THE RELATIONSHIP BETWEEN CORPORATE BANKING AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for a degree award in any other institution.

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DEDICATION

I dedicate this research project to my dear mum: Jane Muthoni. Mum you are one in a million, amidst myriad challenges and adversity in life you stood up and chose courage. You boldly defended my right to education. May God bless you for the great sacrifice and reward you with many peaceful years under the sun, full of joy and abundant health.

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ABBREVIATIONS AND ACRONYMS

CAMELS	Capital Adequacy Assets Management Earnings and Sensitivity to markets
CB	Corporate Banking
CBK	Central Bank of Kenya
CFO	Chief Finance Officer
CRM	Customer Relationship Management
EFT	Electronic Funds Transfer
ICT	Information, Communication and Technology
IPF	Insurance Premium Financing
IPO	Initial Public Offering
IFF	International Institute of Finance
IRA	Insurance Regulatory Authority
KBA	Kenya Bankers Association
MFB	Micro Finance Banks
NIM	Net Interest Margin
NPL	Non-performing loans
PDQ	Process Date Quickly
PRLC	Partnership Relationship Life Cycle
ROA	Return on Assets
ROE	Return on Equity
S.M.E	Small and Medium Enterprises

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ABSTRACT

Corporate banking has been coined from the word corporate to mean provision of banking services to corporations and institutional clients. Corporate banking is also referred to us wholesale banking, business banking or institutional banking amongst some players. In Kenya, the target clientele of corporate banking segment ranges from medium sized companies, regional corporate bodies to complex conglomerates and giant multinationals with a key purpose of mobilizing deposits and growing the asset base.

This study was established to examine relationship between corporate banking and financial performance of commercial banks in Kenya. The study adopted the descriptive research design targeting 43 commercial banks and one non-bank financial institution in Kenya for period of Five years from 2011 to 2015. The study used secondary data and the analysis of the data was done by Statistical Package for Social Sciences SPSS. Both descriptive and inferential statistics sided in the analysis. The study found out that there is positive correlation between corporate banking market share and return on assets (r = 0.339, n = 220, p = .000), a positive significant correlation exists between liquidity and return on assets (r = 0.276, n = 220, p = .000), a positive significant correlation exists between interest rates and return on assets (r = 0.798, n = 220, p = .017), statistically significant association exists between corporate banking market share, liquidity and financial performance of commercial banks in Kenya and positive relationship exists between corporate banking market share, liquidity and financial performance among commercial banks in Kenya. The study concludes that corporate banking market share of affects the financial performance of commercial banks, a positive significant relationship exists between liquidity and financial performance of commercial banks in Kenya, interest charged by commercial banks to their customers and financial performance is significantly and positively correlated and an insignificant positive correlation exists between capital adequacy and financial performance of commercial banks in Kenya. The study recommends that all commercial banks in Kenya should have strategies in place to grow their corporate banking market share. Some strategies that should be put in place to grow the corporate banking market share include effective relationship management, cross selling to increase the customer’s wallet share, active product promotions and quality, relevant and diverse product offering. Commercial banks in Kenya should strive to improve their liquidity positions so as to meet their obligations as and when they fall due. Commercial banks can enhance their liquidity positions by sound management of cash, short term marketable securities, cash equivalents, short term liabilities and contingent liabilities that collectively forms the working capital of commercial banks, the central bank on the other hand should actively oversee, monitor and regulate the interest rates among commercial banks so that a balance is achieved between interest charged on deposits and the interest charged on borrowings and drawdowns and commercial banks should seek to be adequately capitalized. Some of the strategies that enhance adequate capitalization include initial Public Offering (IPO) and rights issue in the security exchange markets, capital injection by a strategic investor or a private equity firm and earnings reserve.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate banking has been coined from the word corporate to mean provision of banking services to corporations and institutional clients. Corporate banking is also referred to us wholesale banking, business banking or institutional banking amongst some players. Essentially, corporate banking customers are the greatest contributors of profits due to the magnitude, complexity and frequency of financial transactions (Rotchanakitumnuai & Speece, 2004) and a result demand a higher level of relationship managements with their bankers (Athanassopoulos & Labroukos, 1999).

Under the corporate banking segment, banks are mandated to meet financial needs of corporate customers, institutional clients and their affiliates both at home and abroad.

In Kenya, the target clientele of corporate banking segment ranges from medium sized companies, regional corporate bodies to complex conglomerates and giant multinationals with a key purpose of mobilizing deposits and growing the asset base. The banking industry plays a pivotal role by facilitating flow of funds among corporations and their stakeholders who largely utilize credit facilities for capital injection, social economic development, financing operations and capital investments (Yaw, 2011). Corporate customers offer better financial returns and benefits to the banks (Zineldin 1995).Corporate business segment has remained a key segment in generation of revenue for banks worldwide. For most banks corporate banking segment (CB) is a cash cow, a flagship segment and the largest originator of; treasury business, trade finance and customers' loans and advances. As the corporate banking segment is becoming extremely competitive, banks need to place more emphasis on relationship banking to differentiate their offers (Andaleeb, Rashid& Rahman, 2016)

To achieve this end the study has been anchored on 3 theories: Financial intermediation theory argues that financial intermediaries exist with the aim of reducing information and transaction costs arising from information asymmetry between surplus and deficit households. The theory of economies of scale argues that Marshall's key reason in creating the category of external economies is to shed more light on the great historical reduction in production costs associated with increase in output (Huang, 2010).The Modern Portfolio theory explains how an investor can minimize variability of returns by designing a portfolio consisting of securities which are not correlated and inherently vary in characteristics.

1.1.1 Corporate Banking

Typically the Corporate Banking Segment serves a wide range of customers from diverse economic sectors ranging from real estate, manufacturing, services industry, tourism, agriculture among others. In corporate banking, the target clientele is drawn from varying backgrounds ranging medium sized regional businesses posting few millions in sales to complex conglomerates and giant multinationals turning over billions in revenue with footprints across the continents (Heinonen, Johnson & Peterson, 2014). The bank-corporate client relationship is symbiotic in nature with each active party drawing benefits from the continuous interactions in form of cost reduction, efficiency in service delivery and increased profitability. Throughout the lifecycle of the relationship the bank endeavors to solve the corporate clients' problems and to satisfy their unique requests through tailor made solutions or specifically designed products. During the interactions the corporate client evaluates the quality of the service delivered and the relationship developed (Zineldin, 1996). The increasing pace of globalization and heightened rivalry in the banking industry have made the innovation of services for corporate banking vitally important (Huda, Chisty& Rashid, 2007). Corporations look to banks to provide a multitude of financial services. Given their profit-oriented and related goals, what makes corporate customers satisfied is likely to be different from what makes retail customers satisfied (Andaleeb et al., 2015).

Commercial banks offer a wide range of products to support general business needs or growth objectives through comprehensive selection of corporate services and products. Commercial banks through corporate lending provide facilities to recapitalize, refinance, consolidate debt or finance a new project or acquisition. It offers origination, structuring and execution of debt transactions while offering flexible repayment structures that fit organization cash flows. Continued market volatility, changes in macroeconomic variables and geopolitical instability, and the changes in the global and national regulatory reforms have had to a significant impact on how corporations and banks strategically drive their relationships. Trust and long-term relationships are interrelated determinants of corporate clients' satisfaction (Heinonen, Johnson& Peterson, 2014). Banks have to provide a meaningful portfolio of services and continuously update these services to maintain long-run relationships with corporate clients. Without access to such services, bank switching and use of multiple banks can become quite common among corporate clients. Zineldin (1996) argues that a bank has to create a financial environment for corporate clients. For instance, many banks have developed "priority service desks" to provide specialized services to their corporate clients. The image of the bank is also important for corporate clients as it signals to the market that the corporation is banking with a reputable organization.

Establishing and perpetuating long-term relationships with key banking partners is a challenging task to both parties (Ernest &Young, 2012). According to the findings of a survey conducted by Ernest and Young, the banks considered by corporations to be core partners are those that commit considerable resources in terms of time and finance to the relationships. A core banking partner is defined by the magnitude of commitment of their resources to the businesses of corporations in entirety. Most of the study participants echoed the decision criterion of entering and sticking in a core banking relationship as bank's level of flexibility in advancing credit facilities and the ease of structuring syndicated loan pools. For other corporations, the level of commitment varies by bank, with a few carefully selected banks taking a lion share of the client's business, while others have standardized the level of interactions with different banks.

