BOARD DIVERSITY AND PERFORMANCE OF COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

A central governance issue is the role of boards of directors. Since boards have the ultimate responsibility for the success or failure of an organization, they must be concerned with strategy. Board composition evaluates the mix between non-executive and executive heads, the board size, and other desirable qualities like gender diversity, education of board members, nationalities, age of board members, and functional background. The study's goal was to evaluate the relationship between board diversity and performance of commercial banks in Nairobi County. The following study objectives are highlighted: To examine the association between gender diversity, board director functional background, board director independence, board director age, and commercial bank performance in Nairobi County. The following theories anchored the study: resource dependency theory, resource-based view theory, stewardship theory and agency theory and upper echelons theory. A descriptive research design was used. The study respondents were limited to top level managers of the units of analysis which comprised of Absa Bank Kenya, Equity Bank, Kenya Commercial Bank, Cooperative Bank, Standard Chartered Bank, NCBA Bank, Stanbic Bank I&M Bank and Diamond Trust Bank. The study used stratified random sampling to select the sample size. Descriptive statistics were used to analyze the data. In the data analysis, ANOVA, t-test, Pearson correlation, p-values, and coefficient of determination were employed. Tables, figures, graphs, and frequency tables were used to present data. Regression and correlation analysis were conducted to investigate the association between board diversity and performance. Based on the findings of the study, Functional Background, Age diversity, Board Members Independence and Gender diversity were found to have a strong positive relationship with the performance of tier one commercial banks in Nairobi County, Kenya. The statistically significant relationship between the two variables suggests that Functional Background, Age diversity, Board Members Independence and Gender diversity plays an important role in enhancing the performance of commercial banks in the region. Therefore, it was concluded that effective Functional Background strategies can positively impact the performance of tier one commercial banks in Nairobi County, Kenya. Further research is needed to be done on other bank tiers to compare the findings and make generalization. The study can also be replicated in other financial institutions other that commercial bank. It is equally suggested that another study be undertaken using other sectors with the same variables to determine how board diversity affects the performance.

Key Words: Corporate governance, Gender diversity, Functional Background, Independence of board members, Age diversity, Performance.

INTRODUCTION

Corporate governance is defined as "the frameworks and procedures for the guidance and control of organizations" (World Bank, 2017). Corporate governance includes the board, the shareholders, and other stakeholders. Enhancing business performance and expanding access to outside financing promote sustainable economic development. The board is the apex in matters regarding making strategic decisions; they operate as the representatives of the firm's stockholders (Pearce, Robinson & Mital, 2017). The codes of corporate governance grants board the formal authority to monitor managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation. Board is designed to address the conflicts of interest between managers (agent) and shareholders (principal) and to bring their interests into congruence (Kiambati, Ngugi, Katuse & Waititu, 2017).

The board is an important internal governance control mechanism (Agrawal and Knoeber, 2020) for aligning the interests of managers and all stakeholders to a firm (Agrawal and Knoeber, 2020). Today's business organisations are increasingly becoming diverse at both employee, top management, and leadership levels. Organisations have embraced diverse teams in terms of tenure, experience, gender, age, ethnicity, educational background, and socioeconomic status. Board diversity includes the composition, the characteristics and the structure of corporate boards and board process (Zahra and Pearce, 2021). Abdullah and Ismail (2017) argued that even though board diversity is seen as important, it is only relevant if it helps to enhance board effectiveness and thus the performance; otherwise, board diversity might be regarded as 'tokenism' or be done to comply with societal pressure. The interactions between board members within the boardroom are referred to as the "black box" of board behavior. These two main perspectives in board literature have also been viewed as limited in explaining how boards make decisions (Huse, 2017; Huse et al., 2017).)

Diversity and Inclusion is increasingly being considered a strategic imperative for performance-oriented organizations around the world. There has been a deliberate aggressive push for gender diversity on corporate boards. More organizations and businesses are now anchoring their strategies for sustainability and growth around diverse and inclusive teams, with the benefits becoming increasingly apparent, specifically on increased innovation, reduced employee turnover, and enhanced organizational competitiveness in a global economy (Goshal, 2005; Van Ees et al., 2019). The notion of good corporate governance and leadership tends to be one factor that increases the attention to diversity and inclusion of boards. According to Frerichs (2020) on the "Investment Case for Board Diversity," indicates that boards hold immense authority over the corporations' governance, financial performance, business strategy, and management. The Board of directors plays an indispensable role as direct representative of the organizationns' shareholders, ensuring they are empowered and legally bound to grow and protect their value.

With this influence and responsibility, it is understandable why institutional investors, corporate leaders, financial analysts, and other stakeholders now devote considerable time and attention to scrutinize the composition of corporate boards, including board members' diversity (Amin & Ibn, 2020). According to Chahadah, Refae, and Qasim (2017), the United Kingdom's For instance, The Corporate Governance Code (2020) requires enterprises to: (I) consider diversity when selecting board members; and (ii) disclose information in their annual reports explaining the board's diversity policy and the board's progress in attaining the policy's goals. Both Australia and Hong Kong adopt the "comply or explain" method to foster diversity. Supporters of this strategy claim that board nominations should be selected based on corporate needs rather than legislative requirements, which might be viewed as excessive in the market and have an impact on strategic decision-making, talents, and competencies.

Akpan and Amran (2021) advocated for a higher number of women on corporate boards, arguing that the current situation was merely cosmetic and could not yield meaningful results. A board of directors is the primary decision-making body in a company and is responsible for approving important strategic operational and financial decisions. Non-executive board member means that the person is not involved in the day-to-day running of the firm. Organizations must be satisfied that the balance of knowledge, skills, experience, and diversity on the board is sufficient (King IV Report, 2016). A number of authors have illustrated that the diversity of an organization's board aids innovation and creativity, which translates into improved financial performance. Diversity of the board is not only the observable demographic features of an individual, but also includes non-observable (cognitive) features such as leadership ability and communications kills. The diversity of the board takes various forms in a boardroom and can be broadly categorized into the following elements (Deloitte Centre for Corporate Governance, 2017): Skills, Expertise and Experience, Gender. Ethnicity, age, geography, and independence.

