EFFECT OF SELECTED FIRM-LEVEL CHARACTERISTICS ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN NAKURU TOWN, KENYA

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A Thesis Report Presented to the Institute of Postgraduate Studies of Kabarak University in Partial Fulfillment of the Requirements for the Award of the Master of Business Administration (Accounting Option)

NOVEMBER, 2018

DECLARATION

Declaration;

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

Signature……………… Date…………………

Chepkemoi Skeeter

GMB/NE/0101/01/16

RECOMMENDATION

To the Institute of Postgraduate Studies: The research project entitled "Effect of Selected Firm-Level Characteristics on Financial Performance of Commercial Banks in Nakuru Town, Kenya" and written by Chepkemoi Skeeter is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research project and recommend it be accepted in partial fulfillment of the requirement for award of the degree of Master of Business Administration (Finance Option)

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DEDICATION

This research project is dedicated first to the Almighty God for His gracious provision and guidance. I also dedicate this research to my family for their support during my studies

ACKNOWLEDGEMENT

I am deeply indebted to all those who in their own way contributed to successful completion of this study. Special appreciation goes to my supervisors for their dedication, guidance, valuable suggestions and ideas throughout the course of this project. Without his enormous support this study would not have been successful. Thanks to my family who always inspired me in every step to accomplish this study. I am eternally grateful for your love, encouragement and support in all my endeavors.

ABSTRACT

The performance of commercial banks in Kenya has been hindered by various internal and external factors. The fact that commercial banks have been facing challenges in respect of their financial performance necessitated the carrying out of this study. The general objective was to determine the influence of selected firm-level characteristics on financial performance of commercial banks in Kenya. In particular, the study examined the influence of the bank size, business scope, managerial characteristics, and bank's tangibility on the financial performance of the commercial banks in Nakuru town. The study was guided by neoclassical theory of the firm, theory of firm scope, agency theory and pecking order theory of capital structure. A descriptive research design was adopted. The study used quantitative research approach. The target population included all the finance, accounts and the management staff working with the 28commercial banks in Nakuru. The 121finance, accounts and management staff working with the commercial banks in Nakuru town constituted the study population. A sample of 58 respondents was obtained using stratified random sampling technique. A structured questionnaire was employed to facilitate data collection. A pilot study was conducted prior to the main study with the view of determining both reliability and validity of the questionnaire. Requisite permits, authorization letter, approval and consent were obtained prior to data collection. The collected data was analyzed by using both descriptive and inferential statistics with the aid of the Statistical Package for Social Sciences programme. Descriptive statistics encapsulated measures of distribution, measures of central tendencies, and measures of dispersion. The inferential statistics was employed Pearson's correlation coefficient and multiple regressions. The results of the analyses were presented in form of tables. The study observed and adhered to the necessary ethics over the entire duration of the study. From the results the study established that there exists a strong positive and significant relationship between bank size and financial performance of commercial banks in Nakuru town. ($r = .641$, $P=0.000$). In addition the findings indicated that there exists a strong, positive and significant relationship between business scope and financial performance of commercial banks in Nakuru town ($r=0.619$, $P=0.023$). The findings also indicated that there exists a strong, positive and significant relationship between managerial characteristics and financial performance of commercial banks in Nakuru town ($r=0.597$, $P=0.018$). Finally the findings indicated that there exist a strong, positive and significant relationship between bank's tangibility and financial performance of commercial banks ($r=0.604$, $P=0.032$). From the findings the researcher recommends that banks should subscribe to reliable internet providers for effective and efficient service delivery. The study further recommends that customers should be enlightened on the operation of agency banking in order to enhance their confidentiality. The researcher suggested that further studies should be conducted on business process re-engineering on financial performance of other financial institutions. Further studies should consider investigating other factors not covered in this study which accounts for 61.2%.

***Key Words**: Bank size, business scope, bank's tangibility, managerial characteristics, financial performance.*

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

ATMs:	Automated Teller Machines
CBK:	Central Bank of Kenya
CBRC:	China Bank Regulatory Commission
CEO:	Chief Executive officer
EPS:	Earnings per Share
EVA:	Economic Value Addition
GDP:	Gross Domestic Product
IMF:	International Monetary Fund
MVA:	Market Value Added
NACOSTI:	National Council of Science, Technology and Innovation
NPL:	Non-Performing Loans
ROA:	Return on Assets
R$D:	Research and Development
ROE:	Return on Equity
SADC:	Southern African Development Community
SME:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
SSA:	Sub-Saharan Africa

OPERATION DEFINITION OF TERMS

Bank Size	This refers to the size of a commercial bank in terms of various aspects which include but not limited to asset size, size of workforce, and asset diversity (Aladwan, 2015). This study has adopted the same definition of bank size.
Bank's Tangibility	This is defined as physical nature of a commercial bank in reference to what it possesses. It is characterized by tangibility quality, tangibility ratio, and service quality amongst other important facets (Okoe, Adjei&Osarenkhoe, 2013).
Business Scope	This refers to the expansiveness of a commercial bank in reference to its geographical reach and service scope. Business scope is characterized by the branch (including subsidiaries) network, and services offered such as loan portfolios, mortgage financing, and insurance services among others (Karanja, 2013).
Commercial Banks	These are financial entities which are licensed and regulated by the Central Banks and primarily dispense banking services to their customers (Wang, 2017).
Financial Performance	This is defined as the output of a commercial bank in terms of income generated from interest charged on loans, return on assets, return on equity, return on investment, profitability, and

liquidity among others (Gregory, 2006).

Firm-Level Characteristics	These are defined traits that are pertinent to a specific entity. (Araujo, 2006). The characteristics are micro in nature and are as such within the scope of individual firms. They include bank size, business scope, managerial characteristics, and managerial tangibility amongst others.
Managerial Characteristics	There are tenets associated with the management staffs that are critical in dispensing their tasks and responsibilities Agyei-Mensah (2012. They include among others, education level, work experience, management style, and also supervisory skills (Araujo, 2006).

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presented background information, statement of the problem, objectives, research hypothesis, significance, scope, limitation and delimitations and assumption of the study.

1.2 Background of the Study

Firm-level characteristics are firm-specific because they are traits that characterize a given entity. The characteristics are micro in nature and are as such within the scope of individual firms. According to Agyei-Mensah (2012) the firm-level characteristics include the size of the firm, debt-equity ratio, liquidity, and profitability. Otherrenowned characteristics are business scope, managerial characteristics, and tangibility of the firm. According to Asien (2016), firm-level attributes encapsulates age of the firm, profitability, sales revenue, size of the firm, and also cash flow from operating activities.

According to Farinha and Santos (2002) and Bonfim, Dai and Franco (2009) the number of banking relationships depend on the age of the firm to a large extent. In this regard, the average number of relationships increases as the firm matures. It has been exemplified that the lending relationships increases steadily with firm's age. Older firms have a diversified creditor structure (Bonfim, Dai & Franco, 2009). It is stated that as the size of the firm increases, the number of banking relationships also rises (Agarwal&Elston, 2001). Ongena and Smith (2000) hold that relatively small firms are more likely to have fewer bank relationships when compared to larger firms.In the same vein, large firms have more financing needs than small ones. In this respect, large firms require a wide array of bank transactions which may be effected by a several specialized banks (Machuer& Weber, 2000).

According to Gatsi and Gadzo (2013), financial performance is characterized by indicators such as profitability, solvency, and returns to investors. It is a very important aspect which is highly considered by financial experts, investors and regulators. In the same light, it is postulated that managers of corporate entities are concerned about financial performance of their respective firms since it impacts significantly on the market value of their firms. It is further held that the size of the firm influences the performance of most organizations (Symeou, 2008). According to Samitas and Papadogonas (2009), the financial performance of a firm is positively correlated to growth in sales, firm size, and investment while it is negatively correlated to both leverage and current assets.

1.2.1 Global Perspective ofFirm-level Characteristics and Financial Performance of Commercial Banks

Commercial banks have expanded and diversified their business scope. Many other have moved from conventional brick-and-mortar institutions and have now embraced technology which encapsulates both internet and mobile banking. Business scope, however, is within the confines of the banking regulations as spelt out by the central or reserve banks (Wang, 2017). The China Bank Regulatory Commission (CBRC) approves the business scope of banking institutions and their subsidiaries in the country. In addition, and in respect of managerial characteristics, the CBRC examines the requisite qualifications of senior managers of all banking institutions in China (CBRC, 2017). The aspect of bank business diversification is quite eminent in China. According to Wang (2017) most Chinese scholars have examined the impact of revenue diversification on the risk-taking and the performance of commercial banks in the country.

The banking sector has diversified their business scope in various ways across different countries. The diversification mainly falls under geographical and revenue diversifications. These forms of diversification are aimed at addressing financial risks among banking institutions (Berger &DeYoung, 2001). There has been tremendous transformation in the European banking systems. The banks across the contents have witnessed increased deregulation and innovation. The deregulation has been premised on the view that revenue diversification minimizes the volatility of bank earnings and in addition, makes commercial banks more resilient to financial stress (Vallascas,Crespi&Hagendorff, 2012). According to Vebturelli and Brighi (2014), the Italian commercial banks, for instance, have diversified geographically and also in terms of revenue sources.

In the United States, the market share of the 10 largest banks increased from about 25% in 1990 to over 60% in a period of two decades (McCord & Prescott, 2014). However, in the country, banks are dissuaded from increasing their size. This hedges on the reasoning that failure of a big bank is likely to destabilize the entire financial system. In this regard, there has been fervent debate to have in place regulations to stop banks from getting bigger (Stern & Feldman, 2004). Some of the policies that have been fronted include projects to affect direct caps on bank size and also higher capital requirements for big banking institutions (Johnson, 2016)

Firm-level evidence from the banking sector in Germany showed that bank size affect the real economy (Huber, 2017). Yet, the survey indicated that firms did not benefit from an increase in the size of commercial banks. Moreover, statistics indicated that large banks were worse at processing soft information and are more prone at taking risks. It was also stated that big banks received more attention and mentions in the mainstream media when compared to small-sized banks. The foregoing incentivized banks to become big.

1.2.2 Firm-level Characteristics and Financial Performance of Commercial Banks in Africa

There are various characteristics at the firm-level associated with the banking sector in Africa. In Nigeria, it is postulated that among the listed commercial banks, the foregoing characteristics include the age and size of the bank, profit after tax, sales revenue, and cash flow from operating activities (Asien, 2016). The banks in this country are further posited to possess unique characteristics that endear them to their present and prospective customers. In Ghana, Gatsi and Gadzo (2013) noted that firm-level characteristics comprised leverage, tangibility, liquidity, risk and premium growth.

The recent trends in banking in Sub-Saharan Africa (SSA), indicated that most of the financial systems remain underdeveloped (Bending et al., 2015). It is stated that the banking sectors in the countries within this region are typically concentrated and largely inefficient in respect of financial intermediation. The foregoing are linked to the small size of the banking institutions. Moreover, though competition in the sector has been increasing, it is hitherto limited. Moreover, the expanding credit accessibility in the region remains among the lowest in the world. Albeit, these banking sector's characteristics, there are notable gains in the sector as manifested in the inception and adoption of mobile banking. This has positively impacted on not only the business scope of banking institutions, but also their financial performance. Statistics indicate that the SSA leads the world in mobile money accounts.

There has been tremendous growth in the banking industry across the Southern African Development Community (SADC). According to Theobald (2015), business scope among private commercial banks has increased as underscored by the expanding of these banks across the national borders. This has been attributed to the growing consumer markets. This region, however, is dominated by the banking system in South Africa which accounts for 78% of the region's banking assets. The scope of South African commercial banks is so vast that they presently have subsidiaries in many other countries in the SADC region. It is further noted that the business scope of banking institutions in Tanzania has lately been inclined towards mobile banking with more than 30% of the population having transacted using mobile platform as opposed to less than 1% who possess a credit card.

