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**THE EFFECT OF SOCIAL, CULTURAL AND ECONOMIC CAPITAL ON FINANCIAL
PERFORMANCE OF KENYAN COMMERCIAL BANKS**

SOLOMON MWIHUNGI WACHIRA

**Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Commerce,
at Strathmore University**

JUNE, 2019

DECLARATION

I declare that this thesis is my original work and has not been presented to any other university for a ward of a degree. Any work done by other people has been duly acknowledged. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person. It has been examined by a board of Examiners of the Strathmore University

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SOLOMON MWIHUNGI WACHIRA

.....

18th JUNE 2019

APPROVAL

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ABSTRACT

The importance of banks in any economy cannot be underestimated as they act as the intermediaries between lenders and borrowers to ensure cash flows within the economy. It is therefore important for bank regulators worldwide to ensure that bank financial performance is positive so as to avoid bank runs that may cause systemic bank failures that may in turn lead to recessions or depressions. The Basel Accords were introduced in the early 1980s to ensure positive bank condition that would in turn translate to positive financial performance. However, even with the revision in 1991 and later in 1999 for Basel II, there have still been bank failures. The most recent widespread failures led to the global recession of 2008 which was occasioned by failures of banks that were classified as financially sound and whose financial performance was stable, for example, Lehmann Brothers in the United States of America. In response to the failure of “sound” banks, the Basel Committee revised their capital requirements in an attempt to ensure better risk regulation in banks. However, this measure only focused on financial capital while bank failures have been attributed to other factors other than the financial capital, for example, moral hazard by managers which leads to losses or poor governance which leads to huge non-performing loans. This observation from previous literature influenced this study through the introduction of social capital and cultural capital, which when combined with financial capital, form the Bourdieusian Theory. This theory explains that these three forms of capital influence organizations’ performance significantly and the relationship has been shown by previous studies. This study tested if social capital, cultural capital and financial capital have an effect on the financial performance of Kenyan commercial banks. This is done by using quantitative proxies identified by previous researchers and qualitative measures from the Integrated Reporting (IR) Framework, introduced by the International Integrated Reporting Council (IIRC). The quantitative proxies were used in the model to show the effect, if any, that social, cultural and financial capital had on financial performance. The framework introduced more dimensions of capital that influence companies namely; manufactured, intellectual, human, natural, and social and relationship in addition to the traditional financial capital. The paper established proxies to be used in the model for social, cultural and financial capital to compare to the financial performance. Qualitative measures were established to measure bank management’s perceptions on the importance of social and cultural capital. Data was collected from Kenyan banks that were in operation in 2016 and analyzed. The quantitative data collected showed that there existed a relationship between the three forms of capital, social, cultural and economic and the model used was significant. The perception of managers, measured using data collected using a questionnaire was also presented. It was found that most responses were moderate thus supporting the quantitative findings that social and cultural capital have an effect on bank performance and therefore regulators may consider incorporating them as measures affecting bank performance. The findings will build the pool of knowledge on Bourdieusian theory and its effect on the financial performance of banks in Kenya.

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ABBREVIATIONS

BIS	Bank for International Settlement
BSD	Bank Supervision Department
CAMELS	Capital Adequacy, Asset Quality, Management, Liquidity, Sensitivity to market risk
CBK	Central Bank of Kenya
ECB	European Central Bank
FSIs	Financial Soundness Indicators
GDP	Gross Domestic Product
IIRC	International Integrated Reporting Committee
IR	Integrated Reporting
KDIC	Kenya Deposit Insurance Corporation
KPIs	Key Performance Indicators
Kshs	Kenya Shillings
MPI	Macro-Prudential Indicators
NPL	Non-Performing Loan
ROA	Return on Assets
ROE	Return on Equity
USA	United States of America

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The banking industry has been an important cornerstone for most economies globally as it plays a key role as an intermediary between lenders and borrowers (Anbar & Alper, 2011; Golin, 2001; Tarbert, 2000). It has therefore been imperative that regulators ensure that they remain financially stable to avoid bank runs that may cause economic losses and erode citizens' confidence in the formal financial sector (Ghosh & Das, 2005). Due to the numerous bank runs in the 1980s, the Basel Committee was formed to deal with G10 countries' economic losses due to bank failures and it works to ensure that bank failures are eradicated or cause minimal losses to international economies (Bank of International Settlement, 2011). For commercial banks to remain financially sound, their financial performance should be positive so as to ensure that they can adequately fulfill their obligations as they fall due (Tamimi & Obeidat, 2013). There has been research into the importance of bank financial performance in Kenyan commercial banks over the years by different researchers with agreement that it has a significant effect on the financial condition of banks (Gudmundsson, Ngoka-Kisinguh, & Odongo, 2013; Mathuva, 2009; Waweru & Kalani, 2009).