The Kenyan economy, like other Sub-Saharan countries, does not have a strong legal system that can ensure that regulations are enforced. A survey by Kenya Institute of Management (KIM, 2021) Revealed that Diversity and inclusivity of boards is a key trend that has globally influenced the way organizations functions. The results of this study demonstrated that workplace gender diversity is increasing. The results also demonstrated that gender and age diversity and inclusivity had a major impact on organizational productivity, decision-making, and performance. Mohamed and Atheru (2017) said that board gender diversity had no impact on the strategic decision of Kenyan firms. Letting, Wasike, Kinuu, Murgur, Ongeti and Aosa (2020) advocated also for board gender diversity by saying that increasing female directors would impact strategic decision. It has been suggested that local Companies with a large number of external supervisors on the board tend to solve fewer problems and thus emerge better positioned between investor enthusiasm and management enthusiasm (Fernández, 2017).

Therefore, it can positively influence the strategic decisions of commercial banks and ultimately the performance (Rosenstein and Wyatt, 2020). Technical board expertise is about providing board members with the necessary professional skills, rather than leaving board members without the necessary technical expertise (Fidanoski et al., 2021). Kenya's commercial banks are governed by the rules of the Capital Markets Authority, the Banking Act, and the Central Bank of Kenya. These bodies issue guidelines that banks are supposed to adhere to. If they fail, they can be suspended from operations, be placed under statutory management and/or liquidation. According to the Central Bank of Kenya Annual Supervision Report (2021), "there are about forty-two registered and licensed commercial banks in Kenya". Out of this number, "two banks have been put under receivership by the regulatory authority". These are Chase Bank (K) Limited and Imperial Bank Limited.

Statement of the Problem

The dynamic nature of the business environment has brought about significant changes in the ways organizations are owned, financed, and aligned with external forces, as well as their engagement with shareholders (Guo, Jimenez, and Zuo, 2015). In an era of rapid economic shifts compounded by globalization, businesses face ongoing struggles to maintain profitability, making board diversity an imperative. The global recognition of the importance of diversity in corporate governance is evident, not only as a trending topic but through the demonstrated interrelationship between positive business performance and workforce diversity. Research in this field can be broadly categorized into two groups: those studying the board's influence on specific business decisions and those examining the effect of board structure on company performance (Muriithi et al., 2017).

The banking industry in Kenya stands out with robust performance, surpassing its East African counterparts in various metrics (Ernst & Young, 2021). In 2020, Kenya's banking assets grew by a remarkable 16%, far outpacing the GDP growth rate, which stood at 4.9%. This impressive performance extends to key indicators like return on assets, return on equity, efficiency, and capital adequacy, reinforcing Kenya's lead over neighboring countries. While regulatory measures have played a role in this success, individual bank strategies also contribute significantly. However, the banking sector's success in Kenya cannot mask the ongoing challenges in corporate governance, as evidenced by banks like Chase Bank, Euro Bank, Imperial Bank, Trade Bank, Dubai Bank, and Charter House bank being placed under statutory management due to governance malpractices (Osebe & Chepkemoi, 2016). Weak corporate governance practices, poor risk management strategies, and regulatory weaknesses have been identified as key contributors to these failures (Gathaiya, 2017). Improving corporate governance is crucial for financial stability.

Despite the promising performance of the banking sector, concerns remain regarding board diversity and its impact on performance. Recent research by Wachudi (2021) suggests that while

men predominantly control Kenyan commercial banks' boards, gender diversity alone may not significantly impact bank performance. This study underscores the need to explore other dimensions of diversity, such as independence, nationality, and professional backgrounds. Inconsistencies and conflicting findings in existing studies necessitate further research to comprehensively understand the relationship between board diversity and performance within the Kenyan context (Nyarige, 2017; Ongore, K'obonyo, Ogutu, and Bosire, 2015). The studies on the composition of the board and the financial performance of the company were inconclusive and thus the results cannot be generalized. Some of these studies have conflicting results hence a further study needed to be conducted to determine the relationship between board diversity and performance in the Kenyan context.

Objectives of the Study

The overall goal of the study was to investigate the relationship between board diversity and performance of commercial banks in Nairobi County.

i. To examine the relationship between board gender diversity and performance of commercial banks in Nairobi County.
ii. To determine the relationship between board members' functional background and performance of commercial banks in Nairobi County.
iii. To determine the relationship between board member's independence and performance of commercial banks in Nairobi County.
iv. To assess the relationship between board members' age and performance of commercial banks in Nairobi County.

THEORETICAL REVIEW

Agency Theory

Jensen and Meckling in 1976 advanced the Agency theory which focuses on the inherent conflicts between a firms' owner's interests and the management's interests. This conflict might arise when the agent (managers) pursues some actions that will not be in the best interest of the owners (Principal). Therefore, according to this framework, a firm's CEO Has incentives to influence the selection of aa board that will enable him/her to maximize his/her personal benefits. In contrast, directors have incentives to maintain their own independence, preventing them from being complacent about the CEO. Consequently, from the agent theoretical perspective independent directors will have lesser potential conflicts of interest and therefore are able to provide greater integrity and independent judgement (Harjoto, Laksmana & Yang, 2017). From a theoretical perspective, the agency theory can explain the positive effect of board gender diversity on firm performance. According to the agency theory, gender-diverse boards may help to lessen issues with agencies between shareholders and managers. Female directors are more likely to ask more

questions than male directors, and they may also be more active and demanding monitors (Farrell & Hersch, 2019).

