

# Effect Of Share Capital And Financial Performance Of Tier Three Commercial Banks In Kenya

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## Abstract:

**Background:** The impact of the 2008 and 2020 economic crises has been more profound on the industrialized economies in comparison to emerging markets, but the increase in globalization is threatening the traditional sustainability models that are usually employed to sustain or maintain a high financial performance amid an economic crisis. This study sought to investigate the effect of Share Core on the financial performance of tier 3 commercial banks in Kenya. The specific objectives were to examine the effect of share core capital SCC and accumulated retained earnings RE on the financial performance of Tier 3 Commercial Banks in Kenya. The study was grounded on the Agency Cost Theory.

**Materials and Methods:** The study employed a descriptive design since it focuses on Tier 3 commercial banks in Kenya. The study used secondary data from the Central bank of Kenya and audited financial statements that have been published by the commercial banks covering the period between 2012 and 2021. This study focused on the Tier 3 bank's Financial Structure against Performance measured by Profit after Tax (PAT). The findings from this study will help Commercial Bank's management, board of directors, employees, shareholders and all other stakeholders to identify gaps in their balance sheet management and optimization to ensure maximum profitability and maximization of shareholder's wealth. A data collection sheet was used.

**Results:** The study concluded and affirmed that Share Core Capital (SC) has a positive significant effect on financial performance. The results indicated that an increase in the shareholder core capital funds within the firm will result in improvements in the financial performance. The 1<sup>st</sup> and 2<sup>nd</sup> study objective posited that Share Core Capital (SCC) and retained earnings RE as measures of share capital had a statistically significant effect on financial performance of the Tier 3 Commercial Banks in Kenya. Now that the influence was found significant in both cases, the study rejected the hypothesis ( $H_{01}$  and  $H_{02}$ ) that there was no significant relationship between Share Core Capital (SCC, Retained Earning RE and financial performance of Tier 3 Commercial Banks in Kenya.

**Conclusions:** The study recommended that shareholders and regulators should put more focus on administration of these metrics and key ratios affecting them such as liquidity ratios and capital adequacy ratios. This will work to ensure that these banks grow and justify shareholders investments. The study findings indicated that share capital (Share Core Capital (SCC) and Retained earnings) had a positive and significant effect on financial performance of the Tier 3 Commercial Banks in Kenya. Bank board of management ought to actively evaluate additional equity capital associated with lower funding costs therefore widening the net interest margin and subsequently improving performance.

**Key Words:** Share Capital, Share Core Capital, accumulated retained earnings, financial performance.

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## I. Introduction

The study period starting 2008 was characterized with harsh economic climate because of the financial crisis that faced the world. Thereafter, organizations have tried to remain relevant and valuable amid such negative impacts. A healthy organization is measured by its managements' ability to efficiently utilize the firm's resources mostly reflecting the financial structure of the company to gain and contribute to the economy of their country. Therefore, owing to the implications that financial performance has on such institutions as the commercial banks, financial performance has raised a lot of interest and concerns to the management and other stakeholders of all organizations. Banking industry has a major role in most economies which facilitate their development and they are therefore extremely important engines of economic growth. This is because, they are

the important sources of finance in most economies for majority of the firms, they provide generally accepted means of payments since they are the main depository for the economy savings and finally, since most developing economies have liberalized their banking systems, their managers now have much freedom in how to run these banks in order to facilitate growth (Babatunde, Akinwunmi, Khadijah & Yusuf, 2014).

Share capital is used to represent a company's ownership capital in capital structure components. It is the company's permanent capital and cannot be removed at any moment. Owners take on the bulk of the risk, but they also benefit from profits. Their liability is limited to the money they invested. Capital is divided into two categories, according to Nawaz & Haniffa, (2017) (1) Contributed capital, which is the money that was initially invested in the company in exchange for stock or ownership, and (2) Retain earnings, which are profits from prior years that the company has retained and used to bolster the balance sheet or fund growth, acquisitions, or other strategic initiatives. If a company doesn't employ debt, return on equity will be used to calculate its return on invested capital. Simply put, a leverage-free firm's business risk will be determined by the standard deviation of its ROE. Equity capital is that part of capital which is free of debt and represents ownership interest in a firm. It is therefore that amount contributed by the owners and normally includes ordinary share capital, preferential capital, retained earnings and reserves. Like debt providers, equity providers also earn returns in form of dividends from the profits generated by the firm (Titman et al., 2011).

