

**THE EFFECT OF FIRM SPECIFIC FACTORS ON
FINANCIAL PERFORMANCE OF COMMERCIAL
BANKS IN KENYA**

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DECLARATION

I, Faith Agesa hereby declare that this is my original work and has not been submitted for presentation and examination for any award of Degree in this university or any other university.

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D61/77311/2015

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DEDICATION

This research project is dedicated to family notably my parents, Mr. and Mrs. Agesa. My friends, Sam Maina and Linet Akinyi, for their support, encouragement and prayers when I was undertaking this project.

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ABBREVIATIONS AND ACRONYMS

AT	Agency Theory
CA	Capital Adequacy
CAR	Capital adequacy ratio
CBK	Central Bank of Kenya
GDP	Gross Domestic Product
IT	Institutional Theory
NPLs	Non-performing Loans
RBT	Resource-Based Theory
ROA	Return on Assets
ROE	Return on Equity
SA	South African
SSA	Sub-Saharan Africa

ABSTRACT

Performance of commercial banks is of importance to the investors since it impacts on the return on investment, it is also a critical measure of economic strength of a country that warrants a stable investment. Determining the specific factors that affect firm performance has been a subject of empirical discussion. The objective of this study was determining the effect of firm-specific factors on commercial banks' financial performance in Kenya. To accomplish this goal, the study implemented a descriptive research design to test the link between variables. The population for this study included 43 commercial banks and thus a census was utilized and so sampling was done. Published sources of data were obtained from CBK annual reports in a duration spanning for 5 years (2012-2016). Analysis was done using SPSS; data was processed using inferential and descriptive statistics. Mean standard deviation and percentages were utilized to present data. The study found no correlation between liquidity, ROI, capital adequacy, asset quality and size of bank with ROA. Analysis of variance was significant. Capital adequacy, ROI and size of bank were positively linked to commercial banks' financial performance while loan quality and liquidity exhibited a negative relationship with financial performance. Liquidity, size of bank and ROI were significant while loan quality and capital adequacy were insignificant. The study recommends that banks should invest largely on advanced technologies and financial innovation to boost efficiency and mitigate operational costs. Management of commercial banks should maintain a proper balance of debt and equity to protect the bank from financial distress. Implementation of credit policies should be effected to minimize non-performing loans. Banks should carry out research and development to understand their customer needs so as to tailor their products and services in a manner that can address the evolving customer needs. Because of time and resource constraints, the study limited itself to commercial banks in Kenya thus the results obtained in this study cannot be applied directly in another sector or to make generalization of the entire banking sector in Kenya. This study considered only five determinants (asset quality, ROI, liquidity, firm size and capital adequacy) however, there are a myriad of factors that affect commercial banks's performance that have not been factor in. It would serve a great purpose if a comparative study could be conducted involving firms from different sectors so as to compare findings after that a plausible conclusion can be drawn. A replica of this study ought to be conducted but this time round covering a longer duration of time, say ten years using a longitudinal form of a research design in order to find out the cause and effect of the determinants on commercial banks financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banks play a vital role in resource allocation among countries. One of the banks critical roles is making the funds available for investors borrowing and enhancing financial deepening in a country. Banks play intermediary functions in market oriented economies and critical to investment and growth. Having this in mind, performance of banks is of great importance to investors since it determines return on investment and a critical measure of economic strength that warrants a secure investment environment. Establishing the specific factors that affect firm performance has been a subject for empirical discussion. However, it is still not clear as to why a firm might be doing well than others even when these firms are in a similar industry; or the reasons for huge disparities in performance among sectors (Al-Tamimi & Hassan, 2010).

Agency theory (AT), Resource-based theory (RBT) and Institutional theory (IT) were adopted to guide this study. AT opines that the company (agent) must act in the best interest of the shareholders failure to which can result into conflicts. This might attract an increase in agency costs (Lucian & Jesse, 2004). According to Makdok (2001), RBT maintains that firm resources must be exploited and aligned to strategic decisions to assist the firm in achieving its corporate goals. IT posits that firms are forced to conform to ways and processes which are perceived to be legitimate (DiMaggio, 1988).

Commercial banks performance has largely been affected by a myriad of factors. These factors are as a result of technology, competition, industry regulations among others. In the case of commercial banks, firm-specific factors include individual bank features that impact on bank performance. These forces emanate from both the internal and external environments of a firm. So, banks that have solid internal environments may outperform other banks in a given sector (Seelanatha, 2010).

1.1.1 Firm-Specific Factors

Firm specific factors are divided into two: internal factors and external factors. Internal factors are those factors that account for inter-firm differences in profitability. On the other-hand, external factors are factors that are beyond the firm's control and impact on the decisions of the firm since the management lack control over them. Such factors include money supply, rates of interest, inflation rate and gross domestic product. These factors are also referred to as macroeconomic or market-specific factors. The common bank specific factors include capital adequacy, asset quality and management competence (Diamond & Raghuram, 2000).

Capital adequacy (CA) is an important factor within a bank that impacts on the bank's financial performance. Staikouras and Wood (2004) note that adequate amount of capital enables a bank to absorb possible losses and shield the bank's debtors (Dang, 2011). Asset quality is another bank-specific factor that has an effect on profitability and financial performance of a bank. These entail the current and fixed assets and credit portfolio. Bank loans serve as a key asset of a bank since it generates a huge proportion of the bank's income.

Similarly, loans expose banks to losses resulting from delinquent loans. Management competence is another bank-specific factor that affects financial performance of a bank. Efficiency by the top management can be determined using several financial ratios like total asset growth and earnings growth rate. The quality of management can also be evaluated through efficiency in managing the bank's operating expenses. Top management's ability to allocate resources efficiently, maximize income and minimize operational costs can be established using financial ratios. This study will consider the following internal factors: firm size, capital adequacy, branch network, mobile banking and liquidity. The choice of these factors is because they have been largely affected by various technological, regulatory, economic and industry changes that have taken place over the last five years in the banking sector for example financial innovations (mobile banking), Capping of bank lending rates by the CBK and inflation rate changes.

1.1.2 Financial Performance

According to Pandey (2004), financial performance involves assessing policies of a firm and its operations in economic terms. Financial performance outcome is reflected on the firm's return on investment, value addition and return on assets among others. Penman (2007) posits that financial performance can be described as the performance of a business over a certain period of time that is expressed in terms of profits and losses. Through examining the financial performance of a business, decision-makers can judge the outcome of business strategies and activities objectively in form of monetary terms. It can also be defined as the subjective measure of how well the firm utilises its assets to generate revenues. It is also applied to assess the general measure of the entire financial health of a firm in a stipulated time as well as comparing the same firms across the industry or sectors.

Worth to note is that a firm consists of various stakeholders including bond holders, investors, creditors and the executive management, each and every group of these stakeholders have their own interest in monitoring the financial performance of a firm. Various tools can be applied to measure financial performance of a firm. It is worth noting that no single measure of financial performance should be applied on its own (Petersen & Kumar, 2010).

