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BOARD DIVERSITY REGULATIONS AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE OF NAIROBI COUNTY

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BOARD DIVERSITY REGULATIONS AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA: A CASE OF NAIROBI COUNTY

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ABSTRACT

Purpose: The purpose of the study was to assess the implementation of board diversity regulations and its effect on performance of commercial banks in Kenya: a case study of Nairobi County

Methodology: This study employed a descriptive design. The sampling technique was a census where the sample involved the human resource directors, Chief finance officers and Chief executive officer of all the 43 commercial banks where 129 respondents were the sample size. This study used primary data for independent variables and both primary and secondary data for the dependent variable. Quantitative data collected was coded and evaluated using SPSS version 21. Inferential statistics (correlation and regression) was used. The study also employed a multivariate regression model to study the correlation.

Results: Based on the study findings, the study concluded that the professional diversity, gender diversity, minority group diversity and nationality diversity regulations have influence on performance of commercial banks in Kenya**.**

Unique Contribution to Theory, Policy and Practice: Based on the findings of the study, this research recommends that banks review their policies on board diversity regulations to include members from different nationalities, ethnicities and also different ages and gender. Further, banks are recommended to adopt the set government policies on diversity management in boards.

Keywords: *Professional diversity, gender diversity, minority group diversity and nationality diversity and Performance*.

1.0 INTRODUCTION

1.1Background of the Study

Is a company's performance affected by board diversity? This question lies at the heart of much research in corporate governance. Charged with hiring, evaluating, compensating, and on-going monitoring of management, the board of directors is shareholders primary mechanism for oversight of managers. As of late, board diversity has been explored by scholars (Coffey & Wang 1998). Despite considerable research into how boards are structured and their impact on various corporate decisions, there is no clear consensus on whether board diversity affects corporate performance. Studies on the impact of board diversity can be broadly divided into two categories: those that consider the board influence on a specific corporate decision and those that study the effect of board structure on measures of overall firm performance.

Blend of men and ladies, individuals from various age sections, individuals with various ethnicity and race is known as board diversity (Enobakhare, 2010). Diversity generally is heterogeneity among individuals from a board, and has an unbounded number of features from age to nationality, from religion to functional foundation, from task aptitudes to social abilities, and from political inclination to sexual inclination. It can be either detectable (race or ethnic foundation, nationality, sex, age and so on.) or less noticeable (educational, useful and word related foundation, industry encounter and organizational participation) (Kang et al., 2007).

Advocates of heterogeneity contend their case referring to moral and monetary benefits (Ujunwa *et al*., 2012). From the perspective of ethics, board decent variety is seen to be as alluring, and battles being unfair to ban a part of people from corporate elites in light of sexual introduction, race, and religion, among others (Carter, Simkins, & Simpson, 2003). Board diversity promotes profits while at the same time motivating the financial specialists in the field of finance (Carter, D'Souza, Simkins & Simpson, 2008). Heterogeneous board does not necessarily substitute the existing board but it brings in some skills that were missing in the former that would results to increased benefits (Carter *et al*., 2008). Second, differing board as far as anyone knows has a predominant appreciation of the market, and is viewed as inventive and innovative (Carter *et al*., 2003). Also, heterogeneous board has varying recognitions on various issues and can imaginatively settle the challenges experienced (Erhardt, Werbel & Shrader, 2003). A more elevated amount of heterogeneity in an association's board may depict a positive marker to potential representatives and different partners, for instance, customers, providers, and the group (Rose, 2007). Along these lines, sexual orientation and racially differing board demonstrates that the firm may deliver the issues identified with the market, surely know the business condition, and provoke the firm authorities in the most ideal way (Miller &Triana, 2009).

Board assorted variety is an exceedingly questionable corporate administration subject. The subject put more highlight on, sexual introduction assorted variety, i.e. women involvement would lead to an improvement in the board performance. Its' assumed that board assorted variety impacts corporate organization either specifically or in a roundabout way on the firm. Regardless of the way that board heterogeneity might be a basic as demonstrated by Goodstein, all things considered it is without question that for adequacy in the board there is necessity for diversification (Ogbechie & Koufopoulos, 2009). Dutta and Bose, (2006) report that women in boards are confined, having it in mind that literature reveals increase in women in board worldwide. In the US setting, Zahra and Stanton (1988) find no connection between board diversity in terms of sex to performance. Dutta and Bose, 2006) found a positive association besides women involvement in board and board performance as well as Market Value Added included (MVA) exhibit a negative association (Shrader *et al*. 1997).

1.2 Statement of the Problem

Despite proper regulatory framework, effective board administration remains weak in Kenya (Mangunyi, 2011). Board diversity as a corporate administration idea has as of late gotten the consideration of policy creators, managers, executives, investors, and the scholarly community (Johansen, 2008). Confirmation in the research from developed society's show that the vast majority of the investigations concentrated on the nonfinancial division with not very many really dealing with the financial segment. In many developed countries, many banking companies have been excluded from the firms under examination for example (Campbell & Minguez-Vera, 2008) excluded financial firms when studying in Spain.

