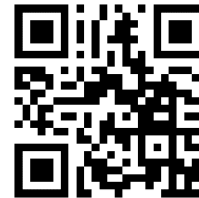


## Effect of Management Efficiency on Financial Performance of Commercial Banks in Kenya



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**ABSTRACT:** Performance of commercial banks has critical implications for economic growth of countries. The Kenyan banking sector remained resilient on the backdrop of turbulence, characterized by interest rate capping in 2015 and the prolonged electioneering period in 2017 which brought uncertainties in the banking sector. This study investigated the effect of management efficiency on financial performance of commercial banks in Kenya. Efficient market hypothesis and modern portfolio theory guided the study. The study adopted an explanatory research design. The study used 2009-2018 secondary consolidated panel data of 40 commercial banks from Central Bank of Kenya and International Monetary Fund. Time series econometric procedures of co-integration and Vector Error Correction model (VECM) were used so as to determine nature of the time series data and equilibrium relation between the variables. The VECM estimation results identified a significant short run and long run equilibrium relation between coefficient of management efficiency and financial performance of commercial banks in Kenya. The Coefficient of Management Efficiency was 0.2359,  $p=0.008<0.05$ . The coefficients of management efficiency were positive and significant at 5% level. This implied that for every unit increase in coefficient management efficiency would increase by 0.2359 units of financial performance of commercial banks in Kenya respectively in the long run. The findings indicated a significant co-integration relation between management efficiency and finance performance of commercial banks in Kenya. The VECM results also indicated that management efficiency and financial performance have a long run equilibrium during the study period. Managerial policies and strategies that are cost effective and productive efficient could raise the managerial efficiency and financial performance of banks. Based on the findings the study recommended that banks put a lot of focus on their own internal processes since management efficiency, had positive influence on their profitability policies.

### INTRODUCTION

#### 1.1 Background of the Study

Banks play a very important role in the economic development of nations as they largely wield control over the supply of money in circulation and are the main stimuli of economic progress. Financial performance of commercial banks is usually reflected in the firm's return on equity, return on assets and net interest margin. Good financial performance rewards the shareholders for their investment. This, in turn, encourages additional investment and brings about economic growth. On the other hand, poor banking performance can lead to banking failure and crisis which have negative repercussions on the economic growth (Wahdan and Leithy, 2017)

In the last two decades (1998-2018) studies have shown that commercial banks in Sub-Saharan Africa (SSA) are more profitable than the rest of the world with an average Return on Assets (ROA) of two percent (Flamini et al., 2009). This is despite a global recession. Other risks from external sources include; capping of interest rates, volatility of the exchange rate abrupt decline in commodity prices, rapid tightening of global financial conditions, and escalating trade tensions involving major economies.

In the transition economies of Central and eastern Europe (CEE), financial sector is dominated by banks rather than equity markets, even though financial system were not functional when communism system collapsed and the banks were not able to provide intermediary services in this countries (Haselmann, Watchtel, & Robot, 2017). The transition of the CEE banking system started in the late 1980's and early 1990's with the emergency of the banking sector in the planned economies, which included the process of bank privatization.

The financial performance of banks has critical implications for economic growth of countries (Ongore, 2013). The financial crisis of 2007–2009 reflected the importance of keeping bank profitability for national economy as well as global economy, under

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surveillance at all time. Poor bank performance has a negative impact on economic growth and development. Poor bank performance can lead to failures and crises. Banking crisis could entail financial crisis which in turn brings the economic meltdown as happened in the United States in 2007 (Wahdan and Leithy, 2017).

Commercial banks that have better financial performance are considered to have better ability to resist any negative shocks from the external environment and thus be able to contribute to the stability of a country's financial system (Athanasoglou et al., 2008). According to Wahdan and Leithy (2017), the financial performance of the banks is affected by the function of internal and external factors. Internal factors refer to the indicators derived from the financial statements of banks (balance sheet and income statement) and therefore can be regarded as specific factor of banks' profitability. External factors are variables that are not related to the management of the bank, but they reflect the economic and regulatory environment that affect indirectly in the operation and profitability of the banks (Ongore, 2013).

