

.Research Article

Financial Sector Performance Enhancers

Emma Anyika

Co-operative University of Kenya

eanyika@cuk.ac.ke

Abstract:

In any state or country there are certain sectors that are relied upon to drive its economy. For many of these countries the financial sector is seen as the driving force of the economy. This is witnessed in many world economic crises which commence with the large organizations in the financial sector. The results of this study should aid entrepreneurs to be aware of the areas of emphasis and factors for consideration for positive growth of their organizations. Existing organizations will also benefit by improving the said areas and adopting the factors for continued growth and sustainability. Both non-parametric and parametric methods were used to relate performance to its enhancers. Tests of hypothesis were then made to allow for the generalization of the findings to the whole population. Both the non-parametric and parametric results of the study indicate that adoption of improved practices, marketing policy, performance evaluation, and location of an organization affect the actual financial performance of the organization to a significant extent.

Key words: Enhancers; Performance; Financial sector; Organizations

Introduction:

The financial sector as a broad based area encompasses all organizations dealing with money and finance of a country or county. Most organizations have a financial section which relates with the financial sector by either seeking funds from the sector or saving funds with it. This paper has looked at the financial sector as an all inclusive service provider and service user. In Anyika (2014) adoption of improved practices were thought to have a big impact in the performance of the financial sector but the results showed that was not the case. This necessitated the enhancement of improved practices to better performance by policy makers as well as further research to determine the other causes of performance in the financial sector. Isuzu (2015) study results revealed that Intellectual capital has a positive relationship with financial performance of banks operating in Tanzania, also when the Value Added Intellectual Capital model was divided into its three components it was discovered that financial performance is positively

Related to Human capital efficiency and Capital employed efficiency but is negatively related to Structural capital efficiency. Isuzu (2017) study findings reveal nonperforming loan and Capital adequacy have a significant impact of on financial performance of Chinese commercial banks; therefore, the need to control credit risk is crucial for bank financial performance. Kaneza, (2016) study concluded that an increase in capital adequacy would result in a positive increase in both Return on Asset (ROA) and Return on Equity (ROE) of commercial banks. Similarly, an increase in management efficiency would lead to an increase in both ROA and ROE. However, asset quality affected the financial performance of banks negatively implying that an increase in the asset quality, in terms of non-performing loans, would lead to a decrease in both ROA and ROE of commercial banks. This should aid the new entrants in the sector since it would form a basis for their planning and actions. Existing companies would also benefit since they require current information on performance enhancers in

order to sustain their organizations.

1.2 Statement of The Problem:

In the fast changing economic and financial environment it is no longer possible to rely on certain researched and improved practices alone to boost performance (Anyika, 2014). There is therefore need for continuous study and update of performance enhancement boosters in the financial sector. Although Isuzu (2015) study results revealed that Intellectual capital has a positive relationship with financial performance of banks operating in Tanzania, when the Value Added Intellectual Capital model was divided into its three components it was discovered that financial performance is positively related to Human capital efficiency and Capital employed efficiency but is negatively related to Structural capital efficiency indicating that lumping all the intellectual capitals shows a different result and these to be investigated separately as well as with other components as done in this study. Isuzu (2017) study findings reveal that nonperforming loans and Capital adequacy have a significant impact of on financial performance of Chinese commercial banks; therefore, the need to control credit risk is crucial for bank financial performance, but from other past researches above the types of capital matters since in the results of Isuzu (2015) indicated that structural capital efficiency affects financial performance negatively. Kaneza, (2016) study concluded that an increase in capital adequacy would result in a positive increase in both Return on Asset (ROA) and Return on Equity (ROE) of commercial banks. Similarly, an increase in management efficiency would lead to an increase in both ROA and ROE. However, asset quality affected the financial performance of banks negatively implying that an increase in the asset quality, in terms of non-performing loans, would lead to a decrease in both ROA and ROE of commercial banks which is similar to the results by Anyika 2014 where improved practices on their own do not boost financial performance. This research thus set out to determine other boosters of performance as recommended in Anyika, (2014) with the hope that it would increase the knowledge base on performance enhancers both for new entrants and existing players in the sector

and also assess other enhancers effect on performance in addition to improved practices alone which were found to not impact the same to a large extent. Furthermore, Mujuka (2018) indicates that 52.8 % of financial performance is attributed to other factors other than inflation rates, credit risk, interest rates and technology thus the need for this study which is assessing other factors. Kaya (2015) also indicates that the firm factors that influence profitability a financial performance indicator are only reflective of the period thus there is need to determine factors for current period and this study endeavored to do so.

1.3 Objectives:

General Objective:

To assess the effect of performance enhancers' on the financial sector

Specific Objective:

- i) To determine to what extent adoption of improved practices affects organization performance
- ii) To examine to what extent organization's marketing policies affects organization performance
- iii) To assess to what extent performance evaluation affects organization performance
- iv) To analyse to what extent location of organization affects organization performance

1.4 Significance Of The Study:

All organizations would want to perform excellently in all their functions. Nevertheless not all of them excel in their respective functions. This is not any different in the financial sector. Therefore there is need to investigate the causes of performance enhancement in the financial sector. With the changing technology trends a frequent update of performance enhancers is required. This is to enable organizations adopt current trends and techniques to avoid negative performance and also improve their performance for growth and sustainability.

