International Journal of
Finance and Accounting
(IJFA)

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IPRJB
INTERNATIONAL PEER REVIEWED JOURNAL AND BOOK PUBLISHING

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.9 Issue 6, No.1. pp. 1 - 23, 2024

www.iprjb.org

Board Structure and Financial Stability of Commercial Banks in Rwanda

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Article History

Received 10th October 2024

Received in Revised Form 9th November 2024

Accepted 17th December 2024

Crossref

How to cite in APA format:

Mukundwa, S., & Akims, M. (2024). Board Structure and Financial Stability of Commercial Banks in Rwanda. *International Journal of Finance and Accounting*, *9*(6), 1–23. https://doi.org/10.47604/ijfa.3125

Abstract

Purpose: To assess the relationship between board structure and financial stability has been a subject of extensive research and debate globally.

Methodology: The target population for this study consists of the board members from the 13 commercial banks operating in Rwanda. The sample of the study was nine commercial banks based on purposive sampling technique.

Findings: Panel regression analysis was used and the findings indicated that board size significant affected financial stability of the banks negatively; board independence insignificantly affected financial stability of the banks positively. The outcome further indicated that board gender diversity insignificantly affected the banks financial stability negatively while board age affected the financial stability of Rwandan commercial banks insignificantly and positively.

Unique Contribution to Theory, Practice and Policy: The study recommends that the regulatory bodies and bank management should consider implementing guidelines to optimize board composition. Specifically, banks should aim to establish a more streamlined board structure that balances diversity of thought with effective governance. This could involve setting a maximum limit on the number of board members, ensuring that boards remain manageable and conducive to clear communication and swift decision-making.

Keywords: *Board Age, Board Gender Diversity, Board Independence, Board Size, Board Structure, Financial Stability*

JEL Classification: *G30, J16, G34, G01, G21*

INTRODUCTION

The relationship between board structure and financial stability has been a subject of extensive research and debate globally. Historically, the role of corporate boards evolved from simple oversight functions to more complex structures involving strategic decision-making, risk management, and ensuring regulatory compliance. In the 1980s and 1990s, corporate governance became a critical area of study following several high-profile corporate scandals and financial crises, which underscored the need for effective board governance to enhance financial stability. In China, the evolution of corporate governance and board structures has been driven by the country's transition from a planned economy to a market economy. In the context of this study, board structure refers to the composition and functioning of a company's board of directors, which is a critical element in corporate governance.

Financial stability refers to a condition in which the financial system (comprising financial intermediaries, markets, and market infrastructures) is capable of withstanding shocks and the unravelling of financial imbalances, thereby reducing the likelihood of disruptions in the financial intermediation process. According to Ntim (2018), financial stability is crucial for economic growth as it underpins trust in the financial system, facilitates capital allocation, and mitigates risks of systemic crises. Laeven and Valencia (2019) highlight that strong regulatory frameworks and effective risk management practices are essential for maintaining financial stability. In Europe, Williamson (1998) argue that well-designed board structures play a pivotal role in preventing financial distress by ensuring robust oversight and accountability. In China, Liu & Zhang (2020) emphasize that the reform of corporate governance practices has significantly contributed to the financial stability of banks during economic transitions.

In Asia, particularly in China, the evolution of corporate governance and board structures has been driven by the country's transition from a planned economy to a market economy. Research by Liu and Zhang (2020) found that the introduction of independent directors and audit committees significantly improved the financial stability of Chinese banks, as evidenced by a 15% reduction in non-performing loans from 2005 to 2023. Similarly, in Japan, reforms in corporate governance following the 1990s banking crisis led to more stringent regulatory oversight and improved board accountability, which has been linked to a more stable financial environment (Yaw, 2017). In India, the implementation of the Companies Act 2023 mandated the inclusion of independent directors and women on corporate boards, which has enhanced transparency and risk management practices, contributing to the resilience of Indian banks (Uddin & Choudhury, 2022).

From an African perspective, the relationship between board structure and financial stability is also of paramount importance. African banks have historically faced challenges related to weak governance structures and regulatory environments. According to a study by Uddin & Choudhury (2022), effective board governance in Kenyan banks has led to improved financial performance and stability, with a 20% increase in return on assets (ROA) observed in banks with independent boards. Similarly, in Tanzania, the introduction of corporate governance codes in 2022 has been linked to enhanced financial stability, with a 12% reduction in non-performing loans (NPLs) reported by the PWC (2023). In Uganda, research by Habaguhirwa, T. (2017) indicates that banks with diverse and independent boards have better risk management practices and financial stability.

Regionally, in the East African Community (EAC), corporate governance reforms have been implemented to enhance the stability of the financial sector. The Central Bank of Kenya (CBK)

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ISSN 2518-4113 (online)
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has emphasized the importance of effective board structures, resulting in improved financial stability among Kenyan banks. A report by CBK (2020) highlights that, banks with strong governance frameworks experienced a 25% decrease in NPLs between 2015 and 2019. In Rwanda, the National Bank of Rwanda (BNR) has also prioritized corporate governance reforms to bolster the financial stability of commercial banks. According to a study by Mukarugwiza, A. (2021), Rwandan banks with robust board structures have demonstrated greater resilience to economic shocks, evidenced by a 10% increase in capital adequacy ratios.

Sub-Saharan Africa has seen varying levels of success in corporate governance reforms. In Nigeria, for instance, the introduction of the Code of Corporate Governance for Banks in 2006 has significantly improved the governance practices of Nigerian banks. Sikka & Willmott (2010) reported that banks adhering to these guidelines showed a 30% improvement in financial stability indicators. Similarly, in South Africa, the King Reports on Corporate Governance have been instrumental in shaping the governance landscape, contributing to the stability of the banking sector. According to a study by Waweru & Riro (2013), South African banks with strong board governance structures have exhibited lower levels of financial distress compared to those with weaker governance.

In Rwanda, the financial sector has undergone significant reforms aimed at enhancing corporate governance and financial stability. The BNR has implemented stringent regulatory frameworks to ensure that commercial banks adhere to best practices in board governance. A study by Mukarugwiza (2021) found that Rwandan banks with well-structured boards, comprising independent directors and audit committees, have shown greater resilience to financial shocks. The study revealed that these banks experienced a 10% increase in capital adequacy ratios and a 15% reduction in NPLs between 2010 and 2018.

Current policies and statistics further underscore the importance of effective board structures in maintaining financial stability. The Rwanda Revenue Authority (2020) emphasizes that strong governance frameworks are critical for the stability of the global financial system. According to the World Bank. (2023), countries with robust corporate governance practices have been better able to navigate financial crises, as evidenced by lower levels of financial distress and quicker economic recoveries. In the EAC, the implementation of the East African Community Monetary Union (EAMU) Protocol has reinforced the need for strong governance structures to ensure financial stability across member states (PWC Rwanda, 2023).