According to Ongore and Kusa, (2013), the most common financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposits. Other scholars use different financial ratio to measure liquidity. For instance, Ilhomovich (2009) used cash to deposit ratio to measure the liquidity level of banks in Malaysia. However, the study conducted in China and Malaysia found that liquidity level of banks has no relationship with the performances of banks (Said and Tumin, 2011).

Management efficiency is one of the banks specific factors that determine the financial performance. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Yet, it is one of the complexes subject to capture with financial ratios. Moreover, operational efficiency in managing the operating expenses is another dimension for management quality. The performance of management is often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems, quality of staff (CBK, 2017). 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 ratio of operating expenses to total asset is expected to be negatively associated with profitability. Management quality in this regard, determines the level of operating expenses and in turn affects profitability (Athanasoglou et al. 2005)

### 1.3 Banking Industry in Kenya

The banking sector in Kenya is governed by various Acts such as The Companies Act, the Banking Act, the Central Bank of Kenya Act and various other prudential guidelines that have been issued by the Central Bank of Kenya (CBK) over the years. The Kenyan commercial banks have come together under an umbrella body referred to as the Kenya Bankers Association (KBA), which serves as a lobby body for the members' interests and addresses issues affecting the registered commercial banks in the country (CBK, 2018).

As at December 31, 2018, the Kenyan banking sector comprised of the Central Bank of Kenya (CBK), as the regulatory authority, 43 banking institutions (42 commercial banks and 1 mortgage finance company), 9 representative offices of foreign banks, 13 Microfinance Banks (MFBs), 3 Credit Reference Bureaus (CRBs), 19 Money Remittance Providers (MRPs), 8 non-operating bank holding companies and 70 foreign exchange (forex) bureaus. Out of the 43 bank institutions, 40 were privately owned while the Kenya Government had majority ownership in 3 institutions (CBK, 2018). The CBK is normally responsible for formulating and implementing the monetary policy adopted by the Kenyan government and ensuring there is liquidity, solvency and proper functioning of the financial system in the country.

The banking sector in Kenya was liberalized in 1995 which led to the removal of exchange controls. Since then the Kenyan banks have realized tremendous growth and have expanded to the East African region. The financial services industry in Kenya is being impacted by the ever-changing consumer needs, innovative financial products, technological advancement and the use of multiple delivery channels. To remain competitive in the new landscape, banks have continued to introduce new products, expand the existing ones, and add new delivery channels. Banks strive to enhance access to customers as well as differentiating their products and services by use of alternative delivery channels such as e-banking and m-banking.

The Central Bank of Kenya which governs banks classifies commercial banks based on their assets. Tier 1 banks are large banks that have hundreds of billions in assets and are not likely to collapse financially. They are the top banks in Kenya. Tier 2 banks are medium-sized banks while tier 3 consists of small banks. The second-tier banks continue to wrestle out large banks in the control of market shares, with the share of deposits increasing particularly for medium banks and declining for large banks. Overall, there has been immense strategic shifts in the banking industry with: niche banks offering more options to consumers, increasing the number of banks to 43, 75% of the Kenyan population being served by various aspects of the financial sector, over 77% of Kenyans

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within 5kms of a service point, an increase of Agency Banking with over 35000 agents countrywide and an explosive growth of mobile money. In regional comparison, Kenya is only beaten by Mauritius and South Africa in the African Continent (CBK, 2018).

### 1.4 Statement of the Problem

The economic development of any country depends on the existence of a well-organized financial system. The banking sector acts as an engine in enhancing modern trade and commerce for business firms and individual traders (Melaku, 2016). Poor bank performance can lead to a financial crisis which in turn brings the economic meltdown as happened in the United States in 2007 (Marshall, 2009).

The banking sector in Kenya is faced with numerous challenges such as stock market illiquidity, economic depression and among other bank-specific and macroeconomic variables (CBK, 2018). Most of the studies on bank financial performance determinants have covered developed economies, whereas much less studies covered developing economies such as Kenya's economy. Some of these studies include Aburime (2008) in Nigeria, Al-Tamini (2010) in UAE and Clair (2004) in Singapore. Moreover, results of these studies have been inconsistent and conflicting. Ongore (2013) argue that macroeconomic variables insignificantly affect bank profitability whereas Athanasoglou et al., (2006) found mixed results with regard to macroeconomic variables. This presents a research gap.