However, a comprehensive evaluation of a firm's performance must consider a variety of measures. The two popular measures of financial performance include ROE and ROA that are essential components for banks in measuring financial performance (Petersen et al., 2010). Return on equity (ROE) enables the investors to assess whether their investments are generating income, while return on assets (ROA) aids the investors to find out how the executive management is using firm assets or resources to generate more income to the business. This study will adopt ROA in order to establish if the executive management are able to maintain a balance between internal and external factors in order to provide a stable environment that allows them to exploit firm assets to produce additional income.

1.1.3 Firm-Specific Factors and Financial Performance

Hammed (2015) found that firm size, liquidity and leverage were critical financial performance determinants. Thus, firm size and leverage were inversely related. Contrary to this, liquidity ratio was significantly and positively linked to financial performance. Dang (2011) evaluated capital adequacy using capital adequacy ratio (CAR); this ratio depicts the bank's internal strength that enables it to tolerate losses in time of financial crisis. Sangmi and Tabassum (2010) showed that if a bank has adequate amount of capital it has less chances of failing.

Ayanda et al. (2013) examined the factors influencing bank profitability in Nigerian banking sector and found that bank branches was insignificantly related to bank profitability. This view is echoed by Haron (2004) who showed that bank branches did not have effect on profitability. This contradicts with the view of Acaravci and Çalim (2013) who argues that maintaining many branches is costly to a bank and this might affect its profitability. Sangmi and Nazir (2010) found that firm size was significantly linked to financial performance. Delmar (2013) found that larger firms were more profitable as compared to smaller firms in the short-run.

Franscesa and Claeys (2010) did an investigation on the effect of mobile banking on the financial performance of banks and the results revealed a positive relationship between mobile banking and performance. Al-Jabri and Sohail (2012) explored the effectiveness of mobile banking adoption on performance in Saudi Arabia. The results found that the use of mobile banking platforms increased sales volumes and bank profitability. Ilhomovich (2009) utilised cash to deposit ratio in measuring the level of bank's liquidity in Malaysia, and the results showed that banks that recorded proper liquidity levels were profitable. Contrary to this Said and Mohd (2011) found that there was no connection between the banks' level of liquidity and performance. Dietrich et al. (2011) did a study on the link between liquidity and firm profitability and the results found a positive correlation between profitability and liquidity that was measured using acid test ratio. Bongoye et al. (2016) showed existence of a significant and negative connection between firm profitability and liquidity. Liu et al. (2011) unearthed that liquidity and profitability were positively related. Gul, Faiza and Khalid (2011) showed a positive connection between profitability and liquidity. Wang (2012) found that liquidity was significantly linked to operating performance of Chinese banks.

1.1.4 Commercial Banks in Kenya

The banking sector consists of 43 institutions (39 commercial banks and 1 mortgage finance institution) that are privately owned and Kenya Government has controlling interest in the rest of the commercial banks (3), 24 of the 39 banks having private ownership including 1 mortgage institution have a local ownership (majority shareholders are from Kenya), while fifteen have foreign ownership (CBK, 2016). Commercial banks are regulated and licensed according to the Banking Act provisions and Regulations including the prudential guidelines. As major players in the banking industry, commercial banks are subjected to regulatory obligations that govern their prudential position and their market conduct to safeguard financial system stability. Central Bank of Kenya (CBK) has a role to maintain liquidity, solvency and effective functioning of a market-based financial system. CBK conducts regular review of the banking sector laws and regulations to ensure that they are relevant to the working environment. These involve the Banking Act (488) and CBK Act (cap 491).

Kenya commercial banks operate in an environment whereby technological, regulatory, political and economic changes occur. These changes affect bank operations and ultimately profitability. Therefore, bank's management develop ways to accommodate such changes in order to survive in the environment. There several changes that have occurred and are expected to affect commercial banks' performance. These changes include rapid growth of mobile and agency banking, this had increased the number of transactions including loan products targeting mass market (M-Kesho, launched by KCB and Safaricom), branch-network growth strategy locally and in the E.A region, credit information sharing systems (CIS) agency banking and mobile banking which are new developments that have improved

efficiency and competition in the banking sector including middle-class growth that has created more demand for banking services. The other change that will be effected next year (2018) is the core capital requirement for banks which will be increased to KES. 5 billion from KES. 1 billion. These changes have an effect on bank profitability (CBK, 2015).

1.2 Research Problem

Pandey (2005) indicated that the main goal of a firm is maximizing profits; hence firm profitability is a major criterion in determining the financial position of a firm. Many investors are keen about firm profitability when making their investment choices. Although firms operating in the same industry and interact with the same external variables have different levels of financial performance, studies revealed that internal factors determine firm performance. Key among them include firm size, age of the firm, debt ratio, sales growth, quick ratio, physical capital intensity and capital turnover (Barbosa and Louri, 2005; Kuntluru, Muppani and Kan, 2008). However, how these factors influence financial performance is different across the world: country-to-country, sector-to-sector and firm-to-firm.

Kenya's banking sector is affected by a myriad of factors from both internal and external environment. The factors impact on overall bank performance particularly profitability. Internal factors include capital adequacy, asset quality and bank size among others. External factors include but not limited to technology, competition and the regulatory framework. Kamande, Zablon and Ariemba (2015) insist on the significance of understanding bank-specific aspects that affect profitability especially to the bank's management, shareholders including CBK.

They argued that bank specific factors are unique to every institution hence internal factors that affect profitability in one bank are dissimilar from other banks. Sufian and Chong (2008) assessed the determinants of profitability in Philippines, a positive nexus between financial performance and bank specific factors. Empirical findings showed that bank-specific factors; capital adequacy, asset quality and bank size had an impact on bank profitability. Okoth and Gemechu (2013) evaluated profitability determinants of banks in emerging economies with a specific focus of Nigeria and concluded that bank specific factors such as interest income and bank size impacted on bank profitability. Further, it was revealed that macroeconomic factors such as stable economic environments led to improved bank profitability.

Liu (2011) tested the link between bank-specific characteristics; macroeconomic variables on bank profitability of UK owned banks. Capital strength was found to be a critical determinant of bank profitability. Macro-economic factors; GDP and inflation impacted positively on bank performance. Muneeni (2012) found that technology and market share improved bank performance. Competition, inflation and regulations impact negatively on commercial banks performance. This data utilized primary sources of data that is highly exposed to bias and hence inaccurate. Osoro (2014) studied the factors that influenced bank sector performance and found that management decisions influenced bank performance and macro-economic factors had limited impact on bank performance.

Bongoye, Banafa and Kingi (2016) showed that firm specific factors had a positive link with financial performance of listed firms. Growth and firm size had a positive connection with financial performance.

Although studies have been done on firm-specific factors and their effect on performance; none of the studies have exclusively investigated the effect of firm-specific factors on financial performance of commercial banks in Kenya. It was because of this backdrop that this study sought to find an answer to the question: what is the effect of firm-specific factors on financial performance of commercial banks in Kenya?

1.3 Research Objective

The primary objective of this study was to determine the effect of firm-specific factors on the financial performance of commercial banks.

