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# Assessment of Corporate Profits on Performance of Commercial Banks in Tharaka Nithi County: A Case of Kenya Commercial Bank

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***Abstract***
*The financial business in Kenya has gone through various difficulties and changes through different establishments' monstrous disappointment since the 1980s. The financial area in Kenya has been entirely shaky as shown by the quantity of banks that have detailed benefit cautioning, diminish benefits and misfortunes. The study used a descriptive survey design. The study population was all the Kenya commercial banks in Tharaka Nithi County, Kenya. According to the statistics from headquarters of KCB, Kenya commercial banks in Tharaka Nithi have a total of 40 employees which formed the study respondents. Therefore, the study will not apply any specific sampling techniques since census will be applied. A Census of all employees working at KCB in Tharaka Nithi County will be included. The research tool used in this study was questionnaires. Questionnaires were personally administered to the selected respondents to ensure there is high return. The research utilized both inferential and descriptive analysis methods. Descriptive statistics incorporated the proportions of central tendency, for example, standard deviation and mean. Inferential insights incorporated multiple regression analysis and Pearson product moment correlation analysis. From the findings the bank's performance was positively and significantly related to corporate profits (Pearson's Correlation Coefficient of r = 0.734, p-value 0.001). The findings also indicate that there is a statistically significant positive relationship between banks performance and corporate profits ((Pearson's Correlation Coefficient of r = 0.524 at p-value of 0.012). Similarly, there is a moderate relationship between corporate profits performance (Pearson's Correlation Coefficient of r = .479 at p-value of 0.000).*

***Keywords:*** *corporate profits, performance, descriptive analysis and Census survey*

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## I. Background to the Study

Commercial banks are monetary middle organizations that activate investment funds from surplus financial units to shortage financial units. They are likewise specific budgetary middle organizations that prepare assets among contributors and borrowers taking an interest in an economy. How well they play out; this mediator work has direct linkage with banks' benefit and financial wellbeing. Banks' benefit has associations with the development and advancement of an economy (Ngure, 2014).

The fundamental wellspring of income in banks is benefits made through corporate profits contrasts on stores and loaning. Covering corporate profits directly affected income age and must be looked warily as the banks will have no choice rather to cut down the quantity of representatives on the off chance that they don't create enough cash to provide food for their working expenses. corporate profits covering is a type of government control in the monetary area. Over the ongoing years, there has been a decrease on the quantity of nations utilizing this type of control predominantly in light of the fact that most nations are targeting having liberal money related strategies (Peirce and Klutsey, 2016).

These large scale financial elements incorporate monetary development caught by total national output (GDP), loan fees, trade rates, and expansion rates. Loan fees are intensified by guidelines forced on banks. The impact of macroeconomic variables in different segments of the economy will consistently influence the financial segment. What goes on in the financial part will influence different areas of the economy (Wainaina, 2013). Commercial banks in Kenya assume a noteworthy part in assembling investment funds through their thick branch organization (Abdi, 2009). In creating nations, the vast majority gain less pay; consequently, it is answerable for the commercial banks to draw in them to spare by acquainting different stores plans with suit the necessities of individual contributors (Ondieki and Jagongo, 2013).

**Statement of the Problem**

The financial area in Kenya has been entirely shaky as shown by the quantity of banks that have detailed benefit cautioning, diminish benefits and misfortunes. Keeping with an easing back economy, development in banks' benefits is easing back as the principle wellsprings of incomes premium salary and exchange expenses evaporate. The area extent of complete pre-charge benefit declined to 26.4% from 35.8% because of a move of two banks to enormous companion gathering and two banks made misfortunes in 2017 when contrasted with one out of 2016 (CBK, 2017).

Corporate profits covering is a type of government control in the budgetary area. Over the ongoing years, there has been decay on the quantity of nations utilizing this type of control principally in light of the fact that most nations are targeting having liberal money related arrangements (Peirce and Klutsey, 2016). Studies directed around there have revealed struggle discoveries on the impact of loan fees determinants benefit of recorded business banks in Kenya. This study will try to address this information holes by zeroing in because of corporate profits on performance of commercial banks in Kenya.