According to Ongore and Kusa (2013), bank performance can be influenced by internal factors (bank specific) and macroeconomic (external) factors such as inflation and gross domestic product (GDP). Is further postulated that some of the most widely used bank specific factors-based performance indicators are financial ratio analysis, data envelopment analysis (DEA) and CAMELS. An analysis of commercial banks in Ethiopia reported that asset quality and management efficiency significantly affected commercial banks. The Bank Windhoek Limited of Namibia is stated to have a very strong asset quality supported by strong risk management practice and credit administration. The First Rand Bank Limited of South Africa has less than satisfactory asset quality. In addition, it is asserted that the Standard Bank of South

Africa and the Standard Chartered Bank of Botswana have deficient asset quality (Sarwar&Asif, 2011; Rozzani&Rahman, 2013)

1.2.3 Firm-level Characteristics asnd Financial Performance of Commercial Banks in Kenya

According to Olaka and Osoro (2015), the rapid expansion of commercial banks in East Africa is characteristic of the region's economic block which is spearheaded by Kenya. The region and Kenya in particular, have witnessed rapid expansion of the banking sector since the turn of the century. The geographical expansion of the sector's business scope is exemplified by local commercial banks venturing and investing in other African countries which include South Sudan, Tanzania and Rwanda. These banks have established subsidiaries in these countries while they have vested financial interests in other countries like Mauritius and Malawi. Statistics further indicate that Kenyan banks had a total of 282 branches or subsidiaries across the East African region by the end of December, 2013 (CBK, 2013).

According to Teimet, Ochieng and Aywa (2012), commercial banks in Kenya have been obliged by the stiff competition in the banking sector to diversify their sources of income. This is hinged on the fact that profitability, which is one parameter of financial performance, largely depend on the net income generating activities and expenses stemming from associated activities. In the same light, commercial banks have embraced product diversification as part of the strategies to wither off competition locally and regionally. This diversification involves such aspects as technology, information flow, new markets, and innovativeness (Otieno&Moronge, 2014). It is asserted that technology, information flow, new markets and innovativeness positively impact on financial performance of local commercial banks.

Commercial banks have also embraced portfolio diversification with a view of enhancing their financial performance (Makokha, Namusonge&Sakwa, 2016). Accordingly, it is recommendable for these banking institutions to invest in a hybrid of assets that would enable them maximize their returns while simultaneously minimizing losses occasioned by financial risks. Commercial banks in Kenya have invested in both tangible and intangible assets. Tangibility is an important facet of the capital structure of these financial entities due to the fact that tangible assets are deemed to be easy to collateralize for leverage (debt). According to Kuria (2010), asset tangibility is significantly related to leverage. With the advent and adoption of both agency banking and mobile money transfer where many local commercial banks are using bank agents and the mobile platform to transact business particularly with their customers, the need to expand their physical infrastructure is highly negated. However, there are other banks that have kept the momentum of expanding their brick-and-mortar branches.

1.2.4 Commercial Banks in Kenya

There are a total of 40 banking institutions in Kenya comprising of 40 commercial banks and the Central Bank of Kenya (CBK) as the licensing and regulatory authority as at December 31, 2016 (CBK, 2016).In addition, there is one mortgage finance company. According to the CBK, Charterhouse Bank Limited is under statutory management while both Imperial Bank Limited and Chase Bank of Kenya Limited are inreceivership. There are 3 banking institutions in which the Government of Kenya has majority shareholding while the remaining 40 banks are privately-owned. Twenty-five banks are locally-owned while 15 are foreign-owned.

Performance of commercial banks can be measured using various parameters which include profitability, loan performance, assets quality, liquidity, mortgage performance, and deposits among other indicators. The performance of the local banking sector has been posting relatively mixed indications. Some performance parameters have returned positive results. According to the CBK, in year 2015, total net assets increased by 9.2% to Ksh 3.5 trillion (CBK, 2015). This was attributed to increased loans and advances extended by commercial banks. Gross loans increased by 11.57% which resulted from increased demand for credit by different sectors in the Kenya's economy. Over the same period of time, deposits rose by 8.73% to Ksh 2.49 trillion which was occasioned by enhanced deposits mobilization in response to rivalry from mobile money transfer firms. Average liquidity increased by 0.6% to 38.3%. Liquidity rose further by a margin of 2.2% to 40.3% (CBK, 2016).

Some of the financial performance parameters such as profitability and loan performance, however, have posted a decline in the recent past. In year 2015, pre-tax in the banking sector, decreased by 5.03% to Ksh 134.0 billion. This was attributed to greater increase in expenses in comparison to increase in revenue. In year 2016, nonetheless, the banking sector registered improved profit before tax to Ksh 147.4 billion which reflected a 10.0% rise (CBK, 2016). There was an increase in the ratio of gross non-performing loans (NPLs) to gross loans from 5.6% in December 2014 to 6.8% as at December 2015. The increased NPLs stemmed from delayed payments to suppliers and contractors, among other factors. Moreover, the capital adequacy in the banking sector over the same period decreased from 20.0% to 18.8%. This was linked to less increase in capital in comparison to increase in risk weighted assets (CBK, 2015).

1.3Statement of the Problem

The performance of commercial banks in Kenya has been hampered by various factors; both internal and external. It is exemplified that the non-performing loans

(NPLs) increased in 2015 compared to the preceding year. The ratio of gross NPLs to gross loans increased from 5.6% to 6.8% between December 2014 and December 2015. Similarly, NPLs increased by 36% from Ksh 108.3 billion to Ksh 147.3 billion (CBK, 2015). Over the same period, the outstanding value of non-performing mortgages rose from Ksh 10.8 billion to Ksh 11.7 billion. In the same vein, the banking sector registered declined financial performance in 2015 where, the sector recorded a 5.03% decrease in profit-before-tax from Ksh 141.1 billion in December 2014 down to Ksh 134.0 billion in December 2015. The decline in profitability was attributed to expenses rising with a higher margin than income. For instance, when the expenses increased with a margin of 16.3%, income increased with a much lower margin of 9.1% over the aforestated period of time (CBK, 2015).

According to the foregoing statistics, it is clear that commercial banks have been facing challenges in respect of their financial performance. The banking sector plays a leading role in the social-economic growth and development of every nation. This implies that the ramifications of poor performance of the sector are far-reaching. Given that external or macro factors are beyond the scope of individual banks, it is imperative to examine how various organizational (firm-level) characteristics influence the financial performance of commercial banks in Kenya. Various scholars have focused on the subject of financial performance of the banking sector in Kenya. However, there is very scanty empirical evidence linking firm-level characteristics to the said performance in the banking sector in Kenya. In this regard, therefore, the present study with a special focus on commercial banks in Nakuru town is necessitated.

1.4Purpose of the Study

The purpose of the study was to determine the effect of selected firm-level characteristics on financial performance of commercial banks in Kenya and a set of four specific objectives as outlined here below.

1.5 Objectives of the Study

i. To examine the influence of bank size on financial performance of commercial banks in Nakuru town, Kenya
ii. To analyze the influence of business scope on financial performance of commercial banks in Nakuru town, Kenya
iii. To assess the influence of managerial characteristics on financial performance of commercial banks in Nakuru town, Kenya
iv. To determine the influence of bank's tangibility on financial performance of commercial banks in Nakuru town, Kenya

1.6 Research Hypotheses

H_{01}: There is no statistically significant influence of bank size on financial performance of commercial banks in Nakuru town, Kenya.

H_{02}: There is no statistically significant influence of business scope on financial performance of commercial banks in Nakuru town, Kenya.

H_{03}: There is no statistically significant influence of managerial characteristics on financial performance of commercial banks in Nakuru town, Kenya.

H_{04}: There is no statistically significant influence of bank's tangibility on financial performance of commercial banks in Nakuru town, Kenya.

1.7Justification of the Study

The study is important to three major entities. These include policy makers, practitioners, and scholars. In respect of policy makers, the study findings isinformative to the directorship and senior management of commercial banks as they purpose to formulate policies and strategies relevant to enhancing the financial performance of these banks. The policies and strategies formulate are supposed to be in conformity to characteristics at the firm-level, that is, at the individual bank's level. It was imperative to conduct this study with the view of informing practitioners working with commercial banks in Kenya on the best way of addressing their banks' characteristics with the object of improving their financial performance. In addition, the study is important to scholars mostly in the field of finance by adding to the body of knowledge particularly in regard to financial performance of financial institutions and how such is impacted on by firm-level characteristics.

1.8Scope of the Study

The study was conducted amongst commercial banks with branches in Nakuru town, Kenya (appendix III). The town is home to 28 such banks with a total of 38 branches. In particular, the study focused on the employees attached tofinance accounts and management sections of the mentioned banks. The study addressed various specific objectives premised on the following study constructs: bank size, business scope, managerial characteristics, bank's tangibility, and also financial performance. The study was carried out over a period of approximately five months between June and October, 2018.

1.9 Limitations and Delimitations

The limitations relevant to the research include, respondents may be reluctant to give out the required information. This problem was solved by convincing them that the information given was confidential and meantfor academic purposes only. Secondly lack of sufficient finance may hinder theresearch. The researcher solved this problem by applying for research funds.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter puts into perspective a review of theories and/or models, and empirical studies conducted in the past. The reviewed literature is also summarized in this chapter. This is followed by a critique of the empirical studies and an outline of research gaps. The chapter also outlines and explains the conceptual framework of study variables.

2.2 Literature Review on organizational characteristics

Past empirical studies in relation to various organizational characteristics and financial performance of commercial banks are reviewed in this section. In particular, the studies revolve around bank size, business scope of the bank, managerial characteristics, tangibility of the bank and financial performance.

2.3 Bank Size and Financial Performance

An empirical study conducted by Aladwan (2015) investigated the impact of bank size on profitability for Jordanian commercial banks. Data was obtained from the Amman stock exchange annual reports for the period between 2007 and 2012. The size of the bank was measured in terms of asset size, in respect to their total assets while profitability was measured by Return on Equity (ROE). The study revealed that bank size has a significant influence on the financial performance of the banks. The results of the study indicated that as the asset size decreases, the profitability of the banks increases. The study, while citing Halkos and Salamouris (2004), noted that an increase in bank assets leads to an increase in efficiency.

In Pakistan, Tariq, Usman, Mir, Aman and Ali (2014) analyzed the determinants of commercial banks profitability. The study used secondary data which was obtained from the yearly financial statements of the banks. The study, while citing Fraker (2006), noted that there is a significant relationship between the size of the banks and productivity since there are additional funds to offer as loans, increasing the earning levels. The findings of the study revealed that as the size of the banks increases so does the profit earnings, indicating a positive correlation between bank size and profitability. The study recommended that a proper banking structure should be considered to ensure consistency in the financial performance of the banks and consequently, promote economic growth.

An empirical study conducted by Kana (2017) evaluated the determinants of bank profitability in South Africa. The study adopted a quantitative approach methodology and secondary data was obtained for the period between 2001 and 2013. According to the study, bank size is one of the bank specific determinants of profitability. The study noted that when concentration of the market is reduced the size of the banks is affected, resulting to poor financial performance. The study further noted that small-sized banks try to grow faster and this comes at the expense of their profitability. The results of the study revealed that bank size has a strong positive relationship with profitability.

Babalola (2013), set out to investigate the effect of firm size on the profitability of manufacturing companies listed in the Nigerian Stock Exchange. Data was analyzed by using a panel data framework which was fitted to the secondary data obtained from sampled firms for the period 2000-2009. The data were sourced from the Annual Reports and Accounts of the random sample of 80 non-financial quoted firms listed on the Nigeria Stock Exchange (NSE). Profitability was measured by using Return on Assets, while both total assets and total sales were used as the proxies of firm size. According to the results of the study, firm size, both in terms of total assets and in terms of total sales, has a positive impact on the profitability of manufacturing companies in Nigeria

Another study conducted by Maredza (2014) examined internal determinants of bank profitability in South Africa. Data was obtained from a sample of 4 small banks and 4 large banks for the period 2005-2011. The finding of the study revealed that high cost inefficiency, diversification of activities, high credit risk and large bank size result in lower financial performance. Further, the study noted that for banks to yield high profits, they should maintain high productivity efficiency. In light of these findings, the study recommended that bank size and risk management should be carefully addressed to reduce their negative effect on bank profitability.

