FACTORS CAUSING CORPORATE FINANCIAL DISTRESS IN COMMERCIAL BANKING SECTOR IN KENYA: A CASE OF CHASE BANK

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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A Research Project Proposal Submitted to the Chandaria
School of Business in Partial Fulfilment of the Requirement for
the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-
AFRICA

SUMMER 2017
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University in Nairobi for academic credit.

Signed: ________________________  Date: ______________________

Yussuf, Abdirahman Abdirashid (639736)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________________  Date: ______________________

Dr. George Achoki

Signed: ________________________  Date: ______________________

Dean, Chandaria School of Business
ABSTRACT

The general purpose of the study was to establish the factors causing corporate financial distress at Chase Bank. This study was guided by the following research questions: Does management type determine corporate financial distress at Chase Bank? Does capital adequacy determine corporate financial distress at Chase Bank? Does effectiveness of credit management determine corporate financial distress at Chase Bank?

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions in relation to factors causing corporate financial distress at Chase Bank. Further, the correlational approach was adopted as the study sought to describe the relationship between the independent – management type, capital adequacy, and credit management - and dependent variables – financial distress. The target population for this study comprised of Managers, Heads of departments and assistant managers (who are in the operational level in their structure in the 77 Chase Bank branches). From the initial target population of 152, sample size of 110 was arrived at and only 71 were filled and returned giving a response rate of 65%.

It was established that quality of management affects financial distress and the bank has got managerial restructuring policy with which the majority of the respondents agreed with. It was also revealed that corporate decisions process affects financial distress and the Management of disputes was critical in realization of goals. At the same time, it was clear from the findings that the decline in capital relative to assets is an indication for potential financial difficulties. The findings also established that Chase Bank had credit management policy. It was also noted that most respondents agree that Firms that are in financial distress have less trade receivables. It was also established that Firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers.

The study concluded that the banking institution has applied a transformational leadership style in the day-to-day running of the institution. Maintenance of a policy manual is necessary in the sector and needs regular updates to be up-to-date with the dynamic changes in the sector. It was also concluded that capital adequacy evaluation is vital however the bank has not embraced it and this could be the reason why Chase Bank collapsed. The bank should increase its ability to deal with its internal losses in case of crisis. The liquidity ratio should also be revisited since it is not properly focused on In
addressing the third research objective, considering the relationship between credit management and profitability, commercial bank managers must expand efforts to credit risk management, especially to control the non-performing loans.

It is recommended that the bank should ensure that their policy manual is maintained and updated regularly, the institution also need to have in place policies to help guide the firm to overcome dynamic changes in the sector. As banks with capital inadequacy are vulnerable to financial distress, chase bank may consider enhancing its incentives on proposals for mergers, consolidations, and acquisitions among rural banks or other strategic alliances and business combinations, primarily for economies of scale and other valuable reasons. The regulatory bodies need to be equipped with enhanced information technology systems that can monitor loan losses, capital adequacy, and other credit and profitability indicators off-site. More research needs to be done on the other factors such as strategy, structure, systems, and goals to determine which one significantly affect Chase bank. The same variables also need to be tested on other banks in order to generalize the findings in the banking sector.
ACKNOWLEDGEMENT

I would first like to acknowledge my lord and creator, Almighty Allah for blessing me with the strength, good health and wisdom to accomplish this piece of work on time. Secondly, I would like to take this opportunity to thank my proposal lecturer Dr. Kaol and Dr. George Achoki who encouraged, motivated, and advised me during the writing of this thesis. I also like to thank the USIU faculty and staffs for the conducive environment they have offered to facilitate my studies. Once again, I would like to thank my entire family, especially my parents, my uncles for their endless support. And a final thanks, to my loving friends for their consistent encouragement.
DEDICATION
This research is dedicated to all friends and family, especially my mother, dad and Uncle Mohamed Haji who have motivated me to pursue this MBA degree. Thank you all.
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<tr>
<td>BOD</td>
<td>Board of Directors</td>
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<td>CB</td>
<td>Chase Bank</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>KDIC</td>
<td>Kenya Deposit Insurance Corporation</td>
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<td>NIM</td>
<td>Net Interest Margin</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

According to Sinkey, Joseph and Dince (2012), commercial banks were unsuccessful in the United States (US) in the Nineteen Eighties because of the incapacity of bank data to replicate market values, the existence of criminal misconduct as a significant contributory to these bank failures, and primarily the method by which banks were declared insolvent. Lemma and Tracy (2012) noted that company monetary distress has enraptured into a U.S. public domain because of the recent world financial crisis that ascertained failures of the many eminent establishments that were saved by the govt. Additionally, Samad (2014) recorded that banks get into financial distress because of non-interest expenses in the U.S., therefore the banks unable to regulate the non-interest accounts. Consistent with Beltratti and Stulz (2012), in United States the general bank performance from July 2007 to December 2008 was the worst since the Depression and banks had less leverage and lower returns. In the U.K., Riley and Young (2014) presented reasons in explaining the slump in UK’s productivity growth as a result of credit constraints by banks, particularly aftermath of the recent money crisis that acted as a weakness towards productivity growth.

Sabina and Mahomet (2015) noted that the determinants of banks’ financial performance examination between nationalized and native personal business banks of Asian country were influenced by quality utilization and in operation potency have significant positive impact on banks' financial performance whereas credit risk has vital negative impact. Memić and Škaljić-Memić (2013) with the last four years, the commercial banking in Herzegovina and Bosnia round-faced crisis inflicting inactivity within the sector. However, potency of individual banks varied throughout the ascertained amount and not all of the banks were a locality of the negative banking sector trend elicited by the crisis. In step with Nyamboga et al. (2014) in African nation, the determinants of banking profitability before and through the money crisis of 2007, showed that net interest margin (NIM) measures profitability and verify the result of bank money development indicators and economic science indicators.

According to Gebreslassie (2015), on the determinants of economic distress conditions of economic banks in Federal Democratic Republic of Ethiopia were littered with capital to loan magnitude relation, web interest financial gain to total revenue magnitude relation
have statistically vital positive influence on the money health of banks wherever because the nonperforming loan magnitude relation has statically vital negative influence on the money health of the banks. Sjahril et al. (2015) noted that major determinants of bank quality in an era of regulation-induced trade consolidation, Utilization of the Nigerian case to demonstrate however consolidation will heighten incidences of non-performing credits in an exceedingly fragile banking atmosphere. Deterioration in asset quality and exaggerated credit crisis within the Nigerian industry between the periods 2004 and 2008 were exacerbated by the lack of banks to optimally use their immense quality capability to reinforce their earnings profiles. It shows that excess liquidity syndrome and comparatively vast capital bases fueled reckless loaning by banks; which increase within the level of unsecured credits in banks’ portfolios ironically helped to mitigate the amount of NPL inside the studied period and once more on determinants of non-performing loans and therefore the chance of developing a composite indicator of economic crisis for Nigerian banks using knowledge from 1985 to 2009 wherever non-performing loans, changes in liquidity ratio were vital variable quantity influencing changes within the chance of economic crisis in African nation (Sjahril et al, 2015)

Amadasu (2012) evaluated the money distress on business banks in Nigerian from 2003 to 2007, known working capital or total quality have an effect on the money distress of the banks. Similarly, Nkegbe and Ustarz (2015) determined banks performance in Ghana trend, wherever market share of loan is absolutely associated with performance and therefore raising loaning rates and lowering their deposit rates is an inefficiency of commercial banks. Matia and Aaron (2013) projected that financial soundness indicators and banking crises in South Africa between 2005 and 2012, management of the banks could be a major determinant of economic distress. Bank failures and company scandals in recent years have led to bank rules reforms. This has witnessed associate increment in capital adequacy ratio by huge margins in Kenyan banks. However, the non-performing loans concentration has exaggerated by 33.6% and has resulted to collapse of banks like Dubai bank and Imperial bank (CBK, 2015).

Irungu (2013) because of distressed banks were put under receivership by the Deposit Protection Fund Board. in addition, several countries bank rules disagree on the model practiced in most advanced economies in terms of capital adequacy necessities, restrictions on banks massive loan concentrations, exchange exposures and business activities that fall outside of traditional business banking. Irungu (2013) financial distress
in native banks in Republic of Kenya was caused by corporate executive lending, and loaning to high risk borrowers, macroeconomic instability and liquidity support and prudent regulation. Corporate executive lending contributed to unhealthy loans that consequently resulted to liquidity issues leading to failure of banks. Particularly, Continental bank, Trade bank and Pan African bank in Kenya failing due to involvement in in depth corporate executive disposition typically to distinguished politicians. The extent of nonperforming loans (NPLs) in 1998 was calculable at 80 billion shillings or 30% of advances up from 27% in 1997 as compared to 81.3 billion shillings or 3.4% of total loans in November 2001. this suggests that money distress is extremely in business banks in Kenya which it will have an effect on their performance as proven by the 89.6 billion shillings profit in 2011 as compared to 107.7 billion in 2012.

