FIXED ASSET STRUCTURE AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN NAIROBI SECURITY EXCHANGE

BY

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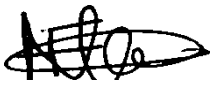
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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS COMMUNICATION AND COMPUTER STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER'S DEGREE IN BUSINESS ASMINISTRATION IN ST. PAUL'S UNIVERSITY

SEPTEMBER, 2021

DECLARATION

I declare that this research project is my original work and has never been discussed for academic purposes at St Pauls University or any other institution.



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DEDICATION

To my husband, Peter Muema, who encouraged me, supported me financially and believed that I have what it takes to do this paper and to my son Benlove Mwendwa, who provided me with ample time.

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I appreciate Jehovah God for giving me good health, sound mind as well as life. I do appreciate my lecturers, Mr. Willam Sang and Dr. Redemptah Kiilu of St. Paul's University for their supervision and guidance.

ABBREVIATIONS AND ACRONYMS LIST

ALM	Assets and Liability Management
CMA	Capital Market Authority
EPS	Earnings per share
FP	Financial Performance (measured by ROA)
ICT	Information &Communications Technology
IMV	Immovable fixed assets
IT	Information Technology
MV	Movable fixed assets
NSE	Nairobi Security Exchange
RBV	Resource-Based View
ROA	Return on Asset
ROE	Return on equity
ROI	Return on Investment
ROS	Return on Sales
SCA	Statistical Cost Accounting

OPERATIONAL DEFINITION OF TERMS

Collateral	Refers to an asset that a lender accepts as security for a loan. The collateral acts as a form of protection for the lender. That is, if the borrower defaults on their loan payments, the lender can seize the collateral and sells it to recoup some or all of its losses.
Commercial banks	A bank that offers services to the general public and to companies.
Document analysis guide	Document analysis forms are visual organizers that walk students through the process of identifying key background information about a document (e.g., author/creator, date created, location, format, etc.) and using that information to establish the text's bias or perspective.
Financial performance	Is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period**.**
Fixed asset	Assets which are purchased for long-term use and are not likely to be converted quickly into cash, such as land, buildings, and equipment.
Net profit	Net profit is the measurement of a company's profit once operating costs, taxes, interest and depreciation have all been subtracted from its total revenues.
Redeployment	The assignment of resources to a new place or task.
Return on assets	Is an indicator of how profitable a company is relative to its total assets.

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ABSTRACT

Stiff competition has made some of the commercial banks perform better than others in the Nairobi Securities Exchange. To ensure their survival in this competitive environment as far as financial performance is concerned, commercial banks are putting in place competitive strategies to enhance their performance. The decision to choose the right fixed asset structure has become one of the key strategies in commercial banks to counter stiff competition experienced as far as financial performance is concerned. The objective of this study was to determine the relationship between fixed asset structure and the financial performance of commercial banks listed in the Nairobi Securities Exchange. The population of the study was the 11 commercial banks listed in NSE. A descriptive research design attributed to a census approach aiming at the eleven listed commercial banks in NSE was applied. The research relied on secondary data obtained from the audited financial statements of the said banks from 2014-2018. A document analysis guide was used to collect data from the financial statements. Quantitative data was analyzed using SPSS that generated both descriptive and inferential statistics. The dependent variable was the financial performance while the independent variable was the fixed asset structure. Pearson's correlation coefficients showed that ROA had a negative correlation with the financial performance ($r=-0.888$ $p<0.05$). Immovable fixed assets revealed a positive correlation with financial performance ($r=0.086$ $p>0.05$). The study also revealed a positive correlation between movable fixed assets and the financial performance ($r=0.817$ $p>0.05$). Bivariate analysis indicated that immovable fixed assets had a positive impact on the financial performance of the commercial banks studied with the beta coefficients; $\beta = 0.31$, $p>0.05$. The results also reveal that moveable fixed assets have a negative impact on financial gain ($\beta =-0.110$, $p> 0.05$). The analysis of the results showed that correlation between immovable fixed assets and financial performances of commercial banks listed in NSE in the year 2014 to 2018 was positive. An increase in immovable fixed assets led to a growth in commercial banks' financial performances during the 5 years of study. It was established that banks with higher investment in immovable fixed assets tend to have a higher return on assets; hence an increase in financial gain as far as ROA is concerned. The findings showed that movable fixed assets and financial performance of commercial banks under study were negatively correlated. It stated that an increase in movable fixed assets would lead a drop financial performance of the 10 commercial banks under study. The recommendation for this research study is that these commercial banks should limit their investment in this variable, ensure that there is enough utilization and reduce costs expenses. Based on the conclusions of the research, the managers of financial institutions should guarantee that movable fixed assets are properly utilized in order to enhance their revenue statements. They need to also invest in immovable fixed assets and maximize the use of those that already exist. This study also gives recommendations to the finance profession, recommending that while developing financial rules and standard operating procedures, banks fixed asset structure should be given more consideration. Because fixed asset structure has such a big impact on financial performance, it should be taken into account to keep budget control and ensure the banks' long-term financial success.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Fixed assets are important resources for organisational use. Fixed assets are essential in carrying out corporate operations and the organization's capacity to provide products and services. The type of fixed asset structure that an organisation chooses may or may not predict the revenue streams of an organisation. It is therefore crucial to make correct decisions while choosing the asset structure in order to avoid low financial performance. The fixed asset structure used in this study comprises of immovable fixed assets and movable fixed asset (Kibria & Haroon, 2018).

A study by Olatunji (2014) investigated how fixed asset structure affected the profitability of a few Nigerian banks. From 2000 to 2012, data was gathered from thirteen different Nigerian commercial banks' annual reports and accounts. The independent factors (building, ground, leasehold premises, fixtures and fittings, and machine investment) had a significant association with the dependent variable (net profit). Fixed asset structure positively influences the profitability of banking industry in Nigeria based on the empirical findings. However, the findings did not specify the fixed asset structure that was invested in those commercial banks, creating a need for further research into the fixed asset choice and its impact on the profitability of banks under study. Furthermore, the overall result of Mawih (2014) and other surveys on the link connecting fixed asset structure and commercial banks financial performance suggested that fixed asset structure affected return on equity but not ROA. This raises a question as to what fixed asset structure they could have chosen that could not affect the ROA but in turn, affected the ROE. This study used ROA as a financial performance indicator.

As noted by Kibet (2016) commercial banks around the world, as well as in Kenya, have been up against the stiff competition. This stiff competition has made some of the commercial banks perform better than others in NSE, Kenya. For example, improved efficiency partially explained strong profitability in 2003-2012. However, slow growth in assets and reduced interest rate spread lowered profitability since

2014. Improved efficiency among banks may be due to reforms undertaken including decision on the choice of fixed asset structure by banks. Despite the decline in profitability in 2014 - 2018, banks that merged were more profitable than those that consolidated through acquisition. While mergers impact organizational culture and business models, leading to more efficiency and profitability, acquisition may not necessarily be motivated by integration of business model and organizational values (CBK,2018). The new entity after acquisition may experience organizational frictions, thus undermining profitability. Following the ranking of the top banks based on their asset size at the beginning of the year 2018, KCB Group took the first position with Kenya bank assets of Kshs 594 billion (and group assets of Kshs 684 billion) followed by Equity – Kenya bank assets of Kshs 424 billion (and group assets of Kshs 560 billion). In 2018, Interest rate caps and IFRS9 had an impact on bank performance while the departures of Imperial and Chase banks were announced (NSE,2018). Hence this motivated the researcher to research on whether fixed asset's structure might be causing any impact on fluctuation of performance as far as asset structure is concerned.

The difference in performance of these banks under study might be as a result of the choice of fixed asset structure. If fixed asset structure is the issue, then this motivates the researcher to research on how immovable fixed asset structure affects the financial performance of financial institutions understudy. It also creates a need to know how movable fixed assets and commercial banks financial performance relate. However, the decision to use a fixed asset structure is arbitrary, and choosing the wrong fixed asset structure will result in a decrease in financial results and, eventually, bankruptcy.

This research is anchored on a resource-based theory of fixed asset structure. The resource-based theory argues that organisations should check from the inside of the company itself to find sources of competitive position. The resources must also be heterogeneous and immobile, according to two main assumptions (Madhani, 2010). The resource-based theory suggests that by merging their diverse resource packages, firms acquire a competitive advantage. The second assumption is that, at least in the short run, resources are immobile and do not move from one company to another

(Madhani, 2010). Given the fact that resources are heterogeneous and immobile, they are inadequate if the firm wishes to retain its competitive edge.

1.1.1 Fixed Assets structure

A long-term physical property or piece of equipment that a company uses to produce revenue is referred to as a fixed asset (Bodie, Kane & Marcus, 2005). Fixed assets, according to Abata (2014) are long-lived assets that allow businesses to produce goods and services that generate revenue. Fixed assets are used to generate revenue for organizations. Both movable and immovable fixed assets exist in many organizations. Buildings and land are examples of immovable fixed assets. Many of these are also long-term investments. The study's movable capital assets have no physical life but a high economic value. The movable fixed assets reviewed include motor vehicles and machinery.

