

**THE EFFECT OF INTEREST RATES CAPS ON BANK
PERFORMANCE AMONGST KENYAN COMMERCIAL
BANKS**

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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CLARE A. OCHANDA

**A Project Report Submitted to the Chandaria School of Business
in Partial Fulfillment of the Requirement for the Degree of
Masters in Business Administration (MBA)**

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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DECLARATION

I the undersigned do hereby declare that this research project is my own original creation and works and has not been presented for examination in any other institution of higher learning, University or College for academic clinic other than the United States International University.

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ABSTRACT

This study sought to investigate the effect of interest rates caps on the performance of commercial banks. The specific objectives of the study were to investigate the effect of interest rate caps on financial performance of commercial banks, analyze the effect of interest rates caps on customers and employee's satisfaction. The study was conducted with Nairobi County.

The study adopted a descriptive research design using a population of 43 drawn from the commercial banks regulated by Central Bank of Kenya. A census study was conducted drawing one respondent from each of banks for employees and 3 customers. Data was collected using questionnaires for primary data and data collection sheets for secondary data. Inferential statistics used was Pearson's correlation coefficient. Analysis was done using SPSS vs 22. Analyzed data is presented using tables and figures (refer to chapter 4).

The study found that the introduction of interest rates led to a reduction in the interest income of commercial banks, interest rate margins and total loans of commercial banks. This effectively led to higher liquidity levels and operational costs for commercial banks.

Secondly, the study found that interest rates caps affected customer satisfaction to a large and very large extent. Customers perceived that there was a reduction on the cost or loans. However, accessing these loans was not easy. Nevertheless, the customers were satisfied with the financial performance of commercial banks as well as the brand image.

Thirdly, this study found that interest rates caps affected employee satisfaction to a large extent. This was mainly influenced by increased automation of processes by commercial banks as well as reduced earnings which put the job security of employees at risk. Furthermore, there was decreased expenditure on employee recruitment and selection.

This study concluded that interest rates caps have led to reduced financial performance of commercial banks. The net interest income as well as the net profit margin has reduced as a result of interest rate caps. This could have been occasioned by lower levels of lending by

commercial banks. Lower lending resulted into higher levels of liquidity. Customers are satisfied with the customer service levels offered by commercial banks as well as pricing of loans leading to increased satisfaction with the brand image and financial performance of the banks. Nevertheless, customers find it hard to access loans. Employees are generally satisfied in their places of work. This is mainly driven by the fact that commercial banks remain profitable even after the introduction of interest rates caps. On the other hand, employees are concerned by the high level of automation and investment in IT by commercial banks after the introduction of caps coupled with the reduced expenditure on employee recruitment and selection. Employees are concerned about their job security.

This study recommends that commercial banks must diversify their revenue basis to ensure that interest rates caps do not lead to losses in commercial banks. Secondly, commercial banks must address key issues on access to finance by customers by embracing innovative products like mobile credit and use of credit scoring to reduce the requirements and barriers towards access to finance. Finally, it is imperative for commercial banks to assure its employees that increased investment in IT and reduced expenditure on recruitment and selection does not lead to loss of jobs by employees.

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DEDICATION

A dedication to my family

TABLE OF CONTENTS

DECLARATION	iv
ABSTRACT	v
ACKNOWLEDGEMENT	vii
DEDICATION	viii
TABLE OF CONTENTS	ix
LIST OF TABLES	xii
LIST OF FIGURES	xiii
LIST OF ACROYNMS	xiv
CHAPTER ONE	1
1.0 INTRODUCTION	1
1.1 Background of the Study	1
1.2 Problem Statement	5
1.3 General Objective.....	6
1.4 Specific Objectives.....	7
1.5 Significance of the Study	7
1.6 Scope of the Study.....	8
1.7 Definition of the Terms	9
1.8 Chapter Summary.....	9
CHAPTER TWO	11
2.0 LITERATURE REVIEW	11
2.1 Introduction.....	11
2.2 Effect of Interest Rates Caps on Finance Performance	11
2.2.1 Theoretical Grounding.....	11
2.2.2 Financial Performance	12
2.2.3 Financial Risks.....	14
2.3 Effect of Interest Rates Caps on Customers	15

2.4 Effect of Interest Rates Caps on Employees	19
2.5 Chapter Summary	23
CHAPTER THREE	24
3.0 RESEARCH METHODOLOGY	24
3.1 Introduction.....	24
3.2 Research Design.....	24
3.3 Population and Sampling Design.....	24
3.3.1 Population	24
3.3.2 Sampling Design	25
3.4 Data Collection Methods	27
3.5 Research Procedures	27
3.6 Data Analysis Methods	28
3.7 Chapter Summary	28
CHAPTER FOUR.....	29
4.0 RESULTS AND FINDINGS	29
4.1 Introduction.....	29
4.2 Background Information.....	29
4.2.3: Experience in the Bank	31
4.3 Interest Rate Caps and Financial Performance	31
4.3.1 Financial Performance (Overall).....	31
4.3.2 Employees Perception.....	33
4.4 Interest Rate Caps and Customer Satisfaction	37
4.5 Interest Rate Caps and Employee Satisfaction.....	44
4.6 Correlation Analysis.....	51
4.7 Chapter Summary	53
CHAPTER FIVE	55

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS	55
5.1 Introduction.....	55
5.2 Summary.....	55
5.3 Discussion	56
5.3.1 Interest Rate Caps and Financial Performance	56
5.3.2 Interest Rate Caps and Customer Satisfaction	57
5.3.3 Interest Rate Caps and Employee Satisfaction	59
5.4 Conclusions	61
5.4.1 Interest Rate Caps and Financial Performance	61
5.4.2 Interest Rate Caps and Customer Satisfaction	61
5.4.3 Interest Rate Caps and Employee Satisfaction	61
5.5 Recommendations	61
5.5.1 Recommendations for Improvement.....	61
5.5.1.1 Interest Rate Caps and Financial Performance	61
5.5.1.2 Interest Rate Caps and Customer Satisfaction	62
5.5.1.3 Interest Rate Caps and Employee Satisfaction.....	62
5.5.2 Recommendations for Further Studies.....	62
REFERENCES.....	64
APPENDICES	ii
APPENDIX I: DATA COLLECTION SHEET	ii
APPENDIX II: CUSTOMERS QUESTIONNAIRE	iii

APPENDIX III: EMPLOYEES QUESTIONNAIRE..... vi

LIST OF TABLES

Table 3.1: Population Distribution.....	24
Table 3.2: Sample Size Distribution	25
Table 4.1:Age Distribution of Employees	30
Table 4.2: Customers Experience with the Bank.....	31
Table 4.3: Financial Performance	33
Table 4.4: Interest Income	36
Table 4.5: Interest Rates and Financial Performance	37
Table 4.6: Reduced Cost of Loans	38
Table 4.7: Satisfaction with Brand Image.....	42
Table 4.8: Bank Performance	44
Table 4.9: Employee Relations	45
Table 4.10: Correlation Analysis	51

LIST OF FIGURES

Figure 4.1: Age of Employees	30
Figure 4.2: Demand of Loans	34
Figure 4.3: Disbursement of Loans.....	35
Figure 4.4: Interest Rate Caps and Operational Expenses	36
Figure 4.5: Interest Rates and Customer Satisfaction.....	38
Figure 4.6: Easy Access to Loans	39
Figure 4.7: Increased Deposits Earnings	40
Figure 4.8: Improved Customer Service Levels	41
Figure 4.9: Satisfaction with Financial Performance.....	42
Figure 4.10: New Products	43
Figure 4.11: Employee Satisfaction	45
Figure 4.12: Bank Profitability	46
Figure 4.13: Increased IT Investment	47
Figure 4.14: Price Uncertainty	48
Figure 4.15: Product Innovation	49
Figure 4.16: Spending on Recruitment and Selection	50
Figure 4.17: Expenditure on Employee Training and Development	50

LIST OF ACROYNMS

CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBRR	Central Bank Reference Rate
ICPAK	Institute of Certified Public Accountants of Kenya
KCB	Kenya Commercial Bank
PAT	Profit after Tax
PBT	Profit before Tax
SME's	Small and Medium Enterprises
SSA	Sub Saharan Africa

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The banking sector plays a critical role in the economy. The banks play a financial intermediation role where they act as intermediaries between the net savers and net borrowers. The Financial sector acts as a link between those with excess finances and those with financial deficits. The banking sector is a key sector of any economy worldwide. According to Mushtaq and Ahmed (2016), the banking sector is the backbone of any country's economy and size of bank deposits are the major tool of success for banking sector. A bank is a commercial entity in the business of borrowing money at a lower rate and lending the same at a higher rate to make or generate income. The profits and cost incurred is denoted by the margins between the two rates (Were &Wambua, 2014).

To sustain their operations and pay returns to shareholders, banks charge interest rate (Miller, 2013). Interest rates is a key monetary tool that can and has been used to spur economic growth or achieve desire economic goals in most economies. When the government seeks to enhance economic growth, it incentivizes the commercial banks to lower their interest rates and thus enhancing liquidity in the economy which promotes credit access and consequently economic performance. In times of inflation, the government through its regulatory arm, increases interest rates which reduces money supply and consequently achieve macro-economic goals and objectives.

One of the expected benefits of financial liberalization in recent times and maturing of the financial sector is the reducing of the interest rate margins and spreads, i.e. the rates charged on money loaned out to borrowing customers and what is paid out on interest earning accounts (Were &Wambua, 2014). Were and Wambua found that the same is based on the understanding that financial liberalization increases efficiency and competition in the financial sector. Therefore, Were and Wambua argued that a wide margin between the

deposit and the lending rate indicates to an inefficient financial environment and also reflects the level of financial development.

In free and liberated markets, the government often allows market forces of demand and supply to regulate and set interest rates. Nevertheless, in some occasions governments often set interest rates ceilings and floors to attain set macroeconomic goals and objectives. Some of the objectives that can prompt governments to introduce interest rates ceiling and floors. Miller (2013) posits that these reasons could include: the need to support industrial growth in cases of market failure, in cases of information asymmetry, moral hazard or adverse selection. Other reasons that could prompt interest rates caps include where information in the market make it impossible to differentiate high and low risk borrowers (Miller, 2013).

Interest rates caps often lead to market distortion leading to adverse biases by banking institutions where the focus on providing credit to low risk clients which culminates in financial inefficiencies in the intermediation process (Ramsey, 2013). Ramsey further notes that interest rate caps often lead to discriminatory behavior by commercial banks where those who desperately need financial assistance are locked out due to their perceived high risk (Helms & Reille, 2004). Another consequence of interest rates caps is the introduction and rise of alternative lending platforms and avenues. Furthermore, interest rates caps could lead to commercial banks focusing on other low risk ventures such as non-funded incomes, withdrawal of the commercial banks from the market especially those perceived to have high default risk (Helms & Reille, 2004).

The world over, governments have utilized interest rates caps as a strategy towards achieving set economic and monetary policy objectives. In Japan, interest rates caps were implemented under the Capital Subscription Law at a maximum of 20% from 29.2%. This was aimed at enhancing access to credit by Japanese SME's. The directive ordered by the Supreme Court decision was initially opposed by commercial banks who felt that it would lead to losses in the banking sector. Nevertheless, reports by the financial services agency showed otherwise with the banks reporting profits in excess of 1 billion yen (Honda & Kuroki, 2006).

In most African countries, interest rates ceilings have been implemented with varying degrees of success and failure. Nevertheless, it has been the government's argument that the implementation of interest rates ceilings was a result of high interest rates charged by banks and the need to spur economic growth. Reports by World Bank in a study by Djibril (2013) showed that over 17 countries in Sub Saharan African countries had introduced interest rates caps in one way or another. In the West Africa Economic and Monetary Union block, the interest rate ceilings introduced in 1997 was reduced by 3% with a maximum of 15% for commercial banks and 24% for Microfinance institutions. The interest rate caps were introduced in the countries of Chad, Congo, Equatorial Guinea and Gabon. In Sub Saharan Africa (SSA) (Were &Wambua,2014) most countries still experience double digit interest rates despite structural adjustment reforms having been initiated and undertaken by them which led to interest rates liberalization in the region among several countries.

Zambia has also introduced interest rate caps through the Bank of Zambia. In non-Banking financial institutions, the bank of Zambia stipulates that the maximum effect annual interest rates would not surpass 42% while that for microfinance institutions could not exceed 30%. The rules were premised on the belief that banks were charging exorbitant interest rates on their roles citing high risks. These high interest rates then locked out customers and thus the government intervened. However, the interest rates caps did not work in Zambia and were thus repealed in the year 2015 (Nyakio, 2017).

The financial sector in Kenya was liberalized in the early 1990s to enable interest rates to be determined by market factors. According to Were and Wambua, (2014) persistence in high rates of interest have continued to be a major concern and has attracted debates in various forums including public and private ones.

Kiweu (2012) noted that the Kenyan banking industry has experienced volatile interest rates margins and profitability. At the same time the focus on interest income has grown, perhaps driven by the fact that the increase in lending rates trails the monetary policy rate – the Central Bank Rate (CBR). The Kenyan public's concern is that banks, especially tier one banks, exploit their customers in their competitive race to reporting astronomical profits and

in the process charge their clients very high interest rates on their loans and advances (Kiweu, 2012). Over concentration on one particular income stream, interest income, is believed to be the crux of the problem. Banks also generate income through non funded or non-interest income such as transactional fees and commissions, penalties on overdrafts, foreign exchange gains and commissions and interest earned on credit cards. These will vary depending on the differentiated products offered by different banks.

The public has also raised concerns that Kenyan banks do not adjust their interest rates synonymously with the CBR's reduction. Kiweu, (2012) showed that lending rates are directly linked with net interest income, and the relationship is not a positive one since it would mean that lending will only take place if the interest rates are favourable to the banks. This had led to a lot of debate in parliament with emphasis on capping interest rates in Kenya since there had been a sustained perception over the years that commercial banks have been charging unreasonable interest rates (Nyakio, 2017).

Commercial Banks obtain a huge percentage of their operating income from loan advances which brought about two perspectives. On the one hand, since the core activity of commercial banks is lending, a lot of competitive pressure is felt in the lending market therefore banks concentrate and put a lot of focus on the interest rates they charge on facilities and the rates they pay depositors due to the need to maximize on profits (Kiweu, 2012). These rates are also pegged on the Central Bank Reference Rate (CBRR) thus would fluctuate in tandem with changes in the CBRR.

Kenyan commercial banks have been grouped into three tiers by banking sector regulator (CBK) and the tier classification is determined by the market share, asset base and customer base. Tier one comprises of the seven banks with a total market share of 58.21%. Tier 2 banks include 14 banks with a total market share of 37% and the rest of the banks fall into tier 3 with a total command of less than 5% of the market share (CBK, 2016).

According to official CBK (2016) published reports, during the quarter ended 31st March 2016, there were 42 commercial banks in the banking sector whose total assets stood at Ksh.

3.6 trillion, with gross loans totaling to Ksh. 2.4 trillion. According to the same report the total banks' deposits stood at a value of Ksh. 2.6 trillion. Total profit after tax (PAT) was Ksh. 38.4 billion and during the same period, customer deposit base was 37,455,795 accounts with loan accounts totaling to 7,163,560 accounts. There was a 2.9% increase in profit before tax of 38.4B as at March 2016 from a PBT of 37.3B during a similar period in 2015. (CBK, 2016). The sustained rise in profitability in the banking industry as evidenced by published CBK 2016 report, has generated public interest and furor prompting fresh attempts in capping the interest rates by the legislature in 2016.

The Banking (amendment) bill, (2015) introduced the bill to cap interest rates in Kenya after a motion for the same was moved by Hon. Jude Njomo, the Member of Parliament for Kiambu Township constituency. The Bill was assented into law by the Kenyan President in the year 2016 and it amended the Banking Act section 33A by introducing a new section 33B which provides for interest rates ceilings and introduced floors on interest rates paid to deposit accounts held by Kenyans (CBK,2016). The new clause introduced interest rates floors on savings deposits at 70% of the Central Bank rate. On the other hand, price ceilings were set at 400 basis points above the Central Bank rate.

1.2 Problem Statement

In the 25th ICPAK economic Symposium held in 2016, ICPAK (2016) Habil Olaka, the CEO of Kenya Bankers Association posited that since the introduction of interest rates caps occasioned by the assentation into law of the Banking Act amendments, there were a lot of expectations that the law would provide relief to customers and there would be a n influx of retail and SME customers in the banks to access 'cheap' credit. The opposite was experienced where tighter conditions were put on access to credit to control risk exposure within the pricing. Secondly, banks shied away from the riskier market segments and finally there was a realignment/rationalization of deposits within credit lines. The immediate effects werei) Local currency came under intense pressure following the exit of foreign investors.

ii) Capital markets took a direct hit since banks listed in NSE accounted for over 30%

market capitalization and after the interest cap, their capitalization reduced by more than 25% (ICPAK, 2016).