A study conducted by Kiragu, Gikiri and Iminza (2015) analyzed the effect of bank size on occupational fraud in commercial banks in Kenya. The study adopted multi stage sampling technique to draw a sample of 30 banks consisting of 258 respondents. The findings of the study revealed that there exists a negative significant correlation between bank size and occupational fraud risk in banks. This was attributed to the fact that large banks have put in place stronger anti-fraud controls and have invested in modern technology in comparison to small banks. In addition, the study noted that large banks have the capacity to recruit experienced staff and agencies who contribute to prevention of occupational fraud.

Another study conducted by Njoroge (2016) investigated the factors affecting profitability of commercial banks in Kenya. The study employed a descriptive research design and obtained secondary data from the financial statements of 43 banks for the period between 2011 and 2015. According to the study, the average size of commercial banks has increased tremendously over the period aforementioned. The results of the study indicated that both bank size and operational efficiency have a negative but insignificant effect on the profitability of banks. While citing Sehrish, Irshad and Khalid (2011), the study noted that bank size affects the profitability of banks such that large banks perform well compared to small banks since they have the advantage of economies of scale in their transactions, leading to high profits.

Gatete (2015) conducted a study on the effect of bank size on profitability of commercial banks in Kenya. The study adopted descriptive survey design. The population of the study constituted all the 43 commercial banks in Kenya. The data was gathered from financial statements and records. Data analysis was done using a regression model. The descriptive findings concluded that commercial banks had a sufficient capacity to generate profitability from their assets. However, this was dependent on some factors like efficiency of the bank, its credit policies, and management and investment decisions. Bank size is moderately positively correlated to profitability of commercial banks in Kenya.

Kamau (2014), sought to determine the effect of internal factors on the profitability ofprivate hospitals in Kenya. A case study research design was adopted by this study.The population for this study was departmental heads and staff in the financedepartment of the Karen Hospital. Stratified random sampling was used to get the datasources with primary data collected using semi structured questionnaires. A samplesize of 5 respondents was chosen to form the pilot study. The study established apositive relationship between profitability of private hospitals and firm size, volumeof capital and tangibility of assets with leverage showing a negative relationship. Thestudy concluded that firm size, leverage, volume of capital and tangibility of assetsaffect profitability of private hospitals in Kenya.

2.4 Business Scope and Financial Performance

A study conducted by Nyangosi, Nyangau, Nyariki and Nyangau (2014) investigated the adoption and usage of internet and mobile banking in India. The study adopted a survey approach and data was collected using questionnaires from 250 respondents. The study noted that banks are now to able to reach large masses since the number of mobile phone subscribers is large. This in turn has enabled them to increase their scope since they are able to serve customers both in urban and rural and remote areas. Moreover, the study noted that the internet and mobile technologies have enabled breaking of boundaries and time hurdles even in the financial industry. The study revealed that mobile banking adoption is on the rise since customers are able to access banking services around the clock. The study recommended that banks should adopt advanced services so as to reach more masses and increase the number of services they offer through mobile banking.

A study conducted by IMF (2015) investigated the benefits and challenges of pan-African banks' expansion across African countries. The study noted that there has been rapid expansion of pan- African banks over the years with seven major banks have operational presence in 10 African banks, enabling them to offer services across countries. According to the study, this expansion has resulted in financial inclusion and deepening, improved competition and greater economies of scale. However, the study noted that lack of regulatory oversight and supervision is a major challenge, although progress has been made on cross-border supervision through cooperation.

In Kenya, Karanja (2013) analyzed the relationship between mortgage financing and the profitability of commercial banks. The study employed a descriptive research design and adopted a census survey of all the 44 commercial banks in Kenya. Questionnaires were used to obtain primary data while secondary data was obtained from annual bank reports. The study noted that mortgage financing over the past years has been an engagement reserved for mortgage financing companies, but banks have now taken mortgage financing as an aspect of their loan portfolios, hence increasing their business scope. The findings of the study revealed that mortgage financing has a positive impact on the profitability of commercial banks. Based on these findings, the study recommended that banks should put more focus on mortgage financing so as to increase their profitability.

2.5 Managerial Characteristics and Financial Performance

A study conducted by Araujo (2006) analyzed managerial characteristics and export performance Spanish small and medium enterprises (SMEs). The results of the study revealed that the educational levels and language proficiency of top managers has no significant effect on export performance of the SMEs. This was attributed to the homogeneity and training received by the managers. In addition, the study revealed that internationals experience of the managers has no significant impact on the export performance. However, the study established that risk taking and aggressiveness as personality traits of managers have an influence on the export performance. Specifically, the study indicated that risk taking has a positive effect on export performance while aggressiveness has a negative effect on the same.

An empirical study by Riyad, Weerakoon and Jamaldeen (2014) examined management and firm characteristics and their effect on financing decisions of listed companies in Sri Lanka. The study adopted a survey approach and data was collected using questionnaires. The study revealed that there is no significant relationship between the practice of static trade off and the characteristics of the management and the firm. Moreover, the study indicated that finance managers of the listed companies consider different factors in trading off the costs and benefits of debt financing. The study, while citing Colombage (2007) noted that corporate financing decisions are highly affected by the management and firms characteristics.

A study conducted by Abu, Okpeh and Okpe (2016) investigated the effect of board characteristics on the financial performance of deposit money banks in Nigeria. Data was obtained from annual reports and accounts for the period from 2005 to 2014. The board characteristics variables examined include grey director, independent director, executive director, women and foreign director. The results of the study indicated that executive director, independent director and women director have no significant effect on the performance of deposit money banks. However, the study indicated that foreign director has a significant positive effect on financial performance while grey director has a significant negative effect on the financial performance of deposit money banks. In light of these findings, the study recommended that the deposit money banks should raise the number foreign directors since they are competent and creative and this will improve the banks' financial performance.

Another study by Olayinka (2012) evaluated the influence of managerial characteristics and corporate governance on the performance of quoted companies in Nigeria. The study obtained data from annual reports of companies over a period of 10years. According to the study, corporate governance and managerial characteristics affect the ability of a firm to react to external factors that affect the firm's performance. The study established that Chief Executive officer (CEO) compensation has a positive effect on the performance of a firm. However, the study indicated that the CEO background has a negative impact on the firm's performance. Based on these findings, the study recommended that CEO salaries and other benefits should be tied to performance in order to ensure that firms achieve exemplary performance.

In Kenya, Kyenze (2012) analyzed the effect of manager characteristics on the capital structures of firms listed at the Nairobi securities exchange. The study employed a cross-sectional and explanatory research design and obtained secondary data from different firms selected for the study. According to the study, there exists a correlation between the age of the CEO and the performance of the firms. Furthermore, the study revealed that the gender of the CEO has no significant effect on the performance of the firms. In addition, the study revealed that the education level of the CEO has no significant effect on the performance of the firm. The study recommended that CEOs should be given more training opportunities that will arm them with necessary skills to ensure improved performance of the firms.

Another study by Chemweno (2016) examined the relationship between board characteristics and the performance of a firm in Kenya. The study adopted a quantitative approach and secondary data was collected from a sample of 42 listed companies. The findings of the study revealed that board independence has a significant effect on organizational performance. However, the study revealed that board expertise, board size, gender diversity and board diligence all have an insignificant impact on the performance of the firms. The study recommended that firms should focus on board independence to ensure there are better results in terms of achievement of organizational goals.

2.6 Bank's Tangibility and Financial Performance

In India, Vijay, Anand and Selvaraj (2015) investigated the effect of service quality on customer perception in the Post Office savings banking sector. The study employed convenience sampling technique to draw a sample of 106 customers and data was collected using questionnaires. The results of the study indicated that the banking sector in India does not meet their customers' expectation since there exists a huge quality gap in tangibility factor. The study further revealed that there exist a relationship between educational qualification of the respondents and tangibility factor. The study, while citing Bhat (2005) noted that the poor service quality in the banks is highly attributed to lack of tangibility and responsiveness. The study recommended that the banking sector should focus more on the tangibility factor to increase customer satisfaction.

In Ghana, Okoe, Adjei and Osarenkhoe (2013) examined the effect of service quality on service delivery in the banking sector. Data was collected from 400 respondents using structured questionnaires. The results of the study revealed that there exist a gap between customer expectations and perceptions of service delivery. In addition, the study established that all the banks performed well in the tangibility aspect of service quality. The study however revealed that service quality is a necessary but not sufficient condition for maintaining customer loyalty since dissatisfied customers still stayed instead of defecting.

Another study conducted by Muritala (2012) analyzed the relationship between capital structure and the performance of firms in Nigeria. Data was obtained from the annual reports of 10 firms over a period of 5 years. According to the study, there exist a positive but insignificant relationship between asset tangibility and return on equity. The findings of the study revealed that firms with high ratio of tangibility have a lower financial performance ratio. The results further revealed that asset tangibility has a significant negative effect on return on assets as a measure of performance. The study recommended that more focus should be put on asset tangibility while dealing with capital structure since firms with more tangible assets have a low likelihood of being financially constrained.

In Kenya, Oanda (2015) evaluated the service quality dimensions and customer satisfaction in Barclays bank. The study used self-administered questionnaires to collect quantitative data. While citing Jamal and Naser (2002), the study noted that tangibility, reliability and empathy have a positive impact on customer satisfaction. Based on the tangibility aspect, the results of the study indicated that banking hall layout and amenities such as computers and ATMs had a visually appealing effect on customers, increasing customer satisfaction. Furthermore, the study revealed that business and mass segments had the highest score in the tangibility dimension. The study recommended that more should be done so as to increase customer expectation especially in the tangibility aspect.

Another study conducted by Auka (2012) investigated service quality satisfaction, perceived value and loyalty among customers in commercial banks in Nakuru municipality, Kenya. The study employed stratified random sampling and systematic sampling technique to draw a sample of 381 respondents. Data was obtained using questionnaires. Tangibility, reliability, responsiveness, empathy and assurance were the dimensions used to measure service quality. The results of the study revealed that tangibility and responsiveness contributed the least to variability in customer satisfaction. The study recommended that banks should adopt strategies that will improve customer loyalty, leading to improved financial performance.

2.7 Theoretical Literature Review

Theories and/or models that relate to the organizational characteristics of commercial banks and the financial performance are reviewed. The neoclassical theory of the firm, theory of firm scope, agency theory, pecking order theory of capital structure, and economic value added model are reviewed.

2.7.1 Neoclassical Theory of the Firm

The neoclassical theory of the firm was proposed by Lucas (1978). The theory was developed along two distinct paradigms, that is, the static theory and the dynamic theory. In respect of the first paradigm, the static theory develops the implications of profit maximization in tandem with determination of factor demands, output, and equilibrium firm size. On the other hand, the dynamic theory employs intertemporal optimization to analyze the investment-cum-growth decisions of the firm (Purvis, 1975). The bottom line of the neoclassical theory of the firm is the close relationship between factors determining the firm’s equilibrium size and those determining its rate of growth.

According to the model, per capita capital positively affects the size of a firm. In this respect, it is held that greater capital intensity whose proxy is investment per worker or research and development (R&D) intensity, is linked to larger firms (Kumar, Rajan&Zingales, 2001). It is further stated that human capital is positively correlated with firm size (Rosen, 1982; Kremer, 1993). In the context of commercial banks, the neoclassical theory of the firm can be used to explain how the size of the stated banks is correlated to its growth whose antecedent include among others, financial performance.

