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Relationship between Determinants of Internal Performance and Stock Returns among Listed Commercial Banks in Kenya

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Abstract: *This research explored the relationship between determinants of internal performance and stock returns among listed commercial banks in Kenya. Guided by Signaling Theory, correlational research design was used, targeting eleven listed commercial banks in Kenya. Secondary data covering a ten-year time span Financial Year 2006/2007 to Financial Year 2015/2016 was collected from annual financial reports which were acquired from the Nairobi Securities Exchange, listed commercial banks and the Central Bank of Kenya databases. Descriptive and inferential statistics were utilized as a part of analyzing the collected data. The discoveries of the correlations and the regression analysis uncovered that the capital adequacy had a negative correlation for dividend yield of (r= -0.074, p> 0.01) and the regression results was (β= -0.039, t= -0.454, p>0.651) for the estimate of stock returns dividend yield. Asset quality had a positive correlation for dividend yield of (r= 0.372, p<0.01) and the regression results was (β= 0.388, t= 4.561, p<0.000) for the estimate of stock returns dividend yield. Management efficiency had a negative correlation for dividend yield of (r= -0.186, p> 0.01) and the regression results was (β= -0.127, t= -1.499, p>0.137) for the estimate of stock returns dividend yield. Earnings quality had a negative correlation for dividend yield of (r= -0.401, p< 0.01) and the regression results was (β= -0.344, t= -3.915, p<0.000) for the estimate of stock returns dividend yield. Liquidity had a positive correlation for dividend yield of (r=0.227, p>0.01) and the regression results was (β= 0.180, t= 2.048, p<0.043) for the estimate of stock returns dividend yield. The examination concluded that earnings quality and asset quality each had a major influence on stock returns among listed commercial banks in Kenya. In light of the discoveries and conclusions, the study investigation suggests that banks employ the composite CAMEL framework with an in-depth analysis to identify and act upon those ratios that add to the profit maximization of shareholders wealth and going beyond the minimum regulatory standards as provided by the Central Bank of Kenya with the point of improving quality option and money related soundness. The study recommends that, different investigations ought to be done to establish out the relationship between determinants of internal performance and stocks returns among the private commercial banks.*

Keywords: *Capital Adequacy, Asset Quality, Management Efficiency, Earnings Quality, Liquidity, Stock Returns, Listed Commercial Banks, Kenya*

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I. Introduction

Financial organizations are firms that provide a mechanism for surplus lending units to transfer funds to deficit spending units[1]. The operations of this sector of the money related industry range from capital allotment, activation of funds to savings to monitoring and evaluation of borrowers[2]. The importance of the money related industry in the economy dates back to theories stipulated by Hamilton[3] who states that banks comprise the most joyful engines that ever were imagined to impelling monetary development. Similarly, Schumpeter[4] argues that administrations given by monetary intermediaries are basic for technological innovation and economic evolution.

According to Levine *et al.*[1], commercial banks are critical entities for most developing economies. Of all the financial intermediaries, commercial banks assume a vital part channeling and mobilizing funds, especially to the private sector, for investment reasons or for economic ventures. Given the process that the monetary industry contributes to financial advancement, improving performance and development of money related intermediaries is accordingly, imperative for realizing accelerated financial development through help of wealth creation, exchange in trade and also capital formation[1].

Over the most recent two decades investigations have uncovered that financial organizations in Sub-Sahara Africa (SSA) are most profitable than the other continents of the world with a mean Return on Assets of two (2) percent[5]. A section of the noteworthy explanations for exceptional high Return on Assets in the region is

interest in risky endeavors or ventures. The other presumed elucidation for the high returns in monetary banking business in SSA is the existence of a vast gap in associations to the demand for monetary services and the availability thereof. That implies, in SSA, the quantity of banks is smaller contrasted with the interest for their administrations. Thus, there is less rivalry and financial institutions charge high financing costs. This is particularly valid in East Africa where the few government-owned banks take the lion's share of the market[5].