Based on these studies and the varying gap on the consensus on the determinants of bank profitability, there is need to conduct the study in Kenya. This study therefore seeks to bridge this inconclusive gap and the methodological gap of generalization by establishing the effect of management efficiency on financial performance of commercial banks in Kenya.

### 1.5 Objectives of the Study

The general objective of this study is to determine the effect of management efficiency on financial performance of commercial banks in Kenya.

### 1.6 Research Hypotheses

**Ho<sub>1</sub>:** There is no significant effect of managerial efficiency on the financial performance of commercial banks in Kenya.

### 1.7 Significance of the Study

This study is aimed at generating knowledge regarding financial performance of the commercial banks sector in Kenya as at December 2018. The research investigated the effect of management efficiency on financial performance of commercial banks in Kenya. The results could help scholars and researchers, commercial banks in Kenya, policy makers and Central Bank of Kenya as a government agent.

## LITERATURE REVIEW

### 2.1 The Concept of Financial Performance of Commercial Banks

Menicucci and Paolucci (2016) assessed and analyzed the relationship between bank internal factors and financial performance of in European banking sector in order to evaluate the impact of internal factors on achieving high profitability. This study employed a regression analysis that was done on an unbalanced panel dataset related to 28 European banks over the period 2006–2015. The researchers used the largest bank of any single country of the European Union. Regression results revealed that capital adequacy ratio and bank size have positive impact on bank profitability in Europe, while higher asset quality results in lower profitability levels. Findings from this study also suggest that banks with higher deposit ratio tend to be more profitable. The findings provide interesting insights into the characteristics and practices of profitable banks in Europe.

Abel and Le Roux (2016) investigated the determinants of banking sector profitability in Zimbabwe for the period Q1 2009–Q2 2014. Overall the results from the study showed that banking sector profitability in Zimbabwe is mostly driven by bank-specific factors. The findings of this study show that the profitability of the banking sector is dependent on bank-level management variables. This result is very important for suggesting optimal policies to bank management on how they can improve the profitability for the banking sector.

Mehta and Bhavani (2017) examined the impact of various variables on banks' performance in the domestic commercial banking sector of the UAE, focusing on a sample of 19 banks over eight years (2006–2013) and using balanced panel data. The empirical results of the research clearly showed that the cost efficiency, maintaining a high capital adequacy ratio, and improving asset quality were the most significant variables that could impact the profitability of banks for all measures of profits. The researchers concluded that banks could have enhanced their profitability by diversifying into non-traditional source revenue, but that would have had a negative impact on the NIM

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Kumbirai & Webb (2010) investigated the performance of South Africa's commercial banking sector for the period 2005-2009 by employing ratio analysis. The study revealed that overall bank performance improved in the year 2005 and 2006. A significant change in trend is noticed at the onset of the global financial crisis in 2007 which cause to reduce profitability, liquidity and resulted in deteriorating credit quality in the South African banking sector

The economic growth of countries is built on the performance of the financial sector. In 2015 the Indian banking sector experienced a remarkable transformation on account of financial sector reform and economic development. Banks had faced severe competition and rise of cost as a result of regulatory requirements, financial and technological innovations, advent of foreign banks, and also challenges posed by the financial crisis of 2008. These changes had notably affected the performance of the Indian commercial banks and had also resulted into the expectation of boosting corporate credit growth of economy providing opportunities to banks for lending in order to fulfil these future requirements. In this direction, progressive efforts have been continually made to evaluate the performance of different banks measuring their financial position and effective management. The slowdown in domestic economy has influenced the performance of Indian banking sector during the period 2011-12. (Din Sangmi, 2015).

In Kenya, the performance of commercial banks had been influenced by various factors such as the prevailing economic conditions and the ownership structure. These determinants had influenced the performance in negative as well as positive ways depending on the management skills of the executives of the commercial banks.

During recent years, studies regarding the evaluation of bank performances, particularly commercial banks, have recorded an increase of attention to them. There were a number of empirical studies on evaluation of commercial banks performance. However much of these studies were done in developed countries, less in developing ones (Ayanda et al. 2013).

### **2.1.1 Return on Equity (ROE)**

This is the amount of net income returned as a percentage of shareholders' equity. Return on equity (also known as "return on net worth" [RONW]) measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The higher the return on equity, the more efficient the company's operations are making use of those funds.