Secondary objectives were as follows:-

- i. To establish the effect of asset quality on financial performance of commercial banks in Kenya.
- ii. To establish the effect of liquidity on the financial performance of commercial banks in Kenya.
- iii. To establish the effect of quality of investment on the financial performance of commercial banks in Kenya.
- iv. To establish the effect of capital adequacy on the financial performance of commercial banks in Kenya.
- v. To establish the effect of firm size on the financial performance of commercial banks in Kenya.

1.4 Value of the Study

Investors and managers will find this study worthwhile. Potential investors might utilize the findings in selecting competitive and profitable securities and improve their portfolio of assets. The findings will also assist them in making their investment decisions. The management can apply these findings in devising strategies and investment decisions in profitable ventures, leverage, managing assets and working capital.

The empirical findings could be used by policy makers; CBK in formulating policies and standards in line with international best practice. Thus, ensure a proper balance between internal and external factors that affect commercial banks. This will provide a stable environment for banks to operate and encourage fair competition.

Scholars will understand both internal and external factors that affect commercial banks. Moreover, they will learn the theories guiding this study and their relationship to the study variables. The findings derived from this study may be used as a reference for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The sections discussed in this chapter is as follows; the theoretical framework that has described the theories supporting this study and their link to the main study variables (firm-specific variables and financial performance), the financial performance determinants have also been discussed, the empirical studies, the conceptual framework and a chapter summary.

2.2 Theoretical Framework

Various theories have been put forth by scholars across the world explaining the effect of firm-specific factors on financial performance. However, this study will get its guidance from three main theories that are considered to support this study. They include the Agency Theory, Resource-Based theory and the Institutional Theory.

2.2.1 Agency Theory

Jensen and Meckling (1976) described the agency theory as an approach used to explain the conflict of interest that exists in the principal–agent relationship. Under the agency theory, companies act as agents to the shareholders, who are the company owners or principals. However, the primary issue or agency dilemma arises when the companies act in the interests of the managers and not the shareholders (Berle and Means, 1932). Coase (1960) explains that the agency dilemma is mainly caused by the fact that the agents have more information than the principal, making it difficult for the principal to determine whether the decisions made by the agents are in their best interests.

Agency dilemma affects the performance of a business negatively by lowering the overall welfare of both the principal and the agent as a result of mistrust. Additionally, Lucian & Jesse (2004) explain that agency problem causes agency costs incurred because of the deviation from the principal's main interests. Signing contracts between the agency and the principal is one of the effective measures that reduce the occurrence of agency problems. According to Jensen & Meckling (1976), the agent-principal relationship is best governed through a contract that spells out the duties and responsibilities of each party.

Berger et al (1997) explain that without a contract, it is easy for the agents to make decisions that favour the management at the expense of the principals or company owners. The authors further reveal that the conflict of interest arises from factors such as lack of transparency as well as the intangible nature of outputs. The contracts are also important in promoting operational performance of companies due to corporate growth. They ensure that the goals of the agents and the principals align for the benefit of all.

2.2.2 Resource-Based Theory

Introduced in 1984 by Warnerfelt, the resource-based theory is a useful tool in determining causes of different performance by firms. Theoretical interests of transaction costs at the corporate strategy level determine the role of company resources. The role of firm's resources is also determined by the economy of scope. The business strategy level explores the link between various variables such as competition, resources and profitability.

Chen (1996) explains that the role of imperfect information on business performance is also explored at this level. For a company to operate profitably, it must implement strategies that promote its competitive advantage and increase its earnings relative to the cost of capital. Based on industrial organization economics, the profitability of companies is dependent on the level of industry attractiveness. The strategic decisions made by authorities focus on promoting favorable industry environments, identifying profitable segments, and controlling competitive pressures. Therefore, resource-based theory entails using information to make business decisions; a knowledge-based perspective.

Ami and Schoemaker (1993) explain the distinction between resources and capabilities. The former refers to available factors that a company owns and controls while the latter is special type of resources aimed at improving an organization's performance (Makdok, 2001). According to Cornner and Prahalad (1996), capabilities refer to organizational ability to deploy its resources. By evaluating the two theories, it is evident that the current study is supported by resource-based theory. The approach posits that a firm's performance is determined by its tangible and intangible resources.

2.2.3 Institutional Theory

The basic premise that this theory is founded is that firms are pressurized to adapt to forms and processes that are deemed to be legitimate. Institutional theorist holds that the institutional environment has a significant influence on developing formal structures of a firm as compared to market pressures. DiMaggio (1988) argues that innovative structure which is deemed to improve technical efficiency as set out by early adopting firms achieve legitimacy in an environment.

Eventually, these kinds of innovations are accepted and thus become legitimized whereby failure to them is perceived as irrational since firms are obligated to adopt and comply with such innovations. During this stage, new and already existing firms will be forced to adopt the structural form even when there are no prospects of such form improving efficiency. This coincides to a similarity of such forms and processes in the organisational environment that is referred to as 'institutional isomorphism'; such pressures to institutional isomorphism have been put forth by DiMaggio (1988), he argued that they are strong and normative forces. These pressures aim to duplicate other organisational systems, activities and structure. Technological changes are perceived to boost legitimacy since they are perceived to be desirable especially in situations of uncertainty whereby the players are not certain of the outcomes as a result of adopting various processes. In some cases such imitation can be done without any tangible evidence on performance improvement.

Abrahamson (1996) opined that imitative forces explicate the extensive adoption of, for instance management decisions that have limited evidence on performance gains. Example includes fashion and fads. Coercive pressures include external forces from the regulatory bodies and the government among other agencies to comply with certain systems and processes. Dempsey, Labor & Rozeff (1993) argued that this form of pressures is usually linked to the legal necessities and health and protection guidelines. This theory is relevant to this study since it considers industry factors which emanate from competitive pressures and affect performance of financial institutions. Therefore, this theory is important to this study as it attempts to explain the factors that affect firms and their implications on firm performance.

2.3 Determinants of Financial Performance

There a myriad of factors that impact on financial performance of banks. Other factors that affect short-term and long-term financial performance of banks include: asset quality, liquidity, branch network, growth in customer deposits and firm size.

2.3.1 Asset Quality

Asset quality can be defined as an evaluation of credit risk that is linked to a particular asset. The bank's management have an obligation to maintain the quality of the loan as it provides earnings for the bank. Sangmi and Nazir (2010) found an inverse relationship between non-performing loans (NPLs) and bank's profitability. Hence, they recommended that the need for the banks to be prudent in managing credit risk and safeguarding bank assets and protecting interests of the investors. Orji (1989), Athanasoglou et al. (2005) asserts that when loans are unpaid this exposes banks into problems. In some cases, bad debts are written off. Sangmi and Tabassum (2010) contended that lack of a loan policy, non-compliance contributed to an increase in non-performing loans.

Almazari (2014) found that loan quality had a significant impact on bank profitability. Loan quality was determined based on loan loss provisions and non-performing loans. Further, it was unravelled that loan quality was positively related to bank profitability. Ilhomovich (2009) found that high quality loans led to higher profitability levels as compared to poor quality loans. Anyike and Nwosi (2015) concluded the existence of a significant connection between asset quality and commercial banks' profitability.