Resource Based View Theory

The RBV sees the firm as a bundle of tangible and intangible resources. A firm's resources can be the basis of sustained competitive advantage if the resources are valuable, rare, imperfectly imitable, and not substitutable. The RBV's need for "valuable, rare, inimitable, and non-substitutable" resources might also be extended to the board's particular blend of resources (Sarhan, Ntim, and Al-Najjar, 2019). RBV theory connects board characteristics to unique resources that may end up being sources of competitive advantage for businesses. The RBV emphasizes the role that the board directors can play in bringing resources to the company, in contrast to agency theory, which places focus on managing competing agendas among managers and shareholders within the organization (Naciti, 2019). Using Resources View places a strong emphasis on the composition and governance Board structure and technical capabilities as resources that can benefit the business. When the board of directors is actively involved in strategic decisions, the company can see it as a useful resource. In-depth board skills and knowledge are essential for an effective engagement process (Dong, Karhade, Rai, & Xu, 2021). His experience testifies to the board's extensive knowledge of how the company operates, including a deep understanding of the company's industry, customers, competitors, and technology.

RBV would view the board as a special, tacit (that is, invisible), socially complex (that is, dependent on teamwork), and internal resource that can help a company increase its returns (Vitolla, Raimo & Rubino, 2020). A valuable and distinctive resource is created when there is in-depth knowledge about the company, and it is essential for the board to use this resource to carry out its responsibility to regulate management decisions (Dong et al., 2021). The board is better equipped to concentrate on pertinent decision options and effectively understand business operations and internal management problems thanks to such in-depth understanding of the company. This knowledge is a tacit intangible asset whose value cannot be replaced, making it a key factor in the board's capacity to carry out a variety of activities (Naciti, 2019). The RBV of the company claims that directors' extensive knowledge and range of skills are a source of competitive advantage and can result in better board performance. This diverse expertise includes scarce resources such as business and financial sector knowledge, strategic expertise, and better governance.

Stewardship Theory

The Stewardship theory was developed by Donaldson and Davis in 1993. In the theory, they posit that when top management are given the freedom to manage the firm with minimum external interference, they would transact on behalf of the company as responsible stewards whose interest

was to enhance shareholder wealth (Naciti, 2019). They will be pursuing interests that are consistent with the goals of the bank. In almost no conflict, the board and management will both work to further the interests of the company. As they put the firm's interests above their own, the agents become more motivated. In the Stewardship theory, the board bears the responsibility of care for the firm. They allow managers to procure and own shares in the firm with the sole aim of motivating them to efficiently and effectively execute their responsibility to increase shareholder value and wealth. Raimo, Vitolla, Marrone and Rubino (2021) discovered that when more shares are held by managers their decisions

There are limitations to the Stewardship theory though: Managers can develop conflicting interests which override the interests of the firm. Stewardship theory operates under the assumption that board members have the expertise, access to current information and were favoured with a depth of knowledge facilitating them to make decisions resulting in improved financial performance of a bank. Stewardship theory assumes that executives act in the best interests of the company and are better placed to make corporate financial and investment decisions, as executives are better informed about the current and prospects of the company because of their "closeness" to operations. Stewardship theory, therefore, can be used to predict that there is a relationship between independent board member representation and performance.

Resource Dependence Theory

Pfeffer and Salancik introduced the resource dependence theory in 1978. According to this theory, a corporation is considered as an open system that is dependent on external environmental circumstances. Thus, one needs to comprehend the firm's context to completely comprehend a firm. This idea holds that by connecting the organization with its external environment, The board of directors can "control external dependency, lessen transaction costs related to environmental interdependency, and lessen environmental uncertainty" (Subramanian, 2017). The study can examine performance and diversity on the board of directors thanks to this theory's improved theoretical framework. The idea, however, does not explain the mechanisms and procedures that cause a board with a greater age diversity to perform better than a board with a smaller age diversity (Kyere & Ausloos, 2021).

Boards are important sources for counsel and advise and they enhance the reputation and legitimacy of the firm" (Chrisman, 2019). Board connections have been shown to be important not only for ensuring access to important resources, but also to disseminate information throughout the organization (Chahad et al., 2017). An important finding of this theory is that the structure of the board must be adapted to the specific needs of the company since board members have different resources and connections to the board. Board composition should change over time as organizational needs change (Hillman et al., 2020). Smaller companies and companies in the early stages of their lifecycle can also benefit more from the resources that a board provides than larger, mature companies. Resource dependency theory can be used to explain the effect of board member

age on performance. Age diversity can improve board performance. The board of directors serves as directors of all ages with different backgrounds, skills, experience, and social networks to some extent. Age diversity enhances information as different directors hold their own information that the board provides to management.

Upper Echelons Theory

The theory of the upper echelons was developed by Hambrick and Mason (1984) with the intention of providing an explanation for the behavior of organizations. To comprehend this, one must consider the organization's most influential actors, specifically the top executives (Hambrick, 2017). According to the upper echelons' theory, an organization is part of a coalition that prioritizes top managers. Organizational outcomes, including strategy and effectiveness, reflect the values and beliefs of top managers (Hambrick and Mason, 1984). To put it another way, top executives are reflected in organizations (Hambrick, 2017Organizational performance is also influenced by the characteristics of top managers' backgrounds, according to Hambrick and Mason (1984). As a result, executive managers are frequently chosen based on their backgrounds in order to ensure that their backgrounds align with the organization's goals and desired performance. Age, gender, career experiences, functional tracks, education, financial situation, socioeconomic roots, and group characteristics are the primary upper echelon characteristics that influence. Strategic choices are made by upper echelon characteristics and situational circumstances, and that upper echelon characteristics, situational circumstances, and strategic choices interact to create firm performance.