Recently published financial reports for most banks in the CBK prudential guideline, 2018, shows that for the first quarter as at 31st March 2017 showed a sharp decline in their profit after tax compared to the same period in 2016. In tier one, the published financial report of Kenya Commercial Bank (KCB, 2017) Kenya's largest commercial bank in assets, indicates reported PAT of Sh4.5 B first quarter (Q1) of 2017. Profits slightly declined by 1.8% compared to Sh4.6B it recorded in the first quarter of 2016 (KCB,2016). However, the bank's interest income declined by 12% to record income of Kes 14.1billion in quarter one of 2017 down from Kes 16billion recorded during the same period in 2016. In tier 2, NIC Bank ranked as a medium sized lender in Kenya is the 9th largest bank according to the rankings last released by CBK in 2015. NIC released its financial results for the period ending 31st March 2017 with PAT declining by 3.9% from Kes 990.8Million in 31st march 2016 to Kes 952 Million. The net interest income declined by 8.4% to 2.7 Billion in March 2017 from 3Billion in 2016 within a similar period in 2016.

This indicated that regardless of the banks' sizes, the interest capping law had reverberating effects in the banks' financial positions. What had not come out clearly were the exact effects on the direct and indirect stakeholders. Furthermore, there had been limited studies and research on how the interest rates caps had affected the profitability and performance of commercial banks. This had created a knowledge gap on whether the targets and objectives of interest rates caps had been achieved. In addition, there have been increased calls and lobbying for the repeal of the interest rate capping laws in Kenya. Without valid findings on the actual effect of the caps, the calls for review of the law could be uncalled for since there existed scarce empirical evidence to inform policy making.

1.3 General Objective

The general objective of this study was to evaluate the effect of interest caps on performance of Kenyan commercial banks.

1.4 Specific Objectives

The specific objectives of the study were:

- 1.4.1 To evaluate the effects of interest rates caps on financial performance of commercial banks in Kenya
- 1.4.2 To assess the effects of interest rates caps on commercial banks customer satisfaction
- 1.4.3 To assess the effects of interest rates caps on employees satisfaction in Kenyan commercial banks

1.5 Significance of the Study

The study is relevant to the following stakeholders;

1.5.1 Shareholders of Commercial Banks in Kenya.

The research is extremely beneficial to the owners of commercial banks in Kenya because shrinking profit margins are of great concern to any share holder. Since interest capping has impacted negatively on the bottom line of all banks' balance sheets, the shareholders would be keen to explore and diversify into non-traditional, non-intermediary income generating activities after understanding the impact of the interest rate cap.

1.5.2 EXCO (Executive Committee) or the management of Commercial Banks

The management is able to incorporate the factors affecting employees that are highlighted by the study. Several employees have been directly and indirectly affected by the capping of interest rates. Some banks have retrenched staff and closed branches, moving away from brick and mortar opting for a leaner work force and going digital. The net effect is the assumption that employees have suffered undue anxiety due to the uncertainty surrounding

their employment. Executive management would want to incorporate SHRM into their bank strategy since SHRM would have looked at issues surrounding employees holistically.

1.5.3 Consumers of financial products

This would include both the households (retail) and business (SMEs). They will benefit from the study since they would be more informed on the available options when selecting banks that would effectively address their needs and who have a variety of products on offer to choose from.

1.5.4 Academicians and Researchers

This study contributes to the body of knowledge on the effects of interest rates caps on firm performance. Furthermore, the research addresses existing knowledge and research gaps in the industry.

1.6 Scope of the Study

This study was undertaken in the County of Nairobi since it was the headquarters of all commercial banks in Kenya. The study utilized the 42 commercial banks operating in Kenya and registered with the Central Bank of Kenya. Furthermore, the study was undertaken during the months of January and March 2018.

The study encountered various challenges that hindered the attainment of objectives. Data access challenges revolving around access to respondents especially senior managers who were busy. In addition, access to customers posed a challenge since it was done in the branches. To overcome this, the researcher acquired approval and support from the banks to collect data. In addition, the researcher sought for appointments to overcome data access challenges with the senior managers.

1.7 Definition of the Terms

1.7.1 Interest Rate Caps

Interest rate caps refers to ceilings and floors that are set on the maximum and minimum interest rates that a bank can charge (CBK, 2016).

1.7.2 Customer Satisfaction

Customer satisfaction refers to the level of contentment with products and services provided by a firm. It is the level to which customers' expectations are met by products and services (Kotler, 2001).

1.7.3 Employee Satisfaction

Employee satisfaction refers to the level of contentment or fulfillment of employees needs and wants at a work place (Samad, 2004).

1.7.4 Financial Performance

Financial performance refers to the output of a firm in quantitative measures. It used to track the financial output against plans and goals (De Young & Rice, 2004). Some of the financial performance indicators include net profit, customer numbers, and interest income.

1.7.5 Commercial Banks

Commercial banks refer to financial institutions that play a financial intermediation role where they act as intermediaries between the net savers and net borrowers (CBK, 2016).

1.8 Chapter Summary

This chapter has presented the background of the study, the statement of the problem and objectives of the study. Further, the chapter presents the importance of the study as well as the key definitions in the study.

Chapter two reviews the existing literature on the research objectives of the study. The chapter summarizes key literature available. Chapter three presents the research methodology used in the study. Chapter four presents the key findings and results of the study based on data collected and analyzed. Chapter five presents the discussion of results, conclusions and recommendations of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on the research objectives of the study. It analysis and presents the literature on the basis of relevance to the research objectives of the study. Finally, the chapter presents a chapter summary.

2.2 Effect of Interest Rates Caps on Finance Performance

The relationship between interest rates and financial performance has long been analyzed and presented by various scholars through theoretical models as well as empirical findings. Despite apparent differences on the magnitude of effect of interest rates on financial performance, there exists consensus that interest rates have a positive correlation to the levels of financial performance especially for institutions whose main income is interest income such as commercial banks.

Priti (2016) finds that in the traditional banking set up, retail banks often relied on the interest rates, deposit and loan relationship to maximize their revenues and consequently profits. It is therefore important and critical that the relationship between profitability and interest rates in the banking sector be carefully analyzed to forestall and predict failures, financial distress and liquidity challenges in the banking sector.

2.2.1 Theoretical Grounding

Various theories attempt to analyze the relationship between interest rates and financial performance. The interest rates parity theory posits that interest rates have a strong influence on exchange rates and inflations. Consequently, where the three variables are highly correlated (Salloum & Hayek, 2012; Radha, 2011). When regulator bodies regulate interest rates there is an effect on inflation and exchange rates. High levels of inflation lead to lower levels of profitability in the economy due to low purchasing power and posit lower returns on

investments. On the other hand, high interest rates posit high returns and this attracts foreign capital, investments and high levels of returns. This often leads to financial stability in the economy (Devereux & Yetman 2002).

Other theories that define the relationship between interest rates, bank performance include the Irving Fisher Theory of interest that differentiates between real and nominal interest rates and how this affects perceived returns in an industry. The Expectancy Theory of Interest rates explain the relationship between firm performance and interest rates using the yield curve and structure of interest rates. According to the theory, expectations of investors often inform future interest rates. Through the expectancy theory of interest rates therefore, bank performance in terms of returns could be deduced today based on prevailing interest rates and expectations of movements in interest rates (Bekaert & Gray 1998).

2.2.2 Financial Performance

There has been numerous studies on the relationship between interest rates and banks financial performance. Zaman *et al.*, (2013) in a study using Commercial Banks in Pakistan to analyze the effect of interest rates on profitability found that interest rates had a strong positive correlation to profitability of commercial banks. Consequently, the study found that interest rates had a strong influence on the profit margins and levels of commercial banks in Pakistan. The study utilized data from 20 banks using a cross sectional research design. The study summarized that as the interest rates in the economy rose, the lending rates rose at a higher rate than the deposit rates leading to higher levels of profitability in commercial banks. This was due to the high interest rate spread.

Another effect of interest rates on banks performance is on the overall valuation of the banks. Almost all the asset valuation models available use the interest rates in one form or another as a key variable. This implies that the interest rate in itself is a key variable in valuation of firms. Furthermore, the use of interest rates in valuation models such as the discounting cash flow models, the dividends growth model or any other model utilizes prevailing interest rates as a key tool for valuation (Kozak, 2016; Koch, 2015). This implies that the use of interest

rates has a high influence on the valuation of models. Furthermore, high interest rates limit credit access in any firm which leads to lower levels of profitability and thus the valuation of firms.

Samad (2004) utilized data from commercial banks performance between the years 1994 – 2001 in to analyze the effect of interest, liquidity and profitability in the commercial banks. Through the use of T-tests the study found that interest rates caps often led to higher levels of liquidity in commercial banks. Nonetheless, the higher levels of liquidity did not signal higher levels of profitability since commercial banks were reluctant to lend in the market and thus unable to generate income in the form of interest rates. This led to exit of some banks from the market. Consequently, the study found that the introduction of interest rates caps of lend to higher levels of liquidity and lower levels of profitability.

In an analysis of 33 Sub Saharan Countries in Africa, Folawewo and Tennant (2008), analyzed the effect of interest rate spread on various factors. The study found that interest rates had an influence on the crowding out effect occasioned by government borrowing, discount rate, inflation levels, money supply, economic growth, population growth, inflation levels and public sector deficits. Where the interest rates spreads are very high, the banks often lend to individual while low interest rate spreads lead to crowding out of individual borrowers who are perceived as high risk. This often leads to lower profitability. In cases where the interest rate spread are regulated by regulators, the crowding out effect by governments as well as low levels of profitability due to low levels of lending in the market.

Mang'eli (2012) analyzes the relationship between interest rate spreads and financial performance of commercial banks. The study using descriptive research design found that the interest rate spread has an effect on the financial performance of commercial banks as measured by the return on assets and profitability. The interest rate spread affects the performance of commercial banks as it increases the interest rates on loans. In summary the study found that regulations on interest rates had a high influence on the performance of commercial banks since the interest rate spread was a key instrument to mitigate moral hazard and adverse selection in the banking sector (Mang'eli, 2012).

2.2.3 Financial Risks

The financial intermediation process occurs due to the disconnect between net savers and net borrowers. Banks consequently operate by receiving short term deposits and lending to long term borrowers. The difference between the two rates is the income for the bank and also referred to the interest rate spread. The higher the interest rate spread, the lower the financial risks of a bank while lower interest rate spreads lead to higher financial risks of commercial banks (Ristolainen, 2016). Consequently, if interest rates caps do not provide sufficient cover for interest rate spreads, then this is most likely going to lead to financial risk amongst commercial banks.

In the analysis of commercial banks by Samad (2004) interest rates caps were found to increase liquidity in commercial banks. Nevertheless, this liquidity came at the expense of reduced profitability amongst commercial banks thus threatening their stability and ultimately leading to exits in the markets. Banks withdrawing from an economy is not a good signal of stability in the market but the existence of risks that threaten the growth and sustainability of the banking sector.

Kirimi (2015) analyzed the effect of interest rate spreads on financial performance in the Kenyan banking industry. The study which analyzed the relationship between interest rate spread, performance and credit risk found that the interest rate spread had a huge influence on the credit risk. Regulations by the Central Bank of Kenya on interest rates spreads led to higher levels of credit risk. As the Central Bank allowed higher levels of interest rate spreads, the credit risk increased. This negatively influenced the banks performance since the interest rate spread was a key determinant of profitability in commercial banks in Kenya. In fact, the study which utilized systematic random sampling technique in 44 commercial banks within Nairobi County concluded that interest rates had a large extent effect on the performance of commercial banks in Kenya.

While there exists ample literature on the effect of interest rates spreads on financial performance of commercial banks, there is a dearth of literature and empirical evidence on

the relationship between interest rate spread regulations and financial performance of commercial banks. This therefore implies a knowledge and research gap on how the interest rates caps has influenced financial performance of commercial banks. Furthermore, majority of studies have identified the relationship between interest rates spreads and financial performance but have to analyze what strategies commercial banks have employed in the face of interest rates caps by the banking regulator.

2.3 Effect of Interest Rates Caps on Customers

The relationship between interest rates movements and customers has not been directly analyzed in most papers available. Nevertheless, the effect of interest rates on financial performance and customers has been explored by a number of scholars locally and internationally.

2.3.1 Theoretical Framework

There are a number of theories that can be used to define the relationship between interest rates movements and customer satisfaction. The stakeholder theory purports that the sole purpose of the firm is to generate wealth and value to all its stakeholders through conversion of stakes into goods and services of providing an avenue for stakeholder interest conversation (Clarkson, 1995; Evan & Freeman, 1988). According to the theory, any firm must be managed with the basis that all stakeholders in the business benefit including the local community and customers. This however can only be achieved if the firm is making profits to sustain its efforts to maximize the benefits to all stakeholders. Movements in interest rates and interest rate caps often hinder the ability of the firm to partake or get involved in activities that benefit all stakeholders (Ronoh, 2015). The stakeholder theory with emphasize on the corporate social responsibility is premised on the belief that firms and organizations have an obligation to constituent groups in the society above the stipulations of law or union contact (Jones, 1980).

The relational theory is premised on the firm environment relationship. Corporate citizenship is premised on the relationship of the organization and the community that surrounds the

business. Fundamentally, it is about the relationship that a corporation develops with its stakeholders, and therefore, the former has to continuously search for engagement and commitment with the latter. Corporate citizenship, according to Garriga and Mele (2004), is an approach used under the integrative and political theories and this is supported by Swanson (1995) and Wood and Lodgson (2002). This theory is sub-divided into four categories namely business and society, stakeholder approach, corporate citizenship and the social contract.

Business and society implies business in society where bank financial performance is the interacting factor between the two. It is necessary that the Social responsibility of the business need to reflect social power that the business possesses. The approach is both within the interactive and ethical theories, where the former emphasizes the integration of social demands and the later focuses on the right thing to achieve a good society (Garriga and Mele, 2004). Corporations are proactive in publishing reports on economic, social and environmental performance following the idea of triple-bottom line (Elkington, 1998).

The agency theory is also applicable in the analysis of the relationship between customers and profitability or interest rates of commercial banks. The agency theory posits that under varying conditions, the social satisfaction is key to achieve maximum shareholder value. Jensen (2000) finds that enlightened value maximization can only achieved through some tradeoffs that provide for profit, value seeking and wealth maximization. Corporate social responsibility is one key factor that provides for maximization of customer interests. Corporate social responsibility is an expense deducted from the operational incomes of commercial banks. Where interest rates move or are heavily regulated then firms are unable to invest in corporate social responsibilities and thus reduced customer satisfaction.

2.3.2 Interest Rates and Customer Satisfaction

The relationship between interest rates and customer satisfaction can be analyzed on how interest rates influence profitability of commercial banks and how then the profitable firms

enhance customer satisfaction. How bank performance can be used to enhance customer satisfaction is purely an internal management issue that can be classified into two. According to Williams, Molyneux and Thornton (1994) internal determinants of customer satisfaction include factors such as bank management policies on the prices, management of expenses and funds use.

Customers like to be associated with successful brands. Consequently, for commercial banks facing interest rate fluctuation challenges, the management's actions to maintain superior performance, engage in corporate social responsibility activities and generate healthy returns for shareholders often lead to higher levels of satisfaction amongst customers. Managers are therefore required to ensure that their management skills in revenue generation, cost optimization, liquidity management and funds management ensure that the brand image is kept well management and the bank remains profitable even in times of turbulent macro and economic variables.

In view of capped interest rates, the ability of the bank to pay interest earnings in time to savers and lend to borrowers in affordable interest rates has had a high impact on customer satisfaction. According to Molina *et al.*, (2007) in a study on customer satisfaction using banks in Spain, Trust and customer service were key influencers of customer satisfaction. Financial considerations such as interest earnings and interest payments were also considered to high influential on the relationship between bank performance and customer satisfaction.

The innovation of the banking sector to cope with regulatory changes in relation to interest rates has also been cited as a key factor influencing customer satisfaction amongst customers. According to Lumpkin (2009) in a high competitive banking environment coupled with thin interest rate spreads, the ability of banks to provide banking services in an economical, efficient and effective platform is key to customer satisfaction. Lumpkin (2009) identifies the use of E-Commerce and e banking as instrument in enhancing customer satisfaction in an era where interest rates margins are thin and differences in interest rates amongst various commercial banks are very low.

