

The Impact of Corporate Governance, Risk Management Efficacy, State Regulation on Commercial Banks Financial Performance in Kenya

Samuel Aputo

Department of Supply Chain and Logistics, Management University of Africa

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ABSTRACT

Commercial banks are central to financial intermediation, economic stability, and private-sector growth, yet their performance remains sensitive to governance quality, risk exposure, and the regulatory environment. This paper develops an integrated framework for examining how corporate governance affects the financial performance of commercial banks in Kenya through risk management effectiveness and under varying levels of government regulation. The paper is grounded in Agency Theory, Institutional Theory, and Enterprise Risk Management Theory. It synthesizes prior evidence on board structure, ownership, transparency, risk controls, prudential regulation, and bank profitability and identifies a Kenyan empirical gap arising from the tendency to examine these relationships independently. The proposed study adopts a pragmatic philosophy and a sequential explanatory mixed-methods design. The quantitative phase would use a structured five-point Likert-scale questionnaire administered to managers, risk officers, finance officers, internal auditors, and compliance officers in licensed commercial banks. A pilot study would assess validity and reliability, with Cronbach's alpha of at least 0.70 treated as acceptable. Quantitative analysis would combine descriptive statistics, correlation, multiple regression, mediation and moderation analysis using Hayes' PROCESS macro and structural equation modelling, supported by diagnostic tests. A qualitative phase would use semi-structured interviews to explain and triangulate the quantitative relationships. The paper argues that governance is unlikely to influence bank performance in isolation; instead, the quality of internal risk-management systems and the strength of regulatory institutions are expected to shape the magnitude and direction of that relationship. The proposed framework provides a coherent basis for empirical testing and offers implications for boards, regulators, and bank managers seeking stronger resilience and sustainable financial performance.

Keywords: corporate governance, risk management effectiveness, government regulation, bank financial performance, Kenya

INTRODUCTION

Commercial banks perform a central intermediation role by mobilising savings, allocating credit, facilitating payments, and supporting investment. Their financial condition therefore has implications beyond individual institutions because weaknesses in governance or risk control can transmit losses to depositors, investors, borrowers, and the wider economy. This explains the sustained academic and regulatory attention to bank governance and profitability and the continued policy interest in mechanisms that strengthen resilience. The broader development context also underscores the importance of resilient financial systems and inclusive recovery (World Bank, 2022).

Corporate governance provides the institutional architecture through which banks are directed, monitored, and held accountable. Agency Theory highlights the possibility that managers may pursue objectives that diverge from those of shareholders or depositors when monitoring is weak. In banking, the problem is amplified because information asymmetry is substantial, balance sheets are highly leveraged, and risk-taking decisions may generate gains for managers while imposing costs on other stakeholders. Effective boards, independent oversight, transparent reporting, and appropriate ownership arrangements can therefore constrain opportunistic behaviour and encourage prudent decision making (Jensen & Meckling, 1976; OECD, 2015). The governance

of banks presents distinctive oversight challenges because of the opacity and complexity of banking activities (Macey & O'Hara, 2016).

Governance alone, however, does not automatically produce sound financial outcomes. Commercial banks operate through systems that identify, price, monitor, and control credit, liquidity, market, capital, and operational risks. The effectiveness of those systems determines whether board policies are translated into disciplined risk-taking and stable earnings. COSO (2017) and the Basel Committee on Banking Supervision (2018) emphasise integrated risk-management processes that connect risk appetite, identification, assessment, response, monitoring, and reporting to organisational objectives.

The external regulatory environment adds a further layer. Banks do not determine their risk architecture in a vacuum; they operate within prudential rules, supervisory arrangements, disclosure obligations, and enforcement mechanisms established by public authorities. Institutional Theory suggests that such formal rules shape organisational behaviour because institutions must comply with regulatory expectations to retain legitimacy and continue operating. Regulation can strengthen governance by constraining excessive risk-taking, but it can also increase compliance costs and administrative burdens. The effect of regulation on performance is therefore likely to depend on how effectively rules interact with internal governance and risk systems.

