

**CORPORATE GOVERNANCE, SOCIAL CAPITAL AND
COMPETITIVE ADVANTAGE OF COMMERCIAL
BANKS IN KENYA**

NOAH KIPKURUI CHEPKECH

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**Corporate Governance, Social Capital and Competitive Advantage
of Commercial Banks in Kenya**

Noah Kipkurui Chepkech

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the Degree of Doctor of Philosophy in Business Administration
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Agriculture and Technology**

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University

Signature.....Date.....

Noah Kipkurui Chepkech

This thesis has been submitted for examination with our approval as the University Supervisors

Signature.....Date.....

Dr. Doris Mbugua, PhD

JKUAT, Kenya

Signature.....Date.....

Dr. Kimani E. Maina, PhD

JKUAT, Kenya

DEDICATION

I dedicate this research thesis to Almighty God, whose guidance and grace has been the bedrock of my journey. According to Philippians 4:13 "I can do all things through Christ who strengthens me." This powerful verse reflects the spirit of determination and faith that has propelled me forward. My heartfelt dedication goes to my beloved wife Catherine and our wonderful children: Eddy, Esmond and Emma. Your unwavering support has been crucial to my progress, providing motivation during the most challenging moments. I also dedicate this work to my mother Kobilo Chepkech, my late father Chepkech Toroitich, siblings and the entire Chepkech family. In dedicating this thesis to my family, I acknowledge the significant impact that love, unity and encouragement have on achieving one's goals.

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ABBREVIATIONS AND ACRONYMS

AU	African Union
CA	Competitive advantage
CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CG	Corporate Governance
CSR	Corporate Social Responsibility
IMF	International Monetary Fund
NRI	Natural Resources Institute
OECD	Organization of Economic Co-operation and Development
OP	Organizational Performance
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
R&D	Research and Development
RBT	Resource Based Theory
SCA	Sustainable Competitive Advantage

SPSS	Statistical Package for Social Sciences
UK	United Kingdom
USAID	United State Agency for International Development
USA	United States of America

DEFINITION OF OPERATIONAL TERMS

- Board diversity** refers to the intentional inclusion of individuals from a variety of backgrounds, experiences, and perspectives within a company's board of directors. This diversity encompasses a wide range of dimensions including gender, race, ethnicity, age, cultural background and professional expertise. By fostering a diverse board, companies can benefit from varied viewpoints and innovative solutions, which contribute to better decision-making, improved governance and enhanced corporate social responsibility (Beji, Yousfi, Loukil, & Omri, 2021).
- Board independence** is defined as the condition in which a company's board of directors operates without relationships that could compromise their impartiality in decision-making. An independent board comprises directors who do not have significant ties to the company, its management or major shareholders. This independence is critical for effective governance enabling the board to provide unbiased oversight, challenge management actions and safeguard the interests of all stakeholders (James, Borah, & Lirely, 2022).
- Board committees** are specialized groups established within a company's board of directors to focus on specific functions or areas of governance. Common examples include audit, compensation and nominating committees. Each committee is tasked with reviewing pertinent issues, making recommendations and ensuring thorough oversight in their respective areas. This delegation of responsibilities allows the board to operate more efficiently, enhances decision-making processes and helps maintain compliance with legal and regulatory standards (Ahmad, Ullah, Akbar, Kodwani, & Brahma, 2024).

CEO Attributes refer to a set of personal and professional qualities that are crucial for effective leadership. Key attributes include strategic vision, decisiveness, emotional intelligence and strong communication skills. These qualities enable a CEO to navigate challenges and drive organizational success (Osei Bonsu, Liu, & Yawson, 2024).

Competitive Advantage refers to the edge a company has over its competitors, enabling it to deliver greater value to consumers. This advantage can be achieved through lower pricing or by providing superior benefits and services that justify a higher price. By effectively leveraging these strategies, businesses can enhance their market position and build customer loyalty (Farida, & Setiawan, 2022).

Corporate Governance encompasses the framework through which a company is directed and managed involving key players such as the board of directors, the CEO, and senior management. The board plays a crucial role by fulfilling two primary functions: providing essential resources and business advice, while also monitoring executive management to ensure accountability to shareholders (Susilawati, Rini, & Hasanah, 2024).

A Commercial Bank is a vital financial institution that acts as an intermediary between savers and borrowers, contributing significantly to the global economy. It accepts deposits, provides loans for various purposes and offers a range of financial products, including credit cards and investment accounts. By facilitating transactions and offering financial advice, commercial banks promote economic growth and financial inclusion while helping to ensure monetary stability (Isomiddinovich, A. A., & Panji O'g'li, R. D. 2024).

Innovation

is a dynamic, multistage process that transforms creative ideas into valuable products or services, fostering sustained profitability for organizations. This comprehensive process includes stages such as idea generation, research and development, testing and market launch, ensuring that innovations effectively address consumer needs and contribute to competitive advantage in a global marketplace (Prihadyanti, Aziz, & Sari, 2024)

Social Capital

refers to the collective value of social networks and relationships that individuals or groups leverage to access resources and support. It encompasses both the potential and actual benefits derived from being part of enduring relationships characterized by mutual trust and cooperation, which can enhance collaboration and foster community resilience (Li, Z., & Wang, B., 2023).

ABSTRACT

Competitive advantage is the unique combination of elements within the business model which enables a firm to better satisfy the needs in its environment, earning economic rents in the process. Few commercial banks in Kenya especially tier one banks have gained competitive advantage compared to their peers in tier 2 and tier 3. Some tier 2 and 3 banks have experienced sudden unexpected systemic collapse with a number of mergers and buyoff ensuing. Some studies have attributed the cause of failure of banks to violation of banking laws, poor corporate governance and deteriorating cash reserves. Studies done on the effect of corporate governance and competitive advantage have shown varying contradictory findings. This study postulates that social capital could be playing a mediating role on the nexus between corporate governance and competitive advantage hence this study was expected to give conclusive results. The study used board diversity, CEO's attributes, board independence and board committees as the independent variables; competitive advantage as dependent variable and social capital as the mediating variable. The study was guided by stewardship theory, agency theory, resource-dependency theory and stakeholder theory. The research adopted descriptive and correlational research designs. Target population comprised the 42 commercial banks operating in Kenya while the respondents were 294 senior officers who included a corporate affairs manager, a risk compliance officer, an internal auditor, a legal counsel and three board members from each bank. The research approach was census survey of all banks in Kenya. Questionnaire was the data collection tool. Pilot test was performed to ascertain the questionnaire quality. Reliability was confirmed using Cronbach alpha with a coefficient of 0.7 and above being used as a benchmark for approving the reliability of the research instrument. SPSS software was used in data analysis. Data analysis involved a combination of descriptive and inferential statistics. Multiple regression analysis as well as Pearson product moment correlation analysis was utilized to test the nexus between the independent variables and the dependent variable. The variables were regressed using 5% significance level to find out the strength of the variables and direction of their relationship. Study results indicated statistically significant regression results between board diversity ($t=9.155$; $p=0.000$), CEO attributes ($t=5.745$; $p=0.000$), board independence ($t=3.287$; $p=0.000$), board committees ($t=3.304$; $p=0.000$) and competitive advantage. The results of multiple regression analysis using Hayes (2017) PROCESS Macro version 3.4 (Model 4) found that corporate governance had a significant direct effect on competitive advantage with $\beta = .531$, $p = .000$. The total effect using the data without outliers, (direct + indirect effect) = $0.531 + 0.198 = 0.729$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation ($F(5,221) = 161.687$, $p = .000$). The study found the mean indirect effect as positive and significant from the data $M_5 = a_5 \times b_5 = .610 \times 0.324 = .198$, $SE = .038$, 95% CI = [.126,.277] and confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect. The study therefore concludes that social capital has a significant mediating effect on the relationship between corporate governance and competitive advantage of commercial banks in Kenya. Therefore, the study recommends that banks need to embrace both corporate governance and social capital simultaneously to achieve better competitive advantage.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Competitive advantage is a key element that allows organizations to thrive within their markets. As noted by Porter (2021), this advantage is derived from a distinctive combination of factors within a business model, enabling firms to meet environmental demands effectively and generate economic benefits. Omidvar and Palazzo (2023) further emphasize that a sustainable competitive advantage reflects a firm's ongoing ability to create value over time. This advantage is achieved when a company successfully executes a strategy that competitors find difficult to imitate. Despite possessing a sustainable competitive advantage, firms face ongoing challenges from competitive dynamics.

Competitive advantage is a pivotal concept in the realm of business strategy, defined as the attributes or capabilities that enable a company to outperform its competitors consistently. This unique positioning allows a firm to achieve superior profit margins, enhance its market presence, and deliver greater value to shareholders. As articulated by Wagner III and Hollenbeck (2020), a competitive advantage is not easily replicated, forming a protective moat around the business that distinguishes it from its rivals. Historically, the term gained prominence through the work of Michael Porter in the 1980s, who identified three fundamental strategies for establishing competitive advantage: cost leadership, differentiation, and focus.

Cost leadership involves being the lowest-cost producer in the market, allowing a company to attract price-sensitive consumers while maintaining profitability through high sales volumes. Differentiation conversely focuses on creating unique products or services that command a premium price due to their distinctive attributes, enabling companies to achieve higher profit margins (Porter, 1985). The landscape of competitive advantage has expanded to a variety of factors that go beyond these traditional strategies. Companies now leverage intangible assets, such as strong brand

recognition, proprietary technologies, and skilled labor, which create barriers for competitors.

For instance, Apple exemplifies differentiation through its innovative product offerings and robust brand loyalty, compelling consumers to pay a premium (Mattera et al., 2022). In contrast, Walmart successfully employs a cost leadership strategy by utilizing economies of scale to offer consistently low prices, thereby appealing to a broad consumer base (Lyulyov et al., 2024). Moreover, current global market trends emphasize sustainability as a vital component of competitive advantage. As consumers increasingly favor companies that demonstrate social responsibility and environmental stewardship, businesses are compelled to integrate sustainable practices into their operations (Mahdi & Nassar, 2021).

This shift not only enhances brand loyalty but also provides a unique selling proposition that differentiates them from competitors in a crowded marketplace. Firms that effectively position themselves as environmentally conscious can reap substantial benefits, including enhanced customer loyalty and improved public perception (Kahupi et al., 2021). In addition to these evolving strategies, understanding the competitive landscape is crucial for sustaining a competitive advantage. Companies must continuously assess their value proposition and target market while monitoring both traditional and emerging competitors. This dynamic approach ensures that businesses remain agile and responsive to market changes, allowing them to capitalize on new opportunities and mitigate potential threats (Nisha et al., 2022).

The concept of competitive advantage has transformed significantly over the years. From its traditional roots in cost leadership and differentiation, it has evolved to include a broader spectrum of factors such as intangible assets and sustainability. In an increasingly complex and competitive global marketplace, the ability to effectively cultivate and maintain a competitive advantage remains essential for long-term success and resilience (Lyulyov et al., 2024). According to Nisha et al., (2022), while such advantages may prove resilient, organizations must continuously adapt and innovate to maintain their positions in the market. Kahupi et al., (2021) argue that for a firm to

realize its potential for sustained competitive advantage, its resources must be valuable, rare, inimitable, and non-substitutable.

Consequently, strategic management efforts focus on nurturing and sustaining this competitive edge, allowing organizations to achieve returns that exceed the industry average (Omidvar & Palazzo, 2023). In commercial banking, corporate governance is pivotal in achieving competitive advantage. Corporate governance encompasses the structures, practices, and processes by which companies are managed and controlled, primarily through the actions of their boards of directors, CEOs, and senior management. Effective corporate governance not only boosts organizational performance but also fosters public trust which is essential for attracting investment and talent (Mahdi & Nassar, 2021).

Recent research indicates that organizations with robust governance frameworks are better equipped to navigate crises and retain stakeholder confidence in a rapidly changing financial landscape. The significance of corporate governance has been amplified in light of high-profile scandals that have highlighted its importance. Historical events such as the collapses of Enron and WorldCom underscore the critical need for effective governance structures (Mwakapala et al., 2024). Recent developments in corporate governance stress the importance of board independence, diversity, and ethical guidelines that promote accountability and responsible decision-making. Studies indicate that diverse boards—characterized by variations in gender, race, and professional background—often make more comprehensive and well-rounded decisions (Susilawati et al., 2024).

To address these corporate demands globally, the Organization for Economic Cooperation and Development (OECD) Principles of Corporate Governance framework serves as an international benchmark for evaluating and improving the legal, regulatory, and institutional architectures of corporate behavior (OECD, 2023). This framework highlights that a solid corporate governance architecture is vital for fostering market confidence, business integrity and overall financial stability. The updated guidelines emphasize that sound governance structures must look beyond short-term internal dynamics to promote access to capital markets, lower the cost of

equity, and actively mitigate structural systemic risks. By implementing these globally accepted parameters, organizations can create a reliable environment of transparency and institutional trust, which directly anchors their long-term value creation.

In the context of the highly sensitive financial services sector, the application of the OECD framework becomes even more distinct. Because banks manage systemic liquidity and depositor funds, their failure presents severe economic externalities that differ substantially from generic commercial firms (OECD, 2023). Consequently, the framework demands rigorous risk management oversight, specialized board committees and explicit transparency regarding capital and group structures to protect depositors and minority shareholders alike. In an era shaped by volatile markets and rapid digital transitions, adhering to these structured governance principles offers banks a systematic mechanism to build institutional resilience. This resilience acts as a defensive barrier against crises and functions as an enduring competitive differentiator in the broader financial market.

Social capital, which refers to the networks of relationships that foster trust and cooperation among individuals (Claridge, 2021), is increasingly recognized as a valuable asset for banks. It plays a crucial role in shaping competitive positioning by enhancing collaboration and trust among stakeholders. As organizations cultivate social capital through community engagement and mutual relationships, they improve their ability to leverage resources and capitalize on opportunities (Singh et al., 2021). Recent findings suggest that firms with strong social capital are more adept at facing challenges and promoting innovation, thus reinforcing their competitive advantage. This study aims to investigate the complex interrelationships among corporate governance, social capital and competitive advantage within Kenya's commercial banking sector. By delving into these dynamics, the research aspires to provide valuable insights on how banks can improve their performance and sustainability amid a rapidly evolving financial environment. The anticipated findings will offer actionable recommendations for enhancing governance practices and effectively leveraging social capital, hence fostering a more resilient and competitive banking sector.

1.1.1 Global Perspective of Corporate Governance and Competitive Advantage

The global perspective on corporate governance and competitive advantage in the banking sector has become increasingly vital as financial markets face unprecedented challenges and complexities. In developed nations, effective corporate governance frameworks serve as the foundation for banks to build competitive advantage, ensuring not only regulatory compliance but also fostering trust and integrity among stakeholders. As the financial landscape evolves, the importance of robust governance practices becomes apparent, providing banks with the tools needed to navigate uncertainties and enhance their operational efficiency (Aronson & Kim, 2019).

In the American continent, the United States corporate governance structure has undergone substantial reforms following a series of high-profile scandals that shook investor confidence. The enactment of the Sarbanes-Oxley Act in 2002 marked a pivotal moment, establishing rigorous requirements for financial reporting and enhancing the accountability of boards of directors (Afanas'ev & Shash, 2022). U.S. banks have embraced these stringent standards not merely as regulatory obligations but as essential components of their strategic frameworks. By fostering a culture of transparency and ethical behavior, American banks have been able to cultivate trust among stakeholders, thereby enhancing their competitive edge in a crowded marketplace (Ashraf & Chughtai, 2020).

Moreover, within American continent, Canada offers a unique perspective on corporate governance, characterized by a focus on stakeholder interests and comprehensive risk management frameworks. Canadian banks are encouraged to establish audit committees composed primarily of independent members responsible for overseeing financial reporting (Abdulrahim et al., 2020). This commitment to sound governance practices has enabled Canadian banks to effectively navigate economic fluctuations and maintain competitive advantage. By prioritizing ethical behavior and stakeholder engagement, these banks are well-equipped to attract investment and bolster their reputation in the global financial arena (Kimani & Kariuki, 2021).

Across the Atlantic in Europe, the United Kingdom has established a dynamic corporate governance code that is continually updated to reflect evolving market conditions. This code places significant emphasis on board independence and the need for comprehensive stakeholder engagement (Singh et al., 2021). The Financial Reporting Council's guidelines encourage banks to prioritize diversity within their boards and to form independent committees that oversee critical financial and strategic decisions. By adhering to these governance principles, UK banks have successfully built a reputation for integrity and resilience, positioning themselves advantageously against competitors (Karuu, 2024).

Germany's approach to corporate governance is distinguished by its dual-board structure, which separates the supervisory board from the management board. This framework is designed to enhance oversight and accountability, allowing independent directors to monitor bank operations effectively (Singh & Pillai, 2022). German banks leverage this governance model to cultivate strong relationships with shareholders and stakeholders, resulting in improved strategic decision-making. The emphasis on rigorous governance has enabled these banks to develop competitive advantages through operational efficiency and robust risk management practices, making them resilient players in the European financial landscape (Singh et al., 2021).

Sweden's corporate governance approach is increasingly recognized for its focus on sustainability and long-term value creation. The Swedish Corporate Governance Code encourages transparency and active engagement with shareholders, enabling banks to differentiate themselves in a competitive landscape (Aronson & Kim, 2019). By prioritizing sustainable practices and stakeholder relationships, Swedish banks not only enhance their reputational capital but also position themselves strategically to leverage emerging market opportunities (Afanas'ev & Shash, 2022).

Within the Asian continent, the Japan corporate governance framework has experienced significant transformations, particularly in response to the 2008 financial crisis. The introduction of the Corporate Governance Code in 2015 has propelled banks towards greater transparency and accountability (Attridge et al., 2021). By mandating the inclusion of independent directors and fostering an environment

conducive to shareholder engagement, Japanese banks are reorienting their practices to align with global standards. This shift not only helps to restore investor confidence but also facilitates the development of competitive advantages rooted in trust and ethical governance, thereby enhancing the banks' market positioning (Afanas'ev & Shash, 2022).

Lastly further afield in Oceania, Australia's corporate governance framework similarly emphasizes diversity and risk management, with the Australian Securities Exchange Corporate Governance Principles advocating for best practices across the banking sector (Singh et al., 2021). The promotion of board diversity and accountability has enabled Australian banks to cultivate strong reputations and secure competitive advantage in attracting both domestic and international investors. By fostering an environment of trust and ethical conduct, these banks enhance their appeal in a highly competitive market, positioning themselves as leaders in responsible banking practices (Altawalbeh, 2020).

The interplay between corporate governance and competitive advantage in the banking sectors of developed countries underscores the necessity of strong governance frameworks. By implementing rigorous governance practices that prioritize transparency, accountability, and stakeholder engagement, banks across these nations are not only enhancing their operational effectiveness but are also cultivating enduring relationships with investors and customers (Susan, 2022). As the global financial landscape continues to evolve, the insights drawn from the governance practices of these countries will be instrumental in guiding the future success of banks worldwide (Singh & Pillai, 2022).

1.1.2 African Perspective of Corporate Governance and Competitive Advantage

The concept of corporate governance (CG) in Africa has emerged as a pivotal component of business strategy and economic development across the continent. As nations increasingly recognize the importance of sound governance practices, there is a concerted effort to enhance transparency, accountability and overall performance within the corporate sector. This is particularly evident in the banking industries of

countries such as South Africa, Ghana, Nigeria, Rwanda, Uganda, Burkina Faso, Ethiopia and Egypt. Each of these nations showcases unique approaches to CG, highlighting the diverse challenges and opportunities that exist in the pursuit of competitive advantage (Attridge et al., 2021).

In South Africa, corporate governance is well-structured and regarded as a cornerstone of the banking sector's success. The King Reports on Corporate Governance have provided comprehensive guidelines that promote ethical leadership, stakeholder inclusivity and sustainable business practices. Major Banks have effectively adopted these principles, leading to enhanced levels of transparency and accountability within their operations. The robust governance framework in South Africa has not only fortified investor confidence but has also enabled these banks to secure a competitive advantage that extends beyond local markets into international arenas (Aronson & Kim, 2019). The result is a banking sector characterized by superior performance metrics, which consistently outperform many of their regional peers.

Conversely, Ghana's journey toward effective corporate governance encounters notable challenges. Although the Ghana Code of Corporate Governance has been established, awareness and adherence to these guidelines remain insufficient. The weak enforcement of governance codes translates into a lack of competitive advantage among commercial banks in the country. Nevertheless, some institutions, such as Ecobank Ghana are beginning to embrace best practices indicating a potential for growth. This gradual shift suggests that with a stronger commitment to governance, these banks could improve their market positions and operational efficiencies, ultimately enhancing their competitive standing (Abdi & Mungai, 2024)

Rwanda's corporate governance landscape is still in its developmental stages, presenting significant opportunities for growth. Despite the existence of several governance codes, awareness and compliance levels remain low. However, Rwandan banks such as Bank of Kigali are beginning to adopt better governance practices. The government is taking steps to promote awareness and training initiatives that could enhance understanding of corporate governance. As these initiatives take root, there is

potential for Rwandan banks to strengthen their competitive positioning both regionally and internationally (Sadaa et al., 2022).

Uganda has made notable progress in corporate governance, particularly in the banking sector. Institutions like Stanbic Bank have made commendable strides in implementing governance measures. However, existing laws are not fully aligned with international standards and political interference complicates the enforcement of governance practices. Despite improvements, the overall investment climate suffers from a lack of financial transparency in sectors outside of banking. Strengthening CG frameworks across the economy could significantly enhance Uganda's competitive advantage, fostering a more attractive environment for domestic and foreign investors alike (Mohamed, 2020).

Burkina Faso presents a distinct scenario in the realm of corporate governance. The country's economy is characterized by a predominance of small, family-owned enterprises, which leads to challenges in accessing formal banking services. Although Burkina Faso has ratified various governance codes, the implementation remains weak, largely due to a lack of awareness and infrastructure to support these initiatives. The banking sector faces high operational costs and operates within an informal economy that stifles competitiveness. Without significant reforms in governance practices, Burkina Faso's banks will likely continue to lag behind their regional counterparts, hampering their ability to attract investment and innovate (Singh & Pillai, 2022)

Ethiopia has made commendable strides in developing corporate governance frameworks, particularly following recent economic reforms aimed at liberalizing its economy. The National Bank of Ethiopia has introduced regulations to enhance transparency and accountability within the banking sector. Despite these advances, challenges such as bureaucratic inefficiencies and a lack of awareness among stakeholders hinder effective implementation. As banks like the Commercial Bank of Ethiopia adopt better governance practices, they stand to strengthen their competitive positioning in the East African market, which could lead to increased foreign investment and overall economic growth (Akpa & Odo, 2024).

In Egypt, the banking sector benefits from a well-established regulatory framework that has evolved significantly in recent years. The Egyptian Financial Regulatory Authority has implemented various measures aimed at improving governance practices among banks and financial institutions. Major Banks, such as the National Bank of Egypt, adhere to these standards; however, ongoing efforts are necessary to enhance compliance across smaller institutions. By fostering a more competitive environment overall, these reforms can lead to increased innovation and improved customer service, as banks strive to meet higher operational standards (Galletta et al., 2021).

The relationship between corporate governance and competitive advantage is crucial for the development of Africa's banking sector. Countries like South Africa and Egypt illustrate the positive impacts of strong governance frameworks on their banking industries, while nations such as Ghana and Burkina Faso reveal the challenges that arise from inadequate governance implementation. As Africa continues to evolve economically, the enhancement of corporate governance practices will be essential for fostering competitive advantages, attracting investment and driving sustainable growth across the continent. By prioritizing effective governance, African nations can build resilient banking sectors that contribute significantly to overall economic development (Khalil & Ben Slimene, 2021).

1.1.3 Kenyan Perspective of Corporate Governance and Competitive Advantage amongst Kenyan Banks

The corporate governance landscape in Kenya's banking sector has evolved significantly over the years. This is influenced by a dynamic interplay of regulatory frameworks, market expectations and the demands for greater accountability and transparency. This evolution is primarily shaped by critical legislations such as the Companies Act, the Banking Act and directives from the Central Bank of Kenya (CBK) playing a central role in ensuring the stability and integrity of the financial system. The CBK's focus on liquidity, solvency and operational efficiency is fundamental for maintaining the resilience of banks and ensuring that they can manage risks effectively while safeguarding stakeholder interests. This regulatory environment

is crucial for fostering public confidence in the financial sector which is essential for the economy at large (Mohamed, 2020).

A core component of corporate governance in Kenya's banking sector is the establishment of board committees, which are instrumental in overseeing key areas such as financial reporting, risk management, compliance and ethical standards. Most commercial banks, including KCB Group, Equity Bank and Co-operative Bank, have adopted these governance structures with specific committees—namely, Audit, Risk Management, Nominations and Remuneration Committees—tasked with monitoring and evaluating the bank's performance in critical areas. The Audit Committee, composed largely of independent directors, plays a pivotal role in enhancing the quality of financial reporting, ensuring regulatory compliance and mitigating potential fraud risks.

The Risk Management Committee, especially in today's volatile financial environment, is integral to ensuring that banks have robust strategies for managing financial and operational risks (Karuu, 2024; Kabir, 2022). These committees are not only an essential part of governance but also help strengthen stakeholder trust and protect the banks' reputation. Independence within the board structure is another cornerstone of effective corporate governance. The regulatory framework mandates that a significant proportion of board members must be independent, ensuring unbiased oversight and the ability to critically assess management decisions. This independence promotes accountability, transparency and ethical conduct, which are crucial in the wake of past governance failures in the sector. Research suggests that banks with a higher proportion of independent directors tend to outperform their peers, benefitting from the diverse perspectives that independent directors bring to strategic decision-making (Ashraf & Chughtai, 2020).

However, while the regulatory framework calls for independent boards, the actual implementation of this mandate can be inconsistent, and there remain challenges in enforcing compliance across the sector. There is also the question of whether independent directors truly have the influence necessary to counterbalance managerial dominance in decision-making processes. Another significant aspect of corporate

governance gaining momentum is diversity on boards. Increasingly, it is recognized that diverse boards—spanning gender, ethnicity, and professional experience—tend to make more well-rounded decisions, which are crucial for driving innovation, adaptability and long-term success in the ever-changing banking sector.

Nonetheless, despite progress, many banks still struggle to achieve meaningful diversity. The underrepresentation of women and other marginalized groups on boards not only limits the variety of perspectives during strategic discussions but may also hinder the bank's ability to respond effectively to new market dynamics. To address these disparities, there are growing initiatives aimed at promoting gender diversity and inclusivity within Kenya's banking sector, ensuring that all viewpoints are represented and actively contributing to sound governance and decision-making processes (Sadaa et al., 2022; Attridge et al., 2021). Achieving diversity is not merely a regulatory box to tick but a strategic necessity that can lead to better risk management and long-term sustainability.

The leadership of Chief Executive Officers (CEOs) plays a critical role in shaping corporate governance practices within banks. Effective CEOs are expected to demonstrate strong leadership, a clear strategic vision, and a commitment to ethical behavior. These traits significantly influence the governance culture of the organization, setting the tone for the entire institution. The relationship between the CEO and the board is especially important, as it defines the overall governance framework and ensures alignment between corporate strategy and governance policies. CEOs who prioritize stakeholder engagement and ethical leadership can significantly improve governance metrics, which in turn enhances the bank's financial performance and reputation.

Transparent and communicative CEOs foster trust not only among investors but also among customers, regulatory bodies, and the broader public, thereby strengthening the bank's standing in an increasingly competitive financial landscape (Kimani & Kariuki, 2021; Khalil, 2021). Several local banks have made significant strides in embodying these governance principles. KCB Group, for instance, is well-regarded for its robust governance framework, which includes a diverse board and comprehensive committee

structures aimed at enhancing decision-making, accountability, and operational efficiency. Equity Bank has built a strong reputation by placing emphasis on stakeholder interests, particularly through its commitment to rigorous board evaluations, enhanced risk management and promoting diversity within its governance framework.

Co-operative Bank is another example of a Kenyan bank that adheres strictly to regulatory guidelines while upholding a strong commitment to ethical leadership. Meanwhile, Standard Chartered Bank Kenya integrates global best practices with local governance standards, with a particular focus on sustainability and stakeholder engagement. NCBA Bank has also made notable progress in enhancing the clarity of roles within its board and strengthening its commitment to diversity and effective decision-making processes (Hopt, 2021). These examples show that when banks prioritize governance structures that are transparent, inclusive and accountable, they position themselves for long-term success in the local and global financial markets.

The corporate governance landscape in Kenya's banking sector is reflective of a broader commitment to best practices by many institutions. While banks such as KCB, Equity, Co-operative, Standard Chartered and NCBA are continuously implementing governance frameworks that prioritize transparency, accountability, and stakeholder engagement, challenges persist. The ongoing effort to enhance corporate governance practices is essential for reinforcing trust, attracting foreign investment and boosting competitiveness within the Kenyan banking sector. Given the rapidly evolving regulatory environment and market dynamics, it is critical for these institutions to remain proactive in implementing robust governance frameworks that not only meet but exceed regulatory expectations (Hopt, 2021; Galletta et al., 2021).

1.1.4 Commercial Banks in Kenya

The commercial banking sector in Kenya serves as the primary conduit of macroeconomic growth, playing an essential role in mobilizing domestic savings, driving systemic financial inclusion, and optimizing capital allocation across critical sectors of the economy (Attridge et al., 2021). According to the Central Bank of

Kenya, the regulatory authority charged with overseeing the financial ecosystem, the banking sector comprises forty-two (42) licensed commercial banks, inclusive of one mortgage finance institution. This current landscape is the product of continuous strategic consolidation and stringent statutory reviews over the past decade, which reduced the number of active institutions from forty-three in 2015 to the current forty-two.

This structural shift has been accelerated by the enforcement of new regulatory updates, which mandated a phased baseline increase in minimum core capital for banks to ten billion shillings over a five-year period. This regulatory adjustment forces smaller, undercapitalized third-tier institutions into strategic mergers and acquisitions to survive. Despite this ongoing structural consolidation, Kenya's market penetration remains relatively high compared to other major African nations, positioning the sector as a highly competitive and dynamic financial hub within the East African region. The development and execution of robust internal corporate governance structures within this sector are essential to ensure long-term corporate sustainability and optimize bank financial performance (Karuu, 2024).

The regulatory framework is anchored primarily by the central bank, whose supervisory mandate is derived from the Banking Act, the Central Bank of Kenya Act, and the Companies Act. Through its guidelines and risk-based supervisory functions, the regulator monitors liquidity thresholds, asset quality diversification, and capital adequacy ratios to protect depositors' interests and maintain public confidence in the broader financial system (Kimani & Kariuki, 2021). These regulatory interventions establish a safe operating baseline; however, individual bank performance relies heavily on how internal boards interpret these directives to navigate complex operating environments.

The contemporary Kenyan banking landscape is shaped by intense technological disruption and a structural shift toward digital banking channels. Traditional commercial lenders no longer compete solely among themselves; they face pressure from non-bank financial intermediaries, independent financial technology companies, and advanced mobile money ecosystems like M-Pesa (Alatassi & Pillai, 2024). This

competitive pressure has turned technology adoption from an optional differentiator into an existential requirement. Banks have moved away from brick-and-mortar branch models, shifting capital expenditures toward digital channels including remote deposit capturing, virtual credit ledgers, and automated credit scoring mechanisms. While these technological advancements lower operating costs and expand access to previously unbanked populations, they introduce complex operational risks (Altawalbeh, 2020).

The rapid expansion of mobile banking services expands the risk of sophisticated corporate fraud, identity theft, and network disruptions, requiring substantial and recurring capital allocations toward enterprise-wide security architecture (Kabir, 2022). Beyond technological adjustments, Kenyan commercial banks operate under strict local and international regulatory compliance frameworks. The cost of complying with anti-money laundering regulations, countering financial crimes, and stringent customer verification reporting requirements places an asymmetrical administrative burden on small-to-medium-sized third-tier lenders (Karuu, 2024).

Unlike first-tier banks that leverage economies of scale to absorb compliance overheads, smaller institutions face higher relative costs that can divert capital from customer-centric product innovation and infrastructure updates. This compliance friction highlights how differences in corporate governance efficiency impact bank resilience. Institutions with highly capable board risk committees and clear compliance frameworks navigate these regulatory requirements more efficiently than those with weak governance structures. Furthermore, the sector faces persistent macroeconomic headwinds, exchange rate volatility, and inflationary pressures that directly impact corporate credit quality. Fluctuations in international commodity markets, particularly affecting primary export earners like tea, coffee, and horticultural products, create cash flow constraints for agricultural businesses, which can lead to higher non-performing loan ratios within bank portfolios (Singh & Pillai, 2022).

To remain resilient against these systemic shocks, banks must offer a diverse product suite, ranging from transactional retail accounts and corporate asset-backed financing to complex foreign exchange tools and trade services, supported by robust internal risk

management policies (Ashraf & Chughtai, 2020). Strong corporate governance frameworks that utilize independent directors, specialized audit structures, and active risk committees help commercial banks accurately price risk, maintain adequate capital buffers, and build lasting institutional trust with stakeholders (Galletta et al., 2021). Ultimately, the future growth trajectory of commercial banks in Kenya depends on balancing digital financial innovation with strict regulatory compliance and ethical governance practices (Neitzert & Petras, 2022).

1.2 Statement of the Problem

In Kenya's highly volatile financial ecosystem, achieving competitive advantage is vital for commercial banks to secure market share and prevent institutional failure (Atiti et al., 2025). Ideally, aligning with the OECD Principles of Corporate Governance provides banks with a defensive mechanism to lower capital costs, mitigate systemic risk, and enhance market differentiation through rigorous internal controls and board oversight (OECD, 2023). However, the explicit problem is that Kenyan commercial banks suffer from a severe erosion of competitive advantage, structurally driven by an analytical breakdown in internal governance control architectures.

This problem is evidenced by a 5% industry-wide contraction in net profit margins, a 15% drop in customer retention metrics, and an alarming drop in average banking sector liquidity from 30% to 25%, forcing institutions to divert critical resources toward loan loss provisioning and regulatory non-compliance penalties rather than strategic growth (CBK, 2022; Kenya Bankers Association, 2023). Analytically, this strategic decay stems from distinct administrative failures across four critical governance vectors: low board diversity which impairs strategic agility (Ambutsi et al., 2024); misaligned CEO attributes that encourage excessive short-term risk exposure (Barngetuny, 2025); and a lack of board independence combined with compromised board committees which weakens corporate risk oversight (Nabalía & Nyang'au, 2023). This governance failure compromises brand equity and triggers customer attrition, stripping banks of their ability to execute cost-leadership or differentiation strategies (OECD, 2023). While empirical literature has heavily

explored the direct, linear relationship between isolated board structures and static financial outcomes like ROA or ROE (Aluoch, 2023), a critical knowledge gap remains unaddressed.