According to Wangige (2016) the impact of firm characteristics on money distress of non-financial corporations listed at Nairobi Securities Exchange (NSE) indicated that money distress is influenced by size of the firm, leverage, foreign possession, Board of Directors (BOD) and liquidity. Tsuma and Gichinga (2016) postulated that the factors influencing money performance {of commercial|of economic|of business} banks is alterations in capital demand affects financial performance of economic banks as a result of fund that were to be lend out to earn interest financial gain are put up as capital therefore denying commercial banks revenue. Un healthy economic times have an effect on how customers repay their credit facilities therefore inflicting loan defaulter. once inflation is rising, consumer buying power is greatly reduced as a result many folks aren't able to borrow and invest and eventually repay loans. Charging totally different rate of interest s affects profit.

Baimwera and Muriuki (2014) noted company money distress determinants for the non-financial organizations quoted in NSE include; liquidity, leverage, growth and profit. Also, Kariuki (2013) on the impact {of money|of monetary|of economic} distress on money performance of economic banks noted that money distress had a big impact on financial performance of banks wherever performance was negatively affected. an increase in money distress led to a decrease in money performance and the other way around. The study established the necessity to cut back money distress by making certain money stability in banks to confirm shareholders confidence. Memba and Abuga (2013) pointed out that causes of economic distress on corporations funded by industrial and business development corporation, wherever the most vital causes of distress were
improper capital decision, inadequacy of capital, access to credit, shortage of skillful hands, poor accounting records and poor internal Management.

Chase Bank is a privately-owned bank incorporated in Kenya in 1996. Chase Bank is a typical one stop financial organization with attention on the SME Market. Additionally, Chase Bank has an Islamic window branded Chase Iman that was introduced in May 2009 and it absolutely was accredited and approved by the financial institution of Kenya furthermore because the bank competent sharia law board. Through the identification of distinctive and profitable segments like the SME market that has been directly accountable for the rise in country's value, the Bank has positioned itself as the most well-liked SME Bank. The bank is unambiguously tailored product to suit the requirements of SMEs within the country to confirm that they like the various funding choices (Chase Bank, 2017).

The Bank has established partnerships with the aim of capacity building for entrepreneurs and increasing their information in book keeping. Chase Bank focus is to repeatedly deliver a novel banking expertise sculptured around a one stop financial solutions product offering. Through this, the bank can make sure that the customers money desires are all met beneath one roof (Chase Bank, 2017). Chase Bank objective is to supply the client with exceptional service through product diversification, and relationship creation. these days the tangled branch enlargement strategy has seen the bank grow from a branch bank into a robust establishment that currently has branches set in strategic urban and peri-urban centers at intervals the country. Chase Bank Branches are set in 5 major cities primarily Nairobi, Nakuru, Mombasa, Kisumu, Eldoret, Malindi and Thika (Chase Bank, 2017).

The reason for choosing Chase Bank is because of its failures and company scandals that simply happened in 2016. This led to non-performing loans concentration increasing by 33.6% and has resulting in the collapse of bank and also the bank was put under receivership by the Kenya Deposit Insurance Corporation (KDIC) (CBK, 2016)

1.2 Statement of the problem

Financial distress forces companies into negotiations with creditors about the conditions of deferment on their debt repayment during the ensuing period of distressed restructuring. When entering financial distress, companies are quickly confronted with the dilemma of raising capital to fund their restructuring. Given that, few are liable to
trust this risky investment, especially when taking into consideration that a financial boost is not a guarantee to provide a lasting solution to the problems at hand (Chase Bank, 2017).

Chea (2012) researched on the role of cash flow information in predicting financial distress among commercial banks in Kenya. Taliani (2010) conducted a study with an objective of developing a discriminant model incorporating stability ratios that can be used to predict financial distress in commercial banks in Kenya and to identify critical financial ratios with significant predictive ability. The findings provided evidence that the stability of financial ratios has an impact on the ability of the firm to continue as a going concern.

Kariuki (2013) did a descriptive study to identify the impact of financial distress on commercial banks performance in Kenya. The study also showed that financial distress had a significant effect on financial performance of banks where performance was negatively affected. Muasya (2013) did a descriptive research study on a relationship between credit risk management practices and loan portfolio losses in commercial banks findings indicated that a significant number of commercial banks in Kenya had not put in place credit risk management information systems. The study also showed that there is a significant negative relationship between credit risk management practices and loans losses in commercial banks in Kenya.

Mamo (2011) and Bwisa (2010) carried out a research on the applicability of Altman (1968) model in predicting financial distress of commercial banks and other firms listed at the Nairobi Stocks Exchange in Kenya where they found the model to be accurate and applicable locally. Kamu (2007) used the Z score to calculate corporate failure of firms listed on the Nairobi Stock exchange for two consecutive years for each firm using cash flow ratios.

The study investigated how management type influences corporate financial distress within the banking sector. In addition, Chase Bank went under receivership when even the banks are regulated; the study determined how the natures of banks supervision by Central Bank of Kenya lead to the collapse of the banks (Central Bank of Kenya, 2016). Also, the study determined how capital adequacy cause financial distress where there is falls in a tight cash situation in which it is difficult to pay the owed amounts on the due date. If prolonged, this situation can force the owing entity into bankruptcy or forced
liquidation. Finally, the study also sought to find out why banks despite credit policies, lend funds to serial defaulters thus increasing nonperforming assets ratio is high, the bad and doubtful debts provisions made are not adequate protection against default risk. If the study is not undertaken this means that the banking sector may not know reasons that cause financial distress and another case may replicate that is job losses and investment loss. Moreover, this may affect the overall economy through loss of jobs and loss of investments where investors have directly or indirectly invested in the bank.

1.3 Purpose of the Study
The purpose of the study was to establish the determinants of corporate financial distress in the commercial banking sector in Kenya.

1.4 Research Questions
1.4.1 Does management type determine corporate financial distress in the commercial banking sector in Kenya?
1.4.2 Does capital adequacy determine corporate financial distress in the commercial banking sector in Kenya?
1.4.3 Does effectiveness of credit management determine corporate financial distress in the commercial banking sector in Kenya?

1.5 Significance of the Study
The study was significant to the following group of stakeholders as discussed below;

1.5.1 Management of Commercial Banks
The study is expected to contribute to the selected management of commercial banks under the study that is Chase Bank. Its findings are of great use to the management of the banks in the area of financial distress and how to prevent such occurrence as will be indicated in the recommendations of the study.

1.5.2 Government and CBK
The study will be of great use to the government and Central Bank of Kenya (CBK) which regulates the banking sector. The government will benefit by taking into consideration the determinant that will be highlighted that cause financial distress in commercial banks. In this way, they will adjust appropriately in order to prevent such scenarios
1.5.3 Scholars and Researchers

The study will serve as reference material for both academicians and researchers who can expound on the research gap which will be created by the study. In addition, the scholars will benefit from the theoretical and empirical literature that will be generated by the study on determinants of financial distress in commercial banks.

1.5.4 Investors

The study will also be significant to the customers and investors who have a major interest on the banks performance and are affected by the financial distress of the bank. Also, the investors will be enlightened in making sound investment decisions and understand determinants of financial distress in commercial banks.

1.6 Scope of the Study

The scope of the study geographically will be in Nairobi City commercial banks, specifically the Chase Bank. The study will also focus on the four determinants of corporate distress that is management type, capital adequacy, effectiveness of credit policies and level of competition. The respondents will be both male and female employees of Chase Bank and the sample size will be 110 respondents.

1.7 Definition of terms

1.7.1 Financial Distress

Financial distress is defined as a situation when a financial institution fails to meet capitalization requirements, have weak deposit base and are afflicted by mismanagement (Adeyemi, 2011).

1.7.2 Cash Flows

Cash flow basically refers to net income plus depreciation, depletion and amortization, to total debt as a proxy for cash flow from operations (CFFO) (Amadasu, 2012).

1.7.3 Leverage

This refers to financial measurements that look at how much capital comes in the form of debt (loans), or assesses the ability of a company to meet financial obligations (Kariuki, 2013).
1.7.4 Liquidity

Liquidity is the measure a company's ability to pay debt obligations and its margin of safety through the calculation of metrics including the current ratio, quick ratio and operating cash flow ratio. Current liabilities are analyzed in relation to liquid assets to evaluate the coverage of short-term debts in an emergency (Amadasu, 2012).

1.7.5 Market Value

The market value is the relationship between the ratio of book-to-market of equity, distress risk and stock of return (Chea, 2012).

1.7.6 Profitability

In many cases profitability of any phenomenon refers to ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time (Nyamboga, Omwario, Muriuki, & Gongera, 2014).