Preference shareholders receive their dividends at an agreed rate before the ordinary shareholders and any unappropriated profit is retained for firm's expansion programs (Titman et al., 2011). Iqbal, Muneer, Jahanzeb and Rehman (2010) asserts that finances can be classified based on different sources ranging from share capital, savings, bank loans, credit finance among others. Jape and Korde (2013) asserts that it can generally be classified as internal (from within the organization) and external (usually from outside the business enterprise). Given that they become partial owners of the company and that these dividends cannot be predicted at the outset, investors who donate equity capital to the company have a claim to the firm's future payouts. Businesses have the choice of internally raising capital by retaining earnings. The opportunity cost of retained earnings is the rate of return on dividend forgone by equity holders, and the cost of external equity is the minimum rate of return required by the shareholders on money they supply by investing in new shares to prevent a drop in the equity share's current market price.

Wamugo, et al., (2014) observed that balancing between liquidity and profitability is a major dilemma for most managers. Explaining why most firms have not found or formulated an appropriate financial structure that could maximize their profits. On the other hand, Jape and Korde (2013) contend that corporate finance focuses on the main decisions about financial investment, issuance of dividends and financing which, has resulted into greater attention being put on long term investment (capital structure) than on financial structure which addresses both current and long term aspects of corporate finance.

### **Problem of the Study**

Most commercial banks regardless of their categorization are yet to recover from the effects of the Covid-19 pandemic, which include substantial loan defaults. Despite the epidemic, Tier 1 banks such as cooperative bank have continued to struggle paying dividends to their shareholders, the least paying Sh1 per share for a total of Sh5.9 billion (Cooperative Bank Annual Report, 2021). At the same time, shareholders in tier 2 and tier 3 banks category continue to miss out on returns on investment, as the majority of lenders record poor earnings despite high operating expenses (Mutua & Atheru, 2020). This signifies that there has been a significant effect on the financial capital structure- share capital- which directly affects costs of these commercial banks as a result of the current financial situation in the commercial banking sub-sector. The bottlenecks and operational inefficiencies experienced in Tier 3 banks if not addressed will lead to liquidations, perpetual losses or below per earnings considering capital employed mergers and hostile takeovers. Past studies on financial capital structure relationship with financial performance have concentrated on investigating the direct relationship between financial structure and financial performance of companies and mainly investigating one component of financial structure at a time and failed to show how core capital and retained earnings as indicators of share capital relate towards the very performance. However, authors documented different results and explained various rationales in this respect. Some authors (Abor, 2010) found positive leverage-performance relationship, while others believe conversely and described debt as negative connotation. Mwangi et al., (2014) concluded that increased financial leverage has a negative effect on performance. It is argued that, contingency and situational factors Jermias (2008) result to contradictions and inconsistencies in the various studies that looked at the relationship between the various components of financial structure and performance. According to O'Brien (2003), misleading conclusions can be made while studying variables' direct relationship with performance. The intent of this research was to establish the relationship between share capital-measured in terms of core capital combined with supplementary capital and retained earnings on financial performance of the Tier 3 Banks in Kenya.

### **Objectives of the Study**

The general objective of this research was to assess the effect share capital and financial performance of Tier Three Commercial Banks in Kenya.

### **Research Hypothesis**

**H<sub>0</sub>:** There is no significant relationship between share core capital and financial performance of tier three commercial banks in Kenya.

### **Significance of the Study**

This research will be significant to the entire commercial bank sector and more importantly to the managers and the boards of management in the said banks who may use the results in this research to make informed decisions on optimizing their balance sheet and sweating capital optimally to improve on the main income lines for the banks. The research and its findings will be of great value to the policy makers and relevant government bodies as well as the regulatory bodies such as Kenya's capital market authority and the Central Bank of Kenya to formulate regulations on commercial banks financial risk management, liquidity management and corporate governance. The research will finally add to the knowledge body and will have a significant impact on the academic community both current and future researchers in the same discipline especially to the current theoretical and empirical literature on investments and the financial performance of tier 3 commercial banks and even any other categorized.

