

The Control Effect of Customer Loans on the Relationship between Bank Restructuring and Financial Performance: A Case of Commercial Banks in Kenya

Dr. Angela Mucece Kithinji

University of Nairobi – School of Business, Nairobi - Kenya

Abstract: Commercial banks in Kenya have undertaken restructuring so as to be more competitive, to restore bank solvency, to increase the banking sector capacity for financial intermediation and to improve financial performance. The main objective of the study was to investigate the relationship between bank restructuring, customer loans and financial performance of commercial banks in Kenya. The population of the study was the 44 commercial banks licensed and registered under the banking act to do business in Kenya. This study was able to gather information from financial statements of 39 out of the 44 commercial banks which were in operation for the period 2002 to 2014. Descriptive and inferential data analysis methods were used to analyze the secondary data gotten from the available financial records of commercial banks. The findings of the first model revealed that capital and asset restructuring were the only variables found to have significant influence on the performance of commercial banks in Kenya. In testing the customer loans as an intervening variable on the relationship between bank restructuring and financial performance, the study established that financial restructuring and capital restructuring were found to significantly cause an increase in the profit margin of commercial banks while operational restructuring and customer loans were found to have a significant negative effect on bank profits. The research concludes that the performance of most commercial banks in Kenya is determined through restructuring banks' financial and capital ratios and that the customer loans of banks is a significant variable in influencing financial performance of all banks. The study recommends that there is need to institute policy reforms geared towards viable restructuring and that to continuously improve bank performance banks should encourage more borrowing and funds from shareholders and banks need to continuously focus on restructuring rather than customer loans.

Keywords: Bank restructuring, Financial Performance, Commercial Banks, Customer Loans.

1. INTRODUCTION

Commercial banks an important role by providing a safe place for clients to keep their money by accepting deposits and extending loans to customers. In economies where commercial banks exist there is reduction of moral hazard, information asymmetry, adverse selection and transaction costs while financial market participants are able to monitor financial market activities (Berger & Humprey, 1997). Bank restructuring is paramount in enabling financial institutions to have sufficient assets, finances and other resources which necessitate their smooth running. Having the requisite debt levels or an optimal debt structure is important for banks such that the bank should not have too many liabilities (Mudambi & Nicosia, 1998). Sometimes banks are forced to borrow so that they can have sufficient amount of money to extend as loans to their customers. Adequate capital levels enable banks to have sufficient buffer to enable them to be profitable and to enable them to be able to extend more loans. The Central Bank requires commercial banks to have sufficient capital levels. Banks that do not have sufficient capital levels are placed under statutory management. Adequate capital levels means that the bank might not be highly leveraged and that the bank has the highest levels of efficiency (Osoro, 2014).

Banks with adequate capital levels are able to lend to many customers and are also able to lend significant amounts of loans. Banks need to adhere to the highest level of operational efficiency and that efficient bank operations make it possible to have banks that do not incur too much overhead costs. Incurring too much operational costs means that income earned from interest can be eroded by high operating costs (Dubel & Berlin, 2013). Banks need to control their overhead costs to ensure that interest high interest income is not eroded by high interest expenses. Asset quality is important in ensuring that loans extended are able to enable the bank as an institution make sufficient profits. If the quality of the loans is high, most loans end up being collectible and banks are not likely to have high levels of nonperforming loans (Ithiri, 2013).