2.7.2 Theory of Firm Scope

The theory of firm scope was proposed by Hart and Holmstrom (2008). The theory states that employees care about the size or scope of their firm. The foregoing could be one of the reasons why smaller firms pay their staff less remuneration when juxtaposed against larger firms (Schoar, 2002). In line with this theory, it is asserted that it may be efficient for a company to have narrow scope (Shleifer& Summers, 1988). It is also postulated that there is a nexus between narrow scope of business and incentives given to employees.

According to Hart and Holmstrom (2008), cope of business is mainly determined by the boss of a firm. In other words, determination of a firm's business scope is vested on the firm's top management. It is noted that the workers can influence their bosses in determining the scope of business of a firm. However, the influence may, at times, be detrimental to the company (Milgrom& Roberts, 1988). It is further assumed that, a boss of a firm with broad business scope is bound to exert less weight on private benefits as opposed to a boss of a firm with a narrow scope.

Moreover, it is asserted that a wide scope, that is, with a broad range of activities, the workforce is likely to be more heterogeneous, thus making the boss experience less empathy for given group (Hart &Holmstrom, 2008). In respect of commercial banks, the top management and directors of respective banks are mandated with determining the business scope of each bank. However, the input of the employees may be vital since they interact with customers frequently hence are more able to identify customer needs on which the business scope should be determined.

2.7.3 Agency Theory

Agency theory was proposed by Jensen and Meckling (1976) to describe the relationship between one or more parties, known as the principal, that engages another party, known as the agent to perform some services on behalf of the principal. The agency theory highly adopted in the 20^{th} century as the need for a contractual relationship arose where an agent manages the risk and control on behalf of the principal. The adoption of the agency theory led to change of perception of managers as agents instead of the earlier logic of managerial capitalism (Smith, 2011).

As a result of separation of ownership and control, conflict of interests arises between the management and shareholders, leading to an increase in opportunistic behaviors. The problem of agency theory arises because the principal and agent have different goals and the principal has no way of determining whether the agent acted accordingly. The theory addresses the problem of managers building empires for themselves and neglecting the interests of shareholders. This agency problem can be resolved by use of incentives between the principal and the agent and monitoring of the agents (Eisenhardt, 1989). The agency theory is criticized for being unrealistic by simplifying the agency problem and their solutions while at the same time disregarding the social responsibility of the firm. This is the case because there is too much focus on the measurable achievements which can cause manager to use immoral or illegal methods to achieve the expected outcome (Shapiro, 2005).

According to Stulz (1990), diversification in the banking sector reduces agency costs that arise as a result of managerial freedom of pursuing personal objectives at the expense of shareholders' interests. The agency theory is important to banks because it helps in measuring managerial performance. This is usually done through implementation of efficient managerial incentives to ensure that managers conduct business while considering the interests of the bank shareholders. Furthermore, bank shareholders are interested in taking high risks that will result in high returns and this in turn forces the management to be risk takers as well.

2.7.4 Pecking Order Theory

The pecking order theory of capital structure was proposed by Myers and Mailuf (1984). The theory states that financing hypothetically follows a hierarchy where firms prefer internal over external financing and debt over equity. In respect of this theory, the underlying factor is information asymmetry. The more the asymmetry, the higher the costs of sources of financing (Brounen et al, 2004). In relation to the pecking order theory, there are two typical issues that are factored in. Firstly, debt is encouraged when a firm records insufficient profits. Secondly, debt is encouraged when equity is undervalued. However, the application of the theory in the foregoing context was disputed by Brounen et al (2006).

In the same perspective, Harc (2014) holds that the pecking order theory states that there exists a certain order in financing which starts with retained earnings as a primary source of internal financing. This is followed by use of debt while equity is the last resort of financing. The theory espouse on how various determinants affect capital structure. One of the factors in tangible assets. This is founded on the assertion that the asset structure of firms should determine financing decisions. For instance, small and medium-sized firms may employ their tangible assets as collateral, either providing more access to the creditor or as a guarantee in the event of bankruptcy. Similarly, Olakunle and Oni (2014) noted that asset tangibility is characterized by the effect of collateral values of assets on a firm's level of leverage.

Moreover, in line with the pecking order theory, it is postulated that the cost of financial distress is subject to the types of assets owned by a firm. A firm that retains large investments in land, equipment and other related tangible assets is likely to have smaller costs of financial distress than firms that depend on intangible assets (Daskalakis&Psillaki, 2008). In the context of commercial banks, they seek financing from various sources including retained earnings, debt (for instance from the Central Bank), and equity (shares). The banks have tangible assets which they can employ to secure debt financing. For instance, the Kenya Commercial Bank is revered for being the market leader in terms of assets in Kenya. This implies the bank is best positioned in securing debt financing when compared to other banks and is also best placed in addressed issues of bankruptcy and financial distress.

2.8 Conceptual Framework

A conceptual framework is a diagrammatic representation of the hypothesized interaction between study variables. It is also defined as an interconnected set of ideas regarding how a given phenomenon functions or is related to its parts (Marilla, 2010). In respect to this study, Figure 2.1 outlines the pertinent conceptual framework. As shown in the framework, there are three set of study variables, that is, independent, dependent and intervening variables. Independent variables, also called predictor variables, include bank assets, business scope, managerial characteristics, and tangibility o the bank. Financial performance is the dependent variable while the CBK's regulations constitute the intervening variable. It is presumed that the foregoing predictor variables influence financial performance of commercial banks and that the relationship between the foregoing sets of variables is confounded by the banking regulations put in place by the Central Bank. This proposition will guide the study.

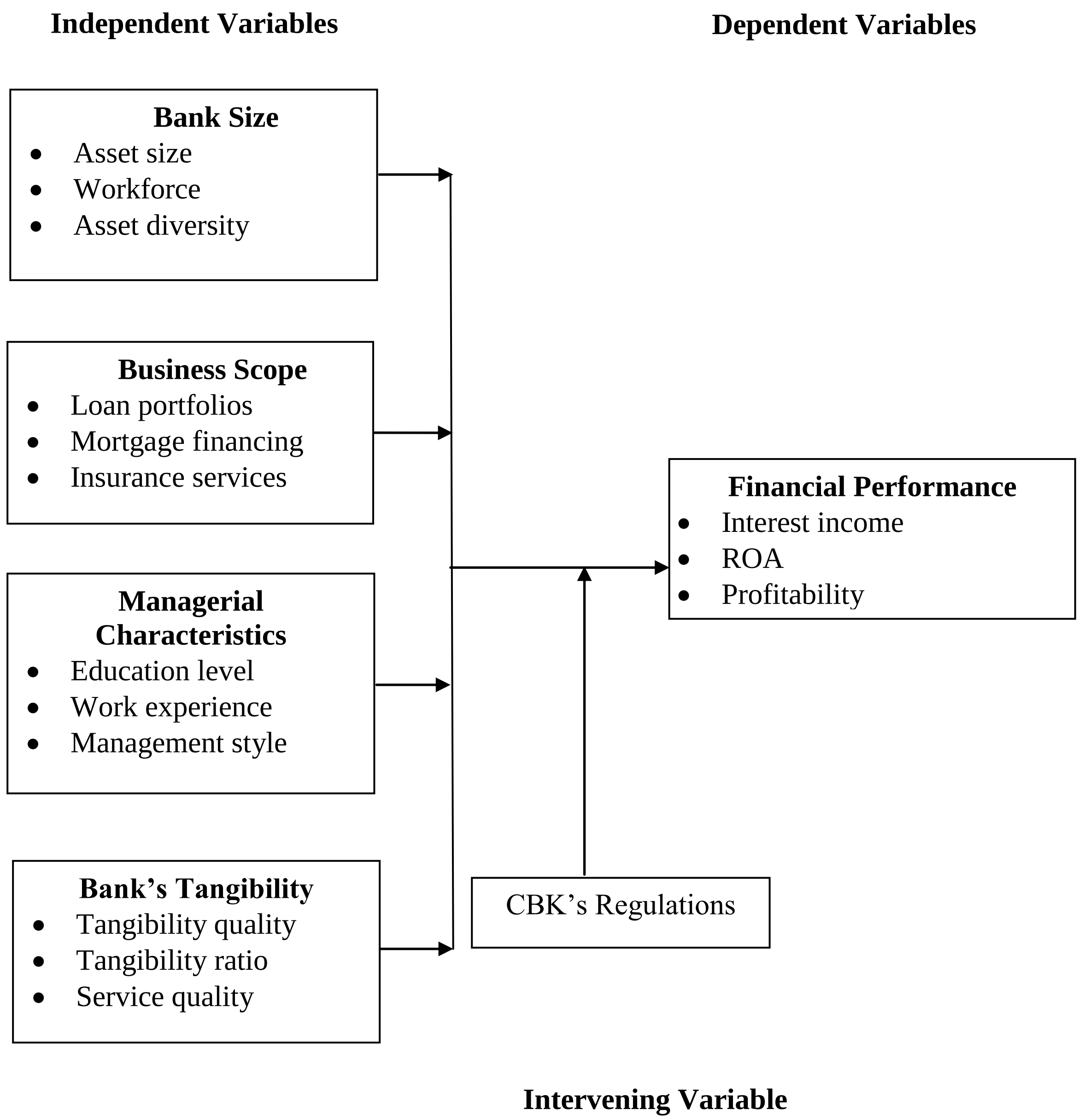

Figure 2.1: Conceptual Framework

The size of a business means the ability it possesses and the variety and number of production capability or the quantity and multiplicity of services the business can be offered concomitantly to its customers. Firm size is the speed and extent of growth that is ideal for a specific business. Bank size is usually used to examine the economies or diseconomies of scale in the banking sector. A large bank reduces cost because of economies of scale and scope.Size is commonly measured by gross sales or gross value of assets, logarithm of total assets, number of employees and sales turnover. Growth in size of a firm can be in terms of revenue, profits, assets or number of employees which are all essential for increased financial health and profitability.

Scope defined as the breadth and type of businesses in which a firm chooses to compete is measured across seven separate business areas.Scope can be used to classify a large number of businesses. Greater scope may detract from performance and lead to failure. A third concern is that any scale benefits might be contingent on business scope, such that businesses with different scope might realize differential survival benefits from greater scale.

Managerial characteristics play a key role in the success of every organization. Based on their leadership characteristics, business leaders use different activities and management tools to improve financial performance. Business managers occupy a crucial role in the midst of business operations. The decisions they make in this strategic position play a large part in determining the effectiveness of the rest of the staff and the satisfaction of the customers. The success of a business is largely a function of the managerial characteristics.

Tangibility is the ability of assets to be utilized ascollateral. Bond holders will require collateral to protect their interests thus the directproportional relationship between leverage level and liquidity of a firm. High cost of capital leads to costly borrowing hence equity ispreferred. It is cheaper to maintain equity capital since once the shares start trading, thefirm incurs no borrowing fees and floatation costs. Low cost of capital lead to high firmvalue.

2.9 Research Gaps

There are a number of local studies that have hitherto been conducted in respect of organizational characteristics and financial performance. However, there are critical issues that have failed to be addressed in the respect of the two subjects and in relation to commercial banks in Kenya. A study conducted by Kiragu et al (2015) analyzed the effect of bank size on occupational fraud in commercial banks in Kenya. However, the study did not link bank size to financial performance. Njoroge's (2016) study examined the factors affecting profitability of commercial banks in Kenya. The study observed that large banks perform well compared to small banks. However, the study ailed to clearly centre on bank size vis-à-vis financial performance.

A study conducted by Karanja (2013) analyzed the relationship between mortgage financing and the profitability of commercial banks. The study observed that commercial banks have adopted mortgage financing as an aspect of their loan portfolios, hence increasing their business scope. According to the study findings, mortgage financing has a positive impact on the profitability of commercial banks. The study, nevertheless, did not address the aspect of business scope in relation to financial performance of commercial banks.