Conceptually and empirically, existing research treats governance as a rigid, inward-looking compliance checklist, completely ignoring external relational dynamics. Consequently, there is a total lack of empirical evidence detailing how relational trust and network assets—collectively defined as social capital—intervene to convert static board configurations into dynamic market capabilities. Methodologically, previous local studies fail to model social capital as a formal mediator. This study resolves this multi-dimensional gap by evaluating how structural internal governance factors (board diversity, CEO attributes, board independence, and board committees) interact with the mediating mechanism of social capital to drive the sustained competitive advantage of licensed commercial banks in Kenya.

1.3 Research Objectives

The study was guided by the following research objectives:

1.3.1 General Objective

The general objective of the study was to determine the mediating effect of social capital on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.

1.3.2 Specific Objectives

- i. To determine the effect of board diversity on competitive advantage of commercial banks in Kenya
- ii. To establish the effect of CEO's attributes on competitive advantage of commercial banks in Kenya.
- iii. To determine the effect of board independence on competitive advantage of commercial banks in Kenya.

- iv. To find out the effect of board committees on competitive advantage of commercial banks in Kenya.
- v. To determine the mediating effect of social capital on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.

1.4 Research Hypotheses

The study sought to test the following research hypotheses;

- H₀₁:** Board diversity has no statistically significant effect on competitive advantage of commercial banks in Kenya.
- H₀₂:** CEO's Attribute has no statistically significant effect on competitive advantage of commercial banks in Kenya.
- H₀₃:** Board Independence has no statistically significant effect on competitive advantage of commercial banks in Kenya.
- H₀₄:** Board Committees have no statistically significant effect on competitive advantage of commercial banks in Kenya.
- H₀₅:** Social capital has no statistically significant mediating effect on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.

1.5 Significance of the Study

This study holds substantial significance for a diverse range of stakeholders within the Kenyan banking sector, including commercial banks, policymakers, academic researchers and regulatory bodies such as CBK. By elucidating the mediating role of social capital in the relationship between corporate governance and competitive advantage, this research aims to provide a robust framework that can enhance the operational effectiveness of banks. The findings are expected to bolster public confidence in the banking industry, which is crucial for attracting and retaining customers as well as potential investors. A more transparent and accountable banking sector can foster trust and stability in the financial system, which benefits the overall economy.

For commercial bank management, the insights derived from this study will be invaluable in understanding how the effective utilization of social capital can significantly improve governance practices and consequently, enhance competitive positioning. By recognizing the importance of fostering networks, relationships and cooperative norms, bank leaders can develop strategic frameworks that not only elevate their institutions' performance but also contribute to sustainable economic growth in Kenya. This knowledge is essential for addressing contemporary challenges in the banking sector and navigating the complexities of an ever-evolving financial landscape.

Policymakers will find the recommendations of this research particularly instrumental in formulating effective regulations and policies that promote sound corporate governance. By utilizing the findings as a reference, they can identify critical areas for intervention, leading to increased shareholder value and a more attractive investment climate. Furthermore, a strengthened regulatory framework can amplify the positive effects of good governance on Kenya's economic development, ensuring that the banking sector remains resilient and responsive to market demands. Academic researchers and future scholars will greatly benefit from the gaps identified in this study, which provide a fertile ground for further inquiry into the intersections of corporate governance, social capital and competitive advantage.

This research will not only enrich the existing literature but also serve as a vital resource for those pursuing advanced studies in this domain. It has the potential to inspire new research directions, particularly within the context of the banking sector, where the implications of social capital the corporate governance-competitive advantage nexus have yet to be fully explored. Additionally, research institutions and non-governmental organizations can leverage these findings to propagate knowledge regarding the critical role of social capital in enhancing corporate governance. By encouraging a collaborative approach among stakeholders, this research can foster an environment conducive to responsible banking practices, ultimately benefiting society as a whole.

Addressing these pressing issues is paramount for creating a more ethical and effective banking system in Kenya. This study aims to contribute significantly to the ongoing discourse surrounding corporate governance within the Kenyan banking sector. By focusing on the interplay between governance, social capital and competitive advantage, it positions itself as a valuable reference for future endeavors in this field. The implications of this research extend beyond individual banks, offering insights that can promote broader economic stability and growth in Kenya.

1.6 Scope of the Study

The study was conducted using corporate governance as the independent variable, competitive advantage as dependent variable and social capital as the mediator. Corporate governance practices in this research comprised board diversity, CEO attributes, board committees and board independence. The study applied four theories that are deemed relevant to these independent variables: agency theory, stakeholder's theory, stewardship theory and resource dependency theory. The four variables of corporate governance were chosen due their significance in previous studies. The respondents was limited to the seven respondents from each bank who included a senior manager in charge of corporate affairs at each bank's headquarters, risk compliance officer, a member of the internal audit teams, one legal counsel (also known as company secretary) and three board members from each bank. Combined total respondents for all the banks were 294. The questionnaires were administered in the head offices of the banks within Nairobi county only-where all banks headquarters are situated.

1.7 Limitations of the Study

One key limitation is that the study relied on a single cross-sectional survey design. This design provided a snapshot of the relationships between corporate governance and competitive advantage at one point in time but does not account for potential changes or trends over time. Given the dynamic nature of the banking sector, future studies could benefit from employing a longitudinal design to capture the evolving nature of these relationships and offer a more comprehensive understanding of how

corporate governance practices, competitive advantage and social capital evolve over time. Additionally, while the study focused on key governance factors such as board diversity, CEO attributes, and board committees, it did not explore other potential dimensions of governance that could influence competitive advantage.

For example, factors such as organizational culture, leadership styles beyond the CEO, or the extent of shareholder involvement in decision-making were not considered. These elements could also have a significant impact on a bank's ability to gain and sustain competitive advantage and future research could incorporate these additional variables to provide a more holistic view of the factors that influence bank performance. Furthermore, the study's reliance on self-reported data from corporate heads of the banks could introduce biases, as respondents may have provided socially desirable answers or overemphasized the importance of governance practices within their organizations.

These self-reports may not fully capture the complexities of governance structures or the true state of social capital in the banks. To enhance the reliability of future studies, it would be beneficial to incorporate a mix of data sources, including objective performance metrics, external audits, or feedback from a wider range of employees across different levels within the bank. The study also focused specifically on the commercial banking sector in Kenya, which may limit the applicability of its findings to other countries or industries with different governance structures and market dynamics. While the Kenyan banking sector offers a unique and valuable case study, the results might not be directly transferable to other regions or sectors, particularly those with differing regulatory environments or stages of development.

Future research could extend the study to include banks in other African countries or emerging markets to determine whether the relationships between corporate governance, social capital and competitive advantage are consistent across different contexts. While the study focused on internal governance structures, a more comprehensive analysis would consider how external forces shape the effectiveness of governance and the role of social capital in enhancing competitive advantage. Addressing these limitations in future research could provide a more nuanced

understanding of the broader environmental factors that contribute to the success of commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two provides a thorough and detailed theoretical review of the study, examining several key theories that underpin the research, including stakeholder theory, agency theory, stewardship theory and resource dependency theory. The chapter also includes the conceptual framework of the study. Empirical literature review is comprehensively covered in this section. Ultimately, the chapter concludes with a summary and critique of the reviewed literature. It also identifies critical research gaps that warranted further investigation, emphasizing competitive advantage, and the unique challenges faced by the banking sector in Kenya. This comprehensive approach set the stage for subsequent research efforts and discussions in this important field.

2.2 Theoretical Review

A theory is defined as a systematic framework comprising interrelated concepts, definitions, and propositions that are designed to explain and predict specific phenomena. The importance of theories in any research study cannot be overstated, as they provide a critical foundation for the conceptualization and understanding of the variables being investigated (Gutiérrez-Ponce & Wibowo, 2023). In this section, we undertake a thorough review of several key theories that are particularly relevant to the study. These include agency theory, stewardship theory, resource dependency theory and stakeholder theory. Each of these theoretical perspectives offers unique insights into the complexities of corporate governance and its influence on competitive advantage in commercial banks.

By exploring these theories in depth, the aim is to establish a robust theoretical framework that supports our investigation and enhances our understanding of the interplay between corporate governance practices and competitive advantage. This

comprehensive analysis will not only clarify the theoretical underpinnings of our research but also highlight the significance of these theories in addressing the challenges faced by the banking sector in Kenya.

2.2.1 Stakeholder Theory

Stakeholder theory, originally articulated by Freeman in 1984, has undergone significant evolution and adaptation over the decades, becoming a foundational framework in contemporary corporate governance and organizational management practices. This theory posits that corporations should be accountable not merely to shareholders but to a broad array of stakeholders who are intrinsically linked to the organization's activities and outcomes. According to Freeman et al., (2004) stakeholder theory is grounded in an interdisciplinary approach, synthesizing insights from organizational behavior, sociology, economics and other fields. Rather than presenting itself as a rigid, unified theory, stakeholder theory represents a broad research tradition that integrates political theory, ethics, law and organizational science, showcasing the multifaceted nature of stakeholder interactions and the complexities involved in managing them.

At its core, stakeholder theory defines stakeholders as any individual or group that can impact or be impacted by an organization's goals and operations (Freeman et al., 2004). This definition encompasses a diverse range of actors, including employees, customers, suppliers, local communities, government entities and shareholders. This perspective stands in stark contrast to agency theory, which primarily focuses on the relationship between shareholders and management. Agency theory suggests that management acts primarily in the interests of shareholders, emphasizing profit maximization as the central objective (Barney & Harrison, 2020). In contrast, stakeholder theory posits that managers have a broader social responsibility to engage with a complex web of relationships, including suppliers, employees, customers and the wider community (Mahajan et al., 2023).

This inclusive approach reflects the view that organizations are embedded within a network of social relationships that shape their strategies and operational practices.

The significance of stakeholder theory lies in its assertion that the long-term success and sustainability of an organization are heavily dependent on the quality of its relationships with a diverse range of stakeholders. Traditional business models that prioritize shareholder interests often neglect the critical roles played by other groups that can influence or be influenced by corporate actions (Minoja & Romano, 2024). The central tenet of stakeholder theory is that the commercial and strategic performance of organizations, especially corporatized firms, is closely tied to their ability to engage constructively with their stakeholders (Friedman & Miles, 2002).

This engagement can lead to enhanced trust, loyalty and cooperation, ultimately contributing to the organization's overall performance and reputation (Barney & Harrison, 2020). In stakeholder theory, stakeholders are defined as parties with both direct and indirect interests in the organization's activities. This includes employees, local communities, customers, suppliers and shareholders, which aligns with the views of Freeman and Phillips (2002), asserting that the term "stakeholder" implies normative obligations, suggesting that stakeholders possess legitimate interests that warrant consideration in corporate decision-making. This notion posits that stakeholders have rights and claims on the organization that are identifiable, justifiable and measurable (Freeman et al., 2021).

Despite its strengths, stakeholder theory is not without its criticisms. One primary critique involves the challenge of clearly defining who constitutes a genuine stakeholder. While the theory expands the focus of agency theory to include the interests of non-shareholder groups, it raises questions about how to prioritize these varied interests, especially when conflicts arise among stakeholders. For instance, the interests of shareholders may clash with those of employees or local communities, leading to difficult decisions regarding resource allocation and strategic direction (Key, 1999). Critics argue that excessive focus on satisfying diverse stakeholder demands can lead to governance challenges, potentially allowing diversion of resources from shareholders to other stakeholders, thereby undermining shareholder value (Barney & Harrison, 2020).

This concern highlights the need for a robust framework that helps organizations navigate these complex relationships while maintaining a focus on overall corporate performance. A significant implication of stakeholder theory for corporate governance is the necessity for governance structures that promote alignment not only between agents (managers) and principals (shareholders) but also among various stakeholder groups (Ramezani, 2024). According to Freeman et al., (2004) effective corporate governance should be viewed as an essential strategy for achieving robust organizational performance. By acknowledging the interests of all stakeholders, organizations can design governance frameworks that foster transparency and accountability, ultimately enhancing trust and collaboration.

This approach requires boards of directors to actively engage with stakeholders, seeking their input and feedback in decision-making processes to ensure that a wide range of interests is represented (Freeman, 2023). The relevance of stakeholder theory to board diversity is particularly noteworthy. A diverse board is better positioned to understand and address the varied interests of stakeholders, thereby enhancing the organization's responsiveness to their needs. Research by Barney and Harrison (2020) suggests that diverse boards contribute to improved stakeholder relationships by bringing a multitude of perspectives and experiences to the decision-making process. Diversity in the boardroom not only enhances the quality of discussions and decisions but also fosters a culture of inclusivity and openness.

By incorporating diverse viewpoints, organizations can identify emerging opportunities and risks more effectively, leading to innovative solutions that benefit all stakeholders. Furthermore, assumptions about stakeholder behaviors significantly influence the types of governance structures that organizations adopt, especially concerning incentive mechanisms (Minoja & Romano, 2024). Stakeholders are viewed as fundamental to the long-term viability of institutions, which necessitates that corporate governance emphasizes performance outcomes beneficial to all stakeholder groups. This shift often results in incentive structures and reporting practices that prioritize non-financial outcomes, such as environmental and social impacts, reflecting a more comprehensive view of organizational success (Friedman & Miles, 2002).

Companies that adopt stakeholder-oriented governance frameworks tend to report improved financial performance as they build stronger relationships with their stakeholders. This leads to enhanced loyalty and reduced risks (Mahajan et al., 2023). However, stakeholder theory also acknowledges the inherent complexity in meeting the interests of diverse stakeholder groups, which can vary widely in their values and expectations. Moreover, stakeholder theory posits that stakeholders possess varying degrees and types of power, which can significantly influence corporate governance structures. Stakeholders with substantial resources and formal authority can exert disproportionate influence over an organization, shaping its strategic direction and operational practices (Ramezani, 2024).

Freeman et al., (2021) categorize stakeholders into primary and secondary categories, where primary stakeholders maintain direct economic relationships with the firm, while secondary stakeholders, although indirectly connected, can still impact or be affected by the organization's operations. This classification underscores the need for organizations to identify and prioritize their stakeholders effectively, ensuring that those with the most significant influence are engaged in meaningful ways. While stakeholder theory provides a valuable framework for understanding the intricate relationships that influence organizational success, it is not without its critiques. The need for clear definitions and effective prioritization among stakeholders remains a critical challenge.

Organizations must develop robust strategies to navigate the complexities of stakeholder interactions, balancing competing interests while striving for overall performance. By recognizing the importance of board diversity in effectively managing these relationships, organizations can enhance their strategic performance and foster sustainable growth. Embracing stakeholder theory can lead to improved governance practices, ultimately positioning organizations for greater success in an increasingly interconnected and complex business landscape (Barney & Harrison, 2020). The future of stakeholder theory and its application in corporate governance will likely continue to evolve as organizations face new challenges and opportunities in a rapidly changing environment.

As societal expectations shift and stakeholder demands become more pronounced, organizations will need to adapt their strategies to remain competitive and relevant. This may involve re-evaluating their governance structures, redefining stakeholder engagement processes, and fostering a culture of inclusivity that values diverse perspectives. In this way, stakeholder theory can serve as a guiding principle for organizations seeking to achieve long-term success while fulfilling their ethical obligations to a broad array of stakeholders (Freeman, 2023).

2.2.2 Stewardship Theory

Stewardship theory, first articulated by Donaldson and Davis in 1991 and further elaborated in subsequent publications, provides a compelling framework for understanding the intricate relationship between corporate leaders and the organizations they manage. This theory contrasts sharply with agency theory, which emphasizes the potential conflicts that can arise between the interests of managers and shareholders. Instead, stewardship theory posits that CEOs and managers are naturally inclined to act in the best interests of the organization as a whole. This perspective suggests that leaders can be trusted to prioritize the long-term success of the firm, thereby cultivating a culture of commitment, responsibility and ethical governance (Davis et al., 1997).

Central to the premise of stewardship theory is the belief that stewards—particularly CEOs—are motivated by a desire to optimize the interests of the firm and its stakeholders. As Torfing and Bentzen (2020) noted, this alignment of interests is crucial for the effective governance of any organization. By focusing on the broader mission of the company, stewards can ensure that their actions are not only beneficial to shareholders but also to employees, customers, and the community. This holistic approach is essential for achieving sustainable organizational success, as it fosters an environment where everyone is working towards common goals (Davis et al., 1997).

The significance of CEO attributes such as integrity, emotional intelligence, humility and a collaborative mindset are critical for effective stewardship. Research has shown that CEOs who exhibit strong interpersonal skills and ethical leadership behaviors are

better positioned to create a culture of trust within their organizations (Wei et al., 2021). Trust is foundational for fostering employee engagement, loyalty and commitment which are essential for achieving high performance. Kowala and Šebestová (2021) found that organizations led by emotionally intelligent CEOs experienced lower turnover rates and higher employee satisfaction, thereby reinforcing the notion that effective stewardship is deeply rooted in positive interpersonal relationships and ethical behavior.

Furthermore, stewardship theory emphasizes the importance of CEO attributes in managing stakeholder relationships effectively. As Schillemans and Bjurstrøm (2020) highlight, effective governance requires leaders to focus not only on shareholders but also on engaging with a broad array of stakeholders. CEOs who possess strong relational and strategic skills are more adept at aligning the interests of various groups, including shareholders, employees, customers, suppliers and the community. This multifaceted engagement leads to enhanced organizational performance. For example, when a CEO actively communicates with stakeholders and is transparent about organizational goals, it fosters a sense of belonging and commitment among those groups, aligning their interests more closely with the organization's mission and objectives (Löhde et al., 2021).

In discussing the relevance of stewardship theory to CEO attributes, it is also crucial to consider its implications for organizational governance structures. Ahola (2023) points out that stewardship theory promotes a governance model emphasizing collaboration and mutual trust rather than strict oversight and control. This model aligns well with contemporary views on effective leadership, where fostering a positive corporate culture is increasingly recognized as a key driver of success. Organizations that empower their CEOs to make decisions in the best interests of all stakeholders often enjoy enhanced innovation, adaptability, and responsiveness to market changes. Such flexibility is vital for sustaining competitive advantage in today's dynamic and often unpredictable business environment (Steinfeld, 2023).

However, while stewardship theory advocates for a more integrated leadership approach, it is not without its critiques. One significant concern revolves around the

potential lack of accountability when the roles of CEO and chairman are consolidated. Critics, including Schillemans and Bjurström (2020), argue that while such consolidation can streamline decision-making, it may also lead to unchecked power and diminished oversight. This critique underscores the necessity of maintaining independent governance structures to mitigate the potential negative consequences of concentrated power. Effective corporate governance must strike a balance between empowering CEOs and ensuring accountability, preventing the erosion of the trust that stewardship theory seeks to foster (Torring & Bentzen, 2020).

Another critique of stewardship theory is its assumption that all CEOs will inherently act in the best interests of the organization and its stakeholders. This assumption can be overly optimistic, particularly in situations where personal or short-term gains may overshadow long-term organizational health. As Jasir et al., (2023) emphasize, this gap between theoretical expectations and real-world behaviors necessitates robust checks and balances within corporate governance frameworks. Organizations must implement mechanisms that ensure transparency and accountability, even within stewardship frameworks, to mitigate the risks of self-serving behaviors by leaders.

Oversight provided by independent board members, regular performance evaluations and stakeholder feedback processes can serve as vital components of this accountability structure (Mills et al., 2021). Furthermore, the practical application of stewardship theory in relation to CEO attributes suggests that organizations should prioritize selecting and nurturing leaders who exemplify stewardship qualities. This involves investing in leadership development programs that emphasize ethical decision-making, emotional intelligence and stakeholder engagement. Research by Steinfeld (2023) underscores the importance of cultivating a leadership style that prioritizes organizational goals while valuing the contributions of all stakeholders. By aligning CEO attributes with stewardship principles, organizations can create environments conducive for sustainable growth, fostering both innovation and a commitment to ethical practices (Aliahmadi, 2024).

An essential aspect of stewardship theory is the idea of aligning personal and organizational goals. This alignment is vital because it ensures that CEOs focus on the

broader implications of their decisions on all stakeholders, rather than solely on meeting their objectives. When CEOs view themselves as stewards, they are more likely to prioritize long-term investments in employee development, sustainable practices, and community engagement. This approach benefits the organization in terms of performance and reputation and contributes to a positive corporate culture that attracts and retains top talent (Davis et al., 1997).

Additionally, stewardship theory sheds light on the importance of CEO attributes in navigating crises. Effective crisis management requires a unique set of skills, including resilience, adaptability and clear communication. CEOs who embody these attributes are better equipped to lead organizations through challenging times while maintaining stakeholder trust. A study conducted by Aliahmadi (2024) found that during periods of uncertainty, organizations led by CEOs with strong stewardship qualities tended to emerge more robustly, as these leaders effectively rallied their teams and stakeholders to adapt and innovate in the face of adversity. This ability to guide organizations through crises is crucial, especially in today's fast-paced and often volatile business environment (Löhde et al., 2021).

Moreover, as organizations increasingly confront complex global challenges, the role of the CEO as a steward becomes even more pronounced. The need for leaders who can navigate social, environmental and economic complexities requires attributes such as cultural intelligence, ethical reasoning and a global perspective. CEOs who understand and embrace these dimensions are better equipped to drive their organizations toward sustainable success. Research by Lin and Wang (2021) indicates that organizations led by culturally intelligent CEOs are more likely to succeed in diverse markets, as these leaders can effectively engage with a wide range of stakeholders and adapt strategies to meet local needs and preferences.

In conclusion, stewardship theory offers a valuable framework for understanding the interplay between CEO attributes and effective corporate governance. By emphasizing the alignment of CEO interests with those of stakeholders, this theory highlights the critical role that leadership qualities play in fostering collaboration, trust and long-term success. While the theory provides a positive lens through which to view corporate

leadership, it also invites scrutiny regarding accountability and the potential for self-serving behaviors. To maximize the benefits of stewardship theory, organizations must implement robust governance mechanisms that promote both empowerment and oversight. Ultimately, the successful integration of stewardship principles can lead to enhanced organizational performance, greater stakeholder satisfaction and sustained competitive advantage in an increasingly complex business landscape (Davis et al., 1997; Schillemans & Bjurstrøm, 2020).

2.2.3 Agency Theory

Agency theory was first introduced in 1976 by Jensen and Meckling in their seminal work titled *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure*. It provides a critical framework for understanding the relationships between corporate management (agents) and shareholders (principals). The theory primarily focuses on the conflicts of interest that can arise when the goals of managers do not align with the objectives of shareholders. This misalignment can lead to significant agency costs, as managers may pursue personal agendas or short-term objectives that do not benefit the organization in the long run.

Agency theory, therefore, emphasizes the necessity of implementing effective governance structures that can mitigate these conflicts and ensure that management actions are aligned with the long-term interests of shareholders and other stakeholders (Jensen & Meckling, 1976; Mitnick, 2006). The core tenet of agency theory is the notion that the relationship between principals and agents inherently involves a level of information asymmetry. In this scenario, principals (shareholders) rely on agents (managers) to act in their best interests, but the agents may not always have the same motivations. As a result, principals must put mechanisms in place to ensure that agents remain accountable for their actions.

This could involve monitoring management through internal controls, performance evaluations, and incentive-based compensation systems. These monitoring efforts, however, come with costs, which are referred to as agency costs, and managing these costs is crucial to maintaining effective corporate governance (Solomon et al., 2021).

One of the most critical mechanisms within agency theory is the role of the board of directors, particularly the importance of board independence. Independent directors, those who are not directly involved in the daily operations of the company, are crucial for unbiased oversight of management.

Their lack of direct ties to the company beyond their board role allows them to critically evaluate management decisions and ensures that these decisions are made in the best interests of the shareholders, without the influence of personal or financial relationships. Independent boards serve as a safeguard, ensuring that corporate strategies and operational decisions are closely scrutinized, and that potential conflicts of interest are addressed. This safeguard enhances overall corporate governance by aligning management's decisions with shareholder expectations, ultimately leading to better organizational outcomes (Solomon et al., 2021; Vitolla et al., 2020). Recent empirical research has reinforced the importance of board independence in enhancing governance effectiveness.

Studies have shown that firms with boards composed primarily of independent directors tend to exhibit superior financial performance and demonstrate better decision-making capabilities when compared to those with more closely tied or dependent boards. In particular, organizations with a higher proportion of independent directors tend to have more rigorous evaluations of management's proposals, ensuring that decisions are aligned with shareholder interests (Vitolla et al., 2020). Agency theory also draws attention to the increasing importance of diversity within the boardroom. A diverse board, made up of individuals with varying perspectives, backgrounds, and experiences, can further improve the effectiveness of governance practices. Diversity broadens the decision-making process by allowing different viewpoints to be considered, which can prevent groupthink and result in more thorough, well-rounded strategic decisions.

Furthermore, in today's globalized and complex business environment, boards that reflect diverse stakeholder interests can more effectively navigate the challenges posed by varied cultural, market and regulatory conditions. Recent studies suggest that diverse boards, which incorporate a range of ideas and experiences, are better

positioned to manage stakeholder expectations, leading to improved organizational performance and a more comprehensive approach to governance (Solomon et al., 2021). However, despite its utility, agency theory is not without its criticisms. One major critique centers on the theory's assumption that managers are primarily motivated by self-interest.

Critics argue that agency theory overly simplifies managerial behavior by focusing primarily on the pursuit of personal gain, which neglects other factors that influence managerial decisions, such as ethical considerations, organizational culture, long-term strategic goals and a commitment to the broader interests of all stakeholders. By assuming that agents always act in their own self-interest, agency theory does not fully account for the complexities of decision-making that go beyond financial incentives (Eisenhardt, 1989). Consequently, relying solely on agency theory can lead to superficial analyses of corporate governance issues and may overlook the broader dynamics at play within organizations. In addition, the emphasis on independent directors as a solution to agency problems may not fully consider the complexities of board dynamics.

While independent directors are crucial for providing impartial oversight, their effectiveness can be undermined by a lack of relevant industry experience or an insufficient understanding of the company's operations. Independent directors may struggle to challenge management or make informed decisions if they do not possess the necessary knowledge or expertise in the company's strategic goals and market conditions. This disconnect between the board and the company's operations can reduce the effectiveness of governance structures, making it more difficult to adequately evaluate management actions. Therefore, while board independence remains a critical factor, it must be complemented by relevant expertise and a diversity of thought to maximize its effectiveness in governance (Huang, 1995). Furthermore, the practical application of agency theory's mechanisms for monitoring and controlling management actions can be costly and may not always yield the desired results.

For instance, extensive oversight mechanisms may reduce the flexibility of management, preventing them from responding quickly to changes in the business environment. This over-monitoring can lead to inefficiencies and hinder the organization's ability to make swift, innovative decisions, particularly in fast-paced industries. Additionally, overly rigid governance structures can stifle innovation and collective decision-making, which are crucial for addressing emerging challenges and seizing new opportunities. Therefore, organizations must strike a careful balance between strong governance mechanisms and operational flexibility, ensuring that monitoring does not undermine organizational agility (Urbanek, 2020). In conclusion, agency theory provides a valuable framework for understanding the critical role of board independence in corporate governance.

Independent directors play a crucial role in mitigating conflicts of interest and ensuring that management's actions align with the interests of shareholders. Furthermore, the inclusion of diverse perspectives in the boardroom can enhance decision-making and strengthen overall governance practices. However, it is important to recognize the limitations of agency theory, particularly its overly simplified view of managerial motivations and the potential challenges associated with independent directors. A more comprehensive approach to governance, one that considers these complexities and incorporates both independent oversight and relevant industry expertise, will lead to more effective governance structures and better organizational performance (Eisenhardt, 1989; Jensen & Meckling, 1976; Mitnick, 2006; Solomon et al., 2021).

2.2.4 Resource Dependency Theory

Resource dependency theory (RDT) was first introduced by Pfeffer in 1972 and refined in collaboration with Salancik in 1978. It provides a foundational framework for understanding how organizations depend on external resources to operate successfully and meet their strategic goals. The central tenet of this theory is that organizations are not self-sufficient; they require resources—such as financial capital, human expertise, raw materials and technological knowledge—that are controlled by external entities. As organizations face increasing uncertainty, competitive pressure and rapidly

evolving business environments, the role of board committees becomes increasingly critical in managing and securing these essential resources.

At its core, resource dependency theory argues that an organization's success and long-term viability are directly tied to its ability to acquire and manage the necessary resources effectively. Pfeffer and Salancik (1978) emphasize that boards of directors play a pivotal role in this process, as they are strategically positioned to help organizations secure resources from external parties. Board members bring a wealth of expertise, networks, and influence, which can provide vital connections to potential resource providers such as financial institutions, suppliers, buyers, regulatory bodies and other key stakeholders. These connections are more than just advantageous; they are often essential for establishing the organizational legitimacy required to attract support and essential resources.

Thus, the composition and functionality of boards are fundamental to organizational resource acquisition strategies (Pfeffer & Salancik, 1978). In the context of board committees, resource dependency theory highlights the critical role that specialized committees play in managing these resources. Different committees, such as finance, audit, governance and human resources, are tailored to harness the unique expertise of board members in specific domains. Each committee is tasked with overseeing particular areas of resource acquisition, ensuring that the organization's access to financial capital, talent and technological capabilities is optimized.

For example, the finance committee may engage with investors and financial institutions to secure funding, while a governance committee focuses on ensuring compliance with regulations and building the firm's reputation in the market. By establishing these specific, function-focused committees, organizations can effectively leverage the diverse strengths and networks of their directors to manage and optimize external dependencies (Anderson et al., 2021; McLeod, Shilbury, & Ferkins, 2021). An important feature of RDT is the emphasis on the diversity and expertise of board members. Research has shown that boards consisting of members with varied backgrounds—such as industry experience, academic expertise, and international

knowledge—are more adept at providing high-quality advice and making decisions that enhance organizational performance.

Diversity enables boards to analyze resource-related challenges from multiple perspectives, which leads to more creative and effective solutions. For instance, a director with extensive experience in international markets can offer insights that benefit organizations seeking to expand globally, while another with deep technical expertise might provide guidance on securing new technological resources. In today's globalized business environment, diverse boards are better equipped to navigate complex and shifting resource landscapes, ultimately improving organizational resilience and competitiveness (Gao et al., 2023). RDT also underscores the potential benefits of board committees in acting as buffers against the risks posed by external shocks.

Organizations often rely on specific resource sources, which make them vulnerable to changes in market conditions, shifts in consumer preferences, or evolving regulatory frameworks. By establishing specialized committees focused on areas such as risk management and resource allocation, organizations can take proactive steps to diversify their resource base and mitigate the negative impact of external volatility. For example, a risk management committee can evaluate the organization's dependencies on critical resources and recommend strategies to strengthen or diversify those relationships, ensuring long-term stability and resilience. This proactive approach helps mitigate vulnerabilities and prepares the organization for unforeseen challenges (McLeod et al., 2021).

The dynamics of board committees also involve the strategic use of director networks and interlocking directorates. Interlocking directorates refer to the practice of board members serving on multiple boards, which enables the sharing of knowledge, resources and best practices across organizations. These interconnected director networks can create a more resilient and resource-rich business ecosystem, providing companies with broader access to critical resources. This practice not only facilitates the exchange of information and expertise but also fosters strategic alliances that enhance resource acquisition capabilities. Consequently, directors with extensive

networks can play an instrumental role in ensuring that the organization has access to the resources it needs to thrive in a competitive environment (Fatoki & Adio, 2024).

The role of stakeholder relationships is another key element in resource dependency theory, particularly within the context of board committees. Committees that are focused on stakeholder engagement, such as community relations or corporate social responsibility committees, help organizations build and maintain strong relationships with external parties that are essential to their resource flows. For instance, a well-established community relations committee may engage with local stakeholders to foster goodwill, which in turn secures local support and resources. The maintenance of these relationships is vital not only for resource access but also for enhancing the organization's reputation and legitimacy, which is crucial for long-term sustainability.

In this way, resource dependency theory highlights the symbiotic relationship between external stakeholders and the organization, and how board committees can act as intermediaries to strengthen these relationships (Moreira et al., 2024). An additional critical concept in resource dependency theory is "board capital," which refers to the collective resources, knowledge, and networks that directors bring to the organization. Board capital extends beyond the mere formal structures of board committees and focuses on the quality and diversity of directors' skills and experiences. Research suggests that organizations with high board capital are better positioned to leverage external opportunities and manage resource dependencies effectively.

This collective knowledge allows the board to develop more informed strategic decisions that align with the firm's long-term goals. As such, the concept of board capital is integral to the resource dependency framework, as it emphasizes that the true value of board committees lies in the ability of directors to leverage their expertise and networks for the benefit of the organization (Yildiz, 2021). RDT also emphasizes the alignment between board committees' activities and the organization's overall strategy. If a company is aiming to innovate or expand into new markets, its board committees must be empowered to pursue partnerships and acquire resources that support these initiatives. For example, a company seeking to diversify its product

offering might task the innovation or R&D committee with sourcing new technologies and establishing strategic alliances with technology partners.

Ensuring that board committees' activities align with the company's overarching strategic goals ensures that the organization remains focused on its long-term objectives while optimizing its resource acquisition strategies. Furthermore, the board committees also play an instrumental role in strategic decision-making processes. Committees such as the audit and risk management help ensure financial transparency, ethical governance and strategic oversight, all of which contribute to the long-term sustainability. The importance of such committees extends beyond resource acquisition, as they provide critical governance functions that ensure the firm remains accountable to stakeholders, enhancing the company's reputation and mitigating risks (Bakri et al., 2024).

However, resource dependency theory is not without its limitations. One potential drawback of over-reliance on board committees for resource acquisition is the risk of neglecting other vital governance functions, such as ethical oversight and long-term strategic planning. When boards become overly focused on optimizing resource access, they may fail to consider broader organizational issues, including corporate social responsibility, ethical decision-making and stakeholder interests. Moreover, the potential for conflicts of interest, particularly in interlocking directorates, can undermine the effectiveness of board committees. Directors who prioritize personal relationships or reputational gains over the organization's needs may introduce biases that harm the decision-making process.

Therefore, it is crucial for boards to strike a balance between leveraging their networks for resource acquisition and ensuring that their governance practices remain aligned with the broader organizational values (Tenzin & Lee, 2022). In conclusion, resource dependency theory provides a valuable lens for understanding the role of board committees in facilitating access to essential resources, managing dependencies and aligning resources with organizational strategy. The theory underscores the importance of director expertise, networks and stakeholder relationships in supporting organizational resilience and performance. As businesses continue to operate in

complex, interconnected environments, the insights provided by resource dependency theory will remain crucial in guiding strategic governance practices that foster long-term success and sustainability (Pfeffer & Salancik, 1978).