The study was informed by the theory of financial intermediation (Merton, 1995; Scott, 2004) and the agency theory (Jensen & Smith, 2000). Hoenig and Morris (2012) observe that broadening banking activities is as a result of complications in bank management, market regulation, monitoring and risk management (Kwaning, Churchill & Opuke, 2014; Chang, Ciana & Hsiao, 2014). Bank restructuring is majorly undertaken to enhance financial performance and sometimes, to impose checks and balances to reduce the possibility of a financial crisis which may either have local or global implications (Birchil & Simmons, 2010). The main factors that lead to bank restructuring are; bank failures, low profits (Hoggarth *et. al.*; 2004), high level of nonperforming loans, depressed asset prices, sharp real increase in interest rates and mergers and acquisitions (Claessens *et. al.*, 2011). Additionally, banks that are inefficient, are small-size, undercapitalized, illiquid and banks at early stages of financial crisis may require bank restructuring (Hoenig & Moris, 2012). The timing mismatch of assets and liabilities, bank ownership and bank insolvency are other aspects that might influence the level and extent of bank restructuring (Stefan & Hoelscher, 2005). The need to increase banks branch network so as to improve service delivery and access many customers to be in tandem with economic development and economic growth forces banks to undertake operational restructuring (Ernst & Young, 2013).

Awarding credit is an important aspect in the entire banking sector. Banks are able to earn interest income from loans extended to their customers. With a thorough credit evaluation, loans extended end up being repaid. If the default rate increases banks have to provision for nonperforming loans or have to write off part of the loans. Having quality loans in the loan portfolio of banks is important to enable banks gain profitability through reporting good financial performance (Moore, 2003). This study restricts itself to customer loans extended by commercial banks. Among the loans extended by banks are consumer loans, business loans, real estate loans and foreign exchange loans among others (Barako, Ross & Brown, 2013).

The need to extend loans to customers to different types of clients explains the existence of financial intermediation role which focuses on the importance of having a meeting point for borrowers and lenders (Dupas & Robinson, 2009). The financial sector as the main intermediary between savers and borrowers on the one hand and investors on the other is an essential link in the banking sector market. Essentially they perform the role of agents for market participants who contract with them to obtain financial services with the main objective of increasing financial performance of banking institutions (Chang, *et. al.*, 2014). To enhance profitability, commercial banks need to earn high net interest income which means that interest rate on deposits has to be relatively low to avoid eroding high interest income (from loans) with high interest expense (paid to depositors). In developing countries foreign banks provide a wide range of financial services and have greater margins and profits than domestic banks which are majorly governed through local ideologies. Foreign large banks are also more modernized and are more efficient than their local counter parts (Kwaning, Churchill & Opuke, 2014).

Commercial banks in Kenya are regulated by the Banking Act and are continuous supervised by the CBK. CBK issue key guidelines whose focus is to formulate and implement the financial policies which enable the banks to achieve stability in market, foster liquidation, ensure proper functioning as well as their solvency. Commercial banks in Kenya have undertaken restructuring to mitigate against bank failure, as an aspect of financial sector reform, as part of the government divestiture programme, to improve performance, to be more competitive, to improve bank solvency and to increase the banking sector capacity for financial intermediation (CBK, 2007). Commercial banks are expected to be profitable and efficient as they play their role of mobilizing deposits from savers and channeling funds to borrowers for them to survive in the long run. To improve efficiency commercial banks have embraced modernized banking halls, broad ATM network, state of art technology, widespread branch network and agency banking. As at 31st December 2014, the sector that deals with banking activities comprised of the Central Bank of Kenya, as the regulatory authority, 44 commercial banks including 1 mortgage company and 7 representative offices of foreign banks. Out of the 44 commercial banks, 30 banks were locally owned comprising of 3 banks with public shareholding and 27 privately owned banks while 14 banks were foreign owned (CBK, 2014).

2. CONCEPTUAL FRAMEWORK

The conceptual framework illustrated in Figure 1 was guided by the empirical research in filling the gaps identified from the review of empirical literature. From the model, bank restructuring is the independent variable, which will be measured using financial, capital, operational and asset restructuring; while financial performance is the dependent variable. Bank restructuring is expected to lead to an increase in financial performance (H₁).