This paper integrates these arguments within the Kenyan commercial-banking context. It positions risk management effectiveness as the mediating mechanism linking governance to financial performance and government regulation as the moderating condition that may strengthen or weaken the governance-performance pathway. The objective is not to claim empirical results that are not contained in the proposed design, but to convert the conceptual argument into a publication-ready framework that can be tested using a clearly specified mixed-methods design.

BACKGROUND TO THE STUDY

Corporate governance in commercial banks

Corporate governance in banking encompasses the structures and processes used to direct institutions, allocate decision rights, monitor management, and protect the interests of shareholders, depositors, and other stakeholders. Corporate governance is operationalised through board size, board independence, board diversity, ownership structure, and transparency and disclosure practices. These dimensions are consequential because board composition affects the quality of challenge and oversight, ownership arrangements affect incentives and monitoring, and disclosure reduces information asymmetry between management and external stakeholders.

International evidence generally associates stronger governance with better monitoring and reduced agency problems, although the relationship is not uniformly linear. Pathan and Faff (2013) show that board characteristics and governance quality can influence bank profitability and stability, while African evidence reported by Shungu et al. (2014) points to the performance consequences of weaknesses in oversight and disclosure. These mixed findings support a mechanism-based approach rather than a simple assumption that governance directly determines performance.

Risk management effectiveness

Risk management effectiveness refers to the extent to which a bank can systematically identify, assess, monitor, and control exposures while remaining aligned with its strategic objectives and risk appetite. The proposed study treats credit risk control, liquidity risk management, capital adequacy management, and operational risk controls as observable dimensions. This measurement follows the logic that financial performance depends not only on governance structures but also on the quality of the systems through which risk decisions are implemented.

Empirical work indicates that effective credit-risk practices can reduce non-performing loans, while robust liquidity and capital management can protect earnings during periods of stress (Dietrich & Wanzenried, 2014). Florio and Leoni (2017) further support the role of enterprise risk management as an organisational capability that links governance to financial outcomes. The proposed mediation therefore rests on the argument that boards influence performance partly through the quality of risk-management processes they authorise, monitor, and enforce.

Government regulation in the Kenyan banking environment

Government regulation comprises laws, prudential standards, supervisory practices, reporting requirements, and enforcement processes that shape the behaviour of financial institutions. At the banking-system level, regulation is intended to protect depositors, preserve confidence, constrain excessive leverage and risk-taking, and strengthen institutional soundness. Barth, Caprio, and Levine (2013) frame regulation and supervision as key components of banking stability, while the Basel Committee on Banking Supervision (2018) links regulatory expectations to capital, liquidity, governance, and risk-management practices.

In Kenya, the regulatory environment is particularly important because commercial banks operate under active prudential supervision by the Central Bank of Kenya. Government regulation would be measured through capital adequacy requirements, liquidity regulation, supervisory intensity, and regulatory compliance requirements. These indicators capture the degree to which external rules and supervisory attention shape internal decision making. They also reflect the reality that a bank may have strong governance structures on paper but still face different performance consequences depending on the regulatory context in which those structures operate.

Financial performance of commercial banks

Financial performance represents the economic outcomes generated from the deployment of organisational resources. For banks, profitability must be considered together with balance-sheet resilience because aggressive earnings strategies can weaken capital or liquidity positions. The proposed study therefore uses return on assets (ROA), return on equity (ROE), net interest margin (NIM), and capital adequacy ratio (CAR) as performance indicators. These measures collectively capture profitability, efficiency in asset use, margin generation, and capital strength.

Dietrich and Wanzenried (2014) show that risk characteristics influence bank profitability, while Florio and Leoni (2017) demonstrate the relevance of enterprise risk-management systems to financial outcomes. The combined evidence suggests that performance is the product of interacting organisational and institutional processes. The conceptual challenge for Kenya is consequently to explain not just whether governance matters, but how governance is translated into financial outcomes through risk management and under varying regulatory pressure.