Corporate Banking offers banking services to corporate clients (Yaw, 2011). Corporate Banking Segment takes care of corporate organizations, institutional bodies such government parastatals, non-governmental organizations and community based organizations. Commercials banks offer diverse range of products and services to corporate customers and large institutional bodies. Loans and other non-funded credit facilities such guarantees typically ranks as the biggest contributors of profits and the most influential determinant of credit risk in corporate banking. Banks advance credit facilities in various forms and to various sectors of the economy including commercial and residential real estate, asset financing to manufacturing companies, transportation and ICT (Information Communication Technology) firms. Banks also facilitate trade and subsequent flow of payments through trade finance department by providing product and services such as letters of credit, post import finance, pre-shipment finance, documentary collection and processing guarantees among others. Among other key functions banks provide to corporations is risk mitigation and hedging instruments such currency swaps, forwards and options through the treasury department, forex conversion, working capital and cash management. In addition to the above mentioned products and services commercial banks also offer other supplementary services such as asset management and custodial services to their corporate clients.

Insurance premium Financing (IPF) is another is another product gaining popularity in the banking industry. According to a study done by on Bancassurance by Muunda (2013) an analysis of bancassurance performance showed an increasing profitability, increasing return on assets and increasing return on investment where 96% of the banks with bancassurance reported profits within the study period. The reason as to why the insurance has recently gained popularity in the banking industry is because of the close link shared by the two industries; both industries while determining pricing evaluate the tradeoff between risk and return, the two industries also support huge amount of liability in terms of managed funds and deposits on a thin layer of capital. The two industries are high regulated at state level, for instance in Kenya commercial banks are regulated by the CBK while the insurance companies are regulated by the insurance regulatory authority (IRA). The two industries mutually complement each other; the banks will invest the deposits for insurance companies and give a return inform of interest while the insurance companies will underwrite the risk for banks in the course of conducting their business.

1.1.2 Financial Performance

In today's economic environment performance is a key concept shaped by rapid changes, stiff competition and continuously emerging global trends. Organizational performance is multi-faceted in nature and involves different stakeholders in a firm. It forms part of an imperative initiative to formulate, implement and evaluate the effectiveness of long-term plans (Vintila & Nenu, 2015). Financial performance refers to the ability of a firm to yield resources from operations over a specific duration. It is essentially determined by magnitude and stability of returns generated from an investment. Financial performance is an important tool to various stakeholders who might be interested in a certain institution or industry (Kanyeke 2014). The parties that can be interested in financial performance of commercial banks include shareholders, corporate bonds investors, industry rivals, industry regulators, depositors and credit rating agencies such Moodys, Fitch, global rating agency among others (Casu & Girardone, 2006).

Lebas (1995) noted that any method used to analyze must be measurable. Concerning evaluation of performance he echoed the popular quote that, "anything that can't be measured, is not in existence". Banks performance is commonly evaluated in relation to ratio analysis that uses the information contained in the accounting statements. Bank performance is evaluated by computing and analyzing financial ratios with the sole purpose of predicting future performance by looking at the historical and the currents trends. The parameters or tools used to gauge performance focus on areas such as; capital adequacy, profitability, asset quality, liquidity and solvency. The parameters that are used to evaluate performance are derived from the accounting information revealed by the reported financial statements. A statement of financial position of commercial banks consists of assets and liabilities. The asset side consists of cash, short term marketable securities such as treasury bills and treasury bonds, loans and advances to the customers, fixed assets and other investments. The liability side includes deposits, equity and other capital terms (Lloyd, 2006). This study has enlisted the CAMELS model and corporate banking market share as the measures of performance.

1.1.3 Corporate Banking and Financial Performance

Corporate customers generate high profits for banks (Andaleeb, Rashid& Rahman, 2016). Andaleeb et al. (2016) developed the customer-centric banking framework and suggested that banks should purpose to satisfy both tangible and intangible needs of the client to ensure that they enjoy full benefits of the relationship and derive maximum value. The study indicated the following principal intangible factors; commitment, corporate image of the bank, compassion and consistency. The study indicated that; corporate image of the bank, commitment, consistency and compassion are the key intangible factors. Cost-benefit and convenience (the two tangible determinants of the satisfaction of corporate customers) were less important in explaining satisfaction. Compassion with a blend of empathy and caring was the most influential factor for corporate customers in Bangladesh.

Corporate Banking leads to enhanced profitability among commercial banks. Llyord (2006) argues that the loan book, deposit book and size of the bank translate to high levels of financial performance. Corporate customers offer better financial returns and benefits to the banks (Zineldin 1995). In return they prefer to spend less time with their banks, given their diverse responsibilities. Thus banks may need to devise innovative plans to stay close to their corporate clients by using technology where possible. This is why in the recent times we are seeing banks investing a great deal in E-banking services for their corporate clients (Rahman, et al., 2016) theoretically it is assumed that corporate banking will increase financial performance since it is operationalized through loans, deposits and recruitment of new corporate and institutional customers.

1.1.4 Commercial Banks in Kenya

Understanding the banking industry in Kenya is a crucial task for the financial services fraternity at large, economists and academicians. The Kenyan financial system is by far the largest and most sophisticated in East African region. Kenyan Banks have in the past successfully navigated through the vicious episodes of political interference, hyperinflation and high interest rates regimes by adapting to these challenges and being resilient. In the last decade they have been adaptive to more stable environment and have exhibited a spirit of resilience to the current international financial crisis such as, the global economic crisis in the late 2000, Eurozone crisis, the Brexit and the most recent capping of interest rates. However, the cost of financial intermediation, in terms of the interest rates paid to depositors and the lending interest rate charged to borrowers has been the highest globally. Moreover huge discrepancies exist between lending rates charged to corporate and retail customers, hence driving a wedge between the two categories essentially caused by price discrimination. Identifying and analyzing the relationship between corporate banking and financial performance of commercial banks is therefore of paramount importance at such a time as this.

According to Kenya Bankers Association, the banking sector in Kenya over the years has evolved through several phases, the first phase is termed as pre-independence /the first banks which dated back to colonial days, the other phase is the independence and Africanization of the banking industry, then the emergence of government owned Kenyan banks and the growth of indigenous banks (Kanyeke, 2014). The banking sector has gone through significant historic moment (KBA, 2013). During the pre-independence days, operations of the banks were characterized by high degree of concentration, branch banking and providing services for financing exports and imports to the colonial government. Since then there has been emerging trends in banking coming into the picture like agency banking, mobile banking, automated branch banking, diaspora banking, Bancassurance and cheque truncation system which has introduced efficiency in the clearing system.

As at 31st December 2015 the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 43 commercial banks and one mortgage finance company, 8 representative offices of foreign banks and 12 micro finance banks (MFB). Out of the 43 banking institutions, 40 were privately owned while the Kenya government had a majority ownership in 3 institutions. Of the 40 privately owned banks, 26 were locally owned (the controlling shareholders are domiciled in Kenya) while 14 were foreign owned. The 26 locally owned institutions comprised 25 commercial banks and 1 mortgage financier. Out of the 14 banks owned by foreigners, 10 were local subsidiaries of foreign banks while 4 were branches of foreign banks (CBK, Bank Supervision Annual Report 2015)