Problem Statement

The issue of financial stability in Rwanda's commercial banking sector is increasingly concerning, with persistent challenges related to non-performing loans (NPLs). Many banks continue to face high NPL ratios, which indicate governance shortcomings that could threaten long-term financial health. For example, Development Bank of Rwanda (BRD) recorded an NPL ratio exceeding 8% in 2021, reflecting inefficiencies in risk management and oversight. This raises the key question: how do specific aspects of board structure influence financial stability in Rwandan banks? While governance frameworks have improved over the years, gaps in the relationship between board characteristics and financial outcomes remain.

In Rwanda, key elements of board governance—such as independence, gender diversity, and board size—show mixed results in their effect on bank performance. Some African studies, like Mwangi (2023) in Kenya and Sikka & Willmott (2010) in South Africa, suggest that board independence positively influences financial performance, but these findings have not been rigorously tested in Rwanda’s context. For instance, despite having independent boards, banks

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like Equity Bank Rwanda experienced an increase in their NPL ratio from 4.1% to 4.3% in 2021, suggesting that board independence alone may not be sufficient to secure financial stability. This points to a gap in understanding the specific conditions under which board independence contributes to bank stability in Rwanda.

Moreover, the role of board diversity—especially gender and age diversity—on financial stability remains ambiguous. In some African contexts, gender diversity has been shown to enhance decision-making (Adams & Ferreira, 2019), but this has not consistently resulted in better financial outcomes in Rwanda. For example, Bank of Kigali increased gender diversity on its board, yet saw its NPL ratio rise from 5.2% to 5.8% between 2020 and 2021. On the other hand, I&M Bank Rwanda, with a less diverse board, maintained a stable NPL ratio during the same period, challenging the assumption that diversity alone leads to better financial outcomes.

Board size and the expertise of board members also play a crucial role in bank governance. In Kenya, Mwangi (2023) found that larger boards with diverse expertise positively impact financial performance. However, in Rwanda, banks with smaller boards, such as Cogebanque and Access Bank, have faced higher levels of financial instability, with NPL ratios exceeding 6%, compared to KCB Bank Rwanda, which had a larger board and a lower NPL ratio of 3.7% in 2021. This raises the question of whether larger boards truly contribute to better governance and financial health in the Rwandan banking sector.

The challenge of maintaining financial stability in the Rwandan banking sector, particularly in relation to board governance, is highlighted in reports by the Rwanda Bankers Association (2022), which emphasized the need for stronger governance structures to address issues such as capital adequacy and asset quality. For example, BRD and Cogebanque have both reported issues with high NPL ratios, underscoring the importance of effective board governance in mitigating financial risk. This study aims to examine how board characteristics—such as independence, diversity, and size—affect financial stability in commercial banks in Rwanda, providing valuable insights for banking institutions and policymakers.

Objectives of the Study

General Objectives

The general objective of this research study was to assess the effect of board structure on the financial stability of commercial banks in Rwanda.

Specific Objectives

i. To examine the effect of board size on the financial stability of commercial banks in Rwanda
ii. To assess the effect of board independence on the financial stability of commercial banks in Rwanda
iii. To investigate the effect of board gender diversity on the financial stability of commercial banks in Rwanda
iv. To identify the effect of board age on the financial stability of commercial banks in Rwanda

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Research Hypotheses

H_{01} Board size has no significant effect on the financial stability of commercial banks in Rwanda

H_{02} Board independence has no significant effect on the financial stability of commercial banks in Rwanda

H_{03} Board gender diversity has no significant effect on the financial stability of commercial banks in Rwanda

H_{04} Board age has no significant effect on the financial stability of commercial banks in Rwanda

Theoretical Review

Agency Theory

Agency Theory, introduced by Michael C. Jensen and William H. Meckling in their seminal 1976 paper, focuses on the relationship between principals (owners/shareholders) and agents (management/executives) within organizations. The core assumption of agency theory is that there is a conflict of interest between principals and agents, as agents may pursue their personal interests over those of the principals, leading to agency costs. These costs arise from the need to monitor and control agents to align their actions with the principals' goals (Uddin & Choudhury, 2022). The theory also assumes that both parties are rational and would seek to maximize their utility, potentially leading to moral hazard and adverse selection issues.

In the context of board structure and financial stability of commercial banks in Rwanda, agency theory is highly relevant. The board of directors acts as an intermediary between shareholders and management, ensuring that the latter acts in the best interest of the former. A well-structured board with a balance of independent directors, diverse expertise, and clear roles can mitigate agency problems by effectively monitoring management actions, reducing the risk of decisions that could jeopardize the financial stability of the bank. Moreover, agency theory underscores the importance of aligning executive incentives with long-term financial stability, which is crucial in the banking sector where short-term profit-seeking can lead to significant risks, as seen in the global financial crisis of 2008 (Sikka & Willmott, 2010).

Agency theory's emphasis on the monitoring role of the board highlights the need for strong governance structures in banks. In Rwanda, where the banking sector is growing, ensuring that boards are equipped to oversee management effectively is vital for maintaining financial stability. The theory suggests that having a well-balanced and independent board can help prevent management from engaging in risky behaviors that could lead to financial instability. This is particularly important in the Rwandan context, where the banking sector is critical to the country's economic development and where robust governance can enhance investor confidence and financial system stability (Mangena & Chamisa, 2008).

To illustrate the application of agency theory in Rwanda's banking sector, consider the case of the Bank of Kigali (BK). BK, as one of the leading commercial banks in Rwanda, has implemented various governance mechanisms to mitigate agency problems. According to the Bank of Kigali Annual Report, 2023, these mechanisms include; Independent Board Members who bring diverse expertise and perspectives to the board's decision-making process, Executive

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Compensation that aligns executive incentives with long-term shareholder value. This includes performance-based bonuses tied to key performance indicators such as profitability, asset quality, and customer satisfaction. BK has a robust risk management systems in place to identify, assess, and mitigate various risks, including credit risk, market risk, and operational risk. These systems are regularly reviewed and updated to ensure their effectiveness. By implementing these measures, BK aims to mitigate agency problems and ensure that management acts in the best interests of shareholders.