New entrants in the financial sectors will also have a chance to start on strong, well informed backgrounds.

2. Methodology:

2.1 Sampling:

Random sampling was used to get a representative sample of both the areas to investigate and participant organizations to interrogate within Kenya. Stratified as well as quota sampling was used to make the sampled data both representative and unbiased. Both parametric and non parametric methods are used to determine the effect of the four variables on performance of organizations.

The first method used was Chi Square often referred to as a goodness fit test

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

When O = the observed frequency of any value

E = the expected frequency of any value

The χ^2 value obtained from the formula is compared with the value from Tables of χ^2 a given significance level and the number of degrees of freedom, and if it is greater the null hypothesis is rejected. Discriminate analysis was used to test the homogeneity of the variables as well as their co linearity. Coefficient of correlation among the variables was also done and finally a multi regression was performed to measure the impact of all the four variables on organizations' financial performance. A multiple regression equation for predicting Y the financial performance by Armstrong, (2012) is expressed as follows:

$$Y' = A + B_1X_1 + B_2X_2 + B_3X_3$$

Each X_j variable refers to a measure of the performance indicators

The correlation between Y' and the actual Y value is also called the multiple correlation coefficients, $R_{y.12...k}$, or simply R. Thus, R provides a measure of how well Y can be predicted from the set of X scores. The following formula is used to test the null hypothesis that in the population there is no linear relationship between Y and prediction based on the set of k X variables from N cases:

$$F = \frac{R_{y.12...k}^2 / k}{(1 - R_{y.12...k}^2) / (N - k - 1)}, \quad df = k, N - k - 1.$$

3.0 Data Analysis And Findings:

3.1 For The Data Analysis Five Variables Were Measured Representing The Objectives

Which Include:

- Number of conferences hosted and attended
- Amount of money spent on marketing
- Number of years performance contracts were used
- Distance of organization from the markets

3.2 Chi Square Test:

Initially the hypothesis testing using the Chi square by Greenwood (1996), with the hypotheses stated below is used to test whether there is a relationship between performance and the variables given above i.e.

H_0 : There is no relationship between financial sector performance and the variables

H_a : A relationship exists between financial sector performance and the variables

The final table of the analyzed data for the Chi test is given below:

Table I: A Table Of The Chi Test For The Variables

Observed values(O)	Expected values (E)	O-E	(O-E) ²	(O-E) ² /E
59	75	-16	256	3.413333
58	66	-8	64	0.969697
71	106	-35	1225	11.5566
60	45	15	225	5
100	56	44	1936	34.57143
50	45	5	25	0.555556
45	39	6	36	0.923077
67	63	4	16	0.253968
33	27	6	36	1.333333
13	33	-20	400	12.12121
44	46	-2	4	0.086957
42	41	1	1	0.02439
60	66	-6	36	0.545455
38	27	11	121	4.481481
31	35	-4	16	0.457143
29	24	5	25	1.041667
21	17	4	16	0.941176
80	66	14	196	2.969697
0	17	-17	289	17
3	41	-38	1444	35.21951
67	55	12	144	2.618182
54	49	5	25	0.510204
76	78	-2	4	0.051282
20	33	-13	169	5.121212
40	41	-1	1	0.02439
				141.791

The tabulated Chi is checked in the tables at 95 %

confidence interval and 23 degrees of freedom giving 35.172 since the Chi calculated is greater than Chi tabulated the null is rejected indicating that a relationship exists between financial sector performance and the variables

3.3 Descriptive Statistics For The Measures Of The Variables:

Descriptive statistics are very important because if we simply presented our raw data it would be hard to visualize what the data was showing, especially if there was a lot of it. Descriptive statistics therefore enables us to present the data in a more meaningful way, which allows simpler interpretation of the data (Pizarro 2015).

Descriptive Statistics

	N	Mean	Std. Deviation	Variance
IP	33	1.1818	.46466	.216
MP	24	1.3750	.92372	.853
PE	32	2.0937	1.08834	1.184
L	31	3.4516	1.23393	1.523
Org performance	19	1.5263	.84119	.708
Valid N (list wise)	18			

The risks of the variables’ data are low thus the data is reasonable

3.4 Inter Coefficient Correlations And Covariance:

Coefficient Correlations ^a

Model		L	IP	PE	MP
1	L	1.000	-.245	-.381	.499
	Correlation		1.000	-.072	-.005
	IP	-.245	1.000	-.072	-.005
	PE	-.381	-.072	1.000	-.074
	MP	.499	-.005	-.074	1.000
Covariance	L	.014	-.007	-.006	.008
	IP	-.007	.051	-.002	.000
	PE	-.006	-.002	.016	-.001
	MP	.008	.000	-.001	.020

A. Dependent Variable: Org performance

The correlations and covariance of the variables are low thus supporting their none homogeneity