The financial industry has been undergoing a far reaching period of rebuilding since 1991, with an aim to making it more compelling, efficient, sound and producing interconnections with the housing industry for advancement of reserve funds, venture and development. Although an overall turnaround in performance of this sector is not normal or expected till the consummation of changes, indications of change are noticeable in less pointers like under the CAMEL Framework. Under this Framework, each bank is required to upgrade capital adequacy, fortify asset quality, enhanced management efficiency, increase earnings and decrease affectability to different money related risks[6].

The Uniform Financial Institution Rating System, regularly alluded to by the acronym CAMEL Framework, was adopted by the Federal Financial Institution Examination Council on November 13, 1979, and after that embraced by the National Credit Union Administration in October 1987. It has ended up being a successful interior supervisory instrument for estimating the performance of a money related firm, focusing on those organizations requiring unique consideration or concern[7]. Barr, Killgo, Siems and Zimmel[8] hold the view that the CAMEL framework has turned into a brief and vital instrument for inspectors and controllers. This structure guarantees a bank's sound conditions by inspecting diverse parts of a financial institution and the assortment of data sources, for example, money related proclamation, financing sources, macroeconomic information, spending plan and income.

Several studies have found the existence of links between CAMEL framework and performance of banks. Bhayani[9] inspected the performance of new private money related industry using the help of the CAMEL Framework. Four main private sector monetary organizations that is, Industrial loans and Speculation Corporation of India, Housing Development Finance Corporation, Unit Trust of India and Industrial Development Bank of India had been taken as an example. Similarly, Olweny and Shipo[10] dissected the factors of bank disappointments or failures in Kenya. They discovered that Asset quality and liquidity are the factors of Kenyan financial institutions disappointments. Chaudhry and Singh[11] also explored the impact of the monetary related changes on the performance of Indian Banking and its influence on the asset quality. The investigation distinguished the crucial participants as risk administration, effective cost administration and financial incorporation.

There are several determinants influencing stock returns on the share trading system. These determinants are mainly categorized into two groups, internal determinants and external determinants[12]. Every bank has its unique determinants of internal performance that affect the stock returns differently[13]. The CAMEL framework relates to the portfolio of internal indexes that indicate the internal performance or health of a financial institution. It stands for capital ampleness or adequacy, Asset quality, Management or administration effectiveness, Earning quality and liquidity[14].

Capital adequacy is the capital anticipated that would keep balance with the dangers or risks exposure of the monetary related organization, for example, credit hazard, advertisement hazard and operational hazard, so as to retain the potential misfortunes and protect the financial organization's debt holder[7]. Capital is a crucial internal performance determinant that has a direct relationship on the level stock return of a financial institution[15]. Asset quality measures the likelihood of non-payment on a loan combined with a measure of its marketability. Thus, asset quality is the estimation for which a bank would vend a loan to an outsider as determined by the borrower. The bank assets constitute of fixed and current assets, credit portfolio among other investments[15].

Management efficiency is fundamentally the resourcefulness of the leadership and management, to identify, measure, and control the dangers of a firm’s engagements and to guarantee the protected, sound, and proficient task in consistence with appropriate laws and directions[7]. Earnings quality represents the potential for a bank to realize stock returns that enable the organization to fund expansion, remain competitive and increase its capital. From the bank’s regulator viewpoint, earnings quality basis is to absorb losses and boost the bank’s capital[15]. It determines the bank stock returns and clarifies its supportability and development in income in future[16].

Liquidity is the bank's capacity to encounter its commitments, particularly that of contributors. Satisfactory stages of liquidity are specifically important to the bank's stock returns. To measure liquidity, management should use the proportion of liquid assets that is cash and due from banks, securities accessible to be purchased and government securities to the total assets[17].

Stock returns are the benefits that the financial specialists make out of the capital market. This return may be as a benefit through exchanging or as profits distributed by the organization to its investors now and again[18]. Stock return is the estimation of a stock's capacity to increment or lessening the abundance of its

investors. Return is regularly estimated by its change in cost. When the stock costs increases, the stock shows good return. Conversely, a decrease in price is a poor return[19].