**Objectives of the Study**

The study was guided by the following specific objective.

1. To assess the effect of corporate profits on performance of Kenya Commercial Bank Tharaka Nithi County

**Significance of the Study**

The study may be of importance to the banking sector as commercial banks may identify key interest rates determinants they have considered before that are of significant on their performance.

The findings of the study may also be of significant to the government and policy makers as it may enlighten on the implications of elements such as inflation rate on the performance of commercial banks. This may guide in the formulation of policies governing such economic factors.

Further, this study will be of significance to scholars and academicians as it will add to theory by expanding the utility of the theories adopted by the study and contributing to existing empirical knowledge on the effect of interest rate determinants on commercial banks' performance. It may also form the basis for future research to cover the gaps left out by the study.

**Scope of the Study**

The study specifically focused on assessing corporate profits on the performance of commercial banks in Tharaka Nithi County a case of Kenya commercial bank. The study focused on the commercial banks since their performance is of interest to the public. The study collected primary data from Kenya commercial banks employees in Tharaka Nithi county using questionnaires.

## II. Empirical Literature Review

**Effect of Corporate Profits on Commercial Banks Performance**

A research led by Gatsi, Gadzo, and Kportorgbi (2013) zeroed in on the impact of corporate pay on recorded assembling firms' money related execution in Ghana. The study utilized board information procedure covering ten recorded assembling firms more than seven years to experimentally decide the impact of corporate annual assessment on budgetary execution. The study uncovered that there is a huge negative connection between corporate pay and monetary execution. Then again, firms size, age of the firm, and development of the firm show a noteworthy positive relationship with monetary execution.

Another study directed by Edy Halim (2010) zeroed in on Indonesian public recorded assembling firms' showcasing efficiency and productivity. This study inspects the hypothetical connection between social duty, corporate administration, organization size, corporate benefit, and firms an incentive with regards to an assembling organization recorded at the Indonesia stock trade. The finding demonstrated that higher gainfulness could build the benefit of assembling firms. That was on the grounds that the organization can create benefits for investors with their capital possessed.

Ngure's (2014) study centered around the impact of loan fees on commercial banks' monetary presentation in Kenya. A focal exploration question was the reason commercial banks in Sub-Sahara Africa stayed more productive independent of the high-loan costs and unpredictable macroeconomic condition. This study looked to decide the impact of loan fees on commercial banks' budgetary exhibition in Kenya. The study utilized an elucidating research configuration utilizing auxiliary information acquired from the Central Bank of Kenya for a long time, from 2009 to 2013. Information got was dissected utilizing SPSS rendition 21, and results got tried for importance utilizing ANOVA. The study found that loan fees have a critical beneficial outcome on commercial banks' money related execution in Kenya at a 95% certainty level. The connection between loan fees and monetary execution was additionally direct, with expanded financing costs prompting higher productivity.

Ghobadian and O'Regan (2006) characterized corporate execution as an article's capacity to deliver explicit foreordained outcomes about a predefined target. There are different proportions of firm execution; for example, return on deals uncovers how much an organization gains about its business, return on resources clarify a company's capacity to utilize its benefits, and profit for value uncovers what return speculators take for their ventures (Almajali, Alamro and Al-Soub, 2012).

**Loanable Fund Theory**

This hypothesis can be credited to craft by British market analyst Dennis Robertson and Swedish Economist Bertil Ohlin (Khan and Mirakhor, 2015). The hypothesis advocates contend that administration amount is influenced by hazard just to the degree that a collection of different danger requires various degrees of data taking care of. The hypothesis contends that loanable assets can be ordered as data sources that go through commercial banks as mediators. The hypothesis likewise builds up the capacity to isolate loanable assets and other creation elements of significant worth included the improvement issue (Jakab and Kumhof, 2015).