Statement Of The Problem

Kenyan commercial banks operate within a mature governance and prudential-supervision environment, yet financial performance remains exposed to fluctuations in profitability, non-performing loans, liquidity pressures, capital constraints, and episodes of regulatory intervention. The Central Bank of Kenya has strengthened supervision and prudential requirements, but stronger rules do not necessarily mean that all institutions convert governance structures into equally effective internal risk controls. This creates a practical and scholarly need to examine the mechanisms through which governance contributes to financial outcomes.

Prior research has generated substantial knowledge about corporate governance, bank risk, and financial performance, but much of the literature treats these variables as separate direct relationships. Governance is often modelled as an independent predictor of performance, while regulation is included as an external factor or control variable. Such specifications overlook the possibility that governance affects performance because it improves the organisation's capacity to identify, assess, and control risk, and that the strength of this pathway depends on the regulatory environment.

The resulting conceptual gap is a mediation-moderation problem. If corporate governance improves risk-management effectiveness, and risk-management effectiveness improves financial performance, then risk management should transmit at least part of the governance effect. At the same time, regulatory intensity may condition that transmission by changing incentives, compliance expectations, monitoring intensity, and the cost of non-compliance. The relationship may therefore be stronger in environments where governance and regulatory systems are mutually reinforcing, or weaker where compliance costs overwhelm operational benefits.

The contextual gap is equally important. Relatively limited Kenyan evidence has integrated corporate governance, risk management effectiveness, and government regulation within a single model. Existing Kenyan discussions tend to examine governance, regulation, and performance in isolation. A focused study of the moderated mediation structure would therefore contribute more than another direct-effect test; it would explain the organisational pathway and institutional condition through which governance may influence bank outcomes.

The paper consequently proposes an empirically testable framework in which corporate governance is the explanatory construct, risk management effectiveness is the mediator, government regulation is the moderator, and financial performance is the dependent construct. The proposed design combines quantitative hypothesis testing with qualitative explanation so that statistical relationships can be interpreted in the institutional realities of the Kenyan banking sector.

Objectives And Research Hypotheses

General objective

The general objective is to examine how corporate governance influences the financial performance of commercial banks in Kenya through risk management effectiveness and under varying levels of government regulation.

Specific objectives

- To examine the effect of corporate governance on the financial performance of commercial banks in Kenya.
- To assess the mediating effect of risk management effectiveness on the relationship between corporate governance and financial performance of commercial banks in Kenya.
- To evaluate the moderating effect of government regulation on the relationship between corporate governance and financial performance of commercial banks in Kenya.
- To determine the moderated mediation effect of government regulation and risk management effectiveness on the relationship between corporate governance and financial performance of commercial banks in Kenya.

Research hypotheses

- H01: Corporate governance has no significant effect on the financial performance of commercial banks in Kenya.
- H02: Risk management effectiveness has no significant mediating effect on the relationship between corporate governance and the financial performance of commercial banks in Kenya.
- H03: Government regulation has no significant moderating effect on the relationship between corporate governance and the financial performance of commercial banks in Kenya.
- H04: Government regulation and risk management effectiveness have no significant moderated mediation effect on the relationship between corporate governance and the financial performance of commercial banks in Kenya.

The hypotheses are framed as null propositions to support rigorous empirical testing without pre-empting the direction or statistical significance of the relationships.

Theoretical Framework

The framework combines Agency Theory, Institutional Theory, and Enterprise Risk Management (ERM) Theory. Together, the three perspectives explain governance incentives, external regulatory pressures, and the internal processes through which risk is converted into organisational outcomes.

Agency Theory

Agency Theory explains the governance problem created by separation between owners and managers. Jensen and Meckling (1976) argue that information asymmetry and divergent interests can generate agency costs. In banks, managers make decisions about lending, liquidity, capital allocation, and risk-taking that shareholders and depositors cannot observe perfectly. Independent boards, monitoring committees, ownership structures, and transparent disclosures therefore act as control mechanisms. The theory supports the expectation that better governance reduces opportunistic behaviour and improves the quality of risk decisions.