2.2.5 Social Capital Theory

Bourdieu (1980, 1986), Coleman (1988), and Putnam (1993, 2000) are the foundational authors who formalized Social Capital Theory across micro, meso, and macro levels of analysis, stating that networks of relationships form a valuable, measurable resource that yields distinct strategic and economic returns when properly deployed (Bond et al., 2023). The fundamental premise of this theory states that social relationships are not merely emotional or random connections, but represent actual capital that provides entities with privileged access to information, systemic opportunities, and institutional support that would otherwise remain unavailable outside the network (Sarto, 2021). The theory establishes that this relational asset manifests through three core dimensions: the structural dimension, which details the actual presence and connectivity of network ties; the cognitive dimension, which outlines shared interpretations, codes, and mutual narratives; and the relational dimension, which focuses on institutional trust, shared norms, obligations, and reciprocity (Letnar & Širok, 2025). Furthermore, these structural network assets operate primarily through two distinct forms: bonding social capital, which reflects tight, inward-looking ties within homogeneous groups, and bridging social capital, which comprises loose, outward-looking ties that connect highly diverse, heterogeneous networks across institutional boundaries (Chari, 2026).

The relevance of Social Capital Theory to modern strategic management lies in its unique capacity to explain how intangible relational networks directly drive performance, foster innovation, and secure market differentiation (Zhang, 2025). By shifting administrative focus away from physical and human capital, the theory proves that an entity's competitive positioning is heavily mediated by its capacity to accumulate, mobilize, and leverage external and internal relational resources (Letnar & Širok, 2025). Within organizational ecosystems, social capital actively minimizes information asymmetry, lowers transaction costs, accelerates cross-functional resource

sharing, and builds high-trust environments that maximize institutional stability and market resilience during structural disruptions (Sarto, 2021). Consequently, the framework serves as a vital explanatory mechanism for researchers evaluating how organizations translate formal, structured administrative processes into flexible, relationship-driven market capabilities (Letnar & Širok, 2025; Zhang, 2025).

Despite its wide academic adoption, Social Capital Theory faces rigorous critique and limitations within contemporary scholarly literature, particularly regarding its measurement and behavioral consequences (Chari, 2026). A prominent conceptual limitation is its frequent tautological application, where researchers conflate the mere presence of a social network with its positive outcomes, making it analytically difficult to separate the network structure itself from the specific benefits it produces (Bond et al., 2023). Furthermore, scholars frequently warn against the "dark side" of social capital, demonstrating that dense bonding networks can foster cronyism, facilitate institutional collusion, and create rigid corporate echo chambers that reject disruptive innovations and lock out external talent (Chari, 2026). Additionally, critics argue that the theory underplays deep-seated power imbalances, as accumulating social capital requires significant upfront investments of time and social privilege, meaning that marginalized actors are systematically excluded from elite bridging networks (Letnar & Širok, 2025).

Emerging issues surrounding Social Capital Theory focus heavily on the rapid digital transformation of the corporate landscape and shifting professional dynamics (Chari, 2026). In the modern era of hyper-connected communication, emerging research questions whether highly optimized virtual networks generate sustainable bridging capital or merely create superficial, fragmented linkages characterized by emotional disconnection, peer surveillance, and algorithmic filter bubbles that limit true network diversity (Chari, 2026). Concurrently, recent empirical investigations have exposed a critical asymmetry in human-social capital interactions, revealing that objective human capital, such as formal education and individual technical skills, does not influence long-term professional outcomes equally without the active intervention of social capital (Zhang, 2025). Thus, modern iterations of the theory treat social capital

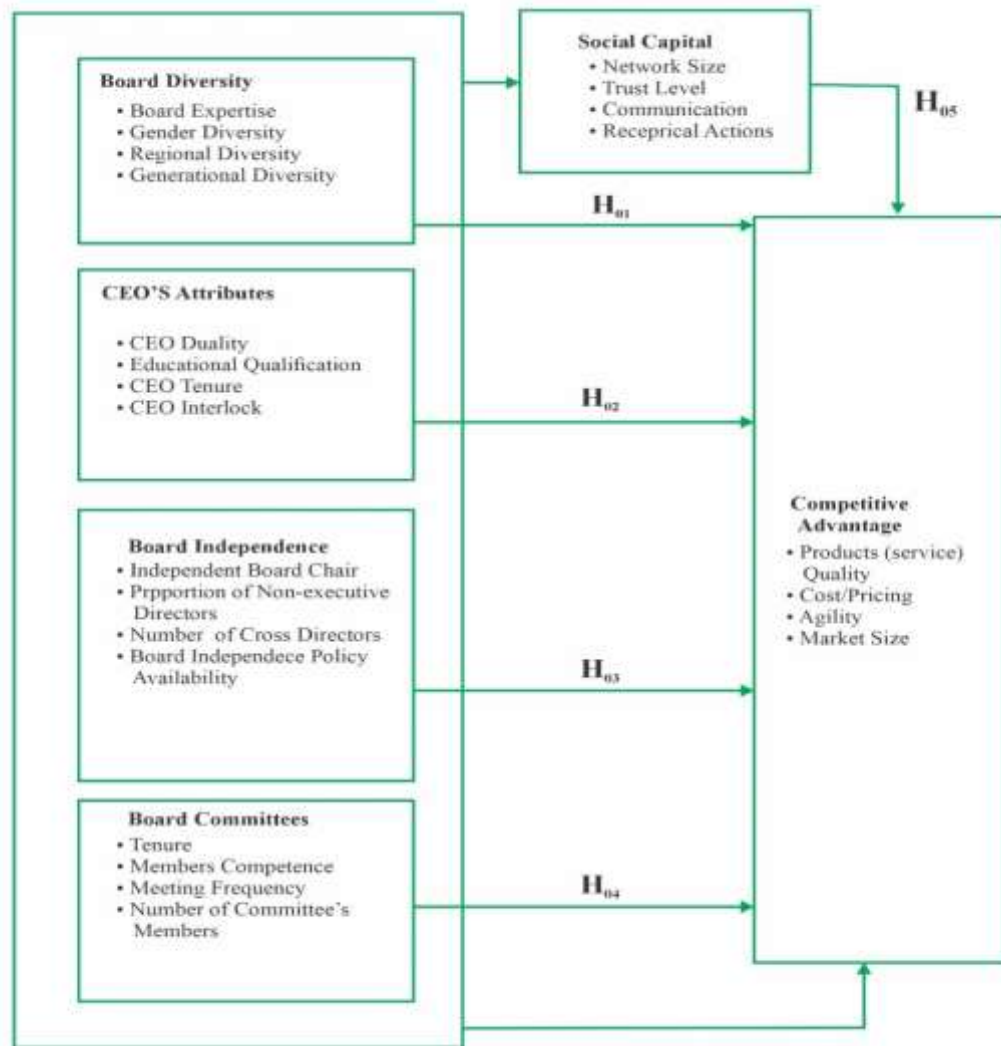
not as a secondary asset, but as the primary structural gatekeeper required to convert raw human talent into subjective institutional value (Letnar & Širok, 2025).

In conclusion, Social Capital Theory remains a foundational pillar for organizational and strategic research, demonstrating that embedded relational networks are distinct, quantifiable assets vital for long-term institutional survival and adaptability (Sarto, 2021). While the framework faces ongoing challenges regarding measurement circularity and its inherent capacity to facilitate social exclusion, its expansion into digital environments and its integration into corporate frameworks highlight its continuous relevance (Chari, 2026). Ultimately, the theory confirms that long-term strategic success is not merely a function of internal asset accumulation, but is deeply anchored in the networks of trust, shared norms, and reciprocity an institution maintains with its stakeholders (Bond et al., 2023; Letnar & Širok, 2025).

2.3 Conceptual Framework

In keeping with Varpio et al., (2020) a conceptual framework is a detailed description of the phenomenon under study, representing graphically and diagrammatically the relationships between the independent and dependent variables. It serves as a foundational structure for hypothesis testing and allows for the generation of generalizations from the research findings. The conceptual framework for this research comprises four independent variables related to corporate governance: board diversity, CEO attributes, board independence and board committees.

Furthermore, it incorporates the mediating effect of social capital on the relationships between these predictor variables of corporate governance and the competitive advantage of commercial banks in Kenya, as illustrated in Figure 2.1. This framework is pivotal for analyzing how these components interact and impact each other within the specific context of commercial banking. By integrating these variables, the framework aims to elucidate the pathways through which corporate governance influences competitive advantage. Understanding these dynamics is essential for stakeholders seeking to enhance organizational effectiveness and sustainability in a rapidly evolving banking landscape.



Independent Variable

Mediating Variable

Dependent Variable

Figure 2.1: Conceptual Framework

Table 2.1: Variable Measurement Sources

Variables	Measures	Source
Board diversity	Board Expertise	Fernández-Temprano & Tejerina-Gaite (2020)
	Gender Diversity	Khatib et al., (2021)
	Geography	Khatib et al., (2021)
	Generational Diversity	Li et al., (2021)
CEO's attributes	CEO duality	Singh et al., (2018)
	Educational qualification	
	CEO Tenure	
	CEO interlock	
Board independence	Independent Board chair	Mbai, Kinyua, & Muhoho (2018)
	Proportion of non-executive directors	Hosny & Elgharbawy (2022)
	Number of cross directors	Mbai & Muhoho (2018)
	Board independence policy availability	Khatib et al., (2021)
Board committees	Members Tenure	Goddard & Schmidt (2018)
	Membership Competence	
	Meetings frequency	Goddard & Schmidt (2018)
	Number of committee members	Alhossini et al., (2021)
Social capital	Network size	Akintimehin et al., (2019)
	Trust level	Swanson et al., (2020)
	Communication frequency	Bartelt et al., (2020)
	Number of reciprocal actions	Steinle et al., (2020)
Competitive Advantage	Products (service) quality	Al-Matari et al., (2014)
	Cost/Pricing	Al-Matari et al., (2014)
	Agility	Mattera et al., (2022)
	Market size	Steinle et al., (2020)

2.3.1 Board Diversity

Board diversity represents the heterogeneous configuration of demographic, cognitive, and experiential attributes within a bank's primary oversight council, serving as a critical boundary-spanning mechanism that aligns the financial institution with its complex external environment (Chepkech et al., 2024). Grounded firmly in

Stakeholder Theory, an inclusive board architecture acknowledges that a commercial bank is deeply embedded within an intricate network of social relationships consisting of depositors, local communities, digital consumers, and state regulators rather than merely acting as an instrument for shareholder profit maximization (Freeman et al., 2004).

By incorporating diverse perspectives into the boardroom, a bank directly mirrors its multifaceted stakeholder base, which dramatically enhances organizational responsiveness, reduces toxic groupthink, and fosters a corporate culture of inclusivity and transparency (Barney & Harrison, 2020). This holistic alignment acts as a catalyst for generating robust social capital, as open engagement builds deep institutional trust, brand loyalty, and cooperative relationships across the socio-economic landscape of the Kenyan market. Ultimately, this accumulated social capital acts as a core dynamic capability under the Resource-Based View (RBV), allowing the bank to differentiate its services, mitigate reputational risks, and secure an enduring competitive advantage within a highly volatile financial ecosystem (Minoja & Romano, 2024).

The empirical operationalization of this variable requires the systematic integration of its underlying constructs: board expertise, gender diversity, geography, and generational diversity. From a Stakeholder Theory perspective, the deliberate combination of gender diversity and regional geographic representation ensures that the claims and normative rights of diverse non-shareholder groups are equitably represented during executive decision-making processes (Freeman & Phillips, 2002). Furthermore, when Kenyan commercial banks blend wide-ranging functional board expertise with generational diversity, they become uniquely positioned to address the rapidly evolving expectations of Kenya's mobile-first consumer base through customized FinTech innovations and inclusive digital banking platforms (Mbugua, 2025).

This intersectional representation builds external cognitive and relational social capital, expanding the bank's network size and strengthening lines of communication with international development investors and local regulatory authorities (Hassan, 2024). By constructively engaging with these diverse actors, well-governed

commercial banks can unlock unique market opportunities, capture expanding customer demographics, and generate sustainable economic rents that solidify a defensible competitive advantage.

2.3.2 CEO Attributes

CEO attributes define the distinct personal, academic, behavioral, and structural characteristics that shape a chief executive's cognitive framework, directly influencing the velocity, execution, and risk appetite of firm-level strategic choices (Chepkech et al., 2024). Viewed through the lens of Stewardship Theory, the executive leader of a bank is not viewed as a self-serving agent, but as a natural steward who is intrinsically motivated to act in the absolute best long-term interests of the organization and its broader collective mission (Donaldson & Davis, 1991).

This theoretical model assumes that when a CEO's personal identity is tightly aligned with the bank's organizational goals, they will actively prioritize sustainable value creation, employee development, and ethical governance over short-term personal or financial windfalls (Davis et al., 1997). In the Kenyan banking context, a CEO acting as a steward concentrates heavily on building a deep organizational culture of mutual trust and shared values, which serves as an essential internal prerequisite for accumulating relational social capital. Under this framework, governance structures favor empowerment and collaboration over rigid monitoring, enabling the executive leader to steer the bank through macroeconomic shocks while maintaining deep stakeholder alignment (Torfinn & Bentzen, 2020).

This macro-variable is evaluated through several core structural constructs: CEO duality, educational qualification, CEO tenure, and CEO interlock. While Stewardship Theory suggests that consolidating leadership via CEO duality can streamline strategic decision-making and provide a unified command during institutional crises, contemporary empirical evidence in East Africa warns that unchecked executive power may diminish vital board oversight and erode stakeholder trust (Schillemans & Bjørstrøm, 2020). To counter this vulnerability, JKUAT-aligned empirical frameworks demonstrate that an extended CEO tenure, when paired with high-tier

educational qualifications and strategic CEO interlocks, provides the executive with the necessary capacity and intellectual reasoning to navigate complex financial markets (Vieliza, 2025). These combined attributes radically maximize the CEO's external professional network size, communication frequency, and industry trust levels, effectively expanding the bank's relational social capital (Aliahmadi, 2024). By deploying these deeply embedded networks, a highly qualified CEO can secure critical market intelligence, establish high-trust interbank relationships, and negotiate favorable liquidity terms, converting personal stewardship qualities into a permanent competitive advantage for the bank (Steinfeld, 2023).

2.3.3 Board Independence

Board independence denotes the structural and operational separation of a corporate board from executive management influences, insider transactions, and personal conflicts of interest, thereby establishing an objective monitoring environment for shareholder protection (Chepkech et al., 2024). This variable is fundamentally rooted in Agency Theory, which assumes that the relationship between principals (shareholders) and agents (managers) is inherently compromised by information asymmetry and divergent motivations (Jensen & Meckling, 1976). Because self-interested managers may pursue personal agendas, short-term bonuses, or opportunistic expansion at the expense of long-term firm health, Agency Theory dictates that robust internal controls and objective board oversight must be instituted to control these agency costs (Solomon et al., 2021).

Within the Kenyan commercial banking industry, maintaining strict structural independence serves as a primary governance safeguard to protect depositor funds, limit non-performing insider loans, and ensure compliance with Central Bank of Kenya (CBK) guidelines. This uncompromising structural insulation acts as a highly credible signal of corporate integrity, validating the bank's reliability within national money markets and creating a secure, low-risk environment that facilitates the organic accumulation of high-level social capital. The operational parameters driving board independence are measured via an independent board chair, the proportion of non-

executive directors, the number of cross directors, and board independence policy availability.

Recent agency-theoretic empirical studies indicate that simply increasing the proportion of non-executive directors is insufficient if those individuals lack industry-specific expertise or are compromised by overlapping networks; hence, formal board independence policy availability is critical to eliminate personal bias and maintain structural autonomy (Ciglovska Bojchevska, 2023). When a commercial bank successfully secures an independent board chair and stringently limits the number of cross directors, the board can critically evaluate executive proposals and align managerial actions directly with shareholder expectations (Vitolla et al., 2020). This elevated standard of internal corporate governance drives external trust levels within the interbank network, dramatically lowering transactional friction and reducing the bank's overall cost of capital (Mbugua, 2025). By maintaining a transparent and highly independent governance structure, the bank minimizes agency conflicts and generates an unassailable competitive advantage through optimized asset pricing and enhanced investor confidence.

2.3.4 Board Committees

Board committees are specialized, structurally agile sub-units of the full board—such as audit, credit, risk management, and governance committees—delegated to manage complex operational exposures through functional division of labor (Mwangi & Ndwiga, 2023). This macro-variable is directly explained by Resource Dependency Theory (RDT), which posits that organizations are not self-sufficient entities but are fundamentally dependent on a continuous flow of critical external resources controlled by environmental actors (Pfeffer & Salancik, 1978). In an environment characterized by intense competition, shifting capital adequacy regimes, and rapid technological disruptions, specialized board committees serve as strategic buffers designed to manage these external dependencies and minimize environmental uncertainties (Anderson et al., 2021).

By establishing dedicated, function-focused sub-units, commercial banks can leverage the unique, domain-specific expertise and external social networks of individual board members to secure vital resources such as regulatory legitimacy, institutional capital, and technical knowledge. These committees effectively co-opt critical environmental elements, reassuring external resource providers of the bank's internal stability and compliance, which significantly lowers institutional vulnerability to external shocks (McLeod et al., 2021).

The structural effectiveness of these board committees is quantified through specific constructs: members' tenure, membership competence, meetings frequency, and the number of committee members. Under the tenets of Resource Dependency Theory, the diversity of thought and deep professional competence of committee members are essential for analyzing complex resource allocation challenges and providing high-quality strategic advice (Gao et al., 2023). Empirical corporate governance literature in East Africa reveals that high membership competence, particularly regarding financial literacy, legal compliance, and cyber-risk management, directly correlates with superior asset quality and lower default rates (Ishimwe, 2025).

Furthermore, maintaining an optimal meetings frequency and balancing members' tenure ensures that the overall number of committee members remains intensely focused on risk containment, financial oversight, and proactive capital acquisition (Mbugua, 2025). This rigorous committee diligence translates internal governance competence into external social capital by fostering high levels of trust and reciprocity within interbank networks, ultimately securing a sustainable competitive advantage through uninterrupted access to premium market resources and strategic financial capital.

2.3.5 Social Capital

Social capital is defined within contemporary strategic management literature as the collective value of all actual and potential resources embedded within, accessible through, and derived from the network of relationships possessed by an organizational entity (Nahapiet & Ghoshal, 1998; Mayoux, 2021). The operational architecture of

social capital within commercial banking is defined by four core dimensions: network size, trust level, communication frequency, and the number of reciprocal actions (Vieliza, 2025). Network size indicates the total volume of a bank's external linkages across regulatory offices, clearinghouses, and global development partners, functioning as a primary infrastructure for tracking industry changes.

This structural reach requires high communication frequency across these channels, which fast-tracks the acquisition of critical market updates and lowers information asymmetry during unexpected economic shifts (Mbugua, 2025). Concurrently, the relational value of this network is sustained by the trust level established between the bank and its primary stakeholders, which acts as an informal protection mechanism that lowers transaction costs by minimizing the need for expensive monitoring and legal enforcement protocols. This relational matrix is continuously maintained through the number of reciprocal actions, which captures the ongoing exchange of mutually beneficial favors, overnight liquidity support, and strategic data sharing within interbank and client ecosystems (Alatassi & Pillai, 2024). Together, these sub-constructs form an integrated system that turns statutory compliance into deep market trust and long-term operating sustainability.

Empirical strategic management research confirms that these four sub-constructs work dependently to protect commercial banks from macroeconomic shocks and build a hard-to-replicate market position. While an expansive network size provides a commercial bank with multiple channels to source capital and acquire customer segments, this structural reach requires consistent communication frequency to remain responsive during sudden liquidity drops or unexpected regulatory modifications (Alatassi & Pillai, 2024). High communication frequency directly improves the bank's institutional trust level, assuring customers, corporate clients, and central bank regulators of the firm's transparency and asset safety.

This elevated trust level creates a reliable operating ecosystem that naturally increases the number of reciprocal actions, facilitating complex, low-friction financial syndications, joint technological deployments, and shared risk management initiatives that poorly managed firms cannot access (Singh & Pillai, 2022). In emerging financial

systems, these structural and relational indicators create a self-reinforcing network effect where demonstrated institutional reliability lowers credit default risks and secures premium market capital. Ultimately, systematically developing a bank's network size, trust level, communication frequency, and number of reciprocal actions transforms simple internal corporate governance into reliable external social capital, providing commercial banks with an enduring and defensible competitive advantage (Galletta et al., 2021).

2.4 Empirical Literature Review

This section presents an extensive review of existing research focused on key variables relevant to corporate governance and competitive advantage. The primary independent variables explored include board diversity, CEO attributes, board independence, and the composition of board committees. Competitive advantage serves as the dependent variable in this analysis. Additionally, social capital is identified as a mediating variable that impacts the relationship between the independent factors and competitive advantage. This comprehensive review aims to synthesize findings and illuminate the intricate connections among these vital components.

2.4.1 Board Diversity and Competitive Advantage

Chen et al., (2023) examined the impact of board diversity on corporate innovation globally. The study employed a quantitative analysis to explore the relationship between gender diversity and innovation output, measured by new product introductions and market adaptability. The authors found that gender-diverse boards significantly enhanced innovation, leading to a stronger competitive advantage. The study concluded that diverse boards foster creativity and diverse perspectives, which are crucial for staying competitive in rapidly changing markets. Resource Dependency Theory underpinned their analysis which suggested that diverse boards have broader access to essential resources and networks. However, its findings might not be universally applicable since it was from developed economies. Future research could expand the scope to include firms from emerging markets to assess the universality of these results.

Hosny and Elgharbawy (2022) explored the relationship between board diversity and financial performance in the United Kingdom. This study focused on board gender diversity and its effect on profitability, particularly Return on Equity (ROE). Through regression analysis of data from 200 firms over five years, the authors found a positive correlation between diverse boards and improved financial performance, concluding that diverse boards enhance governance and strategic decision-making. However, the sample was limited to publicly listed companies, suggesting that future studies should examine private firms to see if the findings hold in different corporate structures.

Mwakapala et al., (2024) investigated the impact of corporate governance and board diversity on the value relevance of financial information in Tanzanian savings and credit cooperatives. The study used panel data analysis to assess the influence of gender and ethnic diversity on board effectiveness and financial outcomes. They found that boards with greater diversity led to improved governance practices, which in turn enhanced the reliability and relevance of financial disclosures. The study concluded that diverse boards contribute to better decision-making, which strengthens overall competitiveness of firms. However, they acknowledged that the study was limited to a specific sector (cooperatives), and future research could explore the effect of diversity in broader sectors such as manufacturing or services to provide a more holistic understanding.

Khatib et al., (2021) reviewed the role of board diversity in financial institutions in Africa, focusing on the need to nudge companies toward greater diversity. Through a systematic literature review, they found that diverse boards are more likely to adopt inclusive policies, which positively influence corporate social responsibility (CSR) performance. The study emphasized that CSR activities are increasingly valued in African markets and contribute to a company's reputation and competitive advantage. Their conclusions were grounded in Social Capital Theory, which posits that diverse boards are better able to leverage their networks to access resources and improve firm performance. However, the study's reliance on existing literature rather than primary data was a limitation, suggesting that future research should focus on empirical studies to validate the claims.

Widodo and Widarjo (2024) examined the effect of board diversity on the social performance of Islamic banks in Indonesia. Using quantitative analysis of data from several Islamic banks, they found that gender and skill diversity within the boards led to better strategic decision-making, which improved both financial and social performance. The study concluded that diverse boards contribute to a more comprehensive understanding of socio-economic issues, which is critical in the Islamic banking sector, where social responsibility is paramount. However, the study's focus on Islamic banks limited the generalizability of its findings, and future studies could explore the broader financial sector or other industries in Indonesia.

Susilawati et al. (2024) explored the role of corporate governance mechanisms, including board diversity, in the performance of Indonesian banks through the lens of green banking. They used a survey-based approach for the analysis. Findings showed that diverse boards were more likely to adopt green banking policies which contributed to a competitive advantage in the growing market for sustainable finance. The authors concluded that board diversity enhances corporate sustainability, thereby improving the firm's reputation and long-term competitiveness. However, cross-sectional nature hindered its ability to capture the long-term effects of diversity on performance.

Chandra and Setyarini (2024) examined the intersection of green accounting, environmental costs, green intellectual capital and board diversity in influencing firm value. Their study, which utilized a mixed-methods approach, found that firms with diverse boards were more likely to adopt green practices and consider environmental costs in their decision-making, which positively affected firm value. The authors argued that promoting diversity in boards is essential for fostering innovation in sustainable practices, thus creating a competitive edge in an increasingly environmentally conscious market. However, the study's reliance on data from firms that already prioritize sustainability practices may limit the broader applicability of the findings.

In summary, Chen et al., (2023) found that gender-diverse boards significantly enhanced innovation, leading to a stronger competitive advantage. Hosny and Elgharbawy (2022) found a positive correlation between diverse boards and improved

financial performance. Mwakapala et al., (2024) found that boards with greater diversity led to improved governance practices. Khatib et al., (2021) found that diverse boards are more likely to adopt inclusive policies. Widodo and Widarjo (2024) found that gender and skill diversity within the boards led to better strategic decision-making, which improved both financial and social performance. Susilawati et al.,(2024) concluded that board diversity enhances corporate sustainability, thereby improving the firm's reputation and long-term competitiveness. Chandra and Setyarini (2024) found that firms with diverse boards were more likely to adopt green practices and consider environmental costs in their decision-making, which positively affected firm value.

2.4.2 CEO's Attributes and Competitive Advantage

Mukherjee and Sen (2022) conducted a quantitative study using regression analysis to investigate how CEO attributes such as education and industry experience impact corporate reputation, financial performance and sustainable growth in India. They found that CEOs with higher levels of education and more experience positively influenced their company's reputation and performance, leading to long-term competitive advantages. Their study emphasized the significant role of CEO attributes in driving both corporate success and sustainability. However, the study was limited by its focus solely on the Indian context, which may restrict the generalization of the findings to other regions or industries. The authors suggested that future research should extend this analysis to other emerging markets to verify if the results hold in different cultural and economic settings.

Saha et al., (2023) examined the influence of CEO attributes on sustainability performance in an emerging economy using panel data analysis. The study found that CEOs with a focus on environmental sustainability and ethical leadership were able to drive superior sustainability performance, which enhanced their firm's reputation and competitive edge. The authors concluded that CEO attributes such as ethical orientation and long-term thinking are crucial in fostering sustainable competitive advantages, particularly in industries that emphasize corporate social responsibility. However, the study's limitation lies in its failure to distinguish between different types

of sustainability (e.g., environmental versus social), which could offer a more nuanced understanding of CEO impacts.

Chakraborty and Mahakud (2023) investigated the role of CEO attributes in attracting foreign shareholding and its subsequent effect on firm performance in an emerging economy, using regression analysis. Their findings revealed that CEOs with international experience and strong global networks were more successful in attracting foreign investments, which contributed to improved performance and competitive advantage. The study concluded that CEO attributes such as global exposure and leadership capacity are critical for accessing foreign capital and fostering firm growth. However, the study was limited to one emerging market, which may not be representative of other economies with different market dynamics. Future research should explore CEO characteristics on foreign investment in emerging and developed markets to assess whether the findings are applicable across different economic contexts.

Ali et al., (2022) examined the influence of CEO attributes on investment decisions and firm performance, using a quantitative approach with regression analysis. The study found that CEOs with higher educational backgrounds and a propensity for risk-taking made investment decisions that led to better financial performance and sustained competitive advantage. The authors concluded that CEO characteristics are crucial in shaping investment strategies that enhance firm performance. However, the study was limited by not accounting for external factors, such as economic conditions, which could influence the relationship between CEO traits and investment decisions. Future studies should investigate the role of external market conditions in moderating the effect of CEO attributes on firm performance.

Yusuf and Yahaya (2023) analyzed the relationship between CEO attributes and the financial performance of listed firms in Nigeria using panel data analysis. The study found that CEOs with higher education and more experience significantly contributed to improved financial performance, which in turn led to a competitive advantage for the firms. The authors concluded that CEO characteristics are integral to improving firm performance, particularly in developing economies like Nigeria. However, the

study's limitation was its narrow focus on Nigerian firms, which may not capture broader trends in other African countries or beyond. Future studies should expand the research scope to include firms from other African nations and different regional contexts.

In conclusion, Mukherjee and Sen (2022) found that CEOs with higher levels of education and experience positively influenced their company's reputation and performance, leading to long-term competitive advantages. Saha et al., (2023) found that CEOs with a focus on environmental sustainability and ethical leadership were able to drive superior sustainability performance, which enhanced their firm's reputation and competitive edge. Chakraborty and Mahakud (2023) findings revealed that CEOs with international experience and strong global networks were more successful in attracting foreign investments, which contributed to improved performance and competitive advantage. Ali et al., (2022) found that CEOs with higher educational backgrounds and a propensity for risk-taking made investment decisions that led to better financial performance and sustained competitive advantage. Yusuf and Yahaya (2023) found that CEOs with higher education and more experience significantly contributed to improved financial performance, which in turn led to a competitive advantage for the firms.

2.4.3 Board Independence and Competitive Advantage

Mardawi et al., (2024) investigated the role of board independence and corporate governance in CSR reporting assurance. The study utilized a configurational analysis approach, which combined qualitative and quantitative methods to analyze the impact of board independence on the effectiveness of CSR committees. The findings revealed that firms with independent boards had more effective CSR committees, improving corporate transparency and enhancing competitive advantage by building trust with stakeholders. The study concluded that independent boards positively influence the credibility of CSR activities, contributing to better corporate performance. The limitation was that the study focused only on CSR, suggesting that future research could explore the broader impacts of board independence on financial and non-financial competitive advantage.

Rahman and Kabir (2024) focused on the effect of board independence on the readability of annual reports and its subsequent impact on competitive advantage. Using content analysis to examine a sample of annual reports across several industries, the researchers found that firms with higher levels of board independence produced clearer, more transparent reports, fostering stronger stakeholder trust. This transparency, in turn, enhanced the company's competitive positioning. The study concluded that independent boards significantly improve corporate transparency, which can be a source of competitive advantage. However, the study's limitation was that the findings were influenced by sector-specific variations in reporting practices, and future research should explore how board independence affects competitive advantage across diverse sectors.

Alhebri et al., (2021) examined the relationship between board independence, director compensation and real earnings management in family firms in the Middle East and North Africa (MENA) region. They employed quantitative analysis using regression techniques to analyze financial data. Their findings suggested that greater board independence was associated with reduced real earnings management, thus improving long-term financial performance and, consequently, competitive advantage. The study concluded that independent boards play a significant role in mitigating earnings manipulation, promoting sustainable growth and competitive positioning. The study's limitation was its focus on family firms within the MENA region, which may limit generalization.

Musa et al., (2023) analyzed the relationship between board independence and real earnings management in Nigerian banks. Utilizing dynamic panel data analysis, the researchers found that higher levels of board independence were associated with lower levels of earnings manipulation. This reduction in manipulation helped improve financial performance, which translated into a stronger competitive advantage. The study concluded that independent boards enhance financial transparency and credibility, reinforcing competitive advantage. However, the study's limitation was its focus on a single industry (banking), and future research should expand the analysis to

include other sectors within the Nigerian economy to obtain a broader understanding of the relationship.

Agarwala et al., (2022) explored the influence of board independence on CSR performance in India. They used dynamic panel data analysis to assess the effect of governance structures on CSR activities and their subsequent impact on competitive advantage. The results showed that independent boards were more likely to support robust CSR initiatives, which in turn enhanced the company's brand image, market positioning, and overall competitive advantage. The study concluded that board independence strengthens the governance-CSR link, positively influencing competitive positioning. However, a key limitation was that the study focused solely on CSR, limiting its broader application. Future research could consider other performance indicators to offer a more comprehensive view of how board independence affects competitive advantage.

James et al., (2022) studied how board independence influences firm performance and competitive advantage in high-discretion firms in Malaysia. The study utilized regression analysis to assess the relationship between board independence and firm performance across several high-discretion industries. The findings indicated that board independence led to improved decision-making, which strengthened firm performance and competitive advantage. The study concluded that board independence is a crucial determinant of effective governance and long-term firm performance. However, the limitation of the study was its focus on high-discretion industries, suggesting that future research should explore the effects of board independence in other sectors, particularly in those with stricter governance frameworks.

Karim et al., (2020) examined the interaction between board independence, corporate governance and CSR in Malaysia. Using structural equation modeling (SEM), the study explored how board independence influenced CSR and its subsequent effect on competitive advantage. The results showed that board independence facilitated more effective corporate governance, which in turn improved CSR performance, bolstering the firm's competitive advantage. The study concluded that independent boards

enhance transparency and accountability, which are critical for sustainable competitive positioning. The limitation of the study was the exclusion of industry-specific factors; hence future research should incorporate these factors to enhance better understanding.

Nahar et al., (2022) investigated the effects of board independence, gender diversity, and board size on firm performance and competitive advantage in Malaysia. Using regression analysis, the researchers found that board independence was positively associated with both improved firm performance and enhanced competitive advantage, especially in firms with higher gender diversity. The study concluded that board independence significantly contributes to better governance and competitive positioning. A limitation of the study was its reliance on cross-sectional data, which limits the ability to assess the long-term effects of board independence. Future studies should use longitudinal data to examine the enduring impact of board independence on competitive advantage over time.

To sum it up, Mardawi et al., (2024) concluded that independent boards positively influence the credibility of CSR activities, contributing to better corporate performance. Rahman and Kabir (2024) found that firms with higher levels of board independence produced clearer, more transparent reports, fostering stronger stakeholder trust which enhanced the company's competitive positioning. Alhebri et al., (2021) concluded that independent boards play a significant role in mitigating earnings manipulation, promoting sustainable growth and competitive positioning. Musa et al., (2023) found that higher levels of board independence enhanced financial transparency and credibility, reinforcing competitive advantage.

Agarwala et al., (2022) study concluded that board independence strengthens the governance-CSR link, positively influencing competitive positioning. James et al., (2022) indicated that board independence led to improved decision-making, which strengthened firm performance and competitive advantage. Karim et al., (2020) showed that board independence facilitated more effective corporate governance, which in turn improved CSR performance, bolstering the firm's competitive advantage. Nahar et al., (2022) found that board independence was positively

associated with both improved firm performance and enhanced competitive advantage, especially in firms with higher gender diversity.