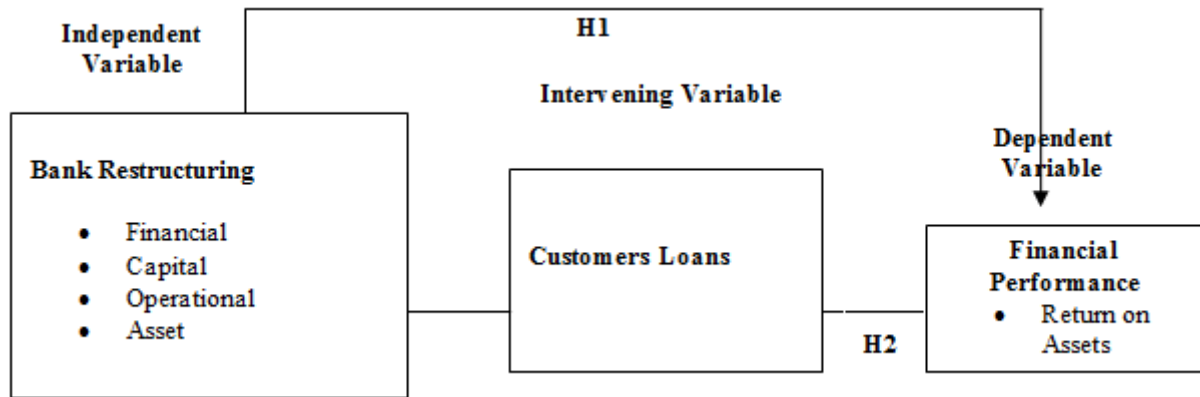


Figure 1: Conceptual Model

Source: Author (2018)

Financial performance was measured using return on assets. Customer loans variable was tested as an intervener in the relationship between bank restructuring and financial performance, and was measured using total loans to total assets. The higher the customer loans, the higher the volume of mobile transactions, the bigger the branch network, the more the ATMs, the more the bank agents and the better the technology, the easier it is to undertake the restructuring process and the more profitable the commercial banks are expected to be. Bank restructuring increases the scope of financial services extended by banks and is expected to increase financial performance of banks (H₂).

3. RESEARCH METHODOLOGY

The study employed descriptive research design on a census of all the 44 banking entities registered under the banking act which were carrying out banking business in Kenya. This study used secondary data for the period 2002 to 2014. This period was selected because this is the period when the Kenyan economy implemented the multiparty system of Government. There was banking crisis due to economic decline that occurred from 1998 to 2001 inclusive. A four step approach in data analysis as suggested by Sekaran (2006) was then undertaken which included; obtaining the data in the form ready for analysis (editing the data for accuracy, consistency and completeness); taking the data to analyze (descriptive statistics), testing for multicollinearity and other relationships, testing the goodness of fit and finally testing the hypotheses. Descriptive statistics that were estimated in this study were: means, standard deviations, skewness and kurtosis. The following empirical models state the various relationships discussed in the conceptual model that were subjected to statistical significance tests. The regression analysis model facilitated the analysis of the data in this study. The dependent variable was profitability while the independent variable was bank restructuring with customer loans being the intervening variable.

The dependent variable was profitability which was measured using Return on Assets (ROA) and independent variable was measured using bank restructuring denoted as financial restructuring, capital restructuring, operational restructuring and asset restructuring. Bank restructuring was disaggregated into financial, capital, operational and asset restructuring and fitted into the regression model of the form;

$$ROA_{it} = \alpha_{r11} + \beta_{rf1} FR_{rit} + \beta_{rc1} CR_{rit} + \beta_{ro1} OR_{rit} + \beta_{ra1} AR_{rit} + \epsilon_{r11} \dots\dots\dots 1$$

Where: ROA is return on assets, FR is financial restructuring, CR is capital restructuring, OR is operational restructuring, AR is asset restructuring, α_{r11} , is the constant term, β_{rf1} , β_{rc1} , β_{ro1} , and β_{ra1} are the regression coefficients, i is income for bank i and t is the year when the bank earns the income while ϵ_{r11} is the error term.