Institutional Theory

Institutional Theory extends the framework beyond the firm. North (1990) argues that formal institutions influence incentives and organisational behaviour. Commercial banks operate under externally defined capital, liquidity, reporting, and supervisory requirements, making compliance a central organisational task. Regulation may increase legitimacy and stability by constraining imprudent behaviour, while intense compliance demands may also impose costs. The theory therefore supports government regulation as a moderator rather than merely a background control variable.

Enterprise Risk Management Theory

ERM Theory focuses on the integration of risk identification, assessment, response, monitoring, and communication across organisational functions. COSO (2017) presents ERM as a strategic approach that connects risk management with objectives and decision making. For banks, an effective risk-management system should translate governance intent into operational controls across credit, liquidity, capital, and operational exposures. ERM Theory therefore provides the theoretical basis for the mediating role of risk management effectiveness.

EMPIRICAL LITERATURE REVIEW

Corporate governance and financial performance

Empirical studies generally indicate that governance characteristics matter for bank outcomes, but findings vary by institutional setting, governance dimension, and measurement. Board independence can strengthen monitoring where directors have sufficient expertise and authority to challenge management, while board size can either add oversight capacity or create coordination costs. Ownership concentration may align monitoring incentives in some settings but may also produce conflicts between controlling and minority shareholders. Transparency and disclosure similarly influence the quality of external discipline by reducing uncertainty about financial and risk positions.

Pathan and Faff (2013) provide evidence that governance characteristics can influence bank performance. The mixed results reported across the literature are important because they imply that governance structures are not self-executing. The quality of the processes through which boards exercise oversight may determine whether formal governance arrangements translate into measurable financial benefits.

Risk management effectiveness as a mediator

The mediating proposition follows a process logic. Governance establishes authority, monitoring, and accountability; risk-management systems operationalise those principles; financial performance reflects the resulting economic outcomes. Kargi (2011) links credit-risk management to profitability, while Dietrich and Wanzenried (2014) show the importance of liquidity and capital conditions to bank earnings. Florio and Leoni (2017) provide additional support for ERM as a value-relevant organisational capability. These studies imply that the governance-performance relationship is more plausibly explained through internal risk processes than through board structures alone. Enterprise risk management also provides an organisational basis for linking risk appetite, risk measurement, and value creation (Nocco & Stulz, 2006).

This mechanism also clarifies why governance reforms can generate uneven outcomes. Two banks may have similarly independent boards but differ substantially in credit assessment, liquidity monitoring, capital planning, or operational-control maturity. Where risk-management effectiveness is weak, governance decisions may remain largely symbolic. Where risk systems are integrated and monitored effectively, governance can have a more direct influence on financial resilience and profitability.

Government regulation as a moderator

Regulation can alter the strength of governance effects by changing the institutional incentives under which banks operate. Prudential rules set minimum capital and liquidity conditions, while supervisory intensity affects how likely deviations are to be detected and corrected. Laeven and Valencia (2018) illustrate the broader importance of financial institutions and crisis-management frameworks to bank behaviour. Effective regulation can reinforce governance by making oversight consequential; poorly calibrated regulation may instead create compliance burdens without equivalent operational benefits.

The Kenyan setting makes this moderating perspective particularly relevant. The Central Bank of Kenya has strengthened risk-based supervision and prudential requirements, meaning that the same internal governance practice can operate under different levels of external scrutiny. Regulatory intensity may therefore strengthen the governance-risk link by requiring boards to evidence compliance, or constrain financial performance through higher administrative and capital costs. The empirical test should consequently estimate an interaction rather than merely include regulation as another independent predictor.

