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The Effect of Bank Specific Factors on Financial Performance of Commercial Banks in Transnzoia County

Franklin Kipkirui Ngetich[1.1*], Dr. Elizabeth Nambuswa Makokha[1.2]

[1.] School of Business, Department of Economics, Accounting and Finance, .Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi Kenya

[2.] School of Business, Department of Economics, Accounting and Finance, .Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi Kenya

Abstract: **The main purpose of this study was to determine the effects of bank specific factors on the financial performance of commercial banks in TransNzoia County. The study was guided by the following specific objective; to determine the impact of management efficiency on the financial performance of commercial banks in Kenya. The study adopted the following theories; market power theory and efficiency theory. The study used a descriptive research design with the target population of all manager in commercial banks in TransNzoia County. Since the population is small then the study adopted working with entire population. Data collection instruments was questionnaire. Piloting was done to test the validity and reliability of the data collection instrument. Data was organised, coded, edited to bring a meaning. Both descriptive and inferential statistics was done. Pearson correlation analysis was used to test the relationship between variables in the study hypotheses. Analysis of variance and multiple linear regression analysis was adopted and computed to determine the statistical relationship between the independent variable and the dependent. The finding revealed the management efficiency has a significant effect on the financial performance of commercial banks in TransNzoia Kenya. The finding will be of help to the researchers, banks stakeholders and to the entire economy as a whole.**

Keywords: **Financial performance, management efficiency.**

1. INTRODUCTION

Globally, among the various financial institutions, banks are the fundamental component and the most active players in the financial system especially financial markets (Guisse, 2012). It provides capital for innovation, infrastructure and job creation and over all prosperity. It has become the integral part of our society, both industries as well as individual consumers. The main objective of banks is to maximize profits. This is very important for the purposes of paying corporate taxes, paying interests to depositors, salaries and wages to staff, dividends to shareholders and meeting other expenses (Ezike &Oke, 2013). Profitability is essential for a bank to sustain its operations and for its shareholders to obtain fair returns on their investments. Profitability is a bank's first line of defense against un usual losses as it strengthens its capital position and improves future earnings through investments of retained earnings. A good means of measuring performance of banks and other business enterprises is the financial analysis. Financial analysis is a process of identifying the financial strengths and weaknesses of a firm by establishing relationship between the items of the balance sheet and the profit and loss account. (Ajao, 2010). According to Nada Dreca (2012), the banking sector is affected by the global financial crisis. He argued that this crisis produces many adverse effects towards banks. Some to mention, 'stagnation of the sector, decline in profitability, increase of the non-performing assets and loans, past due receivables, loan loss provision and deterioration of other key indicators of banks` performance'

Sharifi and Akhter (2016) considered the credit deposit ratio as a barometer of progress of a financial institution like commercial banks. According to them, it indicates the level credit deployment of banks in relation to deposits mobilized by them. A high credit deposit ratio indicates that banks are generating more credit from its deposits and vice-versa. Further, they say that the outcome of this ratio reflects the ability of the bank to make optimal use of the available resources. They carried out a study with a purpose to present the performance of public sector banks through the credit-deposit ratio based on the secondary data collected from 26 public sector banks for a 7 year period (2008-2015). Their findings and analysis reveal that the CDR impact positively on public sector bank's financial performance. Jilkova and Stranska (2017) analysed the effect of the economic situation of the Czech Republic on the performance and profitability of the banking market through selected determinants in their study. Their study clarifies the structure of the Czech banking sector and it is focused on the performance and profitability in the defined time period and also compares with the selected banking sector and indicators in other countries.

Pandya (2015) analysed the impact of priority sector advances of scheduled commercial banks operating in India on their profitability. Author, considered all the scheduled commercial banks operating in India for this purpose. Ratios of Priority sector advances to total advances (PSATA) of all commercial banks during the study period taken as an independent variable whereas, Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), Ratio of Operating Profit to Total Assets, (OPTA) and Ratio of Interest Income to Total Assets (INTTA) were taken as dependent variables. The study reveals that there exists a statistically significant relationship between PSATA and ROI, ROA, OPTA, INTTA. The result thus imply that priority sector advances have bearing on bank profitability. Further, the study reveals that priority sector advances affect ROA and ROI of the banks. Therefore, author suggests the banks should exercise caution while advancing loans to priority sector else it would be adversely affecting the profitability of the banks.