2.3.2 Firm Liquidity

Liquidity of the firm can be defined as the ability of the firm to meet its short-term financial obligations. It is ratio of current assets to current liabilities (Pandey, 2005). Extant literature considers liquidity as a critical component which impacts on the firm's choice of capital structure. Wu (2007) explored capital structure determinants in China and liquidity was considered to be one of the factors that affected firm performance. Richards and Laughlin, (2008) note that regulators of commercial expected banks to maintain a certain level of liquid assets. A bank is liquid if it's able to generate adequate funds to meet its financial compulsions.

When a bank faces financial problems it might opt to raise more funds through debt or disposing its liquid assets. This might develop a perception to the investors that the bank is disposing its bad assets and this might result to a decline in demand hence low prices for liquid assets resulting into loss of income from sale of liquid assets. Eljelly (2004) evaluated the impact of liquidity on firm profitability and the results showed a positive association between liquidity and firm profitability. Wang (2009) tested the nexus between liquidity and firm profitability of steel and aluminium industries and concluded that firm profitability was positively connected. Saleem and Ramiz, (2011) did an assessment involving the link between liquidity and profitability of 20 firms. A positive association was found to exist between liquidity and firm profitability.

2.3.3 Growth in Customer Deposits

Banks rely on deposits from customers to finance their loans that are provided to customers. There's an existing perception that deposits are one of the cheapest sources of funds for banks. Ayanda et al. (2013) depicted that customer deposits positively contributed to banks' profitability in cases when the demand for loans was high. When banks accumulate more deposits it implies that they have a greater capacity to offer more loans and make profits. This finding conform to Haron (2004) who noted that banks that attained high deposit amounts recorded high levels of profitability as compared to banks that held low deposit amounts.

Acaravci and Çalim (2013) revealed that there's positive association between deposits and commercial banks' profitability. Said and Mohd (2011) indicated that deposits was an important source of fund mobilisation by banks; deposits showed a significant connection to financial performance. Tregenna (2009) concluded that there existed a statistically insignificant link between financial performance and bank deposits, this result into decline in earnings and poor bank performance. The reason for this was that deposits such as fixed, time or term deposits attracted high interest rates from banks to the depositors.

2.3.4 Quality of An investment

According to Franscesa and Claeys (2010) quality of an investment is largely achievable when a firm or an individual investor takes advantage of an opportunity and the right investment decision is made. Quality investment generates more income as compared to the investment cost. Sangmi and Nazir (2010) argue that quality investment is a product of making the accurate investment decision and a careful evaluation of available investment alternatives. Successful firms make quality investments by ensuring that their investments can promise a higher return on investment.

Delmar (2013) avows that quality investment is not easy to achieve since it requires a deep evaluation of several alternatives before a decision is reached. Many firms invest so as generate extra income for growth and expansion of the firm. Quality investment considers risks and return in a given investment. The component of risk here entails the likelihood that an investment might lead to a loss. When the investments are profitable they enhance a firm's competitive advantage by increasing its profitability.

2.4 Empirical Studies

This section gives a discussion of the studies that have been done locally and globally in relation to firm-specific factors and financial performance. These studies have been explored by various scholars, using different approaches such as research design, nature of the population, sampling techniques, nature of data and type analysis. The basis of these studies is to guide the researcher on the appropriate approach to adopt for this study and establish important gaps.

2.4.1 International Studies

Akben-Selcuk (2016) examined the factors that influenced firm competitiveness in Borsa Istanbul; the study covered a duration of 10 years (2005-2014). Panel data was employed; the findings showed that ROA was positively linked to size, gross sales, liquidity and growth. Contrary to this, ROA was negatively correlated to leverage and R&D outflows. Tobin's Q ration was found higher when the level of debt as well as high level of liquidity. This study was too broad; it considered firm competitiveness as its dependent variable and it was conducted in a developed country.

Weersainghe and Ravinda (2013) did a research involving the contribution of bank-specific factors and financial structure on bank's profitability at Macao. The study adopted bank level data for the period between (1993-2007). The researcher used panel data to find out internal factors to boost profitability; they included capital adequacy, bank size, market share and asset quality. External variables such as GDP, interest rate and inflation were considered as external variables. The study findings revealed that the bank's capital strength attained a positive effect on profitability. This study considered profitability as the dependent variable while the current study has considered financial performance. Secondly, this study was done in a developed country.

Dietrich and Wanzenried (2011) tested the link between bank-specific traits, industry characteristics on profitability of commercial banks in Switzerland. The study covered a period of eight years and several factors were considered such as bank growth relative to market growth rate, effective tax rate and the age of the bank. Other factors that were involved include growth of bank loans, market growth, age of the bank and effective tax rate.

The findings showed that well capitalized banks recorded better performances. Further, it was found that the bank's age had a significant effect on profitability while its location had a direct effect on bank profitability. The study employed a longitudinal research design and it was conducted in a global set-up.

Ifeacho and Ngalawa (2014) determined the factors that affected financial performance of the Naara rural banks in Ghana. The study utilized financial statements covering duration of eleven years (2000-2010). Multiple regressions were applied as an important statistical tool to analyse data gathered from the bank in a study. It was unravelled that firm size and liquidity were positively linked to bank performance. Non-performing loans affect bank performance negatively. This study was too broad and it covered longer time duration. Further, the study did not factor in moderating variables.

Ghazouani and Moussa (2013) evaluated the explanatory factors that impacted on Tunisian banks; firm size, operational efficiency, capital ratio credit quality and ownership. A sample of 10 conventional banks was used in the period (1998-2011). Panel data and generalized method of moments (GMM) was employed. It was unearthed that bank capitalization and bank size had a positive and significant effect on performance. This study failed to consider firm-specific factors. Also, the study applied GMM approach while the current study will adopt a regression equation.

2.4.2 Local Studies

Omondi (1996) explored the effects of bank-specific factors on financial performance of commercial banks. An explanatory approach was adopted using panel data research design. Published sources were utilized in the period, 1991 to 1995 from CBK. A regression model was used and the findings revealed that bank-specific factors had a statistical significance on financial performance. This study was conducted carried out 21 years ago, various changes have taken place such as technological changes and regulatory changes hence this findings might not hold.

Oloo (2010) did a research on the factors that determined financial performance of Kenyan commercial banks. The study was conducted in the period, 2001 to 2010. Panel data was used and multiple regression models were adopted. The results found that bank-specific did not have any significant effect on commercial bank performance. However, these factors did not have any effect on liquidity. This study was too broad and did not explicitly look at the firm-specific factors which impact on commercial banks' financial performance.

Litunya (2014) tested the link between internal variables and firm profitability of Kenyan commercial banks in a period of ten years. A descriptive form of research design was employed and published data sources were utilised from CBK and KNBS. A regression equation was used and the results revealed that loan portfolio, liquidity and asset quality were significant. The weakness of this study is that it limited itself to internal firm variables.