In an effort to ensure that commercial banks maintained a healthy financial status, and reduce chances of bank failures, the Basel II required commercial banks to hold enough capital so as to provide a cushion against shocks and loss of customer deposits in case there are defaults on loans and because of the high leverage maintained by the commercial banks during their operations (Gudmundsson et al., 2013). Therefore, one might conclude that should commercial banks increase their financial capital, it would lead them to profitability and they would be more financially sound thus reducing the chances of bank failure. However, this has not been the case as commercial banks that are not only profitable, but also have adequate financial capital, have collapsed even after regulators had implemented their binding financial capital resolutions (Mensah, 2012; Murphy, 2008). This has been attributed, by some researchers, to the moral hazard problem (Eichberger & Summer, 2004; Wiggins, Piontek, & Metrick, 2014). This also informed the Basel III resolutions which were passed in an attempt to curb the moral hazard by managers after the 2008 global recession which saw well capitalized banks with good financial performance collapse. The moral hazard problem occurs when managers take excessive and unnecessary risks using depositors' money leading to unnecessary losses that lead to the banks failing. The most recent and notable

bank failures of well-capitalized banks that either needed government bailouts or declared bankruptcy was Lehmann Brothers, in the 2007 global recession (Mensah, 2012; Murphy, 2008; Wiggins et al., 2014). In Kenya there was the case of Chase Bank and Imperial Banks which had to be put under receivership before Chase was finally sold to SBM bank while Imperial is facing the same fate.

There has been extensive research on the effect of financial capital on commercial bank financial performance globally by different researchers in different regions and periods (Athanasoglou, Brissimis, & Delis, 2008; Balasubramaniam, 2012; Berger, 1995; A. N. Berger, Herring, & Szego, 2001; Elliott, 2010; Ezike & Oke, 2013; Flamini, Schumacher, & McDonald, 2009; Ilhomovich, 2009; Liu & Pariyaprasert, 2014; Mathuva, 2009; Ongore & Kusa, 2013). However, despite the extensive research into financial capital and commercial bank financial performance, commercial banks that are financially sound and that have good financial performance have failed (Mensah, 2012; Murphy, 2008).

This led some researchers to question the prioritization of financial capital and to research whether other forms of capital, namely social capital and cultural capital had any impact on the industry (Burt, 1997; IR Banking Network, 2016; Lin, 1999; Tarbert, 2000). This could however be complicated by the fact that the term “capital”, in the banking industry, does not go beyond the financial and economic meaning and thus does not encompass other forms like social, natural or cultural as captured in the integrated reporting framework (Coulson, et al., 2015).

There have been researchers who attempted to distinguish the different forms of capital (IR Banking Network, 2016; Njoku, 2014; Schultz, 1961a; Throsby, 1999). The International Integrated Reporting Council’s (IIRC) came up with the Integrated Reporting Framework (IR Framework) that has categorized “capitals” into six categories; financial, manufactured, intellectual, human, social and relationship and natural (IR Banking Network, 2015). Njoku, Schultz and Throsby, in their classifications, were guided by the Bourdieusian Theory which categorizes capital into economic/symbolic, cultural and social. Social capital, as described by Pierre Bourdieu, involves a web of networks built over time and the assets/benefits that one accrues from them whereas Cultural capital was described as a form of capital accumulated over time and acquired through one's own self-improvement over time but that was limited since it couldn't be

acquired in excess nor transferred from one individual to another like possession or title (Bourdieu, 1986; Bourdieu & Passeron, 1977; Throsby, 1999).

While there is research on individual forms of capital, there is little research on the combinations of the capitals, and that will inform the basis for this research. This paper will seek to find out the effect that social, cultural and economic capital have on the financial performance of Kenyan commercial banks in an effort to establish whether regulators should increase their role in the measurement of performance in commercial banks. This will be done by exploring the effect that these three forms of capital would have on the performance of commercial banks in Kenya. The results may help to identify if there is a need to incorporate the other forms of capital should they have significant influence on bank financial performance.