Corporate banking is not a new phenomenon in the banking and it dates as back as the history of banking in Kenya. In most recent times banks have awoken the urge to graduate S.M.E clients which are essentially the brooding zone of corporate clients, in order to increase their corporate banking market share in this significant business segment. According to the CBK 2015 Bank Supervision Annual Report the Kenya Banking Sector remained stable and resilient in 2015 as evidenced by a 9.2 percent growth in the banking sector's balance sheet from Kes. 3.2 trillion in 2014 to Kes. 3.5 trillion in December 2015. This despite the slowdown in global economic growth to 3.1 percent in 2015 from 3.4 percent in 2014 largely due to slowdown in growth in China and sluggish recovery in the Eurozone. The global financial markets were also volatile in most of 2015 following uncertainty mainly precipitated the expected rise in the United States Federal reserve interest rates and the changes in monetary policy among the European countries. Gross loans increased by 11.57 percent from Kes. 1,940.78 Billion in December 2014 to Kes. 1,265.3 Billion In December 2015. The growth in loans is attributed to increased demand for credit by various economic sectors. Customers' deposits increased by 8.73 percent to 2.49 trillion in December 2015. The inorganic growth was due to heightened motivation by banks to mobilize deposits and leveraging on mobile platforms to mobilize low cost deposits. The pre-tax profit for the sector decreased by 5.03 percent from Kes. 141.1 Billion in December 2014 to Kes. 134 Billion in 2015. The decline in profitability in 2015 was mainly attributable to a faster growth in expenses compared to the growth in income (CBK Annual Report 2015)

1.2 Research Problem

So as to derive practical policy implications this study analyses banking services at a disaggregated level in contrast to previous studies. While other studies have concentrated on the effect of variables such as liquidity, capital adequacy, asset quality, exchange rates, inflation and interest rates on financial performance of Kenyan banking system at an aggregated level, they have not attempted to analyze individual operating markets segments. In their research paper on banking in Brazil (Urdapilleta, & Stephanou, 2009) argues for one to come up with practical policy implications and perspectives, one needs to focus on individual market segments since the entire banking system is a "canopy" covering heterogeneous markets and essentially not transparently focusing on the business drivers. Particularly the study focuses on one of the most important segment: corporate banking. A practitioner approach is adopted in order to pursue this task to conclusion. In this approach the performance of different operating segments is determined by disaggregating all the revenues, expenses and risks in order to allow ratio analysis of such key parameters such as profitability, efficiency, liquidity, asset quality and capital adequacy. The approach culminates with creation of standalone financial statements and related financial ratios (For instance return on capital and assets) which are then compared with the entire banking system. Although high level of profitability is not sufficient per se to assess the level of competition by market segment, it is closely correlated to market share, and it is one of the most relevant indicators used by players, experts and analysts in the banking industry (Urdapilleta & Stephanou, 2009).

In order to manage overall personalized relationships with customers and maximize cross selling opportunities, executing complex transactions with ease and reliable credit infrastructure are some of the most critical factors in enhancing success corporate banking practices.

Zineldin (1996) did a study of on bank corporate relationship: benefits and life cycle. The study suggested that throughout the life cycle of the relationship the corporate client treasures the quality of the relationship. Athanassopoulos and Labroukos, (1999) did a study on corporate customer behavior towards financial services: empirical results from the emerging market of Greece. Uniqueness of the bank – corporate relationship notwithstanding, the study suggested that it would be very crucial for strategic sales and marketing team of a bank to anticipate the behavior and the general changes in the trend of the preferences of the target clientele. Thereafter the bank would react by adjusting to fit the predetermined relationship marketing forms of business banking.

Thuo (1999) did an exploratory study on the state of relationship marketing strategy in the Kenyan banking sector and established that banks tend to concentrate relational efforts on corporate clients who forms the bulk of the business. Njoroge (2015) did a study of corporate entrepreneurship on financial performance of commercial banks in Kenya and established a strong positive relationship between level of corporate entrepreneurship and financial performance. Ngumi (2013) examined the impact of bank innovations on financial performance of commercial banks in Kenya. The study indicated that corporate clients transact in their banks accounts from the comfort of their office desks because commercials banks through intensive investments in internet banking have devised internet linkages to their computers.

From the empirical studies reviewed above, it can be noted that the existing studies concentrated on other aspects of corporate banking other than its effects on financial performance. This study therefore sought to fill the research gap by investigating the relationship between corporate banking and financial performance of commercial banks in Kenya.

1.3 Research Objective

To determine the relationship between corporate banking and financial performance of commercial banks in Kenya.

1.4 Value of the Study

The study will provide vital information in the academic arena more specifically to the enthusiasts of finance and banking in regard to the field of corporate banking. The study will form the foundation of furtherance of knowledge to the students and researchers in the area of corporate banking and obtain topics where gaps have been highlighted.

Further, the study can be used by commercial banks that aspire to venture in corporate banking. The study will provide analysis on the effect of corporate banking on financial performance and hence banks have at their disposal valuable information that they can leverage on to increase their corporate banking market share. The implementation of corporate banking will ultimately lead to creation of a perpetual revenue stream, reduce costs and satisfy corporate clientele by introducing a wide spectrum of new value added products. Banks can better strategize on building loyal corporate customers, thereby ensuring healthy corporate banking relationship. Banks can also prioritize on the important intangible elements (corporate image, commitment, compassion and consistency) focusing on satisfaction of corporate customers. Among other factors, technology adoption, training of corporate customer managers, and emphasizing customer-centric banking policies may help provide better services and obtain higher levels of customer satisfaction.

The study will also be useful to the investors in the banking industry because it will highlight the major driving business segment in the industry. The study will also be an important source of information for policy formulation at the government level. The government should endeavor to formulate strategies and to provide a conducive environment for growth of corporate banking which in return would contribute holistically to the growth of the economy.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter starts off by assessing the various theories relating to the study at hand, their preposition and implications. It then delves into the determinants of financial performance of commercial banks. Empirical literature also is shown with objectives, methodology and results. Finally a synopsis of the literature in the chapter is discussed.

2.2 Theoretical Review

The theoretical review analyzes theories and concepts that propose the rationale behind Corporate Banking.

2.2.1 Financial Intermediation Theory

In financial markets heightened information and transactional costs emanates from information asymmetry. It is for this very key purpose of creating efficient financial markets with reduced transactional and information costs that financial intermediaries exists. Conditions that influence the volume of lending by financial intermediaries have significant macroeconomic effects hence their impact in creation of efficient functioning markets. In literature there are two strands that justify the existence of financial intermediaries; the first one focuses on financial intermediaries' provision of liquidity while the second one focuses on financial intermediaries' ability to transform the risk characteristics of assets. In both instances the cost of moving funds from lenders to borrowers can be significantly reduced therefore enhancing efficient allocation of resources to deficient markets. (Iris & Arthur, 2003).

Diamond and Dybvig (1983), analyzed the process of creation of liquidity, he detailed how illiquid assets are essentially transformed to liquid assets. Illiquidity of the assets held by banks justify their very existence and subsequently their vulnerability to runs. Bank runs can easily leak havoc in the financial system and to a large extent to the economy by destroying optimal risk by depositors. In the absence of intermediaries, investors would be locked into illiquid investments that are long term in nature and yield returns after being held for long. On the contrary those who liquidate such long term investments prematurely will only receive low returns. By pooling risks and allocating it effectively among agents whose demand for consumption is random, banks create a competitive market. Financial intermediaries resolve the problem of information asymmetry by transforming the risk characteristics of markets hence overcoming a market failure. In credit markets, information asymmetry arises generally because investors no more about their investments than lenders.

In credit markets information asymmetry arises in circumstances where borrowers and not financiers can predict with high degree of certainty the returns generated after completion of a project. This forms the basis of creation of the problem of moral hazard. The shortcoming of imperfect information is the fact that it becomes an advantage to general public in the market. Normally there is little or no motivation to invest in adequate public information if privately generated information is cheaply available. (Riley & Hirschleifer, 1979).

When banks obtain information they should transfer the benefits to lenders without necessarily surrendering the information advantage. The reason as to why financial intermediaries avoid duplication of information during production is because they procure information at minimal expense than individual lenders. Furthermore, there are marginally higher returns to scale that accrue from financial intermediation. Specialized skill of appraising prospective clients and managing investment project are attained by financial intermediaries in the course of interactions. Leland and Pyle (1977) indicated that a bank is able to relay information to the investors in regard to a prospective borrower at minimal expense than individual borrowers can.

2.2.2 Theory of Economies of Scale

Marshall (1980) came up with the theory of economies of scale. In his attempt to reconcile increasing returns and competitive equilibrium Marshall assigned the key role of economies of scale to external economies. (Hart, 1996). In academic circles it is oftenly argued that Marshall's key reason in creating the category of external economies was to shed more light on the diminishing cost of production related to maximization of output (Margono, Sharma, & Melvin, 2011).