The primary aim of fixed assets in the development of goods and services is to support most businesses' primary goal of profit and wealth accumulation. Since fixed assets usually produce revenue for periods longer than one year, achieving this target necessitates the scrupulous implementation of accounting's matching principle by the enterprise's management (Bodie et al., 2005). Fixed assets make up a large portion of an organization's overall assets because they are numerical value reservoirs. Many fixed assets have high initial unit costs, according to fixed asset registers. The values of these properties affect the accounting and auditing efforts related to them. Fixed assets boost a company's financial status as they are valued favourably (Vighneswara, 2015).

Because fixed assets are pledged as security, the value of fixed assets influences the capital structure and performance, ensuring that the greater their portion, the higher the leverage (Vighneswara, 2015). Appropriate accounting software enables administrators to use best practices in fixed asset accounting (Vighneswara, 2015). The net book value of assets is valued at the end of a financial year; thus, the value of depreciated assets is the value on the books at the time of assessment (Adeolu, 2014).

1.1.2 Financial Performance

This is described as a firm's capacity to give rise to new funds proceeding from daily activities (Bora, 2008). The financial success of the financial institutions is important to its investors. For bank stockholders, the financial performance metric is significant because it indicates how much money the bank is making on its investments (Rasiah, 2010). It entails the shareholder capital and profit, which are two of a company's primary goals (Pandey, 2005). Increased revenues affect shareholder equity, profit margins, capital spending and structure decisions (Arnott & Asness, 2003).

Financial performance is frequently used to describe how effectively an entity's resources are being leveraged to generate profits for its shareholders. It is commonly developed through a company's return on assets (ROA) or the return on equity (Mills, 2013). ROA is a percentage that shows how successful a financial institution is. It is the net profits to total assets ratio (Williams, 2013). That is, it mirrors on how company valuables are suitably utilized to establish profits. It reveals the tracking efficiency of a business in recognizing earnings from the provided resources of the firm (Williams, 2013). In this context, boost in performance suggests that the company is extremely reliable in managing its assets. Return on Assets is a ratio of net profit to total assets.

Return on equity is a financial ratio that shows how well a company is managing the capital that shareholders have invested in it. Return on equity is a ratio of net profits of commercial banks divided by financiers' equity of commercial banks. It discloses how great returns are being generated by the firm on the moneys it has collected as kind of economic financial investment from the capitalists (Williams, 2013). A greater return on equity is much more efficient to financiers. In the year 2016, the banking industry in Kenya posted a decline in earnings. Seemingly, some tier one banks such as Barclays bank of Kenya along with Equity bank of Kenya had a decrease of 4% in corporate earnings. The interest earnings for National Bank of Kenya (NBK) decreased by Kshs 400Million to Kshs 5.4 billion in the year ended 31 December 2015 which could have been credited to the wrong choice of fixed asset structure (NBK, 2015).

Fixed asset's structure is amongst the facets that were analysed in the study to establish its outcome on financial institutions effectiveness in Kenya. Despite substantial standards as well as additional legal framework established by the Central Bank of Kenya, Kenya's economic industry has performed despite the financial troubles from 1999 that resulted in the failure of numerous banks, such as Chase bank and Imperial bank in 2016 and 2015 respectively. In conformity with the annual central bank of Kenya evaluation records, the speed of profits productions has actually reduced among the Kenyan financial institutions (Phillips, 2014). Notably, the commercial banks stand for a significant component in the nation's economic sector. Subsequently, in such a scenario where a country's monetary market is majorly recognized by financial institutions, any type of voids or a halt in business operations in such a market brings along considerable negative implication for the nation's financial development at large. Financial results, according to Codjia (2010) involve updating the financial statements of banks that outlines a business sales, expenditure and net profits. This is the most critical indicator of profitability for bank stockholders because it represents what the bank gains on their investments (Rasiah, 2010).

Return on equity, return on investment, return on assets, and earnings per share are among the indicators used to evaluate a company's financial performance. To operationalize financial performance, ROA was used in this research. This can be explained in two ways: First, based on assessments of the business' annual reports and declared financial reports, it is established that ROE, ROI, and ROA are favourably associated with time. In other words, an increase in ROA is usually accompanied by an increase in ROE over time. However, ROA is the most consistent of this variable over time. Other financial metrics tend to fluctuate significantly with little improvement in the independent variable. As a consequence, ROA is the most representative measure of financial efficiency. Second, ROA refers to a company's capacity to produce income that is greater than its actual spending. The research's main aim is to better represent the needs of shareholders; thus, ROA was the most appropriate measure of performance. Third, banks need more assets for development, according to this research. ROA may be used to not only justify the company's financial success but also to determine how well its assets are being used (Wenshu, 2014).

1.1.3 Fixed Asset Structure and Financial Performance

Decision making in a fixed asset structure is a significant driver of the business system of finance. The fixed asset structure that a firm decides to consider for investment determines the profit that may incur in future. Investment decisions try to find the structure that is optimal alongside the quantity and quality terms of the firm (Jha & Hui, 2012).

According to previous research about the association between fixed asset's structure and financial performance, components of fixed asset's structure have a diverse impact on financial performance. Olatunji (2014) looked into the impact of fixed-asset financing on a group of Nigerian financial institutions' profitability. Because assets are the major source of business value development and risk mitigation, asset structure research is more valuable and universal than capital structure analysis (Zhengsheng & Nuozhi, 2013).

Slvetana, Aaro, and Mou (2014) on the other hand, established that fixed asset structure and bank efficiency have a negative relationship. According to Olatunji (2014), owners or users of fixed assets should maintain and repair their assets regularly to be able to use them beyond their anticipated useful life and profitably. Carl (2010) also claims that the fixed asset structure of most firms has an impact on their financial performance.

1.1.4 Commercial Banks listed in Nairobi Security Exchange

A commercial bank is a financial intermediary that is concerned with financial matters. Commercial banking is likewise called service financial. It is a financial institution that provides current accounts, interest-bearing accounts and money market accounts and also one that accepts deposits of prized possessions. Commercial banks raise funds by accumulating deposits from customers as well as customers through checkable deposits, cost savings, down payments and constant or term down payments. They also offer car loans to customers. Furthermore, they purchase business bonds and government bonds.

The banking sector in Kenya is managed by the companies' act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the

Central Bank of Kenya (CBK). The CBK, which functions under the department of financing docket, is in charge of promoting the liquidity, solvency along with correct efficiency of the monetary system. The CBK releases details of Kenyan financial institutions, non-bank financial companies, interest rates and other publishing along with regulations. A report by the Central Bank of Kenya (2014), indicated there are forty-three financial institutions and non-bank financial institutions, fifteen microfinance institutions and forty-eight bureaus. Ten of the major commercial banks are listed on the Nairobi Security Exchange. The financial institutions and non-bank financial companies offer business and retail financial solutions.

As described by Mwaniki et al. (2014), commercial banks have been recording improved performance at the Nairobi security exchange (NSE). This may be due to the interest rate limit being temporarily lifted. Some of the most profitable companies on the NSE are still in the banking sector. Banks occupied six of the top ten slots on the stock exchange's top ten most valuable companies list. On the Nairobi securities exchange, there are 11 commercial banks listed, with equity bank ranking first with a Ksh158.3 billion asset bases in Q1 2019. Other banks listed in NSE include ABSA Bank Ltd., CFC Bank Ltd., Investment and Mortgage Bank Ltd., DTB (Diamond Trust Bank) Ltd. and KCB Group Limited.

Kenya's banking sector has become even more profitable over time. For example, assets in the banking sector increased from Ksh 3.0 trillion on June 30, 2014, to Ksh 3.6 trillion on June 30, 2015. There was also an increase in assets by 76.5 billion Shillings or 2.1% from Ksh 3.6 trillion on June 30, 2015, to Ksh 3.7 trillion on June 2016. Total net assets rose by Ksh 273.7 billion or 7.4% to Ksh 3951.6 billion at the end of June 2017 up from Ksh3677.9 billion at the end of June 2016 (Central Bank of Kenya, 2016). In the year ended 30th June 2018, the banking sector's financial output improved, with net assets rising by Ksh 0.32 trillion (8%) to Ksh 4.27 trillion as of 30th June 2018, up from Ksh 3.95 trillion on 30th June 2017. (CBK, 2017). A Ksh 131.6 billion increase in government securities investment and a Ksh 46.3 billion increase in placements led to the increase in financial performance (Central Bank of Kenya, 2018).

However, the improved financial performance of these banks does not indicate what type of asset structure was responsible for this improvement, raising the question of what link exists between fixed asset structure and financial gain of commercial banks listed on the NSE.

1.1.5 Nairobi Securities Exchange

A stock exchange is an efficient market for the trading of bonds, materials as well as likewise other securities. The NSE was developed in the year 1954 which was formerly called Nairobi Stock market under the Societies Act (1954) which was a volunteer supply brokers firm. The Nairobi Stock Exchange (NSE) contributes to Kenya's economic growth by encouraging savings and investment, as well as assisting local and foreign businesses in obtaining low-cost financing. In July 2011, Nairobi stock exchange was relabelled to end up being the Nairobi security Exchange. This continued according to the 2010-2014 strategic plans to advance the NSE which transfigured into a total protection exchange which uses a system for trading of defences, cleaning up of supports as well as also economic debt settlement, spin-offs, equities, along with numerous other traded tools (NSE, 2015).