This is supported by the findings of Molina *et al.*, (2007) who found that the use of convenience considerations in a highly competitive and low interest margin era had a positive influence on customer satisfaction. Interest rates capping have the effect of reducing the interest rates margins and consequently low interest rates margins. Nevertheless, the adoption of technological platforms such as ATM presence and online banking could enhance customer satisfaction.

Wruuck (2013) in the study on pricing in retail banking: the scope for boosting customer satisfaction and profitability found that pricing for loans (which denote interest rates) has a very high correlation to the levels of customer satisfaction. In a cost drive market place and evolving customer expectations, needs and trends, pricing of products and service is a critical factor in promoting customer satisfaction. This is not escapable in the financial sector. In fact, the financial sector is more culpable to price sensitivity of demand and marginal changes in costs of financial service has a negative effect on the levels of customer satisfaction.

Based on the findings above, this could be grounded on evidence in the Kenyan market where commercial banks are increasingly adopting digital banking platforms as a strategy to enhance customer satisfaction and increase revenue generation as well as enhance cost efficiency in the banking sector. This has led to customer satisfaction as technology allows for convenience and efficiency in accessing banking products and services. Furthermore, since the introduction of interest rates caps in Kenya over 5 banks have shifted their banking model from brick and mortar led to technology driven service delivery.

There exists limited empirical evidence on the relationship between interest rates movements and customer satisfaction. Consequently, a knowledge and research gap exists. Nevertheless, interest rates movements and regulations are aimed at protecting the customers and enhancing their access to credit and consequently enhance their satisfaction with banking products and services. Can interest rates caps be used to improve customer satisfaction amongst banks? This is a question that very few studies have sought to provide answers to.

2.4 Effect of Interest Rates Caps on Employees

The focus on the debate on interest rates has been focused the relationship between interest rates and financial performance. Nevertheless, interest rates do not operate in isolation at the commercial banks to influence financial performance. On the contrary, management, employees and other stakeholders in commercial banks have a high influence on profitability of commercial banks. Interest caps or changes often have an effect on employees in commercial banks. In some cases, it may lead to increased or decreased employee engagement, employee satisfaction or employee turnover.

Employee satisfaction is primarily measured on the basis of employee commitment (Mowday, Steers & Porter, 1979). Research and empirical evidence available shows that there is a nexus between, employee satisfaction (measured by positive responses and emotions from job experiences), and job performance (Janz&Prasarnphanich, 2003). Satisfied employees are more likely to have higher levels of output and performance than dissatisfied employees.

Task performance in employees is measured through the performance of core activities such as production, offering of services to customers, selling, managing of juniors and subordinates and communication of the company values and products to interested stakeholders (Motowidlo&Schmit, 1999). When an employee is not satisfied, then their performance in regard to the set tasks and targets is below par. Consequently, Onzere (2007) found that employee satisfaction is supreme in the organization and greatly influences the production capacity and capability of the firm.

Job satisfaction on the other hand, refers to the positive emotions associated with undertaking set events and tasks by employees (Heskett *et al.*, 1997). For an employee to be satisfied they must perceive satisfaction and utility by performing certain task and activities set out in their work place. Job satisfaction is an important indicator of the perception of employees about their jobs, their work behaviors, the work environment and organization culture (Heskett *et al.*, 1997).

2.4.1 Interest Rates and Employee Satisfaction

Employee satisfaction is a human resource outcome that is achieved through the improvement of the human resource variables of training and development, selection and recruitment, employee relations, employee exit, career growth and progression, remuneration and rewards. While some of these variables are qualitative in nature, others are quantitative and are affected by the ability of the firm to generate revenues to finance the activities.

According to Onzere (2007) employee satisfaction can be described as the general attitude of an employee toward a job. It is an employee's cognitive and affective evaluation of the job and job outcomes (Onzere, 2007). Majority of the study posit that employee satisfaction in the product of motivation, actualization, achievement and positive moral by the employee in the work place (Spector, 1997).

Tierman (2008) finds that employee satisfaction is often driven by the ability of the firm to provide resources and finances to ensure that employee relations, training and development, career growth and progression as well as remuneration and rewards suit the employee's needs and wants are met. In a highly regulated interest rate environment, commercial banks are limited by the interest income they can generate. Interest income is the single largest income for any commercial bank. With limited income, the commercial banks may fail to provide the requisite resources for human resource management functions which lead to levels of employee satisfaction.

Furthermore as presented by (Misener *et al.*, 1996) the employee satisfaction levels is affected by factors such as remuneration, company's policies, supervision, job security and opportunities for job and career progression. When these are not available in the work place, then there are low levels of employee satisfaction which inhibit output in the work place. It is worth noting that all these employee satisfaction drivers require for financial resources from the bank.

Bakotic (2016) analyzes the reverse relationship on how the organization performance affects job satisfaction. In the study, Bakotic found that employees seek to offer their services to firms that are perceived to be successful. One of the key factors that employees look for when deciding the firm to work for is the organization performance. The study Bakotic (2016) thus found that high levels of profitability and financial performance has a high effect on employee satisfaction as well as employee retention and loyalty. In an increasingly competitive and interest rates regulated environment top management of commercial banks must focus on strategic alternatives that enhance overall organization performance to ensure that the employees are satisfied are perceive working at the organization as attractive and beneficial to them. Other scholars who have found similar findings include Mafini and Poee (2013) and Latif *et al.*, (2015).

Ahluwalia (2015) in the study employee satisfaction and firm performance using unique data set from self-administered employee survey for 1495 companies in the United States of America and found that the level of financial performance of the companies had a strong positive correlation with the levels of employee satisfaction. According to the study based on listed companies, employees perceived it to be a privilege and an honor to work for highly profitable companies in the United States of America. Employees working in profitable companies were more satisfied than employees working in loss making corporations. Furthermore, employees in profitable firms were more likely to be loyal to the company and thus retained than those in non-profitable firms who were actually more likely to seek for jobs in profitable companies.

One of the main reasons fronted for this relationship is the fact that employees perceived their jobs to be secure in companies that were profitable than in those that were not profitable. Employees sought to seek job security in the long run and profitable firms provided this need to the satisfaction of employees (Latif *et al.*, 2015).

Gorton and Schmid (2004) provide an interesting twist to the discussion on financial performance and employee satisfaction. According to Gorton and Schmid (2004) in businesses where the products and services change very often, then employee's level of

satisfaction is very low. This is because employees need to fully understand the products or services for them to provide adequate information to the customers. When the product changes very often, the employees might not fully grasp the entire products and services and this could hinder their service delivery thus reducing the levels of employee satisfaction.

2.4.2 Interest Rates Caps and Employee Turnover

The relationship between interest rates movements and employee turnover has rarely been directly analyzed. Nevertheless, it is important to analyze what effect interest rates caps, movements and regulations affect the movement of employees in and out of commercial banks and other financial institutions. Ouonga (2016) analyzed the top six commercial banks utilizing the internal factor analysis model to analyze the effect of interest rates movements on financial performance and other metrics. In the study, the conclusion informed employee relations.

According to Ouonga (2016), in face of interest rates movements and anticipated government regulation of interest rates it was prudent for commercial banks to invest in technologies and management skills which seek to reduce costs of operations while at the same time enhancing growth and survival.

In essence, the study by Ouonga (2016) proposes high levels of automation in the Kenyan banking sector which could lead to high levels of employee turnover as bank seek to reduce costs. In fact, this could be the driving factor by most banks in the Kenyan economy dropping the brick and mortar model to the use of technology and digital banking as platforms for service delivery amongst customers in Kenya. On the other side, Ouonga (2016) proposes increased employee training which implies that interest rates cap often lead to knowledge transfer and acquisition to surmount challenges and changes occasioned by pegged interest rates. This could be a key motivator amongst employees as they gain new knowledge and skills.

2.5 Chapter Summary

This chapter presents the available literature on the effect of interest rate caps on customers, performance and employees. The literature reviewed will inform the basis of the research methodology to be applied in chapter three. In addition, the literature reviewed to existing gaps and deficiencies in the available literature. Chapter three presents the research methodology of the study. It presents the research design, the population and sampling techniques, data collection and analysis methods.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology of the study. It presents the research design, the population and sampling design of the study, the data collection methods, research procedures and data analysis methods.

3.2 Research Design

The research design refers to the overall blueprint of a study (Saunders *et al.*, 2011). There are various research designs that a researcher can use. This study utilized a descriptive research design. In a descriptive research design, the researcher collects data with the aim of describing an event, phenomena or event (Saunders *et al.*, 2011).

This study collected data to describe the effect of interest rate caps on bank performance. Specifically, data was collected to describe the effect of interest rates caps on financial performance, banks customers and banks employees. Consequently, a descriptive research design was justified for use in the study.

3.3 Population and Sampling Design

3.3.1 Population

The population refers to the total number of cases in a study (Saunders *et al.*, 2011). According to Bryman and Bell (2011) the population refers to all the cases that possess unique characteristics that are of interest to the researcher. The unique characteristics of this study were commercial banks registered and licensed by the Central Bank of Kenya. Furthermore, the banks had to be earning interest income. There were 43 commercial banks as at 31st December 2017 meeting the unique characteristics for the study (CBK, 2018). They formed the population of the study,

Table 3.1: Population Distribution

Details	Number	Percentage
Tier I	6	14
Tier II	16	37
Tier III	21	49
Total	43	100

Source: Central Bank of Kenya (2017)

3.3.2 Sampling Design

The sampling design refers to the processes and systems that are used to select a sample size that is adequate and justified.

3.3.2.1 Sampling Frame

The sampling frame refers to the total number of elements within a population (Bryman& Bell, 2011). The sampling frame of this study was drawn from the commercial banks in Kenya. The sampling frame was drawn from the annual report of the Central Bank (2017) that contains the list of all licensed commercial banks in Kenya. The sampling frame was equal to the population at 43 commercial banks.

3.3.2.2. Sampling Technique

Sampling technique refers to the process through which a sample size that is adequate and justified is selected for use. In this study all the commercial banks in the country were included in the study. Ryman and Bell (2011) noted that there are various ways that a researcher can use to get a sample size this includes probability and non-probability based sampling techniques. Furthermore, Bryman and Bell (2011) note that for small populations it is justified to include all the elements in the sampling frame as this reduces the sampling error. Since the sampling for this study was small, then a census survey was conducted. A

census study involves the inclusion of all the elements in a sampling frame or population in a study (Bryman& Bell, 2011).

3.3.2.3 Sample Size

The sample size refers to the total number of elements within a population that is deemed adequate and justified and representative of the total population. This study utilized a census survey. Thus all the elements within the population were included. The sample size of this study was 43 as shown in Table 3.1 above.

For the employees the Senior Manager in charge of operations and lending were included in the study. This choice of employee respondent is informed by homogeneity in the data collected from managers while the Senior Manager had access to general information on the effect of interest caps on firm performance and employee relations. On the other hand, 3 customers were drawn from each of the bank. The customers were drawn from corporate customers, SME customers and individual customers. The data for customers was expected to be generally homogenous and thus the choice of 3 customers for each bank. Furthermore, time constraints did not allow for inclusion of a large number of customers or managers.

Analysis was done at the unit of analysis i.e. commercial banks rather than individuals i.e. N was 43 for all since consolidation and aggregation of data collected for each commercial bank was done.

Table 3.2: Sample Size Distribution

Details	Number	Employees Per Bank	Customers per Bank	Total Employees	Total Customers	Total Sample
Tier I	6	1	3	6	18	24
Tier II	16	1	3	16	48	64
Tier III	21	1	3	21	63	84
Total	43	3	9	43	129	172

3.4 Data Collection Methods

This study utilized two sets of data. Primary and secondary data. Primary data was collected from customers and employees of commercial banks to identify the effect of interest rates caps on these two demographic groups. Two sets of questionnaires were utilized for each of the groups. The questionnaires had two sections: One section collected demographic data on the employees and customers. Section two collected data on the effect of interest rates caps on employees and customers respectively. The questionnaire utilized Likert scale questions on a scale of 1 – 6 with one being strongly agree and 6 not applicable. A questionnaire was justified for use in this study as it was easy to administer, quick for data collection and very efficient in collecting quantitative data. The questionnaire was self-administered.

Secondary data for this study was collected using a data collection sheet. This data was collected for the financial performance of commercial bank one year before introduction of interest rates caps and one year after the introduction of interest rates caps. This data was collected from the annual reports of the commercial banks. In total annual performance data was collected for the years 2014, 2015 and 2016. Data collected from the annual reports included: net profit, interest income, non-performing loans and operational costs. This enabled the researcher to differentiate between performance before and after introduction of interest rates caps.

3.5 Research Procedures

Various research procedures were employed to ensure that data collected was reliable and valid. The research procedures included pilot testing, self-administration of the questionnaires and ethical considerations. Pilot testing was undertaken to ensure validity of data collected. After the development of the questionnaire and data collection sheet, a pilot test was conducted to test whether there were any errors and the data collected from the data collection instruments was sufficient for data analysis and addressing the research objectives. Pilot testing was undertaken with 20 respondents: 5 from bank managers and 15 from customers. Findings of the pilot study informed refinement of the data collection instruments

to ensure valid data is collected. Supervisory comments and guidance formed part of the pilot testing stage.

To ensure a high response self-administration of the questionnaire was done. The researcher administered the questionnaire to the respondents and collected them immediately after completion. Where there was need to drop the questionnaire and collect later, the researcher undertook follow up through mobile phone calls. Ethical considerations such as authority to collect data from banks and customers, informed consent from the respondents and confidentiality and privacy of data collected were enhanced through various strategies in the data collection process.

3.6 Data Analysis Methods

Data analysis refers to the running of various statistical test to infer findings and results from the tests. Data collected was inspected for completeness and errors. Errors and gaps identified were edited to ensure completeness in the data. Complete data was coded and keyed into SPSS vs 22 for statistical analysis.

Statistical analysis was in the form of descriptive statistics which involved the use of frequency distribution tables, means, modes and standard deviations. This enabled the researcher to describe the research objectives. Inferential statistics of Correlation Coefficients were undertaken to infer relationships from the data collected. Pearson's correlation coefficient was utilized in this study to establish the strength and direction of relationship between interest caps and various measures of bank performance in this study. Data was presented using tables and figures.

3.7 Chapter Summary

This chapter has presented the research design of the study which is descriptive. Based on a descriptive design, the research collected secondary and primary information from 43 commercial banks operating in Kenya and licensed by the Central Bank of Kenya. Collected data was analyzed using descriptive and inferential statistics. Chapter four presents the findings and results of the study.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the major findings of the study. The findings are derived from the data collected and analyzed as presented in chapter three of this study. The findings are presented in respect to the research objectives.

4.2 Background Information

This study sought to analyze the effect of interest rates caps on bank performance. Consequently, the sampling frame of the study was drawn from customers, managers and annual reports of the commercial banks. In total there were 43 commercial banks in Kenya. Nevertheless, only 36 commercial banks were included in this study. The exclusion of the 7 commercial banks was due to; incomplete records (Charterhouse Bank), mergers and acquisitions (Giro Bank & I&M Bank, Equatorial Commercial Bank and Credit Bank) and some had their reports in foreign currency (Habib Zurich, Habib Bank, UBA and Citi Bank) had their financial reports in foreign currency

For the employee respondents a total of 36 respondents were included in this study out of the expected 43. For the customers a total of 100 out of the 129 expected respondents were included in the study. This represents an 83% response rate for employees and 77% response rate for the customers.

4.2.1 Period of employment of the respondent

Forty-two percent of the banks employees had worked with the commercial banks for between 0 – 3 years, 28% had worked for between 4 – 6 years and 31% had worked for over 6 years respectively.

Table 4.1Period of employment of Employees

Period	No. of Employees	Percentage
0 - 3 years	15	42%
4 - 6 years	10	28%
Above 6 years	11	31%
Total	36	100

4.2.2 Age of Respondents

Fourteen percent of the respondents to this study were between the ages of 18 – 35 years, 81% representing the majority were of the ages 36 – 50 and 6% were of the ages above 55.