Marshal envisaged the benefits that accrued to small firms as a result of advancement in industrialization and clearly concluded that sources of internal and external economies seemed to function hand in hand despite the fact that he was able to clearly distinguish the two. The scale of the industry production increases because of the presence of external economies, owing to this fact the average size of the firm is induced to increase hence the availability of external economies of scale (Margono et al., 2011).

Economies of Scale refer to the cost advantages that enterprises obtain due to size, output or scale of operations. Economies are internal, external, national or international, aggregate or dis-aggregative (Hart, 1996). In Corporate Banking, economies of scale are dominant in the sense that corporate and institutional clients require several bank products or services and their transactions are normally large. Hart (1996) stated that banks take advantage of economies of scale arising from the law of large numbers. Similarly most institutions and Corporates rely on the law of large numbers. The main focus of the economies of scale is increased productivity and decline in expenditure. Therefore, by marginally increasing revenue from the sale of corporate banking product and services the more the skills are developed and ultimately the lesser the marginal selling costs. Hence cost management and the eventual reduction of costs, is an effective strategy of enhancing profitability among commercial banks.

2.2.3 Modern Portfolio Theory

Harry Markowitz (1952) is the brain behind the Modern Portfolio theory. Markowitz formulated the computation of the expected rate of return and evaluation of variability of returns. He demonstrated that variance was the most appropriate yard stick to evaluate the risk of a portfolio. He illustrated the intricate relationship between risk and return and suggested that when the risk is high the investor should demand a high rate of return. Intuitively investors are risk averse and exhibit this behavior by shunning high risk investments and embracing low risk investments that yield high returns.

By their very nature, financial markets are capricious, almost unpredictable and volatile. Markowitz illustrated how an investor can significantly reduce the variability of returns of financial assets by selecting assets that are not closely correlated to each other. He conceptualized the fundamental principles of designing efficient portfolios. He noted that a portfolio that yields the highest possible returns with minimal variability should be the most desirable to a market savvy investor. Essentially an intelligent investor may minimize variability of returns and the risk of loss by holding a diversified portfolio comprising of different financial assets. Brealey and Myers (2003) attributed the reduced variability of returns than the average risk of different securities to diversification.

For commercial banks to survive and thrive in the highly competitive financial services industry there is a dire need to diversify the portfolio of products offered to corporate clients. Globalizations and liberalization of markets have sent most banks back to the drawing board to formulate strategies that will enhance sustainability of their earnings. Huang (2011) noted that the ever evolving alternate business channels such E-commerce had drastically eroded the net interest margin (NIM) on loan facilities advanced to customers by banks in the 1980s. In order to increase their earning banks have now heavily invested on technological innovations and ventured into diverse areas such as corporate banking, diaspora banking, internet banking, mobile banking, bancassurance, custodial services and investment banking.

2.3 Determinants of Financial Performance in Commercial Banks

Financial performance of commercials banks is influenced by the factors discussed below. Capital adequacy, liquidity and asset quality are the inherent factors that affect performance of commercial banks while sensitivity to market risks and corporate banking market share are the external factors that influence performance of commercial banks.

2.3.1 Capital Adequacy

The first pointer of the CAMELS model is capital adequacy. On capitalization, the aim is to assess a bank's capital in relation to risk weighted exposure. Capital adequacy enhances stability and efficiency of banks in service delivery. The foregoing conclusion is that capital adequacy is an issue of concern in the industry. There are three main measure of capital adequacy; core capital to total deposits, core capital to total risk weighted assets and total capital to total risk weighted assets.

2.3.1.1 Core Capital to Total Deposits

As a matter of prudence banks' should progressively reserve part of their earnings for capitalization in order to adequately cover liabilities that may occur in the future. To enhance capital adequacy banking institutions which are essentially undercapitalized and whose earning power is constrained should device strategies to improve the situation. Such include Initial Public Offering (IPOs), rights issue, direct capital injection by a strategic investor or mergers and acquisitions. Deposits are liabilities on call at any time and hence a bank should not run on depositors funds only. A high ratio of core capital to deposits is desirable. The CBK minimum requirement for core capital to deposits is 8%. The industry average was 116.75 per cent in 2015. (Think Business Banking Survey 2016)

2.3.1.2 Core Capital to Total Risk Weighted Assets

Different asset categories are weighted by their risk level as guided by the CBK. This comprises the total risk weighted assets. Due to their low level of inherent risk, cash, treasure bills and treasury bonds are assigned a risk weight of zero. The statutory ratio is

12%, a higher ratio is preferable. The Kenya Banking industry average was 14.33% in 2015.

2.3.1.3 Total Capital to Total Risk Weighted Assets

In order to enhance capitalization banks source additional supplementary capital. Total capital is the combination of core capital and supplementary capital. Supplementary capital can be in form long-term loans from international lenders such as International Finance Corporation. The statutory ratio is 14.5%. The Kenya Banking industry average was 18.76% in 2015 (Think Business Banking Survey 2016)

2.3.2 Assets

The second pointer of the CAMELS framework is assets. An asset refers to “something belonging to an individual or a business that has value or the power to earn money” (De Andres & Vallelado, 2008).

The largest contributor to banks’ assets are the customers’ loans and advances. Loans and advances are illiquid in nature and are expected bear interest which enhance profitability and form part of the returns to shareholders for their investment. Non – performing loss (NPL) hurts banks’ liquidity, reduces profitability and ultimately erodes capital. There are commonly two measures used to assess asset quality;

2.3.2.1 Loan Loss Provision to Operating Income

This measure shows the extent to which the operating income is reduced by provisions to NPLs. Lower ratio is desirable. The industry average was 9.32% in 2015 from 4.5% in 2014.

2.3.2.2 Gross NPL to total loans

This ratio is an indication of the extent to which the loan book is non-performing. The ratio shows the bank's ability to underwrite inherent risk in the facilities advanced and how effectively these risks are mitigated to reduce NPLs. A lower ratio is desirable. The ratio stood at 7.02% for the year 2015, a decline from the previous year due to increase of NPL posted by several banks.

2.3.3 Liquidity

Liquidity is the ability of a financial institution to finance growth in assets and to fulfil financial obligations when they fall due, without assuming unnecessary losses. (Basel Committee on Banking Supervision 2008). Liquidity implies that a bank must have adequate cash and cash equivalent assets such as treasury bonds and bills so as to meet financial obligations to its depositors when they arise. Commercial banks that seek to preserve integrity in the market and continue to operate must be liquid enough to pay depositors on demand. The most common measures of liquidity are; net loans to total depositors, quick assets to total liabilities and quick assets to total deposits.

2.3.3.1 Net loans to deposits

Being the largest financial intermediaries, banks attract funds from depositors for onward lending to borrowers. Considering their high leverage nature, banks must maintain intricate balance between funds lent and deposits held (Think Business Banking Survey, 2016). Essentially banks should possess the ability to mobilize deposits faster than they lend. This increases economic growth and generates returns to the shareholders and payment of interest to depositors. A lower ratio is desirable however it could imply higher level of risk averseness hence the tendency to invest more funds in secure investments like treasury bills and bonds. A bank may therefore not be earning an optimal return if this ratio is too low. Bigger banks tend to have a high threshold than small banks. The industry average was 80.52% in 2015.

2.3.3.2 Quick Assets to Total Liabilities

Short term marketable securities and cash equivalents that can easily be converted into liquid cash within a short time span and at low transaction cost are referred to as quick assets. The most popular type of quick assets are government securities. Assets falling under this category mature within a period of five years. Customer deposits constitute the bulk of banks liabilities but for a holistic consideration borrowed funds should be included. The CBK has put 20% as the minimum statutory requirement. The industry average for year was 35.16% for the year 2015.

2.3.4 Sensitivity to Market Risk

The last pointer of the CAMELS model is sensitivity to market risks. Naturally market risk arises from unpredictable movement of macroeconomic variables such as foreign currency exchange rates, interest rates, equity prices and changes in consumer price index. This causes variability in earnings and may eventually lead to erosion of equity. Institutional exposure to market risks varies. In actively traded securities such as equities and bonds the risk is explicit while in credit markets it is inherent is changes in deposits and lending interest rates. (CBK, Risk Management Guidelines Report 2013).