Conceptual Framework

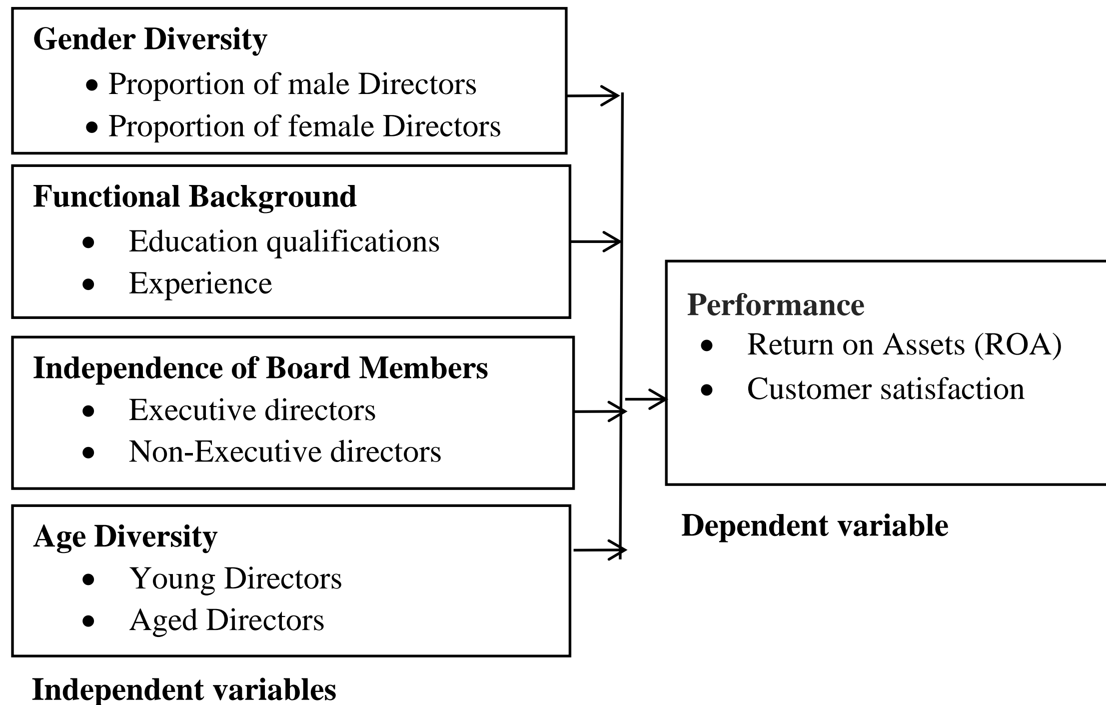

Figure 1: Conceptual Framework

Gender Diversity

The ratio of women to men in a workplace or organizational structure (such as a school, business, or court) is referred to as gender diversity. The diversity is larger the less disparity there is between the numbers of men and women (Amin et al., 2020). The results of studies on organizational and social behavior indicate that diverse teams produce better results. Diverse boards with directors who have a range of characteristics and perspectives can aid in developing effective strategies, coming up with original solutions to problems, and increasing productivity. There is growing consensus that having more women on boards improves performance, and numerous nations have suggested setting women's quotas (Kota & Charumathi, 2017).

In the United Kingdom, Chen, Leung, and Evans (2015) looked into how board gender diversity affects innovation and company success (UK). The study, which focused on retail businesses in Cardiff and relied on secondary data, found that companies with more gender diversity on their boards outperformed those with less diversity in terms of innovation. The quantity of new items introduced into the supply chain was used to gauge innovation performance. This suggested that female board members might have strengthened management oversight, boosting the pressure on managers to innovate. This study was done on retail firms in the UK, whereas the current study focuses on commercial banks in Kenya. The previous study only considered diversity in terms of gender; however, the new study also considers diversity in terms of boards.

Ekadah and Mboya (2020) examined how the performance of nearby commercial banks was impacted by gender diversity on boards. The aim of this study was to investigate the impact of gender diversity on boards on the performance of Kenyan commercial banks. The study looked at a 12-year span (1998-2019). The stepwise regression model was used in the investigation. The study's findings showed that most commercial banks' boards in Kenya were male dominated, with very few women serving on them. Findings also showed that there were 1:8 women directors to total board members. The study did find, however, that gender board diversity did not significantly affect Kenya's commercial banks' performance. Unlike the last study, which just looked at board gender diversity, this one also considers the diversity of independent directors, age, functional background and nationality.

In a local study, Letting, Aosa and Machuki (2020) examined board diversity and its impact on the performance of NSE-listed firms. Independent variables in the study included board members' age, gender, academic qualifications, and education. Company performance is assessed as a dependent variable using dividends, P/E ratio, return on assets and return on equity. OLS regression was used in the analysis. The study finds that gender diversity in town councils is not associated with any of the financial performance metrics. Without taking into account the differences that occur between businesses in other industries, this study concentrated on all the enterprises registered on

the NSE. Only commercial banks with standardized procedures and a shared regulatory framework are taken into account in this study.

Board Members' Functional Background

Management literature has interpreted the educational degree as a gauge of a person's knowledge, aptitudes, and mental abilities (Hambrick and Mason, 1984). In order to recognize organizational opportunities and challenges and match them with important organizational strengths and weaknesses to construct a strategy, corporate strategy requires knowledge, skills, and cognitive capacities (Grim and Smith, 1991; Payne et al., 2019). Because they are better able to evaluate environmental opportunities and turn them into feasible strategies, decision-makers who have knowledge and skills obtained through education can assist them in making zjudgments. This is due to the fact that they boost their ability to take in new information and, consequently, their propensity to embrace strategic change (Malerba & Orsenigo, 2000). For instance, Liebeskind (2020) found that an organization can create distinctive processes, products, and strategies when it has better knowledge and abilities.

Highly educated people may engage in more boundary-spanning activities and may have a stronger capacity to organize and interpret complicated information, both of which may be necessary to maintain strategic shifts, according to Young et al (2001)'s observation. Therefore, in order to pursue strategic transformation, educational diversity is required. According to Hambricket al. (2001), groups with a range of educational backgrounds offer a collection of information, skills, and experiences that can be applied to diverse contributions and innovative answers to the problem of strategic decision-making. Similar to this, educational diversity gives boards access to varied points of view on topics. Although some studies claim that such variety would lead to conflict, we think that mild levels of cognitive conflict improve the effectiveness of the board in making strategic decisions. In order to solve complex challenges, develop novel goods and services, lower prices, and boost quality in the face of rising global competition, businesses now employ cross-functional teams made up of people from various backgrounds.