A study conducted by Kyenze (2012) analyzed the effect of managerial characteristics on the capital structures of firms listed at the NSE. The study indicated that there exists a correlation between the age of the CEO and the performance of the firms. Though the study examined part of managerial characteristics, it failed to link them to financial performance. In addition, the study did not centre on commercial banks. In the same vein, Chemweno's (2016) study examined the relationship between board characteristics and firm's performance in Kenya. The study revealed that board expertise, board size, gender diversity and board diligence all have an insignificant impact on the performance of the firms. The study, however, failed to be specific in reference to managerial characteristics and financial performance.

A study carried out by Oanda (2015) evaluated the service quality dimensions and customer satisfaction in Barclays bank. One aspect of this dimension is tangibility. The study did not focus on tangibility in respect of financial performance. Another study conducted by Auka (2012) revealed that tangibility and responsiveness contributed the least to variability in customer satisfaction. Similarly to Oanda's study, this study f ailed to examine the aspect of tangibility in relation to financial performance. The identified research gaps will effectively be addressed in the present study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines and explains the step-by-step procedure that was followed to carry out the research study. The chapter starts by stating and explaining the research design that was used to guide the study, followed by the target population, and sampling procedure. Other areas captured under research methodology include the research instrument, pilot study, data collection procedure and also methods of data analysis and presentation of findings.

3.2 Research Design

A research design is the roadmap which is employed to guide a research study. This implies that a good study is founded on a good research design. According to Kothari (2004), a research design encapsulates decisions in respect of what, where, when, how much, and by what means regarding a certain research study. A descriptive research design was adopted in the context of this study. A descriptive study is concerned with describing specific characteristics of a certain subject (Kothari, 2004). Such a study is interested in specific predictions with narration of facts. The present study was interested in examining the facts around firm-level characteristics and financial performance of commercial banks. The study further employed quantitative approach whose ultimate objective is to generalize the facts found in a sample to the population of the study.

3.3 Population

Subjects or entities that share common characteristics define a target population (Kothari, 2004). In respect of this study, the target population included the management staff working with the 28 commercial banks in Nakuru. In this regard, the 121 management staffs working with the commercial banks in Nakuru town constituted the study population.

3.4 Sample Size and Sampling Design

A sample size is a subset of the study population whereas sampling design is the procedure followed to get a suitable sample and how the sampled entities are obtained from the study population. The relatively large size of the study population (N = 121) necessitate sampling. The Nassiuma's (2000) formula was adopted to determine the sample size as illustrated below. The choice of this formula was premised on the fact that it is relatively recent and is able to facilitate determination of sample size that is relatively manageable regardless of the size of the study population.

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where n represents sample size

N represents study population (121)

C represents coefficient of variation (20% $\leq$ C $\leq$ 30%)

*e*represents error margin (0.02 $\leq e \leq$ 0.05)

Twenty one percent coefficient of variation was used to ensure that the sample was wide enough to justify the results being generalized among commercial banks in Nakuru Town. Higher coefficients of variation were not used to avoid very large samples due to limitation of research funds. Two percent margin of error was used because the study was a post-post facto survey, whereby the independent variables could be manipulated hence necessitating relatively lower margin of error

The above equation is substituted as follows:

$$n = \frac{121(0.21)^2}{0.21^2 + (121-1)0.02^2}$$

n = 58

According to above calculations, the sample size constituted58management staff. Granted that the commercial banks in Nakuru town have varying distribution of management staff, stratified random sampling technique was adopted. This method, as Kothari (2004) asserts, that it ensured fair and equitable distribution of respondents across all the commercial banks in Nakuru town and within the accounts, finance and management staff working with each of the banks. The sampling distribution illustrated below has been determined using the formula (nh = (n/N)Ni) where nh, n, N, and Ni represent sample per stratum, entire sample, study population, and population per stratum respectively.Table 3.1 shows various representations from each department

Table 3.1: Sample of Employees

Department	**No. of Employees**	**Sample**
Accounts	41	20
Finance	52	25
Management	28	13
Total	121	58

3.5 Data Collection Instrument

Data collection instrument is a tool that aids in data collection. The suitability of a tool lies in the research design and approach, sample population, and the data intended to be collected. According to Mugenda and Mugenda (2003), a research questionnaire is the most suitable data collection tool when the respondents are relatively many and dispersed. In this respect, therefore, a structured questionnaire was employed to facilitate data collection. This instrument aided collection of numerical (categorical) data that were in line with the quantitative approach adopted by this study. The research instrument was structured in a way that aided in collection of data on a Likert scale. The questionnaire was self-administered.

3.6 Pilot Test

A pilot study was conducted prior to the main study. This study involved respondents drawn from management staff working with commercial banks in Naivasha town. The respondents were equivalent to 10% of the sampled respondents (Kothari, 2004), that is, 6 in number. The data collection instrument was pilot tested with a view of determining whether or not it has any weaknesses. This was achieved by carrying out both reliability and validity tests on the instrument.

3.6.1 Reliability Test

According to Kimberlin and Winterstein (2008), reliability is a measure of internal consistency of a data collection instrument. This study employed the Cronbach alpha coefficient to test the reliability of the research questionnaire. This is founded on the fact that the data to be collected in respect of the study variables was on a Likert scale. The reliability threshold to this effect was alpha equal to 0.7 (α) or greater than 0.7 ($\alpha > 0.7$).

Table 3.2: Reliability Statistics

Variable	Number of Items	Cronbach's Alpha
Bank Size	6	0.764
Business Scope	8	0.803
Managerial Characteristics	7	0.832
Bank's Tangibility	6	0.825
Financial Performance	8	0.785

3.6.2 Validity Test

Validity is a measure of the extent to which the data collection tool measures what it purports to measure (Kimberlin & Winterstein, 2008). This implies that a valid instrument is able to facilitate collection of data that can objectively and effectively address the objectives of the study. In the context of the present study, validity was determined through consultation with the assigned university supervisor. The supervisor’s opinion was deemed sufficient in determining the content validity of the data collection instrument.

3.7 Data Collection Procedure

The data collection was preceded by obtaining the requisite consents, permits and approvals from the relevant authorities. Firstly, the researcher obtained the approval of the University to embark on data collection. This was followed by obtaining both the research permit and authorization letter from the National Council of Science, Technology and Innovation (NACOSTI). The researcher then sought the consent of the management of commercial banks with branches in Nakuru and Naivasha towns where the main study and the pilot study was conducted. The administration of the questionnaires was done by the researcher in person in order to explain to the prospective respondents the importance of their participating in the study. The filled questionnaires were collected from the respondents after a period that did not exceed working days.

3.8 Data Analysis

The filled questionnaires collected from the field were screened in order to ensure that the ones considered for analysis were completely filled and the responses were in tandem with the instructions given. The rationale of data screening is to get rid of outliers that are occasioned by non-responses and inappropriate responses. This was followed by subjecting the collected data to both descriptive and inferential analysis with the aid of the Statistical Package for Social Sciences (SPSS) programme. Descriptive statistics included frequencies, means, and standard deviations. The inferential statistics employed Pearson’s correlation coefficient and multiple regressions. The results of the foregoing analyses were presented in form of tables and was interpreted and discussed in tandem with the study objectives. The following multiple regression model was adopted.

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Where:

Y	represents Financial performance
β_0	represents Constant
X_1	represents Bank size
X_2	represents Business Scope
X_3	represents Managerial Characteristics
X_4	represents Bank's tangibility
ε	represents Error term with zero variance assumed to be normally distributed
$\beta_1, \beta_2, \beta_3, \beta_4$	represent Regression coefficients of predictor variables

3.9 Ethical Issues

The study observed a couple of ethics prior, during and after carrying out the study. Before embarking on data collection pertinent to the study, the researcher sought the approval of the University and also the consent of the management of commercial banks from which the data in respect of both the pilot and main studies were collected. The study also obtained an authorization letter and a research permit from the NACOSTI, which is the body mandated by the government of Kenya to give authorization in respect of research studies. The study desisted seeking sensitive and perceptibly intrusive data from the respondents. In this respect, therefore, the research required respondents to indicate their specific age or income. Moreover, the study did not require the respondents to indicate their names or the identity of the banks they work with. In addition, the researcher ensured the confidentiality of the data collected and the study thereof was upheld. To this end, the researcher assured the respondents that the data collected and the study findings were employed exclusively for academic purposes.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

The chapter focuses on data analysis, results presentation and discussion of the findings. The general objective of the study was to determine effect of firm-level characteristics on financial performance of commercial banks in Nakuru Town, Kenya. The research also sought to establish the influence of bank size, business scope, managerial characteristics and bank's tangibility on financial performance of commercial banks in Nakuru town, Kenya. The research findings were presented in form of tables.

4.1.1 Response Rate

The study issued 58 questionnaires out of which 55 successfully responded representing 94%. According to Babbie (2002) any response of 65% and above is adequate for analysis.

Table 4.1: Response Rate

Sampled No. of respondents	No. of Questionnaires Returned	Response Rate (%)
58	**55**	**94**

4.2 General Information

The general information of this study comprised of the duration the bank has been operating in Kenya and the period the bank has been operating in Nakuru town

4.2.1 Duration the banks have been operating in Kenya

The respondents were requested to indicate the duration the banks have been operating in Kenya.

Table 4.2: Duration the banks have been operating in Kenya

Years	Frequency	Percentage
Less than 5 Years	0	0
5-10 Years	5	9
11-15 Years	6	11
More than 15 Years	44	80
Total	55	100

From the 9% of the respondents stated that the bank have been operating in Kenya for 5-10 years, 11% of the respondents stated that the bank have been operating in Kenya for 11-15 years, while 80% of the respondents stated that the bank have been operating in Kenya for more than 15 years. This implies that majority of the banks have been operating in Kenya for more than 15 Years

4.2.2 Duration the banks have been operating in Nakuru Town

The respondents were requested to indicate the duration the banks have been operating in Nakuru Town

Table 4.3: Duration the banks have been operating in Nakuru Town

Years	Frequency	Percentage
Less than 3 Years	1	2
3-5 Years	4	7
6-10 Years	5	9
More than 10 Years	45	82
Total	55	100

From the 2% of the respondents stated that the bank have been operating in Nakuru for less than 3 years, 7% of the respondents stated that the bank have been operating in Nakuru for 3-5 years, 9% of the respondents stated that the bank have been operating in Nakuru for 6-10 years, while 82% of the respondents stated that the bank have been operating in Nakuru for more than 10 years. This implies that majority of the banks have been operating in Nakuru for more than 10 Years

4.3 Influence of bank size on financial performance of commercial banks

Table 4. 4: influence of bank size on financial performance of commercial banks

Statements on bank size	SA (%)	A (%)	N (%)	D (%)	SD (%)	$\chi 2$	ρ
Our banks has vast assets.	22 (40)	21 (38)	6 (11)	5 (9)	1 (2)	26.45	0.00
Commercial banks in Nakuru town employ a large workforce.	18 (32)	15 (27)	14 (25)	5 (9)	4 (7)	11.23	0.02
Commercial banks in Nakuru town have diversified their assets.	14 (25)	18 (32)	5 (9)	10 (18)	8 (16)	6.68	0.15
Our bank has expanded its size in terms of branches.	17 (30)	18 (32)	14 (25)	5 (9)	3 (5)	13.50	0.00 1
Our bank has a large customer base.	17 (30)	22 (41)	11 (21)	5 (9)	0 (0)	9.64	0.02 2
Our bank has ATM outlets in every major urban area in Kenya.	15 (27)	20 (36)	10 (19)	9 (16)	1 (2)	14.41	0. 001

The findings showed that 40% of the respondents strongly agreed and 38% agreed that commercial banks have vast assets. On the contrary, 9% disagreed while 2% strongly disagreed. A few 11% was not decided in this opinion. This implies that commercial banks have vast assets. Chi-Square analysis showed $\chi 2$ =26.45, p = 0.00 meaning the influence of bank size on the financial performance of commercial was statistically significant

As to whether the commercial banks in Nakuru town employ a large workforce, 32% of the respondents strongly agreed while 27% agreed. On the contrary, 9% disagreed, and 7% strongly disagreed. This implies that the proportion of respondents who were in agreement were more compared to those in disagreement, thus commercial banks in Nakuru town employ a large workforce. Chi-Square analysis showed $\chi 2 = 11.23$, $p = 0.021$ meaning the influence of bank size on the financial performance of commercial was statistically significant.

