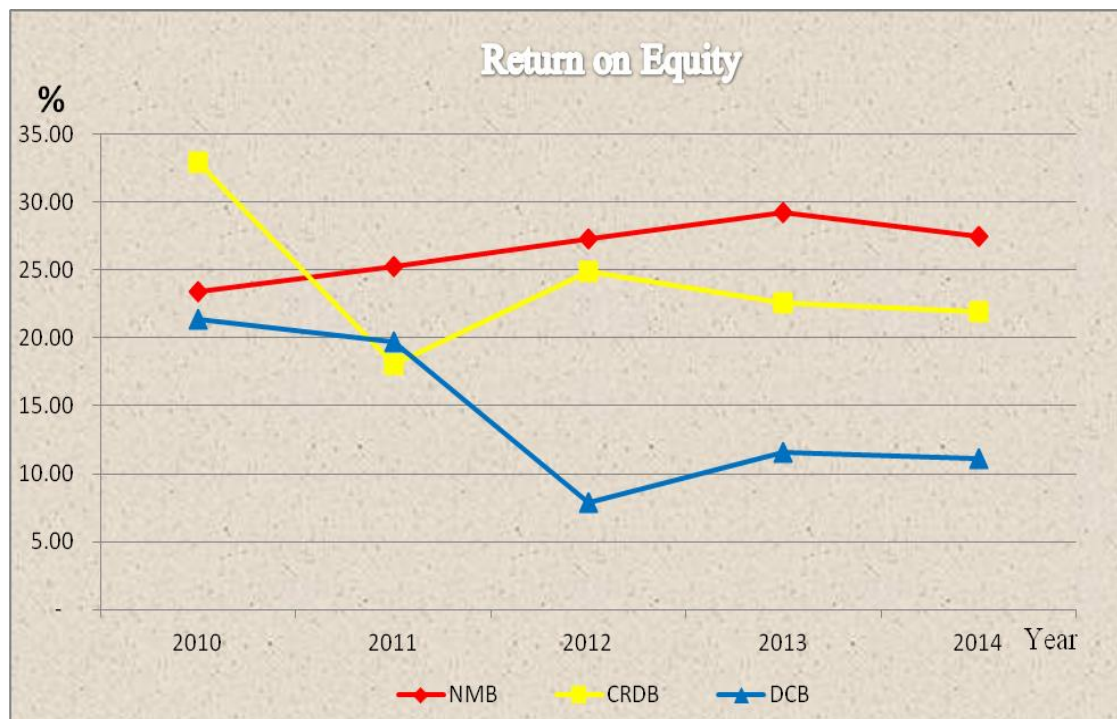
Source: Author Calculated (2016)

4.3.1.1.4 Net Profit Margin (NPM)

Net profit margin is the most basic profitability ratio that measures the percentage of net income of an entity to its net sales. It represents the proportion of sales that is left over after all relevant expenses have been adjusted.

The table 4.20 below shows the net profit margin of NMB had a lowest net profit margin of 19.61% in 2010 and a highest net profit margin of 33.79% in 2011 whereby the lowest net profit margin for CRDB is 14.73% in 2011 and the highest is 21.86% in 2012 while the lowest net profit margin for DCB is 9.06% in 2012 and had a highest of 19.27% in 2010. This shows that NMB bank had done good performance on net profit margin of an average of 27.01% compared to other banks which have the average net profit margin of 19.14% and 14.21% for CRDB and DCB banks respectively for these five years. NMB bank had reached a maximum of 33.79% net profit margin in 2011 as it can be seen in the figure 4.20 below, which was a very higher net profit margin compared to CRDB and DCB banks.

Table 4.20: Net Profit Margin

BANKS	YEARS (%)					
	2010	2011	2012	2013	2014	Average
NMB	**19.61**	**33.79**	**25.44**	**28.49**	**27.71**	27.01
CRDB	**20.56**	**14.73**	**21.86**	**19.91**	**18.64**	19.14
DCB	**19.27**	**17.56**	**9.06**	**13.43**	**11.71**	14.21

Source: Author Calculated (2016)

Figure 4.20: Net Profit Margin
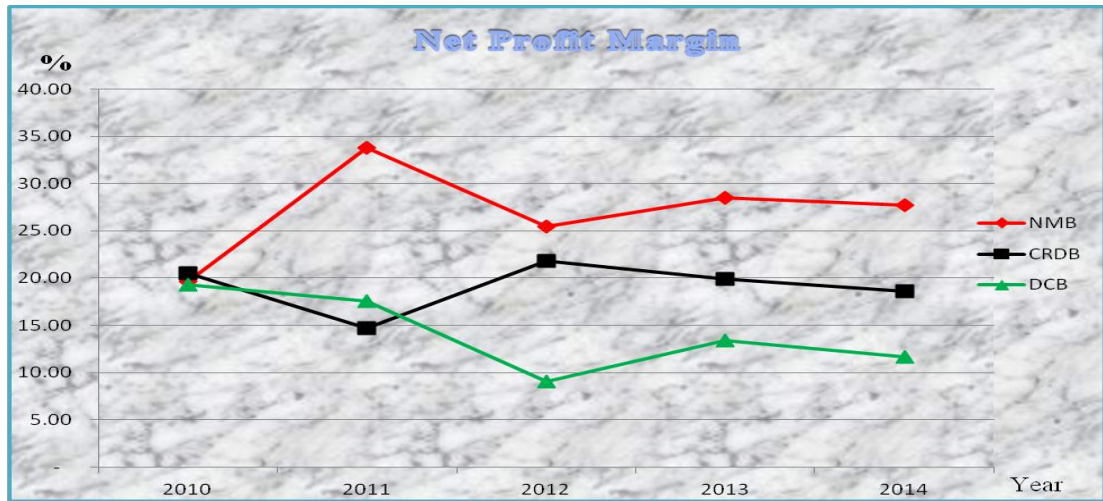
Source: Author Calculated (2016)

4.3.1.2 Efficiency

Net Interest Margin (NIM) and Operational Efficiency Ratio in percentage (OER) were used to determine how efficient the banks in portfolio management and making loans.

4.3.1.2.1 Net Interest Margin (NIM)

The efficiency at managing their portfolios NMB showed a higher level of an average of efficiency (average NIM) of 8.35%. This indicates the higher interest margin and the more diversified performing assets on NMB bank compared to other banks due to the difference in loan administration cost. This is supported by the results from table 4.21 and figure 4.21 below which show that the NIM for NMB bank had been increased from 6.11% in 2010 to 9.32% in 2014. These results show that the more diversified performing assets gives good performance for NMB bank. It is, therefore NMB bank was more efficient in managing its portfolio than CRDB

and DCB banks. However, the CRDB bank had an average NIM of 5.24% while the DCB had only 0.10% for five years.