### **Scope of the Study**

The study recognizes the three tiers of the banking sector as classified by CBK. However, it will focus on Tier 3 banks conducting business in Kenya as going concerns between the year 2012 and year 2021 covering a 10-year period. Specific emphasis will be put on banks core capital, Customer Deposits, Retained Earnings and Institutional Borrowings.

## **II. Literature Review**

### **Agency Cost Theory**

This theory was proposed by Jensen and Meckling (1976) who held that structure of capital can be attainable through reducing different costs that result from conflicts that arise between the management and shareholders. What this means is that optimum financial structure can lead to a compromise between different financing alternatives either external or internal which allows or facilitates a reconciliation of different conflicts of interests mainly between finance suppliers and management (Grigore & Stefan-Duicu, 2013). This theory further focuses on how the relevant principal and respective agent are related. Hence it notes that such relationship are brought forth when one or even more stakeholders hire other individuals otherwise with an aim of ensuring performance of particular obligations as per agreement hence giving birth to delegation of decision making authority to the said agents (Lawal et al., 2014).

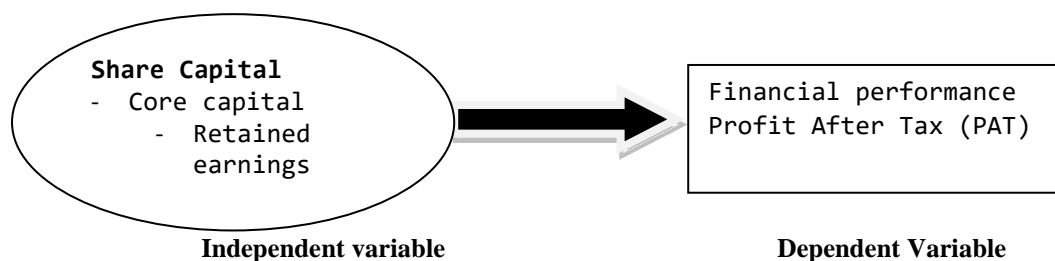
On the other hand Jensen and Meckling (1976) argued that a firm's financial structure is influenced by agency costs involved, these may include but are not limited to both debt and share capital issue. The costs involved when issuing share capital usually includes: principal monitoring costs (share capital holders), bond cost for the agent/manager, and decreased welfare as a result of divergent agent decisions among others. Numerous studies done have proved that there exists a relationship between firm's profits and its debts (Kanwal & Nadeem, 2013.; Titman & Wessels, 1988; Fama & French, 2002). Similarly, Hovakimian et al., (2001), argues that firms with high profits are most likely those with low levels of debt. In case firms use commercial debt financing then it implies that any growing company capable of higher leverage must always consider its financial structure (Almajali, Alamro & Al-Soub, 2012). As profits soar it is expected that leverage must be on the decrease as profits are a form of revenue. Although a study by Bhaduri, (2012) found out that a firm must manage debts towards a given desirable ratio. Over time, research conducted in developing countries has supported the agency theory as pointed out where the notion was not only held but also came out clearly in that a firm must always develop a desired priority list when it comes to financing.

The measures of financial performance are profitability which is the extent to which a business generates a profit from the use of land, labor, management, and capital. It is measured by net firm income from operations (NFIFO), rate of return on firm assets (ROA), rate of return on firm equity (ROE) and operating profit margin (OPM) (Miller & Modigliani, 1966). Net revenues available from normal operations after fixed and variable expenses have been deducted and for accuracy, it is calculated on an accrual basis. Operating profit reflects ability to generate revenues and control costs. It is revenue available to compensate debt and equity capital. The measure of operating profit at divisional level is EBIT (earnings before interest and taxes). EBIT is calculated before interest and income taxes, and hence reflects the divisions' profit and loss responsibility. The operating profit measure used at Group level is net operating profit. It comprises the EBIT of the divisions as

well as profit and loss effects that the divisions are not held responsible for, including income taxes and other reconciliation items. In actual sense, Rate of Return on Assets (ROA) is the net income generated by all assets, after labor has been compensated but before interest payments. It is the operating profitability per dollar of assets and allows comparison between different sizes and types of businesses (Nguyen & Nguyen, 2020).