According to Malerba and Orsenigo (2000), groups with members from various educational and professional backgrounds tend to perform better than those with members from similar backgrounds. They also tend to make better strategic decisions. A group of engineers will produce inferior answers more slowly than a group that includes engineers, finance experts, attorneys, and industrialists. Senior management teams with diverse educational and professional backgrounds perform better for their companies in terms of market share and earnings. At all levels of the organization, teams with a variety of abilities and experiences are being used since it is predicted that they would provide better results than teams with members who have the same degree of knowledge. However, there is a chance that this diversity will hinder performance (Malerba & Orsenigo, 2000). The main cause of this is inadequate teammate communication. It might be

difficult to effectively communicate with teammates who do not have the same functional background or worldview. Status issues frequently lead to conflict. To achieve expected performance, boards must manage diversity effectively. In order to promote communication and group cohesion, coordination is necessary, and bigger budgets might be needed for these projects.

Independence of Board Members

Independent directors present a more balanced viewpoint to the boardroom since they evaluate situations more impartially after taking into account all pertinent information, the board should decide whether a director is independent in both character and judgment. These variables may take into account the person's relationship or close familial links to an organization, board, and shareholders. In South Africa, non-executive directors of publicly traded corporations are thought to be independent in about 60% of cases. This is because having such people on the board is required by the Companies Act, King IV Report on Corporate Governance, and Johannesburg Stock Exchange Listing Requirements. Thus, a varied board is made up of a variety of unique people. Board diversity, according to Mans-Kemp and Viviers (2015), can boost board independence. They contend that people of different genders, races, ethnicities, and/or professional backgrounds frequently pose queries that directors with more "traditional" backgrounds do not typically respond to. Higher order problem solving and, ultimately, a better competitive edge, may result from more questioning.

According to Deschênes, Rojas, Boubacar, Prudhomme, and Ouedraogo (2015), the ratio of independent board members positively correlates with how governance is conducted. In their 2005 study, Berghe and Baelden looked at the importance of independence and how the directors' monitoring and strategic responsibilities enable board performance. The board's independence greatly depends on the number of directors that are independent. How independent they are may rely on the board's culture, the directors' skills, and their willingness to effect change. Kakabadse, Yang, and Sanders' 2020 study on “the effectiveness of non-executive directors in China” provided this information.

Board Members’ Age

Young directors are more productive, flexible, receptive to new ideas and technologies, and high risk-takers, while aged directors have rich experience and robust networks that help companies capitalize on valuable resources. Managerial youth has been associated with novelty and more strategic change. Younger men can expend more mental and physical effort on promoting growth and change within their firms. They are more relevant in decision-making since they are more likely to have acquired their education more recently, especially in decisions involving formulation of strategic change. According to Bantel and Jackson (2021), younger decision-makers are more prone to take risks and advise on dangerous judgments, according to research studies, therefore it

makes sense that boards of directors made up of younger board members would also take more risks and advise on risky decisions. Due to their adaptability, physical and mental endurance, and aptitude for information processing, they might be able to provide advice on strategic decisions, but they might not have the necessary expertise.

Although older board members are likely to be conservative and more resistant to change, age diversity would be ideal for strategic change because it brings together different knowledge and skill bases, assumptions, and mental schemas" which are necessary in strategic decision-making. Diversity in age encourages a wide variety of perspectives on strategic issues such as strategic change. Similar to gender diversity, age diversity is likely to draw on the experiences present in the membership's diversity. The younger group has the energy and drive to succeed, which are key components performance while the elder group can offer experience and knowledge. As a result, performance-oriented boards need to include a spread in age.

RESEARCH METHODOLOGY

Research Design

This research study adopted a descriptive research design. The descriptive research design is used because it is able to collect accurate data on and provide a clear picture of the relationship between board diversity and performance of commercial banks in Nairobi County. The research design explains the behaviour of a given population in an accurate and systematic manner. Descriptive research design is suitable because the study involves obtaining data and analysing the study units at a specific time to evaluate the impact within the variables.

Target Population

There were forty-two commercial banks in Kenya. Of these, two banks were placed under receivership by the regulatory authority. These are Chase Bank (K) Limited and Imperial Bank Limited. According to CBK Bank Supervision Annual Report (2021) The Central Bank of Kenya ranks commercial banks based on their asset base. Tier 1 banks are made up of large banks with hundreds of billions in assets. These collapse less. They are the top banks. Tier 2 banks are medium sized banks and Tier 3 banks are made up of small banks. Kenya has many banks. The target population was limited to the nine commercial banks under the Tier 1 category which formed the unit of analysis for this study namely, Kenya Commercial Bank, Equity Bank, Absa Bank Kenya PLC, Cooperative Bank, Standard Chartered Bank, NCBA Bank, Diamond Trust Bank, I&M Bank and Stanbic Bank. Unit of analysis was described as the group about which information is collected and analysed. The unit of observation for the study was the nine banks which constitute the list of Tier One banks in Kenya. The choice of Tier One banks as the unit of analysis was justifiable since they contribute to over 50% of all banking employees in Nairobi County. Unit of observation was

group about which data are collected. The unit of analysis are the top-level managers in these commercial Tier1 banks.

Sampling Frame, Sample Size and Sampling Technique

The sampling frame for this study consists of the top managers from the nine commercial banks under the Tier 1 category. Stratified random sampling technique is used to select 50% of the target population. In stratified random sampling, the population is divided into two or more strata, when the population is heterogeneous regarding characteristics or variables under study. The purpose of random sampling was to reduce sampling errors which occur when the sample generated is not representative of the population being studied. Strata sample sizes are determined by the following Neyman optimal allocation equation:

$N_h = (Nh / N) * n$

where,

n_h= Sample size for h^{th} stratum

N_h= Population size for h^{th} stratum

N = Size of entire population

n = Size of entire sample

N_h= is 50% of the population

0.5*656=328

N =656

Therefore, sample size was 328.