Odongo[20] has studied the stock cost response to changes in capital adequacy control in the banking industry of Kenya. The investigation discovered that capital adequacy declarations prompts underperformance of stocks in the market as they had negative aggregate unusual return esteems especially in the post declaration dates. Another study by Rjoub, Civcir and Resatoglu[21] has also found that capital adequacy was insignificant in determining the stock returns and prices.

Mwaurah, Muturi and Waititu[22] studied the effect of financial risks on Stock Returns in Kenya. They revealed that asset quality was positively significant to stock returns. The findings were in contrary to observations of Hatfield and Lancaster[23] who stated that anomalous stock returns were fundamentally negative before the declaration date. The investigation by Rjoub *et al.*[21] showed that asset quality was statistically significant and negatively connected with bank stock return and costs. Moreover, the findings here are different with the study by Cooper *et al.*[24] and Gunsel[25] who recorded a negative association between asset quality and performance of banks.

Moreover, Aftab, Aftab, Ahamad, Ullah and Sheik[26] have analyzed the impact of bank proficiency on share performance. The outcomes uncovered that, a positive and noteworthy links exists between change in annual bank effectiveness and stock performance. A study by Rjoub *et al.*[21] has reported that management efficiency was statistically significant and negatively linked to bank stock returns and prices. This means that poor bank management leads to wrong lending decisions, which in turn decrease the identity of their loan growth rate. These observations reiterate those of Baele, De Jonghe and Vander Vennet[27] who report a negative association among management quality and stock return and price.

Wu, Lin and Fang[28] studied the examination of earnings quality and investor's stock return. The discoveries revealed a negative association between earnings quality and investor stock returns. Oduma[29] contemplate on the connection between earnings quality and securities exchange returns among organizations in NSE uncovered that the earnings quality was positively and significantly impacted the Stock returns among organizations in NSE in Kenya. The investigation by Rjoub *et al.*[21] found that earnings quality was positive and statistically significant. This means that an expansion in the proportion of cost to income proportion will increase bank's profitability, and subsequently increase the bank stock returns and prices. The finding here are as per Cooper *et al.*[24], who documented a significant positive connection between earnings and stock return.

Vo and Batten[30] researched the connection amongst liquidity and stock returns in the Vietnam securities exchange amid global economic crisis utilizing an informational collection going from a time range of 2006 to 2010. The outcomes from the investigation demonstrate that liquidity positively influences stock returns. It however differed with a study by Akram[31] who investigated the impact of liquidity on stock returns, with evidence from Pakistan. From the exploration he inferred that negative connection amongst liquidity and stock returns was there.

Statement of the Problem

The fallout of worldwide monetary crisis in 2008 has shown uncommon stock returns volatilities prompting colossal misfortunes and vulnerabilities on portfolio investing for domestic and international financial specialists. This phenomenon of increased complexities facing many firms with consideration to the capital and financial markets has solicited discussions at the academic and regulatory circles in a bid to find solutions to these challenges facing investors' capacity to reliably predict the most noteworthy and least stock return[32].

The CAMEL Framework is generally utilized supervisory instrument by specialists and the bank directors and also the national banks have been actualizing the CAMEL structure for assessing the performance of financial institutions[7]. Dang affirms that the CAMEL structure frequently utilized by researchers to intermediary the determinants of internal performance. Accordingly, the stakeholders should take necessary reactive and proactive measures towards the prosperity of the banks[33].

The empirical review reveals that despite vast research on determinants of internal and external performance of firms, an agreement has not been reached in connection between particular factors that impact stock returns. In addition, the restriction of past studies were that most of them utilized CAMEL framework and only focused on its relation to financial performance or profitability of banks, rather than the current investigation that established the relationship of five determinants of internal performance ratios to stock returns among listed commercial banks in Kenya. Therefore, the strive of this study was focused at employing the composite CAMEL framework for a time range of 10 Financial Years as an estimate of determinants of internal performance by exploring the relationship between determinants of internal performance and stock returns among listed commercial banks in Kenya.

