ABSTRACT: Many organizations are striving to enhance their organization performance by creating and commercializing knowledge in a timely and cost-efficient manner. Given the intensifying competitive environment, the critical determinant of organizational success is the effectiveness of board of directors. The purpose of the study was to establish the relationship between board members’ characteristics and organizational performance, drawing empirical lessons from private commercial banks in Nairobi County, Kenya. Based on the study, this paper examines the relationship between board members’ knowledge and organizational performance. The study employed a correlation research design. It targeted 207 senior management staff drawn from 28 private commercial banks within Nairobi County. Stratified and random sampling technique was used to select a sample of 103 senior management staff, representing 50% of the target population. Primary data was collected using structured questionnaire while secondary data was collected using documentary guided. Content validity index was used to test validity of research instruments whilst Cronbach alpha method was applied to test reliability of the research instruments. Correlation analysis was used to determine the nature of the relationship between variables. The study found no significant correlation between board members’ knowledge and organization performance. The study therefore adds new knowledge to the existing body of literature since the extant literature suggests that board members’ knowledge has a positive influence on organization performance. There is however need for further studies on the same to establish if the study findings hold.

KEYWORDS: Influence Board Members, Knowledge, Organizational Performance, Private Commercial Banks, Nairobi County, Kenya

INTRODUCTION

Performance is an essential requirement for any organization’s survival and growth (Kakanda, Bello & Abba, 2016). Corporate performance relates to the process by which limited resources at the disposal of an organization are utilized effectively and efficiently in attaining the general objective of the enterprise for both present and future opportunities (Marn & Romuald, 2012; Yasser, Entebang & Mansor, 2011). Many present-day organizations, whether public or private, profit or non-profit, strive to enhance their performance by creating and commercializing knowledge in a timely and cost-efficient manner (Sampson, 2007).

In recent years, organizations have sought to create greater internal flexibility in order to ably respond to the changing business environment by moving away from hierarchical structures to more modular forms (Balogun & Johnson, 2004). Given an intensifying competitive environment, the success and performance of contemporary organizations is greatly influenced...
by the timely decisions of leaders, such as the boards of directors. The board of directors is charged with the responsibility of ensuring organization’s survival. Globally, boards of directors’ characteristics play a crucial role in enhancing organizational performance and safeguarding shareholders’ interests. An effective board of directors helps an organization to manage its resources by attracting new investors and capital funds. Additionally, the board of directors guides the organization to achieve better performance (Ghabayen, 2012).

Most organizations in developing countries are subject to the ever-changing dynamics of the environment of business. According to private sector initiative for corporate governance in Kenya, corporations should be headed by boards that exercise effective leadership, enterprise, integrity and judgment in directing the corporation to achieve continuing prosperity. Board members should have diverse skills or expertise in order to enhance boards’ decision-making processes and determine the corporation’s purpose and values, strategy to achieve its purpose and to implement its values in order to ensure it survives and thrives in dynamic environment (Pugliese, Bezemer, Zattoni, Huse, Bosch & Volberda, 2009).

**Board Members’ Knowledge on Organization performance**

Huse and Solberg (2006) have investigated the relationship between board of directors’ characteristics and the performance among organizations listed at the Stock Exchange of Thailand. The measures of performance under investigation consisted of return on assets (ROA) and Tobin’s Q. The study used secondary data collected using documentary guide. The study results indicated an inverse relationship between the board leader competence and knowledge on formulating proposals for decisions and both ROA and Tobin’s Q, implying that organizations with the board members’ knowledge had lower performance. However, the board composition positively correlated with organizations’ ROA, indicating that organizations with higher proportion of the board members’ knowledge produced higher return on assets. The findings were limited to use of Tobin’s Q which only detected the organizations with existence of board members’ knowledge while using secondary data from listed organizations listed. The study that informed this paper used both primary and secondary data which was analyzed using both inferential (Pearson correlation and multiple regressions) and descriptive statistics.

McIntyre, Murphy and Mitchell (2007) have studied the influence of board structure on organization performance in New Zealand’s listed organizations. Using a balanced panel of 79 New Zealand listed organizations, the study employed a Generalized Linear Model (GLM) for robustness. One objective of the study was to determine effect of board members’ knowledge (using financial knowledge) on organization performance. The result revealed that board members’ knowledge had a positive and significant impact on organization performance. The study had limitations in respect of its single country setting, the use of CEO responses, and the limited two-year observation window. The study used board members’ response from many private organizations where data was collected from a single point.