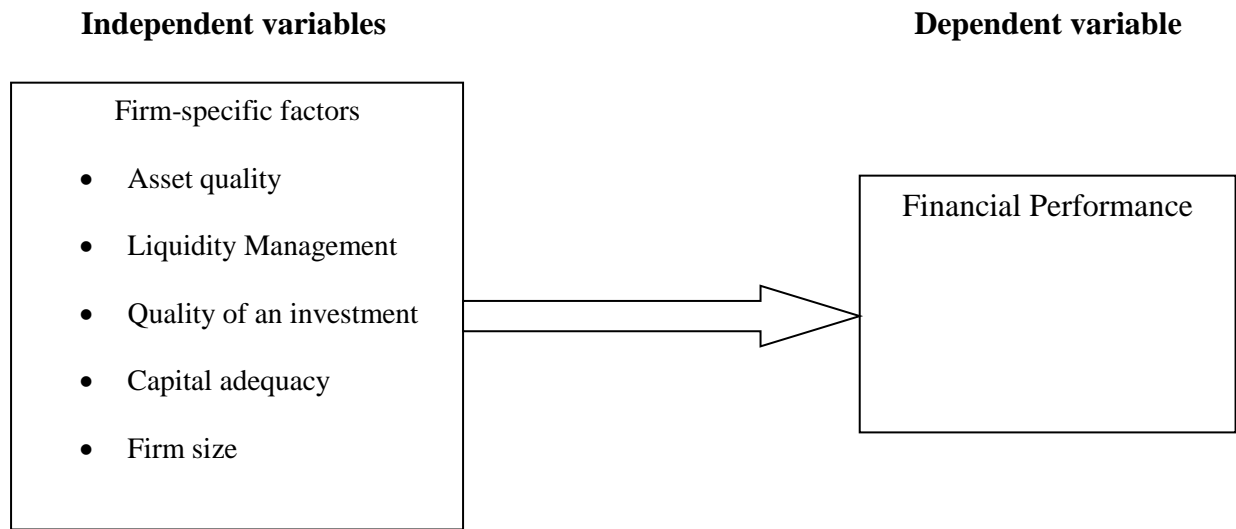
Kamau (2014) did a survey on the link between liquidity and profitability of local banks in a population of 43 banks. A descriptive study was employed to establish the nexus between the parameters under investigation. The duration for the study was five year and a linear regression model was adopted. The findings showed a positive link between liquidity and profitability. Control variables such as asset quality, bank growth and branch network were found to be insignificant. This study limited itself to liquidity as the independent variable while the current study is considering all the firm-specific factors as its independent variables.

Nyaga (2014) explored the determinants of commercial banks' financial performance. A descriptive design was implemented in a population of 43 commercial banks. This study took place between; 2001 to 2010, published data sources were utilised and analysis was achieved with the help of inferential statistics. Capital adequacy and exchange rates were found to be inversely correlated to ROE. Liquidity, operational efficiency, bank size, GDP and inflation were found to influence ROE positively. This study was too broad since it looked at all the commercial bank determinants that affect financial performance.

2.4 Conceptual Framework

It was expected that a positive link between bank-specific factors and financial performance would prevail. Effective management of credit policies aids a bank in minimizing non-performing loans. Proper balance of debt and equity enable a bank to meet its financial compulsions. Quality of an investment is attributable to an increase in sales. This coincided with resource-based theory, which maintained that banks with adequate capital holding were less likely to suffer from financial distress. Large and stable banks were able to meet its financial responsibilities and grasp investment opportunities that promise better returns.

Figure 2.1: Conceptual framework



2.5 Summary of the Literature Review

It was deduced that the above theories support the objective of the study. For instance the resource-based theory maintained that banks must exploit their capabilities and competencies to improve their performances. This was also supported by agency theory that insisted that the management must act in best interest of the stakeholders; which is profit maximisation. Studies revealed a mixer of results across the world in relation to the link between firm-specific factors and financial performance: (Akben-Selcuk, 2016; Weersainghe and Ravinda, 2013; Dietrich and Wanzenried, 2011) show a positive connection, Oloo (2010) found no linkage between financial performance and bank-specific factors while Kamau (2014) found an insignificant linkage between firm specific factors and bank profitability. Limited emphasis was given to firm specific factors mainly affected by environmental changes such as technology and competition (mobile banking, bank size, and branch network) and how these factors impacted on financial performance of commercial banks in Kenya. It was because of this backdrop that this study found it worthwhile to investigate how firm-specific factors affect commercial banks' financial performance in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces the methodology to be applied in this study. Research methodology is a process in which the researcher uses tools and procedures to collect and analyse data. Covered in this chapter included the research design, population, procedures and processes for collecting data including the method of analysis.

3.2 Research Design

A descriptive research design was applied in this study. Kothari (2005) contend that a descriptive design is suitable in enabling the researcher to collect information, make a summary of the data, present and interpret it. In this research, the researcher utilized this design to find out the effect of firm-specific factors on commercial banks' financial performance. Kavita (2016) applied this design to test the link between variables hence this design is applicable in the current study. In view of this, Cooper and Schindler (2008) argue that a descriptive design is useful in establishing hypothetical relationships present between the variables.

3.3 Population

Population is a set of elements having similar traits defined by the sampling criteria adopted by the researcher. This involves target and accessible population. Target population constitutes a whole group of people or objects that the researcher seeks to generalize the findings of the study while accessible population is a population that the researcher has reasonable access, it might be a subset of the target population (Mugenda & Mugenda, 2003). The study population included all the 43 commercial banks registered as at December 31st 2016. A census was adopted hence no sampling.

3.4 Data Collection

The study used secondary sources of data that was derived from CBK annual reports of commercial banks. Kothari (2005) defines data collection a systematic approach used to gather and assess information from various sources to achieve a holistic and a clear picture of the field of interest. Data collection enabled the researcher to assess the results and project future possibilities and trends. The study covered five years period (2012-2016). A duration of five years was considered sufficient in allowing the researcher to establish a clear and accurate linkage between variables. In their study, Bongoye et al. (2016) used a five-year period to establish the nexus between variables. Only commercial banks that had been operational in the study period were considered. Nature of data for all the study variables (independent and dependent) was continuous.

3.5 Data Analysis

Data was gathered, then sorted and coded with the help of Statistical Package for Social Sciences (SPSS). Zikmund, Babin and Griffin (2010) posit that data analysis is the use of reasoning to understand the data collected with the objective of establishing consistency and summarizing important details of an investigation. The choice of this analysis programme (SPSS) was because it provided an extensive range of important statistical and physical data analysis tools and options.

Inferential statistics was utilized for analysis of data. In accordance to Kothari (2005), inferential statistics is a form of analysis with several means of reliability testing through making inferences from data to general conditions through interpretation. Examples included Regression and correlation analysis. Ratios mean and standard deviation were applied for the presentation of data to depict the trends of the study variables.

3.5.1 Analytical Model

A regression model comprising five independent variables was employed in this study: asset quality, liquidity, quality of an investment, capital adequacy and firm size. It was expected that these variables would have an effect on the commercial bank's financial performance. Dependent variable was financial performance that was be assessed using ROA. Kavita (2016) also applied a regression model to establish the nexus between variables.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Where;

$$Y = \text{ROA}$$

X_1 = Asset quality was evaluated using non-performing loans divided by gross loans and advances.