The intervening effect of customer loans on the relationship between bank restructuring and financial performance is stated in equation 2.

$$ROA_{it} = \alpha_{r33} + \beta_{rf3}FR_{rit} + \beta_{rc3}CR_{rit} + \beta_{ro3}OR_{rit} + \beta_{ra3}AR_{rit} + \beta_{rl3}CL_{rit} + \epsilon_{r33} \dots\dots\dots 2$$

Where FR, CR, OR, AR are as indicated in equation 1, CL is customer loans and β_{rf3} , β_{rc3} , β_{ro3} , β_{ra3} , β_{rl3} and β_{rl3} are the coefficients.

4. RESEARCH FINDINGS

Descriptive Statistics:

Table 1 is a summary of the main variables and the number of observations relating to each variable. The table shows the descriptive statistics for the dependent variable which is the financial performance, the independent variables which are financial restructuring, capital restructuring, operational restructuring and asset restructuring, the intervening variable was customer loans. The number of observations for the study was 13 observations for each bank for the 39 commercial banks. The years when restructuring was not done the value was taken to be zero. The 39 banks are further explained by the fact that some banks were not consistently in business during the period of study. Although the banks which were the subject of analysis were the banks that were registered to do business as at 31st December 2014, some banks were registered to do business during the study period. Banks such as UBA bank and Jamii Bora bank among others were registered to do business under the banking act after 2002. Although Charterhouse Bank was listed as one of the banks registered by CBK as at 31st December 2014, data for this bank was not available for the period 2007 to 2014 inclusive but the data for the bank that was available for the years 2002 to 2006 inclusive was also not included in the analysis.

Table 1 shows that the mean values for financial performance was 2.75% of the value of total assets with a variation of 2.396%. The data observations of financial performance had positive skewness as well as positive kurtosis. Financial restructuring had a value of 6.22% as a proportion of total assets with a variation of 15.726%. capital restructuring had a mean value of 13.93% as a proportion of total assets with a variation of 7.365%. Operational restructuring had a mean of less than one branch and a standard deviation of less than one branch, an indication that banks take some significant amount of time before they increase or decrease or increase or reduce the number of branches and ATMs. The other possible explanation is that only a few banks appear to restructure their operations by increasing or decreasing their branches and ATMs. Additionally when some banks are increasing their branches, others might be reducing theirs which might explain the insignificant mean and the small standard deviation of operational restructuring. Asset restructuring had a mean value of 8.45% to total loans with a variation of 11.09%.

The results show that financial restructuring, capital restructuring, operational restructuring and asset restructuring had positive skewness meaning that the data observations are skewed to the right. The positive kurtosis z-value shows that the data observations are normally distributed. The minimum values for the four bank restructuring variables was 0.00 while the maximum values were 0.94, 0.46, 0.40 and 0.84 for financial restructuring, capital restructuring, operational restructuring and asset restructuring respectively. The financial restructuring maximum level of 94% of total assets reveals that there are banks in Kenya that have significant levels of debt. The 46% level of capital as a proportion of total assets reveals that some banks have significant capital levels.

Operational restructuring maximum value of 0.40 shows that a combination of branches and ATMs are generally less than one. The 84% maximum value of asset restructuring means that nonperforming loans to total loans is significant for some banks. The mean customer loan levels of 51.52% of total assets are significant. The results of customer loans showed negative skewness and positive kurtosis of 0.046 and 0.417 respectively. The results therefore show that the bank independent variables as measures of restructuring have positive skewness and positive kurtosis when intervened by customer loans. The implication is that intervening the relationship between bank restructuring and financial performance using customer loans and does not affect the normality of the data.

The implication of the intervening variables is that the intervention does not interfere with the normality of the data observations. The estimates of the data indicate that the dependent variable as measured using financial performance is normally distributed. The independent variables as measured using financial restructuring, capital restructuring, operational restructuring and asset restructuring are normally distributed. When the intervening variable which is customer loans is introduced in the relationship it does not interfere with the normality of the data.