Loanable assets can be characterized as the measure of cash offered for loaning and requested by borrowers for a given period (Jakab and Kumhof, 2015). The loaning model relies upon the connection between likely borrowers and savers. This hypothesis contends that financial specialists try to abuse the assets accessible to them in the market. Financial specialists center around expanding future pay by obtaining assets to make the most of speculation openings in the economy (Khan and Mirakhor, 2015). This hypothesis is viewed as a dynamic and upgrading hypothesis of activities that fuses creation models, budgetary middle people, and other portfolio speculations.

Mankiw (2013) explains that the bound together model gave the connection between resource portfolio danger and administration yield. Then again, portfolio hazard is utilized to decide the profit rates for credits and some other obtained reserves. Consequently, the bank creates a markdown rate, which is utilized to determine the current estimation of future benefits parts. The acquiring to happen, the get back from ventures, must be more prominent than the expense of obtaining (Akandwanaho, 2018).

**Conceptual Framework**

The presentation in Figure 1 shows the conceptualization of the relationship between the study variables. This framework shows the hypothesized relationship between the study variables as informed by the theories that underpinned the study.

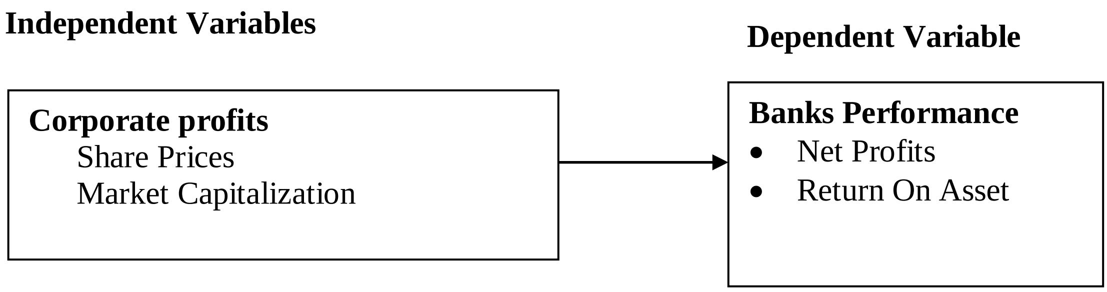


**Figure 1: Conceptual Framework**

## III. Methodology

**Research Design**

In this research, descriptive survey design was utilized to decide the impact of the independent variable on the benefit of recorded commercial banks in Kenya. Summary statistics from descriptive research include measurements of core propensity such as the mean, median, mode, deviance from the mean, variance, percentage, and association between variables. The method of calculation is popular in survey studies, but it also goes beyond descriptive statistics in order to draw inferences (Störrle, 2017).

**Target Population**

The study population included the 2 Kenya commercial banks in Tharaka Nithi County, Kenya. The respondents will be all the employees working for Kenya commercial banks in Tharaka Nithi County, Kenya. According to the statistics from headquarters of KCB, Kenya commercial banks in Tharaka Nithi have a total of 40 employees which will form the study respondents

**Sampling Procedure and technique**

A sample can be defined as a subset of a population that has been derived using representative methodology. The study targeted the 2 Kenya commercial banks in Tharaka Nithi, therefore, the study did not apply any specific sampling techniques hence census was applied. A Census of all employees working at KCB in Tharaka Nithi County was included. Lavrakas (2008) noticed that a Census is the deliberate method of obtaining and recording data pretty much all individuals from a given populace.

**Construction of the Research Instrument**

The research instruments utilized in this study are questionnaires. Questionnaires were administered to the chosen respondents. The benefits of questionnaires are that they are ideal and practical for an enormous populace, liberated from the analyst's own inclination, helpful for respondents who lean toward abundant reaction time, and speculations made are trustworthy and dependable. Faults incorporate a low return; they must be utilized for taught and helpful respondents, can't be changed once dispatched, and preclude explicit inquiries Kothari (2008). This study depended on questionnaires to gather essential information; thus it will incorporate both closed and open-ended questions.