Adam (2014) conducted the study to investigate financial performance of Erbil Bank for Investment and Finance, Kurdistan Region of Iraq during the period of 2009-2013.author has used statistical tool for analysis purpose of several variables which would affect the banking system in general in order to know whether these variables are significantly correlated with the financial performance for the bank. The findings of the study show the positive behaviour of the financial position for Erbil Bank and some of their financial factors variables influence the financial performance for the bank. Author also noticed that the overall financial performance of Erbil Bank is improving in terms of liquidity ratios, assets quality ratios or credit performance, profitability ratios (NPM, ROA and ROE). Further, the study suggests a set of recommendations regarding the development and enhancing of some banking operations which will boost the bank's profitability and improve the financial performance for the bank. Karim and Alam (2013) measured the performance of selected private sector banks in Bangladesh by using financial ratios which mainly indicate the adequacy of risk based capital, credit growth, credit concentration, non-performing loan position, liquidity gap analysis, liquidity ratio, return on assets (ROA), return on equity (ROE), net interest margin (NIM). Multiple regression analysis was carried out to apprehend the impact on credit risk, operational efficiency and asset management and created a good-fit regression model to predict the future financial performance of these banks.

Financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources (IAI, 2016). Performance of commercial bank in UAE was examined by Al-Tamimi (2011). The banks which are classified on the basis of the total assets as small and large were selected for the study. Their study consists of 15 large banks and 23 small banks. The findings revealed that large banks perform better than small banks. The results reveal that capital adequacy (ratio of total equity to total assets) is the important performance indicator in the classification of banks. Also study concludes that highly fragmented banks do not perform well. In order to improve the operations effectively and to reduce waste, the study recommended for the merger of banks. Impact of financial ratios on the performance of Jordanian commercial banks was carried out by Almazari (2011).The result indicates that there exists a positive correlation between financial performance and asset size, asset utilization and operational efficiency, which was also significantly confirmed with regression analysis. Also, findings make way to formulate policies which promote effective financial system. Similar studies were carried out on Malaysian banks (Guisse, 2012), Islamic Banks (Milhem and Istaiteyeh, 2015) and major Indian Banks (Haque, 2014) using financial ratios to measure the performance in terms of profitability, liquidity, ROA, ROE and risk. The result indicates that there is no significant means in difference of profitability among banks.

The growth of financial institutions globally and locally, and the rise of commercial economies have changed the role of credit risk management in the banking industry. According to Jamaat and Asgari (2010) banks are investing a lot of funds in credit risk management modeling. Skills in risk-focused supervision are continually being developed while exposing supervisors to relevant training (Kithinji 2010). By adopting this approach, the banking industry, and specifically the small banks are sensitized on the need to have formal and documented risk management frameworks (De Juan 1991). Good liquidity risk management is not only a defensive mechanism, but also an offensive weapon for commercial banks and this is heavily dependent on the quality of leadership and governance. (Jorion 2009). One way to measure bank performance is by determining the profitability of the bank. Profitability is the ability of a bank to make profits by earning more money that exceeds the yearly expenses and taxes every financial year. The Banks make profits from fees charged for their services and the interests levied on assets. On the other hand, the main expense incurred by banks is in the interest paid on their liabilities every financial year. A positive difference between the earnings and the expenses represents the profitability of any financial institution. The bank's assets that attract revenue to the institution include loans to individuals, companies, and other institutions and securities the bank holds. The principal liabilities for the banks include deposits and the funds borrowed from other banks or through selling of commercial paper in the money market. The measure of profitability of a bank is determined by the return of assets (ROA) and the return on equity (ROE). The assets such as the loans and securities are utilized by the banks to earn a large portion of the institution's income. The ROA is determined by dividing the bank's net interest income by average total assets. The ROA is expressed as a percentage. The net interest income is determined by obtaining the difference between the interest received on assets and interest paid on liabilities. (Mulualem, 2015).

Bank profitability can also be measured by determining the return on equity (ROE). The ROE represents the amount of net income returned as a percentage of shareholder's equity. The ROE measures a bank's profitability by determining the institution's earnings using the money invested by the shareholders. Just like ROA, ROE is also expressed as a percentage (Mulualem, 2015).Return on Equity (ROE) ROE is a ratio that provides investors with insight into how efficiently a bank and its management team are managing the money that shareholders have contributed to it. In other words it measures the profitability of the bank in relation to the shareholders' equity. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing (Otuya & Eginiwin, 2017). ROE is often used to compare a bank/company to its competitors and the overall market. The formula is especially beneficial when comparing firms in the same industry since it tends to give accurate indications of which banks are operating with greater financial efficiency. Bank specific factors or internal factors are the individual bank characteristics, which affect bank performance. These factors are influenced by the internal decisions of management and board. These factors are also within the scope of the bank to manipulate them and they differ from bank to bank. These include capital, size of deposit liabilities, size, and composition of credit portfolio, interest rate policy, labour productivity, and state of information technology, risk level management quality, bank size, and ownership among others (Dang, 2011). To proxy bank specific factor scholars often use CAMEL framework. CAMEL stands for capital adequacy, asset quality, management efficiency, earnings ability, and liquidity (Mulualem, 2015).