Financial performance measurement

The selected performance measures reflect complementary dimensions of bank outcomes. ROA captures the efficiency with which assets generate earnings; ROE captures returns relative to shareholder capital; NIM reflects the spread generated from interest-bearing activities; and CAR captures the capital buffer available to absorb losses. Using multiple indicators reduces the risk that conclusions depend on a single accounting ratio and permits a more nuanced assessment of whether governance and risk controls improve profitability, resilience, or both.

Synthesis of the empirical gap

The reviewed literature supports an integrated model but does not remove the need for context-specific testing. Existing evidence establishes plausible links among governance, risk systems, regulation, and performance, yet the Kenyan commercial-banking context requires a design that tests the full conditional pathway. The proposed study addresses this gap by examining whether governance predicts financial performance directly, whether risk management transmits part of the effect, whether regulation changes the governance relationship, and whether the indirect effect varies across levels of regulatory intensity.

Conceptual Framework

The conceptual model positions corporate governance as the independent variable and financial performance as the dependent variable. Risk management effectiveness is the mediating construct through which

governance is expected to influence performance, while government regulation is specified as a moderating condition that may change the strength of the relationship. The model is consistent with the theoretical argument that organisational controls operate through internal processes and are shaped by external institutions.

Figure 1: Conceptual framework linking corporate governance, risk management effectiveness, government regulation, and financial performance.

Operationalisation of variables

Table 1: Operationalisation of the proposed conceptual model.

Construct	Role	Illustrative indicators
Corporate governance	Independent	Board size; board independence; board diversity; ownership structure; transparency and disclosure.
Risk management effectiveness	Mediator	Credit risk control; liquidity risk management; capital adequacy management; operational risk controls.
Government regulation	Moderator	Capital adequacy requirements; liquidity regulation; supervisory intensity; regulatory compliance requirements.
Financial performance	Dependent	Return on assets; return on equity; net interest margin; capital adequacy ratio.

RESEARCH METHODOLOGY

Research philosophy and design

The proposed study adopts a pragmatic research philosophy. Pragmatism is appropriate because the research problem requires both statistical estimation of relationships and contextual explanation of how governance, risk management, and regulation operate in practice. A sequential explanatory mixed-methods design is proposed. The quantitative phase would establish the magnitude and statistical significance of direct, indirect, and conditional relationships; the qualitative phase would then explain patterns that require institutional interpretation (Saunders, Lewis, & Thornhill, 2019).

Target population and unit of analysis

The target population would comprise approximately 520 staff members drawn from managers, risk officers, finance officers, internal auditors, and compliance officers working in licensed commercial banks in Kenya, including conventional and Islamic banking operations where applicable. The proposed unit of analysis is the commercial bank at the institutional level, while individual respondents serve as knowledgeable informants on governance, risk-management, regulatory, and performance practices. This distinction would be made explicit during data collection and analysis to reduce ambiguity between respondent-level perceptions and bank-level outcomes.

Sampling design and sample size

The quantitative sample would be determined using the Yamane (1967) formula, with stratified random sampling used to obtain proportional representation across bank categories and functional departments. The stratification logic is intended to prevent the views of one professional group from dominating the analysis. Respondents would be selected because of their direct knowledge of board practices, risk processes, regulatory requirements, and financial management. The qualitative phase would use purposive selection of key informants whose roles expose them to governance and risk decisions in greater depth.

Because the proposed design is future-oriented, the final sample size, response rate, and respondent profile remain empirical questions to be established after data collection. The proposed design nevertheless sets out the sampling logic clearly enough to support replication and later statistical assessment.

Data collection instruments and procedure

The quantitative phase would use a structured questionnaire organised into sections for corporate governance, risk management effectiveness, government regulation, and financial performance. Each indicator would be measured on a five-point Likert scale ranging from strongly disagree to strongly agree. The qualitative phase would use a semi-structured interview guide designed to probe how respondents interpret board oversight, risk controls, regulatory expectations, and financial decision making. Using two instruments would permit triangulation between pattern-level survey evidence and institutional explanation.