Hikonsson, Burton, Obel and Lauridsen (2012) carried out a study in United States of America to investigate the organization performance and the right executive style, drawing evidence from Danish SMEs focusing 100 listed organizations. The study targeted board members. Data was collected using questionnaires, study hypothesized that board members’ knowledge in key competencies are significantly related to organization performance. Using regression model, the study found that board member knowledge affected the ability to process and analyze information. Therefore, an emphasis was put on the role of board, which included extensive cooperation, evaluation of emerging opportunities for building a competitive advantage and...
making the right decisions based on analyses. The study concluded that organizational performance cannot be studied in isolation from the country, industry, or organizational culture and environment. The literature review highlighted the reception, approach, and views of Asian, Japanese, American, Iranian, and Slovenian organizations and executives.

Ammann, Leuenberger and Wyss (2005) have investigated whether or not individual characteristics of directors affected a shareholder’s total return. Their sample consisted of 95 persons who were board members of Swiss listed companies (a total of 120 companies) with data covering the period between 1992 and 2001. The study objective was to access effect of member’s knowledge of organizations’ operations on revenue. Among other results, the authors found that board members’ knowledge had no significant influence on total return. The analysis focused only on the listed organizations and ignored private organizations that might have had an effect in relations between the family corporate governance and performance. Therefore, in this context, board member’s knowledge may act as a substitute for top executives, who may not plan strategic actions in a structured way (Lynall, Golden & Hillman, 2003).

Statement of the Problem

Currently, majority of banks in Kenya are facing stiff challenges due to rapid changes in the business environment. To compete successfully in this present competitive business environment, these organizations continually need to make some strategies and take some actions by selecting board members with characteristics that favor organization performance (Muogbo, 2013). The private sector in Kenya has continued to face a number of challenges; this includes reduced business activity arising from slowdown in economic growth. The number of banking institutions has decreased as a result of liquidations, buy-out and mergers (Okiro & Ndungu, 2013). Over the last few years, there has been a tendency by some of the banks to reduce the number of their branches due to high operational costs whilst others have been compulsorily closed by regulators due to corporate governance matters (Central Bank of Kenya, 2009). Irregularities elicited by corporate governance recently led to the closure of Dubai Bank which was soon followed by the closure of two other banks, namely Imperial and Chase Bank Limited.

An organization’s performance is pegged on how a board conducts its functions, hence the need to study the relationship between board members’ characteristics and organizational performance. Scholars on corporate governance and boards have focused on large corporations (Daily & Dalton, 2003; Gabrielsson & Huse, 2004), while others have largely focused their studies on governance and board processes in small organizations of developed countries. The most recent study tested the effect of board leadership and board involvement in strategy in Norwegians’ small organizations (Machold, Huse, Minichilli, & Nordquist, 2011). However, in the context of developing countries such as Kenya, not much has been done in private organizations. In Kenya, studies have been done regarding corporate governance for example Ongore and K’obonyo (2011) studied effects of selected corporate governance characteristics on organization performance. A review of existing literature shows that no research has investigated relationship between board members’ characteristics (board member’s knowledge, board member’s personal motivation, board chairperson leadership, board members background and organizational performance). Therefore, the study set out to examine the relationship between board members’ knowledge characteristics and organizational performance in private commercial banks in Kenya.
MATERIALS AND METHODS

The study was conducted through correlational research design. The total population was 207 senior management staff drawn from 28 private commercial banks within Nairobi CBD. The study categorized banks to their individual tier (II, III and IV). The Central Bank categorizes banks into four which are Tier I, II, III and IV. Tier is used to describe capital adequacy of a bank, a bank’s core capital includes its equity capital and disclosed reserves. Equity capital is inclusive of instruments that cannot be redeemed at the option of the holder. Tier 1 capital is essentially the most perfect form of a bank’s capital the money the bank has stored to keep it functioning through all the risky transactions it performs, such as trading/investing and lending.

The study stratified the 28 private commercial banks according to their individual tier (II, III and IV). Thereafter, the researcher randomly selected board members from every tier. The study selected 103 senior management staff for sampling. This represented 50% of the target population of the 207 senior management staff. The study used self-administered questionnaire to collect data while documentary guide was used for trend analysis and ration for more than one year in corporate secondary data. Questionnaire was suitable for this study because the information needed was best described in writing and the target population was literate.