Data Collection

In this study, both primary and secondary data are used. Survey is used to gather primary data. Questionnaires have become a crucial tool for data collection. Both open-ended and closed-ended questions, which limit respondents to specific categories in their answers, are included in the questionnaires. Open-ended questions seek to understand new ideas from respondents. The questionnaires was self-administered through drop and pick method to the 328 respondents. The questionnaires for the primary data was dropped to the respondents in person and picked upon completion later. This provided an opportunity to explain the importance of the study to the respondents, discuss the pilot study outcome and obtain their buy-in from the beginning. By employing self-administered questionnaires, participants can respond to questions by themselves at their own pace. They ease respondent's burden by giving them time to think through their responses (Jayamaha, et al., 2017). The data collected was then tested for accuracy and reported in a tabular format.

Pilot Study

The questionnaire was tested on 33 members who are part of the target population but not in the sample. The reliability of the questionnaire was evaluated using Cronbach's alpha coefficients. Cronbach's alpha coefficients are used in measuring the internal consistency of the questionnaire

instrument. The value of the alpha coefficient ranges from 0-1. An alpha value of 0.7 and above is an acceptable reliability coefficient. Since secondary data was drawn from the published annual financial reports of banks, they were presumed to be reliable. This study tested both content and construct validity. For content validity, the researcher discussed the items in the instrument with the supervisors and other experts. Professional input helped the researcher to establish the validity of the research instrument. Construct validity is about how well a test measures the concept it was designed to evaluate. It's crucial to establishing the overall validity of a method. Construct validity was measured using factor analysis.

Data Analysis and Presentation

This study applied Karl Pearson's Correlation Coefficient (r), to analyze data thus determining the relationship between variables. The strength of the variables varies between 0 and 1, where 0 indicates a nil relationship, 1 implies perfect relationship and when coefficient is closer to 1, the relationship of the variables is much stronger. Using multiple regression model, regression analysis scrutinizes collected data to assess correlation between the variables. Correlation coefficients also help in understanding the regression model in a better way. Regression analysis is the most common method used to predict or to make inferences about the relationship between two or more variables. It is used when a researcher suspects a causal relationship between two or more variables.

For validity of regression analysis, a number of assumptions are made in conducting linear regression models. These are There should be a linear and additive relationship between dependent (response) variable and independent (predictor) variable(s). A linear relationship suggests that a change in response Y due to one unit change in X^1 is constant, regardless of the value of X^1. An additive relationship suggests that the effect of X^1 on Y is independent of other variables. There should be no correlation between the residual (error) terms. The absence of this phenomenon is known as Autocorrelation. The independent variables should not be correlated. Absence of this phenomenon is known as multicollinearity; The error terms must have constant variance. This phenomenon is known as homoskedasticity. The presence of non-constant variance is referred to heteroskedasticity and the error terms must be normally distributed.

The data has been cleaned, and assumptions of regression have been validated before actual analysis. This involved tests for multicollinearity and normality. The relevancy and relationships are determined by simple regression and correlation analysis techniques whereby $= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Y- Bank performance measured by Return on assets and Customer satisfaction (Dependent variable**: outcome** as a result of changes in any or all the variables, X_1 to X_4)

'**B_0** – Constant beta factor, the value of Y when all variables X_1 to X_4 are zero.

X_1 – Board Gender Diversity

X_2 – Board Members' Functional Background

X_3 – Board Member's Independence

X_4 – Board Members' Age

'b_1 – b_4 – Beta Regression coefficients introduced by Y in each X

ε – Accounting error for other board features not included in the model

Data presentation used a combination of statistical and graphical techniques to produce comprehensive conclusions (Kombo & Tromp, 2006). Figures and tables (descriptive statistics) shall be used to better present the research findings at a glance. Inferential statistics such as correlations and standard deviations was presented using graphs to give a conclusion on the relationship between the dependent and independent variables.

RESEARCH FINDINGS AND DISCUSSIONS

Functional Background

The study found that Functional Background had positive significant influence on performance of tier one commercial banks in Nairobi County, Kenya. The findings also showed that respondents agreed that Tier I Commercial banks aims at having board transformation in their institutions whereby incoming and outgoing members of the board plays a key role in transforming the operation and performance of the banks. Respondents also agreed that recruitment of executive of Tier I Commercial banks plays a significant role in determining its performance; that Functional Background of the Tier I Commercial banks plays a key role in the organizational performance; that reporting structure plays a significant role in determining the performance of Tier I Commercial banks in Nairobi County, Kenya; and that the board diversity plays a significant role in the organization.

Age diversity

The findings of the study were indeed intriguing. It was revealed that age diversity exerted a palpably positive and statistically significant influence on the performance of tier one commercial banks in Nairobi County, Kenya. This discovery underscored the significance of having a diverse workforce with employees spanning various age groups. The presence of individuals from different generations, each offering distinct insights, skills, and approaches, appeared to foster innovation, enhance decision-making, and ultimately contribute to the overall success of these banks. These results may serve as a valuable reference point for organizations seeking to improve their performance by embracing and harnessing the advantages of age-diverse teams.

Board Members Independence

The results of the inferential analysis conducted as part of this study were particularly noteworthy. They revealed that Board Members' Independence indeed exerted a positive and statistically significant influence on the performance of tier one commercial banks in Nairobi County, Kenya. This finding underscores the importance of having independent board members who can provide unbiased oversight, challenge management decisions when necessary, and contribute their expertise and judgment to strategic planning and risk management. Such independent voices on the board can help enhance transparency, accountability, and ultimately the financial performance of these banks, reassuring investors and stakeholders alike.