2.4.4 Board Committees and Competitive Advantage

At the global level, Saeed et al., (2024) conducted a meta-analysis to explore how top management team attributes, including board committee characteristics, influence corporate entrepreneurship and competitive advantage. The study synthesized findings from numerous studies and found that boards with specialized committees, such as risk management and innovation committees, positively contribute to fostering corporate entrepreneurship. These entrepreneurial activities, in turn, enhance a firm's competitive advantage. The study concluded that while there is substantial theoretical work in this area, further empirical evidence is needed to explore how specific board committee characteristics lead to competitive advantages. The limitation of this study was its reliance on secondary data from previous studies, highlighting the need for more direct empirical research. Future studies should look at how these dynamics play out in different sectors globally.

Lee (2020) examined the determinants and effects of board committees in shaping firm performance. Through quantitative analysis, Lee found that specialized committees, such as audit and risk committees, are positively associated with enhanced corporate governance and improved firm performance. These improvements in governance provide a strategic advantage, enabling firms to respond effectively to market challenges. However, Lee's study was limited by a focus on financial performance and did not consider other types of competitive advantages, such as market reputation or innovation. Future research should broaden the scope to include these non-financial factors to understand the full impact of board committees on competitive advantage.

Shifting to an African context, Alhossini et al., (2021) explored the role of board committees in corporate outcomes through a systematic literature review focusing on international and African corporate governance frameworks. Their review found that effective board committees, particularly in emerging markets, significantly impact corporate governance and, by extension, competitive advantage. They concluded that

committees with a high level of independence and specific expertise contribute to better governance outcomes, which ultimately enhance competitiveness. However, a limitation was the lack of empirical data on the African context. The authors suggested that future studies should focus on African companies to better understand how board committees contribute to competitive advantages in this region.

In a Turkish context, Ararat and Yurtoglu (2021) examined the impact of female directors and board committees on firm performance. Their study found that firms with diverse board committees, particularly those including female directors, experienced better decision-making processes and, subsequently, enhanced competitive advantage. They concluded that gender diversity in board committees not only improves governance but also fosters a more inclusive and strategic decision-making environment, leading to higher performance. However, the limitation of the study was its focus on a single country, which may not be generalizable to other regions. Future studies should consider broader, cross-country comparisons to examine the global applicability of these findings.

Khemakhem et al., (2023) investigated the relationship between gender diversity on board committees and ESG (Environmental, Social, and Governance) disclosure in Canada. They found that gender-diverse committees contributed to better ESG practices, which helped firms strengthen their reputational advantage and long-term competitiveness. This study concluded that board committees with greater gender diversity were better at navigating the complexities of ESG issues, enhancing their firm's competitiveness in the market. However, this study did not address the direct financial performance implications of such practices. Future studies should examine the relationship between gender diversity on committees and both financial and non-financial performance outcomes in a more global context.

Expanding to the Indian context, Singhania et al., (2024) explored the role of board committees and gender diversity in improving financial performance in India. Their study found that companies with diverse board committees focused on governance and risk management were more competitive, particularly in emerging markets. The authors concluded that board committees play an essential role in improving firm

performance by fostering strategic oversight and governance. However, the limitation was that the study focused only on financial performance and did not include other competitive factors such as innovation or environmental sustainability. Future research should expand the scope to explore the broader impacts of board committees on competitive advantage in emerging markets.

Finally, in a Nigerian context, Udoh et al., (2023) examined the relationship between board committees' independence and financial performance in listed non-finance firms in Nigeria. Their study found that independent board committees contributed significantly to enhancing financial performance, which directly correlated with stronger competitive positioning in the market. However, the study was limited by its narrow focus on financial performance, suggesting that future research should incorporate broader measures of firm success, including sustainability and innovation, to fully capture the role of board committees in competitive advantage.

In conclusion, Saeed et al., (2024) found that specialized committees, such as audit and risk committees, are positively associated with enhanced corporate governance and improved firm performance. Alhossini et al., (2021) found that effective board committees, particularly in emerging markets, significantly impact corporate governance and, by extension, competitive advantage. Ararat and Yurtoglu (2021) found that gender diversity in board committees not only improves governance but also fosters a more inclusive and strategic decision-making environment, leading to higher performance. Khemakhem et al., (2023) concluded that board committees with greater gender diversity were better at navigating the complexities of ESG issues, enhancing their firm's competitiveness in the market. Singhania et al., (2024) found that companies with diverse board committees focused on governance and risk management were more competitive, particularly in emerging markets. Udoh et al., (2023) found that independent board committees contributed significantly to enhancing financial performance, which directly correlated with stronger competitive positioning in the market.

2.4.5 Social Capital as a Mediating Variable

Chen et al., (2021) explored the role of perceived integration in WeChat for seeking information and sharing comments from a social capital perspective. They found that individuals who actively engage within social networks and share information are able to build strong social capital, which leads to enhanced competitive advantage. Specifically, their study demonstrated that the integration of social capital in digital platforms facilitates led to knowledge dissemination and network expansion, fostering competitive advantage in digital economies. However, the study's focus on virtual environments limits its applicability to traditional business contexts, suggesting a need for further research in offline settings.

Wang et al., (2021) examined how top management team (TMT) social capital influences behavioral integration within large-scale projects. Their findings indicated that firms with stronger social capital networks within the TMT were able to improve collaboration, decision-making and resource allocation, which ultimately enhanced their competitive advantage in complex, multi-stakeholder projects. However, the study's focus on megaprojects means its conclusions may not be fully applicable to smaller-scale organizational settings. Future research could explore the role of TMT social capital in more typical business operations to broaden understanding.

Steinle et al., (2020) focused on the interplay between supplier and buyer opportunism and social capital. They suggested that strong social capital, characterized by trust and reciprocal relationships, reduces the likelihood of opportunistic behaviors between suppliers and buyers, thus enhancing the stability of business partnerships. Their study indicated that firms with high levels of social capital enjoyed more favorable relationships with suppliers, leading to improved competitiveness. The study was limited, however, by its focus on the supply chain and does not address how social capital in other areas of business operations (e.g., internal teams) can affect competitive advantage.

Bartelt et al., (2020) examined the role of social capital in enabling collaboration and innovation within the context of smart city initiatives in Denver. Their research found

that social capital among government entities, businesses and communities in the city allowed for the sharing of resources and knowledge, leading to innovative solutions and a competitive edge in the urban innovation sector. While the study effectively demonstrates the role of social capital in fostering innovation, its focus on a single city's smart initiative suggests the need for further exploration in more diverse urban and corporate settings to fully understand how social capital can foster competitive advantage in other industries.

Cai et al., (2021) provided a systematic review of crowdfunding and its relationship with social capital highlighting that strong social networks and trust among individuals can significantly increase the chances of success for crowdfunding campaigns. The study found that social capital provides entrepreneurs with the competitive edge needed to secure funding, leading to better business outcomes. However, the study was limited by its focus on crowdfunding. Thus, future research could expand on how social capital influences competitive advantage in traditional and established business sectors.

Pilatin and Ayaydin (2022) examined the impact of social capital on credit quality and credit growth in the Turkish banking sector. Their findings suggest that banks with strong social capital networks both internally (among employees) and externally (with regulators, clients, and other stakeholders) enjoyed improved credit quality and better credit growth, thus achieving a competitive advantage. This study emphasizes that social capital can mitigate informational asymmetries and build trust, leading to improved financial performance. However, the study's focus on the Turkish banking sector limits its generalizability to other industries or regions, particularly in African markets.

Yudiatmaja et al., (2021) investigated the role of social capital in community-based sustainability efforts in Indonesia, specifically focusing on waste management. Their study showed that strong community networks and trust were crucial in enabling successful waste reduction initiatives, giving local organizations a competitive advantage in sustainability. The study's focus on environmental initiatives highlights the importance of social capital beyond traditional business sectors. However, the

study was limited to a single community in Indonesia, and future research could examine how social capital influences competitive advantage in broader organizational and corporate contexts in Africa or other developing regions.

In summary, Chen et al., (2021) demonstrated that the integration of social capital in digital platforms led to knowledge dissemination and network expansion, fostering competitive advantage in digital economies. Wang et al., (2021) indicated that firms with stronger social capital networks within the TMT were able to improve collaboration, decision-making and resource allocation, which ultimately enhanced their competitive advantage in complex, multi-stakeholder projects. Steinle et al., (2020) indicated that firms with high levels of social capital enjoyed more favorable relationships with suppliers, leading to improved competitiveness. Bartelt et al., (2020) found that social capital among government entities, businesses and communities in the city allowed for the sharing of resources and knowledge, leading to innovative solutions and a competitive edge in the urban innovation sector.

Cai et al., (2021) found that social capital provides entrepreneurs with the competitive edge needed to secure funding, leading to better business outcomes. Pilatin and Ayaydin (2022) findings suggest that banks with strong social capital networks both internally (among employees) and externally (with regulators, clients, and other stakeholders) enjoyed improved credit quality and better credit growth, thus achieving a competitive advantage. Yudiatmaja et al., (2021) showed that strong community networks and trust were crucial in enabling successful waste reduction initiatives, giving local organizations a competitive advantage in sustainability.

2.5 Summary of Reviewed Literature

This chapter provides a comprehensive, academically rigorous synthesis of the theoretical frameworks and empirical literature exploring the relationship between corporate governance mechanisms—specifically board independence, board diversity, board committees, and CEO attributes—and their collective influence on achieving a sustainable competitive advantage, both directly and as mediated through the operationalization of social capital. The foundational architecture of corporate

governance is established through a triad of strategic and institutional paradigms: Agency Theory, Stewardship Theory, Stakeholder Theory, and Resource Dependency Theory. Agency Theory, as pioneered by Jensen and Meckling (1976), highlights the systemic information asymmetries and divergent motivations existing between corporate principals (shareholders) and management agents. Within this structural framework, board independence serves as an essential monitoring mechanism to mitigate opportunistic executive behavior, reduce agency costs, and protect shareholder assets. Empirically, independent boards are shown to enhance corporate social responsibility disclosure practices, which strengthens institutional reputation, builds public trust, and improves market positioning (Singhania et al., 2024). Furthermore, high levels of board independence reduce the manipulation of financial metrics, directly fostering transparency and stabilizing the firm's competitive position within volatile financial markets (Lee, 2020).

To balance the monitoring focus of Agency Theory, Stewardship Theory posits that executive leaders are not inherently self-serving actors but are natural custodians intrinsically motivated to optimize organizational health, operational longevity, and stakeholder value (Donaldson & Davis, 1991). This perspective aligns closely with the analysis of CEO attributes, demonstrating that chief executives who possess significant industry-specific experience, advanced education, and strategic vision are uniquely equipped to execute complex, long-term growth strategies and foster sustainable innovation (Ararat & Yurtoglu, 2021). When executive leadership prioritizes environmental, social, and economic sustainability, it aligns the bank's core operational goals with broader macroeconomic needs, thereby generating a distinct and defensible competitive edge.

Complementing these internal dynamics, Resource Dependency Theory frames the organization as an open system dependent on its external environment for critical assets, legitimacy, and survival (Pfeffer & Salancik, 1978). This theory provides the direct theoretical justification for both board diversity and the institutionalization of specialized board committees. A resource-rich, heterogeneous board configuration—particularly one emphasizing demographic, gender, and functional expertise—

functions as an environmental co-optation strategy. For instance, gender diversity on corporate boards expands the institution's cognitive variety, enhances market responsiveness, and secures vital relational resources that accelerate growth in highly competitive climates (Alhossini et al., 2021). Similarly, the establishment of independent, highly specialized board sub-units, such as audit and risk management committees, provides targeted oversight that aligns daily operational performance with overarching strategic mandates (Saeed et al., 2024). Independent audit committees safeguard the integrity of corporate financial reporting, directly converting regulatory compliance into enhanced stakeholder trust and long-term institutional stability (Lee, 2020).

Finally, the integration of social capital theory bridges the gap between internal structural compliance and external market value. Social capital, operationalized through embedded networks, institutional trust, communication frequencies, and reciprocal norms, functions as a conduit through which governance structures access external resources and information. Strong relational networks, especially when managed by diverse and independent boards, enable firms to implement effective Environmental, Social, and Governance (ESG) initiatives, which significantly elevates corporate reputation and market standing (Khemakhem et al., 2023). Moreover, extensive social capital networks mitigate transaction costs and reduce opportunistic behavior between interconnected firms and their suppliers, creating stable, resilient strategic partnerships that contribute directly to a sustained competitive advantage (Steinle et al., 2020). In emerging financial ecosystems, highly developed relational social capital networks are empirically tied to superior asset growth and enhanced financial performance, particularly within the commercial banking sector (Udoh et al., 2023).

Despite these theoretical insights, the reviewed empirical literature displays substantial limitations in geographic and sectorial scope. The vast majority of corporate governance studies remain heavily concentrated within mature, developed capital markets or generalized industrial sectors, leaving a noticeable empirical deficit regarding emerging markets. For example, while contemporary studies in emerging

contexts like India explore how board committees and gender diversity improve immediate financial performance metrics, they frequently omit broader strategic facets of competitive advantage such as process innovation, digital transformation agility, or structural sustainability (Singhania et al., 2024). Existing literature also tends to analyze corporate governance variables in isolation, failing to model the complex, multi-layered interrelationships, cross-construct interactions, and intermediate pathways through which these governance dimensions collectively influence market competitiveness.

2.6 Research Gap

The relationship between corporate governance mechanisms and the attainment of a sustainable competitive advantage within the Kenyan commercial banking sector exhibits critical empirical, contextual, and methodological gaps that require systematic, doctoral-level investigation. The first major limitation identified in global and local literature is the social capital mediation gap. Past empirical studies have heavily concentrated on testing direct, linear relationships between single corporate governance structural traits—such as the proportion of independent directors, the presence of female board members, or specialized audit committee configurations—and short-term, static accounting outcomes like Return on Assets (ROA) or Return on Equity (ROE) (Chen et al., 2023; Ishimwe, 2025; Singhania et al., 2024). A critical limitation of these prior investigations is their failure to account for the underlying behavioral, relational, and institutional transmission pathways through which formal board metrics actually convert into distinct marketplace value. By focusing exclusively on direct, straight-line correlations, traditional research treats the execution of competitive strategy as a conceptual "black box," leaving unexplained the exact operational mechanisms through which internal board oversight translates into external market trust, strategic resource access, and reputational resilience. This study addresses this gap by introducing and testing relational social capital—operationalized through network size, trust levels, communication frequency, and reciprocal norms—as an explicit mediating variable, thereby illuminating how internal governance

configurations actively leverage embedded relational networks to secure a defensible and sustainable competitive advantage.

The second deficiency identified in the literature is the contextual and structural polarization gap. Past local and regional banking studies have regularly treated the commercial banking industry as a single, homogeneous sample, aggregating data from all institutions to draw generalized industry-wide conclusions regarding corporate governance effectiveness (Alatassi & Pillai, 2024; Mbugua, 2025; Udoh et al., 2023). However, these studies exhibit a notable conceptual omission regarding the acute structural polarization, market fragmentation, and asymmetric operational realities that characterize different institutional asset tiers within the East African financial ecosystem. Traditional models fail to account for how macro-prudential regulatory shocks—such as the Central Bank of Kenya's mandatory phased baseline core capital increase to KSh 10 billion, intense FinTech disruption from mobile money networks, and the visible rise in underperforming institutions from 9 to 13—impact banks asymmetrically based on their market capitalization and scale (CBK, 2023; Karuu, 2024). Small Tier 3 community banks face severe capital constraints, survival threats, and compliance costs that large Tier 1 multinational lenders do not experience. This study addresses this gap by executing an asset-tiered, multi-group comparative analysis across distinct banking tiers, providing empirical clarity on how corporate governance configurations dynamically function to protect financial stability, manage digital transition risks, and maintain a competitive edge within an asymmetrical, capital-stressed regulatory environment.

The third limitation relates directly to the methodological and analytical scope gap within corporate governance research. Past research in the banking sector has relied almost exclusively on static, quantitative cross-sectional designs, utilizing published secondary financial statements to establish broad mathematical correlations between board structural variables and firm performance metrics (Udoh et al., 2023). These analytical models are conceptually limited by their exclusion of the deeper qualitative context, behavioral nuances, and internal institutional frictions that dictate real-world board effectiveness, such as tokenism, informal political networks, or the practical

competency gaps that can disable board sub-units during an institutional crisis. Purely numerical, secondary models cannot capture how internal board dynamics, executive interlocking complexities, or strategic leadership attributes actively manage rapid marketplace disruptions and stakeholder trust in a volatile environment. This study addresses this gap by adopting an analytically rigorous mixed-methods research architecture that integrates robust multi-group structural equation modeling with qualitative institutional insights, offering a comprehensive assessment of how corporate governance drives competitive advantage amid rapid digital transformations and heightened regulatory oversight.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter three outlines the research methodology used in this study. It explains the underlying research philosophy, design, as well as the methodology adopted for data collection and analysis. The chapter also describes the target population, sampling technique and sample size, clarifying how participants were selected and why this method was appropriate. The research instrument is discussed in detail, including its development, pilot testing and steps taken to ensure validity and reliability. The chapter also covers the data collection procedure, describing how data was gathered from respondents in a systematic manner. Finally, the chapter explains how the data was processed and analyzed, highlighting the techniques used to interpret the results and how the findings were presented clearly and effectively.

3.2 Research Philosophy

Research philosophy is a foundational concept in the development of knowledge, guiding how researchers approach the nature of knowledge itself and how they view the world. At its core, research philosophy addresses the assumptions researchers make about knowledge, reality and how knowledge can be acquired and validated. It shapes the methodology and ultimately influences the research design and analysis in any given study. There are two main branches of research philosophy that inform how individuals come to understand what they know: ontology and epistemology.

Ontology refers to the philosophical study of being, existence, reality, and the relationships among entities. It explores fundamental questions regarding what entities exist, how they interact, and how they can be categorized. In research, ontological questions revolve around the nature of reality and the kinds of entities that can be studied. The ontological stance adopted in any study will influence the assumptions about the structure and nature of the world being researched. There are two key

perspectives within ontology: realism and relativism. Realism posits that there is one objective reality that exists independently of human perception, whereas relativism argues that reality is socially constructed and multiple realities exist, shaped by individual or collective experiences (Tamminen & Poucher, 2020). Epistemology, on the other hand, concerns the theory of knowledge—specifically, what constitutes knowledge, how it is acquired, and the extent to which knowledge can be trusted as valid in a particular field of study. In epistemology, the key concern is how knowledge develops and how it can be measured or understood. The discipline also addresses how knowledge can be validated, with assumptions that often fall into either objectivism or subjectivism. Objectivism maintains that knowledge is objective and can be measured independent of human interpretation, while subjectivism, often aligned with phenomenology, focuses on the perception and interpretation of individual experiences.

Phenomenology, a branch of subjectivism, emphasizes the interpretation of lived experiences and the subjective meaning individuals attach to their experiences. It investigates phenomena as they appear to individuals in their natural settings, without the imposition of predefined frameworks. This approach is concerned with the exploration of the "lived world" and often looks at meanings derived from individual or group experiences, recognizing that different interpretations of the same phenomenon can exist based on different perspectives (Alharahsheh & Pius, 2020; Mbanaso et al., 2023). In the context of social sciences, two prominent research paradigms guide the choice of research philosophy: positivism and interpretivism. Positivism assumes that the researcher is independent of the phenomena being studied, meaning that research can be conducted objectively and results can be quantified through measurable facts.

Positivists argue that there is a single verifiable reality that can be studied scientifically through empirical observation and logical reasoning. The goal is to identify universal laws & establish generalizable findings that apply across different contexts. Interpretivism conversely focuses on understanding social phenomena from subjective perspective of participants. It emphasizes the importance of context, meaning and

subjective nature of human experiences, often producing results not generalizable but are rich in depth and insight. This study is grounded in the philosophical paradigm of positivism. It adopts an objective approach in investigating causal relationships between variables, aiming to establish facts through empirical evidence.

This study is concerned with testing hypotheses derived from existing theory, seeking to confirm or refute these hypotheses by analyzing relationships between independent and dependent variables (Junjie & Yingxin, 2022; Irshaidat, 2022). In adopting a positivistic approach, the research relies on existing theories to formulate hypotheses that will be tested using quantitative methods. The findings from this process may confirm, refine, or challenge the current understanding of the subject matter, thereby contributing to the ongoing development of knowledge in the field. By testing hypotheses in a structured and objective manner, this study will provide valuable insights into the relationships between the identified variables, contributing to the broader understanding of the research topic (Ali et al., 2021; Ikram & Kenayathulla, 2022).

3.3 Research Design

Research design is often described as the "blueprint" or framework that guides researchers in the process of addressing research problems. It outlines the methods and procedures for data collection, analysis and interpretation of observations, ensuring that the study remains focused, organized, and aligned with its objectives. A well-constructed research design provides a structured approach, helping the researcher navigate the various components of the study and ensuring the integrity and validity of the research process (Sileyew, 2019; Tobi & Kampen, 2018). For this study, a combination of descriptive research design and correlational research design was adopted.

Descriptive research design is particularly valuable when the goal is to observe and describe the characteristics of a phenomenon without manipulation. This design allows researchers to collect data that accurately reflects the natural state of the subject, providing a clear understanding of the subject's behavior or attributes. It is often used

to explore the "what" or "who" without investigating underlying causes or mechanisms (Siedlecki, 2020). Descriptive research serves as a foundation for understanding existing conditions before progressing to more complex analyses. In addition to the descriptive design, the correlational research design was employed.

Correlational design aims to identify relationships between two or more variables, without implying causality. This design helps determine whether a relationship exists between variables and, if so, the strength and direction of that relationship. It is crucial to note that correlational research does not allow for causal claims, as it does not control for external factors that may influence the observed variables (Turner, 2020). The combination of descriptive and correlational designs provided a comprehensive approach to addressing the research objectives. Surveys were used as the primary method of data collection in this study. Surveys, especially those with questionnaires, are effective tools for gathering large amounts of data from diverse respondents. This method was chosen to answer the research questions concerning "where," "who," "what," and "how" (Bloomfield & Fisher, 2019).

Surveys are widely regarded as convenient and efficient for collecting standardized data, which is particularly useful for studies examining the current state of affairs or perceptions within a population. They also allow the collection of both quantitative data, analyzed through descriptive and inferential statistics, and qualitative insights that provide richer context (Siedlecki, 2020). The flexibility of surveys, using both closed- and open-ended questions, makes them an invaluable tool for both exploratory and explanatory research. For this study, the survey method was well-suited to exploring relationships between variables, and the collected data was analyzed statistically to identify significant correlations and patterns.

3.4 Population of the Study

Population is defined as the total collection of elements or units about which inferences are made regarding all possible cases of interest in a study (Turner, 2020). It represents the complete set of individuals, objects, or phenomena that are being investigated, from which conclusions can be drawn and generalizations can be made. In research,

the population encompasses all the cases that are relevant to the research questions and objectives. A key distinction to note is that a population can refer to a broad group of individuals or elements that share a common characteristic and the findings from studying the population can be generalized to similar cases within the same context (Sileyew, 2019). The target population refers specifically to the subset of the population that the study focuses on.

It consists of the elements or units from which the researcher seeks to draw conclusions and to which the results of the study are intended to be generalized. The target population is a well-defined group that is directly relevant to the research problem and objectives (Mbanaso et al., 2023). In the context of this study, the target population consisted of all 42 commercial banks operating in Kenya. These banks were selected based on their relevance to the research question and because they represent a significant portion of the banking sector in the country. By focusing on this specific group, the study aimed to generate insights and conclusions that are applicable to the broader banking industry in Kenya. The data for this study were collected through the use of questionnaires that were administered to a carefully selected group of respondents within each bank.

The respondents included senior manager in charge of corporate affairs at each bank's headquarters, a risk compliance officer, a member of the internal audit teams, one legal counsel (also known as company secretaries), and three board members from each bank. These individuals were selected because of their presumed in-depth knowledge of the subject matter being studied, particularly in areas such as corporate governance, risk management, compliance, and legal affairs. As individuals with significant roles and responsibilities within the banks, they were expected to provide informed and insightful responses to the research questions (Tobi & Kampen, 2018).

The rationale for choosing these respondents is based on their expertise and relevant experience in the banking sector. Their involvement ensures that the data collected would reflect a deep understanding of the key issues the study aimed to explore. Furthermore, this group of respondents represents a well-defined and focused group of individuals, making them highly suitable for the study's objectives and ensuring

that their responses would be directly applicable to the research questions. Out of the 42 banks, a total of 294 respondents were expected to participate in the study, based on the assumption that each bank would have a representative from each of the defined roles. This large number of respondents ensured that the data collected would be comprehensive and would reflect a broad range of perspectives from key decision-makers and influencers within the banks.

3.5 Census Survey

A census is a research method in which every unit within a population is studied or surveyed. This approach is employed when the entire population is relatively small or when it is deemed reasonable and practical to collect data from every single unit within that population, rather than relying on a sample. In a census, no sampling is necessary, as the goal is to ensure that all individuals or units within the population are included in the study, thereby providing comprehensive data on the entire group. This method is particularly advantageous when it is not only feasible but also efficient to gather data from the full population, thus eliminating the need for sampling techniques that might introduce errors or biases (Skinner, 2018; MacDonald, 2020).

Given that the target population in this study is quite small, the researcher decided to employ the census survey method, where every member of the target population participated in the research. The decision to use a census survey was based on the relatively limited size of the population, which made it both practical and cost-effective to include all members. Moreover, conducting a census survey in this case helps ensure the completeness and accuracy of the data, as there is no need to generalize from a sample; the entire population is represented (Tobi & Kampen, 2018). The use of a census sampling technique is particularly appropriate in this study not only because of the manageable size of the target population, but also due to the fact that it significantly reduces the potential for sampling bias.

Sampling bias is a common issue in research that uses sampling procedures, especially when the sample does not adequately represent the broader population. By surveying the entire target population, the researcher eliminates the risk of bias that could arise

from an incomplete or non-representative sample. This is critical in ensuring the validity and reliability of the findings, as it ensures that the data collected reflects the views and characteristics of the entire population (Skinner, 2018). When the population is fully surveyed, the results are more accurate, and the conclusions drawn are more robust and generalizable within the context of the study.

Furthermore, using a census survey avoids the limitations that often come with sampling procedures, such as the possibility of error introduced by random selection or stratified sampling. By surveying every individual or unit within the population, the researcher is able to gather data that is comprehensive and representative of the entire group, ensuring the study's findings are robust and reflective of the population as a whole (MacDonald, 2020). As indicated in Appendix III, the list of commercial banks that were surveyed in this study included all the institutions that are part of the target population. Each of these banks was approached and asked to participate in the study, ensuring that the data collected is representative of the entire population under investigation. This comprehensive approach enhances the credibility and accuracy of the research, contributing to the overall quality of the study.

3.6 Data Collection Instruments

Research instruments are essential tools in the process of data collection, serving as measuring devices specifically designed to collect data on a given phenomenon. These instruments are systematically constructed to gather detailed information from research subjects regarding a particular topic of interest. In research, instruments are crucial as they help the researcher obtain reliable, accurate, and valid data, which is necessary for addressing the research questions and objectives (Sileyew, 2019). The primary data collection instrument used in this study was a structured questionnaire, which was designed to collect general information on the research variables in a systematic and consistent manner.

Structured questionnaires are widely used in research because they provide clear, standardized questions that ensure comparability of responses and facilitate the analysis of the data (Siedlecki, 2020). The use of a structured questionnaire allows

researchers to gather both qualitative and quantitative data, depending on the type of questions included in the instrument. In this study, the questionnaire was structured to include both closed-ended questions, which provide respondents with specific options to choose from, and open-ended questions, which allow participants to provide more detailed, in-depth responses. This combination of question types enabled the study to collect a wide range of information that could be analyzed using various statistical techniques, as well as interpretive methods (Sileyew, 2019).

The questionnaire used in this study was self-administered, meaning that participants were asked to complete the instrument on their own without any direct assistance from the researcher. Self-administered questionnaires offer several advantages that make them an appealing choice for researchers. According to Tobi and Kampen (2018), one significant benefit of using a self-administered questionnaire is that it allows the researcher to contact a wide range of participants who might otherwise be difficult to reach through other means. Additionally, self-administered questionnaires are highly flexible, enabling respondents to complete them at a time that suits them, which can help increase the overall response rate and ensure a more representative sample.

Self-administered questionnaires are also valuable because they reduce the possibility of interviewer bias, which can sometimes occur when the researcher directly interacts with participants. The absence of an interviewer ensures that participants' responses are based solely on their own views and experiences, without being influenced by the researcher's presence or body language (MacDonald, 2020). Moreover, this form of data collection enhances anonymity and confidentiality, which can encourage respondents to answer more honestly, particularly when dealing with sensitive topics. The perceived privacy and independence offered by self-administered questionnaires often result in more candid and trustworthy responses (Tobi & Kampen, 2018). Furthermore, self-administered questionnaires are relatively cost-effective and time-efficient.

They can be distributed electronically, enabling the researcher to gather a large amount of data from a geographically dispersed sample quickly. This electronic distribution method also reduces the costs associated with printing and physically mailing the

questionnaires, while also minimizing the logistical challenges of data collection. Given the scale of the study and the need to gather responses from a large group of participants, using a self-administered questionnaire was a practical and efficient choice for data collection. The structured self-administered questionnaire was an ideal data collection instrument for this study. It provided a systematic way to gather reliable, valid, and comparable data from participants, while also offering the flexibility and advantages necessary to increase response rates and improve the accuracy of the collected information.

3.7 Pilot Testing

Pilot testing refers to the process of conducting a small-scale trial run of a study or survey before the actual data collection begins. It is a critical step in the research process, as it helps the researcher to assess the effectiveness of the research instrument (in this case, the questionnaire) and ensures that the questions are clear, understood by the respondents, and capable of generating meaningful responses. The primary aim of pilot testing is to ensure that the research tool functions as intended and to identify any potential issues before the full-scale study commences. During pilot testing, the researcher can refine the instrument based on feedback from the initial respondents and make necessary adjustments (Teresi et al., 2022). The pilot test in this study was carried out with a sample of respondents from four randomly selected banks, before initiating the main data collection process.

The questionnaire was administered to the Senior Managers in charge of Corporate Affairs at each of the selected banks. According to Tseng and Sim (2021), it is typically recommended that a pilot test involves at least 10% of the total sample size, which ensures that a sufficient number of responses are gathered to identify potential issues in the research instrument. This sample size was considered adequate for testing the overall clarity and structure of the questionnaire. One of the key aspects of pilot testing is ensuring that the respondents understand the questions in the same way. This was achieved in this study by having in-depth discussions with the respondents who participated in the pilot study.

These discussions allowed the researcher to identify and address any ambiguities, unclear wording, or misinterpretations in the questionnaire. Additionally, the feedback from the pilot test participants enabled the researcher to identify any issues related to the measurement of certain concepts. If necessary, adjustments were made to the wording or structure of the questions, while maintaining the original meaning and intent of the questions. This process helped to refine the questionnaire and ensure its reliability and validity for the larger study (Malmqvist et al., 2019).

However, it is important to note that the participants who took part in the pilot study were excluded from the main study. This is a crucial aspect of pilot testing because involving the same participants in the main study could potentially influence their responses, either consciously or unconsciously. If respondents are already familiar with the questions or have previously taken part in a similar exercise, they may be biased when providing their answers in the actual survey. By excluding these pilot study participants from the main study, the researcher ensures that the data collected remains unbiased and reflective of a fresh set of responses (Inan, 2024). Pilot testing is an essential step in ensuring the robustness of the research design and instruments. It provides the researcher with the opportunity to refine the tools and address any issues before the full-scale study begins. The process is crucial for identifying potential problems early in the research process and improving the overall quality of the data collected (Teresi et al., 2022).

3.7.1 Reliability of Measuring Instrument

According to Kennedy (2022), reliability refers to the extent to which a research instrument consistently produces the same results when applied repeatedly in similar conditions. In other words, an instrument is considered reliable if it can accurately measure a variable and yield consistent results over time, regardless of when or how often the measurements are taken. This consistency is essential to ensure that the research findings are not simply the result of random fluctuations or errors. Reliability is vital because it indicates the stability and accuracy of the measurement process within the study, thus reinforcing the trustworthiness of the research conclusions.

However, it is important to note that random errors can affect the reliability of a research instrument. These errors may arise from various sources such as environmental factors, participant behavior, or measurement inconsistencies. The researcher can overcome these challenges by employing strategies such as pre-testing the instrument, where the tool is tested on a smaller sample before the main data collection process, helping to identify and rectify potential problems early (Kennedy, 2022). One of the most widely used methods to assess the reliability of a research instrument is internal consistency. This approach examines whether the individual items measure the same underlying concept, ensuring that all questions in a questionnaire are consistently related to the same construct. A commonly used statistic for this purpose is Cronbach's alpha coefficient (Sürücü & Maslakci, 2020). The Cronbach's alpha value ranges from 0 to 1, where higher values signify greater reliability of the instrument. A value closer to 1 suggests that the items on the instrument are highly correlated and consistently measure the same thing, indicating strong reliability. A lower Cronbach's alpha value, on the other hand, suggests that the items may not be measuring the same underlying concept and that the instrument may need revision.

As a general rule, a Cronbach's alpha coefficient of 0.70 or higher is considered acceptable for most social science research, indicating that the instrument is sufficiently reliable for data collection (Kennedy, 2022). This threshold ensures that the results obtained from the instrument can be confidently generalized to a larger population, making it a critical metric for research quality. Reliability is a key consideration in research methodology, as it ensures that the tools used to collect data are consistent and trustworthy. Through methods such as pre-testing and calculating Cronbach's alpha, researchers can assess and improve the reliability of their instruments, ensuring that the data collected reflects true patterns and relationships in the population being studied (Sürücü & Maslakci, 2020)

3.7.2 Validity of Instruments

Validity refers to the extent to which an instrument accurately measures what it is intended to measure, and it is a crucial aspect in ensuring that research findings are

credible and meaningful (Sürücü & Maslakci, 2020). In essence, validity determines whether the conclusions drawn from a research instrument truly reflect the phenomenon being studied. According to Dunn (2020) validity is defined as the degree to which the test items represent the content they are designed to measure. For instance, a survey questionnaire is considered valid if it accurately captures the variables or constructs that the study intends to explore, thus ensuring that the data collected is relevant and reliable. The process of validation involves evaluating and analyzing the data to assess the accuracy and appropriateness of the instrument (Kennedy, 2022).

Validity is not a one-time check; it is an ongoing process that includes various types of validity assessments to ensure the research instrument's robustness. There are several important forms of validity that researchers must consider when assessing their instruments, including external validity, content validity, and construct validity. External validity is concerned with the generalizability of the research findings. It refers to the extent to which the results of the study can be generalized from the sample to the broader population under study. In other words, it assesses whether the conclusions drawn from the study sample hold true for other settings, times, or populations (Dunn, 2020).