2.3.5 Market Share

Market share refers to the niche a firm is able to capture in a market. It is measured by the percentage sales of a firm in a specified market over a given duration. (Ong'onga 2014). According to Kinyua (2014) it is the proportion of the market that a bank is able to hold. Capturing an enormous market share translates to generation of more cash flows and more profits. There are different ways of growing the market share, banks oftenly combine a number of strategies. These includes improving the product offering by giving a variety of value added products, customer relationship management, improving pricing or aggressive marketing and advertisement, among others.

According to Kanyogoro (2012) firms increase market share by attracting customers from competition or creating new ones. To attain these banks must understand the buying behavior of customers, purchasing power and identify business needs. In depth knowledge of the industry and competition forms the basis of designing an effective competitive strategy. Brassington and Pettitt (1997) came up with two market share growth strategies; market penetration and market development. Market penetration is increasing sales or revenue in existing markets through aggressive marketing. Market development is increasing sales of existing products to new markets and emerging markets.

2.4 Empirical Review

Empirical review looked at the studies that have been conducted by researchers in the field of corporate banking both locally and internationally.

Eduardo and Constantinos (2009) did a policy research working paper for the World Bank on Banking in Brazil structure, performance, drivers and policy implication. The main purpose of the reasearch was analyze the drivers of financial performance of Brazilian banking industry at a disaggregated level. The study concluded that the retail banking segment in less sensitive to pricing and yields huge returns compared to the corporate banking segment despite the fact that it is characterized by higher operational costs. Though costlier and riskier to operate, the retail banking segment is far much profitable than corporate banking due to high margins and commissions levied to retail customers.

A corporate banking survey (2012) conducted jointly by Ernst &Young and International Institute of Finance (IFF) in 11 countries in America and Europe focused on fundamentals of successful corporate banking. The participants of the survey were chief finance officers (CFOs) of various leading Corporates. Based on the discussion the following basic performance principles that banks need to put to consideration in order to successfully manage relationships with their key corporate customers were noted; Service quality, transparency, pricing, technology as an enabler and advisory services. Corporate representatives also said that they were attracted to banks that offer new innovative ways of conducting business. When asked to air their opinions about how banks can offer better services all responses were centered on softer, more intangible aspects and customer relationship management. Issues such as listening to customers, transparency, responsiveness and proactive approach to customer concerns took center stage as opposed to intangible factors such as product features, pricing and technology. The study concluded that banks should not afford to underscore the importance of customer relationship management (CRM), adherence to service level agreements and consistent quality service delivery.

Zineldin (1996) did a study of on bank corporate relationship: benefits and life cycle. The study dwelt on the partnership relationship concept between a corporate client and a bank. The study related the benefits of the long term relationship to the life cycle of the partnership. Four stages of the partnership relationship life cycle (PRLC) were formulated. The four stages were enumerated as follows; the foremost is the early stage, it is followed by the development stage, then the long-term stage and finally the ongoing partnership stage. The study found that the quality of the relationship is highly valuable to the corporation. The satisfaction of the corporate client specific needs determines the progress to the next stage. This requires the relationship manager to device strategies in order to increases the chances of progressing the relationship to the next level. Hence a bank – corporate client partnership should possess an underlying philosophy on how the relationship will be sustained to posterity and recognize the mutualism between the two partners. Zineldin (1995) suggests that the relationship will only yield returns in the long run if the bank perseveres and persistently cultivates the relationship. The banks that creates the deepest heartfelt conviction and close intimate link with the clients will stand the highest chance of banking the corporation's business (Zineldin 1996)

Athanassopoulos and Labroukos (1999) did a study on the behavior of a corporate clients towards financial services: empirical conclusion in the emerging financial market of Greece. The study examines the behavior of corporations towards the banking institutions in Greece. A representative sample of 468 firms were selected from a large population of 2,197 largest and most successful enterprises. The researchers observed that some corporations preferred only one banking institution handling the relationship while others preferred engaging several financial service providers. Corporations demonstrated statistically varying characteristics in the manner they engaged banks and this findings can be used by commercial banks to target clientele by positioning products and services that match the unique profile of a specific corporate client.

Andaleeb et al. (2016) did a study on the customer – centric model, a corporate customer relationship management frame work practiced by banks in Bangladesh. According to the study, the model envisaged that banks should uphold both tangible and intangible aspects of relationship with their respective corporate clients. The rationale behind the conducting the study was to find out the customer-centric banking practices that drive satisfaction of corporate customers in Bangladesh. Financial managers from a sample of 112 non-financial listed companies were interviewed. The study employed a structured questionnaire using Likert scales. Exploratory factor analysis followed by multiple regression analysis were used to test the effects of both tangible and intangible factors. The findings of the study indicate that customer-centric banking is primarily influenced by intangible factors. Among six bank selection criteria analyzed in this study, corporate image, commitment, compassion and consistency are the four significant intangible factors that drive corporate customer satisfaction. The two tangible factors: cost-benefit and convenience were not significant determinants of satisfaction for corporate clients. Customer-centric banking emphasizes using a combination of tangible and intangible factors to develop banking strategies. The desire for intangible factors also suggests that customers are asking for personal fulfillment that carries some element of emotional attachment to their bank.

Thuo (1999) did an exploratory study on the state of relationship marketing strategy in the Kenyan Banking sector. Top marketing executives in banks were interviewed, 19 out of 32 respondents maintain relationships with 30% or more of their corporate customers. The respondent's banks therefore concentrate their relational efforts on corporate clients; Banks tend to apply relational marketing mostly to their corporate clients who form a minority of their client base as opposed to retail clients who form the bulk of their customers. He noted that corporate clients mostly offer the bulk of business to banks. Their exit from banks would drastically affect the banks operations. Therefore, relations are formed as a defense strategy and as a means to fasten the grip on the corporate clients.

Njoroge (2015) did a study of corporate entrepreneurship on financial performance of commercial banks in Kenya. The study examined five sub-dimensions of corporate entrepreneurship; innovation, risk taking, pro – activeness, competitive aggressiveness and autonomy. The research was quantitative and data was collected in 44 commercial banks in Kenya through closed-ended questionnaires. The findings of the research indicate that there is a strong positive association between level of corporate entrepreneurship and financial performance of a firm. These entrepreneurial behaviors within banks were observed to lead to high levels of performance and profitability.

Ngumi (2013) did a study on effect of bank innovations on financial performance of commercial banks in Kenya. The study examined innovations in the alternative business channels in the banking industry. Such included electronic funds transfer (EFT), process data quick (PDQ) machines found at payment terminals, internet banking, mobile banking, prepaid cards, debit and credit cards. The study indicated that corporate clients transact in their banks accounts from the comfort of their office desks because commercials banks through intensive investments in internet banking have devised internet linkages to their computers. As a unique product offering, internet banking is used a tool to compete with the peers in the industry. In Kenya internet banking is offered to corporations at very low pricing because commercial banks are assured of raking more business by surveying the ecosystem of a corporate client. Such includes foreign exchange conversion, trade finance, cash management and credit facilities. The study concluded that technological innovations had significant impact on earnings, customers' deposits and returns on assets of commercial banks in Kenya.