Gender Diversity

The study did not directly find a direct statistical relationship between gender diversity and bank performance. However, it did reveal a noteworthy observation regarding the role of risk policies within the organization. The findings suggested that risk management policies and practices played

a pivotal role in enhancing the performance of Tier I Commercial banks in Kenya. While gender diversity itself may not have been identified as a direct driver of performance, the study hinted that the effectiveness of risk management and mitigation strategies within the organization had a substantial impact on its overall success. This insight highlights the intricate interplay between organizational policies and practices and their ultimate influence on performance.

Correlation Analysis

Functional Background had strong positive relationship with performance of Tier 1 commercial banks in Nairobi County, Kenya (r=0.786). The relationship between the two variables was significant since the p-value obtained (0.000) was less than the selected level of significance (0.05). The finding that Functional Background has a strong positive relationship with the performance of tier one commercial banks in Nairobi County, Kenya is consistent with previous studies that highlight the importance of leadership in organizational performance (Sisaye et al., 2017; Mwangi & Muturi, 2016).

Table 1: Correlation Analysis

		Performance	Functional Background	Age diversity	Board Members Independence	Gender diversity
Performance	Pearson Correlation	1				
	Sig. (2-Tailed)					
	N	300				
Functional Background	Pearson Correlation	.786**	1			
	Sig. (2-Tailed)	.000				
	N	300	300			
Age diversity	Pearson Correlation	.872**	.261	1		
	Sig. (2-Tailed)	.000	.147			
	N	300	300	300		
Board Members Independence	Pearson Correlation	.698**	.325	.264	1	
	Sig. (2-Tailed)	.000	.168	.078		
	N	300	300	300	300	
Gender diversity	Pearson Correlation	.702**	.245	.178	.325	1
	Sig. (2-Tailed)	.047	.356	.091	.147	
	N	300	300	300	300	300

The findings also show that age diversity has positive and significant relationship with performance of commercial state corporations in Kenya (r=0.872, p=0.000). Significant relationship was considered since the p-value was less than selected level of significance (0.05). The finding that age diversity has a positive and significant relationship with the performance of

commercial state corporations in Kenya is consistent with previous research that emphasizes the need for process innovation to improve organizational performance (Tidd & Bessant, 2017; Njihia et al., 2017).

The findings further showed that Board Members Independence is seen to have a strong positive and significant relationship with performance of tier one commercial banks in Nairobi County, Kenya (r=0.698, p=0.000). Since p-value was less than 0.05, the relationship between the two variables was consider to be significant. The finding that Board Members Independence has a strong positive and significant relationship with the performance of tier one commercial banks in Nairobi County, Kenya is consistent with the resource-based view theory, which posits that the proper alignment of organizational structure and resources can enhance organizational performance (Barney, 1991).

Finally, Gender diversity had strong positive relationship with performance of tier one commercial banks in Nairobi County, Kenya (r=0.702). The relationship between the two variables was significant since the p-value obtained (0.000) was less than the selected level of significance (0.05). The finding that Gender diversity has a strong positive relationship with the performance of tier one commercial banks in Nairobi County, Kenya is consistent with previous research that emphasizes the importance of policy innovation and adaptation to improve organizational performance (Damanpour & Schneider, 2016). All the four independent variables had strong positive relationship with the dependent variable. This means that an increase in any of the independent variable (Functional Background, age diversity, structural change and Gender diversity) will result to an increase in the independent variable (Performance of Tier 1 Commercial Banks in Nairobi County, Kenya**).**

Model Summary

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883[a]	.780	.754	.41075

a. Predictors: (Constant), Gender diversity, Functional Background, Age diversity, Board Members Independence

b. Dependent Variable: Performance

The predictive power of the model was determined using coefficient of determination (R^2). The model summary results show that the R-squared is 0.780 which suggests that 78% of all variation in performance among Tier I Commercial banks in Nairobi County, Kenya are explained by changes in Functional Background, age diversity, Board Members Independence and Gender diversity. The remaining 22% suggests that there are other factors that can be attributed to variation in performance among Tier I Commercial banks in Nairobi County, Kenya that were not discussed in this study. Correlation coefficient (R) shows the relationship strength between the study variables. From the findings the variables were strongly and positively related as indicated r= 0.83.

Analysis of Variance

Table 3: ANOVA Test

ANOVA[a] Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.775	4	4.944	29.302	.000[b]
	Residual	5.568	296	.169		
	Total	25.343	300			

a. Dependent Variable: Performance
b. Predictors: (Constant), Gender diversity, Functional Background, Age diversity, Board Members Independence

From the analysis of variance (ANOVA), the study found out that the regression model was significant at 0.000 which is less than the selected level of significance (0.05). Therefore, the model was significant, meaning, data was ideal for making a conclusion on the population parameters. The F calculated value from Table 4.17 was greater than the F critical value from the f-disribution tables (29.302 > 2.693), an indication that Functional Background, age diversity, Board Members Independence and Gender diversity significantly influences performance of tier one commercial banks in Nairobi County, Kenya. The significance value was less than 0.05 indicating that the model was significant in predicting performance of tier one commercial banks in Nairobi County, Kenya.

Coefficients of the Regression Model

Table 4: Beta Coefficients for the Study Variables

Coefficients[a] Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.058	0.313		3.3000	0.001
	Functional Background	0.237	0.098	0.129	2.418	0.031
	Age diversity	0.594	0.216	0.239	2.750	0.010
	Board Members Independence	1.466	0.174	0.8300	8.425	0.000
	Gender diversity	1.058	0.313		3.3000	0.001

a. Dependent Variable: Performance

The regression model is specified as follows:

$$\mathbf{Y = 1.058 + 0.237X_1 + 0.594X_2 + 1.466X_3 + 0.186X_4 + e}$$

The findings showed that holding Functional Background, age diversity, Board Members Independence and Gender diversity to constant at zero, performance of tier one commercial banks in Nairobi County, Kenya would be 1.058. The constant (β= 1.058) was significant at 0.05 significance level (P=0.001). The findings also show that Functional Background is statistically

significant in explaining performance of tier one commercial banks in Nairobi County, Kenya (β = 0.237, P = 0.031). This indicates that Functional Background positively and significantly relates with performance of tier one commercial banks in Nairobi County, Kenya. The findings also suggest that improvement in Functional Background would lead to an increase in performance of tier one commercial banks in Nairobi County, Kenya by 0.237 units.