For this study, external validity was particularly important in determining whether the findings could be applicable to all commercial banks in Kenya. Luckily all commercial banks were surveyed. Content validity, on the other hand, is used to determine whether the instrument accurately covers the full content or domain it aims to measure (Rusticus, 2024). In this study, the questionnaire was evaluated for its content validity by examining whether the questions truly reflected the objectives of the research and whether the items addressed all relevant aspects of the variables under investigation. This was done by expert review, ensuring that each item in the questionnaire was relevant and appropriately worded to measure the constructs it was designed to assess.

To ensure the instrument's overall validity, factor analysis was employed. Factor analysis is a statistical technique used to identify the underlying relationships between observed variables and to reduce the number of variables into a smaller set of latent variables or factors (Hair et al., 2022). This method is particularly useful when there

are multiple observed variables that might reflect similar underlying constructs. Factor analysis helps in determining which variables or questions in the survey are most closely related and can be grouped together, thereby increasing the validity of the measurement instrument. By identifying these latent factors, the researcher can ensure that the instrument is measuring the correct constructs without redundancy.

In this study, factor analysis was used to test the suitability of the questionnaire, particularly where variables appeared to have many potentially observed constructs. Through this process, the research ensured that the variables in the instrument were not only statistically valid but also conceptually aligned with the research goals, thus enhancing both the content validity and the construct validity of the instrument. The combination of external validity, content validity, and construct validity ensures that the research instrument used in this study is both accurate and applicable. These validation techniques confirm that the data collected is meaningful, relevant, and can be generalized to the broader context of commercial banks in Kenya.

3.8 Data Processing and Analysis

Data analysis is a critical component of the research process, involving the systematic examination of the data collected from surveys, experiments, or other methods of inquiry to draw meaningful conclusions (Dunn, (2020). It is the process of scrutinizing the data to extract valuable information, make deductions, and derive inferences from the raw data obtained during the research (Sarstedt, Mooi, Sarstedt, & Mooi, 2019). Mezmir, (2020) defines data analysis as a process that encompasses various activities, including summarizing large quantities of raw data, categorizing, reorganizing, and ordering the information in a way that allows for meaningful interpretation.

Prior to the commencement of the analysis, the collected questionnaires were carefully edited to ensure completeness and consistency. This initial step is essential to verify that all questions were answered, and that the responses are logically consistent, ensuring that the data is ready for further analysis (Creswell & Poth, 2022). After editing, the questionnaires were coded to assign numerical values to responses, which is an important step in preparing the data for statistical analysis. The coding process

ensures that the responses are appropriately categorized for easy interpretation and manipulation. Additionally, any errors and omissions in the data were identified and corrected during this phase to ensure accuracy before proceeding to the more complex statistical operations (Cooksey & Cooksey, 2020).

The analysis of the data was carried out using descriptive statistics to summarize the data, providing a clear and concise picture of the variables under investigation. Descriptive statistics included calculating percentages per item, determining the minimum and maximum scores for each variable, and computing the mean and standard deviation for the items in the dataset. These measures are fundamental in gaining an understanding of the overall trends, distributions, and central tendencies in the data (Tamminen & Poucher, 2020). Additionally, inferential statistics were employed to examine relationships between the variables, using techniques such as correlation and regression analysis. These methods are used to make predictions and draw conclusions beyond the immediate dataset, allowing for generalizations to a larger population (Siedlecki, 2020).

The Statistical Package for the Social Sciences (SPSS) version 23, with the Path Macro extension, was utilized as the primary tool for data analysis in this study. SPSS is widely recognized for its robust capabilities in both descriptive and inferential statistical analysis, making it an ideal choice for processing and analyzing large datasets in social science research (Mezmir, 2020). By employing these statistical tools, the study was able to derive meaningful patterns and relationships from the data, providing a deeper understanding of the phenomena under investigation. This combination of descriptive and inferential statistics ensures that the analysis is not only comprehensive but also scientifically rigorous, thereby contributing to the validity and reliability of the research findings.

3.8.1 Descriptive Statistics

The analytical techniques for data analysis were determined in line with the characteristics of the research design and the nature of the data gathered, as suggested by Cooksey & Cooksey, (2020). The surveyed data returned was input into SPSS

version 23.0 software for analysis. Descriptive statistics, including percentages, mean, standard deviation, and variance, were employed to analyze the data. The results were then presented using tables.

3.8.2 Inferential Statistics

Multiple linear regression was used to establish the mathematical model that explains the relationship between the dependent variable and the significant independent variables. This regression model was chosen because it provides a sufficient and flexible framework that suits the needs of most analysts. The coefficients of the significant variables were determined through correlation analysis. The established coefficients formed the basis for drawing inferences for the study. The multiple linear regression model that was used to explain the relationship between the dependent and independent variables (direct effect) took the form;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots \dots \dots \text{Eqn 3.1}$$

$$Y = \beta_0 + \beta_5 X_5 + \epsilon \dots \dots \dots \text{Eqn 3.2}$$

Where,

Y represents competitive advantage

X₁ represents board diversity

X₂ represents CEO's attributes

X₃ represents board independence

X₄ represents board committees

X₅ represents Corporate governance

ε represents error component

β₀ represents Y-Intercepts(constant)

β₁, β₂, β₃, β₄, β₅ represents the model coefficient of each independent variables.

The results of the study was tested at 5% (0.05) level of significance.

In order to test the mediating effect of Social Capital, four-step regression method was used. Baron and Kenny (1986) recommended a four-step approach in which several

regression analyses are conducted and significance of the coefficients is examined at each step. Hayes 2017 Process Macro model 4 was used to test the mediation hypothesis. Mackinon's 2012 procedure was followed. The following conditions MUST be met:

- i) X must have a significant relationship with M
- ii) M must have a significant relationship with Y
- iii) Testing the effect of X on Y while holding constant M. It is not a must for this relation to exist before testing for mediation. If significant relation is established, this is called partial mediation. If significant relationship doesn't exist it is called full mediation.

Using an illustration, mediation can be depicted in the following way:

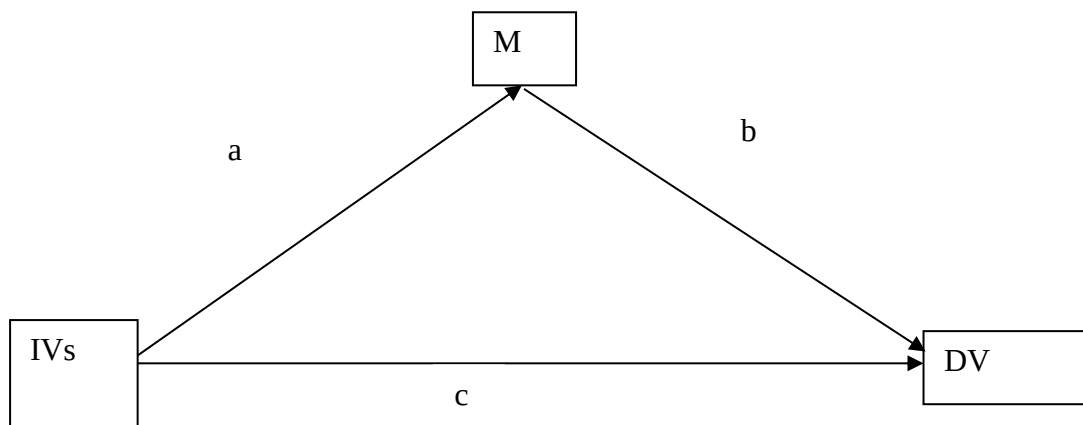


Figure 3.1: Mediation Model

Where IV is the independent variable, M is the mediating variable, DV is the dependent variable. The paths (coefficients) are denoted by b, c and a. A summary of the four steps are presented in Table 3.1. In Table 3.1, the purpose of steps 1 – 3 was to establish that zero-order relationships among the variables exist. If one or more of these relationships are non-significant, researcher usually conclude that mediation is not possible or likely although this is not always true (MacKinnon et al., 2007). A significant relationship from steps 1 – 3, led to step 4. Step 4 model, was necessary to ascertain if a full or partial mediation occurred. According to Baron and Kenny (1986)

full mediation occurs if the effect of mediating variable (SC, path c) remains significant after controlling for independent variable. On the other hand, a partial mediation is deemed to have occurred if the relationship between the independent variable and the dependent variable is still significant after controlling for the effects of the mediating variable (that is, both CG construct and SC significantly predict CA).

Table 3.1: A Summary of the Four-Step Approach of Testing for Mediation

	Analysis Model	1
Step 1	A simple regression analysis with X (IV) predicting Y (DV) to test for path c alone	$Y = a + \hat{a}x + \hat{a}$
Step 2	A simple regression analysis with X predicting M to test for path a, ϵ	$M = a + \hat{a}x + \hat{a}$
Step 3	A simple regression analysis with M predicting to test the significance of path b alone,	$Y = a + bM + \hat{a}$
Step 4	A multiple regression analysis with X and Predicting Y to test paths a and b respectively, Y	$Y = a + \hat{a}x + \hat{a}M + \hat{a}$

Source: Baron and Kenny (1986)

3.8.3 Models Specification for Mediation

Model specification for mediating effect:

$$CA = \beta_0 + \beta_1 CG_1 + \epsilon \dots \dots \dots \text{Eqn 3.3}$$

$$SC = \beta_0 + \beta_1 CG_1 + \epsilon \dots \dots \dots \text{Eqn 3.4}$$

$$CA = \beta_0 + \beta_1 SC_1 + \epsilon \dots \dots \dots \text{Eqn 3.5}$$

$$CA = \beta_0 + \beta_1 CG_1 + \beta_2 SC_2 + \epsilon \dots \dots \dots \text{Eqn 3.6}$$

CA represents Competitive Advantage

SC represents Social Capital

CG represents Corporate Governance

All the above statistical tests were carried out using the Statistical Package for Social Sciences (SPSS), version 23. All tests were two-tailed. Significant levels were measured at 95% confidence level with significant differences recorded at $p < 0.05$.

3.9 Diagnostic Tests

Before proceeding with regression analysis, it is essential to test the underlying assumptions that form the basis of the regression model. These assumptions are critical because if they are not met, the results obtained from the analysis may be inaccurate, unreliable, or misleading. Violating these assumptions can lead to significant issues, such as Type I or Type II errors, where incorrect conclusions are drawn from the data, or the model might result in an over- or under-estimation of the effect sizes or statistical significance. Therefore, to ensure the robustness and accuracy of the regression analysis, it is necessary to validate that certain key assumptions are satisfied before proceeding. These assumptions include normality, linearity, homoscedasticity, Durbin-Watson (for autocorrelation), and multicollinearity (Pandey, 2020). As part of the diagnostic process, this study meticulously subjected the collected data to a series of tests designed to check for compliance with these assumptions.

3.9.1 Tests for Linearity

One key assumption in regression analysis is linearity, which posits that there should be a linear relationship between the independent variables (predictors) and the dependent variable (outcome). This assumption implies that for each one-unit change in the independent variable(s), the dependent variable should change by a fixed amount. If the relationship is nonlinear, the regression model may fail to capture the true nature of the relationship between the variables, leading to misleading or incorrect conclusions. To assess linearity, this study employed Pearson 'correlation coefficients, a standard statistical method for measuring the strength and direction of linear relationships between variables. Shiekh & El-Hashash, (2022) emphasize that

Pearson's correlation coefficient provides a clear indication of whether a linear relationship exists between two variables.

A positive correlation indicates that as one variable increases, the other variable also tends to increase, while a negative correlation suggests that an increase in one variable leads to a decrease in the other. A zero or near-zero correlation indicates no linear relationship between the variables. The magnitude of the correlation coefficient, which ranges from -1 to +1, indicates the strength of the relationship: values closer to -1 or +1 suggest a strong linear relationship, while values closer to zero imply a weak or no linear relationship. This test was essential in this study to verify that the relationships between the independent and dependent variables were linear. If the linearity assumption was not met, more sophisticated techniques, such as polynomial regression or data transformation, would need to be considered (Pandey, 2020).

3.9.2 Test of Normality

The assumption of normality plays a pivotal role in regression analysis, as it is foundational to many of the statistical methods used to estimate model parameters and draw valid conclusions from data. In the context of regression, normality refers to the extent to which the distribution of the residuals—defined as the differences between the observed and predicted values—resembles a normal distribution. A normal distribution is symmetric, bell-shaped, and centered around its mean. This assumption is essential because many regression methods, such as Ordinary Least Squares (OLS), rely on the notion that residuals follow a normal distribution to produce unbiased estimates and reliable hypothesis tests (Sarstedt et al., 2019).

When data deviate significantly from normality, the results of regression analysis may become unreliable. Violations of this assumption can lead to issues such as biased regression coefficients, inflated standard errors, and invalid conclusions regarding the significance of predictors. Furthermore, skewed or non-normal data can distort the model's capacity to detect true relationships between variables, leading to incorrect inferences about the data. Consequently, it is crucial to assess whether the data meet the assumption of normality before proceeding with the regression analysis. In this

study, normality was evaluated using both graphical methods and statistical tests for skewness and kurtosis. The graphical methods, such as histograms and Q-Q (Quantile-Quantile) plots, provide a visual way of inspecting whether the data approximates a normal distribution.

A histogram allows for a quick overview of the shape of the distribution, and a Q-Q plot compares the quantiles of the observed data with the quantiles of a standard normal distribution. If the points on the Q-Q plot fall approximately along a straight line, it suggests that the data follow a normal distribution. In addition to visual methods, skewness and kurtosis were computed to assess the degree of departure from normality. Skewness measures the asymmetry of the data, indicating whether the distribution is shifted to the left or right of the mean.

A skewness value of zero suggests perfect symmetry, while positive or negative values indicate right or left skewness, respectively. Kurtosis, on the other hand, measures the "tailedness" of the distribution, reflecting the presence of outliers or extreme values. A kurtosis value of zero indicates a distribution similar to a normal curve, while values greater than zero suggest a distribution with heavy tails, and values less than zero indicate light tails. As per Knief & Forstmeier (2021) a variable can be considered reasonably close to normal if both skewness and kurtosis values fall within the range of -3.0 to +3.0. This rule of thumb provides a practical guideline for determining whether the data meet the normality assumption. If the skewness and kurtosis values fall outside this range, it may suggest that the data significantly deviate from normality, requiring further diagnostic steps or data transformation.

Ensuring that the data meet the assumption of normality is critical, as violations of this assumption can lead to significant issues in regression analysis. For instance, non-normal residuals can result in inflated standard errors, which reduce the precision of coefficient estimates and increase the likelihood of Type I or Type II errors. These errors can distort hypothesis tests, making it difficult to make accurate inferences from the regression model. Thus, testing for normality is an essential preliminary step in regression analysis, as it ensures the robustness and reliability of the statistical conclusions drawn from the model. Only once normality is confirmed can further

analysis proceed with greater confidence that the results will be both valid and interpretable (Shiekh & El-Hashash, 2022).

3.9.3 Test of Multicollinearity

Multicollinearity refers to the presence of high correlations among the independent variables in a regression model. When multicollinearity is present, the estimated coefficients for the predictor variables become unreliable because the independent variables are providing redundant information about the dependent variable. This redundancy complicates the task of determining the individual effect of each independent variable, leading to inflated standard errors and, consequently, less reliable coefficient estimates. The implications of multicollinearity are significant because it undermines the precision of the statistical estimates and makes it difficult to draw accurate conclusions about the relationships between the predictors and the outcome variable (Obiteet al., 2020).

In the presence of multicollinearity, the standard errors of the regression coefficients tend to be larger than they would be in a model without such correlations. This increase in standard errors can lead to non-significant results, even if the predictors have a real effect on the dependent variable. Therefore, multicollinearity not only distorts the statistical significance of the regression coefficients but also leads to an overestimation or underestimation of the magnitude of those coefficients. In practical terms, this means that while the regression model may suggest a weak or no effect for some predictors, the real relationship could be much stronger or weaker. This risk of erroneous conclusions can significantly compromise the validity of the analysis and the reliability of policy or theoretical recommendations derived from such models.

Variance Inflation Factor (VIF) measures how much the variance of an estimated regression coefficient is increased due to collinearity with other predictor variables in the model. The higher the VIF, the greater the correlation between the predictor variable in question and other predictors, which inflates the variance of its coefficient estimate. The VIF for a particular variable is calculated by regressing that variable on all other predictor variables and then computing the ratio of the variance of the

coefficient for that variable in the original regression model to the variance of the coefficient in a model with no multicollinearity.

A high VIF indicates that the variable is highly correlated with other independent variables, which poses a problem for the model's stability and interpretability (Hoffmann, 2021). The threshold for determining problematic multicollinearity is typically set at a VIF value greater than 10. A VIF value exceeding this threshold suggests that the independent variable under investigation is highly correlated with one or more other predictors, and its coefficient estimate may be significantly unreliable. In such cases, the regression model may suffer from multicollinearity issues that require attention. A VIF greater than 10 signals that the standard errors for the regression coefficients are inflated due to multicollinearity, and corrective actions should be taken to remedy the situation (Kalnins & Praitis Hill, 2024).

A VIF between 5 and 10 indicates moderate multicollinearity, which may not necessarily require immediate corrective action but should still be monitored. In such cases, it may be worthwhile to investigate the nature of the correlations between the predictors to determine whether removing one or more variables or combining them is appropriate. VIF in this range may not dramatically affect the model, but it still warrants caution. A VIF < 5 is generally considered acceptable, indicating that multicollinearity is not a significant concern in the model, and the independent variables provide sufficiently independent information. When high multicollinearity is detected (VIF > 10), it is crucial to address the issue to ensure the model's stability and the reliability of the results. One common strategy is to remove one of the correlated predictors.

This is often effective in reducing multicollinearity, as it eliminates the redundancy among the variables. Alternatively, the researcher may choose to combine the correlated variables into a single composite index through techniques such as Principal Component Analysis (PCA) or Factor Analysis. These methods help reduce the dimensionality of the model by creating a smaller set of uncorrelated variables, thereby mitigating multicollinearity and ensuring that the resulting regression model is more stable and interpretable. In cases where removing or combining variables is not

feasible due to the theoretical importance of all predictors, other approaches such as Ridge regression or Lasso regression can be considered.

These regularization techniques apply penalties to the size of the regression coefficients, which helps mitigate the impact of multicollinearity by shrinking the coefficients of less important predictors towards zero. These methods can improve the stability of the model without requiring the removal of variables, although they may not always be suitable for every research design. Furthermore, researchers should ensure that multicollinearity is assessed not just once but as an ongoing diagnostic step throughout the model-building process. As additional variables are included in the model, it is important to regularly check for multicollinearity to ensure that the assumptions of regression analysis remain intact and that the model continues to produce reliable and valid results. Addressing multicollinearity, whether through variable selection, transformation, or regularization, is a critical part of building robust regression models that yield accurate and actionable insights (Salmerón-Gómez et al., 2024).

3.9.4 Autocorrelation

Autocorrelation, also known as serial correlation, refers to the correlation of a variable with itself over successive time intervals. In the context of regression analysis, autocorrelation occurs when the residuals, or errors, from a model are correlated with one another. This violates the assumption of independence of errors, which is crucial for the validity of statistical inference. Autocorrelation is particularly problematic in time series data, where consecutive observations may be related due to temporal patterns, trends, or cycles (Chaudhary et al., 2022). When autocorrelation is present in a regression model, it distorts the estimation of the model's parameters, leading to inefficient estimates.

This inefficiency occurs because the standard errors of the coefficients are biased, making hypothesis tests and confidence intervals unreliable. Specifically, autocorrelation can result in the underestimation of the standard errors, leading to inflated t-statistics and, consequently, an increased likelihood of Type I errors. This

means that researchers might mistakenly conclude that a predictor variable is statistically significant when it is not (Dadashova et al., 2021).

Autocorrelation is often assessed using tools such as the Durbin-Watson statistic. A value of the Durbin-Watson statistic near 2 suggests the absence of autocorrelation, indicating that the residuals are independent. Values closer to 0 suggest positive autocorrelation, while values near 4 indicate negative autocorrelation. A Durbin-Watson statistic outside the range of 1.5 to 2.5 generally signals the presence of autocorrelation, requiring further investigation (Iimi et al., 2020). The presence of autocorrelation may also indicate underlying issues in the model, such as omitted variables, model misspecification, or the need for a more complex functional form. In time series data, trends or seasonal effects might be driving autocorrelation, suggesting that a model should be adjusted to account for these factors (Sun et al., 2021).

In practical terms, autocorrelation can severely compromise the results of regression analysis by undermining the accuracy of coefficient estimates, hypothesis tests, and overall predictions. It is essential to diagnose and address autocorrelation through techniques such as the inclusion of lagged variables, differencing the data, or using robust standard errors. Failure to properly address autocorrelation may result in invalid conclusions and potentially flawed policy recommendations (Chaudhary et al., 2022). Therefore, recognizing and correcting for autocorrelation is essential for producing reliable and credible statistical analyses.

3.9.5 Heteroscedasticity Test

Heteroscedasticity refers to the condition in which the variance of the residuals (error terms) is not constant across the range of the independent variables. While homoscedasticity (constant variance) is a key assumption in regression analysis, heteroscedasticity can lead to inefficient estimates and biased statistical tests. Specifically, heteroscedasticity can inflate the standard errors of the regression coefficients, making hypothesis tests unreliable and potentially distorting the statistical significance of the model. In this study, the Breusch-Pagan test was used to detect heteroscedasticity in the regression model.

The Breusch-Pagan test is a common diagnostic tool that assesses whether the variance of the residuals is related to the values of the independent variables (Yuanyuan, 2022). If heteroscedasticity is detected, it suggests that the error terms are not homogenous, which could undermine the validity of the regression results. In such cases, the researcher may need to apply robust standard errors or transform the dependent variable to correct for the non-constant variance. Detecting and addressing heteroscedasticity is crucial because it ensures that the regression model produces accurate and reliable estimates, providing valid conclusions for hypothesis testing and model interpretation (Hoffmann, 2021).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the response rate, reliability tests, background information of respondents, results of descriptive and inferential statistics results are presented respectively. The results of descriptive and inferential statistics are presented in line with the study variables and objectives.

4.2. Pilot Study Results

A pilot study was conducted to test the reliability and validity of the data collection instruments. Pilot testing enables the researcher ascertain the effectiveness of the questionnaire instrument, make sure that everyone in the survey not only understands the questions but understands them in the same way (Malmqvist, Hellberg, Möllås, Rose & Shevlin, 2019). The researcher conducted a pilot study on four banks that were randomly selected before the main data collection exercise. The questionnaires were administered to the senior managers in charge of corporate affairs. The rule of the thumb that 10% of the respondents picked was applied (Sekaran & Bougie, 2010). The contents of questionnaire were thoroughly discussed with the respondents whom the pilot study was carried on with a view of identifying any shortfall in the instrument. Issues raised with respect to measurement were adjusted without changing the meaning.

4.2.1 Reliability of the Questionnaire

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). This study assessed the internal consistency of the research questionnaire. The results of analysis are shown in Table 4.1.

Table 4.1: Reliability of the Research Questionnaire

Variable Items	Cronbach's Alpha	Test
Board Diversity	0.769	5
CEO Attributes	0.711	5
Board Independence	0.814	5
Board Committees	0.857	5
Social Capital	0.857	5
Competitive Advantage	0.907	5

The reliability test results of this study were conducted to assess the internal consistency of the research questionnaire. Table 4.1 presents the Cronbach's alpha values for the various constructs included in the study. Cronbach's alpha is a measure of reliability, with values ranging from 0 to 1, where a value greater than 0.7 is generally considered acceptable for ensuring internal consistency. According to the results in Table 4.17, the variable "Competitive Advantage" exhibited the highest Cronbach's alpha coefficient of 0.907, indicating a very high level of internal consistency among the five test items in this construct. Both "Board Committees" and "Social Capital" also showed strong reliability, with Cronbach's alpha values of 0.857, suggesting that these constructs have reliable and consistent measurement.

"Board Independence" followed closely with a Cronbach's alpha value of 0.814, indicating a good level of internal consistency across the five test items related to this construct. "Board Diversity" had a slightly lower, but still acceptable, Cronbach's alpha of 0.769, indicating satisfactory internal consistency. The construct with the lowest Cronbach's alpha was "CEO Attributes," which had a value of 0.711. Although it was the lowest among the constructs, this value is still above the commonly accepted threshold of 0.7, confirming that it met the reliability standards. All five constructs in the research questionnaire had Cronbach's alpha values greater than 0.7, demonstrating that the questionnaire was reliable and suitable for measuring the variables in the study. These results suggest that the measurement scales used in the study were sufficiently consistent to draw valid conclusions from the data.

The pilot study was largely successful. In conclusion, therefore, the reliability of the revised variable measurement scales is considered adequate and the final questionnaire appropriate for actual data collection.

4.2.2 Validity of the Questionnaire Items

Validity is the extent to which the research findings accurately reflect the phenomenon under study (Collis & Hussey, 2009). Bryman and Bell (2011) emphasized that validity is the most important criterion for research. In this study the following steps were taken to ensure questionnaire validity: the objectives of the study were defined very carefully, draft questionnaire was pre-tested for content validity, and many questions were used from previous studies that had been used in different cultures, different environments, and at different times, a measure that contributed to construct validity. Content validity was also used to ascertain the appropriateness of the contents in the research instrument that is, whether the measures questionnaire instrument accurately assesses what it intended to achieve.

The study established face validity by garnering comments from people with experience and expertise in this field. First, the researcher distributed the draft questionnaire to 8 PhD postgraduate students studying strategic management at JKUAT, and asked them to provide any comments about the questionnaire and whether they understood the questions. Their feedback was related to the wording of some of the statements, the structure, and the layout of the questionnaire. All their comments were considered and changes were made before piloting. Second, the draft questionnaire was sent to the 2 supervisors for the researcher. Their feedback helped with the refinement of the items in terms of using more objective methods for measuring items and better wording. After these changes were made, the final version of the draft questionnaire was ready, before being pre-tested as recommended by the experts.

Content validity explains how well the dimensions and elements of the concept have been delineated (Sekaran & Bougie, 2011). Content validity was established in two ways: by means of a comprehensive literature review; and an expert review ~~where~~ the

initial draft questionnaire was subjected to an evaluation by a group of 4 experts (2 lecturers and 2 practitioners) who provided their comments on the relevance of each item on the data collection instrument prior to the pilot test. The results of their responses were analyzed to establish the percentage representation using the content validity index. The content validity formula by Polit and Beck (2006) was used.

This content validity formula was: $CVI = K \div N$

Where: CVI = Content Validity Index

K = Total No. of Items in the Questionnaire Declared Valid by the Raters

N = Total No. of Items in the Questionnaire

Table 4.2: Content Validity

Rater	Total No. of Items	Total No. of Items Declared Valid	Content Validity Index	Congruency Percentage	Comments
Rater 1	24	24	1	100%	Valid
Rater 2	24	23	0.958	95.8%	Valid
Rater 3	24	23	0.958	95.8%	Valid
Rater 4	24	24	1	100 %	Valid
Average	24	23	0.979	97.9%	Valid

The results from the pre-test indicated that the average content validity index was 0.979 and the average congruency percentage was 97.9% implying that the content validity was acceptable. Waltz, Strickland, and Lenz (2005) advise that an average congruency percentage of 90 percent or higher would be considered acceptable (Polit & Beck, 2006). A similar approach for determining the content validity has been adopted by Kitonga *et al.* (2016a) and Waithaka (2013) in their researches.

4.3 Response Rate of the Study

The response rate refers to the number of questionnaires that were filled and returned in the main study. Table 4.3 shows the analysis of the response rate.

Table 4.3: Response Rate

Response	Number of questionnaires	Percentage (%)
Effective Questionnaires	234	78%
Unreturned/invalid questionnaires	60	22%
Total	294	100%

Table 4.3 shows 294 questionnaires were administered on the respondents who participated in the study. 234 questionnaires were duly filled and returned to the researcher. This represented 78% response rate. According to Holtom, Baruch, Aguinis, and Ballinger (2022), a response rate of 50% is considered acceptable for surveys. A rate of 60% is good and 70% and above is very good. The response rate of 78% was therefore very suitable for the study as it was way above the 70% threshold desired for external validity.

4.4 Demographic Information

The study put into account the demographic information of the respondents since the background information of the respondents is crucial for the authenticity of the results. The demographic information of the respondents was grouped in terms of gender, Service duration with the employer, education level, Bank Tier, Bank Operating Life, Number of Board Members, Full Time Board Members, Female Board Members and Bank Majority Ownership.

4.4.1 Gender of the Respondents

The study sought to establish the respondents' gender and is shown in Table 4.4.

Table 4.4: The Distribution of the Gender Respondents

	Frequency	Percent
Male	159	68.0
Female	75	32.0
Total	234	100.0

From the results in Table 4.4 above, 68.0% (159) of the respondents were male and 32.0% (75) were female. This is a clear indication that males form the majority of employees in the banking sector. This could be attributed to the majority of males graduating from institutions of higher learning hence recruitment into the banking industry in larger numbers than the females. This is so in spite of the measures Kenya has been implementing which have contributed to improved gender equality, with the Gender Inequality Index (GII) narrowing from 0.7 in 1995 to 0.55 in 2018 (Gutiérrez-Martínez et al., 2021).

4.4.2 Service Duration with the Employer

The study sought to establish the how long the respondent had worked with their current organization. The results are presented in Table 4.5.

Table 4.5: Distribution of Service Duration

	Frequency	Percent
0- 5years	29	12.4
6- 10years	77	32.9
11- 15years	78	33.3
16- 20years	27	11.5
Above 21years	23	9.8
Total	234	100.0

From the findings as shown in Table 4.5 above, it is evident that a majority of the respondents 33.3% (78) have been working in the banks for duration of 11-15 years. 32.9% (77) of the respondents have worked in the commercial banks for duration of between 6-10 years. The study also shows that 12.4% (29) have worked in the commercial banks for a period of between 0-5 years. Yet again, the study revealed that

11.5% (27) of the respondents had been in the banks for a period of between 16-20 years while only 9.8% (23) had worked in the banks for more than 21 years.

This is an indication that most of the respondents had been working for over ten years hence were able to provide relevant and reliable information for the study. This also implies that the banks have attracted and retained skilled labor as evidenced by their experience and the duration of the employee in the job. Length of service with the commercial banks was important in order to determine the respondent's level of understanding regarding internal information pertinent to the bank. The duration worked in the firm is usually in line with experience, responsibility and skills of the business person (Pastore et al., 2021).

4.4.3 Level of Education

The study sought to establish the level of education of the respondents. The results are presented in Table 4.6.

Table 4.6: Distribution of the Level of Education

	Frequency	Percent
Diploma	10	4.3
Degree	120	51.3
Masters	104	44.4
Ph.D	0	0
Total	234	100.0

The study reveals that the majority of respondents in the banking industry hold higher education qualifications, with 51.3% (120) having completed an undergraduate degree. This suggests that a significant portion of the banking workforce has the foundational academic qualifications typically required for entry-level to mid-level positions. The high proportion of degree holders reflects the general expectation within the sector for employees to possess at least a bachelor's degree to meet the demands of various roles. A close second in terms of qualifications are those with a master's degree, representing 44.4% (104) of the respondents. This indicates a strong trend

toward advanced education within the banking industry, highlighting the increasing value of specialized knowledge and higher qualifications in areas such as management, finance and technology.

The relatively high number of master's degree holders suggests that the industry values employees with advanced analytical and technical skills, which are crucial for navigating complex financial and managerial challenges. On the other hand, only 4.3% (10) of respondents reported having a diploma as their highest level of education, indicating that diploma holders are underrepresented in this sample. This suggests that most banking roles require at least a degree-level education. Notably, no respondents held a Ph.D., which could imply that doctoral-level qualifications are not a priority for operational roles in the banking sector. Overall, the educational background of the respondents underscores the importance of formal higher education in the industry, with most employees possessing at least a degree or a master's, reflecting the need for specialized and practical knowledge in the banking workforce.

4.4.4 Bank Tier

The study sought to establish the bank tier. The results are presented in Table 4.7.

Table 4.7: Distribution of the Bank's Tier

	Frequency	Percent
Tier 1	92	39.3
Tier 2	98	41.9
Tier 3	44	18.8
Total	234	100.0

The study revealed the distribution of respondents across three distinct bank tiers, with Tier 2 banks being the most common, as 41.9% (98) of participants reported working for these mid-sized institutions. Tier 2 banks are typically characterized by having a notable market presence but fewer resources compared to the largest banks in Tier 1. This suggests that a significant portion of the respondents are employed by banks that play a key role in the sector but are not as large as the major national or multinational institutions. Tier 1 banks, which are typically the largest and most established in the

market, accounted for 39.3% (92) of the respondents. While slightly fewer than those in Tier 2, this proportion still represents a substantial share, indicating that Tier 1 banks remain dominant in the sector, attracting employees with diverse skills and expertise.

These institutions continue to hold significant market influence, offering a broad range of financial services and playing a central role in the banking landscape. In contrast, Tier 3 banks, which are smaller institutions with more limited market presence, accounted for 18.8% (44) of the respondents. Although a smaller percentage, this still reflects a notable portion of the banking workforce, with many Tier 3 banks focusing on niche markets or regional services. The lower representation of Tier 3 employees suggests that smaller banks may have more specialized roles and responsibilities, which could differ from those in larger institutions. Overall, the study provides a comprehensive snapshot of the banking sector, capturing insights from diverse range of institutions across all the three tiers.

4.4.5 Bank Operating Life

The study sought to establish how long the bank had been in operation in Kenya. The results are presented in Table 4.8.

Table 4.8: Distribution of the Bank's Operating Life

	Frequency	Percent
0- 5years	11	4.7
6- 10years	5	2.1
11- 15years	12	5.1
16- 20years	14	6.0
Above 21years	192	82.1
Total	234	100.0

The findings from Table 4.8 show that the majority of respondents' banks in Kenya are well-established, with 82.1% (192) of banks having been in operation for over 21 years. This long operational history suggests that these institutions have strong reputations, solid customer bases, and extensive experience navigating economic changes, regulatory shifts, and market competition. Such banks are generally more

resilient during periods of economic volatility and have a better capacity to adapt to new market conditions. A smaller proportion of respondents indicated that their banks have been in operation for a shorter period. 5.1% (12) of banks have been operational for 11-15 years, while 6.0% (14) have been in business for 16-20 years. These banks are likely well-established in their own right, with a solid market presence and customer loyalty, though they lack the long histories of the dominant institutions.

On the other hand, 2.1% (5) of respondents' banks have been operational for 6-10 years, and only 4.7% (11) have been in operation for 5 years or less, indicating that newer entrants are less common in the market. Overall, the data highlights that the Kenyan banking sector is largely dominated by long-established institutions, with only a small percentage of newer banks emerging in the competitive landscape. The predominance of experienced banks likely provides a wealth of institutional knowledge and stability, which is reflected in the study's sample. While newer banks may be leveraging innovation and technology to carve out niches in the market, the sector remains primarily composed of seasoned institutions with strong market positions and reputations. This context is important for interpreting the findings, as it suggests that the experiences shared by respondents are largely shaped by the perspectives of employees working within these well-established banks.