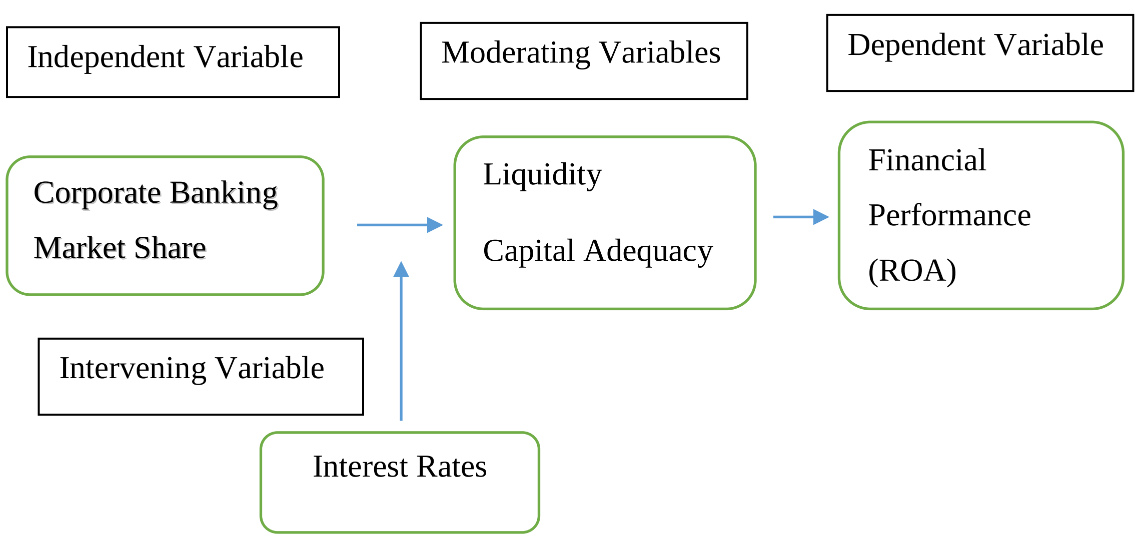
Chebii (2013) in her research thesis did a study on analysis of internationalization of banking in emerging markets. The study provides an analysis on trends of internationalization, strategies employed and whether globalization has provided a competitive edge for Kenya indigenous banks expanding in East Africa. She notes that the strategy common to most Pan-African Banks is market segmentation strategy. "Follow the client" strategy has been embraced by most of the banks. Citizens of home country for the banks are targeted where they work professionally or corporate and organizations with interests in target countries. Some banks have adopted the expansion along the value chain. West African banks especially Nigerian are steadily expanding while building in-house capabilities in areas that were a preserve of foreign banks such as corporate and investment banking. The market segmentation of most bank mainly target people with high end income distribution or corporate clients as the other people working in informal sector are considered “risky”. Competition for high end market just improves the cost effectiveness for higher income households thereby creating gaps and classes with populations. Cross-border banks keen on segmenting their clientele like Corporates or with modest capital and still uncertain on the risk levels find branching model more pliable. For instance; In Tanzania the top tier banks serve the small group of large corporate who form the bulk of loan book portfolio at 70 percent.

Muunda (2013) did a study on the effect of bancassurance on financial performance of commercial banks in Kenya. The study analyzed the effects of bancassurance on performance of commercial banks and observed that the banking sector in Kenya is very dynamic and highly profitable as an investment avenue with a declining asset to liability ratio, reducing cost to income ratio, and an increasing return on assets ratio. An analysis of bancassurance performance showed an increasing profitability, increasing return on assets and increasing return on investment where 96% of the banks with bancassurance reported profits within the study period. A model was created that can be used to analyze the effects of bancassurance on net profit margins of the banks which is 96.2% efficient. Bancassurance was observed to boost profitability of the banking sector by a large profit margin and its growth was observed to have significant effects on the profit gains in the banking sector. The study concluded that profitability of bancassurance has significant effect to the overall profitability of the banking industry.

2.5 Conceptual Framework

A conceptual framework is an integral part of understanding and analyzing the research problem. It is deemed to be complimentary to the problem description, statement of objectives and literature review. The foundations of this study has been identified as cause - effect relationship between the independent and dependent variables based on the literature review, theoretical review and the conceptual framework. According to Mugenda & Mugenda (2001) the dependent variables are factors, which are being influenced as a result of other factors. In this study financial performance of commercial banks in Kenya is the dependent variable that takes the center stage for investigation. Corporate banking market share, capital adequacy, liquidity and interest rates are the parameters that will be used to measure the effect of the independent variable (Corporate Banking) on financial performance.

Figure 2. 1: Conceptual Framework



Source: (Author, 2016)

2.6 Summary of the Literature Review and Gaps

Eduardo and Constantinos (2009) did a study on Banking in Brazil, the researchers focused on the structure, performance, drivers and policy implication. The study concluded that the retail banking segment in less sensitive to pricing and yields huge returns compared to the corporate banking segment despite the fact that it is characterized by higher operational costs. This study was carried outside Kenya hence research findings cannot apply to the local Kenyan setting.

Ernst and Young (2012) did a study on the fundamentals of successful corporate banking. This study established that transparency, pricing, service quality flexibility of fees structures and technology as an enabler for successful corporate banking. This study did not link corporate banking to financial performance of the bank thus creating a knowledge gap which this study wishes to fill.

Zineldin (1996) studied the Bank corporate relationship: benefits and life cycle. The study suggested that throughout the life cycle, the quality of the relationship remains highly valuable to the corporation. The study looked at corporate relationship-the benefits and life cycle but it didn’t look at its impact on financial performance. Furthermore the study was done 20 years ago thus its findings may not be applicable in the banking industry due to current changes in how business is done today versus the past.

Andaleeb, Rashid and Rahman (2016) on the study of customer – centric framework on banking practices for corporations in Bangladesh. The findings of the study indicate that customer-centric banking is fundamentally influenced by intangible factors such as corporate image, commitment; compassion and consistency that drive corporate customer satisfaction. The study was carried out in Bangladesh and its findings may not be relevant in the Kenyan banking sector.

Njoroge (2015) did a study on corporate entrepreneurship on financial performance of commercial banks in Kenya. The study findings indicate that there is a strong positive association between level of corporate entrepreneurship and financial performance of a firm. This study linked corporate entrepreneurship to financial performance but didn’t look at the corporate banking area and its impact on financial performance, thus creating a knowledge gap which this study wishes to fill.

Ngumi (2013) examined impact of innovations on financial performance of commercial banks in Kenya. The study concluded that innovation had significant impact on earnings, profitability, deposits and returns on assets. The study did not examine the relationship between corporate banking and financial performance of commercial banks.

Chebii (2013) did a study on the analysis of internationalization of banking in emerging markets. The study revealed that most Pan-African Banks adopted market segmentation strategy; some used the “Follow the client” strategy and expansion along the value chain. The study looked at the strategies used by banks and did look at the impact of corporate banking to the financial performance of the bank creating a gap that this study will address.

Muunda (2013) examined effect of bancassurance on financial performance of commercial banks in Kenya. The study concluded that profitability of bancassurance has significant effect to the overall profitability of the banking industry. This study looked at effect of bancassurance on financial performance but did not examine the relationship between corporate banking and financial performance of commercial banks, thus creating a research gap that this study is going to look into.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the researcher discusses the research design that will be adopted for the study, target population and sample size, the collection and analysis of data for the study.

3.2 Research Design

This study adopted the descriptive research design which aimed at determining the relationship between corporate banking and financial performance of commercial banks in Kenya. As clearly put by Mugenda and Mugenda (2003) descriptive research design is a data collection process which seeks to provide solutions in regard to the status quo position of the subject under investigation. This then allowed the researcher to report what has happened or what is happening.

3.3 Population

The population as defined by Creswell (2012) is a large population of interest to the study and from which the sample population was drawn from. A target population is that which a researcher wants to generalize the results of the study. For this study the target population of interest was the 43 commercial banks as per the CBK Annual bank Supervision Report (2015).

3.4 Data Collection

The study collected secondary data through the use of data collection sheet. The researcher will obtain audited financial records from each of the 43 commercial banks for a period of Five years from 2011 to 2015. The researcher collected the corporate banking segment deposits, net income, core capital, liabilities and assets. The data was collected to show how corporate banking impacts on the financial performance of the bank. This enabled comparative analysis of corporate banking contribution to the financial performance the 43 commercial banks in Kenya.

3.5 Data Analysis

The data was analyze using descriptive statistics where averages and standard deviation were obtained. Inferential Statistics and Multiple regression was done to show the relationship between corporate banking and financial performance of commercial banks.

Model for coefficients was used to test the hypothesis of this study. The level of significance was determined using probability values. If the p-value(s) was more than5% then the null hypothesis was true since this meant that there was no statistically significant relationship between Corporate Banking and financial performance of Commercial Banks in Kenya. Similarly, if the p-value was less than 5% then the alternative hypothesis will considered true since this indicated that there is a positive relationship between variables. The coefficient of determination was used to determine if the model was a satisfactory predictor or not using the R^2. All these tests were done at 95% confidence level. The Statistical Package for Social Sciences (SPSS) was used to analyze the data.