**Data Analysis**

The study utilized both inferential and descriptive analysis techniques. Information was dissected utilizing SPSS programming rendition 23. Descriptive statistics will incorporate the proportions of focal propensities, for example, standard deviation and mean. Inferential measurements will incorporate board various relapse examination and Pearson's item second connection investigation. As indicated by Jackson (2009), a blend of both illustrative and inferential measurements improves discoveries' quality. With the assistance of exceed expectations, calculations prompting the operationalized factors were done. Board information assessment philosophy will be done on relapse examination to research the impact of loan fees determinants on the benefit of recorded commercial banks in Kenya.

**Reliability and Validity of Research Instrument**

Prior to directing the genuine overview, a pilot study was done on ten workers from Kenya Commercial bank in Embu County. The study oversaw the ten questionnaires to quantify the unwavering quality and legitimacy of the exploration questionnaires. Information unwavering quality of the poll was estimated utilizing Cronbach's alpha technique. Christensen, Johnson, Turner & Christensen (2011) noted that the threshold for Cronbach's Alpha varies among disciplines and the nature of the study. They argued that a value above 0.7 is generally accepted while a value of 0.6 is normally accepted for completely new instruments. The study adopts a Cronbach alpha of 0.7 which is accepted for instruments that are not completely new.

To test the legitimacy of the exploration instruments, the study depends on observational survey examination to ensure all the builds utilized in the estimation are legitimate and have been utilized by different investigations. The study additionally utilize specialists, for example, college instructors from the exploration office and different specialists from the survey of the applicable field in business enterprise matters, including college directors, to guarantee the legitimacy of the questionnaires is figured it out.

**Response Rate**

The researcher distributed 40 questionnaires to the respondents. Out of these, 38 questionnaires were filled and 2 returned unanswered representing a 95% response rate. The respondents who did not partake in the study cited busy and tight schedules as the reason for not participating in the study. According to Ott & Longnecker (2015), if a response rate is higher than 70%, then it can be considered sufficient for the study. Since the response rate for this study was 95%, it was deemed sufficient for the study. A summary of the response rate based the respondent is provided in table 1:

**Table 1: Response Rate**

| Branches | Total | Response | % Response |
|---|---|---|---|
| KCB Chuka | 25 | 24 | 96 |
| KCB Chogoria town | 15 | 14 | 93 |
| **Total** | **40** | **38** | **95** |

**Source:** Field Data (2020)

**Descriptive Statistics of the Study Variables**

The main objective of this study was to assess corporate profits of performance of listed commercial banks on Nairobi Securities Exchange using a case Kenya Commercial Bank Tharaka Nithi County.

Descriptive statistics regarding the corporate profits on performance is presented in Table 2.

**Table 2: Corporate profits on performance**

| Construct | Mean | Std. Deviation |
|---|---|---|
| Performance of listed commercial banks is determined by their share prices | 1.6316 | .88290 |
| Commercial banks market capitalization influence performance | 3.6842 | 1.18790 |
| Corporate profits impact significantly on commercial banks market share | 1.9053 | 1.19773 |
| Corporate profits have a significantly influence on revenue of listed commercial banks | 3.7368 | 1.05739 |
| Return on assets has a significant influence on return on assets of listed commercial banks in Kenya | 4.0263 | .91495 |
| Aggregate Mean | 2.3345 | |

**Source:** Field Data (2020)

Table 2 shows the summary of the respondents' views regarding the effect of corporate profits on performance of Kenya Commercial Bank Tharaka Nithi County. The respondents that participated in the study, respondents were generally agreed that performance of listed commercial banks is determined by their share prices with a mean of 1.6316. To a large extent, most respondents disagreed that commercial banks market capitalization influence performance with a mean of 3.6842. The distribution of their responses was however, diverse (standard deviation of 1.18790).