The researcher conducted initial data analysis using simple descriptive statistical measures such as, mean, standard deviation and variance to give a glimpse of the general trend. Correlation analysis was used to determine the nature of the relationship between variables at a generally accepted conventional significant level of $P=0.05$ (Sekaran, 2003). In addition, a hypothesis was tested using Pearson correlation and regression model. The collected data was analyzed using correlation analysis, the significant of each independent variable was tested at a confidence level of 95%.

RESULTS AND DISCUSSION

Board Members’ Knowledge

The study examined the relationship between board members’ knowledge and organization performance in private commercial banks in Nairobi County. The findings were as presented in Table 1 below.

Table 1: Board Members’ Knowledge

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our board members have extensive knowledge of bank’s main operations</td>
<td>Freq.</td>
<td>6</td>
<td>7</td>
<td>17</td>
<td>44</td>
<td>21</td>
<td>3.71</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>6.3</td>
<td>7.4</td>
<td>17.9</td>
<td>46.3</td>
<td>22.1</td>
<td></td>
</tr>
<tr>
<td>Our board members have extensive knowledge of bank’s critical technology and key competence</td>
<td>Freq.</td>
<td>1</td>
<td>9</td>
<td>19</td>
<td>39</td>
<td>27</td>
<td>3.86</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>1.1</td>
<td>9.5</td>
<td>20</td>
<td>41.1</td>
<td>28.4</td>
<td></td>
</tr>
<tr>
<td>Our board members have extensive knowledge of bank’s weak sides</td>
<td>Freq.</td>
<td>0</td>
<td>9</td>
<td>7</td>
<td>34</td>
<td>45</td>
<td>4.21</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>9.5</td>
<td>7.4</td>
<td>35.8</td>
<td>47.4</td>
<td></td>
</tr>
</tbody>
</table>
Our board members have extensive knowledge of threats from entrants and new products and services

<table>
<thead>
<tr>
<th>Freq.</th>
<th>%</th>
<th>6</th>
<th>1</th>
<th>27</th>
<th>37</th>
<th>24</th>
<th>3.76</th>
<th>1.05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>6.3</td>
<td>1.1</td>
<td>28.4</td>
<td>38.9</td>
<td>25.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The respondents were asked whether the board members have extensive knowledge of bank’s main operations. The results from the study revealed that, of the total respondents, 21(22.1%) strongly agreed that board members have extensive knowledge of bank’s main operations, 44(46.3%) of them agreed, 7(7.4%) disagreed, 6(6.3%) strongly disagreed while 17(17.9%) of the respondents were neutral. The mean value was 3.71 and standard deviation was 1.09, implying that board members have extensive knowledge of bank’s main operations.

On whether or not board members had extensive knowledge of bank’s critical technology and key competence, 27(28.4%) of the respondents strongly agreed, 39(41%) of them agreed, 9(9.5%) disagreed while 19(20%) of the respondents were neutral. The results summed up to a mean of 3.86 and standard deviation of 0.97. It was therefore concluded that board members have sufficient knowledge of bank’s critical technology and key competence.

The study also sought to find out if board members have extensive knowledge of bank’s weak sides. From the research results, the question had a mean of 4.21 and standard deviation of 0.94. This was because of 47.4% (n=45) of the respondents strongly agreeing, 35.8% (n=34) agreeing, 9.5% (n=9) disagreeing, and 7.4% (n=7) being uncertain. The study also sought to find out whether or not board members had extensive knowledge of threats from entrants and new products and services, respondents were asked to state the degree to which they concurred with the above. Of the total respondents, 24(25.3%) of the respondents strongly agreed, 37(38.9%) of them agreed, 1(1.1%) disagreed while 27(28.4%) of them were neutral. The results summed up to a mean of 3.76 and standard deviation of 1.05 meaning that the board members have extensive knowledge of threats from entrants and new products and services.

The study further enquired from the respondents whether board members have extensive knowledge of threats from entrants and new products and services. The results revealed that 24(25.3%) of the respondents strongly agreed, 37(38.9%) of them agreed, 6(6.3%) strongly disagreed while 27(28.4%) of the respondents were neutral. The results summed up to a mean of 3.94 and standard deviation of 1.17 meaning that the board members have knowledge of threats from entrants and new products and services.