### **2.1.2 Return on Asset (ROA)**

This is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. Khrawish (2011) investigates the performance of commercial banks in Jordan during the period from 2000–2010. The researcher found there are significant and positive relationships between ROA and the Bank Size, Total Equity/Total Assets ratio, Total Liabilities/Total Assets ratio, Net Interest Margin and Exchange Rate of the commercial bank. ROA gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is earning more money on less investment. ROA also can be used when comparing a company's performance between periods, or between two different companies of similar size and industry.

### **2.1.3 Net Interest Margin (NIM)**

Net Interest Margin (NIM) is a profitability ratio that measures how well a company is making investment decisions by comparing the income, expenses, and debt of these investments. The NIM ratio measures the profit a company makes on its investing activities as a percentage of total investing assets. Banks and other financial institutions typically use this ratio to analyze their investment decisions and track the profitability of their lending operations. This way they can adjust their lending practices to maximize profitability.

## **2.2 Management Efficiency and Financial Performance of Commercial Banks**

Management efficiency is one of the factors affecting financial banks performance (Ongore, 2013). According to Allen and Rai (2014), financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Efficiency can be measured in three ways; Maximisation of output, minimization of cost and maximization of profits.

A firm is regarded efficient if it's able to maximize the output from a limited level of inputs. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios.

The other important ratio is that proxy management quality is expense to asset ratio. The performance of management is quite often expressed qualitatively through subjective evaluation of management systems, organizational discipline, control systems,

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quality of staff, and others. Yet, some financial ratios of the financial statements act as a proxy for management efficiency. The capability of the management to deploy its resources efficiently, income maximization, reducing operating costs can be measured by financial ratios (Ongore, 2013). The ratio of operating expenses to total asset is negatively associated with profitability (Kumbhakar and Lovell, 2013).

### RESEARCH METHODOLOGY

#### 3.0 Area of Study

The area of research is in Kenya; a Sub-Saharan Africa (SSA) country in East Africa (EA) with a vibrant banking sector that is home to 43 commercial banks as at 31<sup>st</sup> December 2018. Those banks that started operation and discontinued in the middle of the period under review were excluded. Charterhouse Bank Ltd, Imperial Bank Ltd and Chase Bank (K) Ltd were under statutory management.

#### 3.1 Research Design

Explanatory research design was used in this study. According Ranjit (2005), explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon.

#### 3.2 Target Population

The target population of this study was all the 43 commercial banks operating in Kenya as at December 2018, Consistent with (Sufian and Chong 2008, Ayanda et al. 2013, Ongore and Kusa 2013). The Kenya banking sector comprises of; The Central Bank of Kenya (CBK), as the regulatory authority and 43 banking institutions (CBK, 2018). Charterhouse Bank Ltd, Imperial Bank Ltd and Chase Bank (K) Ltd were under statutory management.

#### 3.3 Source of Data

The data set for this study was extracted from the Central Bank, IMF and World Bank website covering years from 2009 to 2018.

### FINDINGS AND DISCUSSION

#### 4.0 Descriptive results of Performance Ratios; ROE,ROA,NIM

Figure 4.1 shows the trend of the three performance indicators in the period 2009 -2018. For, ROE, the results show that the ratio fluctuated between 20 and 30 percent with no major spikes in the period. Since a ROE of 15-20% is traditionally considered good for financial sector (Heikal, Khaddafi and Ummah, A. (2014), the Commercial banks in Kenya performed well because the results shows the ROE has consistently stayed generally around this recommended range. This implies the banks utilized the shareholder equity efficiently to generate profit. ROA, which measures the efficiency of banks in utilizing resources to generate profit, consistently remained lowest, below 5 percent, throughout the 2009 to 2020 period. Comparatively, banks consistently recorded higher ROE than ROA, an indication that the banks in Kenya could be over relying on financial leverage which has it's to raise equity (De Wet, & Du Toit, 2007). The NIM Ratio, a measure amount of money that a bank earning interest on loans compared to amount it is paying in interest in deposits, stayed around 8 percent throughout the study period.