Firm size acts as a proxy for the cost of hedging or economies of scale. Risk management involves fixed costs of setting up of computer systems and training/hiring of personnel in foreign exchange management. Moreover, large firms might be considered as more creditworthy counterparties for forward or swap transactions, thus further reducing their cost of hedging. The book value of assets is used as a measure of firm size. Rate of return on Equity (ROE) is the return after all labor and interest expenses have been deducted from the earnings. It measures the return to the owner of the business for their capital investment and can be compared to alternative investments. Liquidity (cash flow) is the ability of a firm business to meet financial obligations as they come due in the short term, without disrupting the normal operations of the business. It is measured by the Current ratio which is Current assets divided by the Current liabilities. It is a basic indicator of short-term debt servicing and/or cash flow capacity and also indicates the extent to which current assets, when liquidated, will cover current obligations. Firms with highly liquid assets or high profitability have less incentive to engage in hedging because they are exposed to a lower probability of financial distress (Mehmood, Hunjra & Chani, 2019).

Liquidity is measured by the quick ratio, i.e. quick assets divided by current liabilities). Commonly used financial ratios can be applied to evaluate the performances of operators and top management more accurately. Performance measurement is perhaps the most important, yet most misunderstood and most difficult, task in management accounting. Traditional accounting performance measurement employs financial techniques such as Return on Assets (ROA) and Return on Equity (ROE). These have been criticized for being backward looking, unable to measure intangible resources and not suitable for assessing performance of investments in new technologies and markets which firms require to successfully competing in global markets (Seoh, 2012).



### **Share Capital and Financial Performance Empirical Review**

In order to examine the effect of financial structure on organizational profitability among listed firms in Nigeria, Ishaya and Abduljeleel (2014) found that commercial debt is usually negatively correlated with firm profits besides the fact that share capital is directly related with profits of the firm. Secondary data was used which showed the findings were consistent with Shubita and Alsawalhal (2012) survey and also provide evidence against the agency cost theory. Share capital is commonly measured by the Book value which compares market of the shares as compared to firm value all as indicated in the financial reports. The above is done in ratio form by calculating price per share over share capital value. The value of capital refers to the difference between assets book value and total value to all financial obligations commonly known as liabilities and then it is divided over the outstanding share capital shares as indicated by the statement of the financial position. Thus from the above argument, the share capital net book value is equated to the equivalent value of remaining assets; this goes a long way in giving the net worth of the enterprise in case there is need for liquidation. Thus the net book value is a very critical component in the measurement of investor share in the firm. Mostly a consideration is made on the number of shares to portray the net value in terms of investment per share. This value is then divided over the share price.

Saeedi and Mahmoodi (2011) further noted that book ratio is commonly associated with the value of investment. When such a ration is low then it is considered that there is undervaluation of the stock. Equally, it could also imply that there is a fundamental issue that needs to be addressed in the organization. Usually since ratios vary depending on industry such a ration could also call for questioning if investors are paying unwarranted attention for an organization that is potentially bankrupt as up to this point, net book value can greatly influence decision of the investors in terms of buying shares of the firm under consideration. Additionally, the value of the book as compared to the shares can be a very critical baseline for valuation of stock under consideration. Although it must be at technical levels not be based on the need for liquidation since it may prove to be not only misleading but also it may not be the best reflection of the situation at hand.

In most cases shares have traded below such value only to be end up being a not a true value due to other market factors. Thus in case, the firm's book balance as reflected in statement of financial position is not in tandem with the above position then a low price ratio may be considered as a perfect indicator of an undervalued stock. Notably, the book value may not be the best consideration incase future is being evaluated as firm prospects usually change depending on market conditions – which not only shape an organization's equity but also trends in terms of interest of investors. An ongoing concern should be if the organization can always trade at a book value ratio while assuming other factors in the market (Iqbal et al., 2014).

To examine how businesses choose their capital structure in light of the pecking order and trade-off theories, especially when they have a leverage objective In contrast to the pecking order idea, equity is not the last alternative for financing, according to Zurigat (2009). They present evidence that suggests equity difficulties follow the finance gap somewhat more closely. For the years 1997 to 2005, they used data from 114 non-financial Jordanian businesses, 62 of which were industrial businesses and the rest were service businesses. The analysis of panel data was used.