According to Mori *et al*. (2015), even though large boards have more diversity with regard to expertise, they often lead to conflicts, which can interfere with the smooth running and management of the organisation. Therefore, to a large extent, these findings support those of Mori *et al*. (2015). This findings are also in line with those of Karanja & Wagana (2017) who argues that performance of listed banks is determined by their share prices. However Berrone *et al*., (2010) findings are contrary to the findings as they findings concluded that banks market capitalization did not influence performance.

### 4.5 Correlation Analysis

Correlation analysis was conducted to find out the strength of relationship between the independent variable corporate profits and the dependent Variable (performance). Cooper (2006) notes that correlation analysis can help a researcher to find out if there is any relationship between the predictor and predicted variables based on the degree/strength and direction of the relationship. The coefficients of correlational analysis usually range from –1(negative 1) to +ve1 (positive 1) with positive values suggesting perfect positive associations while negative values suggesting perfect negative associations. If the coefficient of correlational analysis is 0, it implies the two variables are not related in any way. The findings of the correlation analysis are presented in Table 3:

**Table 3: Correlation Analysis**

| | | Performance | Corporate profits | Inflation rates | Liquidity |
|---|---|---|---|---|---|
| Performance | Pearson Correlation | 1 | .734** | .524** | .479** |
| | Sig. (2-tailed) | | 0.001 | 0.012 | 0.000 |
| | N | 38 | 38 | 38 | 38 |
| Corporate profits | Pearson Correlation | .734** | 1 | .147** | .544** |
| | Sig. (2-tailed) | 0.001 | | .000 | .006 |
| | N | 38 | 38 | 38 | 38 |

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

**Source:** Field Data (2020)

The results indicate the bank's performance was positively related to corporate profits (Pearson's Correlation Coefficient of r = 0.734, p-value 0.001). This is statistically significant in the sense that p-value is less than 0.05. Consistent to the findings, Edy Halim (2010), revealed that higher gainfulness could increase the value of assembling companies. This was due to the fact that the company would provide benefits for clients from the money it already has. In contrast to the study findings, Gatsi, Gadzo, and Kportorgbi (2013) established a huge negative connection between corporate pay and performance.

**Regression Diagnostics**

**Linearity tests**

Good research in the regression model requires that there is a linear relationship between independent and dependent variables.

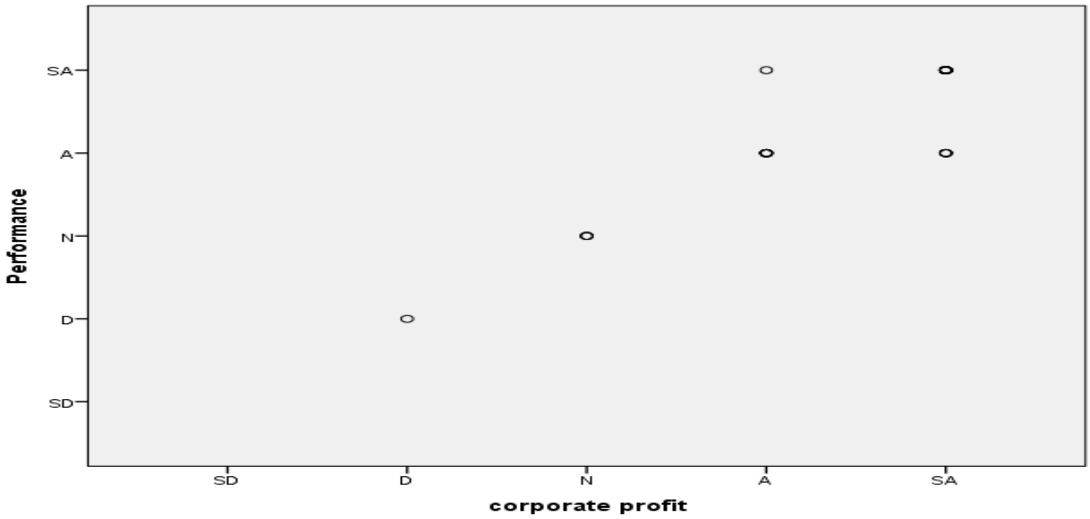


**Figure 2: Scatterplots performance against corporate profit**

The findings on linearity test shows that there was a linear relationship between performance and corporate profit.