The study further sought to establish if board members had extensive knowledge on the bank’s market opportunities. From the findings of the study, 32(33.7%) of the respondents strongly agreed, 47(49.5%) agreed, 6(6.3%) disagreed, 8(8.4%) strongly disagreed and 2(2.1%) of the respondents were neutral. The item realized a mean of 3.8 and standard deviation of 0.77 revealing that the board members have extensive knowledge of the bank’s market opportunities.
In general, the results on board members’ knowledge summed up to a mean of 3.88 and standard deviation of 0.76, meaning that the respondents were agreeable on most of the items on board members’ knowledge. On the other hand, the standard deviation indicates that there was little variation in the responses.

**Organization Performance**

The study also sought to document the indicators of performance in the banks in Nairobi, Kenya. The findings of the study were as summarized in Table 2 below.

<table>
<thead>
<tr>
<th>Table 2: Organization Performance</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in income in relation to your expectations</td>
<td>F</td>
<td>0</td>
<td>15</td>
<td>1</td>
<td>60</td>
<td>19</td>
<td>3.87</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>15.8</td>
<td>1.1</td>
<td>63.2</td>
<td>20</td>
<td>3.71</td>
</tr>
<tr>
<td>Growth in income in relation to your competitors</td>
<td>F</td>
<td>0</td>
<td>7</td>
<td>23</td>
<td>56</td>
<td>9</td>
<td>3.71</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>7.4</td>
<td>24.2</td>
<td>58.9</td>
<td>9.5</td>
<td>3.63</td>
</tr>
<tr>
<td>Growth in profitability in relation to your expectations</td>
<td>F</td>
<td>0</td>
<td>12</td>
<td>30</td>
<td>34</td>
<td>9</td>
<td>3.63</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>12.6</td>
<td>31.6</td>
<td>35.8</td>
<td>20</td>
<td>3.88</td>
</tr>
<tr>
<td>Growth in profitability level in relation to your Competitors</td>
<td>F</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>47</td>
<td>35</td>
<td>4.09</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>0</td>
<td>13.7</td>
<td>49.5</td>
<td>36.8</td>
<td>3.79</td>
</tr>
<tr>
<td>Increase in number of employees</td>
<td>F</td>
<td>0</td>
<td>7</td>
<td>25</td>
<td>44</td>
<td>19</td>
<td>3.79</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>7.4</td>
<td>26.3</td>
<td>46.3</td>
<td>20</td>
<td>3.88</td>
</tr>
<tr>
<td>Increased market size in new markets in relation to your competitors</td>
<td>F</td>
<td>0</td>
<td>7</td>
<td>23</td>
<td>39</td>
<td>26</td>
<td>3.88</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>7.4</td>
<td>24.2</td>
<td>41.1</td>
<td>27.4</td>
<td>3.79</td>
</tr>
<tr>
<td>Growth in capital from operations</td>
<td>F</td>
<td>22</td>
<td>10</td>
<td>25</td>
<td>38</td>
<td>38</td>
<td>2.83</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>23.2</td>
<td>10.5</td>
<td>26.3</td>
<td>40</td>
<td>3.701</td>
<td>0.631</td>
</tr>
</tbody>
</table>

In relation to whether or not there has been growth in income in relation to expectations, 19(20%) of the respondents strongly agreed that there has been growth in income, 60(63.2%) agreed, 15(15.8%) strongly disagreed and 1(1.1%) of the respondent was neutral. The item reported a mean of 3.87 and a standard deviation of 0.914. This indicates that there has been a significant increase in income in relation to expectations.

The study also enquired from the respondents whether or not there was growth in income in relation to competitors. The results revealed that 9(9.5%) of the respondents strongly agreed that there has been growth in income in relation to competitors, 56(58.9%) of them agreed, 7(7.4%) disagreed while 23(24.2%) of the respondents were neutral. The results summed up to a mean of 3.71 and standard deviation of 0.742. This implies that growth in income in relation to competitors has been realized.

On whether or not there was growth in profitability in relation to expectations, 19(20%) of the respondents strongly agreed, 34(35.8%) of them agreed, 12(12.6%) of them disagreed while 30(31.6%) of the respondents were neutral. The results summed up to a mean of 3.63 and standard deviation of 0.946 an indication that there is growth in income in relation to the organizations’ expectations.

The research also sought to ascertain whether or not there was growth in profitability level in relation to competitors. From the results, 35(36.8%) of the respondents strongly agreed,
47(49.5%) of them agreed while 13(13.7%) of them were neutral. This summed up to a mean of 4.09 and standard deviation of 0.957. Generally, there has been growth in profit level in relation to competitors.