It is also seen that age diversity is statistically significant in explaining performance of tier one commercial banks in Nairobi County, Kenya (β = 0.594, P = 0.010). This indicates that age diversity positively and significantly relates with performance of tier one commercial banks in Nairobi County, Kenya. The findings also suggest that improvement in age diversity would lead to an increase in performance of tier one commercial banks in Nairobi County, Kenya by 0.594 units. Regarding Board Members Independence , the study found that Board Members Independence is statistically significant in explaining performance of tier one commercial banks in Nairobi County, Kenya (β = 1.466, P = 0.000). This indicates that Board Members Independence positively and significantly relates with performance of tier one commercial banks in Nairobi County, Kenya. The findings also suggest that improvement in Board Members Independence would lead to an increase in performance of tier one commercial banks in Nairobi County, Kenya by 1.466 units.

Finally, the study found that Gender diversity is statistically significant in explaining performance of tier one commercial banks in Nairobi County, Kenya (β = 1.058, P = 0.000). This indicates that Gender diversity positively and significantly relates with performance of tier one commercial banks in Nairobi County, Kenya. The findings also suggest that improvement in Gender diversity would lead to an increase in performance of tier one commercial banks in Nairobi County, Kenya by 1.058 units.

Hypothesis Testing

Table 5: Hypotheses Test Results

Research objective	Hypothesis	Rule	P-value	Results of the hypothesis
To examine the relationship between board gender diversity and performance of commercial banks in Nairobi County.	**H01**: There is no significant relationship between board gender diversity and performance of commercial banks in Nairobi County.	When p value is less than 0.05, reject the null hypothesis	0.000	Rejected
To determine the relationship between board members' functional background and performance of commercial banks in Nairobi County.	**H02**: There is no significant relationship between board members' functional background and performance of	When p value is less than 0.05, reject the null hypothesis	0.000	Rejected

	commercial banks in Nairobi County.			
To determine the relationship between board member's independence and performance of commercial banks in Nairobi County.	**H03**: There is no significant relationship between Board members' independence and performance of commercial banks in Nairobi County.	When p value is less than 0.05, reject the null hypothesis	0.000	Rejected
To assess the relationship between board members' age and performance of commercial banks in Nairobi County.	**H0**: There is no significant relationship between board members' age and performance of commercial banks in Nairobi County.	When p value is less than 0.05, reject the null hypothesis	0.000	Rejected

CONCLUSIONS

Based on the findings of the study, Functional Background, was found to have a strong positive relationship with the performance of tier one commercial banks in Nairobi County, Kenya. The statistically significant relationship between the two variables suggests that Functional Background plays an important role in enhancing the performance of commercial banks in the region. Therefore, it was concluded that effective Functional Background strategies can positively impact the performance of tier one commercial banks in Nairobi County, Kenya.

According to the findings, age diversity has a favorable and significant link with the performance of Kenyan commercial state firms. This implies that organizations that apply effective age diversity policies can improve their performance. As a result, it was found that effective age diversity initiatives can improve the performance of Kenyan commercial state corporations.

The study discovered that the independence of board members was strongly and positively associated to the performance of tier one commercial banks in Nairobi County, Kenya. The statistically substantial association between the two variables implies that successful structural modifications can improve the performance of regional commercial banks. As a result, it was determined that successful structural transformation techniques can improve the performance of tier one commercial banks.

The study discovered that gender diversity was strongly and positively associated to the performance of tier one commercial banks in Nairobi County, Kenya. The statistically significant association between the two variables implies that successful gender diversity measures can improve the performance of commercial banks in the region. As a result, it was found that successful gender diversity initiatives can positively benefit the performance of tier one commercial banks in Nairobi County, Kenya.

RECOMMENDATIONS

Based on the results and conclusions drawn from this study, several recommendations can be made to guide policy formulations and enhance the performance of tier one commercial banks in Nairobi County, Kenya. Firstly, with regard to Functional Background, it is evident that investing in the development of leadership capabilities among top management is crucial. Organizations should implement comprehensive development programs aimed at equipping their leaders with the necessary skills and knowledge to navigate the complexities of the banking industry effectively. Furthermore, establishing a succession plan is highly recommended to ensure a seamless transition of leadership roles. By identifying and grooming potential successors, banks can mitigate leadership gaps and maintain continuity in their operations. It is also essential to hold leaders accountable for their actions to maintain a culture of responsibility and transparency within the organization.

Age diversity emerged as another critical factor in enhancing the performance of commercial state corporations in Kenya. To capitalize on the benefits of age diversity, organizations should actively seek to diversify their workforce in terms of age groups. This diversity can be fostered through inclusive recruitment and retention strategies that attract talent from different generations. Creating a work environment that values and respects the contributions of employees from various age cohorts is also essential in maximizing the potential of age-diverse teams.

In terms of Board Members' Independence, organizations should prioritize regular reviews of their organizational structure to ensure alignment with strategic goals. This includes assessing the independence of board members and ensuring that they can provide unbiased oversight. Flexibility in the organizational structure is crucial to adapt to changes in the business environment effectively. Moreover, structures should be designed to facilitate communication and collaboration among employees, ensuring that board members have access to critical information and can make informed decisions.

Lastly, gender diversity was identified as a critical factor in enhancing the performance of tier one commercial banks in Nairobi County, Kenya. To harness the benefits of gender diversity, organizations should implement proactive diversity and inclusion policies that promote the recruitment, retention, and advancement of women in leadership roles. This includes creating a

supportive work environment that values diversity and provides equal opportunities for all employees, regardless of gender. By actively promoting gender diversity, banks can tap into a broader talent pool and benefit from a variety of perspectives and experiences, ultimately improving their overall performance and competitiveness in the market.

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