The study further asked the respondents to indicate whether commercial banks in Nakuru town have diversified their assets. According to the findings, 25% strongly agreed while 32% agreed. On the other hand, 18% disagreed and 16% strongly disagreed; meaning that the proportion of respondents who were in agreement was high compared to those in disagreement. This therefore implies that commercial banks in Nakuru town have diversified their assets. Further, Chi-Square test revealed that that the effect was significant since $\chi 2 = 6.68$ $p = 0.15$.

Regarding whether banks has expanded their size in terms of branches by around 30% of the respondents strongly agreed while 32% agreed. On the other hand, 9% disagreed, and 5% strongly disagreed. This infers that bank has expanded its size in terms of branches. Chi-Square of $\chi 2 = 13.50$ $p = 0.001$. Regarding whether bank has a large customer base, 30% of the respondents strongly agreed, 41% agreed. Those who disagreed were 9% . This implies that bank has a large customer base Chi-Square of $\chi 2 = 9.64$, $p = 0.022$. Concerning whether bank has ATM outlets in every major urban area in Kenya 27% of the respondents strongly agreed while 36% agreed. On the other hand, 16% disagreed, and 2% strongly disagreed. This infers that bank has ATM outlets in every major urban area in Kenya. Chi-Square of $\chi 2 = 14.41$, $p = 0.001$. The findings are congruent to those of Halkos and Salamouris (2004) who found out that an increase in bank assets leads to an increase in efficiency. Fraker (2006), noted that there is a significant relationship between the size of the banks and productivity since there are additional funds to offer as loans, increasing the earning levels. The findings further agree with an empirical study by Kana (2017) who found out that bank size has a strong positive relationship with profitability.

4.4 Influence of business scope on financial performance of commercial banks

Table 4. 5: Influence of business scope on financial performance of commercial banks

Statements on business scope	SA (%)	A (%)	N (%)	D (%)	SD (%)	χ2	ρ
Our bank has expanded its loan portfolios.	26 (48)	13 (24)	12 (21)	4 (7)	0 (0)	15.27	0.002
Our bank offers mortgage financing.	14 (26)	22 (40)	4 (7)	12 (22)	3 (5)	14.64	0.006
Most commercial banks in Kenya have started extending insurance services.	6 (11)	22 (40)	10 (18)	14 (26)	3 (5)	11.23	0.021
Our bank has adopted mobile banking.	13 (23)	36 (65)	3 (6)	2 (4)	1 (2)	13.12	0.01
Our bank has adopted agency banking.	14 (26)	17 (31)	5 (9)	4 (7)	15 (27)	14.32	0.002
Our bank offers services through internet banking.	14 (26)	10 (19)	6 (11)	15 (27)	9 (17)	8.046	0.090
Our bank has opened subsidiaries in other countries.	18 (32)	16 (30)	13 (24)	5 (9)	3 (5)	13.50	0.00
Our bank has entered into strategic alliances with other firms in order to expand its business scope.	17 (31)	23 (42)	11 (20)	4 (7)	0 (0)	9.64	0.022

The findings showed that 48% of the respondents strongly agreed that commercial banks have expanded their loan portfolios and 24% agreed. On the contrary, 7% disagreed while none of the respondents strongly disagreed. A few 21% were neutral in this opinion. This implies that commercial banks have expanded their loan portfolios. Chi-Square analysis showed $\chi 2$ =15.27, p = 0.002. As to whether bank offers mortgage financing, 26% of the respondents strongly agreed, 40% agreed. On the contrary, 22% disagreed while 5% strongly disagreed. A few 7% were neutral in this opinion This implies that the proportion of respondents who were in agreement were more compared to those in disagreement, thus bank offers mortgage financing. Chi-Square analysis showed $\chi 2$ = 14.64, p = 0.006.

The study further asked the respondents to indicate whether most commercial banks in Kenya have started extending insurance services. According to the findings, 11% strongly agreed while 40% agreed. On the other hand, 26% disagreed and 5% strongly disagreed. A few 18% were neutral in this opinion meaning that the proportion of respondents who were in agreement was high compared to those in disagreement. This therefore implies that commercial banks in Kenya have started extending insurance services. Further, Chi-Square test revealed that that the effect was significant since $\chi 2$ = 11.23, p = 0.021.

Regarding whether bank has adopted mobile banking 23% of the respondents strongly agreed that their bank has adopted mobile banking while 65% agreed. On the other hand, 4% disagreed, and 2% strongly disagreed. A few 6% were neutral in this opinion This infers that bank has adopted mobile banking. Chi-Square of $\chi 2$ = 13.12 p = 0.01.

Regarding whether bank has adopted agency banking, 26% of the respondents strongly agreed, 31% disagreed. Those who disagreed were 7% while those who strongly disagreed were 27% This implies that bank has adopted agency banking Chi-Square of $\chi2 = 9.64$, $p = 0.022$.Concerning whether bank offers services through internet banking 26% of the respondents strongly agreed while 19% agreed. On the other hand, 27% disagreed while 17% strongly disagree. A few 11% were neutral in this opinion. This infers that bank offers services through internet banking. Chi-Square of $\chi2 = 8.046$, $p = 0.09$. Regarding whether bank has opened subsidiaries in other countries 32% of the respondents strongly agreed while 30% agreed. On the other hand, 9% disagreed, 5% strongly disagree. A few 24% were neutral in this opinion. this infers that bank has opened subsidiaries in other countries. Chi-Square of $\chi2 = 13.50$, $p = 0.00$.

In addition 31% of the respondents strongly agreed that bank has entered into strategic alliances with other firms in order to expand its business scope while 42% agreed. On the other hand, 7% disagreed while 20% were neutral in this opinion. This infers that bank has entered into strategic alliances with other firms in order to expand its business scope. Chi-Square of $\chi2 = 9.64$ $p = 0.022$. The study agree with Nyangosi, Nyangau, Nyariki and Nyangau (2014) who found out that mobile banking adoption is on the rise since customers are able to access banking services around the clock. The study further agrees with Karanja (2013) who revealed that mortgage financing has a positive impact on the profitability of commercial banks

4.5 Influence of managerial characteristics on financial performance of commercial banks

Table 4. 6: Influence of managerial characteristics on financial performance of commercial banks

Managerial characteristics	SA (%)	A (%)	N (%)	D (%)	SD (%)	$\chi 2$	ρ
Our managers have relatively high education credentials.	18 (32)	20 (33)	4 (8)	8 (18)	5 (9)	11.45	0.022
It is a prerequisite to have vast experience particularly in management in order to be recruited or promoted to a management position in banks.	15 (27)	27 (48)	3 (5)	7 (14)	3 (6)	28.05	0.000
The management style influences financial performance of commercial banks.	19 (34)	25 (46)	7 (12)	4 (8)	0 (0)	8.95	0.062
Age is a determining factor in performance of management staff.	22 (40)	16 (30)	6 (11)	8 (16)	3 (5)	16.91	0.002
The management staff working with commercial banks are highly trained and under regular career development.	14 (25)	30 (55)	4 (7)	3 (5)	4 (8)	38.50	0.000
The supervisory skills of the managers are essential in enhancing financial performance of banks.	18 (32)	15 (28)	13 (24)	5 (9)	4 (7)	11.23	0.02
The efficiency of the management staff is critical in relation to banks' financial performance.	23 (40)	20 (38)	6 (11)	5 (9)	1 (2)	26.45	0.00

The findings showed that 32% of the respondents strongly agreed that commercial banks' managers have relatively high education credentials and 33% agreed. On the other hand, 18% disagreed while 9% of the respondents strongly disagreed. This implies that commercial banks' managers have relatively high education credentials. Chi-Square analysis showed $\chi 2$ =11.45, p = 0.002

As to whether it is a prerequisite to have vast experience particularly in management in order to be recruited or promoted to a management position in banks, 27% of the respondents strongly agreed while 48% agreed. On the contrary, 14% disagreed, and 6% strongly disagreed. This implies that the proportion of respondents who were in agreement were more compared to those in disagreement, thus it is a prerequisite to have vast experience particularly in management in order to be recruited or promoted to a management position in banks. Chi-Square analysis showed $\chi 2$ = 28.05, p = 0.000.

The study further asked the respondents to indicate whether the management style influences financial performance of commercial banks. According to the findings, 34% strongly agreed while 46% agreed. On the other hand, 8% disagreed while 12% were neutral; meaning that the proportion of respondents who were in agreement was high compared to those in disagreement. This therefore implies that the management style influences financial performance of commercial banks. Further, Chi-Square test revealed that that the effect was significant since $\chi 2$ = 8.95, p = 0.062.

Regarding whether age is a determining factor in performance of management staff 40% of the respondents strongly agreed while 30% agreed. On the other hand, 16% disagreed, and 5% strongly disagreed. This infers that age is a determining factor in performance of management staff. Chi-Square of $\chi 2$ = 16.91 p = 0.002. Regarding whether the management staff working with commercial banks are highly trained and under regular career development, 25% of the respondents strongly agreed, 55% agreed. Those who disagreed were 5% while 8% of the respondents strongly disagreed. This implies that the management staff working with commercial banks are highly trained and under regular career development Chi-Square of $\chi 2 = 38.50$, $p = 0.000$.

Concerning whether the supervisory skills of the managers are essential in enhancing financial performance of banks 32% of the respondents strongly agreed while 28% agreed. On the other hand, 9% disagreed, 7% strongly disagreed; this infers that the supervisory skills of the managers are essential in enhancing financial performance of banks. Chi-Square of $\chi 2 = 11.23$, $p = 0.02$.Finally 40% of the respondents strongly agreed that the efficiency of the management staff is critical in relation to banks' financial performance while 38% agreed. On the other hand, 9% of the respondents disagreed while 2% of the respondents strongly disagreed. This infers that the efficiency of the management staff is critical in relation to banks' financial performance Chi-Square of $\chi 2 = 26.45$ $p = 0.00$. The findings agree with Araujo (2006) who argued that the educational levels and language proficiency of top managers has no significant effect on export performance of the SMEs. Olayinka (2012) also found out that managerial characteristics affect corporate governance of quoted companies in Nigeria. This further agrees with Riyad, Weerakoon and Jamaldeen (2014) who found out that management and firm characteristics affects the financing decisions of listed companies

4.6 Influence of bank's tangibility on financial performance of commercial banks

Table 4.7: Influence of bank's tangibility on financial performance of commercial banks

Statements on bank's tangibility	SA (%)	A (%)	N (%)	D (%)	SD (%)	$\chi 2$	ρ
Our bank has vast tangible assets.	22 (40)	26 (47)	4 (7)	2 (4)	1 (2)	13.24	0.02
Our bank has vast intangible assets.	13 (23)	30 (54)	8 (14)	4 (9)	0 (0)	14.12	0.056
The tangibility quality is important relative to financial performance of commercial banks.	16 (30)	22 (40)	8 (14)	9 (16)	0 (0)	9.68	0.001
Our bank is always concerned with its tangibility ratio.	9 (16)	24 (44)	17 (31)	5 (9)	0 (0)	18.93	0.58
Bankhas mechanisms of improving its service quality.	19 (35)	21 (38)	5 (9)	9 (16)	1 (2)	16.22	0.04
The tangibility of our bank has improved customer satisfaction.	19 (34)	30 (55)	3 (5)	2 (4)	1 (2)	11.77	0.06

The findings showed that 40% of the respondents strongly agreed that commercial banks have vast tangible assets and 47% agreed. On the other hand, 4% disagreed while 2% of the respondents strongly disagreed. This implies that Commercial banks have vast tangible assets. Chi-Square analysis showed $\chi 2$ =13.24, p = 0.002

As to whether bank has vast intangible assets, 23% of the respondents strongly agreed while 30% agreed. On the contrary 9% disagreed. This implies that bank has vast intangible assets. Chi-Square analysis showed $\chi 2$ = 14.12, p = 0.056.