The study further sought to find out if there is increase in the number of employees. The results indicated that 19(20%) of the respondents strongly agreed, 44(46.3%) of them agreed, 7(7.4%) disagreed while 25(26.3%) of the respondents were neutral. The results summed up to a mean of 3.79 and standard deviation of 0.849 meaning that there is increase in the number of employees.

In addition, the research purposed to establish whether or not there was increased market size in new markets in relation to competitors. Based on the study results, 26(27.4%) of the respondents strongly agreed, 39(41.1%) of them agreed while 23(24.2%) of the respondents were neutral. The results summed up to a mean of 3.88 and standard deviation of 0.898.

Finally, 38(40%) of the respondents agreed that there is growth in capital from operations, 22(23.2%) strongly disagreed that there is growth in capital from operations, 10(10.5%) disagreed while 25(26.3%) of them were undecided. The findings summed up to a mean of 2.83 and standard deviation of 1.191.

Generally, the research results on organization performance summed up to a mean of 3.701 and standard deviation of 0.631. From the foregoing, it can be deduced that the organizations have realized improved performance. There are also fewer variations on the responses as evidenced by the standard deviation.

In the study, performance of the organizations was sought over a 2-year period right from the year 2016 to 2015. In a study conducted in telecom sector of Pakistan, Sultana et al. (2012) has found that the variation in employee performance is brought by training programs. Further, they explain that training is good predictor of employee performance. According to Harrison (2000), learning through training influence the organizational performance by greater employee performance, and is said to be a key factor in the achievement of corporate goals. However, implementing training programs as a solution to covering performance issues such as filling the gap between the standard and the actual performance is an effective way of improving employee performance (Swart et al., 2005).

Organizations performance is used as one indicator of effectiveness for small and large businesses and is a fundamental concern of many practicing managers. Ultimately, success and growth will be gauged by how well an organization does relative to the goals it has set for itself and, as Sababu (2007) states, the formal strategic management systems significantly influence organizational performance.

CORRELATION ANALYSIS AND HYPOTHESIS TEST RESULTS

The study used Pearson Product Moment correlation analysis to assess the nature of the relationship between the independent variables and the dependent variable. Wong and Hiew (2005) posits that the correlation coefficient value (r) ranging from 0.10 to 0.29 is considered weak; from 0.30 to 0.49 is considered medium, and from 0.50 to 1.0 is considered strong. From the results, there was no significant correlation between board members’ knowledge and organization performance. (see Table 3).
Table 3: Correlation Results

<table>
<thead>
<tr>
<th></th>
<th>Organization Performance</th>
<th>Board Members Knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization Performance</td>
<td>Pearson Correlation 1</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) 0</td>
<td></td>
</tr>
<tr>
<td>Board Members’ Knowledge</td>
<td>Pearson Correlation .109</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed) 0.371</td>
<td></td>
</tr>
</tbody>
</table>

The study hypothesized that there is a relationship between board members’ knowledge and organization performance. The research findings showed that board members knowledge had coefficients of estimate which was insignificant basing on $\beta_1 = 0.012$ (p-value = 0.777 which is more than $\alpha = 0.05$), implying that we reject the hypothesis that there is a relationship between board members’ knowledge and organization performance. Furthermore, the effect of board members’ knowledge was stated by the t-test value = 0.284 which implies that the standard error associated with the parameter is more than the effect of the parameter.

The study further established that board members’ knowledge has no significant effect on organization performance. Consistent with these results, Ammann et al. (2005) study on whether individual characteristics of directors affected the shareholder’s total return revealed that board members’ knowledge had no significant influence on total return. As opposed to the study findings, Huse and Solberg (2016) study on the association between board of director’s characteristics and the performance of listed organizations in Stock Exchange of Thailand revealed that organizations with the board members’ knowledge had lower performance.

The findings further concurred with those of McIntyre, Murphy and Mitchell (2007) that board members’ knowledge had a positive and significant impact on organization performance. The study had limitations in respect of its single country setting, the use of CEO responses, and the limited two-year observation window. Therefore, in this context, board member’s knowledge may act as a substitute for top executives, who may not plan strategic actions in a structured way (Lynall, Golden & Hillman, 2003).

**CONCLUSION AND RECOMMENDATIONS**

Although organizations with higher proportion of board members’ knowledge produces higher returns on assets, the study has established that board members’ knowledge has no significant effect on organization performance. The study therefore adds new knowledge to the existing body of literature since the extant literature suggests that board members’ knowledge has a positive influence on organization performance. There is however need for further studies on the same to establish if the study findings hold.

**REFERENCES**