II. Materials and Methods

Study Design: the investigation applied correlational research design. Correlational procedure is a factual measure of a connection among two or several factors that gives a prediction of how one variable may foresee another.

Study Location: Listed Commercial Banks in Nairobi Kenya.

Study Population: The target population for the exploration comprised eleven (11) commercial banks listed at the NSE and whose records contained the desired information. This was the annual financial reports for 10 financial years (Financial Year 2006/2007 to Financial Year 2015/2016). Commercial banks listed at the NSE were chosen because they earn income from several sources, that is, they no longer focus on only interest earnings from loans but seek to expand their income sources to various services they provide.

Sample Size: Eleven (11) commercial banks listed at the NSE and whose records contained the desired information.

Sample Size Calculation: Census survey was used in the study to select the sample.

Procedure Methodology: Document analysis was applied in the study because it gave an analytical procedure entailing finding, selecting, appraising, and synthesizing data contained in the banks' documents/ records with the desired details for the study.

Data Analysis: The descriptive statistics was utilized in evaluating the data using frequency tables, mean, range and correlation analysis. The techniques used in testing hypothesis for the exploration was multiple linear regressions as the data was ratios.

III. Results

Descriptive Statistics for Independent Variables Frequencies

Table 1 below presents the dispersion of the listed business banks capital adequacy for the 10 financial years.

Table 1: Capital Adequacy (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	10 – 19	61	55.5	56.5	56.5
	20 – 29	35	31.8	32.4	88.9
	30 – 39	6	5.5	5.6	94.4
	40 – 49	5	4.5	4.6	99.1
	50+	1	.9	.9	100.0
	Total	108	98.2	100.0	
Missing	999	2	1.8		
Total		**110**	**100.0**		

Source: Researchers (2018)

The independent variables frequencies showed that larger part of the bank's capital adequacy were between 10-19 percent (accounting to 55.5%), followed by group of 20-29 percent (accounting to 31.8%), then the group of 30-39 with a level of 6%, trailed by the gathering of 40-49 percent with a level of 5% and finally the gathering of 50 or above with a level of 1%.

Table 2 represents the dispersion of the listed business banks asset quality for the 10 financial years.

Table 2: Asset Quality (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 5	108	98.2	98.2	98.2
	5-9	1	.9	.9	99.1
	10+	1	.9	.9	100.0
	Total	**110**	**100.0**	**100.0**	

Source: Researchers (2018)

Dominant part of the banks' asset quality had a level of 5% or below (accounting to 98.2%), trailed by gathering of 5-9 percent (accounting to 0.9%) and lastly the group of 10 or above percentage of asset quality (accounting to 0.9%).

Table 3 below depicts the dispersion of the listed business banks management efficiency for the 10 financial years.

Table 3: Management Efficiency (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 10	29	26.4	26.4	26.4
	10 – 19	38	34.5	34.5	60.9
	20 – 29	32	29.1	29.1	90.0
	30 – 39	7	6.4	6.4	96.4
	40 – 49	2	1.8	1.8	98.2
	60+	2	1.8	1.8	100.0
	Total	**110**	**100.0**	**100.0**	

Source: Researchers (2018)

Majority of the banks management efficiency had a percentage between the group of 10-19 (accounting to 34.5%), followed by group of 20-29 percent (accounting to 29.1%), then the group of 10 or below percentage of management efficiency (accounting to 26.4%), %), trailed by the group of 30-39 (accounting to 6.4) and lastly the gathering of 40-49 and 60 or above was 1.8% for each group.
Table 4 represents the dispersion of the listed business banks earning ability for the 10 financial years.

Table 4: Earnings quality (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 – 39	5	4.5	4.5	4.5
	40 – 59	75	68.2	68.2	72.7
	60+	30	27.3	27.3	100.0
	Total	**110**	**100.0**	**100.0**	

Source: Researchers (2018)

The vast majority of the bank's earnings quality had a percentage between 40-59 percent (accounting to 68.2%), trailed by the group of 60 or above (accounting to 27.3%) and lastly the group between 20-39 percent of the earnings quality (accounting to 4.5%).
Table 5 represents the dispersion of the listed business banks liquidity for the 10 financial years.