Numerous financial institutions have been hit by scandals since board individuals have acted contrary to the regulators provisions like the national diversity regulation where boards should be display a national outlook(Carter et al., 2004) The regulator is convinced there are more women who are able to perform major functions in the board. The idea is to bring out a conclusive number of women for these financial institutions that would show equal gender representation (Baranchuk & Dybvig, 2009). Minority group Regulation by the regulator seek inclusion for the locals to be involved as part of the decision makers (Carter *et al*., 2004). Banks that have been reluctant on adopting fully this statutory regulations by the regulator have gone under receivership or wound up as they cannot operate in that market.

The lack of professional management and governance malpractices has seen some banks experience significant financial difficulties forcing Central Bank to place them under statutory management. For example, the recent collapse of commercial banks in Kenya such as Chase Bank, Imperial Bank, Euro Bank, Dubai Bank, Kenya Finance Corporation, Trade Bank and Charter House bank among others. Chase Bank, which had established itself as the gem among small and medium-sized enterprise (SME) lenders in the market, and attracted funding from big international investors, collapsed in 2016. While Chase bank transferred the blame towards the accounting surrounding the bank's Islamic banking assets, more serious implications point towards governance problems. For instance, the bank made staggeringly large amount of loans to its directors, an average of KES 1.35 billion per director (USD 13.5 million).

The performance of commercial banks in Kenya has been declining gradually. This could be explained to be as a result of most of these banks not adopting a diverse board that consists of differing characters that would make effective decisions concerning the daily running of the banks (Matengo, 2008).

1.3 Research Objective

The general objective of the study was to assess the implementation of board diversity regulations and its effect on performance of commercial banks in Kenya: a case study of Nairobi County?

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The specific objectives were:

1. To establish the effects of board professional diversity regulations on performance of commercial banks in Nairobi County, Kenya.
2. To determine the scope of gender diversity regulations of boards and how it influences the performance of commercial banks in Nairobi County, Kenya.
3. To investigate minority groups regulations of boards and how it affects performance of commercial banks in Nairobi County, Kenya.
4. To assess the measure of diverse nationality regulations of boards and how it affects the performance of commercial banks in Nairobi County, Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Resource dependence theory

In general, organizations operate in system that is open and need to interchange and get resources for survival, which creates firms and outsiders dependency (Pfeffer & Salancik, 1978). There exist four basic benefits of external linkages to provide resources which are:

(1) Information and proficiency.

(2) The making of avenues of correspondence with vital ingredients of the firm.

(3) The supply of responsibilities for help from important companies or groups.

(4) The production of authenticity for the firm in the surrounding (Pfeffer & Salancik, 1978).

The resource dependence theory recommends that the panel interface their enterprises to other firms to address the concerns in the environment (Pfeffer & Salancik, 1978). In reference to this context, board diversity expands the channels of communication, networks and linkages of the companies expands possibilities of accessing finance; and improves relations with competitors and customers (Liu & Li, 2013). For instance, some entities appoint female directors on their boards to sustain right relationship with their clients who are females (Liu & Li, 2010). Hence, the connections provided by female directors to external resources of dependency have the potential to increase critical resourcing, thus enhancing firm performance. In addition to the provision of access to resources, female representation in the boardroom improves organization legitimacy by signalling that the company promotes gender equality. Therefore, female directors on a board may send positive signals to various stakeholder groups, such as investors, customers and communities, thereby developing the firm's image (Nielsen & Huse, 2010).

2.2 Empirical Review

Monks and Minow (2011) argue that the expertise and occupational characteristics affect the boards' ability to effectively monitor and lead the firm. Looking into S&P 500 industrial firms, Anderson *et a*l. (2004) find that independent director characteristics (i.e. executive, retired, and academic background) to be connected with low debt. In the case of developing or emerging countries such issues can be further exacerbated by the lack of appropriate institutional environment and protection for shareholders. Essentially, Khanna and Yafeh (2007) quibble that the lack of transparency that is related to administration structures often lead to worse corporate governance and expropriation of minority rights.

Sexual orientation differences in corporate boards have turned into a focal part of corporate administration changes the world over. While gender diversity arrangement is receiving more prominent consideration, the genuine test is the real usage. For instance, Malaysian recorded firms presently can't seem to meet the required quantity even following ten years of its usage. Some conceivable explanations behind such trouble incorporate sexual orientation segregation high turnover and truancy and less goal-oriented ladies to pursue high-profile vocations because of family responsibility contrasted with their male partners (Doldor *et al*., 2012 and Cox & Blake, 1991). Firms have the worry that they may not be able to reach the forced quantity of gender differences while at the same time this may negatively affect performance. Claessens and Yurtoglub (2013) finds out that the issue of gender equality in board is of great importance since the failure of corporate firm's boards may negatively impact the banking performance.