Table 1: Summary Statistics of Study Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness			Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Z - Value	Statistic	Std. Error	Z - Value
Financial Performance	507	0.00	0.37	0.0275	0.02396	5.832	0.108	0.019	76.931	0.217	0.003
Financial restructuring	507	0.00	0.94	0.0622	0.15726	3.855	0.108	0.028	14.929	0.217	0.015
Capital restructuring	507	0.00	0.46	0.1393	0.07365	0.787	0.108	0.137	1.794	0.217	0.121
Operational restructuring	507	0.00	0.40	0.0510	0.04151	3.567	0.108	0.030	19.884	0.217	0.011
Asset restructuring	507	0.00	0.84	0.0845	0.11099	3.181	0.108	0.034	13.020	0.217	0.017
Customer loans	507	0.00	0.99	0.5152	0.19580	-0.392	0.108	-0.276	0.520	0.217	0.417

Source: Research Findings

5. INFERENCE ANALYSIS

Correlation Analysis:

Table 2 presents the effect of Pearson correlation that independent variables which in this study were financial restructuring, capital restructuring, operational restructuring and asset restructuring; as well as intervening variable that was represented by customer loans have on financial performance of commercial banks in Kenya.

The results indicate that financial restructuring provided a positive association by 10.6%. An increase in capital restructuring has the probability of increasing the financial performance by 27.2%. On the other hand, the results on operational restructuring show that this variable has no association with financial performance. This is due to the fact that the process of operational restructuring is usually accompanied by huge amount of costs. Furthermore, there is no association between asset restructuring and financial performance. Likewise, loans given to customers are not correlated to financial performance.

Table 2: Correlation Analysis of Bank Restructuring and Financial Performance

		Financial Performance	Financial restructuring	Capital restructuring	Operational restructuring	Asset restructuring	Deposits	Customer loans
Financial Performance	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	507						
Financial restructuring	Pearson Correlation	.106*	1					
	Sig. (2-tailed)	.017						
	N	507	507					
Capital restructuring	Pearson Correlation	.272**	.054	1				
	Sig. (2-tailed)	.000	.224					
	N	507	507	507				
Operational restructuring	Pearson Correlation	-.022	-.009	.207**	1			
	Sig. (2-tailed)	.620	.840	.000				
	N	507	507	507	507			
Asset restructuring	Pearson Correlation	-.060	-.068	.309**	.166**	1		
	Sig. (2-tailed)	.180	.127	.000	.000			
	N	507	507	507	507	507		
Customer loans	Pearson Correlation	.051	.091*	.228**	.280**	-.103*	.336**	1
	Sig. (2-tailed)	.253	.042	.000	.000	.020	.000	
	N	507	507	507	507	507	507	507

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

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

Source: Research Findings

Regression Analysis:

Table 3 illustrates the regression results estimating the effects of constructs of bank restructuring namely financial restructuring, capital restructuring, operational restructuring, and asset restructuring on the financial performance of commercial banks. The model summary of a linear relationship between financial performance and bank restructuring variables provided an estimated R^2 value of 0.107. This means that a combination of financial restructuring, capital restructuring, operational restructuring and asset restructuring can account for 10.7% of the variations in financial performance of commercial banks in Kenya. This could indicate that there exist other factors not included in the study which explains the remaining 89.3% of variation in the financial performance. Therefore, this could imply that the presence of the other factors would improve the predictive model of bank restructuring on financial performance.

The ANOVA of regression model provided the regression sum square of 0.031 and a model residual's of 0.260 with a mean square of 0.008 for the regression and 0.001 for the residuals. The Analysis of Variance (ANOVA) results produced an F -significance value 15.020 and a $p < 0.000$. This is an indication that the probability of this model giving false prediction is 0.0%. Therefore, this study's hypothesis that there is no significant relationship between bank restructuring and financial performance of commercial banks in Kenya is rejected.