Table 5: Liquidity (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-39	4	3.6	3.6	3.6
	40-59	9	8.2	8.2	11.8
	60-79	42	38.2	38.2	50.0
	80-99	42	38.2	38.2	88.2
	100-119	7	6.4	6.4	94.5
	120+	6	5.5	5.5	100.0
	Total	**110**	**100.0**	**100.0**	

Source: Researchers (2018)

The frequency found that larger part of the banks liquidity was a percentage between 60-79 percent (accounting to 38.2%) and the group between 80-99 also had also 38.2%, trailed by the group of 100-119 percent (accounting to 6.4%), then the group of 120 or above with a level of 5.5% and lastly the group of between 20-39 percent of the liquidity (accounting to 3.6%).

Descriptive Statistics for Dependent Variable

Table 7 below demonstrates the engaging synopsis insights of operational measure of dependent variable (stock returns).

Table 7: Descriptive Statistics for Stock Returns

	N	Range	Mean
Dividend Yield	101	48	4.23
Valid N (list wise)	101		

Source: Researchers (2018)

The descriptive summary insights results demonstrate that an average stock return estimated by dividend yield for the listed banks was 4.23. The discoveries likewise demonstrate that the range was 48 for dividend yield.
Table 8 represents the dispersion of the listed business banks dividend yield for the 10 financial years.

Table 8: Dividend Yield (Binned)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<= 10	97	88.2	96.0	96.0
	11-20	1	.9	1.0	97.0
	21-30	1	.9	1.0	98.0
	31-40	1	.9	1.0	99.0
	41+	1	.9	1.0	100.0
	Total	101	91.8	100.0	
Missing	999	9	8.2		
Total		**110**	**100.0**		

Source: Researchers (2018)

The findings regarding dependent variable (stock returns) frequency showed that greater part of the banks dividend yield was equal to 10% or below (accounting to 88.2%) and followed by those with 11% or above (accounting to 3.6%) and lastly the remaining 8.2% was missing.

Descriptive Statistics for Independent Variables Mean and Range

Table 9 demonstrates the engaging synopsis insights of operational measure of independent variable (determinants of internal performance; CAMEL Framework).

Table 9: Descriptive Statistics for Independent Variables

	N	Range	Mean
Capital Adequacy	108	47	21.03
Asset Quality	110	12	1.28
Management Efficiency	110	67	16.66
Earnings quality	110	45	53.25
Liquidity	110	113	79.96
Valid N (list wise)	108		

Source: Researchers (2018)

The independent factors results demonstrate that average capital adequacy was 21.03, the average of asset quality was 1.28, the average management efficiency was 16.66, the average earnings quality was 53.25 and finally the average liquidity was 79.96. The discoveries likewise uncovered that the range was 47, 12, 67, 45 and 113 for capital adequacy, asset quality, management efficiency, earnings quality and liquidity, respectively.

Correlation Analysis

Pearson's correlation was done to look at the connection between the autonomous or independent and dependent variables. The results were as presented in Table 10 below

Table 10: Correlations

		Dividend Yield	Capital Adequacy	Asset Quality	Management Efficiency	Earnings quality	Liquidity
Dividend Yield	Pearson Correlation	1	-.074	.372**	-.186	-.401**	.227*
	Sig. (2-tailed)		.467	.000	.063	.000	.023
	N	101	99	101	101	101	101
Capital Adequacy	Pearson Correlation	-.074	1	.072	.101	.123	-.031
	Sig. (2-tailed)	.467		.458	.300	.204	.753
	N	99	108	108	108	108	108
Asset Quality	Pearson Correlation	.372**	.072	1	-.147	.070	-.124
	Sig. (2-tailed)	.000	.458		.126	.470	.197
	N	101	108	110	110	110	110
Management Efficiency	Pearson Correlation	-.186	.101	-.147	1	-.028	.045
	Sig. (2-tailed)	.063	.300	.126		.769	.640
	N	101	108	110	110	110	110
Earnings quality	Pearson Correlation	-.401**	.123	.070	-.028	1	-.255**
	Sig. (2-tailed)	.000	.204	.470	.769		.007