1.8 Chapter Summary

This chapter covers the statement of the problem along with the purpose of the study in which this report had introduced as well as the background of the study. The research questions have indicated the direction as well as the focus of this study, which will later outline the importance of this report and how it could benefit those that use this report. Chapter two will discuss literature review in line with the research questions. Chapter three highlight research methodology that will be used in the study. Chapter four will look at the findings while chapter five highlights summary, discussions and findings
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
The chapter presents the theoretical review which consists of the theory of Cash Management Theory. This study will be guided by the following research questions: Does management type determine corporate financial distress in the commercial banking sector in Kenya? Does the capital adequacy determine corporate financial distress in the commercial banking sector in Kenya? Does effectiveness of credit management determine corporate financial distress in the commercial banking sector in Kenya? Does the level of competition determine corporate financial distress in the commercial banking sector in Kenya? In addition, the empirical literature and the summary of literature review will be discussed. Finally, the research gap will be identified.

2.2 Management Type and Corporate Financial Distress in Commercial Banking Sector
Alfan and Zakaria (2013) found that where other companies have undertaken management succession planning for key roles and identified high potential in their company’s employee’s, usually firms in financial distress do not prepare at all for top management succession. Further, a study by Meeme (2015) found that how corporate decisions are made determine the financial distress of the organization especially when the wrong decisions are made on investment. The ability and skill of the bank management play a crucial role in the performance and success of the institution. The higher the management competence, the lower is the vulnerability of the bank and the likelihood of making wrong decisions. Although this relationship is well-founded, the influence is hard to capture with financial data (Kamoto, 2014).

2.2.1 Managerial Restructuring
Sudarsanam and Lai (2001) assert that creditors will provide financial support to firms that have managers who are able to cope with distress. According to a study done by Denis & Kruse (2000) on managerial discipline and corporate restructuring following performance declines findings revealed that firms experience managerial turnover in top
executives hence decline in performance. In addition, Managerial restructuring includes replacement of senior management and/or the Chief Executive Officer. Moreover, managerial restructuring may be a crucial factor in the turnaround process of a distressed firm. Mostofa et al. (2016) found that quality of management influence the financial distress of organization. In addition, where the quality is low this could lead to recruiting unbalanced management team which lack essential skills to steer the company ahead. Any wrong investment decision made may plunge the company to financial distress since some of the decision involves huge cash outlay and irreversible.

Memba and Abuga (2013) study on the causes of financial distress found that the CEOs may be the reason behind financial distress after managerial changes and thus report no improvement in firm performance (Bode & Wagner, 2012). In contrast, a study by Khaliq, et al. (2014) revealed that management change and CEO turnover drives operational performance in companies after the management dismissal. On the other hand, Cheluget et al. (2014) reported no significant effect of management quality in predicting financial and operational performance after the managerial change has taken place in the company. Van, et al. (2013) provides empirical evidence after examining the Turkish commercial banking sector from 2012-2001, during the 1994 financial crisis using profit regression analysis to predict the probability of bank failure. Their results show that during unstable economic conditions and financial distress periods both failed and survived commercial banks show differences in managerial changes. Firstly, failed banks have a significantly higher proportion of management changes than surviving commercial banks (Van, et al., 2013).

According to Ooghe & Prijcker (2008), business failures and bankruptcy occur due to deprived management qualities and skills, poor corporate policy and inadequate strategies. Jahur and Quadir (2012) in their study on the causes of financial distress in Bangladesh study revealed that poor management is a major cause of financial distress. Ooghe and Prijcker (2008) asserts that causes of corporate failures or bankruptcy to be the characteristics of management e.g. inappropriate management qualities and skills, and corporate policy and poor strategies

2.2.2 Cash Management Theory
Cash management theory is concerned with the managing of cash flows into and out of the firm; cash flows within the firm and cash balances held by the firm at a point
of time by financing deficit or investment surplus cash. Short-term management of corporate cash balances is a major concern of every firm (Aziz & Dar, 2006). According to a study done by Ward (1994) on why traditional cash flow is thought to be a strong predictor of financial distress study revealed that traditional cash flow significantly predicts financial distress. According to a study done by Davies (2012) on the role of cash flow information in predicting financial distress among commercial banks in Kenya found that financial variables which significantly influence the firm's financial distress are cash flow generated from operating activities, cash dividend coverage, interest coverage and the dividend payout ratio.

Cash management theory is concerned with the managing of cash flows into and out of the firm; cash flows within the firm and cash balances held by the firm at a point of time by financing deficit or investment surplus cash. Short term management of corporate cash balances is a major concern of every firm. This is so because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between cash outflows and inflows (Wang & Moines, 2012). During some periods cash outflows, will exceed cash inflows because payments for taxes, dividends or seasonal inventory will build up. At other times, cash inflow will be more than cash sales and debtors may realize in large amounts promptly (Goswami, Chandra, &Chouhan, 2014). An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalance may cause financial distress to the firm and, hence, business failure (Jahur and Quadir, 2012).

Maina and Sakwa (2012) study determined the relationships between management turnover and firm performance and found that management changes are frequently viewed as symptoms of external and internal organizational crises. An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalance may cause financial distress to the firm and, hence, business failure (Aziz & Dar, 2006).

2.3 Capital Adequacy and Corporate Financial Distress in Commercial Banking Sector

Capital adequacy is a “measure of the financial strength of a financial institution, usually expressed as a ratio of its capital to its assets” (Saunders and Cornett, 2011, p. 612)
2.3.1 Leverage

Abu-Rub (2012) in his study on capital structure and firm performance findings revealed that debt financing had a positive and significant effect on ROE. A study by Ebaid (2009) on the impact of borrowed capital on financial distress of firms listed in Egypt the study indicated that debt use had insignificant impact on the financial distress of the firms. This result were inconsistent with similar studies done out by Hadlock and James (2002) and Ghosh, Nag, and Sirmans (2000) in their study findings revealed that there is a positive relationship between financial leverage and financial distress of the firm. Berger and Di Patti (2006) examined the relationship between leverage and firm distress. The study found that higher debt levels were associated with firm distress.

According to a study done by Kiogora (2000) on findings revealed that there was a positive relationship between financial leverage and financial distress. Muigai (2016) in his study on effect of capital structure on financial distress of non-financial companies listed in Nairobi securities exchange findings revealed that financial leverage had a negative and significant effect on financial distress of listed non-financial corporation. Berger & Bonaccorsi di Patti (2006), in their study on capital structure and firm performance the study revealed that there is a positive relationship between leverage and financial performance.

Tan (2012) in his study on the impact of financial distress on firm’s performance using the regression analysis and using financial leverage as a proxy for financial distress found out that financially distressed firms underperform. This means that firm’s performance deteriorates during financial distress. According to Ongore and Kusa (2013), firms with negative residual cash are more likely to experience financial distress. This is because they are similar, have higher leverage, but weaker pay off capacity, less profitable and generate lower cash flows.

2.3.2 Capital Adequacy Ratio

According to Danget (2011), capital adequacy is judged on the basis of capital adequacy ratio. This is the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio (CAR) is the ratio that is set by the regulatory authority in the banking sector, and this ratio can be used to test the health of the banking system, this
ratio has mandatory requirement imposed by the state bank because this ratio ensures that the bank has the ability to absorb the reasonable amount of losses (Myers & Brealey, 2003). Sangmi and Nazir (2010) in their study findings revealed that capital adequacy ratio has a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas.

A study conducted by Al-Tamimi (2013) on Commercial banks capital adequacy in Jordan found out that there is negative non-significant relationship between capital adequacy ratio and capital risk. The determinants of capital adequacy can be classified into bank specific internal and external factors (Al-Tamimi, 2010; Aburime, 2005).

Shahatit’s (2011) in his study on the effects of applying capital adequacy standard by the commercial banks on their profitability, the study revealed that capital adequacy standard has no significant effect on profitability of commercial banks in Jordan. According to Rahman et al in their study on identifying financial distress indicators of selected banks in Asia findings revealed that capital adequacy, interest income/interest expense and operating efficiency are common financial indicators that can be used to identify problems banks have. In addition, capital adequacy indicates whether a bank has sufficient reserves at its disposal. Colvin, Jong and Fliers (2014) found that capital adequacy, is an asset that is non-performing loans; liquidity and earnings have a clearly distinguishable influence on bank distress.

Jayadev (2013) research determined that capital adequacy is in three ways: leverage ratio, risk-based capital ratio, and gross revenue ratio. Where for the risk-based capital ratio, total capital ratio which is adopted in Basel II/III. The non-risk-weighted leverage ratio is total equity minus estimated losses to assets (Alfan and Zakaria, 2013). Suka (2012) studied the impact of capital adequacy on the financial performance of commercial banks Quoted at the NSE. In his study he showed that capital adequacy has impact on the profitability of the banks and further that, capital adequacy contributes positively to the profitability of commercial banks.

2.3.3 Liquidity

Firm’s liquidity is the ability of an asset to be converted to cash quickly at low cost. Liquid assets can be converted into cash quickly and cheaply Brealey et.al. (2000). Andualem (2011) Several studies have suggested that firms with low levels of liquidity
are more likely to experience financial distress, because cash constrained firms are more vulnerable to exogenous negative shocks to cash flow. The liquidity of the firm is important determinants of financial distress. Some studies shows financial distressed firm will take various salvation actions, such as improving the assets liquidity through business retrenchment Chang-e (2006).