Table 4.21: Net Interest Margin

BANKS	YEARS (%)					
	2010	2011	2012	2013	2014	Average
NMB	6.11	7.99	9.02	9.31	9.32	8.35
CRDB	4.37	4.50	5.85	5.71	5.76	5.24
DCB	0.09	0.11	0.09	0.10	0.11	0.10

Source: Author Calculated (2016)

Figure 4.21 Net Interest Margin
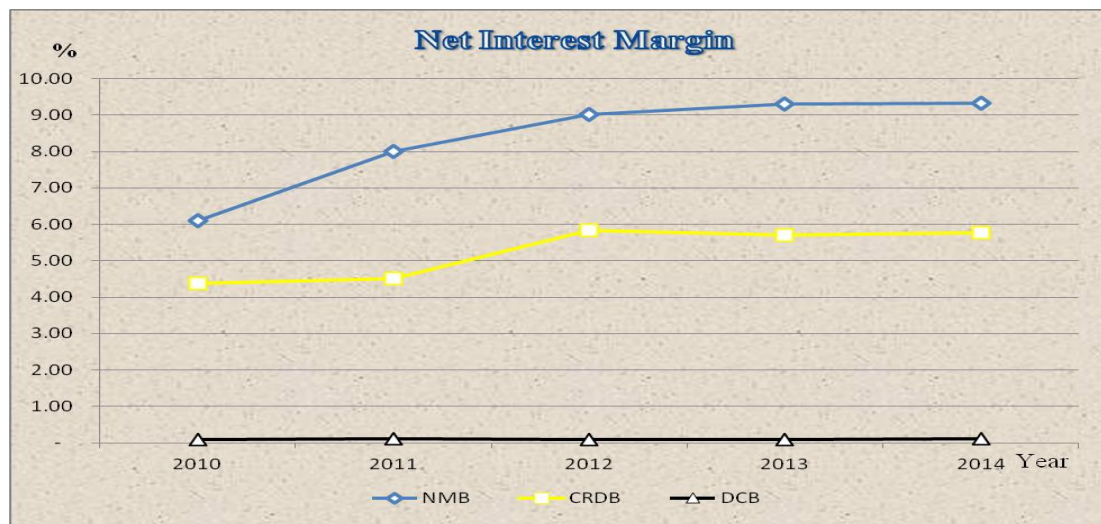
Source: Author Calculated (2016)

4.3.1.2.2 Operational Efficiency Ratio (OER)

Table 4.22 below shows that CRDB bank has lowest average operations ratios of 12.82% compared to NMB and DCB banks which the highest of 14.70% and 23.18% respectively, meaning that CRDB bank was more efficient in making loans than NMB and DCB banks. This implies that, CRDB bank has a positive impact on managing bank loans than other banks having higher efficiency ratios.

Simultaneously, the results also show that DCB bank is doing badly on securing loans and advances since the operational ratios were highly increasing from 18.74% in 2010 to 27.14% in 2014. Therefore, when it comes to managing operations efficiently, the CRDB bank does a better job and this could be reflected in its lower operating efficiency ratio. These results tell me that NMB and DCB banks may have a more serious problem with underperforming loans compared to CRDB banks. This could be the results of NMB and DCB banks accepting riskier business, perhaps due to political pressures.

Table 4.22 Operational Efficiency Ratio

BANKS	YEARS (%)					
	2010	2011	2012	2013	2014	Average
NMB	**13.28**	**13.31**	**15.35**	**15.89**	**15.69**	14.70
CRDB	**11.45**	**12.06**	**13.85**	**13.05**	**13.69**	12.82
DCB	**18.74**	**21.32**	**24.73**	**23.97**	**27.14**	23.18

Source: Author Calculated (2016)

Figure 4.22 Operational Efficiency Ratio
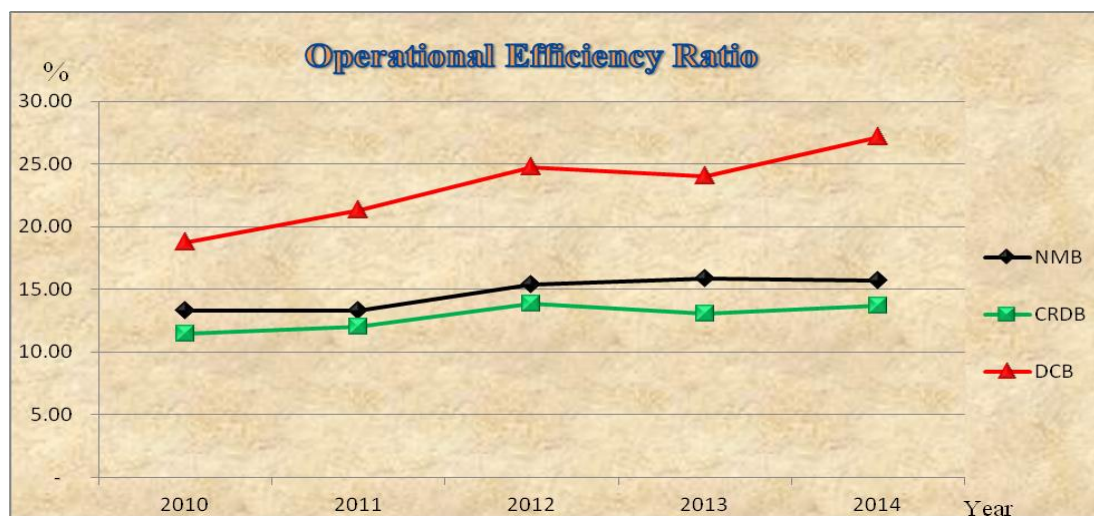
Source: Author Calculated (2016)

4.3.1.3 Capital Adequacy

Banks are required by the BOT to maintain a minimum liquid asset ratio based on a percentage of their deposit liabilities as measured from time to time. In the normal course of operations, liquid assets used to meet the minimum liquid asset ratio should not be used or relied upon by a bank to meet normal demands for the payment of funds. This, in effect, provides deposit-taking banks with cover against the risk that their liquid liabilities run down faster than they can liquidate assets. Therefore, it was also the one of the objective of this study to assess whether there is a relationship between board composition and bank capital adequacy. Liquid assets to Deposit Liability ratio (La/Li) and Equity to Deposit Liability ratio (E/Li) were used to determine the financial soundness of a bank.