Table 3: The Effects of Bank Restructuring on Financial Performance

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate					
1	0.327 ^a	0.107	0.100	0.02274					
ANOVA ^a									
Model	Sum of Squares	df	Mean Square	F	Sig.				
1	Regression	0.031	4	0.008	15.020	0.000 ^b			
	Residual	0.260	502	0.001					
	Total	0.291	506						
Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
		B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	0.016	0.002		7.010	0.000	0.012	0.021	
	Financial restructuring	0.012	0.006	0.078	1.828	0.068	-0.001	0.025	
	Capital restructuring	0.106	0.015	0.326	7.223	0.000	0.077	0.135	
	Operational restructuring	-0.037	0.025	-0.065	-1.493	0.136	-0.087	0.012	
	Asset restructuring	-0.031	0.010	-0.144	-3.224	0.001	-0.050	-0.012	

a. Dependent Variable: Financial Performance

Source: Research Findings

The regression model further gives the results of coefficients of independent variables used in the model which indicate that these variables have variance relationship to the dependent variable. The model provided a constant value of 0.016 (t – value = 7.010) with a p – value of 0.000. Capital restructuring was found to be a major determinant of financial performance as it had a significant positive coefficient of 0.106 with a t – value of 7.223 and a p – value of 0.000.

Additionally, financial restructuring did not have a significant influence on financial performance of commercial banks. An increase in financial restructuring causes an increment in financial performance by 1.2%, (t – value = 1.828) and p – value of 0.068. Capital restructuring increases financial performance by 10.6%, (t – value = 7.223) and p – value of 0.000. The effect of capital restructuring on financial performance is significant. On the other hand, operational restructuring did not have significant influence on the financial performance of commercial banks in Kenya since they had coefficient values of -3.7% (t – value = -1.493) and p – value of 0.136. Therefore restructuring operations of commercial banks reduces profits by 3.7%. Asset restructuring however has a significant negative effect on the financial performance of banks as denoted by the coefficient of -3.1% (t – value = - 3.224) and p – value of 0.001 respectively.

Table 4 provides the summary of the regression model, the ANOVA tests and results on the coefficients of the variables used in the model after including customer loans as an intervening variable. The study findings indicate that the R^2 is 0.108. An indication that 10.8% of the asset restructuring, capital restructuring, operational restructuring and financial

restructuring as well as customer loans are able to explain the variability of profitability of commercial banks in Kenya. This could imply that financial performance is significantly affected by bank restructuring when intervened by customer loans.

The results indicate that only capital restructuring and operational restructuring have positive significant coefficients that can influence the profitability of the banks. Capital restructuring has a coefficient value of 0.109 ($t = 7.184$) p – value = 0.000. Restructuring capital increases profitability by 10.9% when intervened by customer loans. High capital levels might provide sufficient buffer to increase the level of financial performance. Asset restructuring has a significant decrease in profitability when intervened by customer loans. The significant negative effect of asset restructuring on profitability after intervention by customer loans is revealed by the reported coefficient value of -0.033 (t – value = 3.297) and p – value = 0.001.

Table 4: The Effects of Customer Loans on the Relationship Between Bank Restructuring and Financial Performance

Model Summary								
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate				
1	0.328 ^a	0.108	0.099	0.02275				
ANOVA ^a								
Model	Sum of Squares	Df	Mean Square	F	Sig.			
1	Regression	0.031	5	0.006	12.102	0.000 ^b		
	Residual	0.259	501	0.001				
	Total	0.291	506					
Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	0.018	0.003		5.599	0.000	0.012	0.024
	Financial restructuring	0.012	0.006	0.080	1.872	0.062	-0.001	0.025
	Capital restructuring	0.109	0.015	0.333	7.184	0.000	0.079	0.138
	Operational restructuring	-0.032	0.026	-0.056	-1.245	0.214	-0.084	0.019
	Asset restructuring	-0.033	0.010	-0.151	-3.297	0.001	-0.052	-0.013
	Customer loans	-0.004	0.006	-0.032	-0.699	0.485	-0.015	0.007

a. Dependent Variable: Financial Performance

Source: Research Findings

However, financial restructuring and customer loans were not found to be significant in influencing profits as indicated by the coefficient of 0.012 ($t = 1.872$) and a p – value of 0.062 as this implies only financial restructuring increases financial performance by 1.2% but a level that was not found to be significant. Operational restructuring had a coefficient of -0.032 ($t = 1.245$) and a p – value of 0.214 which means restructuring operations of banks reduces profits by 3.2%. The reported coefficient of -0.004 ($t = 0.699$) and a p – value of 0.485 in relation to customer loans means that introducing customer loans as an intervening variable reduces profits by 0.4% though with an effect which is not significant.