Financial performance of the banking sector is a major subject that has received much publicity and attention in recent times. Chinonye et al (2004) investigated the effect of capital adequacy on banks' performances and used regression technique to analyse his data. His findings revealed that the level liquidity has a significant relationship with bank performance. However, it was revealed that capital adequacy and total assets have a weak significant relationship with bank performance. The study therefore recommends that in addition to adequate capital, banks monitor their management processes and internal processes and assume acceptable risks commensurate with their capital. Ndifon (2014) examined the impact of capital adequacy on deposit money banks profitability in Nigeria. He used the Engle and Granger model and the results of his findings showed that capital adequacy has a significant and positive impact on banks' profitability. The study recommends amongst others that banks should have the required minimum capital base. Ikpefan (2013) examined capital adequacy, management and performance in the Nigerian commercial banks. The study used OLS regression model and the findings revealed that the capital adequacy which is the shareholders' funds to total assets has a negative association with Return on Assets (ROA).The study recommends that capital adequacy ratios should be increased to avoid future bank collapse.

According to CBN (2019) as part of its efforts at enhancing the quality of banks and ensuring financial system stability, the apex bank has proposed maximum capital base of ₦100billion for banks operating in the country. Under the new

regime that replaces universal banking expected to commence in year2020, three tiers of banks are to come into effect with the lowest capital base: ₦15billion set aside for those classified as regional banks, ₦25billion for national banks and ₦100billion for international banks. Also, the CBN guidelines on regulatory capital requirements for banks demand that banks are required to maintain regulatory capital adequacy ratio (CAR) of 15% for banks with international authorization and systemically important banks (SIB) while a CAR of 10% will be applicable to National and Regional banks. Nwankwo (1991) asserts that capital is indispensable in banking as in any other industrial or commercial enterprise. Its functions change with various stages in the bank's life cycle and at commencement capital satisfies the statutory minimum requirement as well as compensate for lack of profits generally characteristic of the years of operations. Capital is a major asset of a financial institutions strength and buffer to absorb unanticipated or unusual losses from bank operations and in the event of problems, enables the bank to continue to operate in sound and viable manner (Igbinosa &Aigbovo, 2016). The capital adequacy regulations which was introduced by The Basel Committee in 1988 require globally active banks to maintain a minimum capital of 8% of their risk adjusted assets, with capital consisting of Tier 1 capital(equity capital and disclosed reserves) and Tier 11 capital(Long term debts, undisclosed reserves and hybrid instruments). It means that banks must maintain a capital adequacy at a specified minimum level in order to avoid risks and bankruptcy (Agu &Nwankwo, 2019). Functionally, adequate capital is the amount of capital that can effectively discharge the primary capital functions of preventing bank failures by absorbing un usual losses. Adequate capital provides the ultimate protection against insolvency and liquidation arising from the risks inherent in banking. Adequate capital provides the customer, the public and the regulatory authority with confidence in the continued financial viability of the banks; confidence to the depositors that his money is safe; to the public that the bank will be in a position to give consideration to their withdrawal and credit needs and to the regulatory authority that the bank will remain in business. (Nwankwo, 1991).The successful recapitalization of commercial banks in Nigeria in 2005 has significantly engendered economic growth and development as a result of the soundness, healthiness and stability achieved by the entire system. Inspite of this achievement, some banks like Skye and Diamond banks incurred losses that eroded their capital in 2017.On 8thof May2019, Moody, a global advisory services firmreleased an in depth report analysing the factors that led to the downfall of Diamond bank. The bank which made a profit of 28, 5 billion naira in 2013 made a loss of 9 billion naira in 2017 and by 2019 a sharp increase in the volume of its non-performing loans (Business Insider pulse, 2019). This study therefore wants to see the effect of capital adequacy on the performance of banks in post consolidation era in Nigeria. Literature review the Concept of Bank Capital Agu and Nwankwo (2019) define Bank capital as equity value of bank or shareholders' funds. They include the paid up capital, share premiums, statutory reserves, retained earnings, general reserves, minority interest and other subsidiaries reserves excluding preference shares and revaluation reserves. Capital can also be defined as equivalent to net worth, derived by subtracting total liabilities from assets (Nwankwo, 1991). Capital is also seen as equities; the difference between a bank's assets and its liabilities. It is the portion of a bank's funds that the equity holders lay claim to. Bank capital helps to boost the public confidence and gives an assurance that the depositors' funds are safe and the bank can house the credit and withdrawal needs of the community.(Ndifon, 2014).

Management efficiency is the ability of the board of directors and management to identify measure, control the risks of a banking institution's operations, and guarantee the safe and effective operation in fulfillment of pertinent laws and regulations. The management efficiency of a bank is measured using different financial ratios such as total asset growth, loan growth rate, and earnings growth rate. The performance of management is also often shown by subjective assessment of management systems, organizational discipline, control systems, and quality of staff among other factors (Ongore & Kusa, 2013). Additionally, the ability of the management to utilize its resources effectively, maximize income, minimize operation costs can be measured by financial ratios. Operating profit to income ratio is particularly useful in measuring management quality. The higher the operating profits to total income, the more efficiently the management is in relation to operational efficiency and income generation. Management efficiency significantly determines the level of operating expenses and in turn has an impact on the bank's profitability (Ongore & Kusa, 2013).