The duty or the obligation of the Nairobi Security Exchange is to: make it feasible for price economic cost savings mobilization for features of financial investments; second of all, it gives enablement for advancement as well as growth of the financial services market, example insurance policy coverage and pension plan systems, which support economic cost savings by workers. NSE advertises equity financing and also enhances access to fund for both brand-new as well as old business (NSE, 2015). Because of the new obligations and tasks of the NSE, the Kenyan government envisages a more developed nation in its vision 2030, consequently having a levelled system for heavyweights of services as well as financial investment in the local and international financial market.

1.2 Statement of the Problem

As noted by Kibet (2016), commercial banks around the world, as well as in Kenya, have been up against the stiff competition. This stiff competition has made some of the commercial banks perform better than others in NSE. The strategies that the best

performing commercial banks are putting in place to enhance their performance might be different thus their disparity in financial performance (Rop, Kibet & Bokongo, 2016). ROE, ROA and EPS have all been used in many financial success studies. Few studies have looked at ROA as a financial performance metric, hence the survey seeks to understand the connection between fixed asset structure and financial success of the financial institutions listed in NSE (Mwaniki, Omagwa & Job, 2014).

Some commercial banks have reported better performance in comparison to others. This poor performance of these banks under study might be as a result of the choice of fixed asset structure. If fixed asset structure is the issue, then this motivates the researcher to research on how immovable fixed asset structure affects the financial performance of financial institutions understudy. It also creates a need to know how movable fixed assets and commercial banks financial performance relate. However, the decision to use a fixed asset structure is arbitrary, and choosing the wrong fixed asset structure will result in a decrease in financial results and, eventually, bankruptcy.

Most empirical studies previously done by scholars had no consistent outcome of the findings and conclusions on which fixed asset structure the bank should choose to improve financial performance. Mawih (2014) for example, investigated the effects of fixed asset structure on the financial performance of several firms registered on the Muscat Securities Market. In terms of ROA, the findings of the analysis on fixed asset structure have little impact on profitability. Other findings from Mwaniki et al. (2014) on the association between fixed asset structure and profitability of commercial and service sector firms registered on the NSE found that fixed asset structure had a beneficial effect on these firms' financial success. Because of these empirical anomalies, it’s still unclear how commercial banks listed on the NSE's fixed asset structure affect their financial results.

Despite the importance of deciding on the fixed asset structure, only a few researches have looked into the current connection between fixed asset structure and bank performance. As a result, the goal of the research was to find a connection between fixed asset structure and NSE financial results.

1.3 Objectives of the Study

1.3.1 Main objective

To establish the relationship between fixed asset structure and financial performance of commercial banks listed in Nairobi Security Exchange.

1.3.2 Specific objectives

The specific objectives are to:

(i) Investigate the relationship between immovable fixed assets and the financial performance of commercial banks listed in the Nairobi Security Exchange.

(ii) Establish the link between movable fixed assets and financial performance of commercial banks in NSE.

1.4 Research Hypothesis

It is hypothesised that:

(i) Immovable fixed assets had a positive impact on the financial performance of commercial banks listed on the Nairobi Security Exchange.

(ii) Movable fixed assets had a negative impact on the financial performance of commercial banks listed in NSE.

1.5 Scope of the Study

This study aimed to establish the association between fixed asset structure and financial performance of commercial banks listed on the NSE. Financial performance is the dependent variable with ROA as the financial performance indicator, whereas fixed asset structure is the independent variable. The fixed asset structure comprises of movable fixed asset and immovable fixed assets. Examples of movable fixed assets covered in the study were machinery and motor vehicles while the immovable fixed assets were plants and buildings. The study used secondary data from annual financial statements published by NSE for five years (2014-2018). The population of the study was the 11 commercial banks listed in NSE. A descriptive research design attributed to a census approach aiming at the eleven listed commercial banks in NSE was applied.

1.6 Significance of the Study

The results of this study would be useful to commercial bank executives, who can use them to make informed decisions about which fixed asset structure to use. The study's uncovering adds to the body of information about the association between fixed asset structure and profitability of NSE listed financial institutions.

The conclusions and recommendation of the study will also be used in policy formulation by the government and investors and regulatory firms like the Capital Market Authority of Kenya and the Central Bank of Kenya to develop policies towards the choice of fixed asset structure made by commercial banks. The approach used in the internal operations and the competitive market can be useful to bank managers as it offers both strategic opportunities, either by improving the traditional ways of operating or by making significant changes to the ways of doing business. Fixed asset structure decisions are for the strategic purpose either in internal operations or in the competitive market arena.

The study sheds some light on academicians in the field of fixed asset structure in banks. This research would also be used as reference material in other related studies. Finally, the research contributed to the theoretical and empirical literature on the relationship between fixed assets and commercial bank financial performance in Kenya.

1.7 Limitations of the Study

The study looked at secondary data from listed commercial banks' financial statements, which could have errors that this analysis missed. To mitigate this, the data was tested for validity and reliability. Lastly, the study did not consider financial statements for the year 2019 and 2020 since not all financial statements of the commercial banks had been published and audited wholly. To mitigate this, the researcher decided to research for the years 2014-2018 that gave all the information needed to meet the objectives of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This study assesses the theoretical as well as empirical works on the connection between fixed asset structure and financial performance. The study is guided by the theoretical and realistic literature review of other previous studies. The developed conceptual structure binds the independent and dependent variables. Financial performance, as calculated by the return on assets (ROA), is the dependent variable, while the fixed asset structure is the independent variable.

2.2 Theoretical Review

The following theories were reviewed in this chapter the neoclassical theory, the accelerator theory and the resource-based view theory, Tobin Q hypothesis, Trade off theory and pecking order theory. The resource-based view contends that instead of focusing on the external world, businesses should concentrate their efforts within the organization to identify areas of competitive advantage. The resourced based view theory, which is backed by the other discussed theories, will thus serve as the foundation for this research.

2.2.1 The Neoclassical Theory of Fixed Investment

The neoclassical model was formulated by Jorgensen in 1963. The assumption of the theory about the existence of putty-putty firm capital implies that the decision of the firm on fixed asset structure can instantly adapt to changes in technologies without

accruing other costs to the firm. Hence, a firm's choice of fixed asset structure depends mainly on the cost of capital rather than the nature of the technology used in the manufacturing process (Twine, Kiiza & Bashaasha, 2015). This theory draws its fundamentals from the maximisation of utility and wealth of a firm over time. The neoclassical theory proposition is that the agents can make numerical probabilities and the probability distribution of the expected returns. In the fixed asset structure model, the firm is neutral to risks, and capital costs cause risk (Virlics, 2013).

Fixed asset structure in firms consists of the replacement of depreciating machinery and equipment and a distributed lag adjustment of capital to its equilibrium value. If business expectations are static, it, means that future changes in a firm's output are unanticipated. Hence, net fixed investments by a firm represent a distributed lag on past changes in desired capital stock. Samuelson (1939) and McMahon (2005), well-known proponents of both the neoclassical and modified neoclassical models, suggest that fixed asset structure decisions are influenced by the cost of capital and that the firm's real and financial decisions are distinct.

Several limiting assumptions in the neoclassical model include realistic expectations, unitary elasticity of substitution between capital and labour, exogenously defined production prices, reversible expenditure, malleable capital stock, and a constant cost of capital (discount rate). The theory ignores ambiguity and assumes that depreciation for tax purposes is a constant fraction of the firm's assets' replacement expense. These assumptions have continued to restrict the neoclassical model's applicability to commercial banks. This study, therefore, explored whether the choice of fixed asset structure maximises the wealth and utility of commercial banks listed in NSE.

2.2.2 The Accelerator Theory of Investment

The accelerator model can be traced to Clark (1917), where its implications in the business cycle were advanced by Samuelsson (1939). Fixed asset structure, according to accelerator theories, is the process of adjusting to the required capital stock (Twine, Kiiza & Bashaasha, 2015). If companies predict an increased demand for their products, they will need a greater capital stock. Because the fixed asset structure controls the amount of money flowing into the capital stock, it will react to variations in the predicted output demand.

The accelerator principle of fixed investment is open to a series of arguments. It begins with the assumption that firms' desired capital-output ratio is roughly constant. For great deals of functions, consisting of the decision of the level of collected demand, gross investment is the appropriate idea. Second, the theory suggests that a disparity in between the favoured along with actual capital stocks is removed within a singular period. If markets producing funding items are presently opting for full capability, it might not be viable to remove the incongruity within a singular period. In fact, even if the marketplaces are executing at less than full capacity it could be much more budget friendly to do away with the disparity gradually.

Third, thinking about that the concept brings no excess ability; we would not expect it to be legitimate in recessions, considering that they are recognized by excess capacity. Based upon the theory, net investment depicts financial performance. Nonetheless if excess capacity exists, we would plan for little or no net monetary investment to happen, taking into consideration that net financial investment is made in order to increase reliable capability. Fourth, the accelerator idea of fixed asset investment is based on the premise that the output of consumer products and the capital equipment required for their production are both constant, i.e., the capital output ratio is constant. In fact, this proportion isn't always consistent.

Fifth, even if there is a constant ratio in between financing and output, companies will certainly buy brand-new plant and additional tools to a boost in accumulated demand. Simply put, if managers expect the boost in demand to be short-lived, they may keep their existing degrees of outcome and also raise costs (or let their orders accumulate) rather than raising their effective ability and outcome via financial investment in brand-new plant as well as equipment. Ultimately, if and when a development of efficient capability shows up warranted, the development might not be required to fulfil the existing boost popular, yet one sufficient to fulfil the boost sought after over a variety of years in the future.