Formal authorization would be obtained from relevant institutions before data collection, and the researcher would secure a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) where required. Respondents would receive clear information about the purpose of the research, the voluntary nature of participation, and the protection of their information. Questionnaires would be administered and checked for completeness before coding, while interviews would be recorded only with consent and transcribed for thematic analysis.

Pilot testing, validity, and reliability

A pilot study involving approximately 10% of the intended quantitative sample would be used to assess the clarity, relevance, and consistency of the instruments. Content validity would be established through expert review against the conceptual definitions and study objectives. Construct validity would be assessed using appropriate factor-analytic procedures before the final model is estimated. Reliability would be evaluated using Cronbach's alpha, with a threshold of at least 0.70 treated as acceptable for multi-item constructs (Kothari, 2014). Items that materially weaken construct reliability would be reviewed before the main analysis.

Measurement quality controls

Several controls would strengthen measurement quality. Questionnaire items would be worded consistently and mapped directly to the operational definitions in Table 1. Potential common-method bias would be considered by separating construct sections, using clear instructions, and incorporating objective financial indicators where institutional access permits. The study would also distinguish perceptual measures from bank-level accounting measures so that subjective assessments are not interpreted as substitutes for audited financial outcomes.

DATA ANALYSIS AND PROPOSED ANALYTICAL STRATEGY

Quantitative analysis

Quantitative data would be analysed using descriptive statistics such as frequencies, means, and standard deviations to profile the sample and summarise construct scores. Pearson correlation would provide an initial assessment of bivariate associations, followed by multiple regression to estimate the direct relationship between corporate governance and financial performance while accounting for the other specified variables. Statistical inference would use a conventional 5% significance level together with effect-size interpretation and confidence intervals.

Mediation and moderation analysis

The mediating role of risk management effectiveness would be examined using indirect-effect analysis. Hayes' PROCESS macro would be used to estimate the indirect pathway with bootstrap resampling, while structural equation modelling would provide an additional assessment of the measurement and structural relationships where the data support such modelling (Hayes, 2018). The moderating effect of government regulation would

be examined using an interaction term between corporate governance and regulation. A statistically significant interaction would indicate that the governance-performance relationship changes across levels of regulatory intensity.

Moderated mediation

The final model would test whether the indirect effect of corporate governance on financial performance through risk management effectiveness varies as government regulation changes. The moderated mediation hypothesis is important because it integrates the entire conceptual argument: governance is expected to shape risk systems, risk systems are expected to influence performance, and the regulatory environment is expected to condition that chain. Interpretation would focus on the size, direction, confidence intervals, and practical meaning of conditional indirect effects rather than statistical significance alone.

Diagnostic testing

Model robustness would be evaluated through normality assessment, variance inflation factors for multicollinearity, Breusch-Pagan testing for heteroscedasticity, and the Durbin-Watson statistic for autocorrelation, consistent with Hair et al. (2019). Where assumptions are materially violated, appropriate transformations, robust estimators, or alternative specifications would be considered. Qualitative interview data would be analysed thematically to identify recurring explanations, implementation constraints, and institutional dynamics that illuminate the quantitative findings.

Qualitative interview transcripts would be prepared from the recorded and transcribed interviews and analysed through thematic content analysis. Coding would proceed from initial descriptive codes to broader categories and themes concerning governance practices, risk-management implementation, regulatory pressures, and explanations for quantitative patterns. The analysis could be managed manually using a structured coding matrix or supported by qualitative software such as NVivo, with an audit trail maintained for coding decisions. The resulting themes would then be compared with the quantitative findings to identify convergence, complementarity, or divergence, thereby strengthening triangulation and contextual interpretation of the proposed hypotheses.

ETHICAL CONSIDERATIONS, CONTRIBUTION, AND RESEARCH QUALITY

Ethical considerations

The proposed study would comply with applicable institutional, professional, and research-ethics requirements. Participation would be voluntary and based on informed consent. Respondents would not be required to disclose confidential customer information, proprietary bank data, or personally identifying details beyond what is necessary for the study. Data would be stored securely, access would be restricted to authorised persons, and reporting would aggregate information so that individuals and institutions are not unnecessarily identifiable.