**Normality test**

For Normality consideration, Shapiro-Wilk Test was applied. All of the data p values was greater than 0.05. The data does not deviate from the standard distribution in any statistically relevant way. As a result, the data is normally distributed.

**Table 4: Normality Test**

| | Shapiro-Wilk | | |
|---|---|---|---|
| | **Statistic** | **df** | **Sig.** |
| Corporate profits | .825 | 38 | .532 |
| Performance | .907 | 38 | .673 |

**Source:** Field Data (2020)

**Multiple Regression Analysis**

Regression analysis was used to determine the significance of the relationship between the corporate profits and performance of commercial banks in Tharaka Nithi County.

**Model Summary**

**Table 5: Regression Model**

| Model | R | $R^2$ | Adjusted $R^2$ | Std.Error |
|---|---|---|---|---|
| 1 | .781[a] | .601 | .598 | .1821 |

a. Predictors: (Constant), corporate profits

**Source:** Field Data (2020)

From the findings in the model summary table 5, the value of adjusted R squared was 0.598 indicating that 59.8 percent of the performance of the commercial banks could be explained by interest rate determinants corporate profits. This shows that 40.2% of the performance of the commercial banks can be explained by other factors, other than the interest rate determinants.

**Analysis of Variance (ANOVA)**

ANOVA test was performed to ascertain whether the model was fit or not for the study. The results obtained are summarised in table 6:

**Table 6: Results of ANOVA test**

| ANOVA[a] | | | | | |
|---|---|---|---|---|---|
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | 13.323 | 3 | 4.441 | 19.415 | 0.0022[b] |
| Residual | 12.123 | 53 | 0.229 | | |
| Total | 25.446 | 56 | | | |

a. Independent variables: corporate profits
b. Dependent Variable: performance

**Source:** Field Data (2020)

The research used the ANOVA approach to further examine the model's relevance. The regression model had a significance level of 0.0022, indicating that the data was excellent for forming a judgment on the population parameters since the value of significance (p-value) was less than 5%, according to the ANOVA statistics. The computed f value (19.415> 2.779) was higher than the critical threshold, indicating that corporate profits had a considerable impact on commercial bank performance. The model was significant since the significance value was less than 0.05.

## IV. Summary of the Results

**Corporate Profit**

From the findings the respondents agreed that performance of commercial banks is determined by their share prices with a mean of 1.6316. To a large extent, most respondents disagreed that commercial banks market capitalization influence performance with a mean of 3.6842. The study also found out the distribution of their responses was however, diverse (standard deviation of 1.18790). The results further indicated the bank's performance was positively related to corporate profits (Pearson's Correlation Coefficient of r = 0.734). From the findings it is evident that corporate profit (t=7.080, p=0.001) making it statistically significant in determining performance because of the high t-values.

## V. Conclusion

Overall, the study found out that corporate profit had a statistically significant impact on performance of Commercial Banks in Tharaka Nithi County. Therefore, Kenya Commercial Bank must strive to incorporate corporate profits in its strategic governance objectives if it were to enhance its performance. Specifically, Kenya Commercial Bank should re-engineer its strategic governance to incorporate corporate profits as necessary tools for competition.

## VI. Recommendations

The researcher made recommendations that Kenya Commercial Bank should re-engineer its strategic governance to incorporate corporate profits as necessary tools for competition. Kenya Commercial Bank must strive to incorporate corporate profits in its strategic governance objectives if it were to enhance its performance.

**Areas for Further Research**

The researcher made suggestions for the following further studies;

1. Since the research was capped to Tharaka Nithi County from the findings the researcher thought it prudent for a similar expounded study to be done on all banks in Kenya.
2. The research was limited to three variables the researcher thought it prudent to look into other determinants.

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