4.4.6 Number of Board Members

The study sought to establish the number of board members in the banks. The results are presented in Table 4.9

Table 4.9: Distribution of the Number of Board Members

	Frequency	Percent
Less than 5	4	1.7
5-9 members	139	57.3
Above 10	96	41.9
Total	234	100.0

The results, shown in Table 4.9, indicate that most banks (57.3%) have between 5 and 9 board members, which is the most common board size among the respondents. A sizable portion of the banks (41.9%) have more than 10 board members, suggesting that larger boards are favored in many institutions for their potential to provide diverse perspectives and specialized expertise. In contrast, only a small percentage of banks (1.7%) reported having fewer than 5 board members, indicating that such small boards are relatively rare in the Kenyan banking sector. Smaller boards are often found in more agile, smaller institutions but may have limitations in terms of the range of expertise they can offer. This finding suggests that the vast majority of banks prefer a larger, more diversified board for better decision-making and governance.

Overall, the data reflects a trend towards larger, more diversified boards in the Kenyan banking industry, with most respondents working in institutions that prioritize a wide range of skills and experiences at the board level. This approach is aligned with good governance practices and enables banks to better navigate complex regulatory, strategic, and financial challenges. The preference for larger boards also underscores the industry's commitment to promoting diversity and ensuring comprehensive oversight of operations.

4.4.7 Full Time Board Members

The study sought to establish the ratio of full-time board members of the bank. That is, to establish whether they are a majority or a minority.

Table 4.10: Distribution of the Full Time Board Members

	Frequency	Percent
More than Half	68	29.1
Less than half	166	70.9
Total	234	100.0

The results presented in Table 4.10 indicate that a significant 70.9% (166) of the respondents' banks had less than half of their board members working on a full-time

basis. This suggests that the majority of board members in these banks serve on a part-time or non-executive basis, which is consistent with standard corporate governance practices. In contrast, 29.1% (68) of the respondents reported that more than half of their bank’s board members worked full-time. While this proportion is smaller, it still represents a notable segment of institutions that rely on full-time board members, possibly for more direct involvement in day-to-day operations and decision-making.

Full-time board members can bring deeper insight into the bank's operations, but this is less common in the banking sector where part-time or non-executive board members typically provide strategic oversight. Overall, the findings align with corporate governance recommendations that emphasize having a majority of non-executive or part-time board members. The data suggests that most respondent banks follow this principle, where non-executive members provide independent oversight while allowing for the strategic guidance of full-time board members when necessary. This distribution highlights the balance between strategic governance and operational involvement in the banking sector.

4.4.8 Female Board Members

The study sought to establish the ratio of female members in the bank board. This in terms of whether they are more or less than a third. Results are presented in Table 4.11

Table 4.11: Distribution of Female Board Members

	Frequency	Percent
More than a third	64	27.4
Less than a third	170	72.6
Total	234	100.0

The study sought to determine the proportion of female board members in the respondent banks, specifically whether the number of women on the board exceeded or fell below a third of the total board composition. The findings, shown in Table 4.11,

reveal that 72.6% (170) of the respondents' banks had less than a third of their board members as female, indicating that a majority of these institutions do not meet the gender balance standard recommended for corporate boards. Conversely, 27.4% (64) of the respondents' banks reported having more than a third of their board members as female. While this is a smaller percentage, it highlights that a significant number of banks are making strides toward gender diversity in their leadership ranks.

However, this percentage still falls short of achieving gender parity on boards, reflecting the ongoing challenge in many sectors, including banking, to fully embrace gender balance. Overall, the data suggests that while there are efforts to increase female representation on bank boards in Kenya, the majority of institutions have not yet reached the one-third gender balance target. This aligns with findings from other studies, such as those by Barreiro-Gen and Carpenter (2021), which indicate that gender diversity remains a significant issue in corporate governance. The results highlight the need for continued focus on improving gender equity in leadership positions within the banking sector.

4.4.9 Bank Majority Ownership

The study sought to establish the Bank Majority Ownership in terms of local ownership and whether private, government or foreign owned. Results are presented in Table 4.12

Table 4.12: Distribution of Bank Majority Ownership

	Frequency	Percent
Locally Owned (Public)	48	20.5
Locally Owned (Private)	119	50.9
Locally Owned (Govt)	18	7.7
Foreign Owned	49	20.9
Total	234	100.0

According to the findings presented in Table 4.12, 50.9% (119) of the respondents' banks are locally owned (private), making private ownership the most common ownership structure among the banks in the study. This suggests that the banking

sector in Kenya is largely dominated by privately owned institutions. Additionally, 20.9% (49) of the respondents' banks are foreign-owned, indicating a significant presence of international investors in the Kenyan banking sector. 20.5% (48) of the banks are locally owned (public), while a smaller proportion, 7.7% (18), are government-owned. This distribution reveals a varied ownership landscape, with a notable portion of the sector under public or government control, but the majority of the institutions being privately owned or foreign-controlled.

In summary, the results show that more than two-thirds of the banks in the study are locally owned, either privately, publicly, or by the government. This reflects the strong role of local ownership in shaping the banking industry in Kenya, while also highlighting the considerable influence of foreign ownership. The findings suggest a diverse ownership structure in the sector, with both local and international players contributing to the overall dynamics of the industry.

4.5 Descriptive Statistics of the Variables

This section illustrates descriptive findings and discussions based on the objectives of the study. The study focused on the following features of corporate governance; board diversity, CEO attributes, board independence and board committees. The findings were presented in form of Mean (M) and Standard Deviations (SD). The responses were in line with a 5 Point Likert-Scale ranging from: - Strongly Disagree = 1, Disagree = 2 Neutral = 3, Agree = 4, and Strongly Agree = 5.

4.5.1 Effect of Board Diversity on Competitive Advantage

The study analyzed the views of the respondents in respect to board diversity and competitive advantage of commercial banks in Kenya. Table 4.11 shows the results of the analysis.

Table 4.13: Distribution of the Responses for Board Diversity on Competitive Advantage

Statements	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
The bank board's composition adequately reflects a diverse range of expertise, encompassing both financial and non-financial experts.	234	62.4	34.2	3.4	0	0	4.59	0.558
The bank's board demonstrates a balanced representation of gender, promoting a variety of perspectives and insights.	234	26.5	31.2	24.8	15.0	2.6	3.64	1.104
The geographical backgrounds of board members contribute to a comprehensive understanding of regional banking dynamics and customer needs.	234	34.6	49.1	11.5	3.4	1.3	4.12	0.837
The board's generational diversity enhances the bank's ability to adapt to changing market trends and technological advancements.	234	30.3	56.8	10.7	2.1	0	4.15	0.689
The skills and competencies possessed by the board members align effectively with the bank's strategic goals and challenges.	234	46.2	49.6	4.3	0	0	4.42	0.575

Table 4.13 presents the respondents' views on the influence of board diversity on the competitive advantage of commercial banks in Kenya. Regarding the diversity of expertise, a majority (62.4%) strongly agreed, and 34.2% agreed that the board composition adequately reflects a diverse range of expertise. This resulted in a high mean score of 4.59 with a low standard deviation of 0.558, signifying strong agreement that diverse expertise enhances decision-making and competitive advantage. When evaluating gender diversity, 26.5% strongly agreed and 31.2% agreed that the board has a balanced gender representation. However, a significant portion (24.8%) remained neutral, and 15% disagreed, resulting in a lower mean score of 3.64 and a higher standard deviation of 1.104. This variability suggests that while gender diversity is recognized as beneficial, it may not yet be at a level that significantly influences decision-making in some banks.

Regarding geographical diversity, 34.6% strongly agreed, and 49.1% agreed that board members from varied geographical backgrounds contribute to a better understanding of regional banking dynamics and customer needs. The mean score of 4.12, with a standard deviation of 0.837, highlights the importance of geographical diversity in enhancing the bank's ability to tailor its strategies to local market conditions. On generational diversity, 30.3% strongly agreed, and 56.8% agreed that the presence of members from different age groups enhances the bank's ability to adapt to market trends and technological changes. With a mean score of 4.15 and a standard deviation of 0.689, respondents clearly valued the ability of generational diversity to support agility and innovation within the bank.

Finally, on the alignment of board members' skills with the bank's strategic goals, 46.2% strongly agreed, and 49.6% agreed, resulting in a high mean score of 4.42 and a low standard deviation of 0.575. This indicates strong agreement that a well-aligned board is crucial for ensuring effective governance and enhancing the bank's competitive position. Overall, the findings suggest that board diversity—across expertise, gender, geography, generational diversity, and alignment with strategic goals—plays a significant role in enhancing the competitive advantage of commercial banks in Kenya. Diverse boards are seen as more capable of making informed decisions, responding to market dynamics, and driving long-term success.

This aligns with recent studies that emphasize the role of corporate governance in fostering competitive advantage, such as Abdi and Mungai (2024), which found that diverse boards lead to more effective decision-making and improved financial performance in the East African banking sector. In conclusion, the study highlights that board diversity is a critical factor in strengthening the competitive advantage of banks in Kenya. Banks with diverse boards are more likely to make strategic decisions that improve their market position. As the financial sector evolves, increasing board diversity—particularly in terms of gender, generational, and geographical representation—should be a strategic priority for banks seeking to maintain a competitive edge in a rapidly changing environment.

4.5.2 CEO Attributes

The study analyzed the views of the respondents in respect to CEO Attributes and competitive advantage. Table 4.14 shows the results of the analysis.

Table 4.14: Distribution of Responses for CEO Attributes on Competitive Advantage

Statements.	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	“M”	Std. Dev
The combination of CEO and Chairperson roles in the bank has in the past contributed to a more streamlined decision-making process.	23 4	47.9	45.3	6.8	0	0	4.41	0.617
Separating the CEO and Chairperson roles has in the past promoted a healthier balance of power and oversight on the board.	23 4	27.4	52.6	17.1	2.6	0.4	4.04	0.766
The CEO's educational background has in the past significantly influenced the bank's strategic direction and performance.	23 4	30.3	52.1	15.8	0.9	0.9	4.10	0.751
The CEO's educational qualifications are perfectly well-aligned with the technical demands of the banking industry.	23 4	32.9	50.4	14.5	1.3	0.9	4.13	0.767
The CEO's involvement in external boards positively impacts the bank's networking opportunities and industry influence.	23 4	44.9	41.9	12.0	1.3	0	4.30	0.728

Table 4.14 presents the percentage, means and standard deviations of respondents' views on CEO attributes and their influence on the competitive advantage of commercial banks in Kenya. The results show a strong consensus on the importance of CEO characteristics in shaping a bank's competitive edge. In examining the statement about the combination of CEO and chairperson roles, 47.9% of respondents strongly agreed, and 45.3% agreed. This high level of agreement (Mean = 4.41, Std Dev = 0.617) suggests that respondents believe this dual role leads to a more streamlined decision-making process, highlighting the efficiency of combining both leadership positions. However, the responses to the statement about separating the roles were more mixed, with 27.4% strongly agreeing and 52.6% agreeing that such a separation promotes a healthier balance of power and oversight.

This statement had a mean of 4.04 and a standard deviation of 0.766, indicating general support but also some differences in opinion regarding the necessity of role separation for effective governance. Regarding the CEO's educational background, a majority of respondents (30.3% strongly agreed, and 52.1% agreed) believed that it significantly influences the bank's strategic direction and performance (Mean = 4.10, Std Dev = 0.751). This indicates that the CEO's education is seen as a key factor in determining the bank's success. The alignment between the CEO's qualifications and the technical demands of the banking industry also received strong support, with a mean score of 4.13 (Std Dev = 0.767). This reflects the belief that the CEO's expertise is critical to addressing the specific challenges of the banking sector.

Finally, when respondents were asked about the CEO's involvement in external boards, 44.9% strongly agreed, and 41.9% agreed that such involvement enhances the bank's networking opportunities and industry influence. The mean score of 4.30 and a standard deviation of 0.728 indicate strong consensus on the value of external engagements in broadening the bank's reach and impact. In summary, the results suggest that CEO attributes, such as the combination of CEO and Chairperson roles, educational background and external board involvement, are perceived to have a significant positive impact on the competitive advantage of commercial banks in Kenya. These attributes are considered essential for making informed decisions, building industry connections and maintaining strong governance. The findings align with previous research, such as the study by Mukherjee and Sen (2022), which highlighted the benefits of CEO duality and CEO external engagement in enhancing a firm's performance and competitive positioning.

4.5.3 Board Independence

The study analyzed the views of the respondents in respect to Board Independence and competitive advantage. Table 4.15 shows the results of the analysis.

Table 4.15: Distribution of Responses for Board Independence on Competitive Advantage

Statements.	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	“M”	Std. Dev
The presence of an independent Chair is actioned in this bank on the Board to enhance the effectiveness of corporate governance practices.	234	43.2	52.6	3.4	0.4	0.4	4.38	0.618
This is one of the few banks that has promoted a non-executive Board chair to encourage impartial decision-making and accountability.	234	26.5	59.4	11.1	2.1	0.9	4.09	0.730
The bank has always promoted a higher proportion of non-executive directors on the Board to contribute to better oversight of management actions.	234	31.2	48.3	15.8	4.7	0	4.06	0.811
The inclusion of cross directors from other sectors enriches discussions with diverse viewpoints on industry challenges.	234	42.7	50.4	6.4	0.4	0	4.35	0.620
The bank has a high number of overlapping board members across different organizations.	234	25.6	34.6	29.1	9.4	1.3	3.74	0.987

Table 4.15 presents the percentage, means, and standard deviations of respondents' views on board independence and its influence on the competitive advantage of commercial banks in Kenya. The results highlight the importance of board structure and independence in driving better governance and strategic decision-making. Respondents strongly agreed (Mean = 4.38, Std Dev = 0.618) that the presence of an independent Chair on the board enhances the effectiveness of corporate governance practices. This high level of agreement reflects a strong belief in the positive impact of independent leadership on governance processes. The statement regarding the promotion of a non-executive board chair also received significant agreement (Mean = 4.09, Std.Dev = 0.730), indicating that respondents view this practice as fostering

impartial decision-making and accountability within the bank's governance framework

When asked about the proportion of non-executive directors on the board, respondents agreed (Mean = 4.06, Std.Dev = 0.811) that this promotes better oversight of management actions. This suggests that the presence of non-executive directors is seen as a key factor in ensuring effective supervision and control within the organization. Additionally, the inclusion of cross-sector directors was supported by respondents (Mean = 4.35, Std Dev = 0.620), who agreed that their diverse perspectives contribute to enriched discussions on industry challenges. This reinforces the value of bringing in external viewpoints to strengthen strategic decision-making. However, the statement about overlapping board memberships across different organizations received a lower mean score of 3.74 (Std.Dev = 0.987), indicating more mixed opinions.

While 25.6% strongly agreed and 34.6% agreed, a significant proportion (29.1%) remained neutral, and 9.4% disagreed. This suggests that while some respondents see value in board members being involved in multiple organizations, others may have concerns about potential conflicts of interest or a lack of focus. In conclusion, the findings suggest that board independence, through the presence of independent leadership, non-executive directors, and cross-sector involvement, is viewed as an important factor in enhancing the competitive advantage of commercial banks in Kenya. The positive views expressed regarding governance practices align with previous studies, such as Petroski and Yahaya (2024), which highlighted the role of top management team characteristics in influencing organizational performance. The results reinforce the idea that a well-structured, independent board can contribute significantly to better decision-making, accountability, and the long-term success of banks in a competitive environment.

4.5.4 Board Committees

The study analyzed the views of the respondents in respect to Board Committees and competitive advantage. Table 4.16 shows the results of the analysis.

Table 4.16: Distribution of Responses for Board Committees on Competitive Advantage

Statements.	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	“M”	Std. Dev
The banks board committees have well-defined constitutional length having the capacity to thoroughly address complex issues thrown at it.	234	60.7	32.9	5.1	1.3	0	4.53	0.656
The expertise of committee members has in the past significantly influenced the quality of decisions and recommendations made.	234	37.6	54.7	6.8	0.4	0.4	4.29	0.648
The board index on diverse membership is one of the highest in the sector with diverse board committees that enhances the richness of discussions and decision-making processes.	234	25.6	52.6	21.4	0.4	0	4.03	0.699
Frequent reviews of committee charters and activities are a norm and are crucial for maintaining their relevance and effectiveness.	234	25.6	52.1	20.9	1.3	0	4.02	0.720
The number of committee members is regularly tailored to ensure comprehensive coverage of the matters under the committee's purview.	234	32.1	46.2	14.5	6.4	0.9	4.02	0.896

From Table 4.16 above, the first statement asked respondents about the bank’s board committees having a well-defined constitutional length to address complex issues. The findings show that a majority of respondents (60.7%) strongly agreed, and 32.9% agreed with this statement. Only a small percentage (5.1%) remained neutral, with minimal disagreement (1.3% disagreeing and 0.4% strongly disagreeing). This strong positive response resulted in a mean score of 4.53, accompanied by a standard deviation of 0.656. This indicates a consensus that the bank’s committees are well-structured and capable of addressing complex issues effectively, with only a slight variation in responses. The second statement explored the influence of committee members' expertise on the quality of decisions made. A notable 37.6% of respondents strongly agreed, and 54.7% agreed with the statement.

With only 6.8% remaining neutral and minimal disagreement, the mean score of 4.29, with a standard deviation of 0.648, suggests that respondents overwhelmingly agree that the expertise of committee members significantly impacts the quality of decisions.

The standard deviation indicates a slight variation in opinions, but the general trend is clear: expertise is seen as a vital component of effective decision-making. The third statement focused on the diversity of board membership, specifically asking whether the board's diversity enhances the richness of discussions and decision-making. A substantial 25.6% strongly agreed and 52.6% agreed with this statement, while 21.4% were neutral. The mean score of 4.03 and a standard deviation of 0.699 indicate that respondents largely agree that diversity plays a significant role in enriching decision-making.

However, the standard deviation reflects some variation in opinions, possibly due to differing views on how diversity is defined and its specific impact on decision outcomes. The fourth statement examined whether frequent reviews of committee charters and activities are conducted to ensure their relevance and effectiveness. The mean score of 4.02, with a standard deviation of 0.720, suggests that respondents generally agree with the importance of regular reviews. With 25.6% strongly agreeing and 52.1% agreeing, the overall sentiment is positive, but the slightly higher standard deviation indicates more variability in how strongly respondents feel about the frequency and effectiveness of these reviews. Finally, the fifth statement addressed the regular tailoring of committee memberships to ensure comprehensive coverage of committee work. A majority (32.1%) strongly agreed, and 46.2% agreed, resulting in a mean score of 4.02 and a standard deviation of 0.896.

While there is strong agreement on the importance of tailoring committee membership, the higher standard deviation suggests more significant variability in opinions on how often this adjustment should be made or how comprehensive the coverage needs to be. Overall, the findings indicate that respondents perceive the bank's board committees as highly effective in enhancing governance and supporting a competitive advantage. The high mean scores across all statements suggest a strong endorsement of the committees' structure, the expertise of members and their diversity. While there is general agreement on the importance of regular reviews and adjusting committee membership, the variability in standard deviations indicates that some respondents hold different views on the specifics of these practices. Nevertheless, the findings

highlight the perceived value of well-structured, diverse, and regularly reviewed committees in driving strategic decision-making and maintaining a competitive advantage in the banking sector.

4.5.5 Social Capital

The study further sought to determine the respondents' level of agreement with the various statements on Social Capital. Table 4.17 shows the findings.

Table 4.17: Distribution of Responses for Social Capital

Statements.	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	"M"	Std. Dev
The bank has one of the largest network sizes which enhance the bank's access to diverse resources and opportunities.	234	65.0	20.1	6.8	6.0	2.1	4.40	0.998
The bank has 100% compliance to social norms within the banking industry on a regular basis to strengthen the bank's social reputation.	234	54.7	38.5	6.0	0.9	0	4.47	0.649
The bank has high levels of trust within its social network as noted from operational data and this positively influence collaboration and cooperation.	234	62.4	27.8	7.7	2.1	0	4.54	0.700
There are mechanisms within the bank for maintaining regular communication within the bank's social network that fosters knowledge sharing and mutual support.	234	60.7	32.1	5.6	1.7	0	4.43	0.605
The frequency of reciprocal actions is monitored and evaluated frequently within the network as it contributes to a sustainable cycle of support and reciprocity.	234	49.6	31.6	7.3	7.3	4.3	4.40	0.681

The results in Table 4.17 indicate that respondents strongly agreed (Mean = 4.40; Std Dev = 0.998) with the statement that the bank has one of the highest networks that enhances its access to resources. The first statement examined the bank's network size and its ability to enhance access to diverse resources and opportunities. A significant 65.0% of respondents strongly agreed, and 20.1% agreed with the statement. Only 6.8% remained neutral, with a small percentage (6.0%) disagreeing and 2.1% strongly disagreeing. The mean score of 4.40, accompanied by a relatively high standard deviation of 0.998, indicates that respondents generally view the bank's network size as a critical factor in enhancing its access to resources, although there is some variability in the strength of their agreement.

The second statement focused on the bank's adherence to social norms within the banking industry, which helps to strengthen its social reputation. Here, 54.7% strongly agreed, and 38.5% agreed, showing that the bank's compliance with industry norms is seen as important for maintaining a strong social reputation. Only 6.0% remained neutral, and just 0.9% disagreed. With a mean score of 4.47 and a standard deviation of 0.649, the responses indicate broad consensus on the bank's strong compliance, and the lower standard deviation suggests a more uniform opinion on the importance of this factor. The third statement addressed the level of trust within the bank's social network and its impact on collaboration and cooperation. A strong majority of 62.4% strongly agreed, and 27.8% agreed, highlighting the importance of trust in the bank's social capital. Only 7.7% were neutral, and 2.1% disagreed.

With a mean score of 4.54 and a standard deviation of 0.700, these findings suggest that trust is a critical component for effective collaboration and cooperation within the bank's social network, with responses showing a generally high level of agreement. The fourth statement examined the presence of mechanisms within the bank for fostering communication and mutual support within its social network. A majority of 60.7% strongly agreed, and 32.1% agreed, while only 5.6% were neutral and a small percentage (1.7%) disagreed. The mean score of 4.43, with a low standard deviation of 0.605, reflects strong support for the bank's mechanisms that facilitate knowledge

sharing and support, indicating that respondents recognize the value of these communication tools for enhancing social capital.

The fifth statement focused on the frequency of reciprocal actions within the network and how they contribute to a sustainable cycle of support and reciprocity. Of the respondents, 49.6% strongly agreed, and 31.6% agreed, with 7.3% remaining neutral and another 7.3% disagreeing. The mean score of 4.40, coupled with a standard deviation of 0.681, suggests that while most respondents agree that reciprocal actions are important, there is a moderate level of variability in how frequently these actions are monitored and evaluated within the bank's network. In summary, the findings indicate that respondents view social capital as a significant factor in the bank's overall strategy for achieving a competitive advantage. The high mean scores for statements regarding network size, trust, compliance with social norms, and communication mechanisms reflect a consensus on the importance of these elements in fostering strong social capital.

While the responses generally reflect agreement on the positive impact of these factors, the slightly higher standard deviations in some areas (such as network size and reciprocal actions) suggest some variability in the respondents' perceptions. Nevertheless, the data underscores the importance of robust social capital—through trust, communication, reciprocity, and adherence to social norms—in enabling the bank to access valuable resources, maintain a good reputation, and enhance collaboration. These findings highlight the role of social capital in strengthening the bank's position in the competitive banking landscape.

4.5.6 Competitive Advantage

The study also sought to determine the respondent's level of agreement with statements on competitive advantage of Kenyan banks. Table 4.18 shows the findings.

Table 4.18: Descriptive Statistics for Competitive Advantage

Statements	N	SA (%)	A (%)	N (%)	D (%)	SD (%)	“M”	Std. Dev
The superior quality of our products/services as reported in industry surveys gives us a distinct edge over competitors in the market.	234	64.1	29.1	5.6	1.3	0	4.56	0.661
Our cost/pricing strategy allows us to offer competitive rates ensuring we are always profitable for the last 10 years.	234	59.0	30.3	6.4	4.3	0	4.44	0.796
Consistent product innovation ensures that we stay ahead in meeting evolving customer needs and preferences as indicated by consistent growing customer numbers in the last 10 years.	234	62.4	27.8	7.7	2.1	0	4.50	0.731
Our ability to rapidly offer solutions sets us apart, enabling us to address customer challenges in a timely manner which is why we operate in most towns that other banks don't operate.	234	60.7	32.1	5.6	1.7	0	4.52	0.682
Our wide geographical coverage enhances our reach and accessibility to over 80% of Kenya, giving us a competitive advantage.	234	49.6	31.6	7.3	7.3	4.3	4.15	1.107

From Table 4.18, the first statement assessed whether superior quality of the bank's products and services, as reflected in industry surveys provides a competitive advantage. A substantial 64.1% of respondents strongly agreed, and 29.1% agreed, with only 5.6% remaining neutral. Disagreement was minimal, with just 1.3% expressing disagreement.

The mean score of 4.56 and a standard deviation of 0.661 indicate strong consensus and a high level of confidence in the bank's product quality as a key differentiator in the market. The second statement addressed the bank's cost/pricing strategy and its contribution to profitability over the past decade. A majority of 59.0% strongly agreed, and 30.3% agreed, while 6.4% were neutral, and 4.3% disagreed. The mean score of

4.44, combined with a standard deviation of 0.796, suggests that respondents perceive the bank's pricing strategy as effective in maintaining profitability, though there is a slightly wider range of opinions, as indicated by the higher standard deviation.

The third statement focused on the bank's commitment to product innovation and its ability to meet evolving customer needs. Respondents strongly agreed (62.4%) and agreed (27.8%), with only 7.7% neutral and a small percentage (2.1%) disagreeing. The mean score of 4.50 and a standard deviation of 0.731 reflect strong support for the bank's innovative practices and their perceived importance in maintaining a competitive advantage. This indicates that respondents view continuous product innovation as a critical factor for the bank's market leadership. The fourth statement examined the bank's ability to rapidly offer solutions to customer challenges, which has enabled it to expand into areas where other banks have not. A significant 60.7% strongly agreed, and 32.1% agreed, indicating that respondents see the bank's agility and ability to quickly address customer needs as a valuable competitive advantage. Only 5.6% were neutral, and 1.7% disagreed.

The mean score of 4.52, with a standard deviation of 0.682, highlights the strong support for the bank's ability to provide timely solutions. The final statement discussed the bank's wide geographical coverage and its impact on accessibility. While 49.6% strongly agreed and 31.6% agreed, there was a higher percentage of respondents (7.3%) who disagreed, and an additional 7.3% who were neutral. The mean score of 4.15, with a higher standard deviation of 1.107, suggests that while many respondents recognize the bank's extensive reach as a competitive advantage, there is some disagreement or variability in opinions about the actual effectiveness of this geographical coverage. In conclusion, the respondents overwhelmingly agreed that the bank's competitive advantage stems from its high-quality products, cost-effective pricing strategy, product innovation, agility in addressing customer needs, and extensive geographical coverage. The high mean scores (ranging from 4.15 to 4.56) across all statements indicate that these factors are perceived as significant contributors to the bank's competitive positioning in the market. While the responses demonstrate strong agreement overall, the relatively higher standard deviations in some areas,

particularly regarding geographical coverage, suggest that there may be some variation in how respondents view the effectiveness of the bank's reach compared to other factors. Overall, the findings underscore that the bank's strategic focus on product excellence, innovation, pricing, and customer-centric solutions provides it with a sustained competitive advantage in the Kenyan banking sector.

4.6 Test of Assumptions and their Results

The following assumptions of the study variables were tested.

4.6.1 Linearity Results

Linearity is the amount of change or rate of change between scores on two sets of variables which is constant for the entire range of scores for the variables (Jin, Yang, Wang & Jordan, 2020). The results are shown in Table 4.19.

Table 4.19: Linearity Results Using Pearson Correlation

		CA (Y)	BD (X ₁)	CEO Att (X ₂)	BI (X ₃)	BC (X ₄)	SC (M)
CA (Y)	Pearson Correlation	1					
BD (X ₁)	Pearson Correlation	.763**	1				
CEO Att (X ₂)	Pearson Correlation	.650**	.507**	1			
BI (X ₃)	Pearson Correlation	.574**	.443**	.495**	1		
BC (X ₄)	Pearson Correlation	.624**	.589**	.438**	.523*	1	
SC (M)	Pearson Correlation	.708**	.605**	.523**	.569**	.512**	1
	N	234	234	234	234	234	234

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

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

Table 4.19 shows the correlation coefficients ranged from 0.574 (board independence) and 0.763(board diversity). The assumption of linearity was thus satisfied. A P-P plot

of regression standardized residuals was generated to further confirm the test for linearity of the data as shown in Figure 4.1 below.

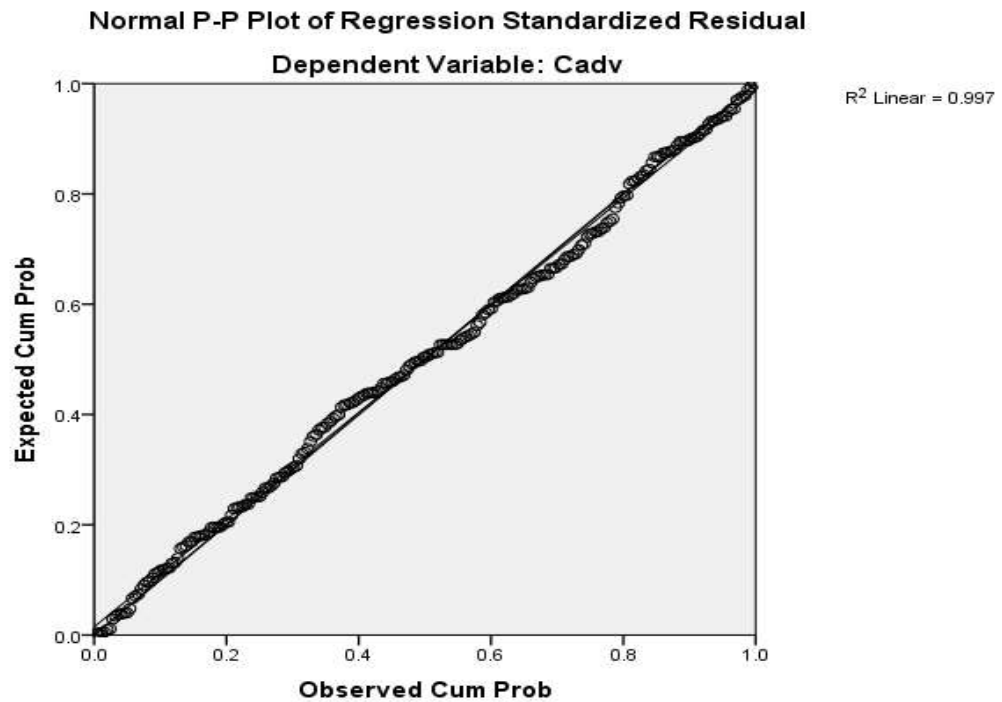


Figure 4.1: Normal P-P Plot of Regression Standardized Residuals

An R^2 value of 0.997 was obtained which confirms that the condition of linearity was satisfied.

4.6.2 Normality Test Results

The study conducted a normality test to ascertain that the observations could have come from a reasonably normally distributed data. Normality test is important in order to determine the appropriate tests to be conducted and ensure that the assumptions of a normal distribution are not violated (Knief & Forstmeier, 2021). The data was tested for normality using the normal probability curves. This is depicted in Figure 4.2.

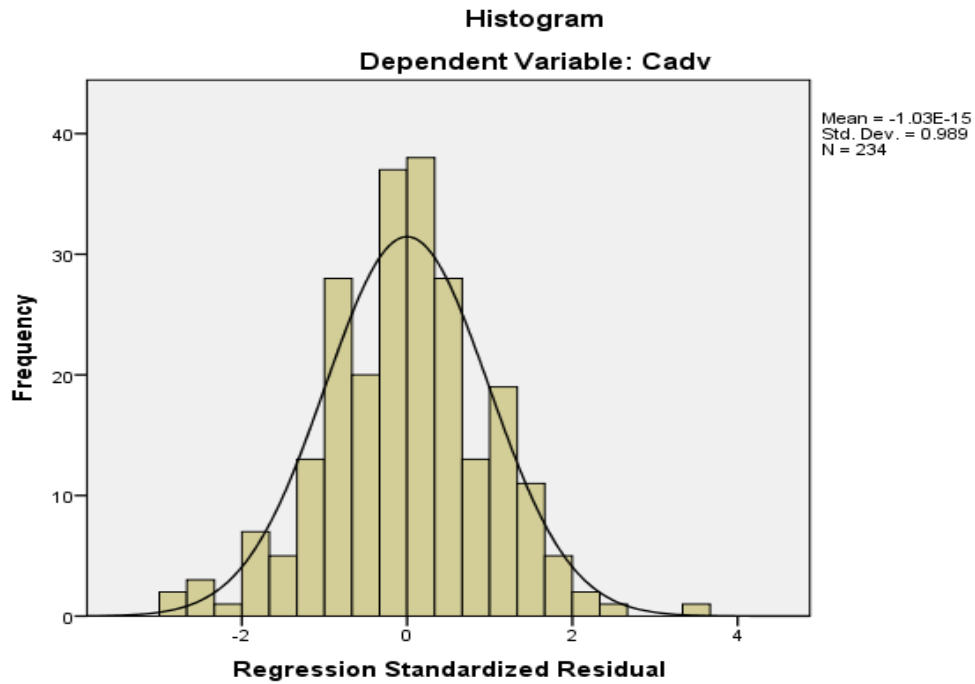


Figure 4.2: Normal Probability Curve

The Figure 4.2 shows a normal bell-shaped curve with the Dependent Variable shown as CA- Competitive Advantage plotted against regression standardized residuals. Therefore, the assumption of normality is fulfilled.

Normality can be further confirmed using the test for Kurtosis and Skewness. Normally distributed data should have skewness and kurtosis of maximum of +/-3.