Research quality safeguards

The mixed-methods design would support triangulation by allowing quantitative patterns to be examined alongside qualitative explanations. Construct definitions would be specified before analysis, sampling procedures would be documented, and statistical decisions would be reported transparently. Where financial performance indicators are available from audited bank reports, objective measures would be compared with respondent perceptions. The analysis would also distinguish association from causation because the proposed design is not intended to establish causal effects through experimental manipulation.

Expected theoretical contribution

The study is expected to contribute by integrating three theoretical perspectives within one explanatory model. Agency Theory explains why governance mechanisms should reduce agency-related risk; ERM Theory

explains why governance should operate through integrated internal risk systems; and Institutional Theory explains why the same internal governance practices may produce different outcomes under different regulatory conditions. The combined framework therefore moves beyond a simple governance-performance correlation and specifies both a mechanism and a boundary condition.

Expected managerial and regulatory contribution

For bank boards and executives, the framework emphasises that governance should be connected to measurable risk-management capability rather than treated solely as a compliance structure. For regulators, the model provides a basis for examining whether prudential requirements strengthen internal governance or create unintended costs. For researchers, the proposed moderated mediation design offers a replicable structure for testing governance, risk, and performance relationships in other emerging-market banking systems.

DISCUSSION AND CONCLUSION

Discussion

The central argument of the paper is that corporate governance should be understood as a system of decision rights and oversight that becomes economically meaningful through risk-management processes. A board can be formally independent and still fail to improve performance if credit-risk controls are weak, liquidity monitoring is ineffective, capital planning is poorly integrated, or operational risks are not escalated. By treating risk management effectiveness as a mediator, the proposed framework directs empirical attention to the organisational pathway connecting governance intent with bank outcomes.

The moderating role assigned to government regulation also follows from the realities of banking. Prudential regulation can reinforce governance by imposing minimum standards, increasing supervisory visibility, and making failures costly. At the same time, regulation can alter cost structures through capital, liquidity, reporting, and compliance requirements. The proposed interaction therefore allows the empirical study to test whether regulation predominantly complements governance, constrains it, or produces different effects under different levels of intensity. The discussion is aligned directly with the four hypotheses. H01 corresponds to the proposed direct test of corporate governance and financial performance; H02 corresponds to the indirect pathway through risk management effectiveness; H03 corresponds to the interaction between corporate governance and government regulation; and H04 corresponds to the conditional indirect effect in which regulation changes the strength of the governance-to-performance pathway through risk management effectiveness. This alignment ensures that the empirical analysis, theoretical argument, and interpretation remain anchored to the same four propositions.

Conclusion

This paper has developed a publication-ready conceptual and methodological framework for examining corporate governance, risk management effectiveness, government regulation, and financial performance in Kenyan commercial banks. The framework integrates Agency Theory, Institutional Theory, and Enterprise Risk Management Theory and specifies a direct governance-performance relationship, a mediating risk-management pathway, a regulatory moderation effect, and a moderated mediation structure. Because this article presents a proposed empirical design rather than completed fieldwork, it deliberately does not report empirical findings. Instead, it establishes a coherent basis for subsequent field testing.

The conclusion also maps directly onto H01-H04: the first hypothesis addresses the direct governance-performance relationship, the second addresses mediation by risk management effectiveness, the third addresses moderation by government regulation, and the fourth integrates both mechanisms as a moderated mediation pathway. No empirical decision is claimed at this stage because the research design is proposed rather than based on completed field results.

Recommendations for the proposed empirical programme

- The study should retain bank-level financial indicators alongside respondent perceptions so that accounting outcomes and managerial assessments can be compared.
- Boards and regulators should be examined jointly in the qualitative phase because internal governance and external supervision may interact in practice.
- Future empirical reporting should present full reliability, validity, diagnostic, direct-effect, indirect-effect, interaction, and conditional-effect statistics so that each hypothesis can be evaluated transparently.

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