Ishaya and Abduljeleel (2014) examined the capital structure and profitability of Nigerian listed companies from the standpoint of the agency cost theory and discovered that while debt has a negative correlation with profitability, equity has a positive correlation. For the years 2000 to 2009, a sample of 70 out of the 245 firms listed at the Nigerian Securities Exchange was used. The firms' panel data were created, and fixed-effects, random-effects, and Hausman Chi Square estimations were used to examine them. The results support Shubita and Alsawalhal's (2012) study and offer proof against the agency cost argument.

Maina and Kondongo (2013) evaluated the impact of leverage on the financial performance of listed companies in Kenya and found that debt had a considerably negative impact on profitability but had no impact on firm value. Descriptive, regression, and correlation analyses were performed on data for the years 2002 through 2011. While ROE and ROA were employed as proxies for financial success, Tobin's Q was utilized as a proxy for business value. Leverage was represented by debt to equity, debt to assets, and long-term debt to equity. These findings give conflicting and intriguing information. Debt exhibited a negative link with profitability, negating MM (1958) irrelevance argument while validating Tobin Q, which suggests that it eventually has an impact on the company value since a firm's value is the total of its debt and equity (which includes retained profits). This research will use core capital combined and retained earnings as the measures of share capital effect on financial performance.

### **III. Research Methodology**

This section included the research design, target population, operationalization of the variables as well as the data collection and analysis procedure. According to Bloomfield & Fisher, (2019), a research design describes the approach that is taken by the study. It describes the procedures that will bring together the different components of the study including the method adopted during the data collection process, data operationalization and measurement as well as its analysis. This study employed the descriptive design approach. This design was selected because it allowed the researcher to analyze facts and helps them to develop an in-depth understanding of the research problem. This design also allowed the study to clarify large volumes of data with few uncertainties (Ishtiaq, 2019). This is important as it enabled the study to derive patterns and traits exhibited from the data.

A target population is the unit of observation that the intervention intends to conduct research in and thus draw conclusions that will lead to the solution to the research problem (Liamputtong, 2019). According to the Central bank of Kenya (CBK statistics, 2022), there were a total of 22 tier three commercial. Considering the small number of the population, a census of the accessible population was considered. However, 5 Banks that have not been consistently conducting Banking business within the period of study were excluded Dubai Bank, Dubai Islamic Bank, Kingdom Bank, Mayfair Bank and Habib Bank. Censuses are studies of the entire population; therefore by including all the data for all the study's components, they increase the validity of the data and results (Saunders, Lewis & Thornhill, 2009). The study used secondary data from the Central bank of Kenya and audited financial statements that have been published by the commercial banks covering the period between 31st December 2012 and 31st December 2021. Secondary data collection sheet was used to ensure that all members of the population are captured. This study focused on the Tier 3 bank's Financial Structure against Performance measured by Profit After Tax (PAT). This data was then be cleaned by ensuring that all the correct values are represented in each period of the study. This study period was chosen because 2021 is the latest year with complete financial data. As a result, this study provided the most recent results. It was also prudent to investigate 10 years back to 2012 so as to give a comprehensive and definitive evaluation of the financial structure and financial performance of tier 3 commercial banks in Kenya.

Once the data was cleaned and coded, the data analysis process was conducted using Statistical Packages for Social Sciences (IBM SPSS) version 22.0. Tables were then be developed using Microsoft Excel. A Panel data regression model was then used to examine the relationship between the resulting dependent

variable and each independent variable, involving the fixed effect and random effect analysis. The fixed effects model according to Hausman assumes that individual groups/time have different intercept in the regression equation; while random effects hypothesize individual group/time have close intercepts. The error term thus captures the random effects due to the panels and the random errors. And for the random effect, this was taken as exceptional errors, for each panel, that has a normal distribution, 0 mean and no variance. To choose between the random or fixed effect, the Hausman specification test was employed, in case the null hypothesis is rejected. This study aimed at evaluating the share capital SC and financial performance FP of tier three commercial banks in Kenya. The VAR or VECM model was the multivariate time series function to be used. The independent variables of the study comprised of Share Core Capital (SCC), Retained Earnings, (RE). The dependent variable was financial performance of banks (FPB). The model specification is as follows;  $FPB = f(SCC, RE)$ .  $FPB_{it} = \beta_0 + \beta_1 SCC_{it} + \beta_2 RE_{it} + \epsilon$ ; Where  $FPB$ =Financial Performance of Banks,  $SCC$ =Share Core Capital,  $RE$ =Retained Earnings and  $\epsilon$ =Error term. F-test and T-tests was used to determine the model that best explains the variance in the dependent variable. Specifically, T-tests was used to assess individual regression coefficients of the independent variables while the F-test was used to assess the overall significance of the model.