X_2 = Liquidity was determined by dividing current assets divided by current liabilities.

X_3 = Quality of investment which was evaluated using return on investment

X_4 = Capital adequacy which was evaluated using the ratio of capital to total weighted assets.

X_5 = Firm size which was evaluated using natural logarithm of total assets.

α = Regression constant

ε = Error term which is normally distributed about a mean of zero.

$\beta_1 \beta_2 \dots \beta_n$ = coefficients of variation established the volatility of each parameter on the financial performance in the regression equation.

3.5.2 Tests of Significance

The study adopted F-test and T-test. In the F-test, F-value and F-critical value was used. F critical value was also known as F-statistics. If the calculated F-statistics was bigger compared to the F-value in the Table, null hypothesis was rejected. This statistic is the only measure of significance in the F-test. P value was established by F-statistic which was likelihood that the results might have been realized through chance. T-tests was applied to find out if the regression coefficient was significant at a given time.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter gives a discussion regarding analysed data and the interpretation which includes descriptive and inferential statistics. The analysis was carried out in line with the main objective for this study which was to the effect of firm-specific factors on the commercial banks' financial performance in Kenya.

4.2 Return Rate

The researcher successfully managed to collected data from all commercial banks for all the study variables in the study period. This constituted 215 data that was arrived by multiplying the number of commercial banks by a duration of five years.

4.3 Descriptive Statistics

Descriptive statistics was utilized in describing the outcome of the data using trend by simplifying huge amounts of data in a logical manner. This form of statistics presents quantitative data using simple summaries. The results are shown in Table 4.1.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std deviation	Skewness
ROA	215	-0.14	0.24	.025	0.037	0.839
Asset quality	215	0.00	0.57	.079	0.094	2.261
Liquidity	215	0.00	3.24	.592	0.450	1.746
ROI	215	-0.53	0.49	.160	0.157	-0.875
Capital Adequacy	215	0.00	0.84	.214	0.126	0.972
Firm size	215	0.00	8.75	6.566	2.609	-2.016

The outcome in Table 4.1 showed that financial performance increased from -0.14 to 0.24 and an average of .025, Asset quality rose from 0.00 to 0.57 and an average of 0.079. Liquidity increased from 0.00 to 3.24 and a mean of 0.592 this implied that many commercial banks were able to meet their short-term and long-term financial obligations. ROI increased from -0.53 to 0.49 and a mean of 0.160 implying that commercial banks were efficient in realizing returns from their investments. Capital adequacy increased from 0.00 to 0.84 and a mean of 0.214, this was an indication that banks maintained adequate capital to shield their depositors and prevent the bank from cases of financial distress. Firm size increased from 0.00 to 8.75 and a mean of 6.566 which was a sign that bank assets grew moderately over the study period. Firm size and ROI were inversely skewed (-2.016 & -0.875) unlike the rest of the variables implying that their observations were less spread out as compared to other variables.

4.4 Inferential Statistics

Inferential statistics is used to make a conclusion which is derived from experimental studies. Under this study, inferential statistics was used to answer the research questions.

4.4.1 Pearson Product Moment Correlation Coefficient

Pearson correlation coefficient was utilized in assessing the strength of the variables between firm specific-factors and commercial banks' financial performance. The results are provided in Table 4.2.

Table 4.2: Pearson Product Moment Correlation Coefficient

	ROA	Asset quality	Liquidity	ROI	Capital adequacy	Firm size
ROA	1					
Asset quality	-.060	1				
Liquidity	-.053	.150*	1			
ROI	.267**	-.093	.174*	1		
Capital Adequacy	.044	.231**	.173*	-.068	1	
Firm size	.249**	.116	.368**	.382**	.397**	1

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

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

In Table 4.2 the results revealed that none of the study variables (asset quality, liquidity, ROI, capital adequacy and firm size) was correlated to financial performance. Correlation values were -0.060, -0.053, 0.267, 0.044 and 0.249, respectively.

4.4.2 Regression Analysis

A regression equation was adopted in testing the hypothesis for this research on the link between firm-specific factors and commercial banks' financial performance. These results are provided as follows:

Table 4.3: The Summary of the Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.353 ^a	.125	.104	.03456

a. Predictors: (Constant), Firm size, Asset quality, Liquidity, ROE, Capital adequacy

The output depicted in Table 4.3 discovered that the coefficient of determination was 0.125 which signalled that firm-specific factors explained only, 12.5% variations in commercial banks' financial performance.

Table 4.4: Analysis of Variance

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.035	5	.007	5.935	.000 ^b
	Residual	.248	209	.001		
	Total	.284	214			

a. Dependent Variable: ROA

b. Predictors: (Constant), Firm size, Asset quality, Liquidity, ROE, Capital adequacy

The outcome in Table 4.4 portrayed that the regression equation implemented in this research was significant since it contained predictive values. P-value was smaller than 5%, 0.000.

Table 4.5: Model Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.004	.007		.644	.520
	Asset quality	-.017	.026	-.044	-.658	.511
	Liquidity	-.014	.006	-.169	-2.407	.017
	ROI	.047	.017	.201	2.747	.007
	Capital adequacy	.001	.021	.002	.032	.974
	Firm size	.003	.001	.239	2.903	.004

a. Dependent Variable: ROA

The regression model derived from this study is as follows:

$$ROA = 0.004 - 0.017X_1 - 0.014X_2 + 0.047X_3 + 0.001X_4 + 0.003X_5 + \varepsilon$$

ROI, capital adequacy and firm size were positively linked to commercial banks' financial performance (0.047, 0.001 & 0.003, respectively). This signaled that a single increase in any of these variables resulted into a corresponding increase in commercial banks' financial performance. Liquidity and asset quality were inversely linked to commercial banks' financial performance (-0.014 & -0.017). This implied

that a unit increase in this variable led to a corresponding decrease in financial performance. Liquidity, ROI and firm size were significant since their p-values were less than 5%, (0.017, 0.007 & 0.004) while asset quality and capital adequacy were insignificant since their p-values exceeded 5%, (0.511 & 0.974, respectively).

4.5 Discussion of Findings

Descriptive results revealed that ROA increased with a margin of 0.38 with an average value of 0.025. This was a rapid increase considering that it took place in a span of 5 years. These results conform to the observations of Oloo (2010) who unearthed that commercial banks' ROA increased rapidly amid 2001 to 2010. Loan quality rose with a margin of 0.57 which was considered to be slightly high considering the risks involved in issuing out loans. These suggestions are consistent to Kamau (2014) who discovered that loan quality increased with a moderate margin over the study duration. Banks' liquidity levels increased with a margin of 3.24, which was the highest compared to other study parameters. As such, this was a strong indication that a good number of commercial banks met their financial compulsions. Consistent to this is a research conducted by Ifeacho and Ngalawa (2014) who concluded that liquidity and the size of the firm increased with the highest margins in the study period. ROI increased slightly with a margin of 1.02, this was a relatively high margin considering that this took place in a duration of only 5 years. In line with this, are the findings of Akben-Selcuk (2016) who deduced that return on investments grew moderately between 2005-2014. This was a sign that commercial banks got returns efficiently from their investments. Capital adequacy rose with a margin of 0.84 in the study's five-year period. This was a moderate increase which was considered effective in ensuring that commercial banks did not suffer from liquidity problems.