4.3.1.3.1 Liquid Assets to Deposits Liability (La/Li)

The table 4.23 and figure 4.23 below are about the liquid assets to deposits liability (La/Li), the results show that, on average, DCB bank performs better than other banks. This could imply that liquid assets of DCB bank with an average of 1:1.54 has a greater ability to cover deposit liability more than NMB and CRDB banks which have the average La/Li of 1:1.2 and 1:1.14 respectively. A possible explanation for this could be that, the DCB bank has a different capital strategy as compared to NMB and CRDB banks. The size of the bank matters here, larger banks are less liquid than smaller banks. This feature is because larger banks accept more deposits therefore they need a high cover against the risk that their liquid liabilities run down faster than they can liquidate assets.

Table 4.23: Liquid Assets to Deposits Liability

BANKS	YEARS (Times)					
	2010	2011	2012	2013	2014	Average
NMB	1.14	1.17	1.19	1.24	1.28	1.20
CRDB	1.11	1.09	1.15	1.14	1.19	1.14
DCB	1.45	1.47	1.57	1.62	1.60	1.54

Source: Author Calculated (2016)

Figure 4.23: Liquid Assets to Deposits Liability

Source: Author Calculated (2016)

4.3.1.3.2 Equity to Deposits Liability (E/Li)

The data results presented in table 4.24 and figure 4.24 below show the higher equity to deposits liability for DCB bank of average 25.37% than NMB and CRDB banks having the average of 15.92% and 10.33% respectively. This implies that DCB bank has higher equity in relation to deposits liability than NMB and CRDB banks. The results also show that DCB and NMB banks are unfavorably impact the financial soundness of the bank as measured by equity to deposits liability ratio. This result can be attributed to the larger extent by the funding capacity of these banks. This is

because the DCB and NMB banks can obtain equity capital from the shareholder which are mostly Government Institutions compared to CRDB bank which cannot has that access.

Also the results show that as the bank size increase the E/Li ratio decreases. This is because the economies of scale and scope are present especially in larger banks, but beyond a crucial threshold, larger firms experience lower performance. As in the case of DCB bank as the bank expands it accept more deposits compared with NMB and CRDB banks.

Table 4.24 Equity to Deposits Liability

BANKS	YEARS (%)					
	2010	2011	2012	2013	2014	Average
NMB	12.51	15.48	15.09	17.67	18.83	15.92
CRDB	6.92	8.36	11.51	12.09	12.78	10.33
DCB	18.72	20.38	26.62	31.13	30.00	25.37

Source: Author Calculated (2016)

Figure 4.24 Equity to Total Deposits Liability
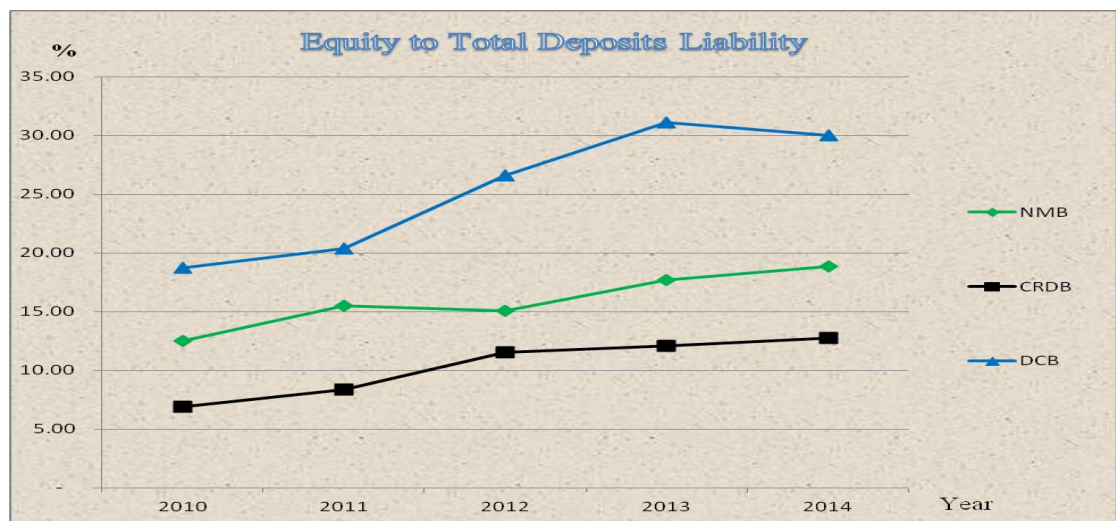
Source: Author Calculated (2016)

4.3.2 Results from Descriptive Analysis

Descriptive analysis is a simple transformation of the data that explains the *"basic characteristics such as central tendency, distribution and variability"* (Zikmund et al, 2013, p. 484). This section of the study is devoted to presenting the results of the analysis performed on the data collected to test the propositions made in the study and answer the research questions. Analyses were carried out with the aid of the Statistical Package for Social Sciences, (SPSS Version 16.0). The table 4.25 below shows the descriptive statistics of all the variables used in the study.

The return on asset ranges from 1.34% to 4.07%, with an average of 2.75%, while net profit margin has an average of 20.12%, with a minimum value of 9.06% to maximum value of 33.78%. The table also shows the average return on equity of 21.65% with a minimum value of 7.89% to maximum value of 32.89% where the gross profit margin ranges from 33.69% to 75.11% with an average value of 56.91%. The results indicate that the net interest margin has a minimum value of 0.09% to a maximum value of 9.32% with an average of 4.56%, where the operational efficiency ratio ranging from 11.45% to 27.14% with an average of 16.90%. The data also represent the capital adequacy ratios which are equity capital to deposit liabilities (E/Li) and liquid assets to total deposits liabilities (LA/Li) ranging from 6.92% to 31.13% and 1.09% to 1.62% with the average of 17.21% and 1.29% respectively.

The number of executive directors on the board ranges from 1 to 2 members, number of non executive directors on the board rages from 8 to 10 members, numbers of

board meeting and numbers of committee meetings within a year ranges from 6 to 10 times and 4 to 9 times respectively where the bank ages ranges from 9 to 19 years in operations. The average board size has been observed to have 10 directors where the average executive directors and non executive directors are 2 and 9 members respectively.

Table 4.25 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
ROA	15	1.34	4.07	2.7460	.80847	.654
NPM	15	9.06	33.79	20.1180	6.66916	44.478
ROE	15	7.89	32.89	21.6487	7.04615	49.648
GPM	15	33.69	75.11	56.9100	9.43711	89.059
NIM	15	.09	9.32	4.5627	3.61745	13.086
OER	15	11.45	27.14	16.9013	5.05336	25.536
E/Li	15	6.92	31.13	17.2060	7.33473	53.798
LA/Li	15	1.09	1.62	1.2940	.19183	.037
ED	15	1	2	1.67	.488	.238
NED	15	8	10	9.00	.845	.714
BM	15	6	10	7.87	1.246	1.552
CM	15	4	9	5.93	1.668	2.781
BA	15	9	19	14.67	3.086	9.524

Source: Author Calculated (2016)

4.3.3 Results from Correlation among Variables

The focus of this study is to examine the relationship between board composition and financial performance. To measure the degree of relationship among the variables, Pearson correlation analysis is conducted to verify the existence of relationship between the independent variables i.e executive directors, non – executive directors,

board meetings, committee meetings and bank age with the dependent variables i.e
ROA, NPM, ROE, GPM, NIM, OER, E/Li and LA/Li.