Understanding the bank specific factors and their influence in bank profitability and performance is crucial to the management of commercial banks, stakeholders and other interest groups such as the central bank and the government. Research studies conducted to assess the internal aspects that determine the profitability and financial performance of commercial banks have revealed several internal bank specific factors, external and industry specific factors. The bank specific factors are particular to a given institution, thus the internal factors that determine profitability in one bank are different from other banking institution in Kenya. A review in literature indicates that several research studies done on

local and international arena concentrated on specific factors. According to a research done by Obamuyi (2013), the determinants of bank's profitability in developing economies, with a particular interest in Nigeria showed that bank specific factors such as efficient management of expenses and increased interest income affects profitability. Additionally, the same research indicated that macro environment factors such as favourable economic conditions also result in increased profitability of commercial banks. This study ignored the industry specific factors. A study by Ongore and Kusa (2013), concentrated on factors influencing banking sector performance in Kenya. The researcher found out that board, management decisions influence the performance of commercial banks in Kenya, and that macro-economic factors have minimal impact on the banks performance. However, the study focused on evaluating the effects of asset quality on the financial performance of commercial banks in TransNzoia County Kenya.

2. EFFECT OF MANAGEMENT EFFICIENCY ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

Financial performance is the company's financial condition over a certain period that includes the collection and use of funds measured by several indicators of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Financial performance is the company's ability to manage and control its resources (IAI, 2016). Complete planning that identifies the firm's long-term ways of using existing resources within the organization will make the organization or company more competitive (Mochklas & Teguh, 2018). An efficient banking system is recognized as basic requirement for the economic development of any economy. Banks mobilize the savings of community into productive channels. The banking system of India is featured by a large network of bank branches, serving many kinds offinancial needs of the people. The financial system, through financial institutions, plays an increasingly important role in directing financial resources to their most productive use in the economy; providing facilities to make and settle financial transactions, linking surplus economic units (savers) & deficit economic units (borrowers) and management of risk and uncertainty (Bloor and Hunt, 2011). Therefore, if these functions are well performed, it will lead to economic growth through financial system stability, in which case, the financial system will be said to be efficient, otherwise inefficiency is realized. The symptoms of inefficiency could range from high transaction costs, poor quality financial services and products, lack of receptiveness to customer needs and misallocation of resources. Financial efficiency can be argued to refer to the bank‘s ability to generate revenue from a given amount of assets and to make profit from a given source of income. According to Sowlati (2001), performance evaluation and efficiency measurement is an important issue for managers since it facilitates identification and removal of inherent wastages in an organizations ‘operations.

Efficiency is a level of performance that describes using the least amount of input to achieve the highest amount of output. Efficiency refers to the use of resources in producing any given output. Efficiency measurement determines how banks provide an optimal combination of financial services with a set of inputs. It is a measurable concept that can be determined using the ratio of useful output to total input. The Kenyan banking system has undergone significant transformation in the past decade due to a combination of various factors such as globalization, deregulation of financial systems and emergence of technological innovations such as mobile phone banking and internet or online banking. For improved economic performance to be achieved, bank competition and efficiency are vital components to the achievement of this goal. Economic development and financial development heavily rely on an efficient and fully functioning financial system. With a limited and under developed capital market, the banking sector plays pivotal role in intermediation process between savers and investors (Kamau, 2011).

Efficiency measurement in the financial sector correlates with the substantial impact that an efficient financial system has on the microeconomic as well as the macroeconomic level of the economy. The standard view of efficiency measurement for commercial banks, by employing ratio analysis, can be misleading as the cross-sectional differences in input and output combinations and their prices are not properly defined (Zuzana and Tomas, 2010). Efficiency measurement determines how banks provide an optimal combination of financial services with a set of inputs. The management has substantial control on the cost of inputs, whereas the output side is beyond their control (Worthington, 1998). The financial sector has an important role to play in the economic development process. The best financial systems limit, quantify, gather and negotiate all operation risks, and incite the savers to invest, by offering them a proportional payment to the scale of the incurred risks. Financial intermediaries when they are efficient allow mobilizing saving from diverse sources and allocate it to more productive activities, what benefits not only investors and beneficiaries of the investments but also the whole economy (Gulde, Patillo and Christensen, 2007). Management efficiency is another essential

component of the CAMEL model that guarantee the growth and survival of a bank. Management efficiency means adherence with set norms, ability to plan and respond to changing environment, leadership and administrative capability of the bank. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios. One of this ratios used to measure management quality is operating profit to income ratio (Rahman et al. in Ilhomovich, 2009; Sangmi and Nazir, 2010). The higher the operating profits to total income (revenue) the more the efficient management is in terms of operational efficiency and income generation.