Stewardship Theory

Stewardship Theory, proposed by Donaldson and Davis in 1991, offers a contrasting perspective to agency theory. It posits that managers, as stewards, are motivated to act in the best interests of the shareholders, rather than being primarily self-interested. The theory assumes that stewards are inherently trustworthy, motivated by organizational goals, and driven by the need for achievement and recognition. Unlike agency theory, which focuses on control and monitoring, stewardship theory emphasizes the alignment of organizational and managerial objectives, suggesting that empowering managers with trust and autonomy can lead to superior organizational performance (Mangena & Chamisa, 2008).

In the study of board structure and financial stability of commercial banks in Rwanda, stewardship theory provides a framework for understanding how trust and autonomy within the board can contribute to financial stability. According to the theory, when board members act as stewards, they prioritize the bank's long-term success over short-term gains, leading to more prudent decision-making and better risk management. This is especially important in the banking industry, where the consequences of poor governance can be catastrophic. Stewardship theory supports the idea that a collaborative and empowered board, where members are motivated by a sense of duty and loyalty to the institution, can enhance the financial stability of banks (Asare, 2009).

The relevance of stewardship theory to Rwandan commercial banks lies in its focus on long-term value creation and trust-based governance. In a rapidly developing economy like Rwanda, where the banking sector plays a crucial role in economic growth, fostering a stewardship-oriented board culture can help banks navigate the challenges of a dynamic financial environment. The theory suggests that by promoting a governance structure that emphasizes trust, shared values, and alignment of interests, Rwandan banks can achieve sustainable financial stability, which is critical for their long-term success and resilience in the face of economic fluctuations (Mangena & Chamisa, 2008).

Rwanda's unique cultural and organizational norms can significantly influence the applicability of stewardship theory. Rwandan culture, characterized by strong communal values and a sense of collective responsibility, aligns well with the core principles of stewardship theory. However, the country's recent history of conflict and trauma may have led to a heightened level of distrust and skepticism, which could potentially undermine the trust-based relationships essential for effective stewardship.

To fully leverage the benefits of stewardship theory, Rwandan banks must cultivate a strong organizational culture that prioritizes integrity, transparency, and accountability. This can be achieved through implementing robust corporate governance practices, including independent board members, regular performance evaluations, and transparent reporting, which can help build trust and credibility. They can also encourage ethical leadership and role modeling by senior executives can inspire trust and loyalty among employees and stakeholders.

Empowering employees to take ownership of their work and make decisions can foster a sense of belonging and commitment to the organization. Rwandan banks also should promote a long-term perspective in decision-making can align managerial incentives with the organization's long-term goals. By embracing these principles, Rwandan banks can harness the power of stewardship theory to achieve sustainable growth and financial stability.

Resource Dependency Theory

Resource Dependency Theory, developed by Asare in 2009, emphasizes the role of the board of directors in securing essential resources for the organization. According to this theory, organizations are not self-sufficient and must interact with the external environment to obtain the resources necessary for survival and growth. The theory assumes that the board serves as a bridge between the organization and its external environment, providing access to critical resources such as information, expertise, and networks. By strategically composing the board with members who have diverse backgrounds and connections, an organization can enhance its ability to acquire resources, thereby improving its chances of success (Asare, 2009).

In the context of board structure and financial stability of commercial banks in Rwanda, resource dependency theory highlights the importance of a well-connected and diverse board. The theory suggests that a board with members who have strong ties to key external stakeholders, such as regulators, investors, and other financial institutions, can better navigate the complex regulatory and economic landscape of the banking sector. This, in turn, can contribute to financial stability by ensuring that the bank has access to the necessary resources, including capital, information, and strategic partnerships, to withstand economic shocks and maintain operational resilience (Mangena & Chamisa, 2008).

Resource dependency theory is particularly relevant to Rwandan commercial banks, given the country's evolving financial sector and its integration into the global economy. As Rwandan banks seek to expand their operations and enhance their competitiveness, having a board that can leverage external resources becomes increasingly important. The theory suggests that by strategically selecting board members with diverse expertise and strong external connections, Rwandan banks can improve their resource acquisition capabilities, which is critical for maintaining financial stability in a dynamic and competitive environment (Mangena & Chamisa, 2008).

A notable example of a Rwandan bank that has benefited from strong external ties is Bank of Kigali (BK). BK has actively sought partnerships with international financial institutions, such as the World Bank and the African Development Bank. These partnerships have provided BK with access to technical expertise, financial resources, and global best practices. By leveraging these external resources, BK has been able to strengthen its risk management practices, improve its operational efficiency, and expand its product offerings (Bank of Kigali Annual Report, 2023).

In addition to partnerships with international financial institutions, Rwandan banks have also benefited from the support of the Central Bank of Rwanda (CBR). The CBR has implemented various policies and regulations to strengthen the banking sector and promote financial stability. These include measures to improve capital adequacy, liquidity management, and risk management. By adhering to these regulatory requirements, Rwandan banks can enhance their resilience and mitigate risks (Central Bank of Rwanda, 2023).

Empirical Review

Effect of Number of Board of Directors on Financial Stability

According to Smith & George (2022), corporate governance encompasses the rules, processes, and laws by which companies are directed, regulated, or controlled. Effective corporate governance ensures a balance of interests among a company's stakeholders, including shareholders, management, customers, suppliers, and the community. The size of the board is crucial for enhancing both the board's effectiveness and a firm's financial stability. Smith concludes that a smaller board size is more efficient and contributes positively to the financial performance of a firm. Therefore, the study recommends that commercial banks in Rwanda consider optimizing their board size to enhance financial stability through effective governance structures.

Lawrence (2022) analyzed the impact of board size on the financial performance of heavily regulated industries, such as insurance companies in Ethiopia. The study, which utilized panel data from nine insurance companies between 2012 and 2020, found that board size positively influences financial performance, as measured by return on assets and equity. The study suggests that commercial banks in Rwanda could benefit similarly by carefully considering the optimal size of their boards to maintain financial stability.

Sarpong & Gatsi (2019) explored the relationship between board size and financial stability in Indian and GCC firms. Their research revealed that while board size has a positive impact on financial performance, there is a threshold beyond which the effect diminishes. This finding is particularly relevant for commercial banks in Rwanda, where an appropriately sized board could enhance financial stability by ensuring effective decision-making without the drawbacks of an excessively large board.

Johnson (2019) investigated the impact of board size on the financial performance of Slovakian financial institutions. The study found that the size of the board significantly affects return on assets, equity, and sales, with larger boards contributing positively to financial stability. For Rwandan commercial banks, these insights suggest that an optimal board size could play a critical role in maintaining financial stability by fostering effective governance.

Sarpong & Gatsi (2019) studied the role of board size in small and medium-sized enterprises in emerging economies, finding that smaller boards are generally more effective in enhancing firm value. This research implies that for Rwandan commercial banks, reducing the board size could lead to better financial stability by improving governance efficiency and decision-making processes.