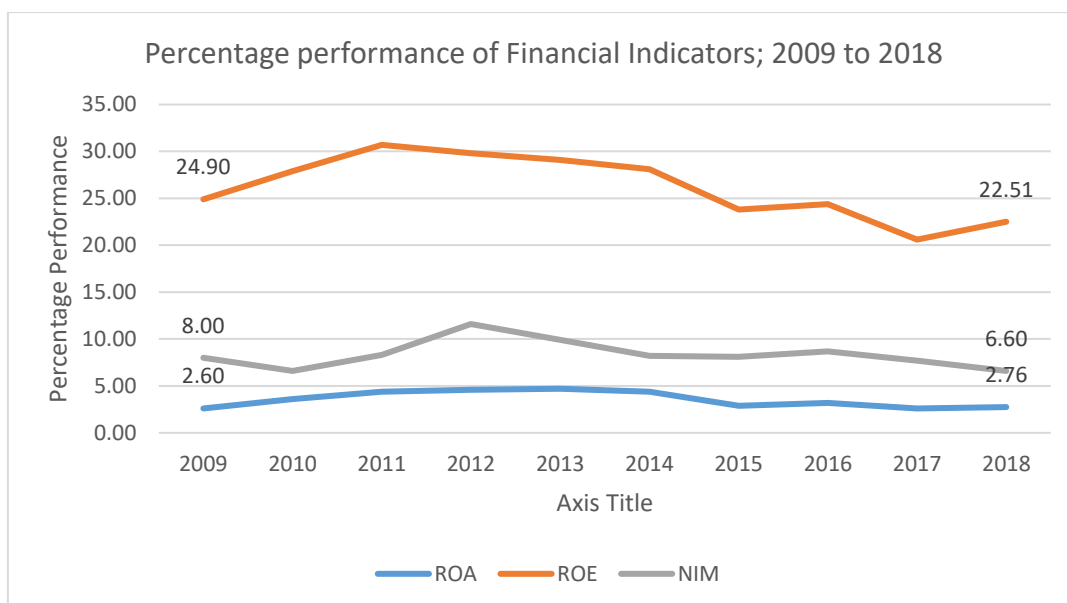


Figure 4. 1: Trend of Financial Performance Ratio's using annually aggregated data; 2009-2018

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### 4.1 The correlation results of the study variables

The Pearson's correlation coefficient is calculated in order to have an overview of the association between the studies variables, the results are given in Table 4.2

**Table 4. 1 Correlation results**

	MER	ROA	ROE	NIM
MER	1			
ROA	0.134949	1		
ROE	0.083279	0.912245	1	
NIM	0.796866	0.627052	0.512063	1

**Source: Research data (2021)**

Examining the financial performance indicators, it is observed that MER is positively associated with the profitability ratios; ROA (0.134), ROE (.083) and NIM (0.7968). The findings are in agreement with findings by Mathuva, (2009). Among the profitability ratios, ROA has strong association with ROE (0.9122) which means that the two series carry same information in explaining financial performance. Such that one ratio is a proxy for the other in the analysis of relation between financial performance and bank specific ratios. ROA and NIM (0.6271), the correlation is moderate. However, NIM and ROE are moderately correlated (0.5120).

### 4.2 Time series Regression analysis results

#### 4.2.1 The Unit Root Test

The ADF test of unit root showed that the all the series are non-stationary at level, except NIM series (Table 4.3). a series is stationary at level when it is has trend or non-constant variance before differencing The implication of this ADF test is twofold; lagged values of NIM have no influence on its future values and the non-stationary variables should potentially have long run equilibrium

**Table 4.2 Unit Root Test**

Series	ADF VALUE	P	CONCLUSION	Test at first difference
NIM	-6.180	<.001	Stationary	-
ROE	1.7181	0.6798	Not Stationary	Stationary
ROA	1.7181	0.6798	Not stationary	Stationary
MER	-3.6683	0.452	Not stationary	Stationary

**Source: Author (2021)**

The non-stationary series at level were differenced and the resultant differenced series tested for stationarity using the ADF. The first difference series were stationary at 0.05 significant level. This implied that the original non stationary series is order one, that is I (1). This satisfied one of the conditions of VECM because in the VECM framework, the vector of variables that are potentially co-integrated, should be of the same order at level and should be stationary at the at the same number of differencing (Campos, et al, 1996).

#### 4.4.2 Co-integration Test:

The empirical test result of co-integration in table 4.4 indicates the test statistics and the calculated values at 10, 5 and 1 percent significant level. The null hypothesis that number of co-integrations is zero is rejected in favour of the alternative that the number of integrations is one. The test statistic (207.46) is greater than the critical statistic at 10,5 and 1 percent level of significant.