Liquidity is a measure of the extent to which an organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this. It reflects the amount of capital that is available for investment and spending including cash, credit and equity (Brunnermeier, 2009). Almajali et al, (2012) found that firm liquidity had significant effect on financial performance of insurance companies. The result suggested that insurance companies should increase the current assets and decrease current liabilities because the positive relationship between the liquidity and financial performance.

According to Outecheva (2007) asserts that in banks financial distress is caused by very low liquidity, negative cash flow and high leverage. Gruszczyński (2004), in his study on financial distress of companies in Poland, findings revealed that liquidity, profitability and size of debt are factors that determine financial distress in Poland. Cheluget et al (2014) in their study on liquidity as a determinant of financial distress in insurance companies in Kenya findings revealed that there is a significant relationship between liquidity and financial distress.

According to a study done by Sanghani (2014) on non-financial companies listed at the Nairobi Securities Exchange findings revealed that there was a positive relationship between current ratio, operating cash flow ratio, capital structure and financial performance of non-financial companies listed at the NSE. Therefore, the study concluded that liquidity positively affects the financial performance of non-financial companies listed on the NSE. Ouma (2015) in his study on the effect of liquidity risk on the profitability of commercial banks in Kenya, it was revealed that liquidity affected profitability of commercial banks positively hence, there was a significant relationship between liquidity and profitability of commercial bank in Kenya.

Liyuqi (2007) in her study on determinants of bank’s profitability and its implications on risk management practices in the United Kingdom findings revealed that that liquidity and credit risk have negative impact on bank’s profitability. Effective liquidity risk
management helps ensure a bank’s ability to meet cash flow obligations which are uncertain as they are affected by external events and other agent’s behavior (Decker, 2000). According to Crowe (2009), a bank having good asset quality, strong earnings and sufficient capital may still fail if it is not maintaining adequate liquidity. Said and Tumin (2011) consider liquidity risk as an important internal determinant of bank profitability.

2.4 Effectiveness of Credit Management and Corporate Financial Distress in Commercial Banking Sector

Nelson (2002) credit management is the process by which an organization manages its credit sales. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting.

2.4.1 Credit Policies

Molina and Preve (2012) in their study found that the distressed firms are more likely to use more trade credit from suppliers than wealthy firms or assuming inside-debt from their partners or shareholders as a sign of financial distress or bankruptcy (Tan, 2012). However, financial distress is also analyzed under the firm’s trade credit policy point of view using the trade receivables side and also the trade debt problematic, as well (Molina and Preve, 2012). Seppa (2014) found that long trade credit duration gap affects the financial distress of the banks due to decreased liquidity of the banks. Covitz, Liang and Suarez (2013) study explicitly confirmed the great importance given to the relations with clients for capital structure decisions and for the costs of financial distress and this affect the loan recovery period. Beltratti and Stulz (2012) found that troubled firms with costs of their financial distress may be affected by their trade credit policy, in general, and trade receivables. Baimwera & Muriuki (2014) study affirms that firms with lower bond ratings increase the use of factoring to manage their accounts receivable. This suggests that they are willing to collect their receivables faster as the quality of their ratings decrease (Molina & Preve, 2012) while firms whose sales drop and with negative profits increase trade receivables to their clients. In prior investigations, trade credit in the part of trade receivables is considered an important proportion of corporate assets and some figures were presented by some authors in investigations related to financial distress and trade credit (Sinha & Ghosh, 2013).
When firms are in financial distress they have less trade receivables (reduction of the day’s sales outstanding) in their balance sheet. And when they are in economic distress (profitability problems) they increase the amount of trade receivables (extending of the days sales outstanding) in the balance sheet (Beltratti & Stulz, 2012). Distressed firms influence significantly their trade credit policies, both more trade debt obtained from suppliers and less trade credit extended to customers and have relevant negative effects on performance levels. The impact of financial distress on trade credit demanded to suppliers is significantly and economically less important for larger firms (Molina and Preve, 2012). It was found that firms with better access to financial credit would utilize it instead of the more expensive trade credit obtained from suppliers. But, it may be revealed that more important than representing financial distress as a coverage ratio let us suggest recognizing that firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers (and other creditors). That is to say, suppliers (and other creditors) support financially distressed firms and force them to bankruptcy when they lose confidence (Molina and Preve, 2012).

2.4.2 Credit Risk Management

According to Westgaard and Wijst (2001), credit risk is the risk that a borrower/counterparty will default, i.e., fail to repay an amount owed to the bank. Credit risk is the investor’s risk of loss, financial or otherwise, arising from a borrower who does no pay his or her dues as agreed in the contractual terms (Nyunja, 2011). Achou and Tengu (2008) in their research on bank performance and credit risk management it was revealed that there was a significant relationship between financial institutions performance and credit risk management.

Ho and Yusoff (2009), in their study on credit risk management strategies of selected financial institutions in Malaysia study revealed that majority of financial institutions and banks losses stem from outright default due to customers inability to meet obligations in relation to lending, trading, settlement and other financial transactions. Kargi (2011) in his study on the impact of credit risk on the profitability of Nigerian banks it was revealed that credit risk management had a significant impact on the profitability of Nigeria banks. Karanja (2012) did a descriptive research study to establish the effect of credit risk management techniques used to evaluate SMEs on the level of non-performing
loans by commercial banks in Kenya. The study established that there was a negative relationship between credit risk management and non-performing loans.

According to a study done by Muasya (2013) on credit risk management practices and loan portfolio losses in commercial banks in Kenya findings revealed that a lot of commercial banks in Kenya do not have credit risk management information system in place. The study also showed that there is a significant negative relationship between credit risk management practices and loans losses in commercial banks in Kenya.

Greuning and Bratanovic, (2003) effective credit risk management is the process of establishing an appropriate credit environment, operating under a sound credit granting process maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit. Managers should ensure that the organization has proper and clear guidelines in managing credit. Boahene, Dasah and Agyei (2012) in their study on the relationship between credit risk and banks' efficiency it was established that there was a positive relationship between credit risk and bank profit.

Tetteh (2012) in his study on evaluation of credit risk management practices in Ghana commercial bank study revealed that Commercial Bank in Ghana have a clear, written guideline on credit risk management with the board of directors having an oversight responsibility for implementation. Kisala (2014) in his study on the relationship between credit risk management on the loan performance of MFIs in Kenya findings revealed that there is a major correlation involving credit risk management and loan performance.

Credit risk (CR) refers to risks that originate as a result of a bank giving loans or credits to both individuals and various economic sectors with its inability to get back its rights represented by the loan principal and interests in the due date or being capable to pay it back but does not want that, for different reasons, therefore risks are represented in losses that the bank might bear due to customers inability or unwillingness to pay back the loan principal and its interests (Ruzaig & Korthd, 2007).

2.4.3 Credit Risk Measures

Credit risk measurement is the process of assessing the level of credit risk in lending portfolio of commercial banks and it can be done thorough qualitative and quantitative assessments (Anderson, 2007). A well-structured credit rating framework is an important tool that is used to monitor and control risk inherent in individual credits as well as in
credit portfolios of a bank or a business line (Basel 2005). In Kenya the central bank applies the Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CAMEL) rating system to assess the soundness of financial institutions which (CBK, 2010). According to Wambugu (2008) Micro finance institution’s use 6C model as a credit appraisal technique to evaluate potential borrower as follows; capacity which is an assessment of the customers’ ability to repay the debt. Simiyu (2008) majority of the institutions used credit matrix to measure the credit migration and default risk.

Arora and Agarwal (2009) credit risk measurement should be done in portfolio level and lending products level. This is because it will help credit mangers to recognize the level of credit risk in the bank’s lending portfolio. Alexander (2007) credit scoring approach is a process based on quantitative approach to credit risk management. It is used to convert information about a credit applicant or and existing account holder into numbers that are combined to form a score. The scores are seen as a measure of the credit risk of the individual probability of repayment. The use of credit scoring allow banks to avoid the most risky customers and helps them to assess whether certain kinds of businesses are likely to be profitable by comparing the profit margin that remain once operating and default expenses are subtracted from gross revenues.

2.5 Chapter Summary
This chapter has discussed literature review based on the following research questions; Does management type determine corporate financial distress in the commercial banking sector in Kenya? Does capital adequacy determine corporate financial distress in the commercial banking sector in Kenya? Does effectiveness of credit management determine corporate financial distress in the commercial banking sector in Kenya? Chapter three discusses t research methodology that will be used in the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter addressed the following areas; research design, target population, sample size, sampling technique, data collection instrument and research methods, data analysis techniques, presentation of the report and expected findings and ethical consideration.

3.2 Research Design

Sekaran (2016) stated that a research design is a structure or is glue that holds the entire element in the study. The research used a descriptive design. Descriptive design helps a researcher investigate variables without manipulating them, and also report various aspects that define competency (Patton, 2000). According to Mugenda (2013), a descriptive research is used when the problem is well designed. Descriptive research can help transform raw data into a form that will make it easy to understand and interpret (Mbwesa 2006).