These results coincide with the observations made by Litunya (2014) who established that capital adequacy recorded a moderate growth during the time of study. Size of banks increased with a margin of 8.75 and an average of 6.566 over the study duration this was a rapid increase considering that the study took place for a limited period of five years. This view is supported by Nyaga (2014) who established that the size of the bank increased over the study duration. There lacked a correlation between asset quality and ROA (0.060). This finding contradicts with the objections of Weersainghe and Ravinda (2013) who found that asset quality was correlated to bank's financial performance. No correlation was found between liquidity and ROA (0.053). These results agree to the views of Ifeacho and Ngalawa (2014) who concluded there lacked a correlation between liquidity and ROA. ROI also lacked a correlation with ROA (0.0267) as confirmed by Nyaga (2014). Further, capital adequacy and firm size did not correlate with financial performance (0.044 and 0.249, respectively) as demonstrated by (Nyaga, 2014 & Kamau, 2014).

Coefficient of determination was unreliable at 0.125, meaning that bank specific factors only explained 12.5% variations in performance of commercial banks. Contrary to this, Litunya (2014) found 0.45 coefficient of determination which was considered as reliable. ANOVA was found to be significant at 5%, 0.000, this also conforms to Nyaga (2014) who found a significant ANOVA. Liquidity, ROI and the size of the firm were significant since their probability values were less than 5% (0.017, 0.007 & 0.004). These results are consistent to Litunya, (2014) who found that bank size and liquidity were significant. Capital adequacy and asset quality were insignificant reason being the probability values were lower than 5%, (0.511 & 0.974), this agrees with the findings by Oloo (2010).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a detailed discussion involving key findings for this study, a conclusion, recommendations, limitations and suggestions for further research. This was done in reference to the research objective which was establishing the effect of firm-specific factors on commercial banks' financial performance.

5.2 Summary of Findings

Descriptive results show that all the study variables (ROA, asset quality, liquidity, RO, capital adequacy and firm size) increased during the study period. Generally, this was an indication that commercial banks performed well during this period. These results agree with the Ghazouani and Moussa (2013) who explained that the descriptive results showed that all the explanatory variables increased in the study period.

The correlation results revealed that none of the study variables (asset quality, liquidity, ROI, capital adequacy and firm size) was correlated to financial performance. Correlation values were -0.060, -0.053, 0.267, 0.044 and 0.249, respectively.

Regression model utilized in this study was found to be unreliable since the explanatory variables explained 12.5% variance in commercial banks' financial performance. The regression model was found to be significant with a probability value less than 5% (0.000). In support of this, Nyaga (2014) concluded that the model of regression implemented for the study was significant since the analysis of variance was less than 5%.

ROI, capital adequacy and firm size were positively linked to commercial banks' financial performance (0.047, 0.001 & 0.003, respectively). This outcome matches the observations made by Kamau (2014) who indicated that firm size was positively linked to financial performance. Liquidity and asset quality were inversely linked to commercial banks' financial performance (-0.014 & -0.017).

Liquidity, ROI and firm size were significant since their p-values were less than 5%, (0.017, 0.007 & 0.004). This finding is consistent to the views of Omondi (1996) who found that the size of the firm and quick ratio were significant. Asset quality and capital adequacy were insignificant since their p-values exceeded 5%, (0.511 & 0.974). These findings are in agreement with Oloo (2010) who found capital adequacy and asset quality to be insignificant.

5.3 Conclusion

The study concluded that commercial banks' financial performance increased promptly over the study period. Technological advances and utilization of multiple delivery channels were considered as key ingredients that contributed to an increase in profitability. To stay competitive in the new landscape, banks have made remarkable efforts to expand their lines of products, adopting effective systems of marketing and approaches to boost the level of service quality. In spite of the benefits that these investments have brought, commercial banks have been exposed to high risks as evidenced by the slight increase in loan quality during the study period. The level of commercial banks' liquidity recorded the highest increase during the period of study. This was a sign that banks were financially stable since liquidity shot-fall in a single bank can lead to systemic crisis in the banking industry due to interconnectedness of the banks' operations.

Liquidity held by commercial banks depicted the banks' ability to finance increases in assets and to meet its obligations when due. The industry average level of liquidity was well above the legal minimum requirement. Bank assets and ROI also increased, implying that the banks' recorded better profits and were also able to generate returns efficiently from their investments. Capital adequacy increased during the time of study implying that commercial banks were able to minimize the total risk of weighted assets, thus banks were able to shield their depositors and conform to CBK prudential guidelines on the minimum required level of capital adequacy. This also protected banks from instances of financial distress.

The correlation results revealed that there lacked a correlation between firm-specific factors (asset quality, ROA, firm, size, liquidity and capital adequacy) and commercial banks' financial performance. From the regression results, coefficient of determination was unreliable since the independent variables explained a very small percentage of variation in financial performance of commercial banks. However, analysis of variance demonstrated that the whole regression equation adopted in this research was significant. This conclusion was drawn based on its probability value which was lower than five percent. ROI, capital adequacy including bank size were positively associated with financial performance. Liquidity and asset quality were inversely linked to financial performance. Further, liquidity, ROI and size of the firm were statistically significant in explaining the nexus between firm-specific factors and commercial banks' financial performance while asset quality and capital adequacy were insignificant.

5.4 Recommendations

The study recommends that the banking industry ought to adopt a strategy to efficiently manage its loans and advances so as to minimize non-performing loans and costs of recovering loans.

It is advisable that commercial banks should uphold a proper balance between debt and equity so as to meet their financial duties and reserve money for investment. Banks that are liquid can easily exploit opportunities and make investments that can earn a good return on investment and also shield the bank from financial distress.

Commercial banks should invest more on modern technology and research and development. The banks will be able to understand the needs of their customers which is essential in designing customized products or services to address these needs. The needs of the customer are ever changing; it is advisable for banks to invest more in customizing their products and services to match specific needs of the customers. Banks can invest more on unique financial products and use multiple channels of delivery to reshape the financial sector in Kenya. To survive and remain relevant in a dynamic environment, banks should consider expanding their lines of products, add new channels of delivery and create effective systems to marketing and approaches to boost the quality of services. This will attract more customers resulting into increased sales. An example is the way in which banks are leveraging on robust ICT platforms to provide quality bank services which are more efficient on wider scale. Through ICT platforms, banks have introduced agency banking services whereby customers perform banking services for example depositing and withdrawing through a third party contracted by a bank and such transactions are captured seamlessly into a client's accounts.