The theory is adaptable in that it allows investors to play with other important variables, such as uncertainty and market imperfections. Because the accelerator model's fixed asset structure is independent of capital costs, it lacks a theoretical

grounding. Nonetheless, its use in empirical research is largely endorsed (Twine, Kiiza, & Bashaasha, 2015). As a result, my research on the relationship between fixed asset structure and profitability of financial institutions listed on the NSE is guided by this theory. In this investigation, the model was utilized to show if choosing a fixed asset structure boosts the firm's worth.

2.2.3 Resource-Based Theory

Barney's (1991) post, "Firm resources as well as sustained competitive advantage," is extensively considered as an influential work in the growth of resource-based concept. Barney (1991) opines that firms can create lasting supernormal returns if, they have far better resources that are shielded by some type of isolating system that prevents them from spreading throughout the sector (Warstronm & Niemela, 2015).

Resource Based View is a method of preparing procedures as well as obtaining a competitive advantage that concentrates on a company's internal sources. According to Barney, resources need to be important, uncommon, miserably imitable, as well as non-substitutable -VRIN demands (Warstronm & Ramp; Niemela, 2015). Organizations have to create unique, firm-specific core skills, according to the resource-based concept, to exceed competitors by doing things in a different way. Administration ought to recognize as well as structure the company's monetary, lawful, human, business, educational, and relational resources for long-term competitive advantage. The company can produce as well as use techniques to enhance its performance as well as performance to these heterogeneous and also imperfectly transportable sources.

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The immovable and mobile fixed assets covered in this paper are examples of firm-based resources. An immovable fixed asset is a piece of property that is physically attached to the land and cannot be moved. Immovable assets are considered part of the company's assets. Plants and buildings are examples of immovable fixed assets, whereas motorcycles and machinery are examples of moveable fixed assets (Kenton, 2019). Because this theory divides firm-based resources into tangible and intangible assets, it is appropriate for application in this research to acquire a competitive advantage from the firm's assets. The theory is important in that it allows commercial

banks listed on the NSE to choose wisely the fixed asset structure that will help in gaining a long-term competitive advantage.

2.2.4 Pecking Order Theory

Pecking order theory (POT) was first developed by Donaldson (1961) as well as likewise boosted by Myers in1984 (Myers, 1984). It was furthermore reviewed in the journal on business financing as well as financial investment options when companies have crucial info the capitalists do not have (Frank *et al.*, 2016). It asserts that enterprises prioritize their financing sources based on the cost of financing, with equity raising serving as a last resort. It is founded on the concept of information, where retained earnings are prioritized in the finance hierarchy because they are less expensive and are less affected by information asymmetry. Second, debt is regarded because it has a low asymmetry and can be used as a monitoring instrument to prevent management from overspending. Finally, due to its adverse selection effect, external equity is used as a last resort (Ayot, 2013). According to the pecking order theory of debt, the worth of fixed assets influences the sources framework in line with the chain of command concept of financial debt, as these properties are put as collateral, indicating that the bigger their share, the bigger the utilization. Reorganisation of fixed properties has been recognised as an essential component of company financial effectiveness (Murillo, 2015). It has been born in mind that business with a better safety and security worth of ownerships has far better access to bank loan contrasted to the business controlled by abstract fixed possessions as a result of the lowered hazard level of financial investments and also deals involving fixed assets, which are non-reusable on the industry (Gladys & Omagwa, 2017).

This research borrows from this perspective and makes anticipation that these fixed properties are promised as protection. In addition, a firm with the high degree of fixed assets can comfortably access financial debts, without being required by the scenario to provide equity. This as a result may convert to higher economic effectiveness.

2.2.5 Tobin Q Hypothesis.

Nobel laureate economist James Tobin has actually suggested the Q theory of fixed assets investment which links a firm's financial investment choices to variations in the

securities market. When a company finances its sources for financial investment by launching shares in the securities market, its share prices reflect the fixed assets investment selections of the firm. Q theory, furthermore known as Tobin's Q, Tobin's Q Concept, Kaldor's V or the Q Percentage, is the ratio in between the industry worth of a fixed asset and its replacement worth. It is a theory of economic investment methods in which 'Q stands for the proportion of an organization's existing shares (share sources) to the replacement expense of its fixed assets, i.e., the substitute expense of the share sources.

There is a close relationship between the stock exchange as well as fixed assets investment. Changes in the stock exchange can impact the investment decisions of firms. The relationship between supply costs and also companies' investment in the physical assets is captured by the 'Q-theory of fixed asset investment'. Given that much of the value of companies originates from the resources they possess, we can use the stock exchange worth as a step of the marketplace worth of a firm's capital stock. If we allow V be the securities market worth of a firm, K be the amount of capital the company owns, as well as P k be the cost of new resources goods, then for a private organisation we can note that P k. K is the replacement expense of the company's capital stock. If the replacement expense is not changing much, a boom in the stock market (a boost in V) will create Tobin's q to climb for the majority of companies causing an increased percentage in fixed asset investment.

Basically, when stock prices are rising, companies find it rewarding to expand. They therefore invest extra in fixed assets. Thus, Tobin's q establishes a relation in between economic funding (share as well as stock) as well as fixed asset structure (movable and immovable fixed assets). A boom in the stock market makes it very easy for companies to increase more outside funding for funding fixed asset investment. Effectively, the stock cost tells companies just how much the securities market worth each unit of resources currently in place. So, the investment firm has a straightforward workout to execute. It needs to contrast the acquisition price of an additional device of funding to the rate the stock market is willing to pay for it. If the supply value exceeds the purchase price, the firm must get the fixed possessions; or else, it should not.

Three primary variables impacting the preferred supply of resources of a firm are the predicted future marginal item of capital, the interest rate as well as the acquisition price of fixed assets. Each of these variables also impacts Tobin's q. A rise in the anticipated low product of funding tends to boost the future revenues of the firm, which raises the stock exchange value of the company and also therefore increases q. A decrease in the interest rate additionally often tends to increase supply rates (and also therefore q), as financial capitalists replace away from low-yielding bonds and financial institution down payments and also purchase assets rather. A fall in the purchase cost of funding lowers the of the q ratio as well as therefore enhances q. Since all three sorts of modifications boost Tobin's q, they additionally enhance the preferred capital stock and also taken care of assets investment, as anticipated by the modern concept of investment.

Empirical studies have nevertheless disclosed that financial investment in brand-new fixed assets tends to increase when the stock rates rise and fall when stock costs drop. A plausible explanation for this is that it takes some time for firms to make investment choices, develop brand-new factories as well as established brand-new plants. However, the connection is not constantly solid. The problem is partially attributable to the reality that, in practice, stock prices reflect lots of fixed assets besides resources such as the patents a company holds or the reputation of a firm's items. Hence modifications in stock costs are imperfect procedures of the adjustments in the market value of resources.

Tobin's q concept of economic investment has crucial effects. Tobin's q proportion provides a motivation to spend for firms based on the securities market. It not just reveals the existing performance of funding nevertheless also its anticipated future productivity. Investment is expected to be better in the future when the worth of q is larger than 1. Tobin's q theory of fixed asset investment triggers business to accomplish net asset investment also when q is less than 1. They may embrace such economic strategies which bring future success by elevating the market value of their shares. Tobin's q theory, as a result, aids in producing the right choice of fixed asset structure that improve financial gain in future.

2.2.6 Trade-off Theory

The trade- off idea was presented by Kraus as well as also Litzenberger in 1972. It suggests that a company chooses how much monetary loan financing to employ as well as how much equity cash to use by balancing costs and benefits. It was then boosted by Myers (1984), by introducing change expenses, including those originating from irregular information as well as also firm concerns (Frank, 2017). It examines the benefits of financing with debt, the tax benefits of financial commitment, and the costs of financing with debt, as well as the costs of economic hardship, such as personal insolvency prices of financial commitment and non-bankruptcy expenditures (Ayot, 2013).

Investigations on the link in between fixed asset structure as well as financial effectiveness have finished up that the better the security, the greater the potential use (Kim, 2017). Based upon this finding, this research presumes that the business with adequate fixed assets is in a position to make use of the ideal funding framework which after that causes much better financial performance. The assumption is furthermore based upon the findings by various scholars that the greater the collateral, the higher the possible make use of as well as the greater the share of fixed assets, the decreased the financial performance (Koralun,2013).

Based on this principle, this research study services the view that sufficient fixed properties may minimize the threat as well as the personal bankruptcy expenditure, therefore boosting the performance of the commercial banks.

2.3 Empirical Literature Review

This section reviewed past studies which are related to the topic of the study, both international and local studies. The option of fixed asset structure has had a major effect on bank results.

2 3 1 Relationship Immovable Fixed Assets and Financial Performance

Sayeed and Hogue (2016) published research comparing public and private commercial banks in Bangladesh, as well as the effects of fixed asset and liability management on profitability. The study discovered that the profitability of selected

Bangladeshi commercial banks is influenced by immovable fixed asset and liability management, as well as external variables such as market concentration and inflation rate. The effect of management obligation and fixed assets on the financial gain of sixteen private and public Bangladeshi commercial banks was also investigated. The regression results reveal that when income total is used as the response variable for public and private banks, all assets contribute considerably to the comprehensive revenue of private banks.