The use of a descriptive research also helps a researcher interact with respondents hence get feedback. Descriptive design can also be used to collect information about respondent’s attitudes, opinions or habits. The research will use both qualitative and quantitative research. The dependent variable will be financial distress awhile independent variable will be factors.

3.3 Population and Sampling Design

3.3.1 Population

According to Zikmund et al. (2013) defined population as a group of persons, objects, or items from which samples are taken for measurement. In addition, the total population is the entire spectrum of a system or process of interest. It is the universe of people to which the study can be generalized. In addition, another definition is by Salikind (2012) that a population is the group of all items of interest to a statistics practitioner. In addition, target population is a total group of people from whom the researcher may obtain information to meet the research objectives. According to Mugenda and Mugenda (2003 :) a target population is a complete set of individuals, cases, or objects with some
common observable characteristics. The target population will be 152 managers of Chase Bank Kenya.

**Table 3.1: Population**

<table>
<thead>
<tr>
<th>UNIT OF ANALYSIS</th>
<th>TARGET POPULATION</th>
<th>% DISTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEAD OF DEPARTMENTS</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>MANAGERS</td>
<td>68</td>
<td>45</td>
</tr>
<tr>
<td>ASSISTANT MANAGERS</td>
<td>68</td>
<td>45</td>
</tr>
<tr>
<td>TOTAL</td>
<td>152</td>
<td>100</td>
</tr>
</tbody>
</table>

Source (HR, Chase Bank, 2017)

### 3.3.2 Sampling Design

Saunders, Lewis and Thornhill (2012) stated that sampling design is that part or research plan that indicates how cases are to be selected for observation. The researcher will use simple random sampling technique to arrive at the desired representative number of respondents. In addition, the sampling frame will consist of employees of Chase Bank in Nairobi.

#### 3.3.2.1 Sampling Frame

A sampling frame is a list of population units/elements from which to select units/elements to be sampled (McDaniel & Gates, 2001). The sampling frame is a complete list of all the target population from which the sample will be drawn (Saunders, Lewis, & Thornhill, 2016, p. 277). The sample frame of this study was comprised of employees at Chase Bank Kenya.

#### 3.3.2.2 Sampling Technique

Sampling is a procedure, process or technique of choosing a sub-group from a population to participate in the study (Ogula, 2005). The research will use stratified random sampling technique. Stratified random sampling is the process of dividing the population into subgroups for instant low income, high income (Teddlie & Fen). The use of stratified random sampling helps reduce error and bias.
3.3.2.3 Sample Size

A sample is the segment or subset of the population that is selected for research (Bryman, 2012). Sample size is a set of elements where data is collected from (Cooper & Schindler, 2008). According to Mugenda & Mugenda (2008), a sample should comprise between 10-30% of the population, and a good population sample should be at least 10% and not more than 30% of the entire population. From a sample size of 152 a sample will be drawn using the following formula.

\[ \frac{N}{1+Ne^2} \] where; \( N \) = Population and \( e \) = error term.

\[ 152/1 + 152(0.05^2) \]

\[ 110.144 \]

\[ 110 \]

To compute the sample distribution will be computed by multiplying the sample size and the distribution percentage.

**Table 3.1: Sample size**

<table>
<thead>
<tr>
<th>UNIT OF ANALYSIS</th>
<th>POPULATION</th>
<th>% DISTRIBUTION</th>
<th>SAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEAD OF DEPARTMENTS</td>
<td>16</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>MANAGERS</td>
<td>68</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>ASSISTANT MANAGERS</td>
<td>68</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>TOTAL</td>
<td>152</td>
<td>100</td>
<td>110</td>
</tr>
</tbody>
</table>

3.4 Data collection Method

According to Bhattacherjee (2012) data collection is the process of gathering information to serve or prove some facts. Primary data is information that is collected directly from the respondents (Sekaran and Bougie, 2013). Observation, interview and questionnaires are example of data collection instruments that can be used to collect primary data (Bryman & Bell, 2011). Structured questionnaire will be used to collect primary. The questionnaire will be self-administered. They will be hand deliver to employees working
at chase bank and collected immediately they are done answering the questions hence reducing bias. Likert scale type of questions will be used. The questionnaire will be pre-tested to enhance its validity and accuracy of data collected for the study.

3.5 Research Procedures
A structured questionnaire was used to collect primary data. The questionnaire had close ended questions. Close ended questions were used because they are easy to code, respondents were able to answer questions easily and quicker, researcher could compare answers from different respondents easily. Questionnaires were pre-test. A finding received from the pretest was incorporated into the questionnaire before administering the final copy. Before issuing the questionnaire the researcher sought permission from supervisors within the branch, and this was done via an official communication by a letter from United States International University. Ample time was allowed for respondents to fill in the questionnaires, and the information received was treated confidentially for academic purpose only.

3.6 Data Analysis Methods
According to Cooper and Shindler (2014) data analysis is the process of analyzing, cleaning, transforming and modeling data. Statistical Package for Social Sciences (SPSS) software was used to analyze the data. Data was coded according to different variables and descriptive statistics such as frequencies, mode, mean percentiles, variances and standard deviations for ease of interpretation. Tables, figures and chart were used for analysis and interpretation of data. Pearson correlation and regression analysis were used to determine the effect of independent variables on the dependent variable.

3.7 Chapter Summary
This chapter presents the research methodology that will be used in this study. The chapter covers research design, population and sampling design, data collection methods, research procedures, data analysis methods. The chapter four presents results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This chapter presents the results established from the data analysis done. This included results relating to the demography and specific research objectives aimed at determining of factors causing corporate financial distress in commercial banking sector in Kenya: a case of chase bank.

4.1.1 Response rate
The research issued a total of 110 questionnaires and a total of 71 were filled and returned giving a response rate of 65%. This was sufficient for the study as indicated in table 4.1

Table 4.2: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Filled and returned</td>
<td>71</td>
<td>65</td>
</tr>
<tr>
<td>Non-response</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>110</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2 Demographical Factors
The research analysed data with regard to the demographic factors and the results were presented as follows:

4.2.1 Highest Level of Education
To analyse the literacy levels the result established that majority of respondents accounting for 62% were degree holders while 38% had a Master’s degree as shown in table 4.2 below. This implies that the data received that the response received was precise as the respondents were very literate to comprehend the questions asked.
Table 4.3: Highest Level of Education

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master</td>
<td>27</td>
<td>38</td>
</tr>
<tr>
<td>Degree</td>
<td>44</td>
<td>62</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.2 Management Level

To analyse the management levels the result established that majority of respondents accounting for 45.1% were managers, and 43.7% were assistant managers, 8.5% were head of departments only 2.8% were senior managers as shown in table 4.3. This implies that the data received that the response received was relevant as it is the responsibility of managers to implement strategy.

Table 4.4: Management Level

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistant Manager</td>
<td>31</td>
<td>43.7</td>
</tr>
<tr>
<td>Head of Department</td>
<td>6</td>
<td>8.5</td>
</tr>
<tr>
<td>Manager</td>
<td>32</td>
<td>45.1</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>2</td>
<td>2.8</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.2.3 Number of Years Worked as a Manager

To establish the duration the respondents have worked as managers in the firm, the findings revealed that majority of the respondents have worked as managers at chase bank for 3-5 years representing 46.5%, those of between 6-10 years were 23.9%, and those of less than 2 years were 22.5%. The study also established that those of 15 years and above were 4.2% while those of between 11-14 years were 2.8% as shown in table 4.4
Table 4.5: Number of Years Worked as a Manager

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 2</td>
<td>16</td>
<td>22.5</td>
</tr>
<tr>
<td>3-5</td>
<td>33</td>
<td>46.5</td>
</tr>
<tr>
<td>6-10</td>
<td>17</td>
<td>23.9</td>
</tr>
<tr>
<td>11-14</td>
<td>2</td>
<td>2.8</td>
</tr>
<tr>
<td>Above 15</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.2.4 Number of Employees in Branch

The study established that most of the branches had less employees accounting for 74.6% of the total response received, 11.3% had over 25 employees, 8.5% had 11-15 employees, while 4.2% had 21-25, and only 1.4 had 16-20 as shown in table 4.5.

Table 4.6: Number of Employees in Branch

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 10</td>
<td>53</td>
<td>74.6</td>
</tr>
<tr>
<td>11-15</td>
<td>6</td>
<td>8.5</td>
</tr>
<tr>
<td>16-20</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td>21-25</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
<td>Above 25</td>
<td>8</td>
<td>11.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.3. Relationship between management style and corporate financial distress in the commercial banking sector in Kenya.