Therefore, the study findings revealed that only capital restructuring and asset restructuring influences profitability of commercial banks when intervened by customer loans among commercial banks in Kenya. This study concurs with the study by Bonin *et. al* (2004) who states that privatization of public banks enables them to inject more capital which they can use for extending of loans. These findings however conflict with those by Suehiro (2002) who states that banks need to increase the loans they extend to their customers so that they can increase profitability suggesting a significant positive relationship between customer loans and bank profitability. Ivashina and Scharfstein (2008) find out that, new loans to large borrowers increases profits of restructured banks which concurs with this study. They however argue that when lending to large and significant borrowers leads to nonperforming loans therefore reducing the asset quality, profitability of the restructured banks decreases which conflicts with the results of this study. Beck, Demircug-Kunt and Peria (2007) found out that ensuring access to financial services has cost implications and can therefore lead to a decrease in profitability. Barako *et. al.* (2013) found out that customer loans, borrowings or the debt level and asset restructuring or the asset quality also influence financial performance of commercial banks.

6. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that bank restructuring affects financial performance of commercial banks in Kenya. The main aspects that have a significant effect on financial performance is capital restructuring asset restructuring. This means that injecting additional capital can increase bank profitability. However increasing the asset quality by restructuring bank assets reduces profits of banks significantly. If the objective is to increase profits banks might need to rely less on operational restructuring and financial restructuring. This is because operational restructuring tend to be accompanied by overhead costs such as those associated with increasing the branch networks, increasing the number of ATMs, incorporating agency banking, costs of entrenching internet banking, mobile banking, faceless banking, RTGS and other aspects of financial innovations encompassing, product, process and institutional innovations.

Asset restructuring on the other had has the main intention of increasing the asset quality as measured using the nonperforming loan ratio. Reducing the nonperforming loans in the loan book tend to be associated with huge provisioning of non-performing loans which is an expense and therefore reduces bank profits significantly. This explains the negative effect of asset restructuring on profitability of commercial banks in Kenya. Incidentally, operational restructuring appears to have no significant effect on bank financial performance. This might be explained by the fact that restructuring bank operations usually has the effect of expanding the customer base and access to financial services which might not necessary be associated with profitability.

Customer loans which was the other intervening variable was found to have a significant effect on financial performance of commercial banks. This is in line with practice that the more the loans extended, the higher the profits so long as the loans extended will be repaid. Where a significant amount of loans ends up being non-performing, the level of loans however large in volume does not lead to increased profits. Bank restructuring tends to lead to an increase in bank loans. Specifically, operational restructuring tend to lead to improved processes such as improving the level of ICT, increased financial services such as the introduction of agency banking, increased ATM network, a wider branch network as well as improved processes and procedures of effecting transactions. Bank restructuring therefore support the concept of financial deepening and financial inclusion which contends that financial institutions are expected to provide services to their clients and that increase in financial services, such as giving more loans to customers, and financial institutions are expected to deepen the financial markets. Banks need to strike a balance between enhancing their operations through operational restructuring or improving profits by focusing on aspects that have a direct positive effect on profits such as granting more loans to their customers.