Charalambakis & Psychoyios (2012) conclude that in British and American firms fixed assets have a favourable end result on firms' financial obligation proportions. Morellec (2015) states that the rate of financial commitment is lowered by collateralized assets which suggest that uncollateralized immovable fixed assets could adversely impact financial performance. Although Charalambakis and Psychoyios (2012) suggest that fixed assets are simply among the crucial chauffeurs that need to be thought about, Schmidt (2016) along with (Ferri & Jones, 2015) report a negative connection in between financial performance and fixed asset structure. This result can be called for only if a company's fixed assets commonly have a tendency to be funded with long-term financial debt as well as equity (Schmidt, 2016).

Furthermore, Jensen & Meckling (2015), Xie (2018) in addition to Bhavani as well as additionally Bhanumurthy (2014) give evidence on favourable collaborations in between a company's financial performance and collateralized assets. Baek & Raschke (2016) and Ulku (2012) found that the proportion of fixed assets to total assets is a positively significant factor of a company's financial performance.

The past research studies suggested that using fixed assets as safety and security is apparent in protecting funding as well as decreasing information asymmetry in the lending institution-consumer relationship (Berger, 2012). Numerous other empirical research studies record a substantial and encouraging connection in between fixed asset structure and financial performance (Kayo & Kimura, 2014).

Moreover, Frank and Goyal (2009) in addition to Hall (2012) reveals that physical immovable fixed properties i.e., land as well as buildings, which are the least firm-specific properties, have the optimal informative power which the effect on monetary

efficiency is the toughest. Benmelech (2017), in addition to Bergman (2015) claim on the redeploy ability of producing fixed assets from the 19th-century markets of the railway in the US to demonstrate how possession saleability as well as economic performance connect to each other. Sanyal and Mann (2016) looked at the financial frameworks of start-up companies. They recognized a high probability of start-ups to make use of outside financial responsibility when they have fixed assets as possible security as for these assets have a high liquidation worth. Herciu et al. (2012) for instance suggest that if firm supervisors are certified to blend movable and immovable fixed properties properly, this will certainly make a firm greatly budget-friendly.

The research study by Okwo et al. (2015) analysed the effect of an organization's financial investment in fixed possession framework on its operating profits margin. The research is based upon an example of 4 businesses in the Nigerian brewery market over eleven years from 2004 to 2015. The operating earnings margin was taken as the reliant variable while the independent variables were Sales/Net Fixed Quality portion, Rates of interest, Foreign Exchange Rate, in addition to Inventory/Cost of Sale proportion. The findings of the research study were that though the partnership in between the level of monetary economic investment in immovable fixed assets as well as likewise its result on the operating profits announced, the result was not statistically significant. Therefore, the outcome did not suggest any type of sort of kind of strong useful influence of fixed properties on the operating incomes of brewery business in Nigeria.

On the other hand, the study by Olatunji (2014) took a look at the end result of financial investment in fixed asset structure on the success of selected Nigerian banks. Information was obtained from annual reports along with accounts of thirteen chose Nigerian firm Banks from 2000-2012.The research wound up that financial investment in immovable fixed assets had a strong as well as in addition preferable rational impact on the performance of the financial market in Nigeria.

Furthermore, the fundamental outcome of the research study by Martina (2015) on some extensive manufacturing service recommended that the immovable fixed assets had an impact on ROE and not ROA. The research study was performed on a sample of 500 Croatian SMEs between 2005 and 2010. Conclusion results of the research

study positioned that immovable fixed asset remain correlated with financial performance. The partnership in between immovable fixed properties and financial performance was statistically significant in all observed years. The net link in between immovable fixed assets along with revenue declared in all observed years was statistically significant.

Abdulkadir (2020) examined the mergers and their consequences on financial gain of banks listed in NSE. The findings revealed that asset structure did not significantly influenced performance. This is depicted in the results that, for every 1 unit change of the variable, performance decrease by -0.5%. This implies that the composition of assets in an entity in this case commercial bank of Kenya does not affect its financial performance. However, the study did not specify what type of assets structure was used to do the analysis.

A research study by Job (2017) on Fixed asset structure and financial Performance: An Instance of Firms Priced Quote under Industrial and likewise Provider Market at the Nairobi Security Exchange, Kenya, concludes that fixed asset structure has a bigger considerable influence on the financial performance. According to the findings, economic investments in buildings, plants, and gadgets have a substantial impact on the profitability of businesses. The financial performance of a one-unit increase in fixed property, plant, and tools is reduced by 0.072 systems. This suggests that there is an optimal fixed asset structure where increasing the value of this variable reduces the financial efficacy of these enterprises. This is due to the fact that these resources are underutilized. These companies should keep their financial investments in this variable to a minimal and concentrate on properly employing the ones they already have in order to improve their financial performance. Long-term investments in fixed properties, on the other hand, have a positive impact on these organizations' financial performance.

Abubakar, Nasir, and Haruna (2013) assessed how immovable fixed assets would impact the efficiency of picked financial institutions in Nigeria. Data were reviewed from annual reports of chosen financial institutions for eleven years (2002-2013). The results of the research study expose that additional sustained monetary investment in

immovable fixed possessions and financial institution efficiency are vice versa relevant. The researchers, consequently, advised that a lot of efforts must definitely be employed on regulations that will definitely advertise the appropriate use of immovable fixed possessions as opposed to added investments.

A study by Lopes and also Pedestrian (2012) on the effect of immovable fixed assets exposed that building as well as land have an unfavourable and also insignificant effect on return on assets of business banks while movable fixed assets have a positive as well as irrelevant effect on ROA The negative findings on the variables negates our assumption and also could be blamed on the option of fixed asset structure of industrial financial institutions each year as requested by International Financial Accounting Criterion as well as Bookkeeping Standard Board. The verdict was that there was a negative partnership between fixed asset structure and future firm financial performance.

Athar and Madhul (2016) had a look at the link between immovable fixed properties and companies' profitability in Pakistan. Information was collected for 10 years from non-financial companies offered on Pakistan stock exchange. The information was reviewed taking advantage of multiple regression analysis. The end results of the research study revealed a substantial partnership between immovable fixed properties and business' total asset turnover. This is a percentage that establishes simply how all belongings possessed by a firm are operated in sustaining business sales. Sitanggang (2017) states that fixed assets turnover has a substantial result on profits. The end result of the study recommends that fixed asset structure s has a substantial impact on performance financial (Al Ani, 2014).

Svetlana and Aaro (2012) studied the relationship between immovable fixed asset and the ROA of a group of enterprises in European Union countries. For over nine years, a total of 8,074 firms were used in the research (2003-2012). The link between the dependent (ROA) and independent variables was explored using multiple regression analysis (immovable fixed asset). The findings show that the degree of immovable fixed asset and return on the asset has a good statistical relationship.

Michuki (2014) researched the impact of fixed asset structure decisions on the results of listed companies on the NSE. Secondary data was collected from the 61 companies

at the Nairobi security exchange using a descriptive research design. Panel data methodology was used in the research, which included cross-sections and time series. The research discovered an important and positive connection between ROA and fixed assets decisions, financial leverage, and liquidity. The study focused on all NSE-listed companies, not only commercial banks.

In their examination of the association between fixed asset structure and profitability of the Kenyan companies are listed on the Nairobi Stock Exchange (NSE) in the commercial and service sector, Mwaniki et al. (2014) discovered that firms employ available immovable fixed assets well. Secondary data from the business' annual reports was used in the investigation. Over five years, from 2010 to 2014, a census of all enterprises listed in this sector was conducted, with data analysis using multiple regression analysis (standard) and SPSS version 21. According to the findings, the fixed asset structure had a statistically notable impact on the company's comprehensive income. Immovable assets, such as property, plants, and equipment, as well as long-term investments and finances, had a statistically notable impact on the comprehensive income, according to the study, but movable fixed assets had none.

2.3.2 Relationship between movable fixed assets and financial performance

In India, Khalid (2012) surveyed to investigate the link between asset quality management proxies and bank profitability. Financial ratios for the period 2006-2012 are used to calculate the performance of the sample banks, with ROA and ratios on financial income serving as proxies for bank financial income. A multiple regression model was also used to see if there was a link between bank asset quality and operating performance. The results showed that a low asset ratio is related with inadequate financial efficiency when it comes to moveable fixed assets.

The total asset turnover variable has an impact on financial performance of IDX-listed real estate businesses, according to a study on the influence of capital structure, wealth structure, and asset turnover on monetary gain (case study in real estate companies listed on the IDX). Murtadlo et al. (2014) found that the results of the model feasibility analysis model had a favourable impact on ROA. The study's findings imply that asset structure has a major impact on financial success. Liaqat

(2017) published a paper titled Capital structure as a driving element of financial performance: The case of Pakistan's energy and fuel sector demonstrates that capital structure has a major negative influence on return on assets (ROA) in fuel companies and the energy sector.

