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EFFECT OF ASSET RESTRUCTURING ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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***Abstract*:** *Financial stability contributes to higher output, employment, and sales, resulting in quicker economic growth. It has allowed commercial banks to successfully respond to the difficulties of establishing productive and long-term job possibilities, boosting revenue development, and implementing sustainable banking practices that may provide a significant competitive edge. Commercial banks, on the other hand, have continued to produce poor profits and have a high percentage of non-performing loans despite widespread support and acceptance of business restructuring options. Non-performing loans have been on the rise in Kenya's banking industry, putting commercial banks' profitability at risk. The purpose of this study was to establish the effect of asset restructuring on financial performance of commercial banks in Kenya. The target population was therefore these commercial banks giving a total target population of 132 respondents. The study employed survey technique. The sample size was 132 respondents. The data collection instrument was mainly questionnaire. Descriptive statistics such as mean, percentages, and frequencies were employed, while inferential statistics such as simple linear regression models and product moment correlation were used to derive population conclusions based on data collected from the population. Findings revealed that asset restructuring had a significant positive effect on financial performance ($\beta=0.573$, $p < 0.05$). The conclusion was that asset restructuring enhances financial performance. The study recommended that Banks should sell-off bad debts to improve bank efficiency.*

Keywords: *Bank Restructuring, Financial Performance, Commercial Banks*

1.0 Introduction

Financial performance is critical for every organization's functionality and long-term existence, and it cannot be overstated (Wachira, 2018). It is the organization's capacity to continue for a long time by being able to meet expenditures without relying on external funding (Mutinda & Ngahu, 2016). Commercial banks' financial soundness allows them to cover their yearly budgets without limitations. Financial performance allows a company to generate enough funds to cover the costs of its operations, which include but are not limited to product pricing, fund costs, administrative overheads, loan transaction costs, and inflation, and each cost has its own unique way of being managed to influence financial performance (Njoloma, 2019). Commercial banks can achieve financial performance via restructuring.

Bank restructuring is the process of altering banks business model in order to improve its performance (Lusardi & Mitchell, 2017). Legal, operational, and ownership changes are examples of these changes (Njeri,

Namusonge, & Mugambi, 2017). When a company model has changed as a result of internal or external circumstances, it must adapt in order to survive and eventually flourish. Staffing requirements may be reduced, increased, or reshuffled as a result of this. To service increasing markets, several commercial banks change their organizational structure and develop new departments. Other businesses restructure their organizational structures to reduce or remove departments in order to save money (Lusardi & Mitchell, 2017).

Commercial banks have increasingly been seen as playing an important role in the economies of many countries (White & Kenyon, 2011). These enterprises play an important role in the economic growth and sustainable development of every nation hence its importance in overall sustainability through employment creation (Ngugi, Kanali, Kagiri, A., & Kimuru, 2016). For, commercial banks, there is a need to enhance greater efficiency, effectiveness, and competitiveness that are based on innovation and knowledge (Dhandapani & Ganesh, 2013). These enterprises have faced many barriers that have prevented their growth and hinder their potential, hence the need for them to attain effective financial performance. Commercial banks are adopting restructuring strategies to enhance financial performance (Okiro & Ndungu, 2013). For every firm that is focused on dealing with competitiveness and day-to-day organizational difficulties, business restructuring options is unavoidable. It is vital for firms to carefully conduct restructuring if they are to survive. By reviewing a broad literature base on restructuring and clearly examining the theories and perceptions related to the process through a conceptual framework, the study outlined how the objectives, liability restructuring, organization structure, asset restructuring and debt restructuring affect restructuring in an organization (Iyer & Bhaskar, 2012).

Bank restructuring has emerged as a key driver of long-term financial viability and a novel way for businesses to improve their financial performance (Wang, 2012). According to Hoenig and Morris (2012), bank restructuring should be done to resolve difficulties in individual banks that are facing a financial crisis or to fix systemic concerns. Bank restructuring aims to rebuild and preserve trust in the financial system, as well as profitability and efficiency in individual banks (Nor *et al.,* 2009). In this study, asset restructuring was adopted as an indicator of bank restructuring. Asset restructuring refers to actions taken to realign the asset side of the balance sheet (Hoskisson, Cannella, Tihanyi, & Faraci, 2018). It refers to the process where company's assets are bought or sold and these assets comprise more than half of the company's consolidated assets. Asset restructuring is used by commercial banks to enhance their financial performance (Laeven & Valencia, 2021). According to Hoskisson *et al*. (2018), asset restructuring helps to improve accuracy as well as provision of timely and faster access to information. It also helps to save costs. In the banking industry, proper asset restructuring is needed for commercial banks for record remarkable growth as well as enhance efficiency. When asset restructuring is adopted, it helps not only to minimize costs but also increase efficiency. The components of asset restructuring that were adopted in this study include; selling- off bad loans, holding more current assets, proportion of financial assets and non-performing loans reduction.