Table 4.20: Normality Results Using Skewness and Kurtosis

Variable	N	Mean	Std. Deviation	Skewness		Kurtosis	
				Statistic	Std. Error	Statistic	Std. Error
Competitive advantage	234	4.3755	0.63865	-1.317	0.159	1.352	0.317
Board diversity	234	4.2473	0.53398	-0.823	0.159	1.812	0.317
CEO attributes	234	4.2562	0.56955	-0.518	0.159	0.445	0.317
Board independence	234	4.2600	0.50496	-0.283	0.159	-0.222	0.317
Board committees	234	4.2395	0.55298	-0.731	0.159	0.974	0.317
Social capital	234	4.4715	0.4757	-1.327	0.159	2.057	0.317
Valid N (listwise)	234						

Based on Table 4.20 the values of skewness were -0.283(lowest) and -1.327(highest) which were within the limits of +/-1. Kurtosis was between -0.222(lowest) and 2.077(highest) which were also within limits of +/-3. This implies that the data meets the criteria of being normally distributed.

4.6.3 Multicollinearity Results

To test the correlation between independent variables, multicollinearity test was conducted. Multicollinearity is a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated (Daoud, 2017). It arises when there is a linear relationship between two or more independent variables in a single equation model (Daoud, 2017). In a multiple regression analysis, the estimated regression coefficients fluctuate widely and become less reliable as the degree of correlation between independent variables increases (Shrestha, 2020). Multicollinearity results are presented in Table 4.21.

Table 4.21: Multicollinearity Results

Model		Collinearity Statistics	
		Tolerance	VIF
4	Board Diversity	.505	1.981
	CEO Attributes	.624	1.603
	Board Independence	.573	1.744
	Board Commitment	.559	1.789
a.	Dependent Variable: Competitive Advantage		

Table 4.21 indicates that Variance Inflation Factor (VIF) results for the study variables were less than 4 while Tolerance was greater than 0.25 which shows no multicollinearity between predictor variables.

4.6.4 Autocorrelation Test Results

Autocorrelation is where the correlation between the values of the same variables is based on related objects. Autocorrelation makes predictors seem significant when they are not. In this study, autocorrelation test was conducted using Durbin-Watson Test. The results are presented in Table 4.22.

Table 4.22: Autocorrelation Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
5	.863 ^a	.744	.738	.327	1.794

a. Predictors: (Constant), Board Committees, Board Diversity, Board Independence, CEO Attributes, Social capital

b. Dependent Variable: Competitive Advantage.

Durbin-Watson's d test was used to test the null hypothesis that the residuals were not linearly auto-correlated. While d could assume values between 0 and 4, the values of around 2 usually indicate no autocorrelation. A value of d between 1.5 and 2.5 is a clear indication that there is no auto-correlation in the multiple linear regression data. The Table 4.20 shows findings that the Durbin -Watson d = 1.794. This d value is between the critical values of $1.5 < d < 2.5$. The statistical findings therefore confirm that there is no first order linear autocorrelation in the regression data.

4.6.5 Heteroscedasticity Test Results

Heteroscedasticity tests whether the variance of the errors from a regression model is dependent on the values of the independent variables. The heteroscedasticity test command calculates Breuch Pagan for group wise Heteroscedasticity in the residuals. According to Long & Ervin (2000), the heteroscedasticity test was performed so as to determine if the error terms across the observations in the data are correlated. The results are presented in Figure 4.3.

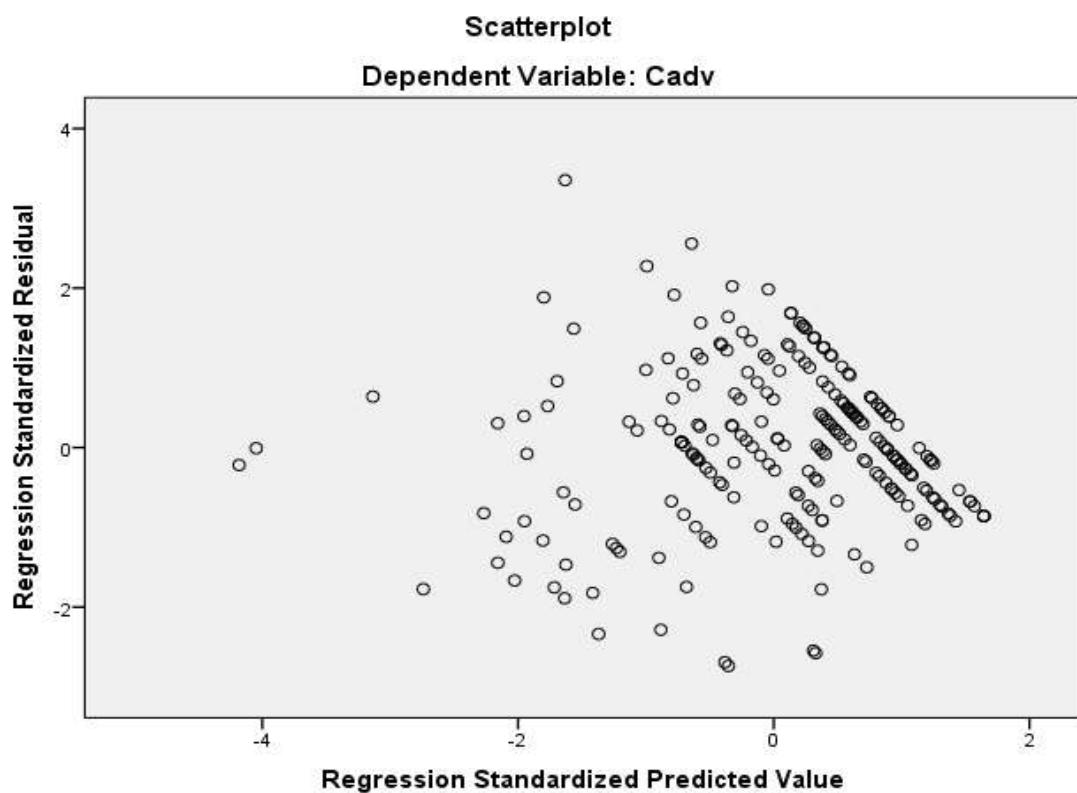


Figure 4.3: Heteroscedasticity Results

Ordinary Least Squares make the assumption that the variance of the error term is Constant or Homoscedastic. If the error terms do not have constant variance, they are said to be heteroscedastic. Violation of this assumption therefore leads to bias in test statistics and confidence intervals (Rice, Wirjanto, & Zhao, 2020). Figure 4.3 shows the data passes the test for not being funnel shaped.

4.7 Inferential Analysis

This section outlines the relationship between the various independent variables on the dependent variable. This study conducted correlation analysis and regression analysis between the independent variables, mediating variable and the dependent variable.

4.7.1 Correlation of Study Variables

Correlation between variables is a measure of how the variables are related (Temizhan, Mirtagioglu, & Mendes, 2022). The bivariate Pearson correlation indicates whether a statistically significant linear relationship exists between two continuous variables. If the correlation is positive, that means both the variables are moving in the same direction. Negative correlation implies, when one variable increases the other variable decreases (Haining, 1991). The correlation results are depicted in Table 4.23.

Table 4.23: Correlation Results

		CA (Y)	BD (X₁)	CEO Att (X₂)	BI (X₃)	BC (X₄)	SC (M)
CA (Y)	Pearson Correlation	1					
BD (X₁)	Pearson Correlation	.763**	1				
CEO Att (X₂)	Pearson Correlation	.650**	.507**	1			
BI (X₃)	Pearson Correlation	.574**	.443**	.495**	1		
BC (X₄)	Pearson Correlation	.624**	.589**	.438**	.523*	1	
SC (M)	Pearson Correlation	.708**	.605**	.523**	.569**	.512**	1
	N	234	234	234	234	234	234

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

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

Where; **CA**- Competitive Advantage, **BD**- Board Diversity, **CEO Att**- CEO Attributes, **BI**- Board Independence, **BC**- Board Commitment, **SC**- Social Capital.

Table 4.23 shows that the correlation coefficients between the independent and dependent variables ranged between 0.574 for board independence ($p=0.000$) and 0.763 for board diversity($p=0.000$) This implies that all the dimensions of corporate governance under the study jointly have a positive and significant moderate to strong correlation with Competitive Advantage. The results in Table 4.24 indicates that there is a positive and statistically significant strong correlation between Board diversity and competitive advantage ($r=0.763$, $p = 0.000$) at 0.01 level of significance.

This implies that board diversity strongly correlates with competitive advantage of commercial banks in Kenya. These findings are supported by the literature findings by Fernández-Temprano and Tejerina-Gaite (2020) who evaluated the board diversity and firm performance. Results in Table 4.24 indicates that there is a strong positive and statistically significant correlation between CEO attributes and competitive advantage ($r=0.650$, $p = 0.000$) at 0.01 level of significance. This implies that CEO attributes affect competitive advantage of commercial banks in Kenya. These findings are in line with the findings of a research by Singh et al., (2018) who explored the connection between CEO duality and performance of Chinese firms.

The results from Table 4.23 indicates that there is a positive and statistically significant correlation between Board Independence and Competitive Advantage ($r=0.574$, $p = 0.000$) at 0.01 level of significance. This implies that board independence moderately correlates with competitive advantage of commercial banks in Kenya. The findings of this study were in line with the findings of Kamarudin, Hassan, and Wan Ismail (2024) who sought to analyze board independence and investment efficiency and their impact on competitive advantage. The results in Table 4.24 indicates that there is a positive and statistically significant moderate correlation between Board Committee and Competitive Advantage ($r=0.624$, $p = 0.000$) at 0.01 level of significance. This implies that board committees positively affect competitive advantage of commercial banks in Kenya.

These findings are in synchrony with that of Rahman and Kabir (2024) who studied board independence influence on annual report readability. The results in Table 4.23 indicates that there is a positive and statistically significant strong correlation between

social capital and competitive advantage ($r=0.708$, $p = 0.000$) at 0.01 level of significance. This implies that social capital moderately correlates with competitive advantage of commercial banks in Kenya.

4.7.2 Analysis of Variance (ANOVA) Results

ANOVA tests whether the regression model is generally a good fit for the data. It is also known as the test for goodness of fit. From the study, five ANOVA tests were performed; for all the independent variables. The results obtained are presented in Table 4.24. The test excluded outliers.

Table 4.24: ANOVA of the Variables

Model	Sum of squares	df	Mean square	F	Sig.
4 Regression	125.551	4	31.388	111.247	0.000
Residual	62.636	222	0.282		
Total	188.186	226			

a. Dependent variable: Competitive advantage
b. Predictors (constant). Board diversity, CEO Attributes, Board independence, Board committees.

The Table 4.24 shows ANOVA output for model 4. **Model 4** resulted in F statistic of 111.247 and a p value of 0.000. The p-value obtained is less than 0.05 which is a clear indication that corporate governance significantly predicts competitive advantage of commercial banks in Kenya. This demonstrates that the regression model 4 is statistically significant at 95% level of significance considering that the p-values were less than 0.05. It is evident that the independent variables significantly predict the dependent variable, which depicts a goodness of fit of the regression model for the data.

4.7.3 Regression Analysis

In this study, multiple regression analysis was conducted so as to evaluate the relationship between corporate governance (board diversity, CEO attributes, board independence board committees), social capital and competitive advantage of

commercial banks in Kenya. MacKinnon (2012) four- steps procedures plus the total effect were followed to analyze all the direct and the mediation effect of corporate governance, social capital and competitive advantage. This procedure requires;

- i. A significant association between corporate governance and social capital represented by equation $M = a_1X + \varepsilon$ (side a_1 of the conceptual framework).
- ii. A significant association between social capital and competitive advantage represented by equation $Y = b_1M + \varepsilon$ (side b_1 of the conceptual framework)
- iii. Testing an association between social capital and competitive advantage while controlling for corporate governance represented by equation $Y = b_1M + C'X + \varepsilon$ (side C' of the conceptual framework. This does not need to be significant for mediation to take place).
- iv. A significant coefficient for the indirect path between corporate governance and competitive advantage via social capital (the product of $a_1 \times b_1$ or $C - C'$). The bias-corrected percentile bootstrap method determines whether the last condition is satisfied (H_{05})
- v. The total effect (C) is represented by equation $Y = C X + \varepsilon = (a_1 \times b_1) + C'$.

4.7.3.1 Effect of Board Diversity on Competitive Advantage

Table 4.24 shows the results of the relationship between direct effect of board diversity on competitive advantage on one hand, total effect of board diversity in the presence of the mediator and consequently the effect of social capital as a mediator (indirect effect on the relationship between board diversity and competitive advantage).

Table 4.25: Effect of Board Diversity on Competitive Advantage

Direct Effect of Board Diversity on Competitive Advantage					
Effect	se	t	p	LLCI	ULCI
.440	.051	8.571	.000	.339	.541
Total Effect of Board Diversity (Independent) on Competitive Advantage in the Presence of Social Capital (Mediator)					
Effect	se	t	p	LLCI	ULCI
.720	.047	15.359	.000	.627	.812
Mediating (Indirect) Effect of Social Capital on Relationship between Board Diversity and Competitive Advantage					
		Effect	BootSE	BootLLCI	BootULCI
Social capital		.280	.034	.216	.351

Based on Table 4.25, the results of multiple regression analysis using Hayes (2017) PROCESS Macro version 3.4 (Model 4) from the data set found that board diversity had a significant direct effect on competitive advantage ($\beta = .440$, $t=8.571$ $p = .000$) . The total effect using the data without outliers (direct + indirect effect) $= .440 + .280 = .720$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation.

The study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data $M_1 = .280$, $SE = .034$, 95% $CI = [.216, .351]$ which was significant with both CI being none zero. From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, & Chuah, 2018), hence the study concludes that social capital has a significant mediating effect on the relationship between board diversity and competitive advantage.

4.7.3.2 Effect of CEO's Attributes on Competitive Advantage

Table 4.26 shows the results of the relationship between direct effect of CEO's attributes on competitive advantage on one hand, total effect of CEO's attributes in the presence of the mediator and consequently the effect of social capital as a mediator (indirect effect on the relationship between CEO's attributes and competitive advantage).

Table 4.26: Effect of CEO's Attributes on Competitive Advantage

Direct Effect of CEO's Attributes on Competitive Advantage					
Effect	se	t	p	LLCI	ULCI
.282	.050	5.635	.000	.183	.380
Total Effect of CEO's Attributes on Competitive Advantage in the Presence of Social Capital					
Effect	se	t	p	LLCI	ULCI
.577	.052	11.048	.000	.474	.680
Mediating (Indirect) Effect of Social Capital on the Relationship between CEO's Attribute and Competitive Advantage					
		Effect	BootSE	BootLLCI	BootULCI
Social capital		.295	.041	.218	.376

Table 4.26 found that CEO Attributes had a significant direct effect on competitive advantage with $\beta = .282$, $t=5.635$ $p = .000$. The total effect using the data without outliers, (direct + indirect effect) = $.282 + .295 = .577$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation. Finally, applying Zhao *et al.*, (2010) steps discussed in the previous chapter on mediation to the present study findings, the study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data $M = .295$, $SE = .0049$, 95% $CI = [.218, .376]$ which was significant with both CI being none zero.

From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, & Chuah, 2018), hence the study concludes that social capital mediates the relationship between CEO's attributes and competitive advantage.

4.7.3.3 Effect of Board Independence on Competitive Advantage

Table 4.27 shows the results of the relationship between direct effect of board independence on competitive advantage on one hand, total effect of board independence in the presence of the mediator and consequently the effect of social capital as a mediator (indirect effect on the relationship between board independence and competitive advantage).

Table 4.27: Effect of Board Independence on Competitive Advantage

Direct Effect of board independence of competitive Advantage					
Effect	se	t	p	LLCI	ULCI
.220	.051	4.297	.000	.119	.321
Total Effect of Board Independence on Competitive Advantage in the Presence of Social Capital					
Effect	se	t	p	LLCI	ULCI
.536	.052	10.263	.000	.433	.639
Mediating (Indirect Effect) of Social Capital on the Relationship between Board Independence and Competitive Advantage					
		Effect	BootSE	BootLLCI	BootULCI
Social capital		.316	.042	.236	.402

The results of multiple regression analysis using Hayes (2017) PROCESS Macro version 3.4 (Model 4) as shown on Table 4.28 from the data without outliers found that board independence had a significant direct effect on competitive advantage with $\beta = .220$, $t = 4.297$ ($p = .000$). The total effect using the data without outliers, (direct + indirect effect) = $.220 + .316 = .536$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation.

Finally, applying Zhao *et al.*, (2010) steps discussed in the previous section on mediation to the present study findings, the study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data $M_3 = .316$, $SE = .042$, 95% CI = [.236,.402] which was significant with both CI being none zero. From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, & Chuah, 2018), hence the study concludes that social capital mediates the relationship between board independence and competitive advantage.

4.7.3.4 Effect of Board Committees on Competitive Advantage

Table 4.28 shows the results of the relationship between direct effect of board committees on competitive advantage on one hand, total effect of board committees in the presence of social capital (the mediator) and consequently the effect of social

capital as a mediator (indirect effect) on the relationship between board committee and competitive advantage.

Table 4.28: Effect of Board Committees on Competitive

Direct effect of board committee on competitive advantage					
Effect	se	t	p	LLCI	ULCI
.309	.050	6.238	.000	.211	.407
Total Effect of Board Committee on Competitive Advantage in the Presence of Social Capital as a Mediator					
Effect	se	t	p	LLCI	ULCI
.597	.053	11.364	.000	.493	.700
Mediating (Indirect) Effect of Social Capital on the Relationship between Board Committee and Competitive Advantage					
	Effect	BootSE	BootLLCI	BootULCI	
Social capital	.288	.036	.218	.359	

The results of multiple regression analysis using Hayes (2017) PROCESS Macro version 3.4 (Model 4) as shown in Table 4.29 found that board committees had a significant direct effect on competitive advantage with $\beta = .309$, $t=6.238$ ($p = .000$). The total effect using the data without outliers, (direct + indirect effect) = $.309 + .288 = .597$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation with an $F(5,221)$ statistic of 161.687 and p value of .000. Finally, applying Zhao *et al.*, (2010) steps discussed in the previous section on mediation to the present study findings, the study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data $M_4 = a_4 \times b_4 = .478 \times .603 = .288$, $SE = .036$, 95% $CI = [.218, .359]$ which was significant with both CI being none zero.

From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, & Chuah, 2018). The study therefore concludes that social capital has a significant mediating effect on the relationship between board committee and competitive advantage of commercial banks in Kenya.

4.7.3.5: Effect of Corporate Governance on Competitive Advantage

Table 4.29 shows the results of the relationship between direct effect of corporate governance on competitive advantage on one hand, total effect of corporate governance in the presence of social capital (the mediator) on competitive advantage and consequently the effect of social capital as a mediator (indirect effect) on the relationship between corporate governance and competitive advantage.

Table 4.29: Mediating Effect of Social Capital on the Relationship between Corporate Governance and Competitive Advantage

Direct effect of corporate governance of competitive advantage					
Effect	se	t	p	LLCI	ULCI
.531	.037	19.948	.000	.657	.801
Total effect of corporate governance on competitive advantage in the presence of social capital as a mediator					
Effect	se	t	p	LLCI	ULCI
.729	.050	10.689	.000	.433	.629
Mediating (Indirect effect) of social capital on the relationship between corporate governance and competitive advantage					
		Effect	BootSE	BootLLCI	BootULCI
Social capital		.198	.038	.126	.277

The results of multiple regression analysis using Hayes (2017) PROCESS Macro version 3.4 (Model 4) as shown in Table 4.28 found that corporate governance had a significant direct effect on competitive advantage with $\beta = .531$, $p = .000$. The total effect using the data without outliers, (direct + indirect effect) = $0.531 + 0.198 = 0.729$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation ($F(5,221) = 161.687$, $p = .000$).

Finally, applying Zhao *et al.*, (2010) steps discussed in the previous section on mediation to the present study findings, the study found the mean indirect effect from the bias-corrected percentile bias bootstrap analysis as positive and significant from the data $M_5 = a_5 \times b_5 = .610 \times 0.324 = .198$, $SE = .038$, 95% CI = [.126,.277] which was significant with both CI being none zero. From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Cheah, Ramayah, Ting, &

Chuah, 2018). The study therefore concludes that social capital has a significant mediating effect on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.

4.7.3.6: Summary of the Mediating Effect of Social Capital on the Relationship between Corporate Governance and Competitive Advantage.

The Figure 4.4 summarizes the mediating effect of social capital on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.

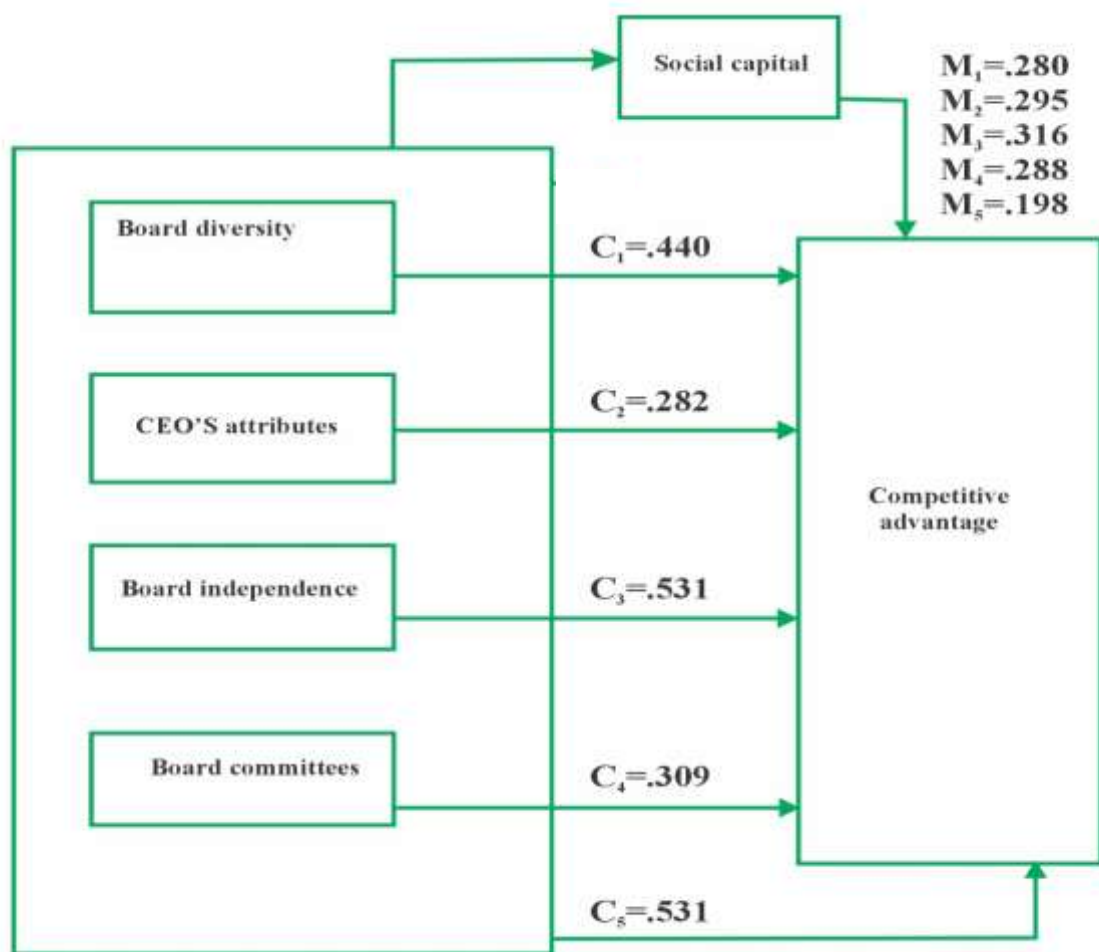


Figure 4.4: Mediation Results Using Process Macro in SPSS

The Table 4.30 represents a summary of the direct effect of corporate governance, mediating effect of social capital and total effect of corporate governance on competitive advantage in the presence of social capital of commercial banks in Kenya.

Table 4.30: Summary of the Direct Effect, Mediating Effect and Total Effect of Corporate Governance on Competitive Advantage of Commercial Banks in Kenya

Variables	Direct effect	Mediating effect of social capital	Total effect
Board diversity	0.440	0.280	0.720
CEO Attributes	0.282	0.295	0.577
Board Independence	0.220	0.316	0.536
Board committees	0.309	0.288	0.597
Corporate governance	0.531	0.198	0.729

4.7.4 Overall Regression Models

Multiple regression analysis was conducted in order to determine the relationship between Competitive advantage and independent variables (Board Diversity, CEO Attributes, Board Independence, and Board Committees). This was done through Hierarchical Regression Modelling. Hierarchical regression models show how each independent variable contributes individually to the additional variation on the overall regression model. Table 4.31 shows the results of hierarchical regression models for the direct effect of independent variables of corporate governance on corporate governance.

Table 4.31: Results for Hierarchical Regression Model for Direct Effects

Variable	Model 1		Model 2		Model 3		Model 4		Model 5
	β	p-v	β	p-v	β	p-v	β	p-v	p-v
Constant	0.19	.659	.012	.749	.011	.766	.009	.793	.836
Bdiversit	.720** *	.000	.571** *	.000	.516** *	.000	.448** *	.000	.000
CEOAttr			.352** *	.000	.274** *	.000	.259** *	.000	.000
Bindep					.197** *	.000	.152** *	.000	.055
BComm							.164** *	.000	.005
SoCapt									.000
R²	.512		.621		.651		.667		.702
ΔR^2	.512		.109		.030		.016		.035
F	235.913***		129.147***		122.065***		111.24***		104.005** *

Note: *p<.05, **p<.01, ***p<.001, NS= Not significant; Dependent Variable = Competitive Advantage,

Where Bdiversit is board diversity, CEOAttr is CEO Attributes, Bindep is board independence, BComm is board committee, SoCapt is social capital and p-v is p value.

From Table 4.31, the **Model 4** showed a positive statistically significant relationship between all the independent variables (board diversity, CEO Attributes, board independence, board committee) and competitive advantage ($R^2 = 0.667$, $\Delta R^2 = .667$) and ($F(4, 222) = 111.24$, $p = 0.000$). The R squared explains the variations in the competitive advantage as explained by the corporate governance (board diversity, CEO Attributes, board independence, board committee). R^2 of 0.667 indicates that 66.7 % of the variations in the competitive advantage can be accounted for by the corporate governance variables (board diversity, CEO Attributes, board independence, board committee).

OLS Model for Independent Variables (Board Diversity, CEO Attributes, Board Independence, and Board Committee) and Competitive Advantage is:

$$\text{Competitive Advantage} = 0.009 + 0.448(\text{Board diversity}) + 0.259(\text{CEO Attributes}) + 0.152(\text{Board Independence}) + 0.164(\text{Board committees}) \dots\dots\dots \text{Eq 4.9}$$

OLS Model for corporate governance and competitive advantage is:

$$\text{Competitive advantage} = 0.058 + 0.531 \text{ Corporate governance} \dots\dots\dots \text{Eq 4.10}$$

4.7.5 Test of Significance of the Regression Coefficients

Table 4.32 shows the regression coefficients of the variables and their significance.

Table 4.32: Significance of Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	.009	.035		.263	.793
4 Board diversity	.448	.049	.445	9.155	.000
CEO Attributes	.259	.045	.266	5.745	.000
Board Independence	.152	.046	.160	3.287	.001
Board Committees	.164	.050	.166	3.304	.001

a. Dependent Variable: Competitive advantage

Model 4 in Table 4.32 indicates that the relationship between Board Diversity and Competitive Advantage was positive and statistically significant ($\beta_1 = 0.448$, $t=9.155$, $p = 0.000$). The β_1 value of 0.448 implies for every unit change in board diversity, competitive advantage changes by 0.448. The null hypothesis that states that Board Diversity has no significant effect on Competitive Advantage was rejected at 0.05 significance level. The study therefore concludes that Board Diversity has a significant effect on Competitive Advantage of Commercial banks in Kenya. Moreover, it indicates that the relationship between CEO Attributes and Competitive Advantage was positive and statistically significant ($\beta_2 = 0.259$, $t=5.745$, $p = 0.000$). The β_2 value of 0.259 implies for every unit change in CEO Attributes, competitive advantage

changes by 0.259. The null hypothesis that states that CEO Attributes has no significant effect on Competitive Advantage was rejected at 0.05 significance level. The study concludes that CEO attributes has a statistically significant effect on Competitive Advantage of Commercial banks in Kenya.

Model 4 furthermore indicates that the relationship between Board Independence and Competitive Advantage was positive and statistically significant ($\beta_3 = 0.152$, $t=3.287$, $p = 0.001$). The β_3 value of 0.152 implies for every unit change in Board Independence, competitive advantage changes by 0.152. The null hypothesis that states that Board Independence has no significant effect on Competitive Advantage was rejected at 0.05 significance level. The study therefore concludes that Board Independence has a statistically significant effect on Competitive Advantage of Commercial banks in Kenya.

Model 4 similarly indicates that the relationship between Board Committees and Competitive Advantage was positive and statistically significant ($\beta_1 = 0.164$, $t=3.304$, $p = 0.001$). The β_4 value of 0.164 implies for every unit change in Board Committee, competitive advantage changes by 0.164. The null hypothesis that therefore states that Board Committees has no significant effect on Competitive Advantage was rejected at 0.05 significance level. The study therefore concludes that Board Committees has a statistically significant effect on Competitive Advantage of Commercial banks in Kenya

4.8 Hypotheses Testing

In this study, t-test was used to test for individual significance of the coefficients under the null hypothesis for the direct effects. The test was done at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. The null hypothesis was rejected when the t-calculated was strictly greater than the t-tabulated. Mediating effect was determined using the upper and lower confidence intervals (LLCI and ULLC). For mediating effect to be significant, the mediating effect coefficient should be non-zero (should not straddle the zero point). The results of hypothesis testing were as follows:

H₀₁: Board diversity has no significant effect on competitive advantage of commercial banks in Kenya

The **H₀₁** was tested at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. T-test statistic was used to test for the significance of **board diversity**. From **Model 4** in Table 4.32, the t -value obtained was 9.155. Comparing the t -tabulated and t -calculated values statistically, it is thus evident that the $t\text{-calc} > t\text{-}\alpha$. This study therefore rejected the null hypothesis and concludes that Board Diversity has a significant effect on competitive advantage of commercial banks in Kenya. The study hence rejects the null hypothesis.

H₀₂: CEO's Attributes has no significant effect on competitive advantage of commercial banks in Kenya

The test was done at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. T-test statistic was used to test for the significance of **CEO's Attributes**. From **Model 4** in Table 4.32, the t -value obtained was 5.745. Comparing the t -tabulated and t -calculated values statistically, it is thus evident that the $t\text{-calc} > t\text{-}\alpha$. This study therefore rejected the null hypothesis and concludes that CEO's Attributes has a significant effect on competitive advantage of commercial banks in Kenya.

H₀₃: Board Independence has no significant effect on competitive advantage of commercial banks in Kenya

The test was done at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. T-test statistic was used to test for the significance of **Board Independence**. From **Model 4** in Table 4.32, the t -value obtained was 3.287. Comparing the t -tabulated and t -calculated values statistically, it is thus evident that the $t\text{-calc} > t\text{-}\alpha$. This study therefore rejected the null hypothesis and concludes that Board Independence has significant effect on competitive advantage of commercial banks in Kenya.

H04: Board Committees has no significant effect on competitive advantage of commercial banks in Kenya

The test was done at 95% level of confidence ($\alpha=0.05$), critical value $t=1.96$. T-test statistic was used to test for the significance of **Board Committees**. From **Model 4** in Table 4.32, the t-value obtained was 3.304. Comparing the t-tabulated and t-calculated values statistically, it is thus evident that the $t\text{-calc} > t\text{-}\alpha$. This study therefore rejected the null hypothesis and concludes that Board Committees has significant effect on competitive advantage of commercial banks in Kenya.

H05: Social capital has no mediating effect on the relationship between corporate governance and competitive advantage of commercial banks in Kenya

The study found the mean indirect effect from the bias-corrected percentile bootstrap analysis as positive and significant from the data $M_5 = a_5 \times b_5 = .610 \times 0.324 = .198$, $SE = .038$, 95% CI = [.126, .277] which was significant with both CI being none zero. The total effect using the data without outliers, (direct + indirect effect) = $0.531 + 0.198 = 0.729$ implying that the two paths contribute to the total effect, hence giving rise to a partial mediation ($F(5, 221) = 161.687, p = .000$). From the above results, there is evidence that the confidence intervals for the indirect effect does not straddle a zero in between, which supports the presence of mediation effect (Memon, Jun, Ting, & Francis, 2018), hence **Hypothesis H05** is rejected by the study

The summary of the hypotheses tests is depicted in table 4.32.

Table 4.33: Summary of Hypothesis Testing

Hypothesis	Null hypothesis	B	P value	LLCI	ULCI	Results
H₀₁	Board diversity has no significant effect on competitive advantage of commercial banks in Kenya.	0.448	0.000	-	-	Hypothesis H₀₁ was rejected
H₀₂	CEO's Attributes has no significant effect on competitive advantage of commercial banks in Kenya.	0.259	0.000	-	-	Hypothesis H₀₂ was rejected
H₀₃	Board Independence has no significant effect on competitive advantage of commercial banks in Kenya.	0.152	0.001	-	-	Hypothesis H₀₃ was rejected
H₀₄	Board Committees has no significant effect on competitive advantage of commercial banks in Kenya.	0.164	0.001	-	-	Hypothesis H₀₄ was rejected
H₀₅	Social capital has no mediating effect on the relationship between corporate governance and competitive advantage of commercial banks in Kenya.	0.198	-	.126	.277	Hypothesis H₀₅ was rejected

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a comprehensive summary of the research findings. The chapter contains the conclusions of the study. The chapter also provides actionable recommendations for practitioners and policymakers, aimed at strengthening corporate governance frameworks and effectively leveraging social capital to drive competitive advantage. The chapter highlights the contribution of the study to existing body of knowledge. Finally, suggestions for future research are presented, focusing on exploring additional dimensions of social capital and its impact on corporate governance.

5.2 Summary of the Study Findings

This section summarizes the study findings examining the effect of social capital on the relationship between corporate governance and competitive advantage of commercial banks in Kenya. The research highlights how social capital acts as a crucial mediator, enhancing the positive impacts of robust corporate governance practices on competitive advantage. Key findings reveal that strong networks and relationships among stakeholders significantly bolster banks' performance and resilience in a competitive landscape. By fostering trust and collaboration, social capital not only strengthens governance structures but also contributes to sustainable competitive advantage. Overall, the study underscores the importance of integrating social capital into corporate governance frameworks to drive success within the Kenyan banking sector.

5.2.1 Effect of Board Diversity on Competitive Advantage

The first objective of this study was to examine the relationship between board diversity and competitive advantage while assessing the mediating effect of social capital in this relationship. The findings revealed a significant positive relationship

between board diversity and competitive advantage within commercial banks in Kenya. Specifically, the analysis demonstrated that board diversity has a substantial direct effect on competitive advantage, indicating strong statistical significance. Furthermore, the total effect of board diversity, when considering the presence of social capital as a mediator, highlights the combined influence of both direct and indirect effects. This underscores the importance of both pathways in contributing to the overall impact on competitive advantage.