**Heteroscedasticity Results**

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|---|
| Breusch-Pagan / Cook-Weisberg test for heteroscedasticity |
| Ho: Constant variance                                     |
| Variables: fitted values of Financial performance         |
| chi2(1) = 0.01  |
| Prob > chi2 = 0.0000                                      |

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Gujarati (2003) indicates that heteroscedasticity shouldn't be a problem until it is significant because it doesn't lead to erroneous parameter estimates Heteroscedasticity refers to regression disturbances with inconsistent variables across different observations (Garson, 2012). The study conducted a Breusch-Pagan / Cook-Weisberg test so as to identify heteroscedasticity in the disturbances of the regression model. The set of fitted model financial performance results indicated Prob > chi2 = 0.000 which was significant at five percent level (less than 0.05). This was an indication of a constant variance and no problem of heteroscedasticity.

**Autocorrelation Tests**

| Model                 | F-value | Durbin-Watson Statistic |
|-----------------------|---------|-------------------------|
| Financial performance | 19.77   | 1.79                    |

To test for autocorrelation, the study employed the Durbin-Watson statistics in testing for the presence of serial correlation within the data set. According to Mayring (2004) and Kuckartz, autocorrelation is the correlation between individuals in a set of observations that are organized in time or space (2014). Durbin-Watson Test was used in order to determine whether there is autocorrelation between the study's variables Autocorrelation is the correlation between values of a variable and lagged values of the same variable (Sharifzadeh, 2010). Gujarati (2009) observed that the Durbin-Watson statistic ranges from 0 to 4 with values from 1.5 to 2.5, an indication of no autocorrelation. The results above show a Durbin-Watson = 1.98; 1.79 which is less than 2.5 indicating there was no serial correlation in the model.

**IV. Research Findings and Discussion**

Descriptive statistics involved the extracted research data that was analyzed using SPSS VER.22 and confirmed using Stata and Version 15. The study dwelt on all the Tier 3 Commercial Banks in Kenya of which the researcher managed to acquire the needed data for all achieving a 100% response rate. Cooper and Schindler (2014) assert that any response rate above 60% meets the threshold for analysis of quantitative analysis and can be relied upon in making inferences for the whole population. Below is a summary of descriptive statistics. The researcher conducted quantitative analysis to establish the significance of some parameters like mean, standard deviation and or else otherwise.

**Table 4.1: Summary of Descriptive Statistics**

| Variable                               | OBS. | Minimum    | Maximum    | Mean         | Std. Deviation |
|--|------|------------|------------|--------------|----------------|
| Share Core capital (SCC)               | 50   | 116,616    | 10,495,302 | 3,144,007.28 | 0.2414         |
| Accumulated Retained Earnings          | 50   | -5,779,997 | 2,514,487  | -540,029.58  | 0.2303         |
| Profit after Tax and exceptional items | 50   | -2,023,883 | 1,079,115  | -40,372.60   | 0.4892         |

The findings above showed that on average the firms held 3.144007 million in Share Core Capital with a maximum holding of 10.495302 million and a minimum of 1.16616 million. The standard deviation was 0.2414 indicating moderate deviation in the Share Core Capital. The findings also indicated that the average Accumulated Retained Earnings within the selected firms was 6.091million with a standard deviation of 0.540029.58 which was an indication of a high accumulated retained earnings and performance within the Tier 3 Commercial Banks. However, a standard deviation of 0.2303 showed slight deviations across the firms. The results further indicated that on average, the Tier 3 Commercial Banks had institutional borrowings of 8.014. The findings also indicated there was a standard deviation of 0.859, implying moderate deviation in the size of the Tier 3 Commercial Banks from the average institutional borrowings. The average Profit after Tax and exceptional items for the firms was -40372.60 respectively during the time under observation (period covering the period between 31st December 2012 and 31st December 2021).