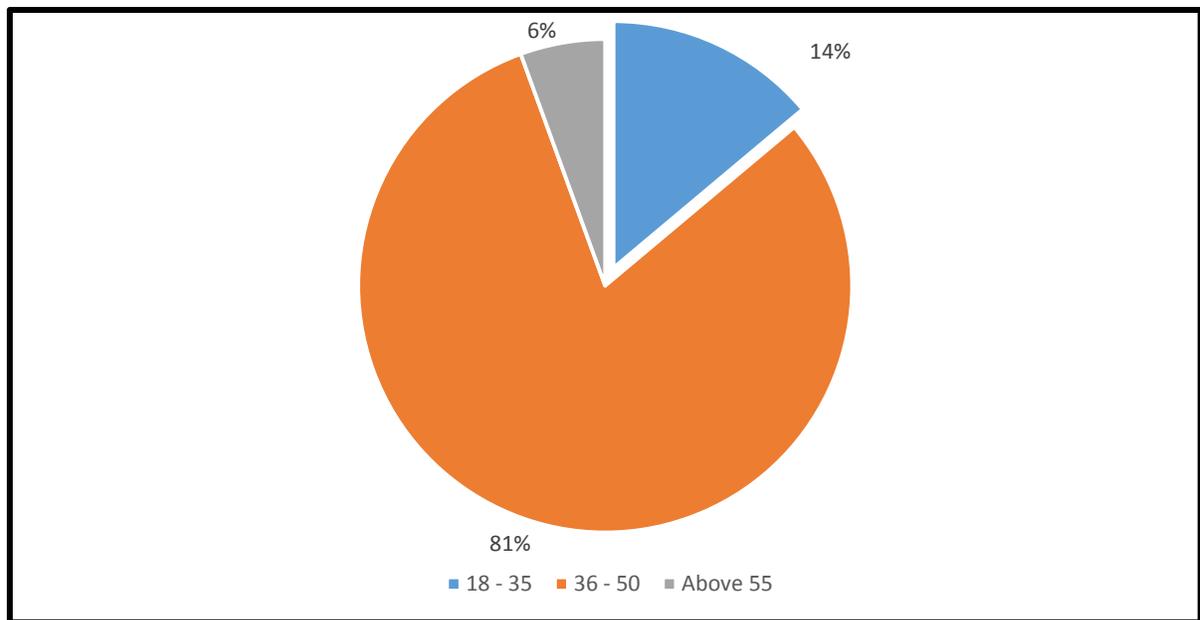


Figure 4.1: Age of Employees

4.2.3: Experience in the Bank

Thirty nine percent of the respondents to this study had been banking with commercial banks for 0 – 3 years, 50% had banked with the commercial banks for 4 -6 years and 11% above 6 years.

Table 4.2: Customers Experience with the Bank

Period	No. ofCustomers	Percentage
0 - 3 years	39	39%
4 - 6 years	50	50%
Above 6 years	11	11%
Total	100	100

4.3 Interest Rate Caps and Financial Performance

This study sought to investigate the relationship between interest caps and financial performance of commercial banks in Kenya

4.3.1 Financial Performance (Overall)

The net profit analysis sought to compare the net profit of the commercial banks before and after the introduction of interest rate caps.

Operational costs increased from 2.2593 billion in the period before the introduction of interest rates caps to 3.6965 after the introduction of interest rates caps. This shows that the introduction of interest rates caps led to an increase in the operational costs of the commercial banks in Kenya. The operational costs metrics had a standard deviation of 0.38143 and 28.72796, with corresponding standard errors of means of 0.09849 and 1.86608 respectively.

The total deposits of the commercial banks were on average 18.7693 billion in the period before the introduction of interest rates caps which increased to 19.8392 after the introduction of interest rates caps. The standard deviation for the two respective periods was 11.75 and 9.15 respectively with standard errors of 3.034 and 0.59 respectively. These findings imply that the introduction of interest rates caps had led to an increase in the deposits by customers mainly due to the increased deposit rates which were set at a minimum of 7.5%. Consequently, the introduction of interest rates caps coupled with deposit rates floors had a positive effect on the deposits of commercial banks in Kenya.

The liquidity ratio of commercial banks increased from 38% to 39% after the introduction of interest rates caps. This implies that the introduction of interest rates caps increased the liquidity levels of commercial banks. This could be due to reduced lending by commercial banks or increased deposits by customers or a combination of both. The corresponding standard deviation was 5.454 and 12.08 respectively with standard errors of means of 1.40830 and 0.78482 respectively.

The total loans advanced by commercial banks reduced from 17.5847 in the period before the introduction of interest rates caps to 16.9803 after the introduction of the interest rates caps. This could be occasioned by the reduced appetite for lending by commercial banks. The respective standard deviation was 0.2846 and 1.22858 for the two periods respectively with standard errors of 0.7350 and 0.7980 respectively.

The net profit margin reduced from 0.13 to 0.115 after the introduction of interest rates caps. According to this study interest rates caps had led to an increase in the net profit margin for commercial banks in Kenya implying that interest rates reduced earnings for commercial banks in Kenya.

Table 4.3: Financial Performance

		N	Mean	Std. Deviation	Std. Mean
Operational Costs	1	36	2.2593	.38143	.09849
	2	36	3.6965	28.72796	1.86608
Total Deposits	1	36	18.7693	11.75320	3.03466
	2	36	19.8392	9.15283	.59454
Liquidity Ratio	1	36	38.0400	5.45433	1.40830
	2	36	39.2196	12.08210	.78482
Total Loans	1	36	17.5847	.28465	.07350
	2	36	16.9803	1.22858	.07980
Net Profit Margin	1	36	.1340	.03019	.00779
	2	36	.1154	.32966	.02141

4.3.2 Employees Perception

This study collected data from employees on the relationship between interest rates caps and commercial banks performance. The findings are detailed below:

4.3.2.1 Demand for Loans

22% of the respondents to this study strongly agreed that the introduction of interest rates caps led to an increase in the demand for loans. 56% of the respondents agreed and 22% disagreed that the introduction of interest rates caps led to an increase in the demand for loans.

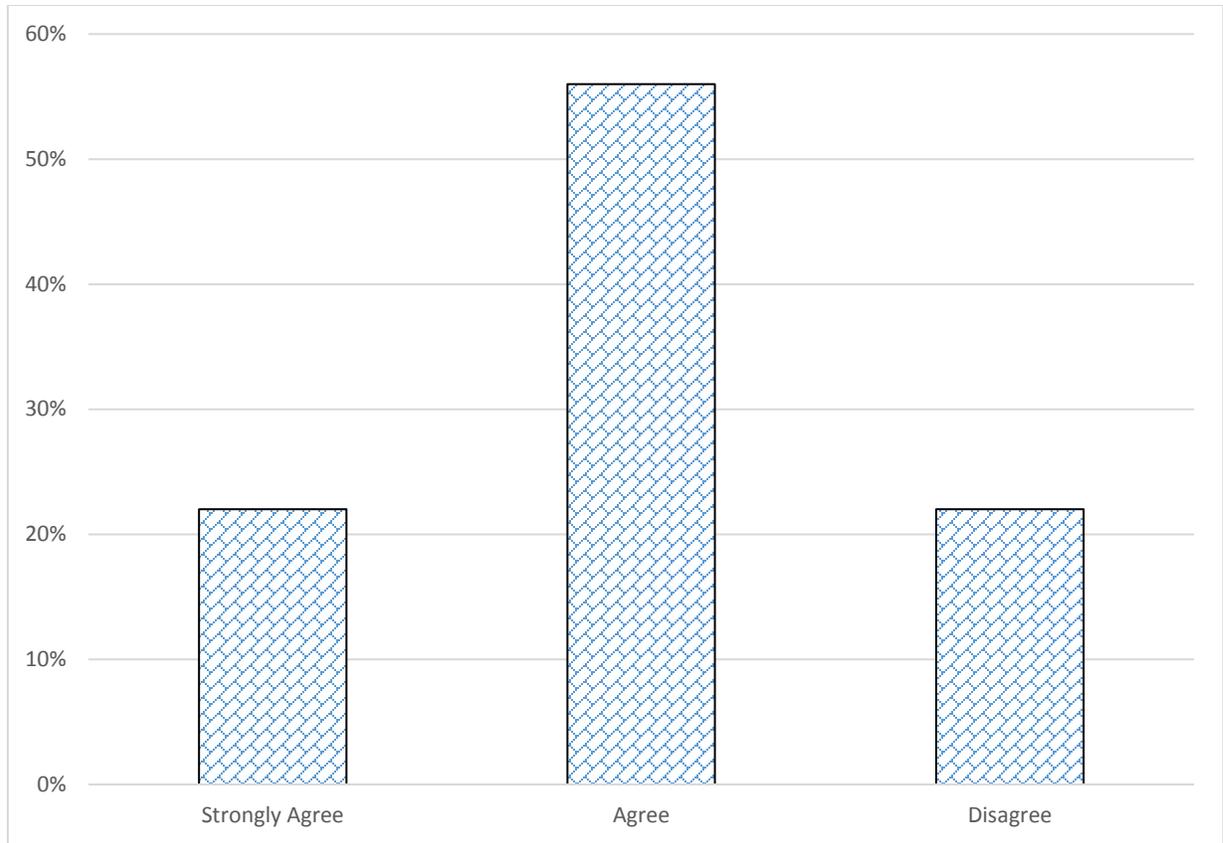


Figure 4.2: Demand of Loans

While the demand for loans had increased due to the introduction of interest rates caps, the disbursement of loans had not increased as a result of introduction of interest rate caps. According to the findings of this study, majority of the respondents disagreed that the introduction of interest rates caps had led to an increase in the disbursement of loans. 65% of the respondents to this study disagreed that the introduction of interest rates caps had increased loans disbursements while 12% strongly agreed and 23% agreed.

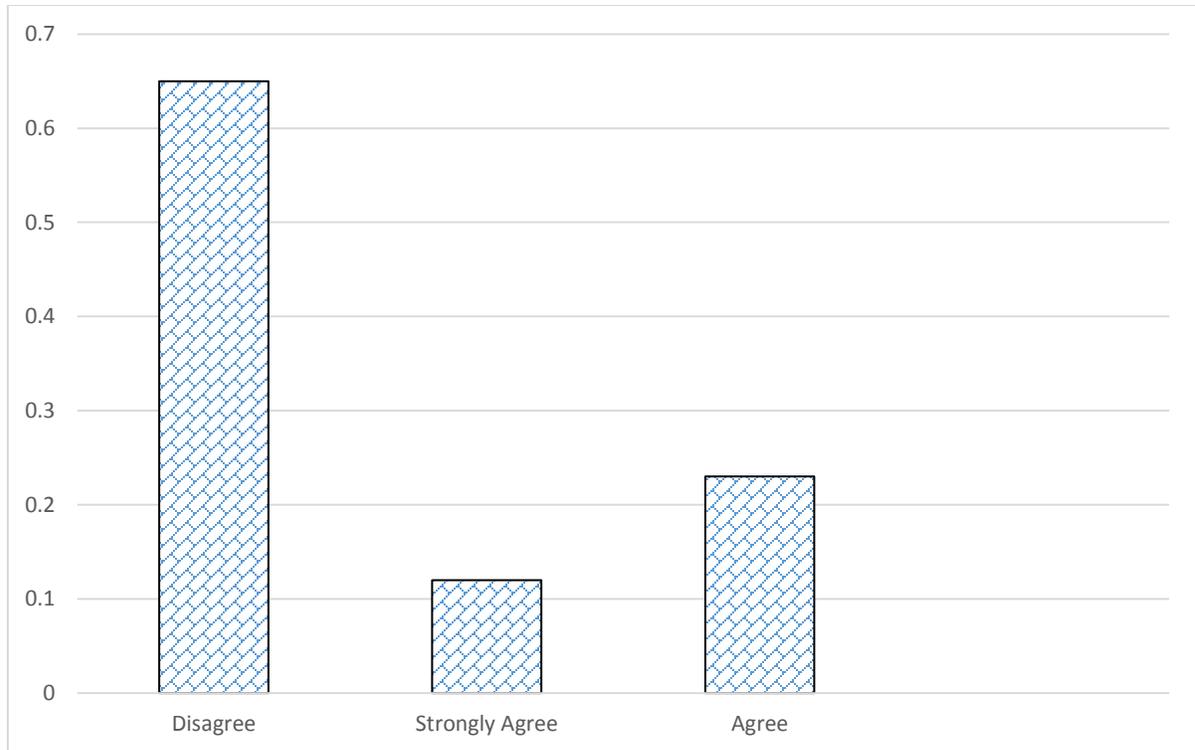


Figure 4.3: Disbursement of Loans

4.3.2.2 Increase in Income and Expenses

Respondents to this study were split on the effect of interest rates caps on the interest incomes of commercial banks. Twenty eight percent of the respondents to this study strongly agreed and agreed respectively, while 31% disagreed and 14% strongly disagreed respectively.

Table 4.4: Interest Income

	No. of Employees		Percentage
Strongly Agree	10		28%
Agree	10	28%	
Disagree	11	31%	
Strongly Disagree	5		14%
Total	36	100%	

For the expenses, majority of the respondents agreed that the introduction of interest rates caps had led to an increase in the expenses of commercial banks. 35% of the respondents strongly agreed, 47% agreed, 14% disagreed and 5% strongly disagreed respectively. This shows that majority of the bank employee believed that the introduction of interest rates caps had led to an increase in the operational expenses of commercial banks.

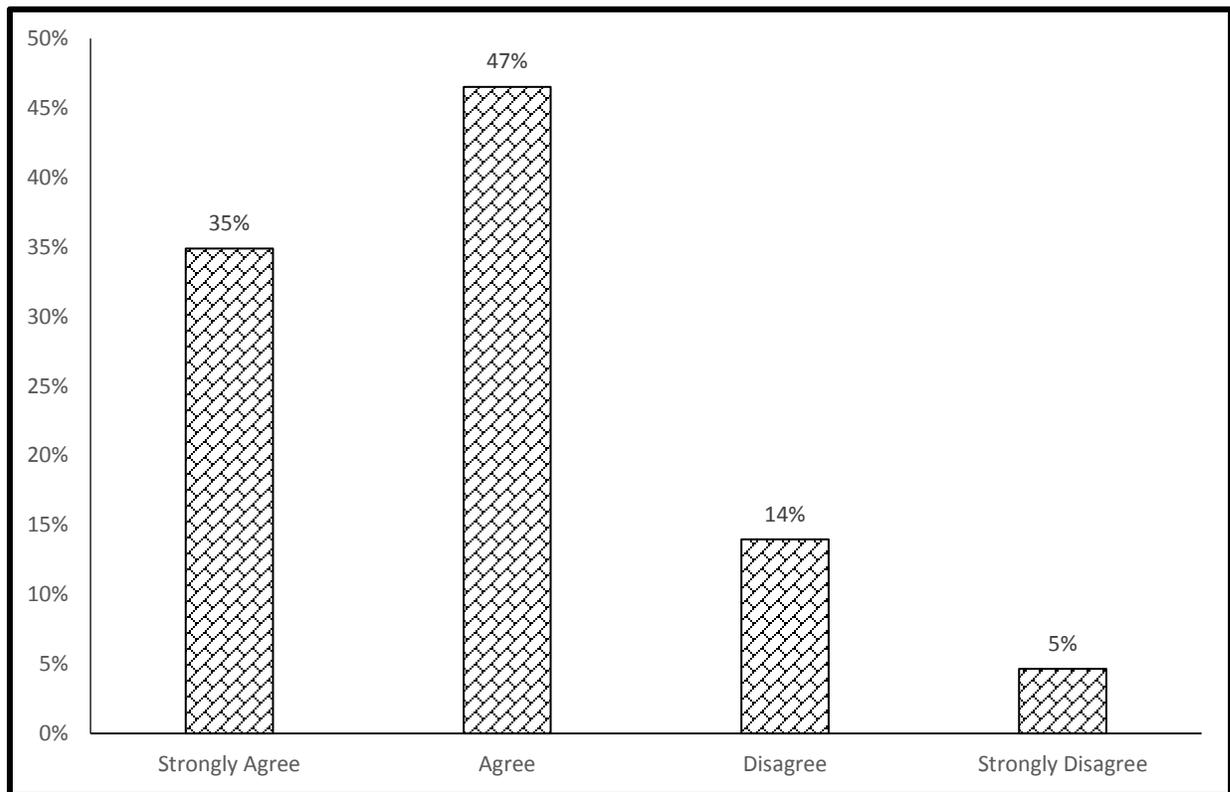


Figure 4.4: Interest Rate Caps and Operational Expenses

4.4 Interest Rate Caps and Customer Satisfaction

4.4.1 Interest Rates Caps and Financial Performance

Twenty five percent of the customers to this study believed that the introduction of interest rates caps affected the performance of commercial banks to a very large extent, 40% believed it affected the performance to a large extent, 26% average extent and 9% to a small extent. The findings show that the introduction of interest rates caps had a large extent effect on financial performance of commercial banks.