The mediating effect of social capital was also found to be significant, providing robust evidence that supports its role in enhancing the relationship between board diversity and competitive advantage. These results indicate that diverse boards, composed of members with varying backgrounds, experiences and perspectives, are better positioned to drive strategic decisions that enhance organizational performance. The analysis highlights that board diversity fosters a broader range of viewpoints and innovative ideas, which can lead to more effective problem-solving and decision-making processes. This diversity enables banks to respond more adeptly to market changes and customer needs, ultimately contributing to a stronger competitive edge in the industry. Moreover, the research established that social capital significantly mediates the relationship between board diversity and competitive advantage. Social capital, characterized by networks of relationships and trust among stakeholders, enhances the benefits derived from board diversity. Banks with diverse boards often cultivate stronger relationships with various stakeholders; including customers, employees, and regulators, further enhancing their competitive positioning.

The study affirms that board diversity is not merely a regulatory or ethical consideration but a strategic asset that can significantly enhance competitive advantage in the banking sector. By integrating diverse perspectives and fostering strong relationships, banks can better navigate the complexities of the market, ultimately leading to improved performance and sustainability. These insights underscore the need for banks to prioritize diversity initiatives as part of their broader strategic framework.

5.2.2 Effect of CEO's Attributes on Competitive Advantage

The second objective of this study was to investigate the relationship between CEO's attributes and competitive advantage, while also assessing the mediating role of social capital in this dynamic. The findings indicate that CEO attributes, which encompass traits such as experience, leadership style and decision-making capabilities, have a significant positive relationship with competitive advantage within commercial banks in Kenya. This suggests that effective CEOs are instrumental in guiding their organizations toward superior performance and market positioning. In examining the effects, the analysis revealed a direct and meaningful impact of CEO attributes on competitive advantage. Specifically, the study showed that as the effectiveness of a CEO increase, so too does the competitive advantage of their organization.

The findings also established that social capital plays a significant mediating role in this relationship. Social capital, characterized by the networks and relationships that CEOs cultivate, enhances the advantages derived from their leadership attributes. The study further demonstrated that the total effect of CEO attributes on competitive advantage, when considering the presence of social capital as a mediator, underscores the combined influence of both direct and indirect effects. This synergy highlights the importance of CEO qualities not just in isolation, but in the context of the broader relational networks they develop. The results showed that the direct effect of CEO attributes on competitive advantage was statistically significant, indicating strong evidence for this relationship.

Additionally, the total effect of CEO attributes, inclusive of social capital, further substantiates the critical role of both elements in enhancing competitive positioning. Using bias-corrected percentile bootstrap analysis, the findings confirmed that social capital mediates the relationship between CEO attributes and competitive advantage. The mean indirect effect was found to be positive and significant, reinforcing the idea that effective leadership, when combined with strong social networks, can significantly bolster a bank's competitive advantage.

These results indicate that banks led by CEOs who not only possess strong individual attributes but also excel in building and maintaining social capital are better equipped to navigate challenges and seize opportunities in the competitive landscape. This study emphasizes the strategic importance of CEO attributes and social capital in fostering competitive advantage within the banking sector. It highlights the need for organizations to focus not only on the individual qualities of their leaders but also on how those leaders engage with their networks. By prioritizing both aspects, banks can enhance their overall performance and sustainability in a dynamic market environment.

5.2.3 Effect of Board Independence on Competitive Advantage

The third objective of this study was to investigate the relationship between board independence and competitive advantage, while also examining the mediating effect of social capital in this relationship. The findings revealed a significant positive relationship between board independence and competitive advantage within commercial banks in Kenya. This indicates that boards composed predominantly of independent directors can effectively enhance organizational performance and strategic decision-making. The analysis showed that board independence directly influences competitive advantage. Independent directors often bring diverse perspectives and objective viewpoints, which can lead to more rigorous oversight and improved governance practices. This fosters an environment where strategic decisions are made with greater integrity and accountability, ultimately benefiting the bank's competitive positioning.

Furthermore, the research established that social capital plays a significant mediating role in the relationship between board independence and competitive advantage. Social capital, defined as the networks and relationships that organizations cultivate, enhances the benefits derived from board independence. Banks that prioritize board independence are better positioned to forge strong relationships with stakeholders, including customers, regulators, and investors, thereby enhancing their competitive edge. The study's findings indicated that the direct effect of board independence on

competitive advantage was statistically significant, demonstrating a robust link between the two variables.

Additionally, when considering the presence of social capital as a mediator, the total effect of board independence on competitive advantage was also substantial, emphasizing the importance of both direct and indirect influences in shaping competitive outcomes. Using bias-corrected percentile bootstrap analysis, the results confirmed that the mediating effect of social capital was both positive and significant. The analysis revealed that the mean indirect effect was noteworthy, reinforcing the idea that independent boards, when coupled with strong social capital, can significantly bolster a bank's competitive advantage.

These findings suggest that banks led by independent boards not only benefit from improved governance practices but also from enhanced relational dynamics with key stakeholders. This dual advantage allows them to navigate market challenges more effectively and seize opportunities for growth. This study highlights the critical role of board independence as a strategic asset in achieving competitive advantage within the banking sector. It underscores the importance of fostering both independent governance and strong social capital, as these elements are integral to enhancing overall organizational performance. As such, banks should prioritize initiatives aimed at strengthening board independence and developing social networks, positioning themselves favorably in a competitive landscape.

5.2.4 Effect of Board Committees on Competitive Advantage

The fourth objective of this study was to explore the relationship between board committees and competitive advantage, alongside the mediating role of social capital in this dynamic. The findings revealed a significant positive relationship between the effectiveness of board committees and competitive advantage within commercial banks in Kenya. This suggests that well-structured and active board committees play a crucial role in enhancing organizational performance and strategic direction. The analysis demonstrated that board committees, which typically include audit, risk, and governance committees, directly influence competitive advantage. These committees

enhance oversight, ensure compliance, and facilitate strategic decision-making processes.

By bringing specialized knowledge and focused attention to key areas, board committees help organizations navigate complexities and capitalize on opportunities more effectively. Furthermore, the study established that social capital significantly mediates the relationship between board committees and competitive advantage. Social capital, defined by the networks and relationships established by the committees, enhances the benefits derived from their activities. Banks that cultivate strong relationships through their board committees are better positioned to engage with stakeholders, fostering trust and collaboration that can lead to enhanced competitive positioning.

The results indicated a significant direct effect of board committees on competitive advantage, affirming the importance of effective governance structures. When social capital was included in the analysis as a mediator, the total effect of board committees on competitive advantage was also substantial, emphasizing the critical interplay between these elements. Using bias-corrected percentile bootstrap analyses, the findings confirmed that the mediating effect of social capital was both positive and significant. The analysis showed that the mean indirect effect was noteworthy, supporting the idea that board committees, combined with strong social networks, can significantly bolster a bank's competitive advantage. These findings suggest that banks with effective board committees not only benefit from improved governance practices but also from the enhanced relational dynamics that arise from active engagement with stakeholders.

This dual advantage enables them to respond adeptly to market challenges and seize growth opportunities. This study highlights the strategic significance of board committees as a critical asset in achieving competitive advantage within the banking sector. It underscores the importance of fostering both effective committee structures and robust social capital, as these elements are integral to enhancing overall organizational performance. By prioritizing initiatives that strengthen board committees and develop social networks, banks can position themselves favorably in

a competitive landscape, ensuring sustainability and success in an evolving financial environment.

5.2.5 Mediating Effect of Social Capital on Corporate Governance and Competitive Advantage

The last objective of this study was to examine the mediating effect of social capital on the relationship between corporate governance and competitive advantage within commercial banks. The findings revealed a significant positive relationship between corporate governance and competitive advantage, underscoring the critical role of corporate governance in enhancing organizational performance. The analysis demonstrated that corporate governance, through various factors such as board diversity, board independence, board committees and CEO attributes has a substantial direct effect on competitive advantage. These factors are essential in facilitating access to valuable resources, fostering collaboration, and enhancing the bank's reputation.

The study further highlighted the mediating effect of social capital, when considering its both direct and indirect effects, emphasizing the importance of these interconnected elements in shaping competitive advantage. The mediating effect of social capital was found to be significant, providing strong evidence that it enhances the relationship between corporate governance and competitive advantage. This suggests that banks with robust social capital—fostered by trust, adherence to social norms and effective communication—are better positioned to leverage resources, strengthen stakeholder relationships, and ultimately enhance their competitive positioning in the market.

These findings affirm that social capital is not just a peripheral asset but a strategic resource that can significantly contribute to a bank's success. By nurturing strong social networks and promoting trust and reciprocity, banks can improve their performance, navigate market complexities and achieve sustained competitive advantage. This underscores the importance of prioritizing social capital development as a core element of strategic planning in the banking sector.

5.3 Conclusions

The conclusion of this study is grounded in the results derived from the objectives assessed regarding corporate governance, social capital, and competitive advantage of commercial banks in Kenya. This study utilized descriptive statistics and inferential analysis to explore these relationships. The first objective was to investigate the relationship between board diversity and competitive advantage, focusing on the mediating role of social capital. The study concludes that board diversity has a positive and significant relationship with competitive advantage. Furthermore, the study concludes that social capital serves as a significant mediator in this relationship, suggesting that diverse boards can enhance competitive positioning through improved stakeholder relationships and collaborative decision-making.

The second objective examined the relationship between CEO attributes and competitive advantage, along with the mediating effect of social capital. The study concludes that CEO attributes possess a positive and significant relationship with competitive advantage. This finding indicates that effective leadership characteristics, coupled with strong social capital, enhance the ability of banks to navigate competitive landscapes and foster innovation. The third objective focused on the relationship between board independence and competitive advantage, emphasizing the role of social capital as a mediator. The study concludes that board independence significantly correlates with competitive advantage. This conclusion underscores the importance of independent board members in promoting effective governance and strategic oversight, ultimately contributing to the bank's success.

The study also concludes that social capital mediates this relationship, highlighting the necessity of strong networks and relationships in leveraging the advantages of board independence. The fourth objective explored the relationship between board committees and competitive advantage. The study concludes that well-functioning board committees have a significant positive impact on competitive advantage. This conclusion emphasizes that these committees enhance governance structures and decision-making processes, with social capital acting as a crucial mediator that amplifies the effectiveness of board committees in achieving competitive goals.

Finally, the fifth objective investigated the mediating effect of social capital on the relationship between corporate governance and competitive advantage. The study concludes that social capital has a significant mediation effect, indicating that strong social networks fostered through effective governance practices enhance competitive positioning. In summary, this study emphasizes the critical role of governance factors—including board diversity, CEO attributes, board independence, and board committees—in shaping the competitive advantage of commercial banks in Kenya. The findings highlight the importance of social capital as a mediating force that enhances these relationships.

5.4 Recommendations

Based on the findings, the recommendations below were made in order to strengthen and enhance competitive advantage for commercial banks in Kenya.

The study's findings reveal a significant positive relationship between board diversity and the competitive advantage of commercial banks in Kenya. To harness this advantage effectively, banks should prioritize the enhancement of board diversity in terms of expertise, gender, geography, and generational representation. First, banks should ensure their boards are composed of individuals with a wide range of expertise, including both financial and non-financial specialists. This diverse skill set is crucial for informed decision-making and strategic planning, allowing banks to respond effectively to market challenges and opportunities.

Recruitment strategies should focus on attracting board members with varied professional backgrounds to enrich discussions and insights. Secondly, promoting gender diversity on boards is essential. Banks should implement policies that encourage the inclusion of more female directors, recognizing that a balanced representation fosters diverse perspectives and enhances the decision-making process. Training programs and mentorship initiatives can help cultivate female leadership within the banking sector. Third, the geographical diversity of board members should be prioritized.

Banks should actively seek individuals from different regional backgrounds to ensure a comprehensive understanding of local banking dynamics and customer needs. This can enhance customer engagement and tailor services to meet the specific demands of various demographics. Furthermore, fostering generational diversity within boardrooms is vital. A mix of ages among board members allows for the adaptation to rapidly changing market trends and technological advancements. Encouraging the inclusion of younger professionals can infuse fresh ideas and innovative approaches into the strategic direction of the bank.

Lastly, banks should recognize the role of social capital as a mediating factor in enhancing the relationship between board diversity and competitive advantage. Cultivating strong interpersonal relationships among board members can lead to more effective collaboration and synergy, ultimately reinforcing the bank's competitive positioning in the market. By implementing these recommendations, commercial banks in Kenya can leverage board diversity as a strategic asset, driving sustainable competitive advantage.

The findings of this study underscore the significant relationship between CEO attributes and the competitive advantage of commercial banks in Kenya. To capitalize on this relationship, banks should focus on optimizing the selection and development of their CEOs, while also enhancing social capital within their organizations. Firstly, banks should consider the combination of CEO and chairperson roles as a strategic choice. The study indicates that this duality has contributed to a streamlined decision-making process, which is essential in today's fast-paced banking environment.

However, banks should also weigh the benefits of separating these roles to promote a healthier balance of power and oversight on the board, thereby enhancing governance and accountability. Secondly, the educational background and qualifications of the CEO are critical factors influencing the bank's strategic direction and overall performance. Therefore, banks should prioritize hiring CEOs whose educational qualifications align with the technical demands of the banking industry. Continuous professional development programs can further ensure that CEOs remain updated with industry trends and challenges, fostering an adaptable leadership approach.

Additionally, the study highlights the positive impact of CEOs' involvement in external boards on the bank's networking opportunities and industry influence.

To leverage this advantage, banks should encourage their CEOs to participate in industry forums and external boards, thereby enhancing relationships with stakeholders and fostering collaborations that can lead to innovative practices. Moreover, fostering social capital within the organization can enhance the effectiveness of CEO attributes in driving competitive advantage. By promoting teamwork and open communication, banks can create an environment where diverse perspectives contribute to strategic decision-making. In conclusion, commercial banks in Kenya should adopt a multifaceted approach to enhance the attributes of their CEOs, balancing governance structures, prioritizing relevant qualifications, and leveraging external networks to drive sustainable competitive advantage. By focusing on these areas, banks can position themselves favorably in a competitive marketplace.

The findings of this study reveal a significant and positive relationship between board independence and the competitive advantage of commercial banks in Kenya. To fully leverage this relationship effectively, banks must implement comprehensive strategies that enhance board independence while simultaneously fostering social capital within their organizations. Firstly, the presence of an independent Chair is crucial for reinforcing effective corporate governance practices. Banks should ensure that the role of the independent Chair is not only maintained but also strengthened, as this can facilitate unbiased decision-making and enhance accountability within the board.

An independent Chair can act as a mediator in discussions, ensuring that all perspectives are considered and that decisions are made in the best interest of the organization and its stakeholders. Moreover, promoting a higher proportion of non-executive directors is vital for improving oversight of management actions. Banks should actively recruit and retain non-executive directors who bring diverse backgrounds and expertise to the board. This diversity can foster impartiality and introduce a broader range of perspectives in decision-making processes. It is important that these directors are equipped with the skills and knowledge necessary to challenge and support management effectively.

Additionally, incorporating cross-sector directors can significantly enrich discussions by introducing varied viewpoints that can help boards navigate complex industry challenges more effectively. Banks should proactively cultivate relationships with professionals from different sectors, which can enhance the strategic discussions that inform key decisions. While the presence of overlapping board memberships is noted, banks should carefully assess the implications of this on governance. Ensuring that board members have distinct and valuable contributions can help mitigate potential conflicts of interest and enhance overall board effectiveness. Clear delineation of responsibilities and expectations among board members is essential in this regard. Finally, fostering social capital within the bank is essential to support the positive effects of board independence.

Encouraging collaboration and open communication among board members can strengthen relationships and enhance collective decision-making capabilities. Building a culture of trust and mutual respect can significantly impact the board's ability to function effectively and respond to challenges in a cohesive manner. In conclusion, commercial banks in Kenya should prioritize board independence as a key driver of competitive advantage. By focusing on enhancing governance structures, actively promoting diversity within the board, and nurturing social capital, banks can position themselves favorably in an increasingly competitive marketplace. These strategies will not only bolster their competitive position but also contribute to sustainable growth and success in the long term.

The findings of this study underscored the significant relationship between board committees and the competitive advantage of commercial banks in Kenya. To effectively capitalize on this relationship, it is essential for banks to prioritize the structure, composition and effectiveness of their board committees. This focus can create robust governance framework that enhances decision-making & contributes positively to the banks' overall performance. First and foremost, banks should ensure that their board committees have well-defined roles and responsibilities. Establishing clear constitutional mandates will empower these committees to tackle complex issues effectively.

Such clarity not only enhances accountability but also enables committee members to focus on their specific tasks without ambiguity. By clearly delineating responsibilities, banks can ensure that each committee operates with purpose and efficiency, ultimately leading to informed recommendations that align with the bank's strategic objectives. Furthermore, the expertise of committee members plays a critical role in elevating the quality of decisions made within these bodies. Banks should actively seek to recruit individuals with diverse backgrounds and specialized skills to serve on their committees. This diversity is essential as it not only enriches discussions but also fosters innovative problem-solving approaches that are crucial in today's dynamic banking environment.

By leveraging a wide range of expertise—from financial acumen to technological insights—banks can ensure that their committees are well-equipped to address the complexities of the banking sector effectively. In addition to recruitment, regular reviews of committee charters and activities are vital for maintaining relevance and effectiveness. Banks should implement a systematic process for evaluating the performance of their committees, which will allow for adjustments based on emerging challenges and opportunities. This ongoing assessment ensures that the committees remain aligned with the bank's evolving strategic objectives and are responsive to the changing market landscape.

Moreover, the size and composition of board committees should be regularly assessed to ensure optimal functioning. Tailoring the number of committee members to the specific needs of each committee can enhance oversight and accountability. A well-balanced committee structure, characterized by an appropriate mix of skills and perspectives, will facilitate comprehensive coverage of issues, enabling more effective governance and decision-making processes. Finally, fostering social capital within the board committees is crucial for enhancing their effectiveness. Encouraging open communication and collaboration among committee members can strengthen relationships and build trust. This collaborative environment is essential, as it will enhance the committees' ability to function effectively and respond proactively to the challenges faced by the bank.

By cultivating strong interpersonal dynamics, banks can ensure that their committees operate not just as formal entities but as cohesive units capable of delivering high-quality insights and recommendations. In conclusion, commercial banks in Kenya should place a high priority on optimizing their board committees as a key factor in achieving competitive advantage. By focusing on clear mandates, diverse expertise, regular evaluations, and collaborative relationships, banks can significantly enhance their decision-making processes. This comprehensive approach will not only improve the governance framework but also strengthen the banks' market position, ultimately leading to sustained competitive advantages in an increasingly complex and competitive landscape.

The findings of this study reveal a significant and positive relationship between corporate governance and the competitive advantage of commercial banks. Furthermore, the study found out that social capital significantly mediates the relationship between corporate governance and competitive advantage. Therefore, banks need to embrace corporate governance and social capital simultaneously to achieve better competitive advantage. To fully capitalize on these findings, banks must implement strategies that foster the development of corporate governance while simultaneously strengthening their organizational structures. Firstly, banks should focus on expanding and strengthening both internal and external networks. Cultivating relationships with key stakeholders such as customers, employees, regulators, and industry partners is essential to improving access to valuable resources and opportunities. By broadening these networks, banks can enhance their market positioning and secure a competitive edge.

Building and maintaining trust within the organization is another crucial aspect of social capital. Banks should invest in transparent communication and ethical practices to foster trust among employees and external stakeholders. A culture of trust enables better cooperation and collaboration, which is vital for effective decision-making and organizational success. In addition to promoting trust, banks should ensure that there are systems in place to facilitate knowledge-sharing and open communication. Encouraging the free flow of information across departments and with external

partners enables innovation and helps the bank respond more swiftly to changing market conditions.

Adherence to industry norms and standards also plays an important role in strengthening social capital. Banks must consistently follow these norms to maintain their social reputation and build strong relationships with regulatory bodies and other industry stakeholders. Regular assessments of compliance with these standards will help ensure that the bank remains a trusted and reliable partner in the industry. Moreover, fostering reciprocity and long-term relationships within the bank's social network is vital for sustaining competitive advantage. Banks should focus on building reciprocal relationships that go beyond transactional exchanges, ensuring mutual benefit for all involved parties. By nurturing these relationships, banks can create a cycle of support that strengthens the network over time.

Finally, banks should regularly assess the strength of their social networks to ensure they are effectively contributing to competitive advantage. Periodic evaluations of the networks reach, the level of trust, and the effectiveness of communication mechanisms will allow banks to identify areas for improvement. This ongoing evaluation helps ensure that social capital remains a valuable asset for driving the bank's strategic goals. Commercial banks must prioritize the development of social capital as a key driver of competitive advantage. By focusing on expanding networks, building trust, adhering to industry norms, promoting reciprocity, and continuously evaluating their social networks, banks can enhance their ability to access resources, foster collaboration, and improve their market positioning. These strategies will help banks secure a sustainable competitive advantage in an increasingly dynamic and competitive banking environment.

5.5 Contribution to Existing Literature

This study has contributed to the body of knowledge based on the objectives assessed regarding corporate governance, social capital, and competitive advantage of commercial banks in Kenya. On the first objective, the study concluded that board diversity has a positive and significant relationship with competitive advantage with

social capital serving as a significant mediator in this relationship. Based on this, the study adds to existing literature by affirming that organizations should simultaneously embrace diverse boards with social capital to achieve better competitive advantage.

The second objective examined the relationship between CEO attributes and competitive advantage, along with the mediating effect of social capital. The study concludes that CEO attributes possess a positive and significant relationship with competitive advantage. This finding enriches existing literature by affirming that organizations should recruit CEOs with not only excellent attributes but also strong social capital, to enhance the ability of organizations to achieve superior competitive advantage. The third objective focused on the relationship between board independence and competitive advantage, emphasizing the role of social capital as a mediator. The study contributes to existing literature that board independence significantly correlates with competitive advantage with social capital mediating this relationship. This highlights the necessity of strong networks and relationships in leveraging the advantages of board independence.

The fourth objective explored the relationship between board committees and competitive advantage with social capital as the mediator. The study concluded that well-functioning board committees have a significant positive impact on competitive advantage when coupled with good social capital accruing to committee members. This conclusion enriches the body of knowledge since it informs governance practitioners to emphasize governance structures and decision-making processes that incorporate social capital. This crucial mediator amplifies the effectiveness of board committees in achieving competitive goals.

Finally, the fifth objective investigated the mediating effect of social capital on the relationship between corporate governance and competitive advantage. The study contributes to existing literature by affirming that social capital has a significant mediation effect on corporate governance and competitive advantage. This indicates that strong social networks fostered through effective governance practices enhance competitive positioning. In summary, this study contributes to the body of knowledge of both corporate governance and strategic management domains. The study

highlights the role of governance factors—including board diversity, CEO attributes, board independence, and board committees—in catapulting the competitive advantage of commercial banks in Kenya. The study also contributes new knowledge by confirming social capital as a mediating force that enhances the relationship between corporate governance and competitive advantage.

5.6 Areas for Further Research

This study focused on the mediating effect of social capital on the relationship between corporate governance and competitive advantage in commercial banks in Kenya. While the findings provide valuable insights into this specific context, they also highlight several areas for further exploration that could enrich the academic literature and offer practical implications across various sectors. Firstly, the research did not encompass other critical sectors such as insurance, education, mining, healthcare, and security. These industries play significant roles in the economy and exhibit unique governance structures and competitive dynamics. Future studies should investigate the role of social capital in these sectors to determine if the findings regarding corporate governance and competitive advantage hold true in different contexts. Such research could illuminate industry-specific challenges and opportunities, facilitating tailored governance strategies that leverage social capital effectively. Secondly, the exclusion of microfinance banks from this study presents another significant opportunity for future research.

Microfinance institutions operate under distinct regulatory and operational frameworks, which may influence the role of social capital in shaping competitive advantage. Investigating the dynamics within microfinance banks could reveal unique insights into how governance practices and social capital interact to drive performance in this critical sector, particularly in enhancing financial inclusion. Furthermore, while this study primarily examined social capital as a mediator, it is recommended that subsequent research delve into its potential as a moderating factor. Exploring how social capital may influence the strength or direction of the relationship between corporate governance and competitive advantage could uncover nuanced dynamics currently overlooked.

Understanding these interactions could significantly enhance the development of effective governance frameworks that leverage social capital for strategic advantage. Additionally, longitudinal studies would be beneficial to assess how the role of social capital evolves over time and impacts corporate governance practices and competitive advantage. Such an approach would enable researchers to capture changing dynamics and trends in governance and competition, providing a richer understanding of the long-term implications of social capital in various contexts. Moreover, comparative studies across different countries or regions could offer valuable insights into how cultural and regulatory differences influence the relationship between social capital, corporate governance, and competitive advantage. This could lead to a deeper understanding of best practices that can be adapted and implemented across diverse environments.

Finally, exploring the impact of technological advancements on social capital and governance practices could be another promising area of research. As industries increasingly embrace digital transformation, understanding how technology affects the formation and utilization of social capital can provide insights into new competitive strategies. In summary, future research should broaden the scope of inquiry to encompass diverse sectors, institutions, and contexts while also examining different dimensions of social capital. This multifaceted approach would enhance our understanding of the interplay between corporate governance and competitive advantage, ultimately contributing to the development of robust strategies that can be applied across various industries. By investigating these areas, researchers can help organizations harness the full potential of social capital in achieving sustainable competitive advantage.

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APPENDICES

Appendix I: Letter of Introduction

May, 2022.

Dear Respondent,

RE: REQUEST FOR INFORMATION.

I am student undertaking research as an academic requirement in partial fulfillment for the award of Doctor in Business Administration at Jomo Kenyatta University of Agriculture and Technology (JKUAT). This questionnaire is intended to facilitate the research on **Corporate Governance, Social Capital and Competitive Advantage of Commercial Banks in Kenya**. Permission for the study will be sought from Kenya National council of Science and Technology and JKUAT. I have purposefully identified you as a possible participant because of your valuable experience and expertise related to my research topic. The information provided for this research will be purely for academic purposes and the recommendations made will be of great importance to the business world. The information provided here will be treated with utmost confidentiality.

Your assistance and corporation will be highly valued.

Yours faithfully,

Noah Chepkech

Appendix II: Questionnaire

CORPORATE GOVERNANCE, SOCIAL CAPITAL AND COMPETITIVE ADVANTAGE OF COMMERCIAL BANKS IN KENYA

Questionnaire No: Date...../...../2023

(Information provided will be highly confidential and anonymous-DO NOT WRITE YOUR NAME)

PART A: DEMOGRAPHIC INFORMATION

(Please tick appropriately or fill additional information in the space provided).

1. Kindly state your gender:	Male	☐	Female	☐
2. Indicate your length of service at the banking industry:	0-5 years	☐	6-10 years	☐
	11-15 years	☐	16-20 years	☐
	Above 21 years	☐		
3. Your highest level of education:	Diploma	☐	Degree	☐
	Masters	☐	Ph.D.	☐
4. Indicate the tier of the bank you work for:	Tier 1	☐	Tier 2	☐

Tier 3 ☐

5. How long has the bank operated since inception?

☐

0-5 years

☐

6-10 years

11-15 years

☐

16-20 years

☐

Above 21 years

☐

6. How many board members does your bank have?

Below 5 members ☐

5-9 members ☐

Above 10 members ☐

7. How many of the board members work full time for the bank?

More than half ☐

☐

Less than half

8. How many of the board members are female?

More than a third ☐

Less than a third ☐

9. Which of the following describes the majority ownership of the bank?

☐

Locally owned (public)

Locally –owned (private)

Locally –owned (government)

Foreign-owned

☐☐☐

PART B: BOARD DIVERSITY

Instructions: This section has statements regarding bank board diversity. Kindly respond with the response that matches your opinion. Please tick as appropriate using a tick (✓) or cross mark (x) in only the box you deem most appropriate. Please indicates using the following scale: 5 =strongly agree (SA), 4=agree(A), 3=neutral(N), 2=disagree (DA), 1= strongly disagree (SD).

No	BOARD DIVERSITY STATEMENTS	SA	A	N	D	SD
1	The bank board's composition adequately reflects a diverse range of expertise, encompassing both financial and non-financial experts.					
2	The bank's board demonstrates a balanced representation of gender, promoting a variety of perspectives and insights.					
3	The geographical backgrounds of board members contribute to a comprehensive understanding of regional banking dynamics and customer needs.					
4	The board's generational diversity enhances the bank's ability to adapt to changing market trends and technological advancements.					
5	The skills and competencies possessed by the board members align effectively with the bank's strategic goals and challenges.					

PART C: CEO ATTRIBUTES

Instructions: This section has statements regarding CEO Attributes in the bank. Kindly respond with the response that matches your opinion. Please tick as appropriate using a tick (✓) or cross mark (x). Please indicates using the following scale: 5

=Strongly Agree (SA), 4=Agree(A), 3=Neutral(N), 2=Disagree(D), 1= Strongly Disagree(SD).

No	CEO ATTRIBUTES STATEMENTS	SA	A	N	D	SD
1	The combination of CEO and Chairperson roles in the bank has in the past contributed to a more streamlined decision-making process.					
2	Separating the CEO and Chairperson roles has in the past promoted a healthier balance of power and oversight on the board.					
3	The CEO's educational background has in the past significantly influenced the bank's strategic direction and performance.					
4	The CEO's educational qualifications are perfectly well-aligned with the technical demands of the banking industry.					
5	The bank's CEO recruitment process has emphasized an opportunity to a variety of candidates who would otherwise be locked out.					

PART D: BOARD INDEPENDENCE

Instructions: This section has statements regarding board independence. Kindly respond with the response that matches your opinion. Please tick as appropriate using a tick (✓) or cross mark (x). Please indicates using the following scale: 5 =SA, 4=A, 3=N, 2=D, 1= SD.

No	BOARD INDEPENDENCE STATEMENTS	SA	A	N	D	SD
1	The presence of an independent Chair is actioned in this bank on the Board to enhance the effectiveness of corporate governance practices.					
2	This is one of the few banks that has promoted a non-executive Board chair to encourage impartial decision-making and accountability.					
3	The bank has always promoted a higher proportion of non-executive directors on the Board to contribute to better oversight of management actions.					

4	The inclusion of cross directors from other sectors enriches discussions with diverse viewpoints on industry challenges.					
5	The bank has a high number of overlapping board members across different organizations.					

PART E: BOARD COMMITTEES

Instructions: This section has statements regarding board committees. Kindly respond with the response that matches your opinion. Please tick as appropriate using a tick (✓) or cross mark (x). Please indicate using the following scale: 5 =SA, 4=A, 3=N, 2=D, 1= SD.

No	BOARD COMMITTEES STATEMENTS	SA	A	N	D	SD
1	The banks board committees have well-defined constitutional length having the capacity to thoroughly address complex issues thrown at it.					
2	The expertise of committee members has in the past significantly influenced the quality of decisions and recommendations made.					
3	The board index on diverse membership is one of the highest in the sector with diverse board committees that enhances the richness of discussions and decision-making processes.					
4	Frequent reviews of committee charters and activities are a norm and are crucial for maintaining their relevance and effectiveness.					
5	The number of committee members is regularly tailored to ensure comprehensive coverage of the matters under the committee's purview.					

PART F: SOCIAL CAPITAL

Instructions: This section has statements regarding social capital. Please tick as appropriate using a tick (✓) or cross mark (x). Indicate using the following scale: 5 =SA, 4=A, 3=N, 2=D, 1= SD.

No	SOCIAL CAPITAL STATEMENTS	SA	A	N	D	SA
1	The bank has one of the largest network size which enhances the bank's access to diverse resources and opportunities.					
2	The bank has a 100% compliance to social norms within the banking industry on a regular basis to strengthen the bank's social reputation.					
3	The bank has high levels of trust within its social network as noted from operational data and this positively influence collaboration and cooperation.					
4	There are mechanisms within the bank for maintaining regular communication within the bank's social network that fosters knowledge sharing and mutual support.					
5	The frequency of reciprocal actions is monitored and evaluated frequently within the network as it contributes to a sustainable cycle of support and reciprocity.					

PART G: COMPETITIVE ADVANTAGE

This section has statements regarding competitive advantage of the bank. Kindly respond with the response that matches your opinion. Please tick as appropriate using a tick (√) or cross mark (x). Please indicate using the following scale: 5 =SA, 4=A, 3=N, 2=D, 1=SD.

No	COMPETITIVE ADVANTAGE STATEMENTS	SA	A	N	D	SD
1	The superior quality of our products/services as reported in industry surveys gives us a distinct edge over competitors in the market.					
2	Our cost/pricing strategy allows us to offer competitive rates ensuring we are always profitable for the last 10 years.					
3	Consistent product innovation ensures that we stay ahead in meeting evolving customer needs and preferences as indicated by consistent growing customer numbers in the last 10 years.					

4	Our ability to rapidly offer solutions sets us apart, enabling us to address customer challenges in a timely manner which is why we operate in most towns that					
5	Our wide geographical coverage enhances our reach and accessibility to over 80% of Kenya, giving us a competitive advantage.					

Thank you for sparing your time to fill this questionnaire.

Appendix III: List of Commercial Banks in Kenya as at 8th May 2023

1. ABC Bank (Kenya)
2. ABSA Bank Kenya
3. Access Bank Kenya
4. Bank of Africa
5. Bank of Baroda
6. Bank of India
7. Citibank
8. Consolidated Bank of Kenya
9. Cooperative Bank of Kenya
10. Credit Bank
11. Development Bank of Kenya
12. Diamond Trust Bank
13. Dubai Islamic Bank
14. Ecobank Kenya
15. Equity Bank Kenya
16. Family Bank
17. First Community Bank
18. Guaranty Trust Bank Kenya
19. Guardian Bank
20. Gulf African Bank
21. Habib Bank AG Zurich
22. Habib Bank Limited
23. Housing Finance Company of Kenya
24. I&M Bank
25. Imperial Bank Kenya (In receivership)
26. Kingdom Bank Limited
27. Kenya Commercial Bank
28. Mayfair Bank
29. Middle East Bank Kenya
30. M Oriental Bank

31. National Bank of Kenya
32. NCBA Bank Kenya
33. Paramount Universal Bank
34. Premier Bank
35. Prime Bank (Kenya)
36. SBM Bank Kenya
37. Sidian Bank
38. Spire Bank
39. Stanbic Holdings Plc
40. Standard Chartered Kenya
41. United Bank for Africa
42. Victoria Commercial Bank

Source: Central Bank of Kenya (2023)