The results of the two – tailed test on table 4.26 below show an insignificant and
positive relationship between executive directors, committee meetings and bank age
(r = 0.092), (r = 0.070) and (r = 0.060) respectively and return on assets for all banks.
Moreover, similar results have revealed that non – executive directors has a
statistically significant at 1% level (t = 0.003), whereby board meetings has a
significant at 5% level (t = 0.016) and negative relationship with return on assets.
However, all independent variables have no significant and negative related with net
profit margin except for executive directors which show a statistically significant at
1% level (t = 0.009) and bank age which show an insignificant and positive related
with net profit margin at (r = 0.649) and (r = 0.472) respectively. On the other hand,
beside executive directors showing a statistically slightly significant at 1% level (t =
0.001) and positive related with return on equity (r = 0.759), the bank age results
show a statistically significant at 5% level (t = 0.043) and positive relationship with
return on equity (r = 0.528). The results also show non – executive directors and
board meetings for all banks are insignificant and negative relationship with return
on equity but slightly significant at 1% level (t = 0.004) and negative relationship
with committee meetings.

Regression results indicated on table 4.26 below show that a gross profit margin has
statistically significant at 5% level (t = 0.019) and negative relationship with
executive directors and no significant and negative relationship with bank age but

showing the insignificant and positive relationship between non − executive directors, board meetings and committee meetings with gross profit margin (r = 0.226), (r = 0.247) and (r = 0.210) respectively.

Net Interest Margin (NIM %) and Operational Efficiency Ratio (OER %) were used to determine how efficient were the banks in making loans and portfolio management. Concerning efficiency at managing their portfolios the regression results show an insignificant and positive relationship between board meetings and operational efficiency ratio (r = 0.208) and a statistically significant and positive relationship between committee meetings and operational efficiency ratio (r = 0.872 p < 0.000), also a statistically significant at 1% and negative relationship between executive directors and bank age with operational efficiency ratio. Turning to the net interest margin, the results of the two − tailed test indicated that net interest margin has a significant at 5% level (t = 0.028) and 1% level (t = 0.011) and negative relationship between board meetings and committees meetings respectively. However, on the other hand the results show the significant at 1% level and positive relationship between executive directors and bank age with net interest margin (r = 0.903 p < 0.000) and (r = 0.811 p < 0.000) respectively.

To assess the relationship between the performance indicator for financial soundness of the banks (La/Li) and E/Li with board composition, regression analysis was also performed. The results of the analysis presented on the table 4.26 can be observed that, all banks have significant at 1% level and positive relationship between committee meetings and equity to deposits liability (r = 0.871 p < 0.000) and not

significant but positive relationship between board meetings and equity to deposit liability (r = 0.057). However, the results show a statistically significant at 1% level and negative relationship between executive directors and equity to deposits liability. The results also show that the equity to deposits liability has a significant at 5% (t = 0.033) and negative relationship with bank age and not significant and negative relationship with non – executive directors.

The results also show a significant at 1% level and positive relationship between committee meetings and liquid assets to deposits liability (r = 0.858) but significant at 1% level and negative relationship between executive directors and bank age with liquid assets to deposits liability. The results also show an insignificant and positive relationship between board meetings and liquid assets to deposits liability (r = 0.203), at the same time insignificant and negative relationship with non – executive directors.

Table 4.26: Pearson Correlations [a] Matrix

		ROA	NPM	ROE	GPM	NIM	OER	E/Li	LA/Li	ED	NED	BM	CM	BA
ROA	Pearson Correlation	1												
	Sig. (2-tailed)													
	N	15												
NPM	Pearson Correlation	.721	1											
	Sig. (2-tailed)	.002*												
	N	15	15											
ROE	Pearson Correlation	.480	.804	1										
	Sig. (2-tailed)	.070	.000*											
	N	15	15	15										
GPM	Pearson Correlation	.213	-.108	-.219	1									
	Sig. (2-tailed)	.446	.702	.432										
	N	15	15	15	15									
NIM	Pearson Correlation	.450	.823	.758	-.498	1								
	Sig. (2-tailed)	.092	.000*	.001*	.059									
	N	15	15	15	15	15								
OER	Pearson Correlation	-.017	-.598	-.795	.417	-.728	1							
	Sig. (2-tailed)	.951	.019**	.000*	.122	.002*								
	N	15	15	15	15	15	15							
E/Li	Pearson Correlation	.139	-.423	-.735	.368	-.567	.952	1						
	Sig. (2-tailed)	.622	.116	.002*	.177	.027**	.000*							
	N	15	15	15	15	15	15	15						
LA/Li	Pearson Correlation	.032	-.567	-.763	.514	-.764	.977	.950	1					
	Sig. (2-tailed)	.910	.027**	.001*	.050**	.001*	.000*	.000*						
	N	15	15	15	15	15	15	15	15					

ED	Pearson Correlation	.092	.649	.759	-.595	.903	-.909	-.815	-.946	1				
	Sig. (2-tailed)	.743	.009*	.001*	.019**	.000*	.000*	.000*	.000*					
	N	15	15	15	15	15	15	15	15	15				
NED	Pearson Correlation	-.718	-.499	-.148	.226	-.364	-.158	-.322	-.150	.000	1			
	Sig. (2-tailed)	.003*	.059	.597	.419	.183	.575	.242	.594	1.000				
	N	15	15	15	15	15	15	15	15	15	15			
BM	Pearson Correlation	-.607	-.475	-.310	.247	-.564	.208	.057	.203	-.313	.678	1		
	Sig. (2-tailed)	.016**	.073	.261	.376	.028**	.457	.841	.469	.256	.005**			
	N	15	15	15	15	15	15	15	15	15	15	15		
CM	Pearson Correlation	.070	-.437	-.694	.210	-.633	.872	.871	.858	-.819	-.405	.030	1	
	Sig. (2-tailed)	.805	.104	.004*	.452	.011*	.000*	.000*	.000*	.000*	.134	.916		
	N	15	15	15	15	15	15	15	15	15	15	15	15	
BA	Pearson Correlation	.060	.472	.528	-.455	.811	-.664	-.552	-.722	.870	.137	-.198	-.740	1
	Sig. (2-tailed)	.832	.076	.043**	.089	.000*	.007	.033**	.002*	.000*	.627	.479	.002*	
	N	15	15	15	15	15	15	15	15	15	15	15	15	15

Note. * Correlation is significant at the 0.01 level (2-tailed).