Foreign executives' part is essential as they speak to ethnic differences in the board. Like the consideration of female executive's remote chiefs offers alternate points of view on issues talked about. Executives who are foreign acquire worldwide view to enhance the execution of the board. In this manner, increment support of outside executives in board will benefit from outcome as choices were made in the wake of considering alternate points of view offers by chiefs (Carter et al., 2010).

Westphal and Milton (2000) indicated that outvoted directors will enjoy a greater impact in the board in the event that they have related knowledge and in the event that they have interpersonal organizational binds to the majority. Demographic homogeneity (concerning sex, useful foundation, occupation, and sector encounter) improves the probability that executives will express their worries in executive meetings. Supervisors from demographic minority meetings or without world class qualifications will probably utilize relational impact to acquire board arrangements (Westphal & Milton, 2000).

3.0 RESEARCH METHODOLOGY

This study employed a descriptive design. The sampling technique was a census where the sample involved the human resource directors, Chief finance officers and Chief executive officer of all the 43 commercial banks where 129 respondents were the sample size. This study used primary data for independent variables and both primary and secondary data for the dependent variable. Quantitative data collected was coded and evaluated using SPSS version 21. Inferential statistics (correlation and regression) was used. The study also employed a multivariate regression model to study the correlation.

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4.0 RESULTS AND DISCUSSION

4.1 General Information

Table 1 gives results on the demographic information of the respondents.

Table 1: General Information

Response rate	**Frequency**	**Percent**
Returned	100	78
Unreturned/Rejected	29	22
Total	**129**	**100**
Gender	**Frequency**	**Percent**
Male	53	53
Female	47	47
Total	**100**	**100**
Age	**Frequency**	**Percent**
Below 30 years	10	10
31-40 years	31	31
41-50 years	34	34
Above 50 years	25	25
Total	**100**	**100**
Level of Education	**Frequency**	**Percent**
Degree	27	27
Master	53	53
Phd	20	20
Total	**100**	**100**
Leadership Position	**Frequency**	**Percent**
HR	35	35
CFO	42	42
CEO	23	23
Total	**100**	**100**
Duration in Leadership Position		
0-5 years	11	11
6-10 years	24	24
11-15 years	65	65
Total		

4.2 Descriptive Statistics

This section presents the descriptive results on professional diversity regulation, gender diversity regulations, nationality diversity regulation and minority group diversity regulation.

4.2.1 Professional Diversity Regulation and Performance of Commercial Banks.

Respondents were asked to indicate their level of agreement on statements on professional diversity regulation. Results are shown in table 2.

Table 2: Professional Diversity Regulation and Performance of Commercial Banks.

Statements	strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Std. Deviation
Academic credential and other related educational criteria was applied in your selection as the departmental head	15.00%	15.00%	10.00%	31.00%	29.00%	3.44	1.43
Academic backgrounds helps you to approach your tasks in a more learned oriented way	8.00%	18.00%	8.00%	29.00%	37.00%	3.69	1.35
Expertise inclusive of both technical and both training comes in handy in discharging your duties	5.00%	12.00%	9.00%	33.00%	41.00%	3.93	1.20
The more expertise you have the more easy tasks are and the more rewarding your job is	10.00%	14.00%	6.00%	30.00%	40.00%	3.76	1.37
Banks have a lot of gains because most board directors are not experts and were appointed for other interests.	3.00%	9.00%	9.00%	27.00%	52.00%	4.16	1.11
Occupational characteristic eg (retired, active) determine who is appointed as board directors	5.00%	12.00%	17.00%	28.00%	38.00%	3.82	1.21
Banks with more professionals outperform those without	4.00%	11.00%	13.00%	30.00%	42.00%	3.95	1.17
Average						**3.82**	**1.26**

Results in table 2 shows that majority of the respondents who were 60% (29%+31%) agreed to the statement that academic credential and other related educational criteria was applied in your selection as the departmental head. Results also shows that 66% of the respondents agreed to the statement that academic backgrounds helps you to approach your tasks in a more learned oriented way. Further, 74% of the respondents agreed to the statement that expertise inclusive of both technical and both training comes in handy in discharging your duties. Results further indicated that 70% of the respondents agreed to the statement that the more expertise you have the more easily tasks are and the more rewarding your job is. Results also indicated that 77% of the respondents agreed to the statement that banks have a lot of gains because most board directors are experts. As per the results 66% of the respondents agreed to the statement that occupational characteristic e.g. retired, active determine who is appointed as board directors. Finally, results indicated that 72% of the respondents agreed to the statement that banks with more professionals outperform those without.