**Table 4.3 Results of Johansen's Co-integration Test**

	Test	10Pct	5Pct	1Pct
r<=4	2.63	6.50	8.18	11.65
r<=3	39.55	15.66	17.95	23.52
r<=2	88.45	28.71	31.52	37.22
r<=1	144.36	45.23	48.28	55.43
r=0	207.46	66.49	70.60	78.87

**Source: Author (2021)**

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### 4.3 Vector Error Correction Model, VECM.

The presence of co-integration between variables suggests a long term relationship among the variables under consideration. Then, the VEC model is therefore applied.

**Table 4. 5 VECM model**

	ECT1	ECT2	INT	FP-1	MER-1
FP	- 1.350(.1580)* **	.202(0.093 9)*	.6385(.1285)* **	.241(.1150) *	.2359(.0840) **
T p	8.544, [.000]	2.151 .0377	4.989 [.000]	2.096 [.0426]	2.808 .008
MER	.095(.1952)	.160(.1160 )	.039(.1588)	- .0366(.1421)	- .318(.1039)* *
t p	.487 .629	1.379 .921	.246 .807	.258 .799	3.061 .004

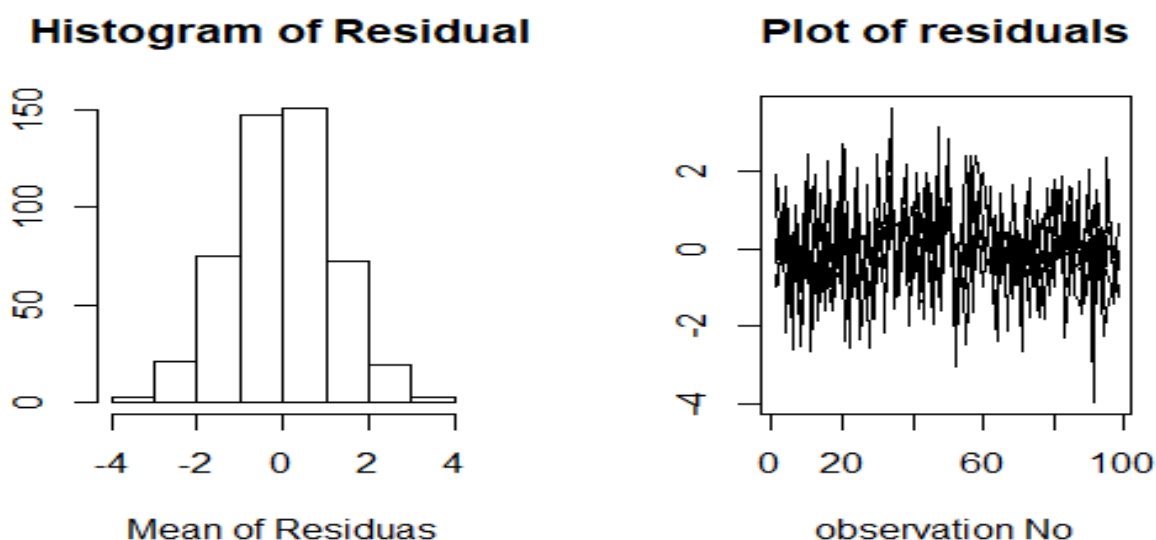
Source: Research Data (2021)

The short-term relation between the independent and dependent variable, Managerial Efficiency, MER has short run positive and significance influence on the commercial bank's performance (0.2359, t=2.868, p = 0.008). The short run coefficient result suggests that an increase in ME by 100 %, the FP increase by a significant proportion of 23.59%. Therefore, it is concluded that ME determines the performance of commercial banks in Kenya. The null hypothesis of no significant effect is therefore rejected at 5 % significant level.

### 4.5 Diagnostics

**4.5.1 Normality Test:** The normality assumption was investigated using plotting of the histogram of residuals. The histogram shown in figure confirms that the residuals are normally distributed. The JB statistics confirmed that the assumption is satisfied, (Chi-squared = 5.3715, p-value = 0.865).