The study further asked the respondents to indicate whether the tangibility quality is important relative to financial performance of commercial banks. According to the findings, 30% strongly agreed while 40% agreed. On the other hand, 16% disagreed; meaning that the proportion of respondents who were in agreement was high compared to those in disagreement. This therefore implies that the tangibility quality is important relative to financial performance of commercial banks. Further, Chi-Square test revealed that that the effect was significant since $\chi 2 = 9.68$, $p = 0.001$.

Regarding whether commercial banks are always concerned with their tangibility ratio 16% of the respondents strongly agreed while 44% agreed. On the other hand, 9% disagreed. This infers that commercial banks are always concerned with their tangibility ratio. Chi-Square of $\chi 2 = 18.93$ $p = 0.58$.

Regarding whether commercial banks have mechanisms of improving their service quality 35% of the respondents strongly agreed, 38% disagreed while 16% of the respondents disagreed and 2% of the respondents strongly disagreed. This implies that banks have mechanisms of improving their service quality Chi-Square of $\chi 2 = 16.22$, $p = 0.04$.

Concerning whether the tangibility of our bank has improved customer satisfaction 34% of the respondents strongly agreed while 55% agreed. On the other hand, 6% disagreed; this infers that the tangibility of our bank has improved customer satisfaction. Chi-Square of $\chi 2 = 11.77$, $p = 0.06$. The study agree with a study conducted by Okoe, Adjei and Osarenkhoe (2013) who argued that banks performed well in the tangibility aspect of service quality. Auka (2012) also found out that tangibility and responsiveness contributed the least to variability in customer satisfaction. Auka (2012) also found out that tangibility and responsiveness contributed the least to variability in customer satisfaction.

4.7 Financial Performance of commercial banks

Table 4.8: Financial Performance of commercial banks

Statements	SA (%)	A (%)	N (%)	D (%)	SD (%)	χ2	ρ
Commercial banks are presently recording declining income from interest charged on loans	26 (47)	18 (32)	8 (15)	2 (4)	1 (2)	14.12	0.056
The return on assets for banks is on upward trajectory.	15 (27)	19 (35)	10 (18)	9 (16)	2 (4)	14.41	0.006
Local banks have posted low profits compared to previous years.	15 (27)	13 (23)	17 (32)	9 (16)	1 (2)	11.68	0.020
Local banks enjoy increased return on investment.	18 (32)	56 (21)	11 (20)	5 (9)	10 (18)	5.77	0.217
Our bank is presently posting increased return on equity.	16 (29)	19 (35)	4 (7)	15 (27)	1 (2)	16.22	0.04
Commercial banks have recorded increased deposits in the last financial year.	19 (35)	25 (46)	6 (11)	3 (5)	2 (3)	11.77	0.06
Commercial banks have reduced the amount of loans they extend to their customers.	25 (45)	18 (35)	7 (12)	3 (5)	2 (3)	14.64	0.006
Our bank has recorded improved liquidity in the past financial year.	24 (44)	20 (36)	6 (11)	3 (5)	2 (4)	13.12	0.01

The findings showed that 47% of the respondents strongly agreed that commercial banks are presently recording declining income from interest charged on loans and 32% agreed. On the other hand, 4% disagreed while 2% of the respondents strongly disagreed. This implies that commercial banks are presently recording declining income from interest charged on loans. Chi-Square analysis showed $\chi 2$ =14.12, p =

0.056. As to whether the return on assets for banks is on upward trajectory, 27% of the respondents strongly agreed while 35% agreed. On the contrary 20% disagreed. This implies that the return on assets for banks is on upward trajectory. Chi-Square analysis showed $\chi2 = 14.41$, $p = 0.006$.

The study further asked the respondents to indicate whether the local banks have posted low profits compared to previous years. According to the findings, 27% strongly agreed while 23% agreed. On the other hand, 18% disagreed; meaning that the proportion of respondents who were in agreement was high compared to those in disagreement. This therefore implies that local banks have posted low profits compared to previous years. Further, Chi-Square test revealed that that the effect was significant since $\chi2 = 11.68$, $p = 0.020$.

Regarding whether local banks enjoy increased return on investment 32% of the respondents strongly agreed while 21% agreed. On the other hand, 27% disagreed. This infers that lLocal banks enjoy increased return on investment. Chi-Square of $\chi2 = 5.77$ $p = 0.217$. Regarding whether bank is presently posting increased return on equity 29% of the respondents strongly agreed, 35% agreed while 27% of the respondents disagreed and 2% of the respondents strongly disagreed This implies that bank is presently posting increased return on equity Chi-Square of $\chi2 = 16.22$, $p = 0.04$.

Concerning whether commercial banks have recorded increased deposits in the last financial year 35% of the respondents strongly agreed while 46% agreed. On the other hand, 8% disagreed; this infers that commercial banks have recorded increased deposits in the last financial year. Chi-Square of $\chi2 = 11.77$, $p = 0.06$.From the findings 45% of the respondents strongly agree that commercial banks have reduced the amount of loans they extend to their customers, 35% of the respondents agreed, 5% disagreed while 3% strongly disagreed. This implies that commercial banks have reduced the amount of loans they extend to their customers. Chi-Square of $\chi 2 = 14.64$, $p = 0.006$.Finally 44% of the respondents strongly agreed that bank has recorded improved liquidity in the past financial year while 36% agreed. On the other hand, 5% of the respondents disagreed while 4% of the respondents strongly disagreed. This infers that bank has recorded improved liquidity in the past financial year. Chi-Square of $\chi 2 = 13.12$ $p = 0.01$.

4.8 Inferential Statistics

4.8.1 Correlation Analysis

The researcher undertook correlation analysis to establish the nature and strength of the relationships between the independent and the dependent variables of the study.

4.8.2 Correlation between bank size and financial performance of commercial banks

Table 4.9: Correlation between bank size and financial performance of commercial banks

		Bank Size
Financial performance of commercial banks	Pearson Correlation	.641**
	Sig. (2-tailed)	.000
	N	55

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

The study conducted a correlation analysis between bank size and financial performance of commercial banks in Nakuru town. From the results in Table 4.9, the study established that there exists a strong positive and significant relationship ($r = .641$, $P=0.000$) between bank size and financial performance of commercial banks in Nakuru town. Given that the level of significance is less than 0.05, the study rejects the null hypothesis **(**H_{01}**)** and concludes that bank size has a significant influence on financial performance of commercial banks in Nakuru Town. Therefore the findings imply that bank size plays a big role in the financial performance of commercial banks. The findings agree with an empirical study by Kana (2017) who found out that bank size has a strong positive relationship with profitability.

4.8.3 Correlation between business scope and financial performance of commercial banks

Table 4.10: Correlation between business scope and financial performance of commercial banks

		Business Scope
Financial performance of commercial banks	Pearson Correlation	.619*
	Sig. (2-tailed)	.023
	N	55

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

In addition, the study conducted a correlation analysis between business scope and financial performance of commercial banks. The coefficient of Correlation (r=0.619 and P=0.023) illustrated in Table 4.10 shows that there is a strong positive and significant relationship between business scope and financial performance of commercial banks in Nakuru town. Further, the significance level (0.023<0.05) implies that the relationship is statistically significant. Thus, the study rejects the null hypothesis **(**H_{02}**)** and concludes that business scope has a significant influence on the financial performance of commercial banks in Nakuru town. The findings imply that expansion in the business scope enhance financial performance of commercial banks in Nakuru town. The researcher agreed with Karanja (2013) who revealed that mortgage financing has a positive impact on the profitability of commercial banks.

4.8.4 Correlation between managerial characteristics on financial performance of commercial banks

Table 4.11: Correlation between managerial characteristics on financial performance of commercial banks

		Managerial Characteristics
Financial performance of commercial banks	Pearson Correlation	.597*
	Sig. (2-tailed)	.018
	N	55

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

The study further sought to establish the nature of the relationship between managerial characteristics and financial performance of commercial banks as shown in Table 4.17. The correlation coefficient (r=0.597, P=0.018) indicates that there exists a strong, positive and significant relationship between managerial characteristics and financial performance of commercial banks in Nakuru town. Therefore, based on rule of significance, the study rejects the null hypothesis **(**H_{03}**)** and concluded that managerial characteristics have a significant influence on financial performance of commercial banks in Nakuru town. The finding agree with Riyad, Weerakoon and Jamaldeen (2014) who found out that management and firm characteristics affects the financing decisions of listed companies.

4.8.5 Correlation between bank's tangibility and financial performance of commercial banks

Table 4.12: Correlation between bank's tangibility and financial performance of commercial banks

		Bank's tangibility
Financial performance of commercial banks	Pearson Correlation	.604*
	Sig. (2-tailed)	.032
	N	55

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

The correlation analysis results shown in Table 4.12 indicate that there exist a strong, positive and significant relationship (r=0.604, P=0.032) between bank's tangibility and financial performance of commercial banks. Therefore, the study rejects the null hypothesis **(**H_{04}**)** and concludes that bank's tangibility significantly influences the financial performance of commercial banks in Nakuru town.

4.9 Regression Analysis

4.9.1 Regression Model Summary

Table 4.13: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
.887a	.787	.574	.38707	.887a

a. Predictors: (Constant), Bank Size, Business Scope, Managerial Characteristics and Bank's Tangibility

b. Dependent Variable: Financial performance of commercial banks

The study conducted a regression analysis to find out the strength of the relationship between independent and dependent variables as shown in Table 4.13. In this case the study used adjusted R-squared to get the percentage of variation explained by only those independent variables that in reality affect the dependent variable. The value of adjusted R squared is 0.38707. Implying that financial performance of commercial banks is 38.707% as explained by the independent variables under this study while 61.293% is the variation due to other factors which have not been covered in this study.

4.9.2 ANOVA of the Regression Model

Table 4.14: ANOVA of the Regression Model

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.100	3	7.700	9.2816	.000[a]
	Residual	42.308	51	0.8296		
	Total	65.408	54			

a. Predictors: (Constant), Bank Size, Business Scope, Managerial Characteristics and Bank's Tangibility

b. Dependent Variable: Financial performance of commercial banks

In the ANOVA table above, the *F* statistic = 9.2816 as illustrated in Table 4.14. Since the f calculated is greater than f statistic, it infers that the model is statistically significant. Therefore, there is strong evidence that the regression results are statistically significant and the variation in the results is insignificant that cannot result to much difference in case of a change in the study units (population) and therefore the model did for the data.