Considering the methodologies and findings of these studies, several implications for Rwandan commercial banks can be drawn. While a smaller board may be more efficient in certain contexts, a larger board with diverse expertise may be beneficial for complex organizations like commercial banks. Striking a balance between efficiency and effectiveness is crucial. The composition of the board, including the mix of independent and executive directors, is equally important. A diverse board with strong financial expertise and industry knowledge can enhance oversight and decision-making. Independent directors can provide a critical check on management and promote transparency and accountability. A strong independent board can help mitigate agency problems and improve financial performance. And lastly, regular evaluation of board performance can help identify areas for improvement and ensure that the board is effectively fulfilling its role.

Effect of Board Independence on Financial Stability

The Impact of Board Independence on Financial Stability: A Review of Relevant Studies

Peltier (2016) defines corporate governance as a framework of rules and practices by which a company's board ensures accountability, fairness, and transparency in a firm's relationship with its stakeholders. Board independence is a critical aspect of governance, as it allows for unbiased decision-making that enhances financial stability. Stevens emphasizes the need for commercial banks in Rwanda to ensure a high level of board independence to safeguard against conflicts of interest and promote financial stability.

Rwanda's corporate governance codes, such as those issued by the Capital Market Authority (CMA), provide guidelines for board independence. These codes often stipulate specific requirements for board composition, including the percentage of independent directors and the frequency of board meetings. Adherence to these codes can help ensure that Rwandan banks maintain a high level of board independence.

Miller (2022) conducted a study on the impact of board independence on the financial performance of Ethiopian insurance companies. The research, which spanned from 2012 to 2020, demonstrated that greater board independence positively influences financial performance, as evidenced by higher returns on assets and equity. This finding suggests that commercial banks in Rwanda could enhance their financial stability by increasing the proportion of independent directors on their boards.

Davis and Brown (2020) examined the role of board independence in the financial stability of firms in the GCC region and India. Their study found that independent boards contribute significantly to firm performance, particularly in environments where regulatory oversight is strong. This insight is particularly relevant for Rwandan commercial banks, where fostering board independence could be crucial for maintaining financial stability.

Martin (2021) analyzed the impact of board independence on the financial performance of Slovakian companies. The study found a strong positive correlation between board independence and financial indicators such as return on assets and equity. For Rwandan commercial banks, these findings highlight the importance of ensuring that their boards are sufficiently independent to enhance financial stability through improved governance.

Adams (2019) explored the influence of board independence on the financial stability of small and medium-sized enterprises in emerging markets. The study concluded that independent boards are more effective in mitigating risks and enhancing financial stability. This suggests that Rwandan commercial banks could benefit from increasing board independence to strengthen their financial stability and governance practices.

Effect of Board Gender Diversity on Financial Stability

Corporate governance encompasses the principles, rules, and practices that govern the management of a company, as outlined by Lawton (2023). One aspect of corporate governance that has gained attention is board gender diversity, which refers to the inclusion of women on corporate boards. Lawton suggests that gender diversity can lead to better decision-making and improved financial performance, as diverse boards are more likely to consider a wider range of perspectives and ideas, contributing to financial stability.

In the context of Rwanda, government policies and social pressures have significantly influenced the level of gender diversity on corporate boards, including those of commercial banks. The government has actively promoted gender equality and women's empowerment, recognizing the critical role of women in the country's development. This has led to increased representation of women in various sectors, including the corporate sector.

The National Gender Policy of Rwanda, for instance, aims to promote gender equality in all spheres of life, including economic empowerment. This policy has encouraged companies, including commercial banks, to increase the number of women on their boards. Additionally, the Capital Market Authority (CMA) has issued corporate governance codes that emphasize the importance of board diversity, including gender diversity.

Furthermore, societal attitudes towards women's roles and capabilities have evolved over time. There is a growing recognition of the value that women bring to the boardroom, and this has led to increased pressure on companies to appoint more women to their boards.

Janka & Katarína (2020) examined the influence of board gender diversity on financial performance, using a sample of Slovakia-based banks and insurance companies. Their study found that gender diversity on boards positively impacts financial performance, measured by ROA, ROE, and ROS. The results indicate that gender-diverse boards are better equipped to navigate complex financial environments, which enhances the financial stability of the institutions they govern.

Goel (2018) analyzed the impact of gender diversity on corporate governance practices in Indian companies during two reform periods. The study revealed that increased gender diversity on boards, as part of the corporate governance reforms, led to improved financial performance and stability. The findings suggest that gender-diverse boards contribute to more balanced decision-making processes, which in turn supports financial health and stability.

Peltier (2016) explored the role of board gender diversity in enhancing firm value through corporate social responsibility and organizational identification. The study found that gender-diverse boards positively influence firm value, which contributes to financial stability. The research highlights the importance of gender diversity in emerging economies, where it plays a significant role in improving the financial performance of firms.

The literature demonstrates that board gender diversity has a positive impact on the financial stability of commercial banks. Gender-diverse boards bring diverse perspectives and improve decision-making processes, leading to better financial outcomes. These findings underscore the importance of promoting gender diversity on boards as a means of enhancing financial stability.

Effect of Board Age on Financial Stability

Lawton (2023) emphasizes the importance of corporate governance in balancing the interests of various stakeholders and ensuring effective business operations. One aspect of board composition that can influence financial stability is the age of board members. Lawton argues that a mix of younger and older directors can provide a balance of innovation and experience, which can enhance decision-making and contribute to financial stability.

Ausat (2019) investigated the relationship between board age diversity and financial performance in Islamic banks. The study used panel data from 12 listed Islamic banks and found that board age diversity had a positive impact on financial performance, measured by ROA and ROE. The findings suggest that a diverse age range among board members can lead to better decision-making and improved financial stability, as it combines the fresh perspectives of younger members with the wisdom of older members.

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ISSN 2518-4113 (online)
Vol.9 Issue 6, No.1. pp. 1 - 23, 2024
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Peltier (2016) explored the influence of board age on firm value, focusing on small and medium-sized enterprises (SMEs) in emerging economies. The study found that age diversity on boards positively impacts firm value, which in turn contributes to financial stability. The research highlights the importance of having a mix of ages on boards to ensure a balance between innovation and experience, which is crucial for maintaining financial health.

Goel (2018) examined the effect of board age on financial performance during corporate governance reforms in India. The study revealed that boards with a mix of younger and older directors performed better financially, leading to greater financial stability. The findings emphasize the importance of age diversity on boards in achieving sustainable financial performance. The literature suggests that board age diversity plays a significant role in the financial stability of commercial banks. A mix of younger and older directors can enhance decision-making, provide a balance of innovation and experience, and contribute to better financial outcomes. These insights are valuable for policymakers and regulators in developing guidelines that promote age diversity on boards to improve financial stability.