Good financial performance helps to make banks to break-even and its contribution to gross domestic product (GDP) increases as well. In as much as good financial performance is required for banks to record an increase in their earnings, commercial banks have continued to make low profits, and high level of non-performing loans. For example, the Kenyan banking sector has seen an upward trend in non-performing loans adversely affecting the profitability of commercial banks. In 2019, gross NPLs as a ratio of gross loans increased from 9.3% to 11.0% in 2020. In terms of growth rate, however, NPLs decelerated from 43% to 25% in 2020. Return on Assets (ROA) declined from 3.2% in 2019 to 2.6% in 2020, while Return on Equity (ROE) also decreased from 24.4% to 20.6% (CBK, 2020). In 2029, the NPLs as a ratio was 10.6% but in January 2020, it dropped to

10.0% and by October 2020, it further dropped to 9.9% (CBK, 2020). It is evident from the above statistics that banks are recording low profits and this besides adoption of various Bank restructuring practices.

The collapse of Imperial bank, Dubai bank and Chase Bank was occasioned by insider lending, weak corporate governance practices weaknesses in regulatory and supervisory systems, poor risk management strategies, lack of internal controls, and conflict of interest (Gathaiya, 2017). This is happening in the Banking industry and yet the Banks have adopted restructuring among other measures. The current study sought to undertake a study on asset restructuring and be able to provide policy recommendations which might help to improve financial performance of the banks. The current study therefore sought to establish the effect of asset restructuring on financial performance of commercial banks in Kenya. The remainder of this article is as follows; section 2 cover literature review and hypothesis development, section 3, materials & methods, section 4, results & discussions and section 5, conclusion and recommendations.

2.0 Literature Review & Hypothesis Development

2.1 Asset Restructuring on Financial Performance

Li, Chen, Hong and Zhou (2019) researched on asset restructuring performance prediction for failure firms in China. The purpose of the study was to determine the effect of asset restructuring on performance prediction for failure firms in China. The study adopted quantitative research design. Target population was 125 firms while the sample size was 33 firms. The study used secondary data which was analyzed using both descriptive statistics and inferential statistics. Findings revealed that asset restructuring contributes to improvement in performance. A conceptual gap exists as the study had not incorporated selling-off bad loans which the current study seeks to add and enhance the existing body of knowledge on the subject matter.

Maroro, Kamau and Koima (2018) examined the effect of asset restructuring on return on equity of financially distressed Commercial Banks in Kenya. The purpose of the study was to determine the effect of asset restructuring on return on equity of financially distressed Commercial Banks in Kenya. The study adopted descriptive survey research design. Target population was 24 financially distressed commercial banks in Kenya that had restructured their assets for the period between 1992 and 2016. The study had used secondary data that was analyzed using both descriptive and inferential statistics. The study established that asset restructuring has a significant positive effect on return on equity of financially distressed Commercial Banks in Kenya. A conceptual gap exists as the study had not incorporated holding of more current assets as an indicator of asset restructuring which the current study seeks to add and enhance the existing body of knowledge of the association between asset restructuring and financial performance.

Wanyoike, Mugambi, and Joshua (2022) researched on asset restructuring and financial performance of Commercial Banks in Kenya. The purpose of the study was to determine the effect of asset restructuring on the financial performance of Commercial Banks in Kenya. The study adopted cross-sectional research design. Target population was 39 commercial banks. The study used secondary data which was collected using a survey sheet. Data collected was analyzed using both descriptive statistics and inferential statistics. Findings revealed that asset restructuring has a positive and significant effect on asset restructuring and financial performance of Commercial Banks in Kenya. A conceptual gap exists as non-performing loans reduction had not been considered as a construct of asset restructuring which the current study adds and therefore enhances the existing body of knowledge on asset restructuring and financial performance. Literature reviewed led to development of the following hypothesis statement:

***H_{01}**: Asset restructuring has no significant effect on financial performance of Commercial Banks in Kenya.*

3.0 Materials & Methods

A correlational research strategy was adopted in this study. A correlational research design assesses the connection between two variables without requiring the researcher to manipulate one of them. Its goal is to determine whether there is a positive or negative link (Gupta & Gupta, 2022). Researchers adopt correlational study methods to define and assess the degree of association between two or more variables or sets of scores (Mohajan, 2018). The association between two or more non-manipulated variables is investigated in correlational research. Because the study aims to investigate the link between asset restructuring and financial performance of commercial banks in Kenya, it utilized a correlational research methodology. Branch managers, operations, and finance management were the focus of the research. In Kenya, there are 44 commercial banks (Kenya Bankers Association, 2022).