Table 4.5: Interest Rates and Financial Performance

	No. of Customers	Percentage
Very Large	25	25%
Large	40	40%
Average Extent	26	26%
Small Extent	9	9%
Total	100	100%

4.4.1. Interest Rates Caps and Customer Satisfaction

Respondents were asked the extent to which introduction of interest rates caps affected customer satisfaction levels. According to the study, 15% of the customers felt that it affected to a very large extent, 60% indicated to a large extent, 16% indicated to an average extent while 9% indicated to a small extent. This shows that interest rates caps have a significant effect on customer satisfaction levels.

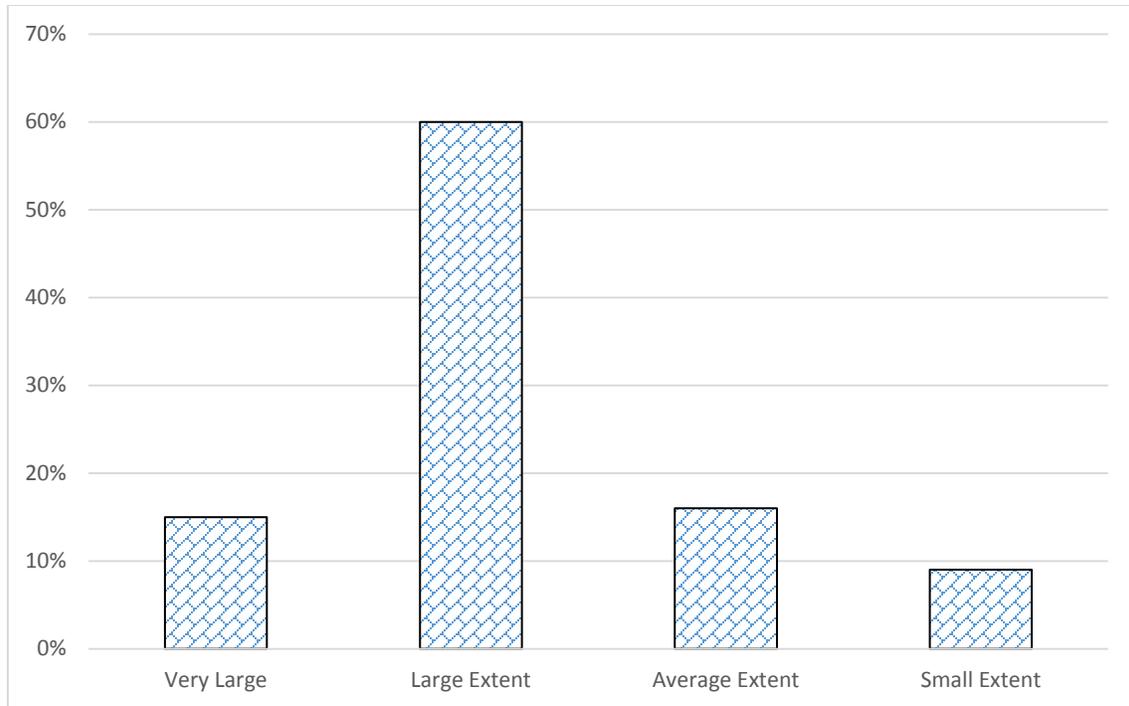


Figure 4.5: Interest Rates and Customer Satisfaction

4.4.2 Cost of Loans

Over seventy five percent of the customers of this study agreed that the introduction of interest rates caps had reduced the cost of loans for commercial banks. While 52% of the customers strongly agreed, 23% agreed. On the other hand 10% disagreed and 15% strongly disagreed. This shows that the introduction of cost of loans had reduced the cost of loans for customers.

Table 4.6: Reduced Cost of Loans

	Frequency	Percentage
Strongly Agree	52	52%
Agree	23	23%
Disagree	10	10%
Strongly Disagree	15	15%
Total	100	100%

4.4.3 Easy Access to Loans

Thirty two percent of the respondents to this study strongly agreed that the introduction of interest rates caps enhanced easy access to loans. According to 35% of the customers, they agreed that the introduction of interest rates caps had enhanced easy access to loans. 18% of the customers disagreed and 15% strongly disagreed as shown in the figure below.

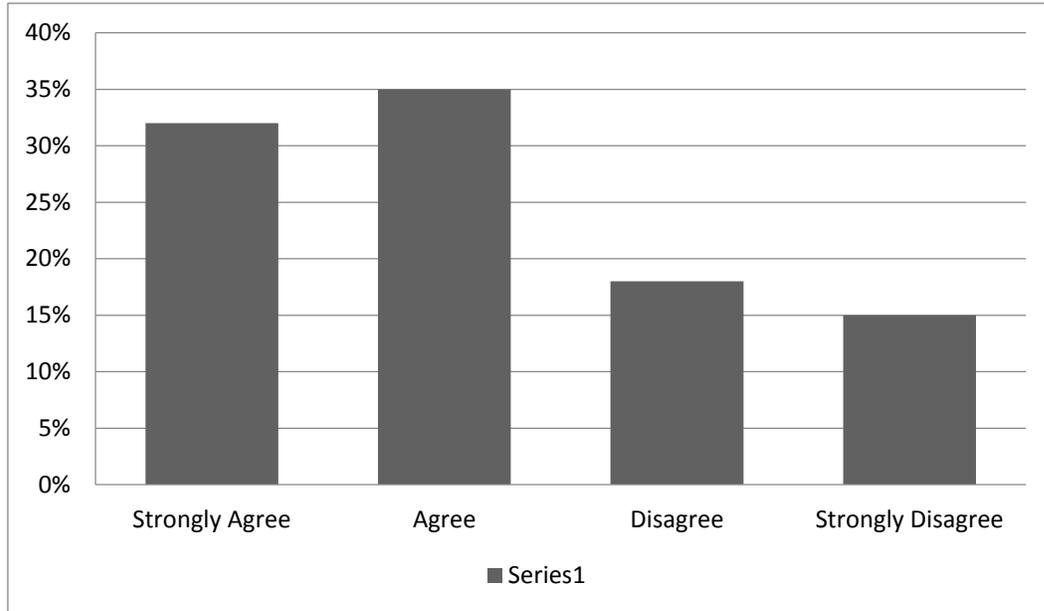


Figure 4.6: Easy Access to Loans

4.4.4 Higher Deposit Rates

Twenty five percent of the respondents to this study strongly agreed that the introduction of interest rates caps had enhanced higher interest earnings on their deposits. 45% of the customers agreed, 13% disagreed and 17% strongly disagreed. These findings imply that the introduction of interest rates caps had led to increased deposit interest rates for customers.

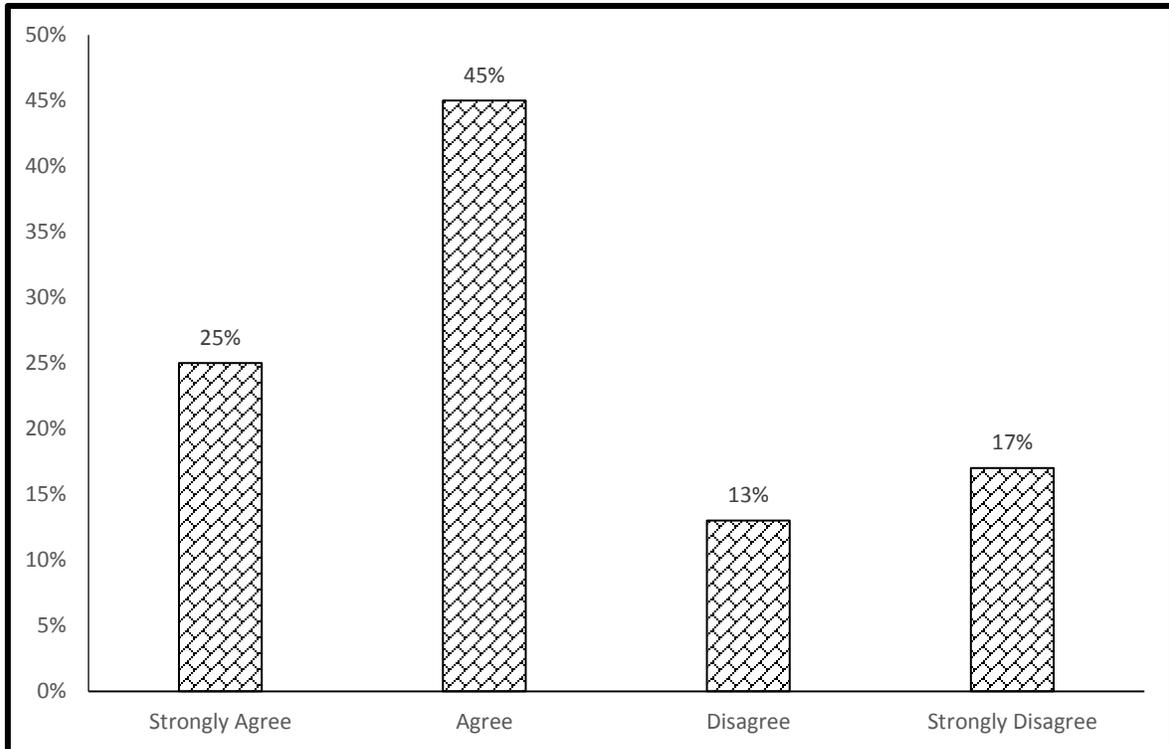


Figure 4.7: Increased Deposits Earnings

4.4.5 Higher Customer Service Levels

55% of the customers in this study strongly agreed that the introduction of interest rates caps had led to improved customer service levels for customers. In addition, 30% of the respondents agreed, 10% disagreed and 5% strongly disagreed. These findings imply that the introduction of interest rates caps had improved customer service levels in most banks included in this study.

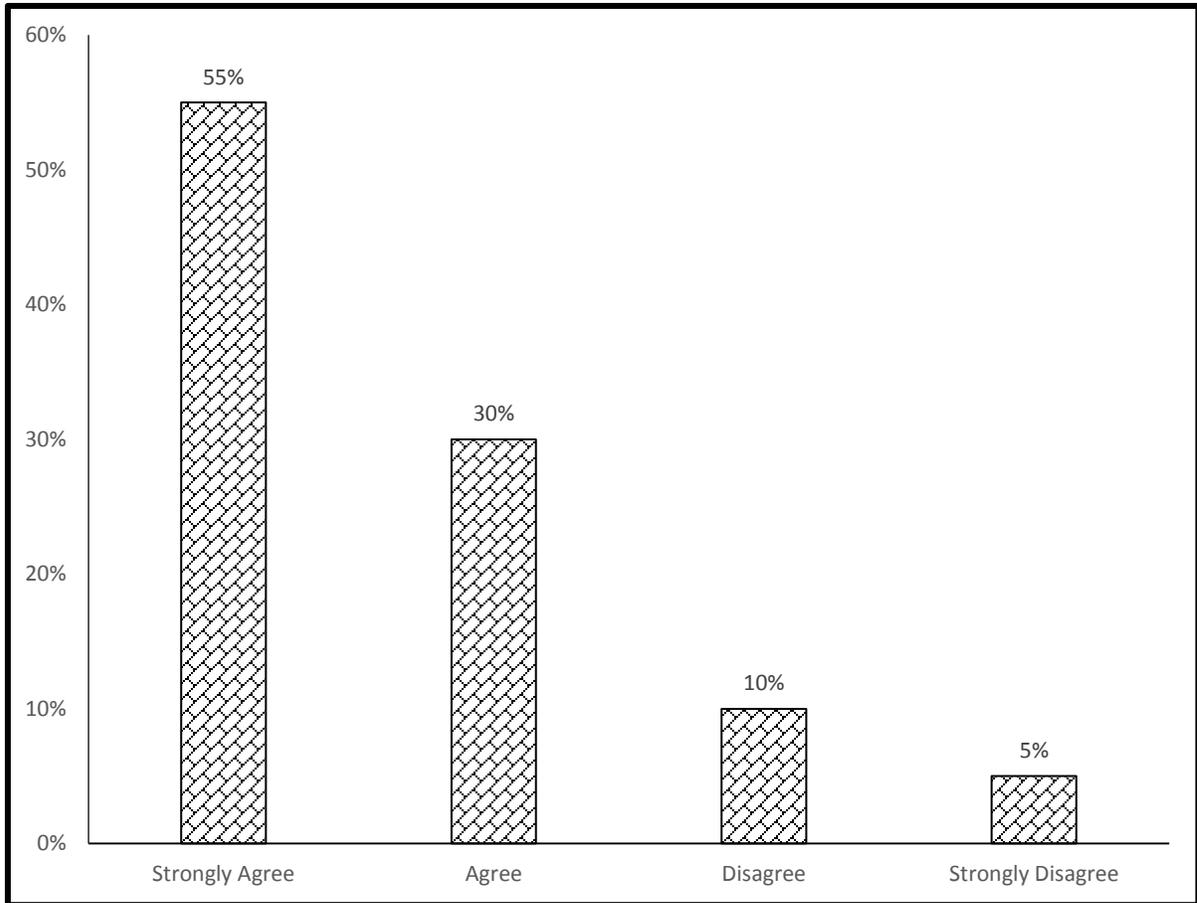


Figure 4.8: Improved Customer Service Levels

4.4.6 Satisfaction with customer experience

Forty five percent of the respondents to this study strongly agreed that they were satisfied with the Customer Service experienced in the various commercial banks after introduction of interest rates caps. In addition, 25% of the customers agreed, 15% disagreed and 15% strongly disagreed respectively. These findings show that majority of customers were satisfied with the Customer Experience within commercial banks in Kenya.

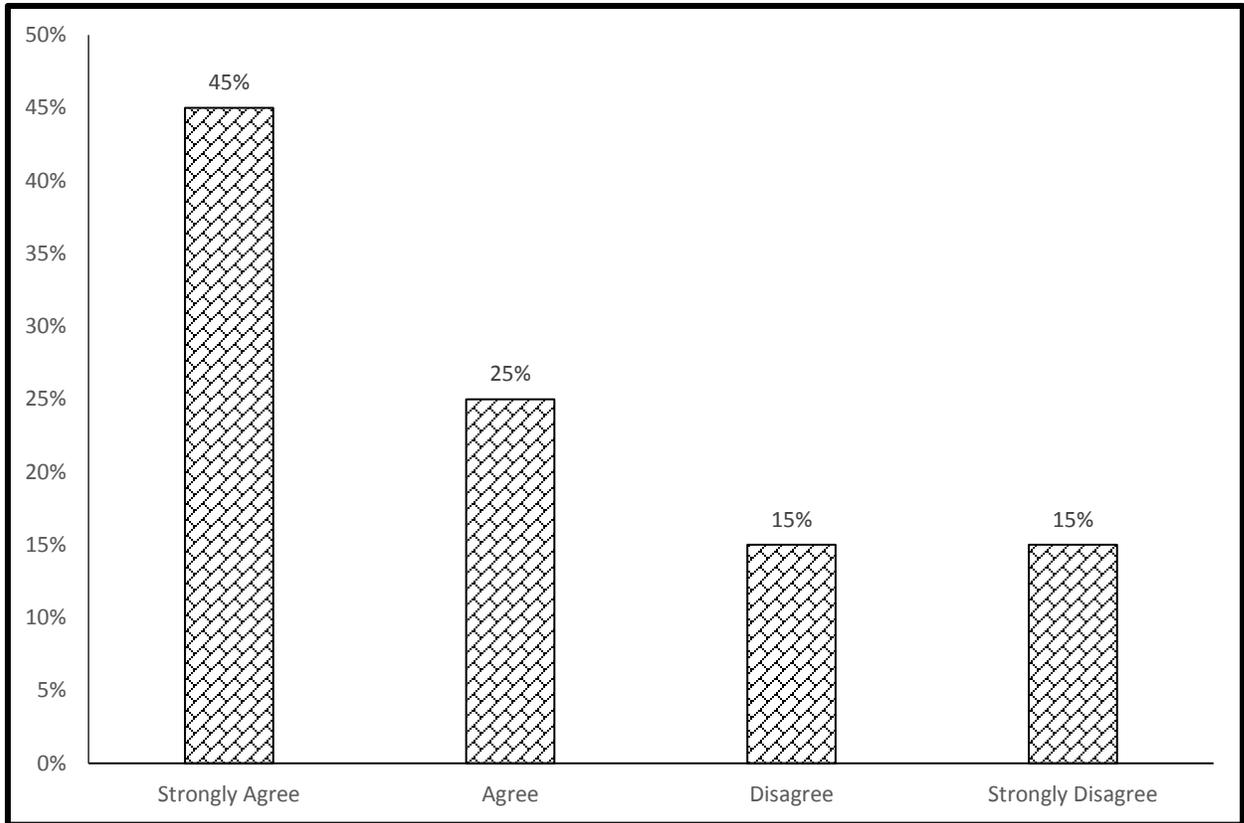


Figure 4.9: Satisfaction with Customer Experience

4.4.7 Brand Image

All the respondents in this study were satisfied with the brand image of commercial banks even after the introduction of interest rates caps. Forty five percent of the customers strongly agreed and 55% agreed respectively. These shows that most customers were satisfied with the brands of banks even after introduction of interest rates caps.