** Correlation is significant at the 0.05 level (2-tailed).

Source: Author Calculated (2016)

4.3.4 Results from Multiple Regression Analysis

4.3.4.1 Profitability

Multiple regression analysis was carried out to test the relative strength of the relationship between values of dependent variables on profitability from those of independent variables.

4.3.4.2 Return on Assets (ROA)

The results of multiple regression analysis reflected on table 4.27 below show that the value of adjusted R square is 0.540, which shows that the return on assets has 54% influences on board composition. Apart from that the results also show that the return on assets has insignificant and positive relationship on bank age ($\beta = 0.455$, p $= 0.271$). Otherwise the results show that executive directors, board meetings and committee meetings have negative effects on return on assets, but non – executive directors have a significant at 1% level (t – value $= 0.012$) and negative relationship with return on assets.

These findings show that return on assets has no significant with many of the independents variables (executive directors, board meetings, committee meetings and bank age) except non – executive directors which shows a significant relationship, but has positive relationship with bank age with negative relationship with executive directors, non – executives, board meetings and committee meetings.

Table 4.27 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.671	4.278		3.897	.004
	ED	-1.821	.935	-1.099	-1.947	.083
	NED	-1.056	.337	-1.104	-3.132	.012
	BM	-.055	.181	-.084	-.302	.770
	CM	-.455	.223	-.939	-2.041	.072
	BA	.119	.102	.455	1.174	.271

a. Dependent Variable: ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839[a]	.704	.540	.54833

Source: Author Calculated (2016)

4.3.4.3 Return on Equity (ROE)

Table 4.28 below shows that the value of adjusted R square is 0.609; this indicates that the return of equity has 61% impact on board composition. These results show that non − executive directors, committee meetings and bank age have negative effect on return on equity. Also the results show the return on equity has insignificant relationship on executive director and board meetings (β = 0.495, p = 0.366) and (β = 0.134, p = 0.613) respectively.

The findings show that return on equity has no significant on all independent variables (executive directors, non − executive directors, board meetings, committee

meetings and bank age) but has a positive relationship with executive director and board meetings with a negative relationship with other independent variables.

Table 4.28: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	74.237	34.360		2.161	.059
	ED	7.148	7.512	.495	.952	.366
	NED	-4.206	2.709	-.504	-1.553	.155
	BM	.760	1.450	.134	.524	.613
	CM	-3.313	1.792	-.784	-1.849	.097
	BA	-.884	.816	-.387	-1.084	.307

a. Dependent Variable: ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.865[a]	.749	.609	4.40368

Source: Author Calculated (2016)

4.3.4.4 Gross Profit Margin (GPM)

Table 4.29 below shows that the value of adjusted R square is 0.430, which shows that the gross profit margin has 43% impact on board composition. These results show that gross profit margin has no significant and positive relationship with bank age ($\beta = 0.276$, $p = 0.539$), however, has no significant and negative relationship with non – executive directors and board meetings while has shown statistically significant at 5% level (t – value = 0.019 and t – value = 0.051) and negative relationship with executive directors and committee meetings respectively.

These results indicate that executive directors, non – executive directors, board meetings and committee meetings have negative related with the performance indicator gross profit margin, at the same time show a gross profit margin with insignificant and positive related to the bank age.

Table 4.29 Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	168.812	55.597		3.036	.014
	ED	-34.845	12.156	-1.802	-2.867	.019
	NED	-2.573	4.383	-.230	-.587	.572
	BM	-.550	2.346	-.073	-.234	.820
	CM	-6.525	2.899	-1.153	-2.251	.051
	BA	.843	1.320	.276	.639	.539

a. Dependent Variable: GPM

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.796[a]	.633	.430	7.12558

Source: Author Calculated (2016)

4.3.4.5 Net Profit Margin (NPM)

Table 4.30 below shows that the value of adjusted R square is 0.629, which shows that the net profit margin has 63% impact on board composition. However, the results indicated below show that net profit margin has no significant to all independent variables except non – executive directors which shows statistically

significant at 5% level (t – value = 0.015) with negative relationship and committee meetings but positive relationship with executive directors (β = 0.132, p = 0.800) and board meetings (β = 0.228, p = 0.385). Moreover, when a bank becomes larger, some additional costs might also be included, such as more promotion costs as larger banks generally operate on a nationwide basis, while smaller banks are more regionally oriented. A negative coefficient for the control variable, business orientation (NPM) is a pointer to the higher costs and relatively higher salaries paid to skilled specialists and highly qualified professionals needed to run banks activities.

Generally, the results from this point indicate that non – executive directors and committee meetings have no significant and negative related with the performance indicator net profit margin.   The results also show a net profit margin with insignificant and positive related to the executive directors, board meetings and bank age.

Table 4.30 Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	91.628	31.690		2.891	.018
	ED	1.811	6.929	.132	.261	.800
	NED	-7.452	2.498	-.944	-2.983	.015
	BM	1.221	1.337	.228	.913	.385
	CM	-2.872	1.652	-.718	-1.738	.116
	BA	-.001	.752	.000	-.002	.998

a. Dependent Variable: NPM

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.873[a]	.762	.629	4.06160

Source: Author Calculated (2016)

4.3.4.6 Efficiency

The coefficients analysis of this study was carried out to test the relative strength of the relationship between values of dependent variables on efficiency (net interest margin and operational efficiency ratio from those of independent variables.

4.3.4.7 Net Interest Margin (NIM)

Table 4.31 below shows that the value of adjusted R square is 0.982, which shows that the net interest margin has 98% impact on board composition. Simultaneously, the results show that net interest margin has a strong and significant relationship at 1% on bank age ($\beta = 0.369$, $p = 0.01$), with slightly significant at 5% and positive relationship on executive directors ($\beta = 0.329$, $p = 0.017$). In additional, the net interest margin has strongly significant at 1% (t − value = 0.000 and t − value = 0.010) negative relationship with non − executive directors and committee meetings respectively while no significant and negative relationship with the board meetings.

Examining the coefficients results from the table 4.31 below indicate that executive directors and bank age have positive relationship with net interest margin, whereas the results show that a net interest margin has negative relationship on three

dimensions of independent variables (non – executive directors, board meetings and committee meetings).