3.5 Discriminate Analysis Co Linearity

Diagnostics:

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions				
				(Constant)	IP	MP	PE	L
1	1	4.332	1.000	.00	.01	.01	.01	.00
	2	.408	3.259	.00	.01	.42	.03	.03
	3	.143	5.506	.00	.44	.01	.61	.00
	4	.085	7.156	.07	.52	.00	.36	.33
	5	.033	11.494	.92	.03	.56	.00	.64

A. Dependent Variable: Org performance

3.6 Multi Regression R Square Test:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	Df1	Df2	Sig. F Change
1	.872 ^a	.760	.686	.47937	.760	10.289	4	13	.001

3.7 Analysis Of Variances Of The Regression

Equation:

Anova^a

Model	Sum of Squares	Df	Mean Square	F	Si g.
1. Regression	9.457	4	2.364	10.289	.001 ^b
Residual	2.987	13	.230		
Total	12.444	17			

A. Dependent Variable: Org performance

B. Predictors: (Constant), L, IP, PE, MP

3.8 Results Of Regressing The Four Variables

Against Performance Of The Organizations:

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Si g.
	B	Std. Error	Beta		
1. (Constant)	-.487	.518		-.941	.364
IP	.259	.226	.166	1.145	.273
MP	.785	.141	.898	5.585	.000
PE	.243	.126	.292	1.923	.077
L	.047	.119	.071	.394	.700

A. Dependent Variable: Org performance

The regression model for predicting organizations performance given the four performance enhancer variable is as follows:

$$Y = 1 + 0.166x_1 + 0.898x_2 + 0.292x_3 + 0.071x_4$$

Given that:

x_1 = Number of conferences hosted and attended

x_2 = Amount of money spent on marketing

x_3 = Number of years performance contracts were used

x_4 = Distance of organization from the markets

And Y = The financial organizations performance indicator

According to Martin (2020) interpretation of a multivariate regression model an increase of an organizations performance indicator by one unit results from the contribution of 0.166 units of conferences hosted and attended (an indicator of impact of improved practices) if the other independent variables remain constant. The other variables can be similarly explained but it is important to note that the highest contributor to financial organizations performance was amount of money spent on marketing an indicator of the organizations' marketing policy.

4. Conclusion:

There is a difference in the Eigen values as well as the condition values thus indicating that there is no homogeneity in the four variable measures and such they can be used to determine organizations performance as indicated in section 3.5. The Chi square test which is non-parametric in nature indicates that there is a relationship between the tested performance enhancement variables that is adoption of improved practices, marketing policy, performance evaluation, location of an organization and actual financial performance of the organization. Similarly the R and R square values of 0.872 and 0.760 respectively in the parametric multivariate for the same variables as for the non-parametric test indicate that the four multi variables together are related to performance of the organisation by 0.872 and are determinants of an organization's performance by 76 %. The test of significance by analysis of variance for the multivariate is 0.001 which is less than 0.05 indicating that the multi variables are significant meaning that the sample results can be related to the rest of the population which was organizations in Kenya. Thus the sampled results of organizations are related to the rest of the Kenyan organizations. This paper also confirms that improved practices, which was a recommendation for further research, does not enhance organization performance but together

with other boosters like marketing policy, performance evaluation and location of an organization they are able to do so.

Reference:

1. Anyika, E. (2014). Impact of the Adoption of Improved Practices on the Kenyan Financial Sector International Journal of Business and Public Management
2. Armstrong, J., S. (2012). "[Illusions in Regression Analysis](#)" International Journal of Forecasting (forthcoming) 28 (3): 689
3. Greenwood, P., E., Nikulin, M., S. (1996).
A guide to chi-squared testing New York:
Wiley
4. Isanzu, J., N. (2015). Impact of Intellectual Capital on Financial Performance of Banks in Tanzania Journal of International Business Research and Marketing Volume 1, Issue 1, November 2015, Pages 16-23
5. Isanzu, J., N. (2017). The Impact of Credit Risk on the Financial Performance of Chinese Banks. Journal of International Business Research and Marketing Volume 2, Issue 3, March 2017, Pages 14-17
6. Kaneza, C. (2016). Factors Affecting the Financial Performance Of Commercial Banks Listed On the Nairobi Securities Exchange.
[Http://erepo.usiu.ac.ke/11732/2561](http://erepo.usiu.ac.ke/11732/2561)
7. Mujuka, D., A. (2018). Factors Affecting Financial Performance of Commercial Banks in Kenya. International Journal of Academics and Research Vol, 1 issue1.
8. Onera, K., E. (2015). The Effects of Firm-Specific Factors on the Profitability of Non-Life Insurance Companies in Turkey. International Journal of Financial Studies 3 510-529.
9. Pizarro, h. (2015). What is the importance of descriptive statistics.
<https://socratic.org/questions/what-is-the-importance-of-descriptive-statistics>
10. Martin, K., G. (2020). Interpreting Regression Coefficients.
<https://www.theanalysisfactor.com/interpreting-regression-coefficients/>