Table 4.7: Satisfaction with Brand Image

	No. of Customers	Percentage
Strongly Agree	45	45%
Agree	55	55%
Total	100	100%

4.4.8 New Products

Twenty percent of the customers in this study strongly agreed that the introduction of interest rates caps had led to the introduction of new credit products for customers. In addition, 65% of the customers agreed, 5% disagreed and 10% strongly disagreed. This shows that majority of the customers perceived that the introduction of interest rates led to product innovation by most commercial banks.

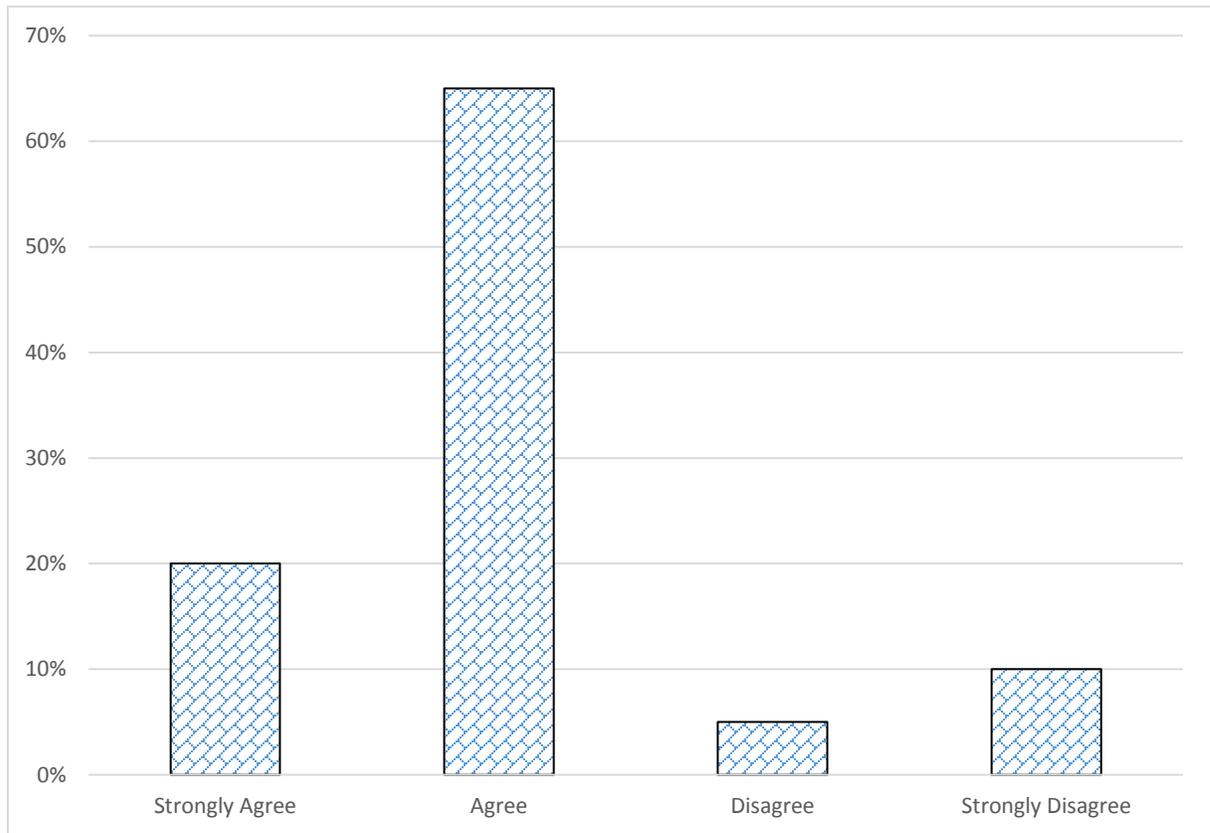


Figure 4.10: New Products

4.5 Interest Rate Caps and Employee Satisfaction

This section presents the findings of the study on the relationship between interest rate caps and employee satisfaction.

4.5.1 Extent of Bank Performance

Twenty six percent of the respondents indicated that interest rates caps affected the performance of commercial banks to a very large extent, 47% indicated to a large extent, 15% to an average extent and 12% to a small extent. The findings of the study indicate that the interest rates caps affected commercial banks performance from a small to a very large extent.

Table 4.8: Bank Performance

	Frequency	Percentage
Very Large	10	26%
Large	17	47%
Average Extent	5	15%
Small Extent	4	12%
Total	36	100

4.5.2 Employee Satisfaction

On the other hand, 53% of the respondents to this study indicated that the introduction of interest rates caps affected their satisfaction levels to a very large extent, 14% to a large extent, 22% to an average extent and 11% to a small extent.

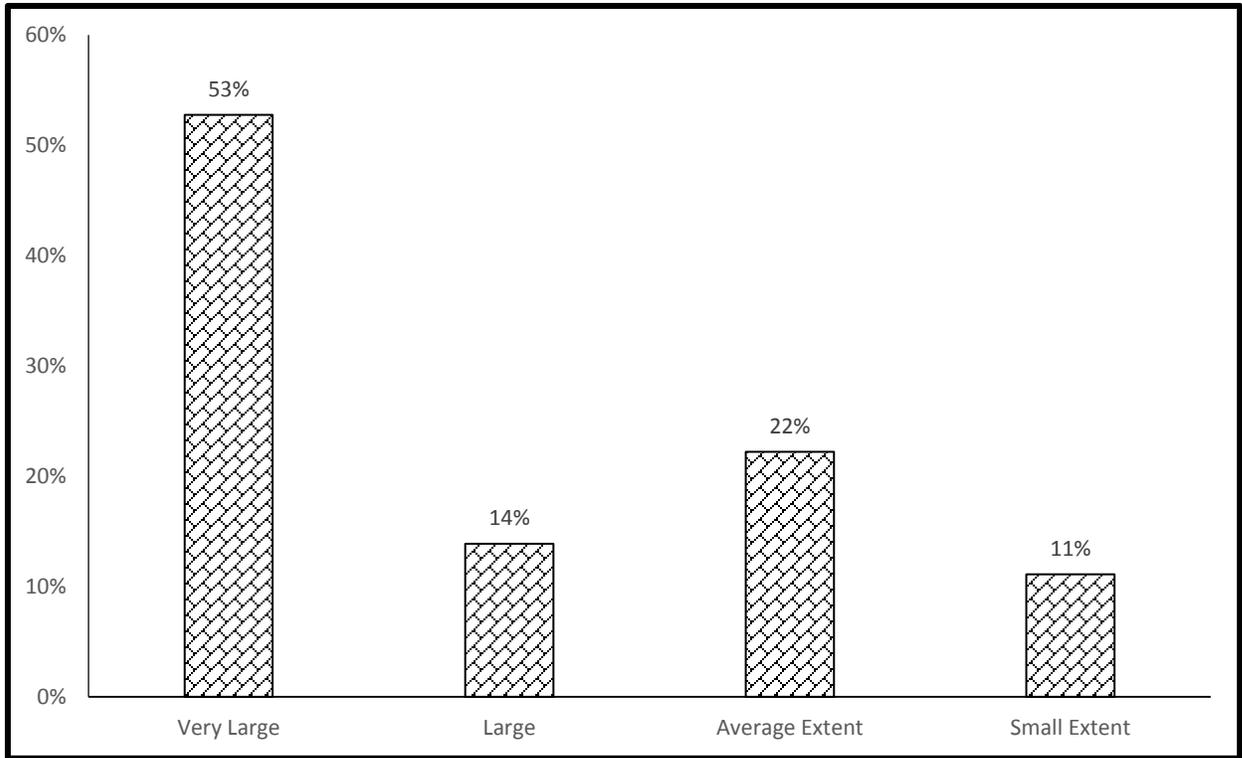


Figure 4.11: Employee Satisfaction

4.5.3 Employee Relations

Majority of the employees in commercial banks felt that the introduction of interest rates caps did not have any improvement on employee relations. According to the study, 15% of the respondents strongly agreed, 26% agreed, 38% disagreed and 21% strongly disagreed respectively.

Table 4.9: Employee Relations

	Frequency	Percent
Strongly Agree	5	15
Agree	9	26
Disagree	13	38
Strongly Disagree	7	21
Total	34	100

4.5.4 Bank Profitability

44% of the respondents to this study strongly agreed, 14% agreed, 28% disagreed and 14% strongly disagreed that in spite of the introduction of interest rates caps, the banks remain profitable which made the employees satisfied.

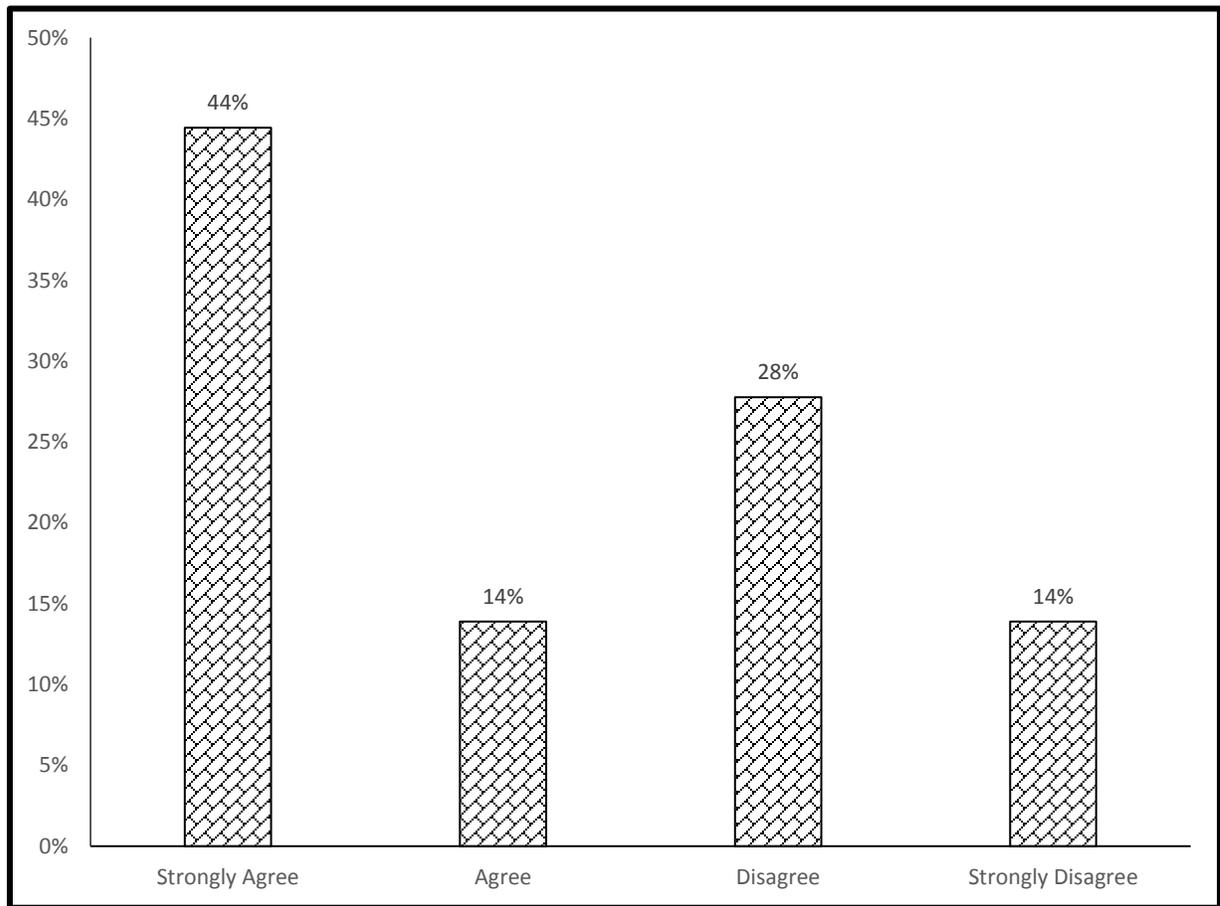


Figure 4.12: Bank Profitability

4.5.5 Increased Investments

Seventy two percent of the respondents in this study strongly agreed, 14% agreed and 14% disagreed that interest rates caps had led to increased investment in IT in the banks. These posed a threat to the employee's job security. The findings of the study imply that majority of the respondents felt that heavy IT investment by banks threatened their job security.

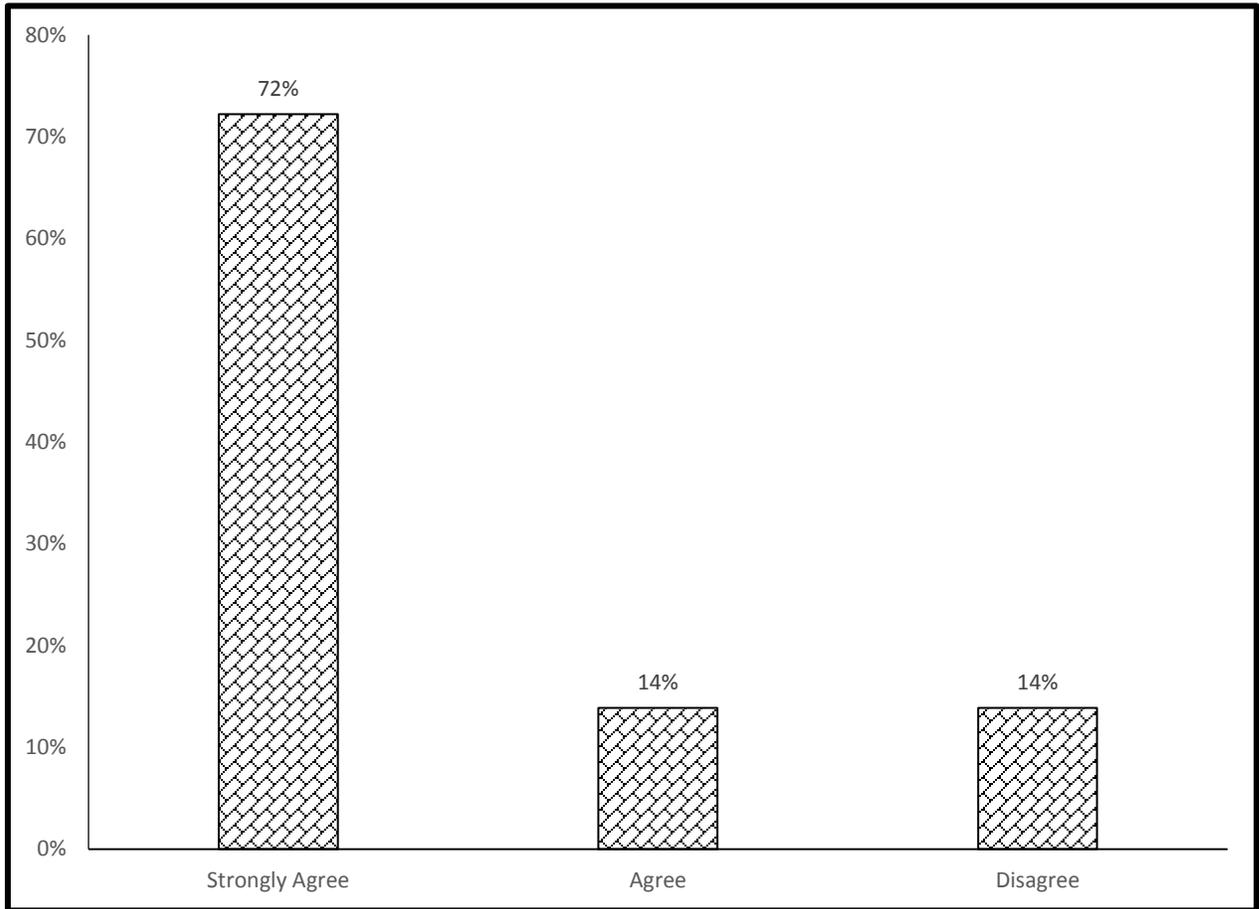


Figure 4.11: Increased IT Investment

4.5.6 Price Uncertainty

Four percent of the respondents to this study agreed, 48% disagreed and 48% strongly disagreed that interest rates caps led to product price uncertainty and thus making it hard to explain to the customers.