Kamau (2009), using a sample of 40 commercial banks in Kenya for the period 1997-2006, analysed factors that influence efficiency and Productivity of the banking sector in Kenya. The findings showed that foreign-owned banks influenced the performance of the local banking sector, a result attributed to the fact that foreign banks generally bring with them superior know-how and technical capacity (Technical Efficiency). The foreign banks inflict competitive pressure on domestic banks as they receive liquidity and other support resources from their parent banks because of their access to international markets. Further, Kamau, (2011), argued that the efficiency of commercial banks in Kenya has not fallen below 40 percent in the period of the study. The findings further showed that, in terms of ownership structure and size, foreign banks were more efficient than local private banks, while local private banks were more efficient than local public banks; hence large size banks were more efficient than medium and small size banks. From this study, it can be noted that, if efficiency is anything to go by, the banking sector competition is aimed at maximizing efficiency levels for improved performance. Indeed, a banking system which efficiently channels financial resources to productive use is a powerful mechanism for economic growth (Levine, 2009). A commonly used ratio that bankers use to measure the overall cost effectiveness (or the operational efficiency) of an organization is the expense/income ratio. This is a measure that broadly expresses the total operating costs incurred by an organization as a percentage of its operating income. The costs of changing the bank could include costs for new products, or new delivery channels for existing ones, and these costs can be linked to the income that they generate. Kenyan banks are presently under intense competition to improve efficiency and transform banking service delivery into networks encompassing traditional branches, automated tellers, telephone banking and the Internet. Size matters substantially in the banking system and small banks are coming under pressure as competitive pressures build up, especially as supply of treasury bills continues to dry up as source of revenue. Banks have to identify new lending opportunities and expand their customer base in order to generate income. The study recognizes that resources are scarce and we cannot afford to waste them. There is a need for banks to be productive so that they can provide better service in light of constraints and attract more customers. The evaluation of commercial bank efficiency/ performance has been approached from a variety of dimensions. Efficiency/performance evaluation of banks has used a variant of ratio analysis among several banks using a number of financial ratios (e.g. return on assets, return on investments). Basically, financial ratios can measure the overall financial soundness of a bank and the operating efficiency of its management. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The performance measurement concept indicates that employees can increase the value of the firm by; increasing the size of a firm’s future cash flows, by accelerating the receipt of those cash flows, or by making them more certain or less risky.

Management efficiency is an internal factor that determines the bank performance. Operational efficiency in managing operational expenses is a sign of management quality. Management efficiency is often qualitative expressed in terms of management systems, organization culture, control systems, quality of staff. Efficiency can be measured in three ways; maximization of output, minimization of cost, and maximization of profits. In general, efficiency is divided into two components (Kumbhakar and Lovell, 2003). A firm is regarded as technically efficient if it is able to obtain maximum outputs from given inputs or minimize inputs used in producing given outputs. The objective of producers here is to avoid waste. The ability of the management of commercial banks to deploy its resources efficiently, income maximization, reducing operating costs can be determined using financial rations. The quality of management exhibited by the finance departments of commercial banks determines the levels of operating expenses and in turn affects profitability and financial performance (Athanasoglou et al., 2008).

A study done by Liu (2011) focused on the effects of variables from the CAMEL model on bank performance in China. The study concentrated on the CAMEL variables that included capital adequacy, asset quality, management, earnings ability, and liquidity. The researcher’s sample size consisted of 13 Chinese banks all listed in the Shanghai Stock Exchange between 2008 and 2011. Liu implemented the fixed effects multiple linear regression model in his research to

measure the relationship between internal factors from CAMEL model and bank performance. The findings of this study indicated that return on assets is directly affected by shareholders risk-weighted capital adequacy ratio, costs to income ratio, net interest rate margins, and loans to deposits ration. Additionally, the findings indicated that the return on equity could be affected by costs to income ratio, operating expenses to assets ratio and loans to deposits ratio. Management efficiency was therefore found to be a major influence to the outcome of these indicators and therefore a major determinant of bank performance.

Sufian and Chong (2008) examined the determinants of financial performance under profitability during the period 1990-2005 in Philippines banks. The results of the study showed a direct relationship between financial performance and bank-specific factors. Similarly, the empirical results suggested that the bank specific factors such as capital adequacy, asset quality and management efficiency affects profitability and by extension the financial performance of the banks.

According to Sufian and Chong poor expenses management is a main contributor to poor performance. Operational expense efficiency is one way of assessing managerial efficiency in banks. From the findings of the study conducted by Olweny and Shipho (2011) in Kenya it can be noted that banks that improve their capital base, reduce operational costs and employ revenue diversification strategies are likely to be more profitable .The specific items highlighted in the study are an expression of efficiency in management . Firm's performance largely depends on proper management of financial resources. Organizational performance is the measure of how efficient and effective an organization is- how well it achieves appropriate objectives (Stoner, et al, 2009). Robbins and Coulter (2013) affirmed that Organizational performance is the accumulated results of all the organization's work activities. (Cole, 2004) affirms that performance refers to how well an organization manages its resources effectively and efficiently to meet or achieve its goals. Hornby (2012) stated that performance is how well or badly something works. Performance of Commercial banks can be measured using investing surplus cash, return on assets and return on equity (Ainsworth and Deines, 2009).