Table 4.31: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	18.498	3.814		4.850	.001
	ED	2.436	.834	.329	2.921	.017
	NED	-2.199	.301	-.514	-7.312	.000
	BM	-.090	.161	-.031	-.561	.588
	CM	-.646	.199	-.298	-3.249	.010
	BA	.432	.091	.369	4.772	.001

a. Dependent Variable: NIM

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.994[a]	.988	.982	.48886

Source: Author Calculated (2016)

4.3.4.8 Operational Efficiency Ratio (OER)

Table 4.32 below summarized the results of regression analysis for the value of adjusted R square showing 0.943, which means that the operational efficiency ratio has 94% impact on board composition. Furthermore, the results show the strong significant at 1% and positive relationship between operational efficiency ratio with bank age ($\beta = 0.632$, $p = 0.001$), whereby shows no significant and positive relationship with board meetings and committee meetings ($\beta = 0.066$, $p = 0.518$) and ($\beta = 0.257$, $p = 0.146$) respectively.

The results also reveal the operational efficiency ratio has statistically significant at 1% level (t – value = 0.000) and negative relationship with executive directors and no significant and positive relationship with non – executive directors.

These findings show that operational efficiency ratio has positive relationship with board meetings, committee meetings and bank age, but has negative relationship with executive director and non – executive directors.

Table 4.32: Coefficients'ᵃ

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	26.104	9.396		2.778	.021
	ED	-12.709	2.054	-1.227	-6.187	.000
	NED	-1.102	.741	-.184	-1.488	.171
	BM	.267	.397	.066	.673	.518
	CM	.780	.490	.257	1.592	.146
	BA	1.034	.223	.632	4.637	.001

a. Dependent Variable: OER

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982ᵃ	.963	.943	1.20420

Source: Author Calculated (2016)

4.3.4.9 Capital Adequacy

One of the objectives of this study was to assess the relationship between board composition and bank capital adequacy. The ratios were used to measure the bank

capital adequacy in order to determine the financial soundness of the banks are liquid assets to deposit liability ratio (La/Li) and Equity to deposit liability ratio (E/Li).

4.3.4.10 Liquid Assets to Deposits Liability Ratio (La/Li)

On examining table 4.33 below, it can be observed that, the value of adjusted R square showing 0.976, which means that the liquid assets to deposit liability ratio has 98% impact on board composition. However, the results show no significant and positive relationship between liquid assets to deposit liability ratio with board meetings and committee meetings ($\beta = 0.037$, $p = 0.576$ and $\beta = 0.034$, $p = 0.753$) respectively, whereby show strongly significant at 1% (t – value = 0.000) and positive relationship with bank age, at the same times shows negative relationship with executive directors. This implies that liquid assets to deposit liability ratio has negative relationship with executive directors and non – executive directors but positive relationship with board meetings, committee meetings and bank age.

Table 4.33 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.116	.230		9.181	.000
	ED	-.541	.050	-1.377	-10.743	.000
	NED	-.053	.018	-.235	-2.935	.017
	BM	.006	.010	.037	.580	.576
	CM	.004	.012	.034	.324	.753
	BA	.034	.005	.540	6.141	.000

a. Dependent Variable: LA/Li

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.985	.976	.02954

Source: Author Calculated (2016)

4.3.4.11 Equity to Deposits Liability Ratio (E/Li)

Regression results presented on table 4.34 below indicate that, the value of Adjusted R square is 0.941, which shows that equity to deposits liability has 94% influences on board composition. Further to that the results show that the executive and non – executive directors appear to be statistically significant at 1% level (t- value = 0.000) and 5% level (t- value = 0.020) respectively and negative relationship between equity to deposits liability. Also the coefficients results show that the equity to deposits liability has no significant and positive relationship with board meetings and committee meetings ($\beta = 0.049 = p = 0.633$ and $\beta = 0.285$, $p = 0.119$) respectively. However, the same results show strongly significant at 1% level and positive relationship with bank age ($\beta = 0.861$, $p = 0.000$).

This implies that as the bank size increase the equity to deposits liability ratio decreases. This is because the economies of scale and scope are present especially in larger banks, but beyond a crucial threshold, larger bank experience lower performance and vice versa.

These results show that equity to deposit liability ratio has significant and positive relationship with bank age but showing insignificant and positive relationship with

board meetings and committee meetings, at the same time showing significant and negative relationship with executive directors and non – executive directors.

Table 4.34 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38.292	13.956		2.744	.023
	ED	-19.749	3.051	-1.314	-6.472	.000
	NED	-3.101	1.100	-.357	-2.819	.020
	BM	.291	.589	.049	.494	.633
	CM	1.256	.728	.285	1.725	.119
	BA	2.046	.331	.861	6.175	.000

a. Dependent Variable: E/Li

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981[a]	.962	.941	1.78862

Source: Author Calculated (2016)

4.4 Discussion of the Findings

The aim of this study is to empirically examine the impact of board composition on financial performance of the three banks listed at the Dar – es – Salaam Stock exchange. The most of findings show the evidences of relationship between independents variables with those of dependent variables.

In line with research question one (1) about the relationship between the board composition and bank performance, the results found to have the mixed answers. In some case there are positive relationships while in other cases there are negative relationships. In line with question two (2) on good combination of board composition which will turn to a high corporate governance hence high performance of the bank, the findings show positive relationship when the non – executive directors are more than executive directors. This means the executive directors will have less influences than non – executive directors when it comes to the issue of corporate governance of the bank.

According to resource dependence theory, companies that heavily depend on external financing should have less inside directors in the board (Pfeffer, 1972, p. 222). Pearce II & Zahra confirmed that the larger board of directors and bigger outsiders (non – executive directors) representation in the board tend to be used in order to minimize the uncertainty surrounding strategy development and as a way to co-opting with the environment (Pearce II and Zahra, 1992, p. 432). Independent (non – executive) director is considered to be the one, who is not currently employed by the company or has no psychological or economic dependence on its managers. A director, who has ties with the management of the company or represents the organization that does major business with the company cannot be considered independent (Baysinger and Butler, 1985, p.110).

This study has also presented the empirical evidence that bank with more independent (non – executive) members in the board had a superior financial

performance. However, the study has also revealed that the proportion of insiders vs. outsiders vary from firm to firm depending on many factors (Baysinger and Butler, 1985, p. 121). The reason for superior performance lies in the objective monitoring of the work done by management, mainly CEO.

Weisbach tested the hypothesis that insider- and outsider-dominated boards of directors differently undertake decisions of CEO removal on the basis of performance. According to his empirical evidence, insider-dominated board less likely to remove the CEO than outsider-dominated board (Weisbach, 1988, p. 432).