**4.5.2 Heteroscedastic Test:** The heteroscedastic assumption in the frame work of time series measures the Autoregressive Conditional Heteroscedastic (ARCH) effect. The test result show that the model does not suffer from the ARCH effect has indicated by a non-significant p value. The p value is non-significant (Chi-squared = 1081.2, df = 1125, p-value = 0.8217) supported the no ARCH effect.



**Figure 4. 1 Histogram for test of normality, residuals for test of heteroscedasticity**

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### 4.5.3 Serial correlation

The model is tested using the Durbin Watson statistics for serial correlation, H<sub>0</sub> (null hypothesis): There is no correlation among the residuals against H<sub>A</sub> (alternative hypothesis): The residuals are auto correlated. The non-significant p value indicated that the model did not suffer from serial correlation and therefore all the information in the time series data is extracted (Shrestha & Bhatta, 2018)

Other tests of the time series-led models is model stability and test for structural breaks. The results in figure shows that the points are all within the 95% confidence interval, indicating no structural breaks. Considering the results of the tests, it is concluded that the model is adequate to explain the relation between bank specific factors on performance of commercial banks in Kenya.

### 4.6 Summary

The trend analysis of the study variables was investigated at initial stage with results indicating a gradual decrease of all the three profitability ratios especially from year 2012 to 2018. The trend further indicates that ROE stayed above ROA and NIM throughout the study year period. The descriptive results showed normal distribution with slight negative skew (ROE) and positive skew for NIM and ROA. The correlation results showed significant association between the bank indicator ratios and financial performance ratios. The data properties were investigated using the ADF unit root test that showed that all the variables are of order I (1). The normal OLS regression is therefore spurious thus necessitated the VECM. The VECM model showed two co-integrations with ROA and ROE as endogenous variables. The error correction coefficients in both equations are significant indicating a bidirectional causality. The error correction term in the ROE model indicated a significant long run equilibrium relation with model variables. In particular, the ROE and MER have both long run equilibrium relation as well as the short run equilibrium (0.2359(0.0840) \*\*).

**Table 4.6: Summary Results of the long run and short run equilibrium**

	Long run(ECT)	Short run	Findings	Conclusion
ME Sig.	0.0945(0.1952)	0.2359(0.0840)** 0.008	Sig Short Run	ME has significant influence on FP
<b>NOTE: Significant level '***' 0.001, '**' 0.01 and '*' 0.05</b>				

Source: Author (2021)

**Conclusion:** Management efficiency has a long run and short run equilibrium with financial performance of commercial banks in Kenya

**H<sub>0</sub>:** The Coefficient of management efficiency was 0.2359,  $p=0.008 < 0.05$ , which was positive and significant at 5% level. Hence the hypothesis, there is no significant effect of Managerial Efficiency on the financial performance of commercial banks in Kenya was rejected.

## 5.0 SUMMARY

A management efficiency ratio is a financial ratio designed to measure the efficiency of management in controlling the working capital or other resources used by the business. The results indicated that the ratio declined marginally from 9.13 (2009) to 8.18 (2018) similar to the trend elsewhere in most SSA countries. The findings supported a significant influence of management efficiency on financial performance, especially the short run equilibrium relation. This evidence supports and is in line with the efficiency structure theory which states enhanced managerial efficiency leads to higher performance. The hypothesis H<sub>04</sub> of no significant influence of Managerial Efficiency is rejected at 5 percent level. This implied that efficiency played a significant influence on financial performance of commercial banks in Kenya. The findings by Nasserinia, Ariff, and Fan-Fah (2014) also had the same conclusion, however, Duncan and Elliott, (2004) found no association. The presence of positive relationship between efficiency and financial performance for commercial banks in Kenya, suggests that the banks can improve financial performance through the multiple-minded pursuit of lower costs.

## 5.1 CONCLUSIONS

This empirical study showed that Management Efficiency significantly affect the performance of commercial banks in Kenya. It also shows a short run equilibrium relation between Management efficiency and financial performance of commercial banks in Kenya. Therefore, banks can turn around their performance by investing in efficiency process throughout the entire banking



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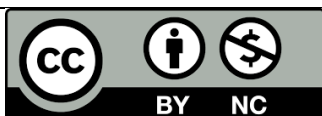
business. Managerial policies and strategies that are cost effective and productive efficient can raise the managerial efficiency and financial performance of banks.

### ACKNOWLEDGEMENTS

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