Waweru (2009) affirmed that financial performance of a firm involves increased profitability, higher efficiency and increased output (Teruel, 2008). Assessment of managerial performance poses practical challenges. The capital market only has the current profit statement and other public disclosures with which to assess performance. These are inadequate measures of managerial quality since they ignore "soft issues" and strategic off-the balance sheet items in such as human resource development, expansion of production capacity and Research and Development whose return can only be realized in subsequent accounting periods (Star, 2008). The nature of a given financial performance indicator may be fundamental, as there is some disagreement regarding the extent to which any board or executive decisions might impact accounting versus market-based measures of financial performance. Besides, financial accounting returns are difficult to interpret especially in the case of multi- industry participation by firms. It is notable that financial accounting measures do not normally account for shareholder investment risk. Fearing the loss of their jobs, managers might put too much emphasis on how their decisions influence short-term profits and other public disclosures. Managers thus have a tendency to act myopically (Mathuva, 2009). The emphasis on short-term performance is a common practice among executives. The danger is that current profits are over-valued by the market relative to strategic decisions that are likely to generate future profits. The danger is that current profits are over- valued by the market relative to strategic decisions that are likely to generate future profits. Hence, management will use a very high discount rate when making investment decisions. Good projects that reap their gains in the distant future will be ignored and bad projects with a short payback period accepted (Michalski, 2009).

The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009: Meredith, 2010; McMahon, 2011). The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009: Meredith, 2010; McMahon, 2011). Over-reliance on financial indicators to judge overall Commercial banks performance is often misleading especially if the Commercial bank in question has a lot of intangible assets component in its operations including human resources, Research and Development and other non-balance sheet assets. Hence, the need to pay attention to non-financial indicators of performance, or at least one that combines aspects of both, for a more comprehensive appraisal of firm performance cannot be overemphasized (Emory, 2009). Market-based returns have a number of advantages. They do reflect risk adjusted performance; they are not adversely affected by multi- industry or multinational issue may, however, be that market- based performance indicators are often subject to forces beyond management control (Falope, 2009). As there appears to be no consensus regarding the efficacy of reliance on one set of indicators, a combination of financial and

market –based indicators is recommended in order to capture the issues that are under the control of management as well as those that are market driven.

There are various determinants of investment ratio identified in the prior literature. For instance, Pearce (2015) suggests that return on investment is considered as the most authentic one and it is calculated by subtracting the total cost from total revenue and dividing it with the total cost and multiplying the output with 100 to achieve a percentage. Return on assets is a useful indicator of how profitable a company is relative to its total assets. The ROA is calculated by dividing a firm's annual earnings by its total assets (Pandey, 2009). The ROA is calculated by dividing a firm's annual earnings by its total assets (Pandey, 2008). This ratio is an indicator of what the company can do with what it has got, i.e., how much profit it can achieve using one unit of assets that they control. It is an indication of how effective management is in utilizing the resources that it controls to make profits (Ross, 2008). The higher the ratio the higher the profits generated per unit of assets. Return on Assets has proved to be a very useful number for comparing competing companies in the same industry. The number will vary widely across different industries. For example, capital-intensive industries (like railroads and steel structures) will yield a low return on assets, since they have to own such expensive assets to do business. Labor-intensive companies (like software, job placement firms) will have a high ROA since their asset requirement is minimal (Shah, 2009).

ROA ratio has been widely used in researches on corporate profitability and found to be extremely robust. Other researchers who have used ROA include Sanger (2009), Singh (2008), Nyakundi (2008), English (2010), Ondiege (2008), and Ngaba (2008), all of whom were investigating various aspects of financial management, and their impact on financial performance. Return on Assets (ROA) is very relevant to the current study since it enables us to evaluate the result of managerial decisions on the use of shareholder assets which have been entrusted to them for stewardship and value creation. Return on investment is net income divided by total assets multiplied by one hundred (Horngren and Foster, 2013). Sinha and Gupta (2011) indicate that cash management specifically affect particular financial parameters such as economies of scale and scope, EBIT, return on investment, profit and interest ratios. The term investment may refer to total assets or net assets. Net assets equal net fixed assets plus current assets minus current liabilities excluding loans. The funds employed in net assets are known as capital employed. ROI is profit after taxes divided by total assets multiplied by one hundred (Pandey, 2013). Schall and Haley, (2008) affirmed that return on investment is net income divided by total assets multiplied by one hundred. The return on equity is net profit after taxes divided by shareholders' equity which is given by net worth. Ross and Westfield, 2010) return on equity is residual income divided by equity multiplied by one hundred. Return on Equity refers to the earnings generated by shareholders' equity over a period of one year. ROE stands as a critical weapon in the investor's arsenal if it is properly understood for what it is. Shareholders equity is an accounting convention that represents the assets that have actually been generated by the business (i.e. total assets less liabilities) (Meredith, 2010).