METHODOLOGY

The study employed an explanatory research design. The target population for this study consists bank records, financial reports of the board members from the 13 commercial banks operating in Rwanda

FINDINGS AND DISCUSSION

Descriptive Analysis

Descriptive analysis is a critical element in the examination of data, providing a summary of the primary characteristics inherent in the dataset being studied. This analysis includes a variety of statistical measures such as means, standard deviations, and ranges, which help elucidate the central tendencies and variability present within the data. By employing these metrics, the study uncovered patterns, trends, and anomalies as illustrated in Table 1.

Table 1: Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial Stability	43	21.022	24.46272	0	98.77193
Board Size	43	8.395349	2.787212	5	14
Board Independence	43	4.209302	1.684073	1	7
Board Gender Diversity	43	2.44186	.9832484	0	4
Board Age	43	55.75	2.005674	52	58

Source: Study Data (2024)

The outcome of the research noted mean financial stability score of 21.022, with a standard deviation of 24.46272, indicating a wide variation in financial stability among the banks surveyed, suggesting that while some institutions may be performing well, others could be facing significant challenges. The minimum and maximum scores (0 and 98.77193) further highlight the disparities in financial performance, emphasizing the necessity for targeted strategies to enhance stability across all banks. The board size, with a mean of 8.395349 and a standard deviation of 2.787212, suggests that Rwandan banks typically have moderately sized boards, which can influence their decision-making processes and governance effectiveness. A larger board may facilitate diverse perspectives and expertise, but it can also lead to coordination challenges. The range of board sizes (from 5 to 14 members) indicates variability in governance structures among banks, which may affect their operational efficiency and financial outcomes.

Board independence is another critical factor highlighted in the results, with a mean score of 4.209302 and a standard deviation of 1.684073. This suggests that while there is a reasonable level of independent directors on the boards, there is still room for improvement to ensure that boards can effectively oversee management without conflicts of interest. The mean score for board gender diversity is 2.44186 with a standard deviation of .9832484, indicating a moderate level of female representation on boards, with a maximum of 4 and a minimum of 0. This suggests that while there is some degree of gender diversity, it is not yet at a level that fully leverages the benefits associated with diverse perspectives in decision-making processes.

The mean age of board members is reported at 55.75 years, with a range from 52 to 58 years. This relatively advanced average age indicates that the boards are predominantly composed of experienced individuals who have likely accumulated substantial knowledge about the banking sector over their careers. The outcome further unveiled a standard deviation of 2.005674. However, an older board may also imply a lack of fresh perspectives and adaptability to rapidly changing market conditions, which are crucial for maintaining financial stability (Adams & Ferreira, 2019). The presence of younger members could introduce innovative approaches and responsiveness to emerging trends in banking and finance. Thus, while experience is valuable, balancing it with youthful insight may enhance the effectiveness of governance in commercial banks.

Diagnostic Test Results

Diagnostic tests are crucial for validating the assumptions that underpin the model and ensuring the reliability of its results. These tests assess the adequacy and robustness of the regression model by evaluating key aspects such as the normality of residuals, multicollinearity, heteroskedasticity, and autocorrelation. By systematically applying these diagnostic tests, potential issues that may impact model performance can be identified, leading to a clearer understanding of the dynamics within the Rwandan commercial banks.

Multicollinearity Test Results

Multicollinearity arises when independent variables in a regression model exhibit a high degree of correlation, which can skew the estimation of coefficients and result in unreliable outcomes. To assess this issue, the Variance Inflation Factor (VIF) was employed, and the results are presented in Table 2.

Table 2: VIF Results

Variable	VIF	1/VIF
Board Size	2.73	0.366128
Board Independence	1.83	0.546526
Board Gender Diversity	3.21	0.311511
Board Age	2.14	0.467008
Mean VIF	2.48	

Source: Study Data (2024)

The Variance Inflation Factor (VIF) demonstrated that board gender diversity had VIF value at 3.21 which indicates a moderate level of multicollinearity, suggesting that this variable may not be significantly correlated with others. Meanwhile, board size has a VIF of 2.73, board age is at 2.14, and board independence is relatively lower at 1.83, indicating varying degrees of correlation among these governance factors. The mean VIF of 2.48 which is less than 5 suggests that while multicollinearity is present, it is not excessively high that could affect the interpretation of the results.

Normality Test Results

The assumption of normality is crucial for ensuring valid statistical inferences and accurate estimation of regression coefficients in regression analysis. The Shapiro-Wilk test serves as a statistical tool to assess whether a sample comes from a normally distributed population. The results of the Shapiro-Wilk test, as offered in Table 3.

Table 3: Shapiro-Wilk Test Results

Variable	Obs	W	V	z	Prob>z
Financial Stability	43	0.75426	8.389	4.424	0.00000
Board Size	43	0.92799	3.010	2.329	0.00993
Board Independence	43	0.97056	1.230	0.438	0.33062
Board Gender Diversity	43	0.97144	1.194	0.375	0.35399
Board Age	43	0.95987	0.671	-0.779	0.78196

Source: Study Data (2024)

The findings revealed that both financial stability and board size exhibited p-values below the 0.05 significance threshold, indicating a notable deviation from normality in their distributions among banks. This implies that these factors are not normally distributed. In contrast, board independence, gender diversity, and age showed p-values of 0.33062, 0.35399, and 0.78196, respectively—values that exceed the 0.05 threshold. This suggests that the distributions of these characteristics do not significantly differ from normality, which enhances the reliability of analyzing their impact on financial stability. The observed significant non-normality in financial stability and board size indicates that alternative statistical approaches may be necessary for a thorough analysis. For example, employing non-parametric tests or transforming the data could help satisfy normality assumptions. Furthermore, Akims (2020) noted that the sample size in this study is sufficiently large to support the normal distribution assumption, as it exceeds 30 observations. Thus, the concern regarding non-normality is effectively mitigated in this analysis due to the ample sample size.

Autocorrelation Test Results

Serial correlation arises when the residuals from a regression analysis exhibit correlation between observations, which undermines the assumption of independence. This violation can result in biased and inefficient parameter estimates. The Breusch-Godfrey test is commonly employed to identify serial correlation in the residuals of a regression model. The results of this test are presented in Table 4.