The results findings were presented using tables, pie charts and bar charts.

The Regression Model is:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i}$$

Where:

Y Represents a measure of financial performance. ROA is the ratio of the bank net income to total assets.

X_1 - Represents the Corporate Banking Market Share. This is the proportion of Corporate banking Segment market a bank is able to hold. It is approximated by dividing an individual bank's corporate banking segment deposits by the sector's Corporate banking deposits.

X_2 - Represents capital adequacy, capital adequacy measures a bank's capital in relation to risk weighted exposure. It is a ratio of total capital to total risk weighted assets.

X_3 - Represents Liquidity. Liquidity is the ability of a financial institution to finance growth in assets and to fulfil financial obligations when they fall due, without assuming unnecessary losses. It is the ratio of quick assets to total liabilities

X_4 - Represents Sensitivity to the Market Risk which was measured by interest rates or the effective lending rate as reported by the CBK.

β_0 = Constant Term

ε_i= Error Term

β_1, β_2, β_3, β_4= Beta coefficients representing respective parameters

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the analyzed data after collection from the field. The chapter is specifically structured into: descriptive statistics, correlation analysis, regression analysis and the discussion of the findings. The discussion of the findings links with other literature findings.

4.2 Descriptive Statistics

To achieve the purpose of the study, the researcher used descriptive statistics that include means and standard deviations. The findings are summarized in Table 4.1.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets ROA	220	.00	.10	.0291	.02103
Corporate Banking Market Share	220	.00	16.18	2.2725	2.98123
Capital Adequacy	220	.00	1.10	.2338	.13488
Liquidity	219	.00	112.28	40.5588	17.89823
Interest Rates	220	.16	.20	.1771	.01354

Table 4.1 indicates that the minimum return on assets among the banking sector is 0.00 % with a maximum value being 10%, the mean was 2.91% and standard deviation was 2.1%. The findings indicate that on average, the banking sector has 2.91% as return on assets.

The findings on corporate banking market share revealed a minimum value of 0.0 with a maximum of 16.18; the mean was 2.2725 and standard deviation of 2.981. The findings imply that on average, commercial banks have a corporate banking market share of 2.27

percent. This is a relatively lower figure and therefore commercial banks should seek to grow corporate banking market share. Zineldin (1996) indicated that banks that creates the deepest heartfelt conviction and close intimate link with the clients will stand the highest chance of banking the corporation's business. Kanyogoro (2012) noted that firms increase market share by attracting customers from competition or creating new ones. To achieve this banks must focus on customer-centric banking model and satisfy corporate clientele by introducing a wide spectrum of innovative value added products. In depth knowledge of the industry and competition, forms the basis of designing an effective competitive strategy.

The findings on capital adequacy revealed a minimum value of 0.00 with maximum value of 110%, the mean was 23.38% and standard deviation was 13.5%. The findings imply that capital adequacy among commercial banks is at 23.38%.

For liquidity, the minimum value was 0.0% with maximum value of 112.28% the mean was 40.56% and standard deviation of 17.89%. This implies that the liquidity level among commercial banks in Kenya is at 40.56%. The findings indicate that commercial banks are more liquid and therefore are in a position to meet their obligations as and when they fall due. This concurs with Basel Committee on Banking Supervision (2008) which define Liquidity as the ability of a bank to finance growth in assets and to fulfil financial obligations when they fall due, without incurring unnecessary losses. For interest rates, the minimum value was 16% while the maximum value was 20%, the mean was 17.71% and standard deviation of 1.354%. The findings suggest that commercial banks on average charge 17.71 % interest to their customers.

4.3 Correlation Analysis

To attain the objectives of the study, the researcher conducted Pearson correlation analysis. The findings are presented in Table 4.2.

Table 4.2: Correlation Analysis

		Return on Assets ROA	CB Market Share	Capital Adequacy	Liquidity	Interest Rates
Return on Assets ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	220				
CB Market Share	Pearson Correlation	.339**	1			
	Sig. (2-tailed)	.000				
	N	220	220			
Capital Adequacy	Pearson Correlation	.107	-.187**	1		
	Sig. (2-tailed)	.114	.005			
	N	220	220	220		
Liquidity	Pearson Correlation	.276**	-.027	.544**	1	
	Sig. (2-tailed)	.000	.688	.000		
	N	219	219	219	219	
Interest Rates	Pearson Correlation	.798	.000	.128	.003	1
	Sig. (2-tailed)	0.017	.999	.059	.966	
	N	220	220	220	219	220

From the findings in Table 4.2, there is positive correlation between corporate banking market share and return on assets (r = 0.339, n = 220, p = .000). This therefore implies that an increase in corporate banking market share of commercial banks increases their return on assets which goes to enhancing their financial performance.

Table 4.2 further indicate that positive significant correlation exists between liquidity and return on assets (r = 0.276, n = 220, p = .000). This means that an improvement in liquidity levels of commercial banks enhances their financial performance. Improved liquidity among commercial banks implies the need to meet their short term obligations as and when they fall due.

The findings of the study further revealed that positive significant correlation exists between interest rates and return on assets (r = 0.798, n = 220, p = .017). This finding indicates that an increase in the interest rate charged by commercial banks on deposits enhances their financial performance. Interest rates charged by commercial banks on deposits form part of the revenue streams that banks drive their operations on.

4.4 Regression Analysis

The researcher conducted multiple regression analysis so as to determine relationship between corporate banking and financial performance of commercial banks in Kenya. The findings are summarized in Tables below.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.441	.194	.179	.01901

From Table 4.3, the value R is 0.441, R square is 0.194 and adjusted R square is 0.179. The findings imply that 19.4% of the variations in financial performance of the commercial banks in Kenya is explained by corporate banking (corporate banking market share, capital adequacy, liquidity and interest rates).

Table 4.4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.019	4	.005	12.904	.000[b]
Residual	.077	214	.000		
Total	**.096**	**218**			

The findings of the ANOVA Table reveal that F calculated is 12.904 while F critical (from F table) is 2.4138. Since F calculated is greater than F critical, 12.904> 2.4138, this clearly indicates that the overall regression model was significant in predicting the relationship between corporate banking and financial performance.

Table 4.5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.006	.017		.354	.723
CB Market Share	.002	.000	.346	5.496	.000
Capital Adequacy	.002	.012	.010	.136	.892
Liquidity	.004	.002	.279	2.000	.000
Interest Rates	.022	.096	.014	.230	.818

From Table 4.5 above, the resultant regression model adopted becomes:

$$\mathbf{Y = 0.006 + 0.002X_1 + 0.002X_2 + 0.004X_3 + 0.022X_4 + \varepsilon_i}$$

Where:

Y Represents a measure of financial performance. ROA is the ratio of the bank net income to total assets, X1- Represents the Corporate Banking Market Share. This is the proportion of Corporate banking Segment market a bank is able to hold. It is approximated by dividing an individual bank's corporate banking segment deposits by the sector's Corporate Banking deposits, X_2- Represents capital adequacy, a measure of a bank's capital in relation to risk weighted exposure. It is a ratio of total capital to total risk weighted assets, X_3- Represents Liquidity. Liquidity is the ability of a financial institution to finance growth in assets and to fulfil financial obligations when they fall due, without assuming unnecessary losses. It is the ratio of quick assets to total liabilities and X_4 - Represents Sensitivity to the Market Risk which was measured by interest Rates or the effective lending rate as reported by the CBK.

The findings imply that when all the variables are held constant, financial performance among commercial banks would be at 0.006, a unit increase in corporate banking market share when all other variables are held constant would improve financial performance of commercial banks by 0.002, a unit increase in capital adequacy holding other variables constant would improve financial performance among commercial banks by 0.002, a unit increase in liquidity holding other variables constant would improve financial performance among commercial banks by 0.004 and a unit increase in interest rate holding other variables constant would increase financial performance among commercial banks by 0.022. The p values for corporate banking market share and liquidity are indicated as 0.000 and 0.000 respectively, which are all less than 0.05. This implies that statistically significant association exists between corporate banking market share, liquidity and financial performance of commercial banks in Kenya.