Using a five point scale Likert mean, the overall mean of the responses was 3.82 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.26 indicates that the responses were varied. The results herein imply that professional diversity regulation influence the performance of commercial banks.

4. 2.2 Gender Diversity Regulations and Performance of Commercial Banks.

Respondents were asked to indicate if their bank has a bank quota policy on the minimum number of women in board structure. Results show that majority of the respondents who were 54% indicated yes.

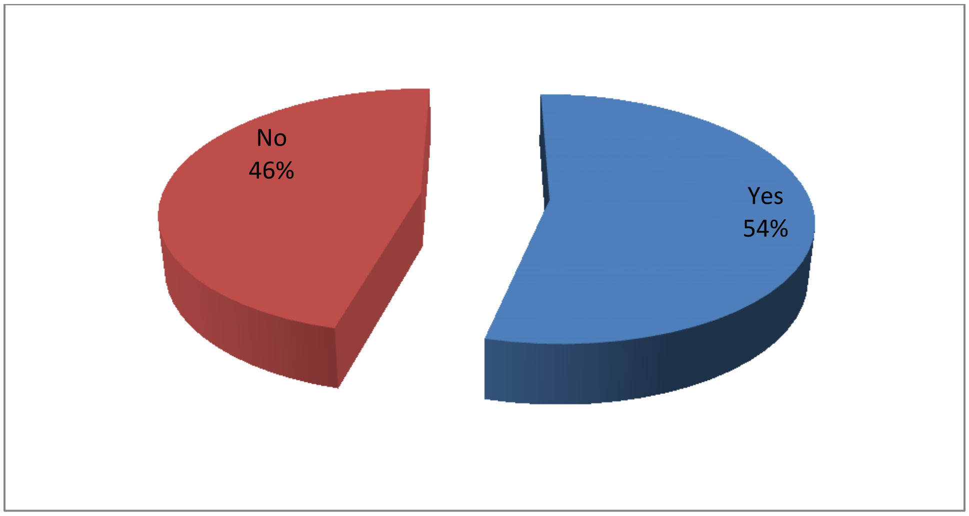

Figure 1: Bank Quota Policy

If yes, above respondents were asked to indicate the nature of the bank quota policy.

Table 3: Nature of the Bank Quota Policy

Nature	Percentage
As per the bank constitution	33.00%
As per the national constitution	31.00%
Strictly confidential	36.00%

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Results indicated that majority 36% of the respondents indicated that it is strictly confidential, 33% indicated that it is as per the bank constitution while 31% indicated that it is as per the national constitution.

On how often women participate in board meetings, results are as shown below.

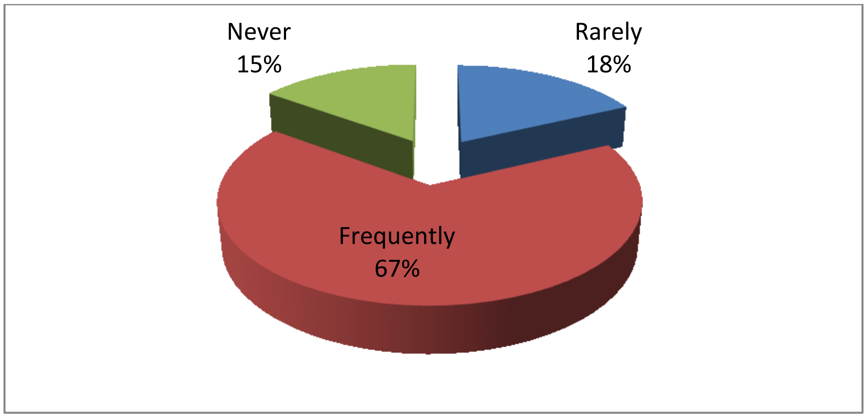

Figure 2: Women Board Participation

Most of the respondents who were 67% indicated that women frequently participate in board meetings, 18% indicated rarely while 15% indicated never. This implies that women are involved in decision making in commercial banks to a large extent.

Respondents were further asked to indicate their level of agreement to the statements on gender diversity regulations. Table 4 below shows the results.

Results in table 4 show that 57% of the respondents agreed to the statement that women in board committees are more risk averse and this improves decisions making. Further, 62% agreed that women advisory input to banks management is highly considered as compared to male input. Furthermore, 50% agreed that women in committees increase the firm value, 60% agreed that there is good communication skills and decision making when women are involved in boards. Results also showed that 64% of the respondents agreed that most banks have reached the accredited quota policy for gender diversity. Finally, 54% agreed that there are systems in place to ensure gender diversity is being embraced in banks.

Using a five point scale Likert mean, the overall mean of the responses was 3.49 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.42 indicates that the responses were varied. The results therefore imply that gender diversity regulation influence the performance of commercial banks.