The study used a survey method. A survey is a type of study that involves gathering data from a predetermined sample of people in order to learn more about a certain issue (Mishra & Alok, 2022). The core of the survey method is to query people about a topic or topics and then describe their replies. To test concepts, reflect people's attitudes, determine consumer happiness, conduct segmentation research, and a variety of other reasons, the survey method of primary data collecting is utilized. A total of 132 people were surveyed. The data gathering tool primarily was a questionnaire. To make analysis easier, the data was cleansed, categorized, and coded. Second, inferential and descriptive statistics were used to examine the data collected. The data was analyzed with the aid of SPSS (Version 23.0). Frequencies, percentages, mean, and standard deviation were utilized as descriptive statistics. Regression models and Product Moment Correlation are examples of inferential statistics. Tables were used to show the data. Inferential statistics was done through regression model.

$$Y = \alpha + \beta_1 X_1 + \mathcal{E} \quad (1)$$

Where; y represents the dependent variable (financial performance), α- the constant of equation (represents the changes that cannot be explained by independent variable in the model) β_1, is the coefficient of asset restructuring, X_1 represents asset restructuring and Ɛ is the error term.

4.0 Results & Discussions

4.1 Descriptive Statistics

The specific objective was to determine the effect of asset restructuring on financial performance of commercial banks in Kenya. The study focused on selling- off bad loans, holding more current assets, proportion of financial assets and non-performing loans reduction as the main sub constructs of asset restructuring. The researcher was interested on the opinion of respondents on the extent to which such sub-constructs affect financial performance of Commercial Banks. The descriptive findings were as presented in Table 1.

Table 1: Asset restructuring

n=121		S. A	A	N	D	S. D	Mean	Std. Dev
Bad debts sell-off improves bank efficiency.	F	41	25	25	15	15	2.4876	1.39114
	%	33.9	20.7	20.7	12.4	12.4		
We have been selling-off bad debts so as to remain afloat.	F	23	70	12	12	4	2.2066	.97397
	%	19.0	57.9	9.9	9.9	3.3		

We hold more current assets to avert business failure.	F	47	44	4	14	12	2.1736	1.32714
	%	38.8	36.4	3.3	11.6	9.9		
Holding more current assets helps the bank to have a positive working capital	F	34	42	12	14	19	2.5207	1.41480
	%	28.1	34.7	9.9	11.6	15.7		
If the proportion of financial assets is high in the bank it negatively affects financial performance.	F	14	12	4	79	12	2.3471	1.06231
	%	11.6	9.9	3.3	65.3	9.9		
A reduction in the proportion of financial assets lowers banks profitability.	F	49	29	12	27	4	2.2397	1.28468
	%	40.5	24.0	9.9	22.3	3.3		
Reduction in non-performing loans contributes to increase in profitability.	F	49	56	16	0	0	2.3884	1.08299
	%	40.5	46.3	13.2	0.0	0.0		

On whether bad debts sell-off improves bank efficiency, 66(54.5%) agreed with the statement while 30(24.8%) disagreed with the statement. Bad debts sell-off was further established to affect financial performance of Commercial Banks with (mean= 2.4876, std. Dev. = 1.39114). The study agrees with that of Maroro, et al. (2018) that bad debts sell-off improves bank efficiency. In relation to whether banks have been selling-off bad debts so as to remain afloat, 93(76.9%) agreed with the statement while 16(13.2%) disagreed with the statement. Selling-off bad debts so as to remain afloat was further established to affect financial performance of Commercial Banks with (mean= 2.2066, std. Dev. = 0.97397). Findings resemble that of Li et al., (2019) that bad debts are sold off to remain afloat.

In regards to whether more current assets to avert business failure are held, 91(75.2%) agreed with the statement while 26(21.5%) disagreed with the statement. Holding more current assets to avert business failure was further established to affect financial performance of Commercial Banks with (mean= 2.1736, std. Dev. = 1.32714). The study agrees with that of Wanyoike, et al. (2022) that holding more current assets helps to avert business failure. The study was interested in determining whether holding more current assets helps the bank to have a positive working capital, 76(62.8%) agreed with the statement while 33(27.3%) disagreed with the statement. Holding more current assets that helps the bank to have a positive working capital was further established to affect financial performance of Commercial Banks with (mean= 2.5207, std. Dev. = 1.41480). The study is in tandem with that of Li et al., (2019) that holding more current assets helps the bank to have a positive working capital.