Marian and Ikpor (2014) checked out the effect of movable fixed assets on the economic efficiency of chosen financial institutions in Zimbabwe. The impact of the price of repair work as well as maintenance, enhancements as well as issues on Return on Properties (ROA) of financial institutions was utilized for this study. Exposit Component research study style was used for the research study. Extra information was accumulated from annual reports in addition to accounts of Down payment Cash money Banks of 8 picked financial institutions over eleven (11) years (2002-2014). The 8 financial institutions were selected taking advantage of a random sampling method. Several regressions were used to analyse the link between the dependent variable (ROA) in addition to independent variables-the cost of repair work as well as upkeep, improvements in addition to handicaps of movable fixed assets. The results of the research study divulge that price of repair work and maintenance has a damaging and considerable result on the return on assets of financial institutions. Additionally, the outcomes of the research study exposed an unfavourable collaboration between the additional acquisition of movable fixed assets and the return on assets of banks. Additionally, the research study reveals substantial collaboration between fixed possessions and return on assets. The ramifications of the findings are that increase in the expense of repair service along with maintenance of movable fixed properties sets off a reduction in return on assets of financial institutions. The results furthermore shown that as the included acquisition of movable fixed asset in addition to impairments of fixed assets raise, the return on assets of the banks minimizes.

Okwo, Ugwunta &Nweze (2012) looked into the fixed property structure along with firm profits, evidence from the Brewery Market. A cross-sectional data was gathered for the evaluation from the annual reports of the brewery firms from 1995 to 2009. The 4 brewery companies were those estimated on the Nigerian Securities market in addition to their enhancement in the analysis based upon the timetable of details for the specified period. They finished that movable fixed asset had a superb effect on the monetary effectiveness of the firms.

Research by Okoro (2019) on fixed asset Revaluation and Productivity of Banks in India. The research study used cross-sectional panel data and a sample of fifteen estimated financial institutions across a five-year period (2013-2017). Return on assets was calculated as a function of framework revaluation, land revaluation, and device revaluation. As a data analysis tool, least square techniques were used. System origin test along with granger origin evaluation were taken advantage of to develop the vibrant impact of fixed asset revaluation on the success of chosen commercial banks. The findings revealed that revaluation of immovable fixed properties have an unfavourable yet unimportant result on return on assets of the industrial banks while revaluation of movable fixed assets has a favourable along with inconsequential influence on return on assets. System origin test situated that the variables are not related at first distinction while the granger causality located no causal relationship among the variables. The research study ended that fixed asset revaluation has no considerable outcome on the earnings of Indian business financial institutions. The research study recommended that surveillance of commercial financial institutions require adopting fixed assets revaluation approach that stays in accordance with the relevant law and auditing criterion to enable informed efficiency assessment.

The effect of movable fixed assets on the efficiency of companies in the United States was performed by Mishra as well as Cobeli (2012), for thirteen years (from 1998-2012). A comparison was made in between the research study and the effect of investment on the performance of companies. A cross-sectional regression variation of far better time collection was utilized in examining the collaboration between the outcomes of the selection of fixed asset structure i.e., movable fixed assets in banking market in the United States. The results of the research study reveal that movable fixed property option is positively connected with all the variables that develop the performance of a firm, amongst which are: net margin, running margin, as well as furthermore return on fixed assets and sales. The outcome discloses that movable fixed assets have 2 times the impact on a firm's market price when contrasted to the end result of immovable fixed assets investment on the marketplace well worth of the company. Thus, they ended that additional movable fixed property investment in service would definitely supply a unique and also constant competitive advantage for a company than added fixed assets investment.

Holden along with El-Bannany (2016) studied precisely just how financial investment in movable assets would certainly affect banks success in the United Kingdom for twenty (20) years, that is, from 1996-2015, making use of proof from accounting details. The research study used a several regression layouts for the examination of the collaboration in between financial investment in movable set property in addition to financial institution earnings. The end result of the research study exposed that monetary investment in movable fixed assets has a favourable effect on financial institution profitability. Hence, the option of movable fixed properties to produce banks efficiency has in fact helped raised bank productivity.

Lin (2014), taken a look at the impact of movable set possessions on monetary sector efficiency in the United States. He made use of cross-sectional information of 155 monetary companies in the U.S, for the period of 5 years (2009-2014) as well as additionally using a several straight regression model for analysing the performance of financial institutions. The outcome of the study discloses that movable fixed assets contribute to the complete well worth-production efficiency of financial institutions in the U.S.

Muhammad (2017), researched whether an investment in movable fixed possessions influences the organisational efficiency of production as well as additionally economic markets in Pakistan. The research study made use of key information collected with extensive conferences as well as area studies of 48 manufacturing in addition to 24 economic industries in Pakistan covering the duration of 12 years (2005 to 2016). The info was checked making use of countless straight regression as well as likewise assignment evaluation. The outcome revealed that movable fixed assets have a favourable effect on business performance of all tested organizations. The impact of fixed assets on the ROA of Pakistani banks was performed by Javaid, Anwar, Zaman &Ghafoor (2011) for a duration of 5 years (2004-2008) making use of the pooled normal least square strategy of assessment. The outcomes reveal a substantial Relationship between the independent variables and ROA. Nevertheless, it was additionally observed that a rise in fixed possessions could not necessarily improve the incomes of banks in Pakistan.

The research by Bambang, (2019) on the result of resources framework, liquidity, and asset structure as well as fixed asset turn over on the economic efficiency of usage

industry market firms in the Indonesia Stock Exchange in 2016-2018. The analytic approach that was made use of in this study is numerous straight regression analyses. The results of the t-test hypothesis show that fixed asset structure has a considerable effect on financial performance.

Zhengsheng and NuoZhi (2013) discovered that asset structure had higher application value and importance in determining the comprehensive income when it comes to the optimal distribution of moveable fixed assets and efficiency. Asset management, according to Levine (2008), has a substantial impact on a commercial bank's profitability since it increases interest income while cutting bad debt management costs. To safeguard themselves from poor loans and other loan defaults, the legislation mandates banks to hold aside funds that can be deducted as an expense. The lower the possession top quality, the higher the NPS proportion to gross/net asset. Therefore, it means an adverse compromise in between movable fixed property high quality as well as financial institution success (Ombaba, 2013).

Another research by Abata (2014) considered the result of movable fixed property on the efficiency of the largest six financial institutions provided in the Nigerian stock exchange using secondary data from business financial institutions' annual reports over fifteen years (1999-2013). Abata used Pearson correlation and regression as well in SPSS 17 to evaluate the results. According to the findings, there is a statistical connection in between movable fixed possession and also bank results.

Several researches on the link connecting fixed asset structure and comprehensive income have come up with contradictory results. Mawih (2014) surveyed MUSCAT from 2008 to 2012 to look into the influence of asset structure on corporate financial gain. The asset structure was calculated by income of fixed assets, while ROA and ROE measured by the financial output. According to the results of the report, asset structure has no major effect on comprehensive income in terms of return on equity (ROE). Another finding of the survey was that fixed assets are affected only by ROE, not ROA. Furthermore, the findings indicated that asset structure affected ROE only in the petrochemical industry.

Karimi (2013) investigated the link between investment portfolio option and the profit earned by investment firms listed on the Nairobi Security exchange. The study

employed a descriptive research method and comprised four Nairobi stock exchange companies. Investors expect good returns on their investments as compensation or incentive for taking a risk in investments, according to the report.

2.4 Conceptual Framework

A conceptual framework explains what is predicted through the study. The conceptual structure for this research depicts the relationship between fixed asset structure and financial performance of commercial banks listed in NSE. The financial performance of commercial banks listed on the NSE, as measured by ROA, was the dependent variable. The measure of a company's profitability in relation to its total assets is known as return on assets (ROA). In the case of commercial banks listed on the Nairobi security exchange, the independent variable is the fixed asset structure. The fixed asset structure discussed comprised of moveable fixed assets and immoveable fixed assets.

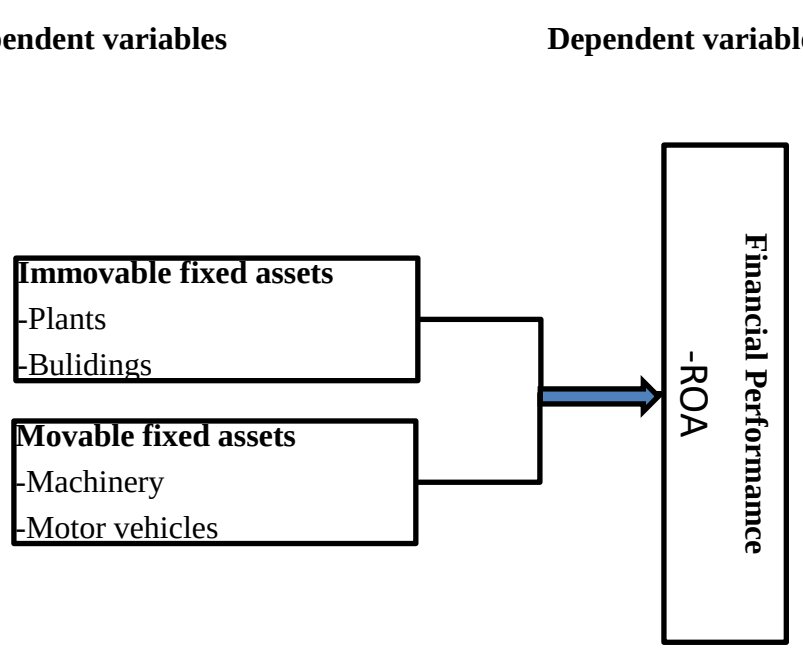


Figure 2.4.1: Conceptual framework: The relationship between fixed asset

structure and financial performance of commercial banks listed Nairobi security exchange.