4.5 Discussion

The findings of the study revealed a positive correlation between corporate banking market share and return on assets (r = 0.339, n = 220, p = .000). This implies that an increase in corporate banking market share enhances the financial performance of commercial banks in Kenya. Banks can enhance their corporate banking market share by effectively managing relationships, cross selling and offering of a wide spectrum of value added products and services. A corporate banking survey (2012) conducted by Ernst &Young identified the following factors are the most effective drivers of successful corporate banking relationships; Service quality, transparency, pricing, technology as an enabler and advisory services. Banks should target prospective clients by positioning products and services that match the unique profile of a specific corporate client.

The findings of the study also revealed that positive significant correlation exists between interest rates and return on assets (r = 0.798, n = 220, p = .017). This implies that interest rates affect financial performance of commercial banks. The findings concurs with CBK, Risk Management Guidelines Report (2013) which indicates that naturally market risk arises from unpredictable movement of macroeconomic variables such as foreign currency exchange rates, interest rates, equity prices and changes in consumer price index. This causes variability in earnings and may eventually lead to erosion of equity. Institutional exposure to market risks varies. In actively traded securities such as equities and bonds the risk is explicit while in credit markets it is inherent is changes in deposits and lending interest rates. The findings of the study further indicated that positive significant correlation exists between liquidity and return on assets (r = 0.276, n = 220, p = .000). Liquidity of commercial banks ensures that obligations are met as and when they fall due. This finding concurs with Basel Committee on Banking Supervision (2008) which established that a bank must have adequate cash and cash equivalent assets such as treasury bonds and bills so as to meet financial obligations to its depositors when they arise.

From the findings of Regression analysis, statistically significant association exists between corporate banking market share, liquidity and financial performance of commercial banks in Kenya. Furthermore, positive relationship exists between corporate banking market shares, liquidity and financial performance among commercial banks in Kenya. This implies that an improvement in liquidity and corporate banking market share among commercial banks increases the financial performance. Commercial banks can improve their corporate banking market share by a number of ways. Brassington and Pettitt (1997) came up with two corporate banking market share growth strategies; market penetration and market development. Market penetration is increasing sales or revenue in existing markets through aggressive marketing. Market development is increasing sales of existing products to new markets and emerging markets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings of the study in line with the objectives. The chapter also gives the conclusion of the study on the variables. The chapter also presents the recommendations for the study that that has relevant implications on theory, policy and practice. The chapter further gives the recommendations for further studies that are relevant to future scholars and academicians.

5.2 Summary of the Findings

The findings of the descriptive statistics revealed that on average, the banking sector has 2.91% as return on assets. The findings also indicated that on average, commercial banks have a corporate banking market share of 2.27%. The study further established that capital adequacy among commercial banks is at 23.38%. The findings of the study indicated that liquidity level among commercial banks in Kenya is at 40.56%. The study revealed that commercial banks on average charge 17.71 % interest to their customers.

From the findings of correlation analysis, there is positive correlation between corporate banking market share and return on assets ($r = 0.339$, $n = 220$, $p = .000$). The findings of the study further indicated that positive significant correlation exists between liquidity and return on assets ($r = 0.276$, $n = 220$, $p = .000$). The findings of the study also revealed that positive significant correlation exists between interest rates and return on assets ($r = 0.798$, $n = 220$, $p = .017$).

From the findings of Regression analysis, statistically significant association exists between corporate banking market share, liquidity and financial performance of commercial banks in Kenya. Furthermore, positive relationship exists between corporate banking market share, liquidity and financial performance among commercial banks in Kenya.

5.4 Conclusion

This study concludes that corporate banking market share and financial performance of commercial banks in Kenya are positively correlated. Corporate banking market share of commercial banks affects the financial performance of commercial banks. There is a positive significant relationship between corporate banking market share and financial performance of commercial banks in Kenya.

The study further concludes that liquidity and financial performance of commercial banks are positively and significantly correlated. Liquidity among commercial banks affects their financial performance. A positive significant relationship exists between liquidity and financial performance of commercial banks in Kenya.

The study further concludes that interest charged by commercial banks to their customers and financial performance is significantly and positively correlated.

The study also concludes that an insignificant positive correlation exists between capital adequacy and financial performance of commercial banks in Kenya.

5.5 Recommendations for the Study

The study recommends that all commercial banks in Kenya should have strategies in place to grow their corporate banking market share. An increase in corporate banking market share among commercial banks will enhance their cash flows and therefore improve their financial performance. The implementation of corporate banking will ultimately lead to creation of a perpetual revenue stream, reduce costs and satisfy corporate clientele by introducing a wide spectrum of new value added products. Banks should strategize on building a portfolio of loyal corporate customers, thereby ensuring healthy corporate banking relationships. Banks should also prioritize on the important intangible elements (corporate image, commitment, compassion and consistency) focusing on satisfaction of corporate customers. Adoption of technology, training of corporate customer managers, and emphasizing customer-centric banking policies will help provide better services and obtain higher levels of customer satisfaction and ultimately grow the corporate banking market share.

The study also recommends that commercial banks in Kenya should strive to improve their liquidity positions so as to meet their obligations as and when they fall due. Commercial banks can enhance their liquidity positions by sound management of cash, short term liabilities and quick assets that collectively forms the working capital of commercial banks. A high quality asset portfolio should be the primary focus of the commercial banks in enhancing liquidity and profitability. Active management of the loan portfolio, monitoring of contingent liabilities such guarantees and mitigation of foreign currency exposures and hedging positions should be top priorities in the banking industry.

The study further recommends that commercial banks ought to maintain a balance between the lending interest rate and the depositors' rate of interest. The net interest margin drives operations and heavily determines the bottom line figure. The central bank on the other hand should actively oversee, monitor and regulate the interest rates among commercial banks so that a balance is achieved between interest charged on deposits and the interest charged on borrowings and drawings.

The study recommends that commercial banks should seek to be adequately capitalized. Some of the strategies that enhance adequate capitalization include Initial Public Offering (IPO) on security exchange markets, rights issue, equity linked notes, commercial papers, capital injection by a strategic investor or private equity firm and issuance of corporate bonds to the general public.

5.6 Recommendations for Further Studies

This current study sought to evaluate the relationship between corporate banking and financial performance of commercial banks in Kenya, future scholars should cover other operating segments such as treasury and mortgages. Other studies can also focus on Microfinance Finance Institutions and Savings & Credit Co-operatives (SACCOs) in Kenya. Future scholars should undertake similar studies for commercial banks that are listed in the Nairobi Security Exchange, banks that have undergone rights issues and banks that have undergone share splits In the NSE. Similar further studies by future scholars should be conducted covering the macro economic variables influencing the financial performance of commercial banks such as inflation, economic growth, growth domestic product (GDP) and unemployment.

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APPENDICES

Appendix I: A LIST OF COMMERCIAL BANKS IN KENYA

1. Africa Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda Kenya Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited* (Under Statutory Management)
8. Chase Bank Kenya Limited* (In Receivership)
9. Citibank NA Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co – Operative Bank of Kenya Limited
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank of Kenya Limited
16. Dubai Bank Kenya Limited* (Under Statutory Management)
17. Ecobank Kenya Limited
18. Equatorial Commercial Bank Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Fidelity Commercial Bank Limited
22. Guaranty Trust Bank Kenya Limited

23. First Community Bank Limited
24. Giro Commercial Bank Limited
25. Guardian Bank Limited
26. Gulf African Bank Limited
27. Habib Bank A.G Zurich
28. Habib Bank Limited
29. Imperial Bank Limited* (In Receivership)
30. I & M Bank Limited
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Limited
33. Sidian Bank Limited (Formerly K – Rep Bank)
34. Middle East Bank Kenya Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Standard Chartered Bank Kenya Limited
41. Transnational Bank Kenya Limited
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Kenya Limited
44. Housing Finance Corporation (Non Bank Financial Institution)

Source: CBK's Bank Supervision Annual Report (2015)