Thus, the outsider-dominated board adds value to the company by removing underperforming CEO; outsider-dominated board has more monitoring power, which increases with independence of the board. Monitoring provides the information that the board is using when deciding to remove the CEO (Hermalin and Weisbach, 1988, p. 97). A more recent study tells that boards with higher insider representation tend to be less effective in monitoring (Helland and Sykuta, 2005, p. 171). Rosenstein and Wyatt have continued the study of outsiders' role in the board and have concluded that overall, the appointment of outside director increases firm value and thus increases the shareholder wealth (Rosenstein and Wyatt, 1990, p.190).

An empirical study on the basis of UK banks showed a positive relationship between independent representatives in the board and financial efficiency, proving the fact that outsiders can bring valuable expertise and knowledge (Tanna et al., 2011, p. 455). The independent board of directors is preferable and is explained by agency

theory. According to agency theory, independent board monitors management better and can make decisions that will be well timed.

Harris & Raviv contradict to the previous opinion by saying that in reality companies would prefer insider-controlled board of directors. The reason is explained in the information importance that is available to insiders rather than to outsiders. If the cost of losing information is higher than the agency costs associated with inside control, the insider-controlled board is preferable (Harris & Raviv, 2008, p. 1830). The authors have also mentioned that outsiders bring value to the company by providing better expertise.

However, the increasing number of outsiders will generate free-rider problems: their importance of contribution will be reduced and thus, they will contribute less and put in less effort. The optimal proportion of outsiders / insiders should be compiled in order to balance those two effects (Harris & Raviv, 2008, p. 1799). In support of these findings, a study made by Schooley et al. has tested the probability for shareholders' filing as a measure of financial performance in connection with board composition. The authors have found that there is a positive and significant relationship between the shareholder filing and the percentage of independent members in the board. Thus, independent (non – executive) members do not have enough knowledge about company that influences the poor decision-making (Schooley et al., 2010, p. 162). Earlier, Kiel & Nicholson came up with the same evidence and state that there is positive relationship between proportion of inside directors and financial performance (Kiel & Nicholson, 2003, p. 189). This support

stewardship theory by Donaldson (1990) that inside managers are good stewards to the company and will not make wrong decisions that will influence firm value decreasing. Overall, the corporate governance literature cannot provide consistent research findings and possible reason might be the complex relationships, which should be considered with multiple theoretical perspectives (Dalton et al., 1998, p. 271). Further on, the meta-analyses of empirical studies of board composition showed no systematic relationship between board composition and financial performance (Dalton et al., 1998, p. 282).

In line with research question three (3) about the effects of annual board meetings related to the financial performance, the findings confirmed that there is a positive impact of the number of board meetings on bank performance because larger the numbers of meetings larger will be the discussions on the problems and alternatives; hence it will lead to run business more efficiently. Agency theory suggests that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management, and thereby improving corporate financial performance (Ntim & Osei, 2011). An important measure of corporate boards' monitoring power and effectiveness is the frequency of board meetings (Jensen, 1993). Ntim & Osei (2001) found a statistically significant and positive association between the frequency of corporate board meetings and corporate performance.

Consequently from this study, the results revealed that there is statistically significant and positive relationship between the board meetings and bank performance.

Furthermore, in order to have effective board meetings there must be some other meetings before the board. These are committee meetings which can be divided into at least four; like, audit committee which assists the board on monitoring internal control of the banks, human resources and remuneration committee which assists the board in fulfilling its oversight responsibility to shareholders by ensuring coherent remuneration policies and practices that fairly and responsibly reward staff, it also oversees all human resource policies within the organization. Risk committee, this assists the bank's board of directors in fulfilling its oversight responsibilities with respect to the financial reporting process, the system of internal control, the performance of the internal audit, risk and compliance functions and the monitoring of compliance with laws and regulations of various regulatory agencies and credit committee which assists the board and oversees the management of credit risks by continuously reviewing the credit portfolio and credit standards together with decides on credit requests above the limits delegated to management.

The numbers of committee meetings are considered to be an important attribute for their monitoring effectiveness. The results from this study have revealed that there is significantly and positive relationship between committee meetings and bank financial performance. The results show a statistically significant at 1% level and negative relationship between committee meetings and return on equity, at 1% level and negative relationship between committee meetings and net interest margin. Moreover, similar results also come out with slightly significant and positive relationship between committee meetings and operational efficiency ratio, equity to deposits liability and liquid assets to deposits liability.

CHAPTER FIVE

5.0 SUMMARY OF THE FINDINGS, CONCLUSION AND

RECOMMENDATIONS

5.1   Overview

This chapter presents the summary, conclusion, recommendations, limitation of the study and areas for further study. The main objective of the study was to analyze the relationship between the board compositions of the three selected banks listed at the Dar – es – Salaam Stock Exchange and their financial performance.

5.2   Summary of the Findings

In this section of my study, I have presented the results of the statistical tests being conducted. One of the first choices of statistical analyses is Pearson correlations. I have based my assumption on the relationship between board composition indicators and ordinary least square regression model was used. The Pearson correlations analysis showed insignificant results. Thus, I have decided to transform the data into natural logarithms in order to improve the normality and linearity of data. After doing this, the model improved and showed significant results. The Pearson correlations regression analysis showed that in some cases executive directors, non – executive directors, board meetings, committee meetings and bank age are significant correlated and can explain the dependent variables, although in other case the same showed no significant.

Furthermore, I have conducted multiple regression analysis. I have followed the same steps as in Pearson correlations analysis, since the first test without transformed

data was insignificant. The second test showed that executive directors, non –
executive directors, board meetings, committee meetings and bank age, are
significant and negatively or insignificant and positive related with bank financial
performance.

5.3 Conclusion

Corporate governance is the system by which business corporations are directed and
controlled by distributing the rights and responsibilities among different participants.
It has a lot to do with economic development of a firm business, it insures that the
firms are run in an open and honest manner. Therefore, corporate governance is the
procedure by which firms are controlled to establish a good relationship among the
stakeholders and establish a healthy competition in the economy.

This study therefore seeks to analyze the relationship between board composition and
financial performance in the context of three banks listed at the Dar – es – Salaam
Stock Exchange. Specifically, it examined the impact of executive directors, non –
executive directors, board meetings, committee meetings, bank age on bank
performance. Bank performance is measured by means of profitability using ROA,
ROE, GPM and NPM variables, efficiency using NIM and OER and capital
adequacy using LA/Li and E/Li variables.

Regression analysis indicated mixed results. The study findings show that
independent variables have no significant impact with return on assets except non –
executive directors which shows a significant impact, but has positive relationship

with bank age. The study also shows that the return on assets (ROA) has negative relationship with executive directors, non – executives, board meetings and committee meetings. In other ways the findings show that many of the independent variables have no significant impact on return on equity (ROE) but have positive relationship with executive director and board meetings with a negative relationship with other independent variables.