REFERENCES

- [1] Barako, D. G, Ross, T. & Brown, M. (2013). Firm specific factors and access to financial services. *Unpublished Master's Thesis*, University of New South Wales and Curtin University of Technology.
- [2] Beck, T, Demirguc-Kunt, A. & Peria M. (2007). Reaching out: Access to use of banking services across countries. *Journal of Financial Economics*. 85: 234 – 266
- [3] Berger, A. N & Humprey, D. (1997). Efficiency of financial institutions: International survey and directions for future research, *European Journal of Operational Research* 98: 175 – 212.
- [4] Birchil, J. & Simmons, R. (2010). The co-operative reform process in Tanzania and Sri Lanka. *Annals of Public and Co-operative Economics*. 81(3), 467 – 500.
- [5] Central Bank of Kenya (2014). Central Bank of Kenya Bank Supervision Report
- [6] Chang, H., Ciana, M. A. & Hsiao, H. C. (2014). First financial restructuring and operating efficiency: Evidence from Taiwan commercial banks. Drexel University and National Taipei College of Business.
- [7] Claessens, S., Pazarbasioglu, C., Luc, L., Dobler, M., Valencia, F., Oana, N., & Katharine, S. (2011). Crisis management and resolution: Early lessons from the financial crisis, IMF Staff Discussion Note No.5.
- [8] Demirguc-Kunt, A. & Huzinga, H. (2000), Financial structure and bank profitability, World Bank, Research Paper, Washington D.C.
- [9] Dubel, H. J. & Berlin, F. (2013). The Capital structure of banks and practice of bank restructuring; Eight case studies on current bank restructuring in Europe; Center for Financial Studies; University of Frankfurt.

- [10] Dupas, P. & Robinson, J. (2009). Savings constraints and microenterprise development. Evidence from a field experiment in Kenya. The World Bank
- [11] Ernst & Young (2013). The World of bank restructuring; to restructure or not to restructure? *Africa Advisory Services Journal*, 5: 119 – 213
- [12] Hoenig, T. M. & Morris, C. S. (2012). Restructuring the banking system to improve safety and soundness, Federal Deposit Insurance Corporation and Federal Reserve Bank of Kansas City.
- [13] Hoggarth, G., Reidhill J. & Sinclair P. (2004). On the resolution of banking crises: Theory and evidence, Working Paper No. 229, Bank of England.
- [14] Ithiri, M. D. (2013). Corporate restructuring and its effects on Kenya Commercial Bank performance. *A Research Project in Masters of Business Administration, School of Business, Kenyatta University*.
- [15] Jensen, M. C. & Meckling, W. (1976). Theory of the firm: Managerial behaviour, agency costs, and ownership structure. *Journal of Financial Economics*, 3, 305 – 360
- [16] Jensen, M. C. & Smith, C. (2000). *The theory of corporate finance: A historical overview*, New York. McGraw-Hill Incl.
- [17] Kwaning, C. O., Churchill, R. Q. & Opuku, .A. K. (2014). The impact of organisational restructuring on the financial performance of public banks; A post restructuring assessment of Agricultural Development Bank, Ghana. *Journal of Financial Accounting*, 5, 106 – 112
- [18] Merton, R. C. (1995). Financial innovation and the management and regulations of financial institutions. *Journal of Banking and Finance*, 19, 461 – 481.
- [19] Moore, D. (2003). Survey of financial literacy in Washington State. Knowledge, behaviour, attitudes and experiences. Technical report, *Social Economic Sciences Research Center*. Washington State University.
- [20] Mudambi, R. & Nicosia, C. (1998). Ownership structure and firm performance: Evidence from the U.K. financial services industry; *Applied Financial Economics*: 8. 175 – 180.
- [21] Ogoro, P. M. (2014). The effect of financial restructuring on the financial performance of commercial banks in Kenya. *Doctoral dissertation*, University of Nairobi.
- [22] Scott, W. R. (2004). Institutional theory in encyclopedia of social theory, George Ritzer, ed. Thousand Oaks, CA: Sage. 408 – 414
- [23] Sekaran, U. (2006). *Research methods for business: A skill-building approach*. Fourth Edition. John Wiley and Sons. New Delhi.
- [24] Stefan, I. & Hoelscher, D. S (2005). The resolution of systemic banking system crises, in systemic financial crises: Resolving large bank insolvencies, edited by Douglas Durrel Evanoff, George G. Kaufman, World Scientific Publishing.