	N	101	108	110	110	110	110
Liquidity	Pearson Correlation	.227*	-.031	-.124	.045	-.255**	1
	Sig. (2-tailed)	.023	.753	.197	.640	.007	
	N	101	108	110	110	110	110
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: Researchers (2018)

The discoveries of the correlations between the autonomous variables and the dependent variables uncovered that the capital adequacy had a weak insignificant negative correlation with dividend yield of (r= -0.074, p> 0.01). The asset quality had a medium significant positive correlation with dividend yield of (r=0.372, p< 0.01). The management efficiency had a weak insignificant negative correlation with dividend yield of (r= -0.186, p> 0.01). The earnings quality had a weak significant negative correlation with dividend yield of (r= -0.401, p< 0.01). Lastly the Liquidity independent variable had a weak insignificant positive correlation with dividend yield of (r=0.023, p> 0.01).

Hypotheses Test Results

Two hypotheses were tested for capital adequacy and management efficiency, and the findings were as indicated in Table 11 below.

Table 11: Hypotheses Test Results

Hypothesis	**p-value**	**Results**	**Remarks**
H_{o1}: *Capital adequacy has no significant relationship with stock returns among listed commercial banks in Kenya?*	Regression .651	Not Significant	Accepted
H_{o2}: *Asset quality has no significant relationship with stock returns among listed commercial banks in Kenya?*	Regression .000	Significant	Rejected
H_{o3}: *Management efficiency has no significant relationship with stock returns among listed commercial banks in Kenya?*	Regression .137	Not Significant	Accepted
H_{o4}: *Earnings quality has no significant relationship stock returns among listed commercial banks in Kenya?*	Regression .000	Significant	Rejected
H_{o5}: *Liquidity has no significant relationship with stock returns among listed commercial banks in Kenya?*	Regression .043	Significant	Rejected

Source: Researchers (2018)

IV. Discussion

The descriptive statistics from frequency table show that greater part of the commercial banks maintained a dividend yield that was equal to 10% or below for the 10 financial years under the study. The independent variables' frequencies revealed that more than half of the commercial banks preferred and maintained a capital adequacy proportion of between 10% and 19% representing 55% of the commercial banks. The discoveries of the investigation revealed capital adequacy, management efficiency and earnings quality had a negative correlation with stock returns, while asset quality and liquidity had a positive correlation. The regression evaluation uncovered that there was a strong significant positive direction between the observed and predicted values.

Capital adequacy in this examination found a negative relationship with stock returns and was the same to the investigation by Odongo[20] stock cost response to changes in capital adequacy control in the banking industry of Kenya. The investigation discovered that capital adequacy declarations prompts underperformance of stocks in the market as they had negative aggregate unusual return esteems especially in the post declaration dates. The study by Rjoub *et al.*[21] found that capital adequacy was insignificant in determining the stock returns and prices. This examination showed that asset quality had a positive relationship with stock returns like an investigation led by Mwaurah, Muturi and Waititu[22] on the effect of financial hazards on Stock Returns in Kenya. They revealed that asset quality was positively significant to stock returns. The findings were in contrary to observations of Hatfield and Lancaster (2000) who stated that anomalous stock returns were fundamentally negative before the declaration date. The investigation by Rjoub *et al.*[21] showed that asset quality was statistically significant and negatively connected with bank stock return and costs. Also, the findings here are different with the study by Cooper *et al.*[24] and Gunsel[25] who recorded a negative association between asset quality and performance of banks.

Management efficiency in this investigation found a negative association with stock returns. Aftab *et al.*[26] analyzed the impact of bank proficiency on share performance. The outcomes uncovered that, a positive and noteworthy links exists between change in annual bank effectiveness and stock performance. The study by Rjoub *et al.*[21] found that management efficiency was statistically significant and negatively linked to bank stock returns and prices. This meant poor bank management leads to wrong lending decisions, which in turn decrease

the identity of their loan growth rate. The finding is similar with the study by Baele, De Jonghe and Vander Vennet[27] who reported a negative association among management quality and stock return and price.