Table 4: Gender Diversity Regulations and Performance of Commercial Banks.

Statements	strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Std. Deviation
Women in board committees are more risk averse and this improves decisions making	21.00%	8.00%	14.00%	21.00%	36.00%	3.43	1.55
Women advisory input to banks management is highly considered as compared to male input	11.00%	9.00%	18.00%	30.00%	32.00%	3.63	1.32
Women in committees increase the firm value	12.00%	16.00%	22.00%	21.00%	29.00%	3.39	1.37
There is good communication skills and decision making when women are involved in boards	11.00%	11.00%	18.00%	24.00%	36.00%	3.63	1.36
Most banks have reached the accredited quota policy for gender diversity	12.00%	15.00%	9.00%	27.00%	37.00%	3.62	1.42
There are systems in place to ensure gender diversity is being embraced in banks	21.00%	11.00%	14.00%	29.00%	25.00%	3.26	1.48
Average						**3.49**	**1.42**

4.2.3. Minority Group Diversity Regulation and Performance of Commercial Banks.

Respondents were to further show to what level they agree with statements on minority diversity regulation. Results are as shown in table 5.

Results indicated that most of the respondents (72%) agreed to the statement inclusion of minority groups in corporate governance leads to network ties from previous jobs. Majority of the respondents 70% also agreed there is a lot of positive divergent decision making when it comes to minority groups inclusion. Further, 69% agreed that there is no conflict between minority directors and management. Most respondents who were 64% also agreed that minority groups tend to protect the interests of the group they represent. Further, majority of the respondents who were 64% agreed that minority groups increase corporate image. Finally majority who were 51% agreed that minority groups increase firm value.

Using a five point scale Likert mean, the overall mean of the responses was 3.65 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.46 indicates that the responses were varied. This implies that minority group diversity regulation influence the performance of commercial banks.

Table 5: Minority Group Diversity Regulation and Performance of Commercial Banks.

Statements	strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Std. Deviation
Inclusion of minority groups in corporate governance leads to network ties from previous jobs	13.00%	7.00%	8.00%	31.00%	41.00%	3.80	1.39
There is a lot of positive divergent decision making when it comes to minority groups inclusion.	12.00%	7.00%	11.00%	28.00%	42.00%	3.81	1.37
There is no conflict between minority directors and management	12.00%	9.00%	10.00%	24.00%	45.00%	3.81	1.41
Minority groups tend to protect the interests of the group they represent.	14.00%	9.00%	13.00%	32.00%	32.00%	3.59	1.39
Minority groups increase corporate image	21.00%	4.00%	11.00%	22.00%	42.00%	3.60	1.56
Minority groups increase firm value	26.00%	8.00%	15.00%	16.00%	35.00%	3.26	1.62
Average						**3.65**	**1.46**

4.2.4 Nationality Diversity regulation and Performance of Commercial Banks.

Respondents were asked to indicate their nationality

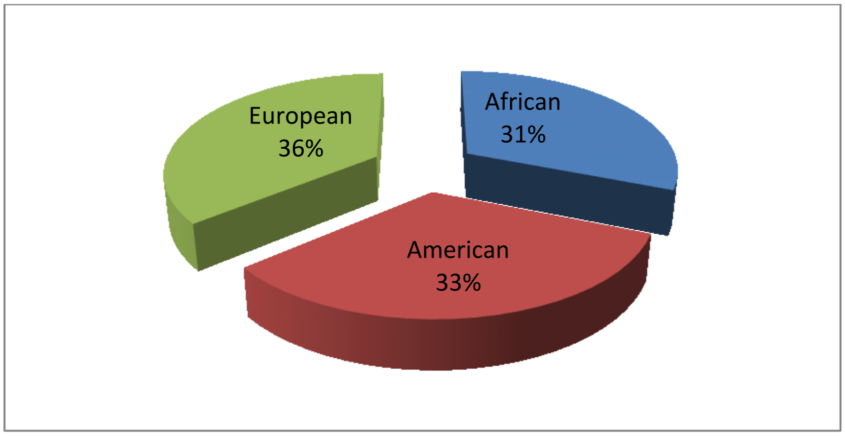

Figure 3: Nationality

Majority of the respondents (36%) indicated that they are European, 33% indicated that they are American while 31% indicated that they are African. This implies that the management of commercial banks in Kenya consists of combinations of nationalities.