The first objective set to establish how management type determines corporate financial distress in the commercial banking sector in Kenya. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to management type and corporate financial distress in the commercial banking sector in Kenya. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.
4.3.1 Managerial Restructuring.
The research was geared towards identifying the management type at chase bank and it was established that 67.6% said it was transformational while 32.4% of the respondents termed it transactional as shown in figure 4.1

![Managerial Restructuring](image)

**Figure 4.1: Managerial Restructuring**

4.3.2 Cash Management Theory.
The research also set to establish if cash flow in and out of Chase bank affects the financial management of the institution and the result established that 47.9% strongly agreed, 45.1% agreed, 4.2 were neutral and 2.8% disagree as shown in table 4.6

**Table 4.7: Cash Management Theory.**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>2</td>
<td>2.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>3</td>
<td>4.2</td>
</tr>
<tr>
<td>Agree</td>
<td>32</td>
<td>45.1</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>34</td>
<td>47.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
4.3.4 Descriptive on variables of management type.

The results established that most respondents agree that quality of management affects financial distress of a firm (4.80), corporate decisions process affect financial distress (4.75) good management of disputes reduces financial distress (4.59), when there is no clear chain of command it negatively affects financial distress (4.44). Management of corporate image influence the financial distress (4.28) and Management changes are frequently viewed as symptoms of external and internal organizational crises (4.08). However, the respondents strongly disagreed that types of management affects financial distress of a firm. (1.30) as shown in table 4.7

Table 4.8: Descriptive on variables of leadership

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>The type of management adopted by the organization influence financial distress.</td>
<td>1.30</td>
<td>.460</td>
</tr>
<tr>
<td>Management of disputes affects financial distress.</td>
<td>4.59</td>
<td>.495</td>
</tr>
<tr>
<td>Management of corporate image influence the financial distress</td>
<td>4.28</td>
<td>.897</td>
</tr>
<tr>
<td>When there is no clear chain of command it negatively affects financial distress.</td>
<td>4.44</td>
<td>.499</td>
</tr>
<tr>
<td>Does quality of management affect financial distress?</td>
<td>4.80</td>
<td>.401</td>
</tr>
<tr>
<td>Management changes are frequently viewed as symptoms of external and internal organizational crises.</td>
<td>4.08</td>
<td>.906</td>
</tr>
<tr>
<td>Corporate decisions process affects financial distress.</td>
<td>4.75</td>
<td>.527</td>
</tr>
</tbody>
</table>


The second objective set to establish how capital adequacy affects financial distress in chase bank. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to Capital Adequacy and Corporate Financial Distress in Commercial Banking Sector. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.
The study sought to establish whether there is relationship between financial leverage and financial distress of the firm and it was established that 57.7% disagreed while 22.5% were neutral and 18.3% strongly disagree. Only 1.4% strongly agreed as shown in table 4.8

**Table 4.9: capital adequacy.**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>13</td>
<td>18.3</td>
</tr>
<tr>
<td>Disagree</td>
<td>41</td>
<td>57.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>16</td>
<td>22.5</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>71</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**4.4.2 Descriptive on Variables of capital adequacy.**

The findings established that all managers agreed that Non-performing loans affects financial distress (4.65) and that higher level of profitability allow banks to improve their capital and economic performance (4.62). The study also established holding qualitatively inferior assets, the bank is more vulnerable to losses (4.54) and that decline in capital relative to assets is as an indication for potential financial difficulties (4.52). The findings also established that Bank’s capital serves as a cushion to absorb losses and shocks (4.00), however there was uncertainty on whether the amount of highly liquid assets is negatively correlated to the possible likelihood of distress(3.32) as indicated in table 4.9.
Table 4.10: Descriptive on Variables capital adequacy ratio.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher levels of profitability allow banks to improve their capital and economic performance.</td>
<td>4.62</td>
<td>.489</td>
</tr>
<tr>
<td>The decline in capital relative to assets is as an indication for potential financial difficulties.</td>
<td>4.52</td>
<td>.582</td>
</tr>
<tr>
<td>Bank’s capital serves as a cushion to absorb losses and shocks.</td>
<td>4.00</td>
<td>1.183</td>
</tr>
<tr>
<td>The amount of highly liquid assets is negatively correlated to the possible likelihood of distress</td>
<td>3.32</td>
<td>1.066</td>
</tr>
<tr>
<td>Non-performing loans affects financial distress</td>
<td>4.65</td>
<td>.481</td>
</tr>
<tr>
<td>Holding qualitatively inferior assets, the bank is more vulnerable to losses</td>
<td>4.54</td>
<td>.714</td>
</tr>
</tbody>
</table>

4.5 Effectiveness of Credit Management and Corporate Financial Distress in Commercial Banking Sector

The last objective set to establish Effectiveness of Credit Management and Corporate Financial Distress in Commercial Banking Sector. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement related to Credit management and Corporate Financial Distress in Commercial Banking Sector. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.

4.5.1 Credit Policies.

The research sought to establish if Chase bank had well established credit policies and the findings established that 54.9% agreed while 39.4% disagreed, however 5.6% were neutral.
Figure 4.2: Policies.

The study intended to establish how often the policies were reviewed and it was established that 81.7% said it was done yearly while 5.6% said it was never done and 2% said it was done after 2-3 years. However, 9.9% never responded as shown in table 4.10

Table 4.11: Policy Evaluation

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Never</td>
<td>4</td>
<td>5.6</td>
</tr>
<tr>
<td>Yearly</td>
<td>58</td>
<td>81.7</td>
</tr>
<tr>
<td>2-3</td>
<td>2</td>
<td>2.8</td>
</tr>
<tr>
<td>Missing</td>
<td>7</td>
<td>9.9</td>
</tr>
<tr>
<td>Total</td>
<td>71</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The respondents were also asked whether the firm has good Credit risk management strategies and the findings show that 57.7% say it needs improvement, 26.8% were not satisfied with the credit management policies, 9.9% were satisfied and 5.6% were not sure as indicated in figure 4.3
4.5.2 Descriptive on Values of credit management.

The study established that most respondents agree that Firms that are financial distress have less trade receivable (4.62) and firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers (4.51). It was also established collecting receivables faster decreases financial distress (4.48), in addition financial distressed firms involve not only firms constrained by trade credit relations with suppliers but also firms constrained by trade credit reactions with customers (4.42). The findings also revealed that corporate reserve debt capacity at its utilization and creation of the high-risk and low-risk by the high-value and low-value. (4.28). However, they neither agreed nor disagreed that the bank greater reliance on their new issues of equity than their uses of internal equity affects financial performance (3.54) as shown in table 4.12

Table 4.12: Descriptive on Values credit management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate reserve debt capacity at its utilization and creation of the high-risk and low-risk by the high-value and low-value.</td>
<td>4.28</td>
<td>.831</td>
</tr>
<tr>
<td>Firms that are financial distress have less trade receivable.</td>
<td>4.62</td>
<td>.489</td>
</tr>
<tr>
<td>Firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers.</td>
<td>4.51</td>
<td>.606</td>
</tr>
<tr>
<td>Collecting receivables faster decreases financial distress.</td>
<td>4.48</td>
<td>.503</td>
</tr>
<tr>
<td>greater reliance on their new issues of equity than their uses of internal equity</td>
<td>3.54</td>
<td>1.229</td>
</tr>
<tr>
<td>Financial distressed firms involve not only firms constrained by trade credit relations with suppliers but also firms constrained by trade credit reactions with customers.</td>
<td>4.42</td>
<td>.552</td>
</tr>
</tbody>
</table>
4.6 Inferential Statistics

4.6.1 Reliability Test

A reliability test was done by use of Cronbalch Alpha on the variables of type of management, capital adequacy and credit management. Cronbach’s alpha measure assesses the reliability or internal uniformity, of a set trial items. The desired cronbalch alpha value should be above 0.7 (\(\alpha >0.7\)) For the study the value all the values were above 0.6 hence making the variables very reliable as indicated in table 4.13:

Table 4.13: Reliability Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management type</td>
<td>.826</td>
<td>10</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>.879</td>
<td>9</td>
</tr>
<tr>
<td>Credit management</td>
<td>.736</td>
<td>9</td>
</tr>
<tr>
<td>Financial distress</td>
<td>.899</td>
<td>5</td>
</tr>
</tbody>
</table>

4.6.2 Correlation

A Pearson correlation analysis was done to establish the relationship between the dependent variable (Financial distress) against other core factors and the result established a strong positive relationship between the variables. All the variables were significant as indicated in table 4.14. Therefore, an increase in combined variables of type of management, capital adequacy and credit management increase in solving the problem of financial distress.
Table 4.14: Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Financial distress</th>
<th>Type of management</th>
<th>Capital adequacy</th>
<th>Credit management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial distress</td>
<td>1</td>
<td>.850**</td>
<td>.842**</td>
<td>.680</td>
</tr>
<tr>
<td>Type of management</td>
<td>.850**</td>
<td>1</td>
<td>.637**</td>
<td>.725**</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>.842**</td>
<td>.637**</td>
<td>1</td>
<td>.514**</td>
</tr>
<tr>
<td>Credit management</td>
<td>.680**</td>
<td>.725**</td>
<td>.514**</td>
<td>1**</td>
</tr>
</tbody>
</table>