A business that creates a lot of shareholder equity is a business that has sound investment, as the original investors in the business will be able to be repaid with the proceeds that come from the business operations. Businesses that generate high returns relative to their shareholder's equity are those that pay their shareholders off handsomely, creating substantial assets. These businesses are more than likely to be self- funding companies that require no additional debt or equity investments. One of the quickest ways to gauge whether a company is an asset creator or cash consumer is to look at the return on equity that it generates. By relating the earnings generated to the shareholder's equity, an investor can quickly see how much cash is created from the existing assets. (Mona, 2012) utilized ROE to study the relationship between working capital management policies and firm's profitability.

Several studies has already been done across the world to analyse the financial performance of banking sector but there are very few studies which really explore the factor affecting to financial performance of banks. Brief review of related literature on the present study is given in this chapter. For performing well these activities, the financial institution needs to have a proper management that is efficient in mobilizing the banks resource in proper manner, a capital that is used as resource to render the service, proper amount of revenue that will exceed the cost of operation, a proper system that will safeguard the asset of the business and an adequate financial position to settle claims at the time of liquidity, (Kolade Sunday Adesina, 2012). Financial sector is imperative for economic growth and industrialization via channelling funds, providing proficient financial system, sociable investor's treatment, and optimal utilization of resources (Raza, 2011). Banking sector in any economy is performing the major role in these regards. Banking sector plays a significant role in

channelling funds to industries and contributing towards economic and financial growth and stability. A well-established and managed banking sector can absorb major financial crisis in the economy and can provide a plat form for strengthening the economic system of the country (Aburime, 2009). Bank financial performance is vitally important for all stakeholders, such as the owners, the investors, the debtors, the creditors, the depositors, the managers of banks, the regulators and the government (Podder, 2012).

3. METHOD

The study adopted a descriptive research design with a target population of all financial managers comprising of 26 respondents within commercial banks in TransNzoia County, Kenya. The study adopted census since the target population was small. Data collection instrument was structured questionnaire. The Secondary data collection instruments was bank journals, commercial banks budgeted statements and financial statements. Piloting was done for validity and reliability of the data collection instrument. The data was reduced, organized, coded, edited, classified using a table and analysed to bring out the meaning under each of the factors. It was then be coded, entered and analysed descriptively using IBM Statistical Package for Social Sciences (SSPS 23). Pearson correlation analysis was used to test the relationship between variables in the study hypotheses. ANOVA multiple linear regression analysis was adopted computed to determine the statistical relationship between the independent variable and the dependent.

4. RESULTS AND DISCUSSION

The study sought to determine the impact of management efficiency on the financial performance of commercial banks in TransNzoia County Kenya. The findings are presented in a five point Likert scale where SA=strongly agree, A=agree, N=neutral, D=disagree, SD=strongly disagree and T=total. From table 4.1 below, the respondents were asked whether the bank assets have marginally increased. The distribution of findings showed that 32.0 percent of the respondents strongly agreed, 35.0 percent of them agreed, 15.0 percent of the respondents were neutral, 13.0 percent disagreed while 5.0 percent of them strongly disagreed. These findings implied that the bank assets have marginally increased.

The respondents were also asked whether the earnings growth rate grown marginally. The distribution of the responses indicated that 33.0 percent of the respondents strongly agreed to the statement, 16.0 percent of them agreed, 28.0 percent of them were neutral, 16.0 percent of them disagreed while 8.0 percent of them strongly disagreed to the statement. These findings implied that the earnings growth rate grown marginally. The respondents were also asked whether bank's operating expenses are efficiently managed. The distribution of the responses indicated that 25.0 percent of the respondents strongly agreed to the statement, 42.0 percent of them agreed, 29.0 percent of them were neutral, 4.0 percent of them disagreed while 0 percent of them strongly disagreed to the statement. These findings implied that bank's operating expenses are efficiently managed.

The respondents were further asked whether the resources are efficiently deployed. The distribution of the responses indicated that 5.0 percent of the respondents strongly agreed to the statement, 50.0 percent of them agreed, 28.0 percent of them were neutral while 9.0 percent and 8.0 percent of them disagreed strongly and disagreed to the statement respectively. These findings implied that the resources are efficiently deployed. Also, the respondents were asked whether management efficiency enhances firm's profitability. The distribution of the responses indicated that 27.0 percent of the respondents strongly agreed to the statement, 53.0 percent of them agreed and 20.0 percent of them were neutral. None of the respondents disagreed or strongly disagreed to the statement respectively. These findings implied that management efficiency enhances firm's profitability.