Respondents were further requested to indicate the nature of their banks

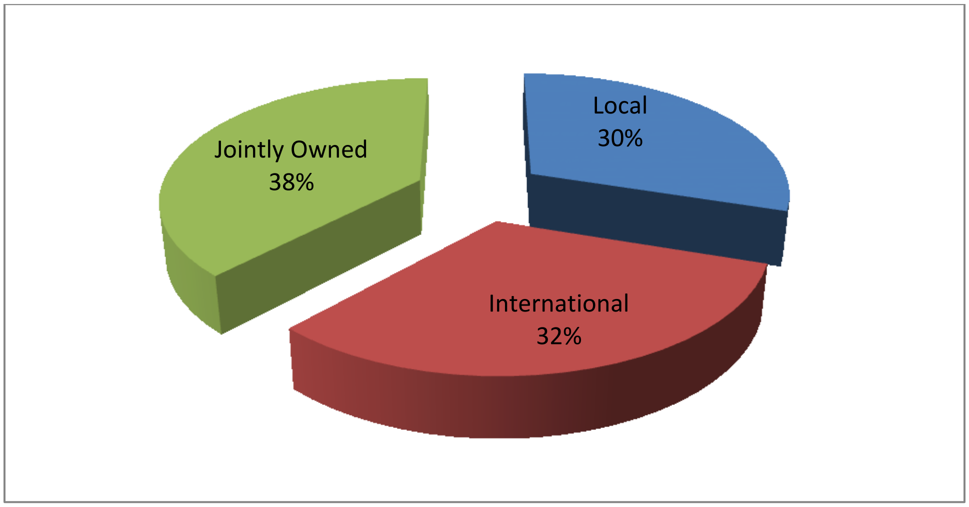

Figure 4: Nature of Banks

Results show that 38% indicated that their banks are jointly owned, 32% indicated that their banks are international while 30% indicated they are local.

Further, respondents were to indicate the level of agreement on statements on nationality diversity regulation. Results are shown in table 6.

Table 6: Nationality Diversity regulation and Performance of Commercial Banks.

Statements	**strongly disagree**	**disagree**	**Neutral**	**Agree**	**Strongly agree**	**Mean**	**Std. Deviation**
Inclusion of different nationalities in corporate governance leads to network ties from previous jobs	10.00%	5.00%	5.00%	27.00%	53.00%	4.08	1.30
There is a lot of positive divergent decision making when it comes to different nationalities inclusion.	22.00%	9.00%	8.00%	29.00%	32.00%	3.40	1.55
There is no conflict between minority directors in terms of nationalities and management	14.00%	15.00%	10.00%	23.00%	38.00%	3.56	1.47
Foreign board members tend to protect the interest's the group they represent	21.00%	6.00%	12.00%	26.00%	35.00%	3.48	1.53
Differing nationalities increase corporate image	14.00%	7.00%	17.00%	20.00%	42.00%	3.69	1.43
Different nationalities in the board increase firm value	8.00%	10.00%	15.00%	27.00%	40.00%	3.81	1.29
Average						**3.67**	**1.43**

Results indicated that majority of the respondents (80%) agreed that inclusion of different nationalities in corporate governance leads to network ties from previous jobs. Results also show that 61% who were the majority agreed that there is a lot of positive divergent decision making when it comes to different nationalities inclusion. Further, 61% of the respondents agreed that there is no conflict between minority directors in terms of nationalities and management. Results further indicated that 61% of the respondents agreed that foreign board members tend to protect the interests of the group they represent. Further, 62% of the respondents agreed that differing nationalities increase corporate image. Finally, 67% of the respondents agreed that different nationalities in the board increase firm value.

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Using a five point scale Likert mean, the overall mean of the responses was 3.67 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.43 indicates that the responses were varied. These results imply that nationality group diversity regulation influence the performance of commercial banks.

4.2.5 Bank Performance

Further, respondents were asked to indicate their level of agreement on statements on bank performance. Results are shown in table 7.

Table 7: Bank Performance

Statements	strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Std. Deviation
There has been an overall decrease in banks financial risks and scandals	18.00%	5.00%	12.00%	25.00%	40.00%	3.64	1.49
Banks ROA value has risen up with respect to overall profits	16.00%	15.00%	18.00%	24.00%	27.00%	3.31	1.43
Ethical value ratings in the corporate field has increased	20.00%	11.00%	12.00%	22.00%	35.00%	3.41	1.55
Corporate image ratings have improved within the business environment	13.00%	8.00%	10.00%	28.00%	41.00%	3.76	1.40
Stakeholders have more returns on the dividends	8.00%	17.00%	13.00%	33.00%	29.00%	3.58	1.29
Average						**3.54**	**1.43**

Results in table 7 show that most of the respondents who were 65% agreed to the statement that there has been an overall decrease in banks financial risks and scandals. Results also indicated that majority of the respondents (51%) agreed that bank’s ROA value has risen up with respect to overall profits. Further, results show that 57% agreed that ethical value ratings in the corporate field have increased. Results further showed that 69% of the respondents agreed that corporate image ratings have improved within the business environment. Finally, results indicated that 62% of the respondents agreed that stakeholders have more returns on the dividends.