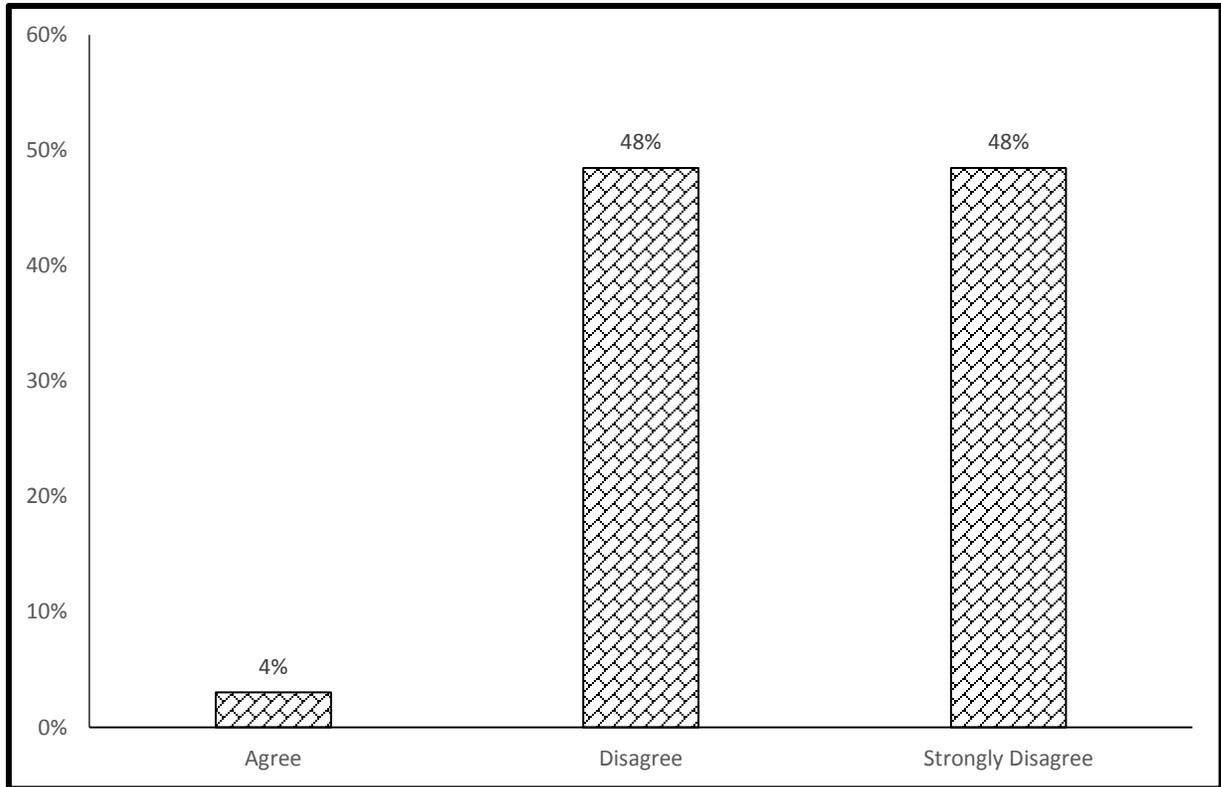


Figure 4.14: Price Uncertainty

4.5.7 Product Innovation

Twenty eight per cent of the respondents strongly agreed that the introduction of interest rates caps led to improved product innovation in commercial banks. 44% of the respondents agreed, 14% disagreed and 14% strongly disagreed respectively. These findings show that interest rates caps led to increased product innovation.

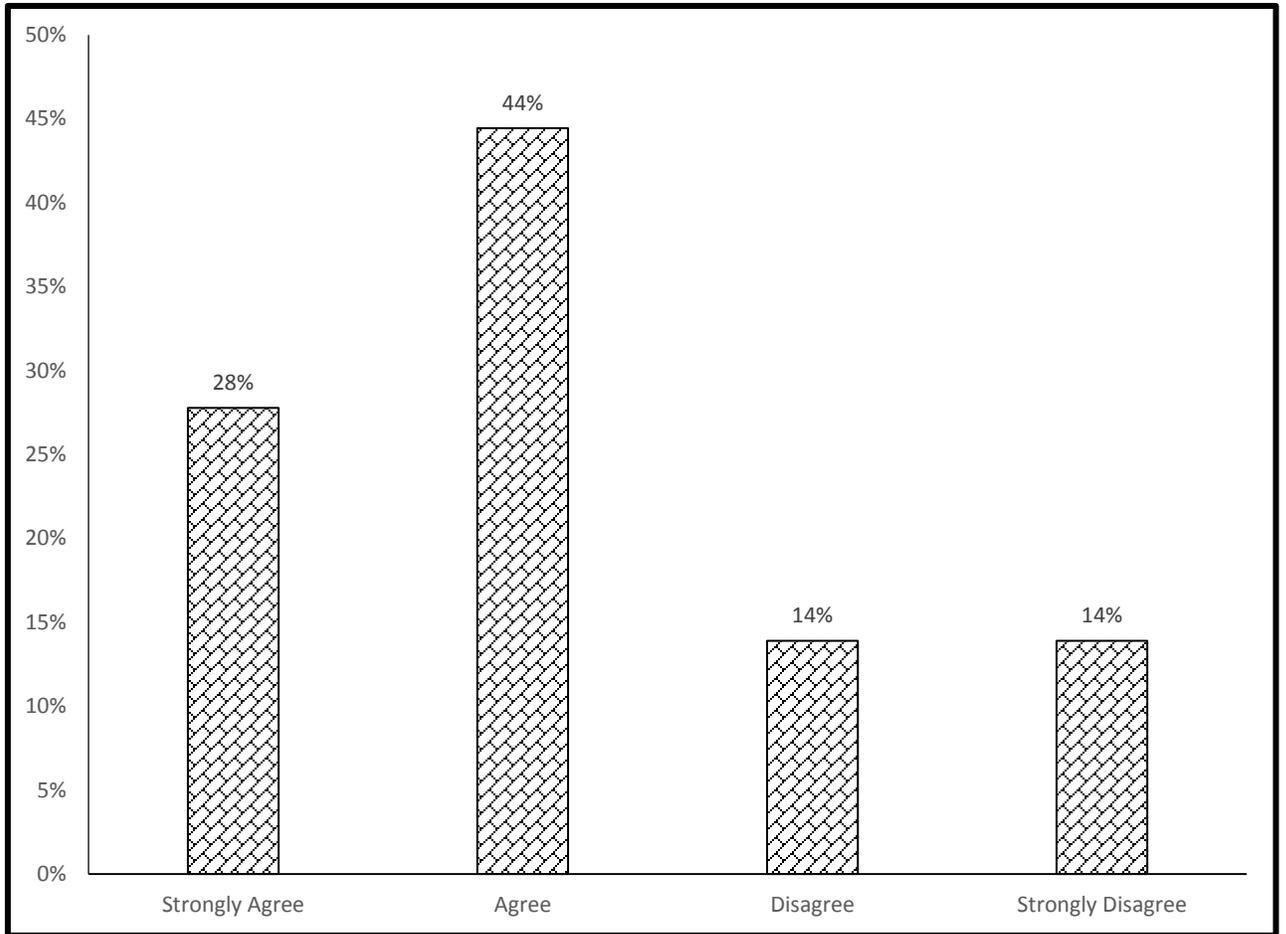


Figure 4.15: Product Innovation

4.5.8 Reduced Spending on Human Resources

This study sought to analyze the relationship between interest rates caps and investment in human resources. Majority of respondents agreed that the introduction of interest rates caps led to reduction in spending on employee recruitment and selection. 45% of the respondents strongly agreed, 36% agreed, 13% disagreed and 6% strongly disagreed.

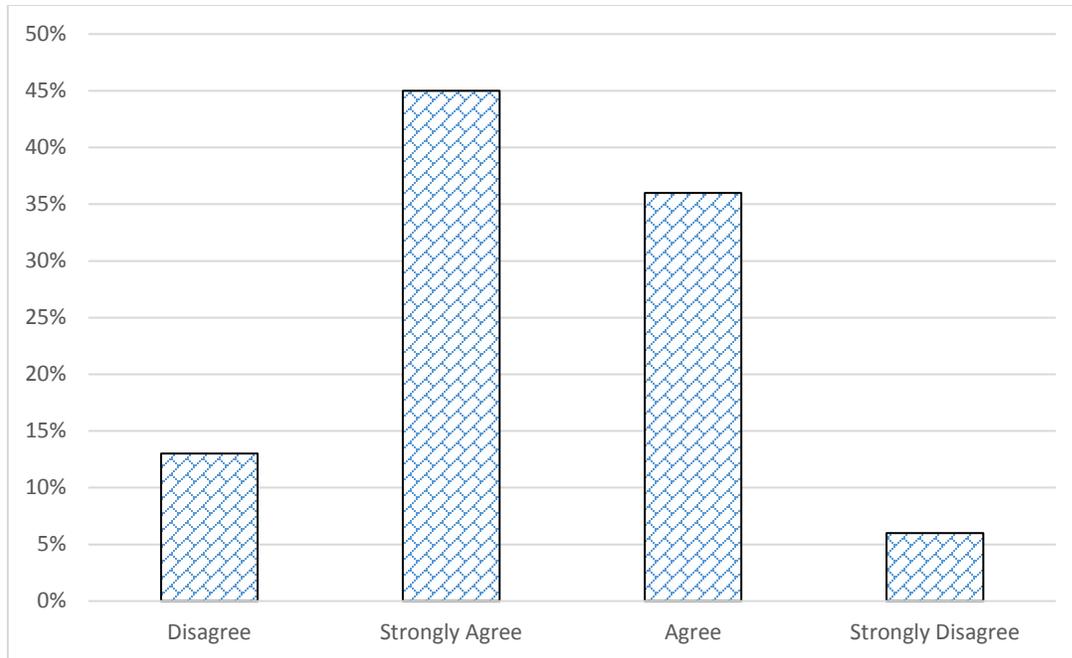


Figure 4.16: Spending on Recruitment and Selection

In addition the study sought to analyze if the introduction of interest rates caps had led to reduction in employee training, development in the bank. 17% strongly agreed, 8% agreed, 42% disagreed and 33% strongly disagreed respectively.

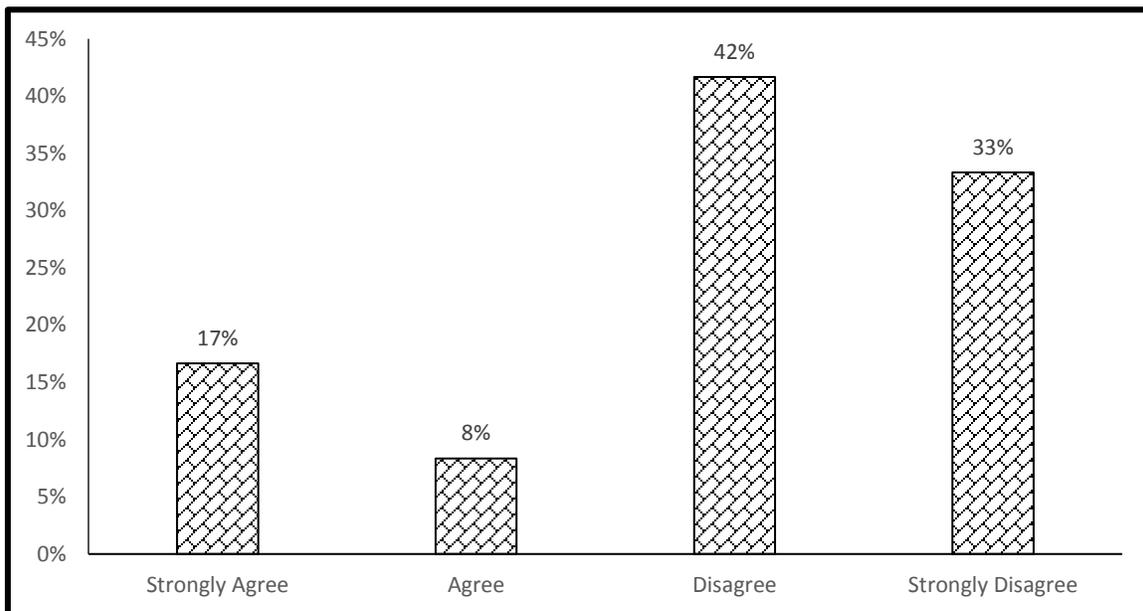


Figure 4.17: Expenditure on Employee Training and Development

4.6 Correlation Analysis

The correlation analysis table below shows the relationship between the variables. The study finds that there is a positive relationship between bank performances, customer satisfaction, and employee satisfaction though none of the relationships is significant at 0.05 significance levels during the pre capping period. The employee satisfaction and customer satisfaction were low at -.090 and -.202 respectively yet the bank performance was good. During the in capping period (when interest capping was introduced) The correlation between the three variables was positive and during the post capping period, the bank performance was positive at .344 while for customer satisfaction was at -.232 and employee satisfaction was at -.126. Nevertheless none of these relationships was significant.

Table 4.10: Correlation Analysis

		Correlations- pre capping			
		Pre capping	customer satisfaction	bank performance	Employee satisfaction
precapping	Pearson Correlation	1	-.202	.280	-.090
	Sig. (2-tailed)		.345	.185	.675
	N	24	24	24	24
customer satisfaction	Pearson Correlation	-.202	1	.123	.223
	Sig. (2-tailed)	.345		.474	.192
	N	24	36	36	36
bank performance	Pearson Correlation	.280	.123	1	.194
	Sig. (2-tailed)	.185	.474		.257
	N	24	36	36	36
Employee satisfaction	Pearson Correlation	-.090	.223	.194	1
	Sig. (2-tailed)	.675	.192	.257	
	N	24	36	36	36

Correlations - Incapp

		incapp	customer satisfaction	bank performance	Employee satisfaction
incapp	Pearson	1	.096	.312	.313
	Correlation				
	Sig. (2-tailed)		.634	.113	.111
	N	27	27	27	27
customer satisfac	Pearson	.096	1	.123	.223
	Correlation				
	Sig. (2-tailed)	.634		.474	.192
	N	27	36	36	36
bank perform	Pearson	.312	.123	1	.194
	Correlation				
	Sig. (2-tailed)	.113	.474		.257
	N	27	36	36	36
Employee satis	Pearson	.313	.223	.194	1
	Correlation				
	Sig. (2-tailed)	.111	.192	.257	
	N	27	36	36	36

Correlations Post capp

		postcapp	customer satisfaction	bank performance	Employee satisfaction
postcapp	Pearson Correlation	1	-.232	.344	-.126
	Sig. (2-tailed)		.243	.079	.532
	N	27	27	27	27
customer satisfac	Pearson Correlation	-.232	1	.123	.223
	Sig. (2-tailed)	.243		.474	.192
	N	27	36	36	36
bank perform	Pearson Correlation	.344	.123	1	.194
	Sig. (2-tailed)	.079	.474		.257
	N	27	36	36	36
employeesatis	Pearson Correlation	-.126	.223	.194	1
	Sig. (2-tailed)	.532	.192	.257	
	N	27	36	36	36

4.7Chapter Summary

Majority of the commercial banks were affected by the capping of the interest rates and sought unique ways to counter the changes in order to remain competitive. Innovative products were introduced with a view of diversification and introduce new revenue streams. Expenditure in the various activities like recruitment and training were drastically reduced to minimize costs. Improvement in service delivery was also deliberately introduced in order to attract and retain the existing clientele. Most of the customers were satisfied because they were able to access an array of products that suited different needs as a result of product innovation. They were also able to access cheaper loans and earn higher returns on their investments on deposits through savings accounts. The employees had mixed reactions since most of them felt that expenses towards training and development had reduced. Chapter five below presents the discussion of findings, conclusions and recommendations of the study.

CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of the findings, the summary of findings, major conclusions and recommendations of the study. The chapter presents the recommendations for improvement and further studies.

5.2 Summary

This study sought to investigate the effect of interest rates caps on the performance of commercial banks. The specific objectives of the study were to investigate the effect of interest rate caps on financial performance of commercial banks, analyze the effect of interest rates caps on customers and employee's satisfaction. The study was conducted with Nairobi County.

The study adopted a descriptive research design using a population of 43 drawn from the commercial banks regulated and operating in Kenya. A census study was conducted drawing one respondent from each of banks for employees and 3 customers. Data was collected using questionnaires for primary data and data collection sheets for secondary data. Collected data was analyzed for descriptive and inferential statistics.