Earnings quality had a negative relationship with stock returns as estimated by dividends yield and similar relationship was found by Wu *et al.*[28] on the examination of earnings quality and investor's stock return. The discoveries revealed a negative association between earnings quality and investor stock returns. Oduma[29] contemplate on the connection between earnings quality and securities exchange returns among organizations in NSE uncovered that the earnings quality was positively and significantly impacted the Stock returns among organizations in NSE in Kenya. The investigation by Rjoub *et al.*[21] found that earnings quality was positive and statistically significant. This means that an expansion in the proportion of cost to income proportion will increase bank's profitability, and subsequently increase the bank stock returns and prices. The finding here are as per Cooper *et al.*[24], who documented a significant positive connection between earnings and stock return. In this study liquidity had a positive association with stock returns similar findings were established by Vo and Batten[30] who researched the connection amongst liquidity and stock returns in the Vietnam securities exchange amid global economic crisis utilizing an informational collection going from a time range of 2006 to 2010. The outcomes from the investigation demonstrate that liquidity positively influences stock returns. It, however, differed with a study by Akram[31] who investigated the impact of liquidity on stock returns with evidence from Pakistan. From the exploration he inferred that negative connection amongst liquidity and stock returns was there.

V. Conclusion

The research discoveries revealed that capital adequacy had a negative correlation for dividend yield. From the findings, it was established that there is not enough evidence to recommend that the correlation does exist between capital adequacy and stock returns among commercial banks in Kenya and hence not critical at the 99% certainty interval level. The regression discoveries revealed that capital adequacy had no significance at the 95% certainty interval level for stock returns as estimated by dividend yield. This is an indication that capital adequacy was not a major influence on stock returns among listed commercial banks in Kenya.

Asset quality had a positive correlation for dividend yield and the investigation found that there was sufficient verification to confirm that the correlation observed does exist in dividend yield. The regression discoveries uncovered that dividend yield; a gauge of stock returns was factually significant at the 95% certainty interval level. This is an indication that asset quality was a major influence on stock returns among listed commercial banks in Kenya.

Management efficiency had a negative correlation for dividend yield and in view of the findings there was no affirmation to illustrate the relationship was factually significant at the 99% certainty interval level. The regression results showed no statistical significance at the 95% certainty interval level for the measure of stock returns dividend yield. This is an indication that management efficiency was not a major influence on stock returns among listed commercial banks in Kenya.

Earnings quality had a negative correlation for dividend yield and was measurably significant at the 99% certainty interval level. The discoveries uncovered that there was enough evidence to affirm that the correlation does exist between earnings quality and stock returns. The regression result was factually significant at the 95% certainty interval level for the proportion of stock returns dividend yield. This was an indication that earnings quality was a major influence on stock returns among listed commercial banks in Kenya.

Liquidity had a positive correlation for dividend yield and the discoveries uncovered that there was no enough evidence to explain the correlation between liquidity and stock returns of listed commercial banks in Kenya was measurably significant at the 99% certainty interval. The regression discoveries revealed that liquidity was statistically significant with the stock returns as measured by dividend yield. This is an indication that liquidity was not a major influence on stock returns among listed commercial banks in Kenya.

VI. Recommendations

Commercial banks in Kenya are encouraged to furnish their staffs with far reaching information about CAMEL Framework to control the bank development rate in a positive direction such as enhancing the capital adequacy, improving asset quality and management, gaining earnings and strengthening liquidity. Banking investments among individual financial specialists in stock returns are increasing and hence the basic CAMEL supervisory framework knowledge can assist them gain better understanding about their investment without anyone else rather than to looking for the investment agencies. It will assist the investors in understanding the trendy situation of banks and their strengths and weaknesses. This can assist them make precise and timely decisions towards their investment.

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