Using a five point scale Likert mean, the overall mean of the responses was 3.54 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.43 indicates that the responses were varied. These results imply that the overall performance of commercial banks has increased as a result of diversity regulation.

Secondary data was also used to measure bank performance. Return on asset was used. Results are as shown in figure 8 below.

Table 8: Descriptive Statistics

Years	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
2010	41	0.029788	0.028001	0.004373	0.02095	0.038626	-0.0585	0.0695
2011	41	0.029085	0.022925	0.00358	0.021849	0.036322	-0.0572	0.0718
2012	41	0.025537	0.037393	0.00584	0.013734	0.037339	-0.136	0.104
2013	40	0.030275	0.02711	0.004287	0.021605	0.038945	-0.075	0.077
2014	40	0.026632	0.027967	0.004422	0.017688	0.035577	-0.0697	0.0726
2015	38	0.021776	0.027054	0.004389	0.012884	0.030669	-0.0453	0.0656
Total	**241**	**0.027239**	**0.028622**	**0.001844**	**0.023607**	**0.030871**	**-0.136**	**0.104**

Results in table 8 indicated that the mean of the ROA for the 6 years was 0.027, the standard deviation was 0.029. The maximum was -0.136 and the maximum was 0.104.

Trend line was also generated and is shown in Figure 4.6 below.

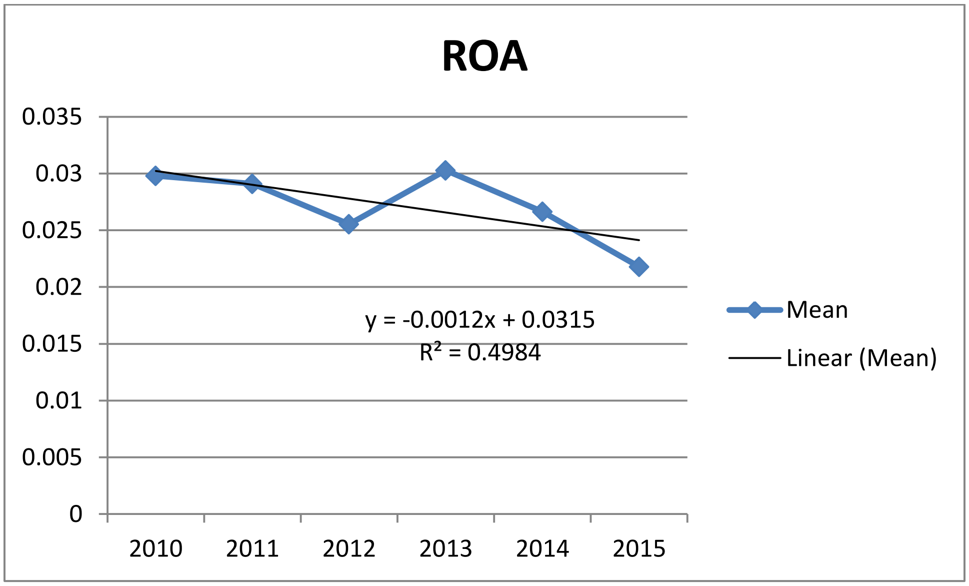

Figure 5: Trend line for ROA for commercial banks from the year 2010 to 2015

From the trend line results in figure 5 it is evident that the performance of commercial banks has been decreasing. This could be explained to be as a result of lack of board diversity.

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4.3 Inferential Statistics

Inferential analysis was conducted to generate correlation results, model of fitness, and analysis of the variance and regression coefficients.

4.3.1 Correlation Analysis

Table 9 below presents the results of the correlation analysis.

Table 9: Correlation Matrix

		Professional	Gender	Minority	Nationality	Performance
Professional	Pearson Correlation	1.000				
	Sig. (2-tailed)					
Gender	Pearson Correlation	.310**	1.000			
	Sig. (2-tailed)	0.002				
Minority	Pearson Correlation	0.159	0.037	1.000		
	Sig. (2-tailed)	0.113	0.712			
Nationality	Pearson Correlation	0.164	0.194	.314**	1.000	
	Sig. (2-tailed)	0.104	0.053	0.001		
Performance	Pearson Correlation	**.500****	**.450****	**.470****	**.446****	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

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

The results revealed that professional diversity regulation and performance are positively and significantly related (r=0.500, p=0.000). The table further indicated that gender diversity regulation and performance are positively and significantly related (r=0.450, p=0.000). It was further established that minority group diversity regulation and performance were positively and significantly related (r=0.470, p=0.000). Similarly, results showed that nationality diversity regulation and performance were positively and significantly related (r=0.446, p=0.000). This implies that an increase in any unit of the variables leads to an improvement in performance.

4.3.2 Regression Analysis

The results presented in table 10 present the fitness of model used of the regression model in explaining the study phenomena.