With respect to gross profit margin the study finds the negative relationship with executive directors, non – executive directors, board meetings and committee meetings. The results also show an insignificant and positive related between bank age and gross profit margin (GPM). The results on the net profit margin show no significant and negative related with non – executive directors and committee meetings while the executive directors, board meetings and bank age show insignificant and positive impact to net profit margin (NPM).

Concerning board composition and bank efficiency, the study finds that net interest margin has highly significant and positive impact with executive directors and bank ages, whereas at the same time the results show the net interest margin highly significant and negative impact with non – executive directors and committee meetings. In other way round, executive directors have significant and positive effect on operational efficiency (OER) whereas bank age has significant and negative impact on bank age. But the results also show non – executive directors, board meetings and committee meetings have no impact on operational efficiency ratio (OER).

With respect to liquid assets to deposit liability ratio (La/Li) and Equity to deposit liability ratio (E/Li), the study finds that executive directors and non − executive directors have highly significant impact and negative related with liquid assets to deposit liability ratio but the board meetings and committee meetings have no impact and positive related with liquid assets to deposit liability, where bank age has highly significant impact and positive related with La/Li. On other side the results show that equity to deposit liability ratio has significant and positive relationship with bank age, whereas board meetings and committee meetings have no impact on equity to deposit liability with positive related but the results also show significant and negative relationship with executive directors and non − executive directors.

Therefore the study finds little evidence to suggest that, there is pure linear positive or negative relationship between board composition and bank financial performance on the three banks listed at the Dar − es − Salaam Stock Exchange.

5.4   Recommendation

The Cadbury Report (1992), Hampel Report (1998) and OECD principles recommended that boards should be comprised of a majority of non-executive directors. The DSE listing requirements in the secondary capital markets have also incorporated the above principles in their governance practices, non − executive directors bring independence of mind and judgment on issues of strategy and governance on running the business, and also see themselves as assisting in enhancing prosperity of the companies and play an important part in improving the performance of the business. The results also imply that to be effective, a board must

have the right mix of skills and experience and work together as a team, which will encourage diverse and healthy debate in the interest of the investors and the company.

Therefore, this study makes general recommendation that;

i)   Large but representative board size should be encouraged.

ii) The composition of non – executive directors as members of the board should be sustained and improved upon.

iii) As board of directors are supposed to ensure monitoring the activities to increase firm performance, the composition of non - executive directors as members of the board should be increased so that it could have good representative.

Also the study makes specific recommendations as follows;

- **Management of the Banks:**

  i)   Ensure gender balance

  ii)   Get independent members from the right sources

  iii) Orient board members to their role

  iv)   Consider a large pool of potential board members

  v)   Consider the unique value of each member and how as a group they complement the capabilities of the founder/owner as well as the value of their own and other resources

  vi)   Expose board members to risk management, including basic control systems and processes

  vii) Evaluate the performance of board members and the board annually

viii)   Have a simple board manual to guide members on their role and board processes, appraisal and refreshing

ix)   There should be a board/governance training programme targeting sitting and potential board members

x)   Provide a database with the profile of potential board members within and outside the country

- **Bank / Company Regulatory Authorities (BOT/ DSE)**

Provide banks or companies with general guidance on governance even before the specified requirement or the firm capacity to regulate and supervise is in place. This should include the composition and functions of the board and other basic risk management tools / processes.

Finally, the findings do not suggest that improving bank performance is simply a matter of having good board representatives, board meetings, committee meetings and so forth but rather, the causes of bank performance seem to be found in wider economic and regulatory issues and commitments, although this needs much fuller investigation than has not been possible in this study.

5.5   Limitations of the Study

First, the study was based on the banks listed more than five years at the

Dar – es – Salaam Stock Exchange which may limit the generalization of results to other jurisdictions such those which are no more than five years or to the non-listed banks. The population from which the sample is drawn was all the listed companies

therefore, results of this study may not be generalised to other non-banks companies listed at the Dar – es – Salaam Stock Exchange and none listed.

Secondly, the study integrated only eight important dependent variables; return on assets, return on equity, gross profit margin, net profit margin, net interest margin, operational efficiency ratio, equity to deposits liability and liquid assets to deposits liability, while the study tested only five important independent variables which include; executive directors, non – executive directors, board meetings, committee meetings and bank age. However, there is a variety of other important governance variables that have important effects on financial performance and which might also strongly influence the relationship between board composition and firm financial performance are not included in this framework, such as experiences, gender (female members), ages of board members, international board member, education, employee representatives, CEO duality and others dependent variables such as cost to income, non – funded income to total income, loans to total deposits, non – performing loans to total loans and advances and debt to total assets

Thirdly, the study has assessed the interactive relationship between the banks financial performance and board composition; however, also acknowledged the possibility that board composition decisions characteristics can influence the individual financial performance variables.

Finally, the board composition developed on these banks is at different levels. NMB bank has got five (5) board committees, two executive directors, eight non –

executive directors and eighteen (18) years in operations while CRDB bank has six (6) board committees, two executive directors, ten non – executive directors and nineteen (19) years in operations and DCB has got four (4) board committees, one executive directors, nine non – executive directors and thirteen (13) years in operations. These different may in some case affect the end results of this study since some can have good performances because of its experiences while others will lack this opportunity. Despite the above limitations, the quality of the study was not compromised. The study has made an immense contribution to the existing body of knowledge, especially in the area of corporate governance on listed banks in Tanzania which has not been fully exploited.

5.6   Areas for Further Studies

This study would like to suggest further research in this area. It should be noted that this study has only covered the period from 2010 to 2014, with a sample of three (3) banks listed out of five (5) listed banks and other many banks operating in Tanzania and 14 firms listed at the Dar – es – Salaam Stock Exchange; hence, the validity of the findings interpreted in this study is limited to the scope of the data and the condition of economics for the period of the data and the governance variables. Furthermore, it would be very valuable to conduct the same research but being able to include all banks operating in Tanzania or by considering all listed firms at the DSE and using other variables like experiences, gender (female members), international board member, education, employee representatives and CEO duality for independent variables while for dependent variables cost to income, non – funded

income to total income, loans to total deposits, non – performing loans to total loans and advances and debt to total assets can be tested.

Finally, doing that a researcher can make an analysis based on the whole population of banks operating in Tanzania or all companies listed at the Dar – es – Salaam Stock Exchange with full variables. This way will increase the amount of companies in the segment and provide more accurate results. Also a researcher can even test the relationship between independent variables with those of dependent variables by considering all banks without picking which are listed and which not listed at the Dar – es – Salaam Stock Exchange. However, I believe my study can be reasonably generalized to the rest of the companies and a study might receive the same results and make the same conclusion.

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APPENDICES