The study was interested in determining whether when the proportion of financial assets is high in the bank it negatively affects financial performance, 26(21.5%) agreed with the statement while 91(75.2%) disagreed with the statement. The proportion of financial assets was further established to affect financial performance of Commercial Banks with (mean= 2.3471, std. Dev. = 1.06231). The study agrees with that of Maroro, et al. (2018) that when the proportion of financial assets is high in the bank it negatively affects financial performance. In regards to whether reduction in the proportion of financial assets lowers banks profitability, 78(64.5%) agreed with the statement while 31(25.6%) disagreed with the statement. Reduction in the proportion of financial assets was further established to affect financial performance of Commercial Banks

with (mean= 2.2397, std. Dev. = 1.28468). Findings resemble that of Li et al., (2019) that reduction in the proportion of financial assets lowers banks profitability. In relation to whether reduction in non-performing loans contributes to increase in profitability, 105(86.8%) agreed with the statement while 0(0.0%) disagreed with the statement. Reduction in non-performing loans was further established to affect financial performance of Commercial Banks with (mean= 2.3884, std. Dev. = 1.08299). The study is in tandem with that of Li et al., (2019) that reduction in non-performing loans contributes to increase in profitability.

4.2 Inferential Statistics

4.2.1 Correlation Analysis

Correlation analysis was adopted to establish the nature of association that exists between bank restructuring and financial performance of commercial banks in Kenya. Findings were presented in Table 2.

Table 2: Correlation analysis

n=121		Performance	Asset Restructuring
Performance	Pearson Correlation		
	Sig. (2-tailed)	1	
Asset Restructuring	Pearson Correlation	.000	
	Sig. (2-tailed)	.727*	1

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

Asset restructuring was found to have a significantly strong positive relationship with financial performance of Commercial Banks in Kenya of ($r = 0.727$, p-value < 0.05). This implies that there is a positive relationship between asset restructuring and financial performance of Commercial Banks in Kenya. The study is in agreement with that of Maroro et al., (2018) that asset restructuring is positively correlated with financial performance.

4.2.2 Simple Linear Regression Analysis

Simple linear regression analysis was adopted to predict financial performance of Commercial Banks in Kenya from asset restructuring. The model summary results were presented in Table 3.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502[a]	.252	.226	3.47469

a. Predictors: (Constant), asset restructuring

The value of adjusted R-square was 0.226 which indicates that the model explained 22.6% of financial performance from asset restructuring. Analysis of variance (ANOVA) was adopted so as to assess the goodness of fit test of the regression model. The findings are shown in Table 4.

Table 4: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
	Regression	470.949	1	117.737	9.752	.000[b]
1	Residual	1400.522	119	12.073		
	Total	1871.471	120			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Asset restructuring

The value of the F test is F (1, 121) = 9.752, $p<0.05$. This implies that the model is reliable and can be used to predict financial performance of Commercial Banks. Regression coefficient analysis was conducted in order to determine the beta that helped to show the extent to which capital restructuring affects dependent variable. Findings were as shown in Table 5.

Table 5: Regression co-efficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	26.539	1.761		15.073	.000
1	Asset restructuring	.573	.129	.700	4.440	.000

a. Dependent Variable: Financial Performance

Table 5 shows the regression coefficient results whereby Asset restructuring had a positive and significant effect on financial performance of Commercial Banks of ($\beta= 0.573$, $p < 0.05$). This implies that an increase in asset restructuring by one unit increases financial performance by 0.573 units. The study agrees with that of Maroro, et al. (2018) that asset restructuring improves financial performance. Hypothesis 1(H_{01}) predicted that asset restructuring has no significant relationship with financial performance of commercial banks in Kenya. The findings indicate that asset restructuring has a significant effect on financial performance of Commercial Banks ($p<0.05$) implying that the null hypothesis is rejected and the alternative hypothesis that asset restructuring has a significant effect on financial performance of Commercial Banks in Kenya is accepted. It was therefore noted that asset restructuring has a significant positive effect on the financial performance of Commercial Banks in Kenya.

5.0 Conclusions & Recommendations

The study concluded that asset restructuring improves banks performance. The study also concluded that bad debts sell-off improves bank efficiency and that banks remain afloat when bad debts are sold-off. More current assets are held by Banks to avert business failure. Reduction in non-performing loans contributes to increase in profitability. The study recommended banks should sell-off bad debts to improve bank efficiency. Banks should sell-off bad debts to remain afloat. More current assets should be held by Banks to avert business failure. This study focused on asset restructuring and financial performance of Commercial Banks in Kenya. The researcher recommends that a similar study should be conducted on Microfinance institutions (MFIs) in Kenya. A similar study should also be conducted on Savings and Credit Co-Operative Society (SACCOs). This will help to determine whether similar findings will be found in Microfinance institutions in Kenya. A

further study should be carried out on the same topic but should consider other indicators of bank restructuring besides asset restructuring.

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