4.9.3 Multiple Regression Coefficients

Table 4.15: Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.216	.875		1.390	.071
	Bank Size	.622	.186	.491	3.342	.002
	Business Scope	.642	.176	.573	3.648	.001
	Managerial Characteristics	.639	.262	.478	2.439	.033
	Bank's Tangibility	.660	.196	.452	3.189	.002

Dependent Variable: Financial performance of commercial banks

The study also conducted a regression analysis to establish the regression coefficients connecting the independent and dependent variables as illustrated by the equation illustrated below:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

Whereby Y represents financial performance of commercial banks, X_1 represents Bank Size, X_2 represents business scope, and X_3 represents managerial characteristics and X_4 represents bank's tangibility. β_0 represents Constant which defines the value of financial performance of commercial banks without the inclusion of predictor variables. From the results in Table 4.15 the given equation was answered by the values of Unstandardized Coefficients (B) and all of them were statistically significant since their p values (Sig. <0.05) were less than 0.05. The results indicate that all the predictor variables in the study have a positive relationship with financial performance of commercial banks. Thus,

$$Y = 1.216 + 0.622X_1 + 0.642X_2 + 0.639X_3 + 0.660X_4$$

The value of financial performance of commercial banks without the influence of the predictor variables is 1.216. This explains that, at any given time, financial performance of commercial banks will be 1.216 holding other factors constant at 0. The results also illustrate that, a unit change in bank size would result to 0.622 times change in financial performance of commercial banks, a unit increase in business scope would result to 0.642 times increase in financial performance of commercial banks, a unit increase in managerial characteristics would result to 0.639 times increase in financial performance of commercial banks while a unit increase in bank's tangibility would result to 0.660 times increase in financial performance of commercial banks as given by the coefficients in the model.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter focuses on the summary of major findings of the study; both descriptive and inferential. This is followed by a presentation of the conclusions inferred from the findings. The relevant recommendations are then suggested. Finally, the chapter outlines the areas suggested for further research.

5.2 Summary

The major study findings are summarized in this section. It outlines the summary of the findings in line with the objectives of the study.

5.2.1 Bank size on financial performance of commercial banks

The study revealed that respondents admitted that commercial banks have vast assets It was also agreed that commercial banks in Nakuru town employ a large workforce. In addition, respondents agreed that in commercial banks in Nakuru town have diversified their assets. The study further found out that there exists a strong positive and significant relationship between bank size and financial performance of commercial banks in Nakuru town.

5.2.2 Business scope on financial performance of commercial banks

Respondents admitted that commercial banks have expanded their loan portfolios. They also agreed that bank offers mortgage financing. It was also clear that most commercial banks in Kenya have started extending insurance services. Banks has adopted mobile banking. The study further found out that there is a strong positive and significant relationship between business scope and financial performance of commercial banks in Nakuru town.

5.2.3 Managerial characteristics on financial performance of commercial banks

It was concurred that commercial banks' managers have relatively high education credentials. It was also agreed that it is a prerequisite to have vast experience particularly in management in order to be recruited or promoted to a management position in banks. The management style influences financial performance of commercial banks. The findings further revealed that there exists a strong, positive and significant relationship between managerial characteristics and financial performance of commercial banks in Nakuru town. Management and firm characteristics are key factors that affect the financing decisions of listed companies

5.2.4 Bank's tangibility on financial performance of commercial banks

The sampled officers admitted that commercial banks have vast tangible assets. It was also clear bank has vast intangible assets. In addition, respondents were committal on the views that the tangibility quality is important relative to financial performance of commercial banks. The study established that there exist a strong, positive and significant relationship between bank's tangibility and financial performance of commercial banks.

5.3 Conclusions

5.3.1 Bank size on financial performance of commercial banks

From the findings the researcher concluded that bank has expanded its size in terms of branches. It was also noted that bank has a large customer base. Majority of bank has ATM outlets in every major urban area in Kenya.

5.3.2 Business scope on financial performance of commercial banks

Regarding business scope the researcher concluded that bank has adopted mobile banking. Very few banks have adopted agency banking. Majority of bank offers services through internet banking. Majority of banks have opened subsidiaries in other countries. Majority of banks have entered into strategic alliances with other firms in order to expand its business scope. The use of recent financial systems such as mobile banking help commercial banks enablecustomers to access banking services around the clock.

5.3.3 Managerial characteristics on financial performance of commercial banks

The study concluded that the management staff working with commercial banks are highly trained and under regular career development. The supervisory skills of the managers are essential in enhancing financial performance of banks. The efficiency of the management staff is critical in relation to banks' financial performance. The management expertise and competence enhances that ability of the bank to develop new innovative financial products for its customers; process flow in the bank; turnaround time of employees; employee accuracy; customer satisfaction in the bank; communication process in the bank; customer orientation; Market performance; and profitability of the bank.

5.3.4 Bank's tangibility on financial performance of commercial banks

The study also concluded that the tangibility quality is important relative to financial performance of commercial banks. Commercial banks are always concerned with their tangibility ratio. Banks have mechanisms of improving their service quality. The tangibility of our bank has improved customer satisfaction. Banks performed well in the tangibility aspect of service quality. Tangibility and responsiveness also contributes to the least to variability in customer satisfaction.

5.4 Recommendations

From the findings the researcher recommended that bank should subscribe to reliable internet providers for effective and efficient service delivery. The study also recommends that the bank managers should emphasize on training their clients on use of internet banking via advertisements as this will make ease on communication.

Commercial banks also need to emphasize the use of internet banking as this will enhance banks growth and customers saving on much time which they could have wasted on queues to be attended the traditional way. Banks should embark on educating and creating awareness among their customers on the benefits if electronic banking and the charges involved.

The study further recommends that customers should be enlightened on the operation of agency banking in order to enhance their confidentiality. Additionally, the study recommended that agent frequently trained on the operation process and policies to eradicate occurrence of error and mistake that are highly hindering penetration of agency banking.

5.5 Suggestions for Further Research

The researcher suggested that further studies should be conducted on business process re-engineering on financial performance of other financial institutions. The researcher also suggested that further studies be conducted on suggested on impact of agency banking on commercial banks market share. In addition the researcher suggested that further studies should be conducted to assess the effect of financial innovation on financial performance of commercial banks in Nakuru.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Respondent,

REF: REQUEST FORDATA COLLECTION

I am a Master of Business Administration (MBA) student at Kabarak University. As part of my MBA (Finance Option), I am required to carry out a research project. In this respect, I am collecting pertinent data for a project titled: ***Effect of selected Firm-Level Characteristics on Financial Performance of Commercial Banks in Nakuru Town, Kenya*.**

Kindly provide the required data by filling in the questionnaire accompanying this letter. Your participation will be highly valued and appreciated. Please note that the data collected will be treated confidentially and your identity will be concealed.

Thank you.

Yours faithfully,

Chepkemoi Skeeter

APPENDIX II: RESEARCH QUESTIONNAIRE

This questionnaire is an integral part of a study titled: ***Effect of selected Firm-Level Characteristics on Financial Performance of Commercial Banks in Nakuru Town, Kenya.*** You are kindly requested to fill in the questionnaire according to the instructions provided. Kindly put a tick or any other appropriate mark against the correct choice. Please remember not to indicate your name on the questionnaire.

Section A

Background Information

1. Kindly indicate how many years your bank has been operating in Kenya.

   Less than 5 years [ ]

   5 to 10 years [ ]

   11 to 15 years [ ]

   More than 15 years [ ]

2. Kindly indicate how many years your bank has been operating in Nakuru town.

   Less than 3 years [ ]

   3 to 5 years [ ]

   6 to 10 years [ ]

   More than 10 years [ ]

Kindly indicate your level of agreement or disagreement with the various propositions under each of following sections: bank size, business scope, managerial characteristics, bank's tangibility, and financial performance. Kindly use the following Likert scale:

1 (SD), 2 (D), 3 (NS), 4 (A), and 5 (SA) represent Strongly Disagree, Disagree, Not Sure, Agree, and Strongly Agree respectively.

Section B: Bank Size

On a 5 point-scale kindly indicate your level of agreement with the following statements.

1: Strongly Disagree (SD), 2: Disagree (D), 3: Not Sure (NS), 4. Agree (A), 5: Strongly Agree (SA)

	5 (SA)	4 (A)	3 (NS)	2 (D)	1 (SD)
1. Our bank has vast assets.					
2. Commercial banks in Nakuru town employ a large workforce.					
3. Commercial banks in Nakuru town have diversified their assets.					
4. Our bank has expanded its size in terms of branches.					
5. Our bank has a large customer base.					
6. Our bank has ATM outlets in every major urban area in Kenya.					

Section C: Business Scope

On a 5 point-scale kindly indicate your level of agreement with the following statements.

1: Strongly Disagree (SD), 2: Disagree (D), 3: Not Sure (NS), 4. Agree (A), 5: Strongly Agree (SA)

	5 (SA)	4 (A)	3 (NS)	2 (D)	1 (SD)
1. Our bank has expanded its loan portfolios.					
2. Our bank offers mortgage financing.					
3. Most commercial banks in Kenya have started extending insurance services.					
4. Our bank has adopted mobile banking.					
5. Our bank has adopted agency banking.					
6. Our bank offers services through internet banking.					
7. Our bank has opened subsidiaries in other countries.					
8. Our bank has entered into strategic alliances with other firms in order to expand its business scope.					

Section D: Managerial Characteristics

On a 5 point-scale kindly indicate your level of agreement with the following statements.

1: Strongly Disagree (SD), 2: Disagree (D), 3: Not Sure (NS), 4. Agree (A), 5: Strongly Agree (SA)

	5 (SA)	4 (A)	3 (NS)	2 (D)	1 (SD)
1. Our bank's managers have relatively high education credentials.					
2. It is a prerequisite to have vast experience particularly in management in order to be recruited or promoted to a management position in our bank.					
3. The management style influences financial performance of commercial bank.					
4. Age is a determining factor in performance of management staff.					
5. The management staff working with the commercial bank are highly trained and under regular career development.					
6. The supervisory skills of the managers are essential in enhancing financial performance of banks.					
7. The efficiency of the management staff is critical in relation to bank's financial performance.					

Section E: Bank's Tangibility

On a 5 point-scale kindly indicate your level of agreement with the following statements.

1: Strongly Disagree (SD), 2: Disagree (D), 3: Not Sure (NS), 4. Agree (A), 5: Strongly Agree (SA)

	5 (SA)	4 (A)	3 (NS)	2 (D)	1 (SD)
1. Our bank has vast tangible assets.					
2. Our bank has vast intangible assets.					
3. The tangibility quality is important relative to financial performance of commercial banks.					
4. Our bank is always concerned with its tangibility ratio.					
5. Our bank has mechanisms of improving its service quality.					
6. The tangibility of our bank has improved customer satisfaction.					

Section F: Financial Performance

On a 5 point-scale kindly indicate your level of agreement with the following statements.

1: Strongly Disagree (SD), 2: Disagree (D), 3: Not Sure (NS), 4. Agree (A), 5: Strongly Agree (SA)

	5 (SA)	4 (A)	3 (NS)	2 (D)	1 (SD)
1. Our bank is presently recording declining income from interest charged on loans.					
2. The return on assets for bank is on upward trajectory.					
3. Local banks have posted low profits compared to previous years.					
4. Local banks enjoy increased return on investment.					
5. Our bank is presently posting increased return on equity.					
6. Commercial banks have recorded increased deposits in the last financial year.					
7. Our bank hasreduced the amount of loans extended to its customers.					
8. Our bank has recorded improved liquidity in the past financial year.					

Thank you for your time and cooperation.

APPENDIX III: LIST OF COMMERCIAL BANKS IN NAKURU TOWN

1. African Banking Corporation
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Barclays Bank of Kenya Limited
5. CfC Stanbic Bank Limited
6. Chase Bank (K) Limited (under receivership)
7. Commercial Bank of Africa Limited
8. Consolidated Bank of Kenya Limited
9. Co-operative Bank of Kenya Limited
10. Credit Bank
11. Diamond Trust Bank Kenya Limited
12. Ecobank Kenya
13. Spire Bank
14. Equity Bank Kenya Limited
15. Family Bank Limited
16. First Community Bank Limited
17. Guardian Bank Limited
18. Gulf African Bank
19. Jamii Bora Bank Limited
20. KCB Bank Kenya Limited
21. National Bank of Kenya Limited
22. National Industrial Credit (NIC) Bank Limited
23. Oriental Commercial Bank Limited
24. Paramount Bank Limited
25. Prime Bank Limited
26. Sidian Bank Limited
27. Standard Chartered Bank Kenya Limited
28. Trans-National Bank Limited