Onsite evaluation should be conducted to establish the financial condition of the bank. A regular review of adequacy of risk management structure and adherence to statutory and prudential guiding principles of all financial institutions that are licensed under the banking Act ought to be conducted to protect depositors and ensure that banks maintain a proper balance of deposits and shareholders' funds.

Finally, the study supports the suggestion by the Ministry of finance regarding raising the minimum capital to a tune of KES. 5 billion, to all commercial banks. This will help to protect depositors' money and shield commercial banks from liquidity problems.

5.5 Limitations for the Study

Duration of 5 years is relatively short since the impact of some of the micro and macro-economic factors is usually felt in the long-term. This implies that the cause and effect relationships between spread in branch network and commercial banks' financial performance could not be determined.

Secondary sources of data were utilised. This data is historical thus might not mirror the actual objectives of the research which is to effectively predict effects of firm specific factors on financial performance of commercial banks in Kenya. Several scholars have questioned secondary data's ability to give a reflection of the current situation.

This research limited itself to only five independent variables (liquidity, asset quality, capital adequacy and firm size). However, there are multiple factors that affect commercial banks' financial performance that have not been factored in this study and might be of importance in enhancing the quality of the findings.

5.6 Suggested Areas for Further Research

This study has implemented a descriptive design spanning for a duration of five years (2012-2016), this duration is not sufficient in establish the cause and effect of these determinants on financial performance. It would be worthwhile if a replica of this study could be conducted but this time round covering a longer duration of time say ten years using a longitudinal form of a research design in order to find out the cause and effect of the determinants on commercial banks financial performance.

The business environment where commercial banks operate is uncertain due to macro-economic factors such as technology, regulations, and politics among others that keeps on fluctuating. Thus, the researcher suggests that a study of a similar nature should be conducted after a period of 5-10 years to determine if the findings realized in this study will hold.

A replica of this study should be conducted in a different industry such as insurance industry. This way, the researcher can do a comparison of findings after which a comprehensive and reliable conclusion can be drawn.

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS

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|--------------------------------------|--------------------------------------|
| 1. ABC Bank Kenya | 23. Guaranty Trust Bank Kenya |
| 2. Bank of Africa | 24. Guardian Bank |
| 3. Bank of Baroda | 25. Gulf African Bank |
| 4. Bank of India | 26. Habib Bank |
| 5. Barclays Bank Kenya | 27. Habib Bank AG Zurich |
| 6. CfC Stanbic Holdings | 28. Housing Finance Company of Kenya |
| 7. Chase Bank Kenya | |
| 8. Citibank | 29. I&M Bank |
| 9. Commercial Bank of Africa | 30. Imperial Bank Kenya |
| 10. Consolidated Bank of Kenya | 31. Jamii Bora Bank |
| 11. Cooperative Bank of Kenya | 32. Kenya Commercial Bank |
| 12. Credit Bank | 33. K-Rep Bank |
| 13. Development Bank of Kenya | 34. Middle East Bank Kenya |
| 14. Diamond Trust Bank | 35. National Bank of Kenya |
| 15. Dubai Bank Kenya | 36. NIC Bank |
| 16. Ecobank Kenya | 37. Oriental Commercial Bank |
| 17. Equatorial Commercial Bank | 38. Paramount Universal Bank |
| 18. Equity Bank | 39. Prime Bank Kenya |
| 19. Family Bank | 40. Standard Chartered Kenya |
| 20. Fidelity Commercial Bank Limited | 41. Trans National Bank Kenya |
| 21. First Community Bank | 42. United Bank for Africa |
| 22. Giro Commercial Bank | 43. Victoria Commercial Bank |

Source: <https://www.cbk.co.ke>

APPENDIX II: EXTRACTED DATA FROM CBK ANNUAL REPORTS

ROA	Asset quality	Liquidity	ROI	Capital Adequacy	Firm size
0.05456	0.155057	0.288	0.211826	0.207	5.45100854
0.06984	0.153215	0.217	0.200032	0.278	5.24775483
0.04644	0.275187	0.003	0.236164	0.164	5.22472049
0.05454	0.07351	0.121	0.267234	0.217	5.22350877
0.0545	0.165897	0.21	0.202761	0.315	5.21532458
0.05454	0.298606	0.279	0.186433	0.143	5.14639644
0.03768	0.344572	0.149	0.154111	0.193	4.92055828
0.0432	0.347271	0.182	0.172748	0.19	4.88903838
0.04178	0.35082	0.265	0.223876	0.292	4.88594482
0.03382	0.232763	0.132	0.197902	0.159	4.87300897
0.06958	0.371823	0.187	0	0.168	4.86676758
0.0308	0.213207	0.218	-0.00657	0.145	4.83673236
0.03648	0.54498	0.212	0.161057	0.214	4.58809482
0.04214	0.417675	0.407	0	0.464	4.5646755
0.0366	0.454311	0.368	0.203852	0.16	4.5624477
0.03162	0.497886	0.4	0.201453	0.165	4.54635357
0.03942	0.451076	0.238	0	0.206	4.50477134
0.01554	-0.6528	0.331	0.120076	0.17	4.43473646
0.00604	0.172293	0.363	-0.10197	0.256	4.41500265
0.04194	0.408736	0.171	0.055357	0.126	4.40853871
0.05402	0.488708	0.21	0.164813	0.469	4.368327
0.02872	0.454625	0.131	0.087955	0.176	4.18520626
0.01978	0.45838	0.21	-0.10092	0.237	4.16525795
0.02358	0.636069	0.691	0.143214	0.271	4.11149446
0.02356	0.174326	0.294	0.047585	0.198	4.11110026
0.01222	0.405984	0.512	0	0.142	4.0971495
0.01286	0.507779	0.208	0.160609	0.22	4.07358537
-0.03028	0.680261	0.74	0.161151	0.375	4.06156696
-0.00652	0.617575	0.254	0.105219	0.354	4.03300124
0.0046	0.160813	0.212	0	0.182	3.96935603
0.01244	0.5116	0.224	0.146191	0.436	3.94220347
0.00126	0.105581	0.31	0.047821	0.143	3.94152778
0.01032	0.311177	0.262	0.142627	0.336	3.94060518
0.00168	0.363771	0.691	0.091592	0.127	3.88339084
0.00672	0.239499	0.197	-0.02652	0.54	3.86254317
-0.06218	0.234811	0.97	-0.01128	0.3	3.76793534
-0.02182	0.407573	0.16	0.025237	0.152	3.7319161
0.00306	0.576946	0.317	0.009198	1.105	3.70157576
0.0086	0.605152	0.182	0	0.142	3.67460738
-0.00098	0.503591	0.331	0	0.7	3.66643935
0.0321	0.660235	0.392	0	0.365	3.50601702
0.02402	0.203625	0.87	-0.00336	0	3.36473856
0.01	0.049791	0	-0.157	0	3.31597223

CBK, 2016

APPENDIX III: DATA COLLECTION SCHEDULE

	2012	2013	2014	2015	2016
Commercial banks (43)					
ROA (Ratio)					
Asset Quality (Ratio)					
Liquidity (Ratio)					
ROI (Ratio)					
Capital Adequacy (Ratio)					
Firm size(Ratio)					