Table 10: Model of Fitness

Indicator	Coefficient
R	0.743
R Square	0.552
Adjusted R Square	0.533
Std. Error of the Estimate	0.453

Professional diversity, gender diversity, minority group diversity and nationality diversity regulations were found to be satisfactory variables in performance. This is supported by coefficient of determination also known as the R square of 55.2%. This means that professional diversity, gender diversity, minority group diversity and nationality diversity regulations explain 55.2% of the variations in the dependent variable which is performance of commercial banks in Kenya. This results further means that the model applied to link the relationship of the variables was satisfactory.

In statistics significance testing the p-value indicates the level of relation of the independent variables to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 11 provides the results on the analysis of the variance (ANOVA).

Table 11: ANOVA Results

	Sum of Squares	df	Mean Square	F	Sig.
Regression	24.01	4	6.003	29.241	**0.000**
Residual	19.501	95	0.205		
Total	43.512	99			

The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of performance. This was supported by an F statistic of 29.241 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level. Regression of coefficients results are shown in table 12.

Table 12: Regression of Coefficients

	B	Std. Error	t	Sig
(Constant)	-0.988	0.408	-2.42	0.017
Professional	0.278	0.064	4.327	0.000
Gender	0.403	0.1	4.019	0.000
Minority	0.381	0.083	4.598	0.000
Nationality	0.273	0.087	3.132	0.002

Regression of coefficients results in table 12 shows that professional diversity regulation and performance are positively and significant related (r=0.278, p=0.000). This implies that a 1 unit increase in professional diversity regulation results in 0.278 increase in dependent variable which is performance of commercial banks. The table further indicates that gender diversity regulations and performance are positively and significant related (r=0.403, p=0.000). This implies that a 1 unit increase in gender diversity regulations increases performance of commercial banks by 0.403. It was further established that minority group diversity regulation and performance were positively and significantly related (r=0.381, p=0.000). This implies that a 1 unit increase in minority diversity regulation results in an increase in performance of commercial banks by 0.381. Nationality diversity regulation and performance were also positively and significantly related (r=0.273, p=0.002). This implied that a 1 unit increase in nationality diversity regulation results in 0.273 increase in performance of commercial banks.

Thus, the optimal model for the study is;

Performance of Banks= -0.988 + 0.278 professional diversity regulation + 0.403 gender diversity regulation + 0.381 minority group diversity regulations + 0.273 Nationality diversity regulations.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

On effect of professional diversity regulation on performance, the study concluded that boards' expertise and occupational characteristics affect the boards' ability to effectively monitor and lead an organization. Professional qualifications help board members approach their tasks in a more learned oriented way and that bank with more professionals outperform those without.

On the effect of gender diversity regulation on performance of commercial banks in Kenya, the study made conclusion that gender equality in board is very important. Women in board committees are more risk averse because they make less risky decisions leading to a no loss but higher gains for the banks. Women in committees also increase the value of banks since women bring about good communication skills and decision making when involved in boards.

The study further concluded that minority group diversity regulation has a great impact on performance of commercial banks. Inclusion of minority groups in corporate governance leads to network ties from previous jobs and also increase corporate image. The minority groups also tend to protect the interest's the group they represent thereby leading to a better employee performance and eventually a better overall performance of the bank.

On nationality diversity regulation, the study concluded that foreign board members speak to ethnic differences in the board. They are therefore essential since they add to firm's value and the corporate image. Activities to increase diversity are best addressed through engagements to recruit qualified professionals rather than numbers to satisfy the populous.

5.2 Recommendations

Based on the findings of the study, this research recommends that banks review their policies on board diversity regulations to include members from different nationalities, ethnicities and also different ages and gender. The relationship between board diversity and bank performance is not conclusive studies like this have found negative, positive and neutral consequences to the firm. Further, banks are recommended to adopt the set government policies on diversity management in boards. This will significantly enhance their performance.

On professional diversity regulations in boards, commercial banks are recommended to consider different professional qualifications different kinds of educational backgrounds and functional expertise, when selecting members of the board as this will enhance decision making. Banks are also recommended to consider involving more women in boards since women directors deal more effectively with risk. Not only do they better address the concerns of customers, employees, shareholders, and the local community, but also, they tend to focus on long-term priorities. Women directors are likely to be more in tune with women's needs than men, which helps develop successful products and services. Female directors serve as role models, and therefore, improve female employees' performance and boost companies' images. Further, the study recommended that nationality diversity should be taken into consideration along with the other characteristics when choosing an optimal board of directors. Diversity of nationality of a team brings competitive advantages to a firm such as international networks, commitment to shareholder rights and managerial entrenchment avoidance. The study also recommended the integration of minority groups into board members. Adding one member of a minority group to a board of directors tends to make it appear as if they have been added solely to represent that minority group thus motivating the minority group consequently increasing their performance.

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