2.5 Summary of Literature Gaps

The findings of the studies included in the literature review show mixed results when it comes to the link between fixed asset structure and commercial banks financial performance. Mwaniki et al. (2014) found that the immovable fixed asset structure has a statistically important impact on the financial performance of firms listed on the NSE in the commercial and service sectors. On the other hand, movable fixed assets have little statistical value in terms of financial success. As a result of these contradictory results, it remained unclear what choice of fixed asset structure of commercial banks listed in NSE impact their financial performance positively.

Another flaw in the literature study is that the vast majority of researchers have done much of research on the connection between asset structure and financial gain of enterprises and commercial institutions in general, with only a handful concentrating specifically on the association between fixed asset choice and financial performance of banks enlisted on the NSE (Mwaniki & Omagwa, 2017).Other researchers studied the link between capital structure and financial gain of non-financial enterprises registered on Kenya's Nairobi Security Exchange. Another flaw is that it focuses on capital structure rather than fixed asset structure, which is important in terms of investment. This has also fuelled my investigation into the key goal of the relationship between fixed asset structure and financial results of NSE-listed commercial banks.

Few empirical studies have used ROA to assess commercial banks' financial performance, although it is a primary financial performance metric in terms of fixed asset structure hence creating a gap. ROA appears to be the most stable over time among the financial performance measures cited by most scholars, such as ROI, ROE, and EPS; other financial performance measures appear to change dramatically with minimal change in independent factors. As a result, the most accurate way to measure financial success is to use ROA. Second, ROA evaluates a company's ability to generate revenue that exceeds its actual expenses. ROA (Carter et al., 2003) refers to the accounting profits for shareholders. Based on the research gaps described above,

the goal of this study was to establish the relationship between fixed asset structure and the financial gain of commercial banks listed on the NSE in Kenya.

2.5 Summary of Literature Review

Fixed asset structure is very crucial in the decision making of commercial banks listed in the Nairobi security exchange. Like any other firm, fixed assets are significant in boosting profit and loss account. Fixed assets are critical because knowledge of an organization's assets aids in accurate financial statements, business valuations, and in-depth financial analysis. Most of the local studies on the relationship between fixed asset structures conclude that the kind of fixed asset a firm chooses to invest, contribute either negatively or positively to the profitability of the firm. A gap was left for researchers to research whether the fixed asset structure causes the negative financial performance that the firm employs in investment or not.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter is to explain how the outcomes of the research objectives were arrived at. The research concept, population and sample size, data collection procedure, and, lastly, how the data was analysed and presented are all included.

3.2 Research Design

This is the blueprint for data gathering, evaluation, and examination; it is the general technique adopted to connect the many components of the study coherently and logically to efficiently address the research question (Bougie, 2013). A cross-sectional, descriptive research design was used for this study.

3.3 Target Population

A population, according to Sekaran (2013), is a set of individuals or items of interest that the analyser wants to investigate. The 11 commercial banks listed on the Nairobi Security Exchange make up the population (NSE, 2016). A census

approach aiming at the eleven listed commercial banks in NSE was applied. Census survey is a method of systematically gathering and documenting statistics on members of a population. It is an official count of a certain population that takes place regularly (Mochmann, 2017). It's collected at regular periods so that it may be analysed.

3.4 Sample Size

In this study, a census survey of the 11 listed commercial banks in NSE was applied therefore no sample size.

3.5 Data Collection Process

The research relied on secondary data obtained from the audited financial statements of the commercial banks listed in NSE to create the correlation between fixed asset structure and financial performance. The information from these financial statements was collected using a document analysis guide. Document analysis guide is defined as graphic organizers that guide students through a process of identifying important background information about a document and using this data to determine the text's bias or perspective (Hair, Black, Babin& Anderson, 2013). Quantitative data was analyzed using SPSS that generated both descriptive and inferential statistics. The outcome of the analysis was presented in form of tables that helped the researcher to interpret the results.

3.6 Diagnostic Tests

Before performing a regression analysis, various diagnostic tests are supposed to be performed. Since the current study is cross-sectional in nature, the only viable diagnostic test that was carried out was multicollinearity test. This was evaluated via correlation analysis.

3.7 Data Analysis

The raw information was processed and reviewed for validity and reliability before being summarized, coded, and tabulated. The SPSS program version 25 was used to analyse the data using descriptive statistics such as mean and standard deviation. Tables were used to present the information. Correlation analysis was used to determine the strength and relationship between the two variables (Cox, 2015).

The overall fit of the model was assessed using the analysis of variance. Data was analysed using multiple regression. The financial performance of the commercial banks was the dependent variable, while the movable and immovable fixed asset structure was regarded as independent variables. The multiple regression analysis models below;

$Y = \beta 0 + \beta 1\ IMV + \beta 2\ MV + \varepsilon$

Where Y =Financial performance (operationalized by ROA),

$\beta 0$=regression constant,

$\beta 1$ &$\beta 2$ = Beta coefficients,

ε = Error Term,

IMV = Immovable Fixed Assets,

MV = Movable Fixed Assets

3.7 Test for Significance

This study utilised the ANOVA and the F-statistics at a $p<0.05$ level of significance to test whether the regression model has a lot of power. The significance of the regression model's coefficient was determined using the t-test.

3.8 Ethical Considerations

The study acknowledged the works of other authors cited. It has also maintained the highest level of objectivity in discussions and analyses throughout the research. The research data remained confidential throughout the study. The researcher also obtained the required approvals from St. Paul's University and NACOSTI. St. Paul's University provided an introduction letter outlining the study's goals. NACOSTI provided a study permit that permitted the collection of data.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter presents data analysis, results and discussion. It displays the results from descriptive statistics, correlation analysis, and multiple regression analysis. Microsoft Excel was used to exhibit the findings in the form of tables for simple comprehension and interpretation.

4.1 Descriptive statistics

The conclusions from the secondary data obtained were presented in this section. The findings were given following the study's specific objectives. The findings were interpreted using the mean (M) and standard deviation (SD) values. The mean is the average value, whereas the standard deviation is the evaluation of a dataset's dispersion relative to its mean (Saunders, Lewis & Thornhill, 2012). A mean of 0-1 indicated that the variables had a weak association, a mean of 1.1-2 indicated that they had a moderate association, 2.1-3 indicated that they were neutral, a mean of 3.1-4 indicated a good association, and a mean of 4.1 and above indicated that they had a strong link. A standard deviation greater than 2 is considered to be high and this means the immovable fixed asset, movable fixed asset and ROA had a differing impact on financial performance.

Table 4.1: Descriptive Statistics

	N	Min.	Max.	Mean	Std. Deviation
Immovable fixed assets	11	8.11	9.62	9.1870	0.43339
Movable fixed assets	11	8.29	9.57	8.9690	0.34904
Return on assets	11	0.02	0.08	0.0380	0.01687
Valid N (list wise)	11				

Source: Research Findings (2021)

In Table 4.1, the mean and standard deviation values for immovable fixed assets are (M=9.1870, SD=0.43339). This means that from all the 11 commercial banks, average immovable fixed assets during the last five years listed in NSE is 9.1870. The standard deviation for immovable fixed assets for all banks over 5 years is 0.43339. This means that the immovable fixed assets have an impact on the financial performance of commercial banks under study. The movable fixed assets with a mean and standard deviation (M=8.9690, SD=0.34904) over the 5 years also indicate that movable fixed assets have a significant effect on financial performance. Further findings show that ROA affected the financial performance of commercial banks with (M=0.0380, SD=0.1681) over the 5 years.

4.2 Inferential Statistics

The relationship between the dependent and independent variables was tested using inferential statistics. Multiple regression and correlation analysis were explicitly computed in the study.

4.2.1 Correlation Analysis

The main aim of the study was to find a link between fixed asset structure and financial performance of the commercial banks listed at the NSE. Correlation coefficients whose magnitude are between 0.9 and 1.0 indicate variables which can be considered very highly correlated. Correlation coefficients whose magnitude are between 0.7 and 0.9 indicate variables which can be considered highly correlated. The magnitude of the correlation coefficient between 0.5 and 0.7 indicates that the variables are moderately associated. Correlation coefficients between 0.3 and 0.5 imply that the variables have a poor correlation (Saunders, 2012). The standard alpha value is 0.05.

Table 4.2: Correlations

		Average Net Profit	Return on Assets	Immovable Fixed Assets	Movable Fixed Assets
Average Net Profit	Pearson Correlation	1			
	Sig.(2-tailed)				
	N	11			
Return on Assets	Pearson correlation	- 0.888**	1		
	Sig.(2-tailed)	0.001			
	N	11	11		
Immovable fixed Assets	Pearson correlation	0.086	-0.078	1	
	Sig.(2-tailed)	0.814	0.829		
	n	11	11	11	
Movable Fixed Assets	Pearson correlation	0.084	-0.138	-0.058	1
	Sig.(2-tailed)	0.817	0.703	0.874	
	N	11	11	11	11

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

As can be seen in Table 4.2, ROA has a negative association with the financial performance of commercial banks listed in the NSE, ($r=-0.888^{**}$ $p<0.05$). Immovable fixed assets, on the contrary, show a positive but not perfect relationship on financial performance ($r=0.086$ $p>0.05$). The study also revealed a positive link between movable fixed assets and the financial performance of the commercial banks studied ($r=0.817$ $p>0.05$). Commercial banks financial performance is positively related to movable fixed assets ($r=0.084$ $p>0.05$). The above findings indicate that fixed asset structure (immovable and movable fixed assets) used by commercial banks listed in NSE are related to financial improvement. Based on the findings, it is evident that the fixed asset structure significantly relates to the ROA. The study findings concur with Mwaniki et al. (2014) that the fixed assets structure had a statistically important influence on the comprehensive income of the company. The study discovered that immovable fixed assets, such as property, plants and equipment as well as movable fixed assets, has a statistically positive impact on financial results.