Further, when respondents were asked whether banks should reduce their operational costs leading to increased cost efficiency, 25.0 percent of the respondents strongly agreed, 41.0 percent of the respondents agreed on the statement, 10.0 percent of the respondents were neutral while 12.0 percent disagreed, 20.0 strongly disagreed. This implied that majority agreed that banks should reduce their operational costs leading to increased cost efficiency. Finally, when respondents were asked whether the symptoms of inefficiency could range from high transaction costs, poor quality financial services and products, lack of receptiveness to customer needs and misallocation of resources, 26.0 percent of the respondents strongly agreed, 38.0 percent of the respondents agreed on the statement, 6.0 percent of the respondents were neutral while 21.0 percent disagreed, 20.0 strongly disagreed. This implied that majority agreed that the symptoms of inefficiency could range from high transaction costs, poor quality financial services and products, lack of receptiveness to customer needs and misallocation of resources.

Table 4.1: Effect of management efficiency on the financial performance of commercial banks in TransNzoia County Kenya

statements		SA	A	N	D	SD
The bank assets have marginally increased	%	32.0	35.0	15.0	13.0	5.0
The earnings growth rate grown marginally	%	33.0	16.0	28.0	16.0	8.0
Bank's operating expenses are efficiently managed	%	25.0	42.0	29.0	4.0	0
The resources are efficiently deployed	%	5.0	50.0	28.0	9.0	8.0
Management efficiency enhances firms profitability	%	27.0	53.0	20.0	0	0
Banks should reduce their operational costs leading to increased cost efficiency		25	41.0	10.0	12.0	20.0
The symptoms of inefficiency could range from high transaction costs, poor quality financial services and products, lack of receptiveness to customer needs and misallocation of resources		26.0	38.0	6.0	21.0	20.0

4.1 Multiple Linear Regression

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationships between the independent and dependent variables of the study.

4.2 Coefficient of Determination (R^2)

Table 4.2 shows that the coefficient of correlation (R) is positive 0.623. This means that there is a positive correlation between bank specific factors and financial performance of commercial banks in TransNzoia County Kenya. The coefficient of determination (R Square) indicates that 38.5% of financial performance of commercial banks in TransNzoia County Kenya is influenced by banks specific. The adjusted R^2 however, indicates that 35.3% of financial performance of commercial banks in TransNzoia County Kenya is influenced by banks specific factors leaving 64.7% to be influenced by other factors that were not captured in this study.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.623[a]	.385	.353	7.0162

a. Predictors: (Constant), management efficiency

4. 3 Analysis of Variance

Table 4.3 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how banks specific factors affects financial performance of commercial banks in TransNzoia County Kenya. The results also indicate that the independent variables are predictors of the dependent variable.

Table 4.3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	693.232	1	106.654	57.133	.000[b]
	Residual	1640.030	24	20.442		
	Total	2333.252	25			

4.4 Regression Coefficients

From the Coefficients table (Table 4.4) the regression model can be derived as follows:

$$Y = 41.337 + 0.632X_3$$

The results in table 4.4 indicate that all the independent variables have a significant positive effect on financial performance of commercial banks in TransNzoia County Kenya. The influential variable is management efficiency with a coefficient of 0.632 (p-value = 0.000). According to this model when all the independent variables values are zero, financial performance of commercial banks in TransNzoia County Kenya will have a score of 41.337.

Table 4.4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	41.337	3.712		52.420	.000
Management efficiency	.632	.158	.339	3.645	.000

4.5 Hypothesis Testing

4.5.1 Hypothesis One

Ho_1: Management efficiency does not have a significant effect on financial performance of commercial banks in TransNzoia County Kenya.

From Table 4.4 above, management efficiency ($\beta = 0.632$) was found to be positively related to financial performance of commercial banks in TransNzoia County Kenya. From t-test analysis, the t -value was found to be 3.645 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that management efficiency affects financial performance of commercial banks in TransNzoia County Kenya.

5. CONCLUSION AND RECOMMENDATIONS

Based on the findings the study concluded the following as follows; management efficiency ($\beta = 0.632$) was found to be positively related to financial performance of commercial banks in TransNzoia County Kenya. From t-test analysis, the t -value was found to be 3.645 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that management efficiency affects financial performance of commercial banks in TransNzoia County Kenya.

Based on the findings, the researcher recommended the following: the management of commercial banks should reduce their operational costs leading to increased cost efficiency and the resources deployed to enhance profitability since, symptoms of inefficiency could lead to high transaction costs, poor quality financial services and products, lack of receptiveness to customer needs and misallocation of resources.

They management of commercial banks should aim at having the capability to maintain quality and earn consistently by investing surplus cash, return on assets and return on equity

They should improve the image of the bank by having adequate level of liquidity is positively since effective liquidity management requires adequate liquidity level which will help commercial banks to estimate the proportion of depositor's funds that will be demanded at any period and arrange on how to meet the demand.

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