The study found that the introduction of interest rates led to a reduction in the interest income of commercial banks, interest rate margins and total loans of commercial banks. This effectively led to higher liquidity levels and operational costs for commercial banks.

Secondly, the study found that interest rates caps affected customer satisfaction to a large and very large extent. Customers perceived that there was a reduction on the cost or loans. However, accessing these loans was not easy. Nevertheless, the customers were satisfied with the financial performance of commercial banks as well as the brand image.

Thirdly, this study found that interest rates caps affected employee satisfaction to a large extent. This was mainly influenced by increased automation of processes by commercial banks as well as reduced earnings which put the job security of employees at risk. Furthermore, there was decreased expenditure on employee recruitment and selection.

5.3 Discussion

5.3.1 Interest Rate Caps and Financial Performance

The relationship between interest rates and financial performance has long been analyzed and presented by various scholars through theoretical models as well as empirical findings. Despite apparent differences on the magnitude of effect of interest rates on financial performance, there exists consensus that interest rates have a positive correlation to the levels of financial performance especially for institutions whose main income is interest income such as commercial banks.

According to Priti (2016), in the traditional banking set up, retail banks often relied on the interest rates, deposit and loan relationship to maximize their revenues and consequently profits. The findings of this study are synonymous with those of Priti (2016). In this study, caps to interest rates changed led to a reduction in the interest income as well as net profitability of commercial banks. Consequently, the findings concur since interest income is the primarily source of revenue for banks.

These findings are supported by the findings of Zaman *et al.*, (2013) in a study using Commercial Banks in Pakistan to analyze the effect of interest rates on profitability found that interest rates had a strong positive correlation to profitability of commercial banks. Consequently, the study found that interest rates had a strong influence on the profit margins and levels of commercial banks in Pakistan.

The study found that the introduction of interest rates led to a reduction in the interest income of commercial banks, interest rate margins and total loans of commercial banks. This effectively led to higher liquidity levels and operational costs for commercial banks. This findings concur with those of Samad (2004) utilized data from commercial banks

performance between the years 1994 – 2001 in to analyze the effect of interest, liquidity and profitability in the commercial banks. Through the use of T-tests the study found that interest rates caps often led to higher levels of liquidity in commercial banks. Nonetheless, the higher levels of liquidity did not signal higher levels of profitability since commercial banks were reluctant to lend in the market and thus unable to generate income in the form of interest rates.

Similarly, Mang'eli (2012) analyzes the relationship between interest rate spreads and financial performance of commercial banks. The study using descriptive research design found that the interest rate spread has an effect on the financial performance of commercial banks as measured by the return on assets and profitability. The interest rate spread affects the performance of commercial banks as it increases the interest rates on loans. In summary the study found that regulations on interest rates had a high influence on the performance of commercial banks since the interest rate spread was a key instrument to mitigate moral hazard and adverse selection in the banking sector (Mang'eli, 2012).

The findings of this study validate the calls by the Kenya Bankers Association and Commercial Banks executives for a review of the interest rates caps. Based on the propositions of the KBA and Commercial banks, interest rates caps are detrimental to the financial performance of commercial banks as well as the availability of commercial banks loans to individuals in the economy. In fact, the findings of this study validate these propositions as the interest rates caps have led to reduced lending by commercial banks leading to higher levels of liquidity in the commercial banks. Low levels of lending ultimately lead to lower financial performance and earnings for commercial banks.

5.3.2 Interest Rate Caps and Customer Satisfaction

How bank performance can be used to enhance customer satisfaction is purely an internal management issue that can be classified into two. According to Williams, Molyneux and Thornton (1994) internal determinants of customer satisfaction include factors such as bank

management policies on the prices, management of expenses and funds use. The study found that interest rates caps affected customer satisfaction to a large and very large extent. Customers perceived that there was a reduction on the cost of loans. However, accessing these loans was not easy. Nevertheless, the customers were satisfied with the financial performance of commercial banks as well as the brand image.

This study further found that the customers of commercial banks were satisfied with the performance of the commercial banks even after the introduction of interest rates caps. Furthermore, the customers were proud to be associated with the brands of commercial banks since most of the banks were profitable even after the introduction of interest rate caps. These findings concur with those of Molina *et al.*, (2007) who found that Customers like to be associated with successful brands. Consequently, for commercial banks facing interest rate fluctuation challenges, the management's actions to maintain superior performance, engage in corporate social responsibility activities and generate healthy returns for shareholders often lead to higher levels of satisfaction amongst customers.

Furthermore, customer satisfaction was enhanced by increased earnings on deposits. Molina *et al.*, (2007) supports these findings in their study which found that the ability of the bank to pay interest earnings in time to savers and lend to borrowers in affordable interest rates has had a high impact on customer satisfaction. In further support of the findings of this study, interest rates caps lend to improved customer service levels by commercial banks since price became a non-issue in gaining a competitive advantage. Consequently, customer service became one of the key drivers of customer retention and attraction after the introduction of interest rates caps. According to Molina *et al.*, (2007) in a study on customer satisfaction using banks in Spain, Trust and customer service were key influencers of customer satisfaction. Financial considerations such as interest earnings and interest payments were also considered to high influential on the relationship between bank performance and customer satisfaction.

According to Ojuna (2005) in a high competitive banking environment coupled with thin interest rate spreads, the ability of banks to provide banking services in an economical,

efficient and effective platform is key to customer satisfaction. Ojuna (2005) identifies the use of E-Commerce and e banking as instrument in enhancing customer satisfaction in an era where interest rates margins are thin and differences in interest rates amongst various commercial banks are very low. This is similar to the findings of this study which found that the introduction of interest rates caps had led to improved customer service levels for commercial banks.

Based on the findings above, there exists grounded evidence in the Kenyan market where commercial banks are increasingly adopting digital banking platforms as a strategy to enhance customer satisfaction and increase revenue generation as well as enhance cost efficiency in the banking sector. This has led to customer satisfaction as technology allows for convenience and efficiency in accessing banking products and services. Furthermore, since the introduction of interest rates caps in Kenya over 5 banks have shifted their banking model from brick and mortar led to technology driven service delivery.

5.3.3 Interest Rate Caps and Employee Satisfaction

Movements in interest rates have led to effects on the levels of employee satisfaction to a large extent. This study found that the interest rates caps have had a large effect on the satisfaction of employees especially due to concerns on job security and performance. Similar to the findings of this study Judge *et al.*, (2001) and Janz and Prasarnphanich (2003) found that there is a nexus between, employee satisfaction (measured by positive responses and emotions from job experiences), and job performance.

This study found that interest rates caps affected employee satisfaction to a large extent. This was mainly influenced by increased automation of processes by commercial banks as well as reduced earnings which put the job security of employees at risk.

In addition, interest rates caps affected employee satisfaction since there was decreased expenditure on employee recruitment and selection. Furthermore, the employees felt that their job security was under threat due to concerns of increased automation in the banks

which could lead to job losses. Furthermore, these fears were aroused by the reduction in employee recruitment and selection costs.

Ahluwalia (2015) in the study employee satisfaction and firm performance using unique data set from self-administered employee survey for 1495 companies in the United States of America and found that the level of financial performance of the companies had a strong positive correlation with the levels of employee satisfaction. According to the study based on listed companies, employees perceived it to be a privilege and an honor to work for highly profitable companies in the United States of America. Employees working in profitable companies were more satisfied than employees working in loss making corporations. Furthermore, employees in profitable firms were more likely to be loyal to the company and thus retained than those in non-profitable firms who were actually more likely to seek for jobs in profitable companies.

One of the main reasons fronted for this relationship is the fact that employees perceived their jobs to be secure in companies that were profitable than in those that were not profitable. Employees sought to seek job security in the long run and profitable firms provided this need to the satisfaction of employees (Latif *et al.*, 2015). This resonates with the findings of this study.

In comparison, Tierman (2008) finds that employee satisfaction is often driven by the ability of the firm to provide resources and finances to ensure that employee relations, training and development, career growth and progression as well as remuneration and rewards suit the employee's needs and wants are met. In a highly regulated interest rate environment, commercial banks are limited by the interest income they can generate. Interest income is the single largest income for any commercial bank. With limited income, the commercial banks may fail to provide the requisite resources for human resource management functions which lead to levels of employee satisfaction.

5.4 Conclusions

5.4.1 Interest Rate Caps and Financial Performance

This study concludes that interest rates caps have led to reduced financial performance of commercial banks. The net interest income as well as the net profit margin have reduced as a result of interest rate caps. This could have been occasioned by lower levels of lending by commercial banks. Lower lending resulted into higher levels of liquidity.

5.4.2 Interest Rate Caps and Customer Satisfaction

Customers are indifferent on the satisfaction levels due to introduction of interest rates caps. This study concludes that customers are satisfied with the customer service levels offered by commercial banks as well as pricing of loans leading to increased satisfaction with the brand image and financial performance of the banks. Nevertheless, customers find it hard to access loans.

5.4.3 Interest Rate Caps and Employee Satisfaction

Employees are generally satisfied in their places of work. This is mainly driven by the fact that commercial banks remain profitable even after the introduction of interest rates cap. On the other hand, employees are concerned by the high level of automation and investment in IT by commercial banks after the introduction of caps coupled with the reduced expenditure on employee recruitment and selection. Employees are concerned about their job security.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Interest Rate Caps and Financial Performance

This study recommends that commercial banks embrace innovation and creativity to enhance revenues for commercial banks. While interest rates caps represent limitations on revenue gained and excess liquidity, commercial banks must embrace the provision of unique

banking and financial products to enhance their revenues and earnings. This includes the use of collateralized products such as invoice factoring, LPO financing and secured loans. Furthermore, commercial banks must diversify their revenue basis to ensure that interest rates caps do not lead to losses in commercial banks.

5.5.1.2 Interest Rate Caps and Customer Satisfaction

Customers are generally satisfied with the services and products of commercial banks even after introduction of interest rates caps. This study recommends that commercial banks address key issues on access to finance by customers by embracing innovative products like mobile credit and use of credit scoring to reduce the requirements and barriers towards access to finance.

5.5.1.3 Interest Rate Caps and Employee Satisfaction

Key concerns by employees after the introduction of interest rates caps are their job security. It is therefore imperative for commercial banks to assure its employees that increased investment in IT and reduced expenditure on recruitment and selection does not lead to loss of jobs by employees. Furthermore, there is need for employee preparation in case employee retrenchment is necessary.

5.5.2 Recommendations for Further Studies

This study recommends that further studies be undertake to explore the effect of interest rates caps on the economy. This study has identified lower output in the banking sector, and reduced lending by banks; this could have negative consequences on the overall economic output of the economy. This relationship should be analyzed. Secondly, it is important for research to explore the coping strategies adopted by commercial banks after the introduction of interest rates caps. This study could borrow from other economies where interest rates caps are present to advice local banks on some of the strategies they can use to enhance their performance despite interest rate caps.

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APPENDICES

APPENDIX I: DATA COLLECTION SHEET

Name of the Bank:

Financial Performance Metric	2014	2015	2016
Net Profit			
Interest Income			
Non-Performing Loans			
Operational Costs			
Interest on Total Deposits			
Total Deposits			
Total Loans			
Liquidity Ratio			

APPENDIX II: CUSTOMERS QUESTIONNAIRE

This questionnaire is designed to collect data on the effect of interest rates caps on customers. Data collected will be treated with the utmost confidentiality and privacy. Please do not include any personal information in the questionnaire.

Section A: Demographic Information

1. Which bank do you bank with:.....

2. How long have you been banking with the bank?

1. 0 – 3 Years { } 2. 4 – 6 Years { }

3. Above 6 Years { }

3. What is your age group

1. 18 – 35 years { } 2. 36 – 50 years { }

3. Above 55 years { }

4. To what extent do you think the interest rates caps have affected the performance of commercial banks?

1. Very large Extent { } 2. Large Extent { } 3. Average Extent { }

4. Small Extent { } 5. Very Small Extent { } 6. No Extent { }

5. To what extent has interest caps have affected your satisfaction with banking products and services

1. Very large Extent { } 2. Large Extent { } 3. Average Extent { }

4. Small Extent { } 5. Very Small Extent { } 6. No Extent { }

6. What is your level of satisfaction with customer service at the banks after the introduction of interest rates caps (On a scale of 1 – 6 with 6 being the highest)

Section B: Interest Rates Caps and Customers

Please rate the following statements on your level of agreement or disagreement

	1.	2.	3.	4.	5.	6.	Not
	Strongly	Agree	Neutral	Disagree	Strongly	Applicable	
	Agree				Disagree		
7. The introduction of interest rates caps has reduced the cost of loans							
8. Since the introduction of interest rates caps I can easily access loans from banks							
9. Since the introduction of interest rates caps I get a higher interest earning on my deposits in the bank							
10. I am more satisfied with the customer service levels at the bank after the introduction of interest rate caps							
11. I am satisfied with the financial performance of my bank even after the introduction of interest rates caps							
12. I am satisfied with the brand image of the bank even after the introduction of interest rate caps							
13. Introduction of interest rates caps has enhanced innovation in							

the banks which makes me a satisfied customer

14. Introduction of interest rates caps has increased competition for customers by banks

15. The bank has introduced to me new savings products after the introduction of interest rates caps

16. The bank has introduced to me new credit products after the introduction of interest rate caps

APPENDIX III: EMPLOYEES QUESTIONNAIRE

This questionnaire is designed to collect data on the effect of interest rates caps on employees. Data collected will be treated with the utmost confidentiality and privacy. Please do not include any personal information in the questionnaire.

Section A: Demographic Information

1. Which bank do you bank with:.....

2. How long have you been working with the bank?

1. 0 – 3 Years { } 2. 4 – 6 Years { }

3. Above 6 Years { }

3. What is your age group

1. 18 – 35 years { } 2. 36 – 50 years { }

3. Above 55 years { }
4. To what extent do you think the interest rates caps have affected the performance of commercial banks?
1. Very large Extent { } 2. Large Extent { } 3. Average Extent { }
4. Small Extent { } 5. Very Small Extent { } 6. No Extent { }
5. Please brief explain your answer in question 4 above?
6. To what extent has interest caps have affected your satisfaction for working in the bank
1. Very large Extent { } 2. Large Extent { } 3. Average Extent { }
4. Small Extent { } 5. Very Small Extent { } 6. No Extent { }
7. What is your level of satisfaction as an employee at the banks after the introduction of interest rates caps (On a scale of 1 – 6 with 6 being the highest)

Section B: Interest Rates Caps and Bank Performance

Please rate the following statements on your level of agreement or disagreement

	1.	2.	3.	4.	5.	6.	Not
	Strongly	Agree	Neutral	Disagree	Strongly	Applicable	
	Agree				Disagree		
8. The introduction of interest rates caps has increased the demand loans and thus better financial performance							
9. Introduction of interest rates caps has led the bank disbursing more loans increased the financial performance							
10. The introduction of interest rates caps has led to the bank directing their resources in other income generating assets other than loans							
11. Introduction of interest rates caps has led to increased interest income for the bank							
12. Introduction of interest rates caps has increased the interest expenses of the banks							
13. Introduction of interest rates caps has led to new customers thus higher levels of performance							
14. Interest rates caps has reduced loan defaults and thus lower							

expenses

- 15. Interest rates caps has a negative effect on the valuation of the bank
- 16. Interest rates caps have reduced the liquidity risk in the bank
- 17. Interest rates caps have increased the interest rate risks for the bank
- 18. Interest rates caps have increased the credit risk of the bank

Section C: Interest Rates Caps and Employee Satisfaction

Please rate the following statements on your level of agreement or disagreement

	1.	2.	3.	4.	5.	6.	Not
	Strongly	Agree	Neutral	Disagree	Strongly	Applicable	
	Agree				Disagree		
19. Interest rates caps have led to improved employee relations in the bank thus I am more satisfied							
20. in spite of interest rates caps, the bank remains profitable which makes me a satisfied employee							
21. interest rate caps have led to increased investment in IT in the							

banks which threatens my job security

22. Interest rates caps makes product prices uncertain and thus hard to explain to customers

23. Interest rates caps have led to improved product innovation in the bank which makes me a motivated employee.

24. Interest rates caps have led to a reduction in the resources deployed for employee training and development in the bank

25. Interest rates caps have led to reduced spending on employee remuneration at the bank

26. Interest rates caps have led to reduced spending of employee recruitment and selection

27. Interest rates caps have led to changes in the banks products and services

28. Interest rates caps have increased automation in the bank which enhances my job satisfaction