**Panel Data Model Specification Tests**

**Table 4.2: Model Output Fitted for Financial performance.**

| Variable  | (b) fe    | (B) re   | (b-B) Difference | sqrt(diag(V_b-V_B)) S.E. |
|---|-----------|----------|------------------|--------------------------|
| Share Core Capital (SCC)                        | 7.284446  | 7.043355 | .2410909         | .4381418                 |
| Accumulated retained earnings                   | -.5951007 | -.483099 | -.1120017        | .0933647                 |
| Chi Sq. Statistics = 1.92<br>Prob>chi2 = 0.5888 |           |          |                  |                          |

A Hausman test was key in determining the most suitable adoptable model between the fixed and random effects model. The test uses a null hypothesis of the suitability of a random effect model. A Chi-square statistic p-value of the Hausman test greater than 0.05 implies preference of a random effect model (Torres-Reyna, 2007). The findings indicated that on both sets of the panel regression models the values of the Prob>chi2 values greater than 0.05 which led to the study adopting the random effects model in the two sets of the regression analysis.

**Regression of Financial Structure and Financial Performance**

| Variable                      | Coefficient | Std. Error | Z      | P> z   |
|-------------------------------|-------------|------------|--------|--------|
| Share Core Capital (SCC)      | 7.0430      | 1.8220     | 3.870  | 0.0400 |
| Accumulated retained earnings | 0.4830      | 0.6930     | 0.700  | 0.0101 |
| _cons                         | 18.0770     | 14.1680    | -1.280 | 0.2020 |

The first study objective posited that Share Core Capital (SCC) and retained earnings has a statistically significant effect on financial performance of the Tier 3 Commercial Banks in Kenya. Findings indicate that Share Core Capital (SCC) positively and significantly affect firm’s financial performance, with a positive coefficient of 7.043 and P Value (P>|z| = 0. 0.0400<.05). Results also indicated that Retained Earnings RE positively and significantly affect firm’s financial performance, with a positive coefficient of 7.043 and P Value (P>|z| = 0. 0.0101<.05). This implies that a unit increase in either Share Core Capital (SCC) or and; retained earnings RE leads to increased financial performance of any given tier bank. The results were in agreement with Ishaya and Abduljeleel (2014) who examined the capital structure and profitability of Nigerian listed companies from the standpoint of the agency cost theory and discovered that while debt has a negative correlation with profitability, equity has a positive correlation. From the coefficient table above, the yielded a panel regression equation of the form;

$$FP_{it} = 18.0770 + 7.0430 SCC_{it} + 0.4830 RE_{it}$$

The researcher conducted the analysis of variance (ANOVA) based on the predictor variables; share capital, retained earnings. The results indicated that the 2 independent variables were significant towards the financial performance of the sampled firms and with a high impact F Value of 11.340.

**V. Summary of Findings, Conclusions and Recommendations**

The study concluded and affirmed that Share Core Capital (SCC) have a positive significant effect on financial performance. The results indicated that an increase in the shareholder core capital funds within the firm will result in improvements in the financial performance. Increased focus on retained earnings within the Tier 3 Commercial Banks in Kenya will result in less interest charges from other forms of investments thus improving the firm financial performance position. Now that the influence was found to be significant in both cases, the study rejected the hypothesis (**H<sub>01</sub> & H<sub>02</sub>**) that there was no significant relationship between Share Core Capital (SCC) and financial performance of Tier 3 Commercial Banks in Kenya and; retained earnings RE having a significant effect on Financial Performance means shareholders and regulators should put more focus on

administration of these metrics and key ratios affecting them such as liquidity ratios and capital adequacy ratios. This will work to ensure that these banks grow and justify shareholders investments. The study findings indicated that Share Core Capital (SCC) and retained earnings as measures of Share capital had a positive and significant effect on financial performance of the Tier 3 Commercial Banks in Kenya. As such, recommendations are for bank executives to actively seek additional equity capital associated with lower funding costs therefore widening the net interest margin and subsequently improving performance. This will also help Tier 3 Banks to take more risks and lend more.

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