Table 4: Breusch-Godfrey Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	0.163952	Prob. F(2,6)	0.8525
Obs*R-squared	0.621825	Prob. Chi-Square(2)	0.7328

Source: Study Data (2024)

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The findings unveiled an F-statistic of 0.163952 and a corresponding p-value of 0.8525, indicating a lack of serial correlation in the residuals of the regression model analyzing board structure and financial stability in Rwandan commercial banks. This finding suggests that the assumptions of independence among observations are upheld, allowing for more reliable estimates regarding how board characteristics influence financial stability.

Heteroscedasticity Test Results

Heteroskedasticity arises when the variance of errors varies across different levels of the independent variables, potentially resulting in inefficient estimates and skewed statistical conclusions. Although the regression coefficients may remain unbiased, the standard errors could be affected, compromising the validity of hypothesis tests and the accuracy of confidence intervals. To assess the presence of heteroskedasticity, the Breusch-Pagan test was conducted, with the results summarized in Table 5.

Table 5: Breusch-Pagan Test Results

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance Variables: fitted values of Financial Stability chi2(4) = 3.41 Prob > chi2 = 0.0647

Source: Study Data (2024)

The outcome unravelled a chi-squared value of 3.41 and a p-value of 0.0647, suggesting that there is no indication of heteroskedasticity in the model analyzing the relationship between board structure and financial stability in Rwandan commercial banks, the evidence is definitive. The p-value is close to the conventional significance level of 0.05, indicating that the assumption of constant variance is not violated.

Stationarity Test Results

Stationarity is a crucial characteristic in time series analysis, signifying that the statistical properties of a variable—such as its mean and variance—remain constant over time. When data is non-stationary, it can result in unreliable regression outcomes and misleading relationships. The results of the Fisher-Type test, detailed in Table 6, indicate that various factors associated with board structure and financial stability of banks in Rwanda exhibited stationarity.

Table 6: Fisher-Type Test Results

Variable	Statistic	P-value	Comment
Financial Stability	68.6642	0.0000	Stationary
Board Size	45.6133	0.0000	Stationary
Board Independence	63.8188	0.0000	Stationary
Board Gender Diversity	45.2468	0.0000	Stationary
Board Age	53.8719	0.0000	Stationary

Source: Study Data (2024)

The analysis revealed that all variables have a p-value of 0.0000, which is well below the standard significance threshold of 0.05. This result allows for the rejection of the null hypothesis of non-stationarity for each variable, confirming their stationarity. The

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establishment of stationarity indicates that the relationships among board structure characteristics—such as board independence, gender diversity, age, and size—and financial stability are not affected by underlying trends or cycles, allowing for a clearer understanding of these dynamics.

Model Specification Results

In panel analysis, model specification entails selecting the appropriate framework and variables to accurately depict the relationship between the dependent variable and independent variables within a panel dataset. The Hausman test plays a crucial role in determining whether the unique errors, or unobserved effects, correlate with the model's regressors, which ultimately guides the decision between different estimation methods. The results of this test are detailed in Table 7.

Table 7: Hausman Test Results

	(b) Fixed	**(B) Random**	**(b-B) Difference**	**sqrt(diag(V_b-V_B)) S.E**
Board Size	4.352886	-7.617131	11.97002	5.917585
Board Independence	-1.776422	3.287941	-5.064362	.
Board Gender Diversity	-9.571121	-3.625391	-5.945729	.
Board Age	9.998179	4.742979	5.255199	2.262691
Chi (4)	3.94			
Prob>chi2	0.4143			

Source: Study Data (2024)

Table 7 revealed a chi-squared statistic of 3.94 alongside a p-value of 0.4143, indicating that there is no statistically significant difference between the estimates produced by the fixed and random effects models. Given that the p-value significantly exceeds the conventional threshold of 0.05, we do not reject the null hypothesis, suggesting that the random effects model is appropriate for this analysis. This finding is important because the random effects model operates under the assumption that unobserved individual effects are uncorrelated with the independent variables, which facilitates more efficient estimation when this condition is satisfied.

Panel Regression Analysis

Regression analysis provides a means to quantify how independent variables—such as board size, board independence, gender diversity, and board age—affect the dependent variable of financial stability. This section highlighted the findings from the regression analysis, a vital statistical technique used to assess the influence of board structure on the financial stability of commercial banks in Rwanda. The outcomes of this analysis are presented in Table 8.

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Table 8: Regression Results

Financial Stability	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
Board Size	-7.617131	2.621151	-2.91	0.004	-12.75449	-2.479769
Board Independence	3.287941	6.15424	0.53	0.593	-8.774149	15.35003
Board Gender Diversity	-3.625391	7.179433	-0.50	0.614	-17.69682	10.44604
Board Age	4.742979	2.632143	1.80	0.072	-.4159269	9.901886
_cons	-161.0996	166.0555	-0.97	0.332	-486.5623	164.3631
R-Square	0.7874					
Wald chi2(4)	25.93					
Prob > chi2	0.0000					

Source: Study Data (2024)

The results reveal a constant coefficient of -161.0996 with a p-value of 0.332, suggesting that it is not statistically significant. This implies that the baseline level of financial stability, when all other variables are controlled for, does not differ significantly from zero. Additionally, the R-squared value of 0.7874 indicates that approximately 78.74% of the variability in financial stability can be accounted for by the model. While this suggests that there may be other influencing factors not captured in the analysis, the Wald chi-squared statistic of 25.693, accompanied by a p-value of 0.0000, confirms that the overall model is statistically significant. This highlights the robustness of the model in explaining financial stability within the context studied.

The results indicate a negative coefficient for board size of -7.617131, accompanied by a p-value of 0.004, demonstrating that board size significantly impacts financial stability. This suggests that an increase in board size could lead to a decrease in financial stability by approximately 7.617% for the banks. Conversely, the coefficient for board independence is positive at 3.287941, but with a p-value of 0.593, it is deemed statistically insignificant at the 0.05 threshold. This positive coefficient implies that while greater board independence might be linked to improved financial stability, the effect is not strong enough to be considered significant within this analysis.

The coefficient for board gender diversity is negative at -3.625391, with a p-value of 0.614, suggesting that board gender diversity does not have a significant impact on financial stability. This indicates that an increase in gender diversity on the board could lead to a reduction in the banks' financial stability by approximately 3.625%. In contrast, the coefficient for board age is positive at 4.742979, with a p-value of 0.072, reflecting a statistically insignificant positive effect on financial stability. This implies that while older boards may be associated with enhanced financial stability for the banks, this relationship is not strong enough to be considered statistically significant in this analysis.

Hypothesis Testing and Discussion of Findings

This section addressed the hypothesis testing aligned with the specific objectives of the study. The hypotheses H_{01}, H_{02}, H_{03}, and H_{04} examined the relationship between various components of board structure and their impact on the financial stability of commercial banks in Rwanda. To evaluate these hypotheses, panel regression methods were utilized, with a significance level established at 0.05. The p-value approach was employed to assess the null hypotheses throughout the investigation.