4.2.2 Multiple Regression Analysis

The association between fixed asset structure and financial performance of commercial banks listed on the NSE was established using multiple regression analysis. The results are provided in the three tables, which are detailed below.

4.2.2.1 Model Summary

In the model summary, the strength of the connection between the independent variable and the dependent variable is presented. It shows how the dependent variable changes in response to changes in the independent variable.

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the estimate
1	0.889	0.791	0.686	0.56257

The adjusted R squared value is 0.686 based on the findings which suggest that 68.6% of the variation in the financial performance can be explained by changes in the choice of fixed asset structure (immovable fixed assets and movable fixed assets. The remaining 31.4% implies that there are other variables other than the ones in the model that can be used to explain variation in financial performance. The results also

show that the variables under investigation are substantially and favourably associated, as seen by the correlation value of 0. 889. This agrees with the study by Michuki (2014) that fixed asset structure determines the financial gain of commercial banks under study and therefore these commercial banks will be able to understand the right choice of fixed asset structure that can be employed to improve their financial performance.

4.2.2.2: Analysis of Variance

The model's relevance was determined using analysis of variance (ANOVA). In this investigation, the model's significance was determined at a 5% level of significance.

Table 4.4: ANOVA Table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.174	3	2.391	7.555	0.018
	Residual	1.899	6	0.316		
	Total	9.072	9			

a. Dependent variable: Financial performance

b. Predictor: Constant): Immovable Fixed Assets, Movable Fixed Assets

The constructed model had a significance level of 0.018, which indicates that the model was statistically significant because it was less than 0.05, according to Table 4.3.3. The F-critical value F (3, 6) =7.555 derived from F-distribution tables was bigger than the F-calculated value (7.566) using ANOVA. This concurs with Wenshu (2014) that the independent variable under study may be used not only to justify a company's financial success but also to determine how well its assets are being used

4.2.2.3 Beta Coefficients of the study variables

The below modelled regression equation was used to fit the beta coefficients:

$$\mathbf{Y = \beta 0 + \beta 1\ IMV + \beta 2\ MV + \varepsilon}$$

Where Y =Financial performance (operationalized by ROA), β0=regression constant, β1&β2 = Beta coefficients, ε = Error Term, IMV = Immovable Fixed Assets, MV = Movable Fixed Assets

Table 4.5: Coefficients

Model	Unstandardized Coefficient		Standardized coefficients	t	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	11.922	6.602		1.806	0.121
Immovable Fixed Assets	0.031	0.435	0.013	0.072	0.945
Movable Fixed Assets	-0.110	0.544	-0.038	-0.202	0.847

a. Dependent Variable: Return on Asset

From the findings given in the table below the following regression equation was fitted.

Y=11.922+ 0.31 IMV -0.110 MV+ ε

The financial performance will be constant at 11.922 when all other variables remained constant at zero, as shown in the equation above. The data also show that immovable fixed assets had a beneficial impact on the financial performance of the commercial banks studied (β = 0.31, p=0.945). It is discovered that increasing immovable fixed assets resulted in a 0.31 rise in financial performance. The results also reveal that moveable fixed assets are not significant (β =-0.110, P=0.847), since its coefficient value is negative which indicate that increase in movable fixed asserts is related to lower performance. As a result, increasing moveable fixed assets will result in a -0.110 drop in financial performance. It is therefore clear that immovable fixed assets and movable fixed assets may be used to predict financial performance.

The findings of this study contradict those of Sayeed and Hogue (2016) who established fixed asset structure is significantly correlated with the financial performance. Contradictory findings are also reported by Olatunji (2014) who suggested that immovable fixed asset is positively related to firm's profitability.

Divergent findings are also reported by Marian and Ikpor (2017) who established a positive significant relationship between movable fixed assets and financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The findings, conclusions, and recommendations of the study were summarized in this chapter. The chapter concludes with additional recommendations for policymakers and future studies that can be implemented by Kenya's relevant banks to ensure effective fixed asset management and improved financial performance.

5.1 Summary of the Findings

The main objective of the study was to determine the relationship between fixed asset structure and financial performance of commercial banks listed in NSE. From the findings, it is observed that movable fixed assets do not affect the financial performance of commercial banks under study. It has been observed that as moveable fixed assets, such as machinery increase, the financial performance of commercial banks listed at the NSE decreases. High costs of repair, maintenance, and disposal, as well as new machine acquisitions, may be blamed for the drop. These expenses will decrease ROA which will, in turn, decrease the financial performance. It is also noted

that a unit increase in immovable fixed assets leads to an increase in financial performance.

5.3 Conclusions

Immovable fixed assets were found to remarkably influence the financial performance of commercial banks listed in NSE. It was disclosed that the movable fixed assets had an insignificant positive impact on performance. The data on movable fixed asset investments also suggest a negative correlation with the financial performance of the banks under investigation. It stated that an increase in movable fixed assets leads to a significant drop in the financial performance of NSE-listed commercial banks. As a result of the study, it was determined that increasing immovable fixed assets leads to higher ROA. An increase in movable fixed assets, on the other hand, resulted in a drop in financial performance

Financial performance is positively correlated with fixed asset structure. The data showed that fixed asset structure has a considerably positive connection with the comprehensive income of commercial banks listed in NSE. This implies that there is an ideal fixed asset structure in which increasing the value of this variable improves the financial performance of NSE-listed commercial banks.

On contrary, a rise in movable fixed assets had a positive insignificant connection with the financial performance of the banks under study. This can be attributable to underutilization of these resources. It can also be a result of high costs of repair and maintenance, acquisition of additional assets that are not of much value to the banks or even high costs in replacement of the movable fixed assets. The recommendation for this study is that these commercial banks should limit their investment in moveable fixed assets, ensure that there is enough utilization and reduce costs on expenses.

5.4 Recommendations of the study

According to the conclusions of the preceding study, this study recommends that commercial bank executives should decrease expenses and maximize the use of movable fixed assets to improve their financial performance. They need to also increase investment in immovable fixed assets and focus on utilizing them fully. This study also gives recommendations to the Finance profession, recommending that

while creating financial rules and standard operating procedures, commercial banks' fixed asset structure be given more consideration. Because fixed asset structure has a substantial impact on financial performance, it should be considered when preserving budget control and the financial performance of these banks in the future.

5.5 Contribution to the Knowledge

The findings of this research study additionally contribute to the field of knowledge by presenting a methodology for calculating the financial performance of commercial banks listed on the NSE in terms of fixed asset structure composition. Academicians and individuals undertaking relevant research can utilize this research as a foundation to build their research endeavours. This study advises that while evaluating the soundness of financial institutions, regulators of commercial banks and other business organizations analyse the fixed asset structure of enterprises and that they provide informed guidance to financial firms accordingly. Firms will be less likely to fail as a result of this.

5.6 Recommendations for Further Studies

To improve on this research, it is proposed that a comparative investigation should be carried out over ten years to acquire more credible results. More data should be added to the sample if available to improve the results' dependability. A study should also be carried out to assess the relationship between other elements that are known to influence financial outcomes. Because the model utilized in this study on the association between fixed asset structure and financial performance of commercial banks listed on the NSE failed to meet the goodness of fit criteria, the researcher suggests that more research be done to develop models that can explain the link and assess its impact on financial performance.

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APPENDICES

Appendix I: List of the Top 11 Listed Banks in NSE

1. Equity bank
2. Absa Bank Ltd.
3. CFC bank Ltd.
4. I &M Bank Ltd.
5. Diamond Trust Bank Ltd.
6. KCB Group Ltd.
7. National bank of Kenya Ltd.
8. NCBA Bank Ltd.
9. Standard Chartered Bank Ltd.
10. Cooperative Bank Ltd

Appendix II: Document Analysis Guide

YEAR	2014	2015	2016	2017	2018
Immovable fixed assets					
Movable fixed assets					
After-tax benefit					
Total assets					
ROA= After-tax benefit/total assets					

Appendix III: NACOSTI LICENCE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 850535

Date of Issue: 30/April/2021

RESEARCH LICENSE



This is to Certify that Miss.. **FELISTA MUENI** of St. Paul's University, has been licensed to conduct research in Nairobi on the topic: Fixed asset structure and financial performance of commercial banks listed in Nairobi Security Exchange. for the period ending : 30/April/2022.

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Appendix IV: Introductory letter

ST. PAUL'S UNIVERSITY

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6th April 2021

National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

RE: RECOMMENDATION FOR FELISTA MUENI MUTETE- MBAMKS876319 TO CONDUCT RESEARCH

This letter confirms the above named person is a student of the Masters of Business Administration program at St. Paul's University.

The second year consists of a major research work leading to a dissertation. The student's selected topic *is 'Fixed asset structure and financial performance of commercial banks listed in Nairobi Security Exchange'.*

Kindly grant this student the required permit.

Yours Faithfully,

Dr. Julius Kahuthia
Director, Board of Postgraduate Studies