4.6.3 Regression Analysis

The research analyzed relationship between the dependent variable (Financial distress) against other core factors. The results showed that the R2 value was 0.89 hence 89% of the variation in financial distress was explained by the variations in type of management, capital adequacy and credit management as illustrated in table 4.15

Table 4.15: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.943a</td>
<td>.890</td>
<td>.885</td>
<td>.27602</td>
<td>.890</td>
<td>180.939</td>
<td>3a</td>
<td>67</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

A. Predictors: (Constant), Credit management, Capital adequacy, Type of management

An ANOVA analysis was done between financial distress, type of management, capital adequacy and credit management at 95% confidence level, the F critical was 180.939 and the P value was (0.000) therefore significant the results are illustrated below in table 4.16
Table 4.16: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residual</td>
<td>5.104</td>
<td>67</td>
<td>.076</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>46.460</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A. Dependent Variable: Financial distress.  
B. Predictors: (Constant), type of management, capital adequacy and credit management

Table 4.17: Coefficients of financial distress and Co-Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>-3.116</td>
<td>.376</td>
</tr>
<tr>
<td>Type of management</td>
<td>1.129</td>
<td>.135</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>.761</td>
<td>.078</td>
</tr>
<tr>
<td>Credit management</td>
<td>.002</td>
<td>.137</td>
</tr>
</tbody>
</table>

a. Dependent Variable: strategy implementation

As per Table 4.17, the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \) becomes:

\[
Y = -3.116 + 1.129X_1 + 0.761X_2 + 0.002X_3
\]

Where \( Y \) is the dependent variable financial distress

\( X_1 \) – management type.  
\( X_2 \) – capital adequacy.  
\( X_3 \) – credit management.
The regression equation illustrated in Table 4.17 has established that taking all factors into account (type of management, capital adequacy and credit management) all other factors held constant financial distress reduces by -3.116. The findings presented also showed that with all other variables held at zero, a unit change in management would lead to a 1.129 increase in financial distress, and a unit change in staff competence would lead to 0.761 increase in strategy implementation. Moreover, the study also showed that a unit change in resource allocation would result in 0.002 increase in strategy implementation. Only the variables resource allocation was not significant (p>0.05), therefore in the equation only leadership style and staff competence are significant in determining strategy implementation.

4.7 Chapter Summary
This chapter has highlighted results and findings. The first section provided an analysis of demographic data of the respondents, the second section dealt with data on management, the third section looked at the data on capital adequacy, and the fourth section covered issues of credit management. In chapter five this results will be discussed and relevant conclusions and recommendations made with regard to strategy implementation at Chase Bank.
CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction
This section will seek to analyse the findings and this will be done by comparing and contrasting with previous literature related to financial distress. This will be organized based on the specific research questions which sought to establish how management type, capital adequacy and credit management affected financial distress at Chase Bank.

5.2 Summary of Findings
The general purpose of the study was to establish the factors causing corporate financial distress at chase bank. This study was guided by the following research questions: Does management type determine corporate financial distress at chase bank. Does capital adequacy determine corporate financial distress at chase bank? Does effectiveness of credit management determine corporate financial distress at chase bank?

A descriptive research was adopted because the study was aimed at collecting information from respondents on their perceptions in relation factors causing corporate financial distress at chase bank. Further, the correlational approach was adopted as the study was seeking to describe relationship between the independent – management type, capital adequacy, and credit management - and dependent variables – financial distress. The target population for this study will be respondents who oversee the financial progress process at Chase bank. This will comprise of Managers, Heads of departments (both of whom in their structure are considered to be in the business level) and assistant managers (who are in the operational level in their structure) in the 77 Chase bank branches.

The sampling technique was stratified random sampling method. This entailed dividing the population into mutually exclusive groups, in this case heads of department, managers and assistant managers. Then random samples were drawn from each group. From the initial target population of 152, sample size of 110 was arrived at and only 71 were filled and returned giving a response rate of 65%.

The first objective set to establish how management type determine corporate financial distress at chase bank and a majority considered quality of management affect financial distress. It was also established that the bank has got managerial restructuring policy with
which the majority of the respondents agreed with. It was also revealed that corporate decisions process affects financial distress and the Management of disputes was critical in realization of goals. The study also revealed that Management changes are frequently viewed as symptoms of external and internal organizational crises. In addition, it was also revealed that when there is no clear chain of command it negatively affects financial distress of the bank and the type of management adopted by the organization also influence financial distress. However, the respondents strongly disagreed that the type of management adopted by the organization influence financial distress.

The second objective set to establish how capital adequacy determines financial distress at chase bank. The majority agreed that higher levels of profitability allow banks to improve their capital and economic performance. At the same time, it was clear from the findings that the decline in capital relative to assets is as an indication for potential financial difficulties. The findings also established that non-performing loans affects financial distress. The study also established that Bank’s capital serves as a cushion to absorb losses and shocks; however there was uncertainty on whether the amount of highly liquid assets is negatively correlated to the possible likelihood of distress.

The third objective set to establish how credit management determines financial distress at chase bank. The findings revealed that Chase bank had credit management policy. It was also noted that most respondents agree that Firms that are financial distress have less trade receivables. It was also established that Firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers. In addition, collecting receivables faster decreases financial distress and corporate reserve debt capacity at its utilization and creation of the high-risk and low-risk by the high-value and low-value. However, there was uncertainty on the bank greater reliance on their new issues of equity than their uses of internal equity determines the financial distress.

A Pearson correlation analysis was done to establish the relationship between the corporate financial distress against other core factors established a strong positive relationship between the variables. From a regression analysis 89% of the variation in strategy implementation was explained by the variations in management type, capital adequacy and credit management.
5.3 Discussion

5.3.1 Management Type and Corporate Financial Distress in Commercial Banking Sector.

The research was geared towards identifying the management type at chase bank and a majority considered it a transformational one. Managers of companies in distress, thus commit fraud to cover up the adverse performance - in order to get more liquidity from the banks or for their personal benefit. They are more likely to indulge in improper revenue recognition and manipulation of expenses, liabilities and accounts receivable (Deloitte Forensic Center, 2008). Managers of financially distressed firms have incentives to manage earnings and cash flows. They may do so to hide the distress so that they can obtain financing (Rosner, 2003) or to reduce the probability of bankruptcy, acquisition or hostile takeover (Frost, 1997). By managing earnings, firms can avoid violation of debt covenants (Dichev and Skinner, 2002; Jaggi and Lee, 2002; DeFond and Jiambalvo, 1994; Sweeney, 1994). Rogers and Stocken (2005) suggest that managers worry about losing their jobs in difficult times and hence provide highly optimistic forecasts, thereby promising to restore good financial condition. Managers may manage earnings to achieve these optimistic forecasts. Distress also creates problems for firms related to labor, suppliers, customers and creditors.

It was also revealed that corporate decision making process determine the financial distress of a firm. In case of any decrease in profitability of a firm, crucial decisions have to be made such as change in management and rebranding of the firm. These decisions have to be quick enough to save the firm from closing down.

The findings revealed that many respondents disagreed that the type of management affects financial distress of a firm. Kuratko, Covin and Hornsby (2014) indicate that only 50% of the strategies formulated get implemented and this has been attributed to the lack of leadership skills. Leaders decide what to do and how to do it in respect to the organization to ensure effectiveness, and it is the obligation of the leadership to forecast the need of organization and try to establish an effective plan to meet the set requirement (Maccoby, 2013). It is generally expected that management need to be aware of the method, the way, and the most reliable approach.

Generally, management introduces the requirement for amendment within the organization by an analysis of organization’s internal and external setting. Once they
offer the vision, the next step is to formulate the road map or strategy to achieve that vision by providing the way and directing the people towards change. To do so management can use motivational tools (Ahearne, Lam, & Kraus, 2014). According to Azhar, Ikram, Rashid, and Saqib (2013), genetically leaders in a corporation offer the vision, the strategic thinking and set up, thus manage the operational activities. Further, it tries to suit the organization in keeping with the necessity of the case.

The findings revealed that relationship with employees influences goal achievement and Zaribaf and Bayrami (2010) deduced that many of the large financial institutions have experienced problems in the strategy implementation; this is because of the complex nature of the process. Strategy implementation not only requires top management participation but the whole organization and sometimes parties outside the corporation. Rajasekar (2014) highlights that while formulating a strategy is a top-down affair, the implementation requires both top-down and bottom-up activities.

5.3.2 Capital Adequacy and Corporate Financial Distress in Commercial Banking Sector.

The findings revealed that there was a positive relationship between financial leverage and financial distress. This justifies Muigai (2016) in his study on effect of capital structure on financial distress of non-financial companies listed in Nairobi securities exchange findings revealed that financial leverage had a negative and significant effect on financial distress of listed non-financial corporation. Berger & Bonaccorsi di Patti (2006), in their study on capital structure and firm performance the study revealed that there is a positive relationship between leverage and financial performance.