Effect of Board Size on Financial Stability of Commercial Banks in Rwanda

While the study found that board size does indeed have a significant impact on the financial stability of Rwandan commercial banks, it's important to delve deeper into the nature of this relationship. The findings suggest that larger board sizes may have a negative impact on financial stability. Larger boards can lead to increased complexity and coordination costs, as more members need to be involved in decision-making processes. This can slow down decision-making and reduce efficiency. Beyond a certain point, increasing board size may also lead to diminishing returns. As the board grows larger, it can become more difficult to ensure that all members are actively engaged and contributing to discussions.

It's important to note that the optimal board size may vary depending on the specific characteristics of the bank, such as its size, complexity, and industry. However, the findings of this study align with those of Sarpong & Gatsi (2019), who suggest that smaller boards are generally more effective.

While the findings of this study align with those of Sarpong & Gatsi (2019), who suggest that smaller boards are generally more effective, it's important to consider the specific context of Rwandan commercial banks. In some cases, a larger board may be necessary to ensure adequate representation of diverse stakeholders and to provide the necessary expertise to address complex challenges. However, it is crucial to balance the benefits of a larger board with the potential costs.

Future research may explore the optimal board size for Rwandan commercial banks, taking into account factors such as the bank's size, complexity, and industry. Additionally, it would be valuable to investigate the impact of board composition, including the mix of independent and executive directors, on financial stability. By gaining a deeper understanding of these factors, policymakers and bank executives can make informed decisions to enhance the effectiveness of boards and improve the financial performance of Rwandan commercial banks.

Effect of Board Independence on Financial Stability of Commercial Banks in Rwanda

Concerning the effect of board independence on the financial stability of Rwandan commercial banks, the hypothesis suggested that board independence does not significantly influence the banks' financial stability. The analysis results indicated that board independence indeed has an insignificant effect on the financial stability of these banks, resulting in the acceptance of the null hypothesis. This suggests that simply having independent directors does not necessarily translate into improved financial health for these institutions. This result indicates that while board independence is often associated with enhanced governance and oversight, its actual impact on financial stability may be limited in this context. One possible reason for this could be the nature of the independent directors' engagement and effectiveness within the board. If independent members are not actively involved in decision-making or lack the necessary expertise to influence strategic directions, their presence may not significantly enhance the bank's financial performance. Also, the banking sector in Rwanda is still evolving, and the regulatory environment may not fully support or leverage the benefits of board independence. The result is inconsistent with the findings of Adams (2019) who demonstrated that independent boards are more effective in mitigating risks and enhancing financial stability. Martin (2021) found a strong positive link concerning board independence and financial indicators such as return on assets and equity. Davis and Brown (2020) unveiled that independent boards contribute significantly to firm performance, particularly in environments where regulatory oversight is strong. Miller (2022) also demonstrated that greater board

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
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independence positively influences financial performance, as evidenced by higher returns on assets and equity. The contradicting outcomes could due to the regulatory frameworks of Rwandan financial sector as well as the governance practice inherent in the county.

Effect of Board Gender Diversity on Financial Stability of Commercial Banks in Rwanda

In examining the influence of board gender diversity on the financial stability of commercial banks in Rwanda, the hypothesis proposed that board gender diversity does not have a significant impact on financial stability. The analysis results corroborate this assertion, leading to the conclusion that the null hypothesis—stating that board gender diversity does not significantly affect the financial stability of these banks—remains unchallenged. The outcome suggests that increasing the presence of women on boards may not lead to improved financial outcomes for these institutions. This result indicates that while gender diversity is often championed for enhancing governance and decision-making, its actual influence on financial stability in this context appears limited or even counterproductive. This outcome could be the prevailing cultural and institutional barriers that women face within the Rwandan banking sector. Despite efforts to promote gender equality, women may still encounter challenges in asserting their influence in board discussions or decision-making processes, which could undermine the potential benefits of having a more diverse board. Additionally, the effectiveness of board members, regardless of gender, may be hindered by a lack of experience or familiarity with the banking industry, which is critical for navigating complex financial environment. The findings disagrees with those of Peltier (2016) who evidently showed that gender-diverse boards positively influence firm value, which contributes to financial stability. Goel (2018) further uncovered that increased gender diversity on boards, as part of the corporate governance reforms, led to improved financial performance and stability. Janka and Katarína (2020) unfolded that gender diversity on boards positively impacts financial performance, measured by ROA, ROE, and ROS. The conflicting outcomes could be due to the diverse methodological difference employed in the studies, hence the resulting outcomes variations.

Effect of Board Age on Financial Stability of Commercial Banks in Rwanda

The analysis explored the effect of board age on the financial stability of commercial banks in Rwanda. The hypothesis proposed that board age does not significantly affect the financial stability of these institutions. The results of the analysis confirmed this assertion, indicating that board age indeed has no significant impact on financial stability, thereby supporting the null hypothesis. The outcome indicates that while older boards may not detract from financial health, their age does not significantly enhance it either. This suggests that simply having a more experienced board does not guarantee improved financial outcomes for these banks. This result could be that the benefits of board age, such as accumulated knowledge and experience, are not effectively leveraged in decision-making processes. In many cases, older board members may become set in their ways or resistant to change, which can hinder innovation and adaptability—key factors in maintaining financial stability in a rapidly evolving banking environment. Additionally, if the older members lack familiarity with contemporary banking practices or emerging technologies, their experience may not translate into effective governance. The outcome disaligns with those of Ausat (2019) noted that board age can significantly affect financial stability. Peltier (2016) unveiled that age diversity on boards positively impacts firm value, which in turn contributes to financial stability. Goel (2018) found that boards with a mix of younger and older directors performed better financially, leading to

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greater financial stability. The variation in the outcomes could be linked to the contextual differences in the studies which provided unique outcomes that cannot be generalize on the whole banking sector of Rwanda.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The survey aimed to investigate the impact of board structure on the financial stability of commercial banks in Rwanda, focusing specifically on the effects of board size, independence, gender diversity, and age. The findings revealed that board size has a significant negative effect on the financial stability of these banks. This indicates that larger boards may face challenges related to coordination and decision-making, which can ultimately undermine their financial performance. In conclusion, the finding that board size has a significant negative effect on the financial stability of commercial banks in Rwanda underscores the importance of optimal governance structures within these institutions. Larger boards may introduce complexities that hinder effective decision-making, leading to inefficiencies and potential conflicts among members. This result suggests that while diversity of thought is valuable, an excessive number of directors can dilute accountability and slow down the decision-making process, ultimately impacting the bank's financial health.