The findings also revealed that capital adequacy is judged on the basis of capital adequacy ratio. This is the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio (CAR) is the ratio that is set by the regulatory authority in the banking sector, and this ratio is used to test the health of the banking system, this ratio has mandatory requirement imposed by the state bank because this ratio ensures that the bank has the ability to absorb the reasonable amount of losses (Myers & Brealey, 2003). Sangmi and Nazir (2010) in their study findings revealed that capital adequacy ratio has a direct effect on the profitability of banks by determining its expansion to risky but profitable ventures or areas.
However there was uncertainty on whether the amount of highly liquid assets is negatively correlated to the possible likelihood of distress. This is due to the fact that highly liquid assets can be easily turned to money. Hence recovering from non-performing loans can be released with a lot of ease.

5.3.3 Effectiveness of Credit Management and Corporate Financial Distress in Commercial Banking Sector.

According to the findings, Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. It is the process to ensure that customers will pay for the products delivered or the services rendered. This is justified by Myers and Brealey (2003) when they described credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. This is also in the line of thoughts with Nelson (2002) who views credit management as simply the means by which an entity manages its credit sales. It is a prerequisite for any entity dealing with credit transactions since it is impossible to have a zero credit or default risk.

It was also revealed in this study that the higher the amount of accounts receivables and their age, the higher the finance costs incurred to maintain them. If these receivables are not collectible on time and urgent cash needs arise, a firm may result to borrowing and the opportunity cost is the interest expense paid. Nzotta (2004) opined that credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, credit management provides a leading indicator of the quality of deposit banks credit portfolio.

Still in the findings, a key requirement for effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns. Credit management starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is
technically not a sale until the money has been collected. It follows that principles of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults. Credit management is concerned primarily with managing debtors and financing debts. The objectives of credit management can be stated as safe guarding the companies’ investments in debtors and optimizing operational cash flows. Policies and procedures must be applied for granting credit to customers, collecting payment and limiting the risk of non-payments.

5.4 Conclusion

5.4.1 Effects of type of management on financial distress.
The banking institution has applied a transformational leadership style in the day-to-day running of the institution. Maintenance of a policy manual is necessary in the sector and needs regular updates to be up-to-date with the dynamic changes in the sector. These changes have also been found to be influenced by the environment and they have an effect on realization of goals. The skills adopted by the leaders not only affect realization of goals but also influences employee’s performance. Organizations need to communicate in order to facilitate achievement of sufficient results.

5.4.2 Effects of capital adequacy on financial distress.
Capital adequacy evaluation is vital however the bank has not embraced it and this could be the reason why chase bank collapsed. The bank should increase its ability to deal with its internal losses in case of crisis. The liquidity ratio should also be revisited since it is not properly focussed on

5.4.3 Effects of credit management on financial distress.
In addressing the third research objective, considering the relationship between credit management and profitability, commercial bank managers must expand efforts to credit risk management, especially to control the non-performing loans. This meant that that there is a need for stricter measures in evaluating a borrower’s ability to pay back. Likewise, results suggest that the profitability of chase bank varies with the riskiness of its loan portfolio. Hence, it may be imperative for the bank to understand other risk factors, which may have greater impact on its financial performance (i.e., ROA and ROE).
5.5 Recommendation

5.5.1 Recommendation for improvement

5.5.1.1 Effects of management type on financial distress.
The bank should ensure that their policy manual is maintained and updated regularly, the institution also need to have in place policies to help guide the firm to overcome dynamic changes in the sector. The institution needs to employ skilled employee in order to facilitate realization of goals. The firm needs to an effective communication process between managers and subordinates and vice versa, this would ensure sufficient results are well articulated and achieved.

5.5.1.2 Effect of capital adequacy on financial distress.
As banks with capital inadequacy are vulnerable to financial distress, chase bank may consider enhancing its incentives on proposals for mergers, consolidations, and acquisitions among rural banks or other strategic alliances and business combinations, primarily for economies of scale and other valuable reasons. Chase bank and other bank regulators need to strengthen the monitoring of banks, especially off-site monitoring, as a way to scrutinize the reports submitted regularly by the rural banks. This could supplement the spot examinations of rural banks which the regulatory government agencies cannot conduct regularly

5.5.1.3. Effects of credit management on financial distress of chase bank.
An efficient and effective credit management skills or policies off-site should serve as an early warning system and expose various dealings and transactions that the chase bank might undertake relative to their loans and other non-performing assets. To realize these, the regulatory bodies need to be equipped with enhanced information technology systems that can monitor loan losses, capital adequacy, and other credit and profitability indicators off-site.

5.5.2 Recommendation for further studies
This study only focussed on management type, capital adequacy and credit management however from the regression analysis only credit management was significant in determining strategy implementation at chase bank. Therefore, more research needs to be done on the other factors such as strategy, structure, systems, and goals to determine which one significantly affect Chase bank.
The same variables also need to be tested on other banks in order to generalize the findings in the banking sector.
REFERENCE


Andre’Farber, Nguyen Huu Tu, Tran Tri Dung and Vuong Quan Hoang (2003), The financial storms in Vietnam’s transition economy: a reasoning on the 1991-2008 period, Working paper No 08/023, August 2008, Solvay Business school- Centre Emile Bernheim


Crowe, K. (2009), Liquidity risk management – more important than ever, Harland Financial Solutions.


Sarens and Beelde (2006) states that financial distress is a process characterized by failure and restructuring


APPENDIX I: RESEARCH QUESTIONNAIRE

I am a student who pursuing a master degree in United States International University-Africa. In addition, I am carrying out a research on the determinants of corporate finance distress in the commercial banking sector with a case of Chase bank. Please fill the questionnaire in the spaces provided.

Your participation is highly appreciated.

Part A: Demographic Background

1. Indicate your gender?
   Male [ ]
   Female [ ]

2. Please indicate your position in the firm in the space provided?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

3. Indicate the number of years you have worked for the bank?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

4. Indicate your level of education
   Certificate level [ ]
   Diploma level [ ]
   Undergraduate level [ ]
   Master Degree level [ ]
   PhD Level [ ]
Part B: Management Type

4. Rate whether you agree that management type affects corporate financial distress?
Base your answer on a five point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree

| Does quality of management affect financial distress | 1 | 2 | 3 | 4 | 5 |
| Corporate decisions process affect financial distress | 1 | 2 | 3 | 4 | 5 |
| Management of disputes affect financial distress | 1 | 2 | 3 | 4 | 5 |
| When there is no clear chain of command it negatively affects financial distress | 1 | 2 | 3 | 4 | 5 |
| The type of management adopted by the organization influence financial distress | 1 | 2 | 3 | 4 | 5 |
| Management of corporate image influence the financial distress | 1 | 2 | 3 | 4 | 5 |
| Any wrong investment decision made may plunge the company to financial distress | 1 | 2 | 3 | 4 | 5 |
| The higher the management competence, the lower is the vulnerability of the bank and the likelihood of making wrong decisions. | 1 | 2 | 3 | 4 | 5 |
| Management changes are frequently viewed as symptoms of external and internal organizational crises. | 1 | 2 | 3 | 4 | 5 |

Please give any other comment ………………………………………………………………………

Part C: Capital Adequacy

1. Rate whether you agree capital adequacy affect corporate financial distress? Base your answer on a five point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree

| Non-performing loans affects financial distress | 1 | 2 | 3 | 4 | 5 |
| The bank is able to meet short term obligations | 1 | 2 | 3 | 4 | 5 |
| The amount of highly liquid assets is negatively correlated to the possible likelihood of distress | 1 | 2 | 3 | 4 | 5 |
| Higher levels of profitability allow banks to improve their capital and economic performance. | 1 | 2 | 3 | 4 | 5 |
| Holding qualitatively inferior assets, the bank is more vulnerable to losses | 1 | 2 | 3 | 4 | 5 |
| Bank’s capital serves as a cushion to absorb losses and shocks. | 1 | 2 | 3 | 4 | 5 |
| The decline in capital relative to assets is as an indication for potential financial difficulties | 1 | 2 | 3 | 4 | 5 |
| Unweighted capital measures in estimating the potential effects to financial distress | 1 | 2 | 3 | 4 | 5 |
| Short-term capital insufficiency to provoke financial distress | 1 | 2 | 3 | 4 | 5 |
**Part D: Effectiveness of Credit Management**

Rate whether you agree effectiveness of credit policies affects corporate financial distress? Base your answer on a five point Likert scale: 5) Strong Agree 4) Agree 3) Neutral, 2) Disagree and 1) Strongly Disagree

<table>
<thead>
<tr>
<th>Collecting receivables faster decreases financial distress</th>
<th>1</th>
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<td>corporate reserve debt capacity at its utilization and creation of the high-risk and low-risk by the high-value and low-value</td>
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<td>maximization the market value of the firm, even when both high-value and low-value</td>
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<td>greater reliance on their new issues of equity than their uses of internal equity</td>
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<td>financial distressed firms involve not only firms constrained by trade credit relations with suppliers but also firms constrained by trade credit reactions with customers</td>
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<td>Firms that are financial distress have less trade receivable</td>
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<td>firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers</td>
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