The investigation into the effect of board independence on the financial stability of Rwandan commercial banks revealed an insignificant positive effect. This outcome suggested that while board independence is often associated with enhanced oversight and governance, it does not significantly influence the financial stability of these banks in this context. Conclusively, simply having independent directors on the board does not guarantee improved financial outcomes for these institutions. While board independence is often associated with enhanced governance and oversight, this result indicates that its impact may be limited in the Rwandan context. Factors such as the level of engagement and expertise of independent directors, as well as the overall dynamics within the boardroom, could play crucial roles in determining the effectiveness of independent governance. This outcome highlights the necessity for Rwandan banks to not only appoint independent directors but also to ensure that these individuals are actively involved and empowered to contribute meaningfully to strategic decision-making

The survey aimed to examine the effect of board gender diversity on the financial stability of commercial banks in Rwanda. The findings indicated that board gender diversity has a negative and statistically insignificant effect on the financial stability of these banks. In conclusion, increasing the representation of women on boards does not translate into meaningful improvements in financial health for these institutions. While gender diversity is widely recognized as a critical component of effective governance, this result suggests that simply adding female directors may not be sufficient to enhance financial stability. Additionally, if gender diversity is perceived as a token gesture rather than a commitment to inclusive governance, it may fail to foster the collaborative environment needed for effective oversight and strategic planning.

The effect of board age on the financial stability of Rwandan commercial banks was assessed, revealing that board age has an insignificant positive effect on this financial stability. The survey concludes that simply having older board members does not inherently lead to improved financial outcomes for these institutions. While one might expect that greater experience and accumulated knowledge would contribute positively to governance and strategic decision-making, this result indicates that age alone is not a determining factor in enhancing financial

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stability. For instance, older board members may not necessarily be more effective if they are resistant to change or if their experience does not align with the current challenges facing the banking sector. Additionally, if the dynamics within the boardroom do not encourage active participation from all members—regardless of age—the potential benefits of experience may go untapped.

Recommendations

Drawing from the survey results, recommendations were crafted to align with these insights, concentrating on the key factors that notably influence the financial stability of commercial banks in Rwanda.

The regulatory bodies and bank management should consider implementing guidelines to optimize board composition. Specifically, banks should aim to establish a more streamlined board structure that balances diversity of thought with effective governance. This could involve setting a maximum limit on the number of board members, ensuring that boards remain manageable and conducive to clear communication and swift decision-making. Additionally, fostering a culture of accountability and collaboration among board members can enhance their effectiveness, ultimately contributing to improved financial stability. By prioritizing an optimal board size, Rwandan commercial banks can better navigate the complexities of the financial landscape and strengthen their overall performance.

The regulatory authorities and bank leadership should focus not only on the appointment of independent directors but also on enhancing their engagement and effectiveness within the boardroom. Policies should be developed to ensure that independent directors are not only well-qualified but also actively involved in strategic discussions and decision-making processes. This could include providing training and resources to empower these directors, as well as establishing clear expectations for their roles in promoting accountability and oversight. Additionally, fostering an inclusive board culture that values diverse perspectives can help leverage the potential benefits of independence, ultimately contributing to stronger governance and improved financial stability for Rwandan commercial banks.

The study recommends that the banks should not only strive to increase female representation on their boards but also focus on creating an environment that maximizes the impact of this diversity. Policies should be implemented to ensure that female directors are actively engaged and empowered to contribute meaningfully to discussions and decision-making processes. This could involve providing targeted training and mentorship programs to enhance their industry knowledge and leadership skills, as well as fostering a culture of inclusivity where all board members feel valued and encouraged to share their perspectives.

To further enhance the effectiveness of board gender diversity, banks should Set specific goals for increasing female representation on the board and track progress regularly and ensure that the board nomination and selection process is transparent, fair, and inclusive. Consider using diversity consultants to identify and recruit qualified female candidates. The bank also should provide targeted training programs to help female directors develop the skills and knowledge they need to be effective board members thus create a positive and inclusive board culture where all members feel valued and respected. By prioritizing both the quantity and quality of gender diversity, Rwandan commercial banks can better harness the potential benefits of diverse leadership while addressing any underlying barriers that may hinder effective governance.

The banks should adopt policies aimed at fostering a more dynamic and effective board environment, rather than focusing solely on the age of board members. This could involve implementing term limits for directors to encourage fresh perspectives and new ideas while balancing the need for experience.

Additionally, banks should prioritize ongoing professional development and training for all board members, regardless of age, to ensure they remain well-informed about industry trends and best practices. By promoting a culture of continuous learning and active engagement, Rwandan commercial banks can enhance the effectiveness of their boards and better position themselves to navigate the complexities of the financial sector, ultimately contributing to improved financial stability.

Contribution to Knowledge

This study significantly enhances our comprehension of the interplay between board structure and financial stability of commercial banks in Rwanda. By focusing on this specific context, it not only contributes to the existing body of literature but also illuminates the effect of board structure on financial stability. The findings extend beyond theoretical implications, offering practical insights that are beneficial for policymakers and bank management alike. They reinforce foundational theories such as agency theory, stewardship theory, and resource dependency theory, demonstrating their relevance within the unique environment of Rwanda's commercial banking sector. This study exemplifies how these theories can be adapted to better understand and navigate the complexities inherent in the relationship between board structure and financial stability in Rwandan banks.

Moreover, this research establishes a conceptual framework that connects board structure with the financial stability of commercial banks in Rwanda. Through empirical analysis, it provides a clearer understanding of the interrelationships among key factors, including board size, board independence, board gender diversity, and board age. Additionally, it advances the current knowledge base by formulating and testing hypotheses regarding the influence of board structure on financial stability. Notably, the study statistically confirmed the null hypothesis, indicating that factors such as independence, gender diversity, and age do not significantly affect financial stability. Furthermore, it developed an empirical model that incorporates these examined factors, which can serve as a valuable resource for future research and inform policymaking initiatives.

Suggestions for Further Studies

This study examined the effect of board structure on the financial stability of commercial banks in Rwanda. While the findings provide valuable insights specific to this context, there is significant potential for further investigation. Future research could broaden the scope by examining the effects of board structure across a wider range of industries in Rwanda, including sectors such as manufacturing, agriculture, and microfinance. Additionally, subsequent studies might adopt alternative methodologies to investigate into the reasons behind the insignificant effects of board independence, gender diversity, and age on financial stability. Such explorations could yield a more comprehensive understanding of governance dynamics and their implications for financial performance across various sectors.

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