1.1.1. Capital Structure of banks

The purpose of the risk-based standards was to make bank capital requirements sensitive to the risk in a bank's portfolio of assets and off-balance sheet activities, and appear to have been partially effective in increasing bank capital ratios (Jacques & Nigro, 1997). Adequate capital creates an opportunity for a better standard in business establishments and spurs business exertion and great performance (Jokipii & Milne, 2007). Bank capital acts as a protective cushion against losses that may be precipitated by certain kinds of uncertainties in the economy and minimum capital is important to ensure honoring of banks' obligations (Tamimi & Obeidat, 2013). This would make capital a constraint to avoid default and act as a cushion to protect the depositors and creditors against losses at the operating and liquidation stage should the bank fail. Safety of depositors' funds remains the major concern of bank regulators worldwide as Ezike & Oke, (2013) postulated, and it is in this respect that capital adequacy has been regarded as relevant and important. Ezike found that capital adequacy refers to the amount of equity capital and other securities which a bank holds as reserves against risky assets as a hedge against the probability of bank failure.

1.1.2. Bank Capital Legislation in Kenya

There have been several changes to the Banking Act by the CBK and the finance ministry through the years with the most recent in 2008; this was in line with the international standards (Central Bank of Kenya, 2015). CBK increased the minimum capital requirement, aimed at strengthening institutional structures and improving resilience of the banking industry. According to the Finance

Act, (2008) new and existing banks had to comply with a minimum capital requirement of Kshs. 1 billion as of December 2012, up from Kshs. 250 million in 2008, in order to operate in Kenya (Gudmundsson et al., 2013). In addition to this provision, the CBK, in consultation with the Minister for Finance, was empowered to prescribe minimum ratios that banks should maintain between paid-up capital and unimpaired reserves on one hand and their assets on the other. The changes have helped to reduce instances of bank failure through lack of adequate capital but not entirely addressed the problem on failing because of poor lending or corporate governance.

The Banking Act 2015 prescribes that every institution is expected to maintain a minimum core capital of at least Kshs 1 billion (Central Bank of Kenya, 2015). It also prescribed core capital of not less than 8% of total risk adjusted assets plus risk adjusted off balance sheet items, core capital of not less than 8% of its total deposit liabilities, a total capital of not less than 12% of its total risk adjusted assets plus risk adjusted off balance sheet items and a capital conservation buffer of 2.5% over and above the above minimum ratios to enable the institutions withstand future periods of stress. Additionally, banks that were under-capitalized were forced to restrict growth, prepare plans to restore capital and receive approval from regulators before expanding operations, making acquisitions or opening new branches. The Act provides that where managers cannot correct deficiencies, regulators are required to place banks in receivership by Kenya Deposit Insurance Corporation (KDIC) within 90 days.

1.1.3. Financial performance of banks in Kenya

Bank financial performance is a matter of great concern since governments depend on banks to act as intermediaries of money in the economy (Barth, Caprio, & Levine, 2001). This has led governments to ensure the banking industry has a positive net-worth and can withstand unfavorable events and are adequately capitalized and profitable in order to continue operating and lead to economic growth (Barth et al., 2001; Olweny & Shipho, 2011; Ongore & Kusa, 2013). Kenya has suffered bank failures in the past, especially in the early 1990s leading the government to adopt measures that ensure positive performance in the banking industry by implementing recommendations passed by the Basel Committee (Mwega, 2009; Waweru & Kalani, 2009). Kenyan banks had been able to remain profitable for at least a decade since Charterhouse Bank was placed under receivership in 2003. This was despite the global recession of 2007-2009 and a

directive to increase financial capital by three hundred percent by 2012, from Kes 250 million to Kes 1 billion. The Central Bank of Kenya attributed the positive financial performance to profitability, that enabled the banks to continue operating by meeting their obligations, and confidence by citizens in the financial industry (Kiweu, 2012; Mwegu, 2009; Olweny & Shiphoo, 2011). Financial performance for banks is measured through Return on Assets (ROA) or Return on Equity (ROE) (Gudmundsson et al., 2013; Mathuva, 2009; Mugwang'a, 2014). This paper adopted both measures in an effort to establish the effect that the three forms of capital had on the asset utilization and shareholder wealth maximization. This would investigate the effect that managers' operations have on the shareholders' equity alone and when combined with customer deposits to enable them to lend more hence increase their asset base in terms of loans and advances.

1.1.4. Banking sector in Kenya – overemphasis on financial capital and introduction of social capital & human capital

There has been some debate on regulatory bank capital held and its effect on the banking behavior since the passage of the Basel Accord with contradictory findings over the years and in different economies (Blum, 1999; Calem & Rob, 1996; Cecchetti & Li, 2008; Dionne & Harchaoui, 2007; Furlong & Keeley, 1989; Hyun & Rhee, 2011; Lindquist, 2003). While (Cecchetti & Li, 2008; Furlong & Keeley, 1989; Hyun & Rhee, 2011) found that by dictating minimum capital in respect to risky assets, capital requirements could force banks to limit their lending capacity thus straining their business and possibly leading to losses, (Blum, 1999; Calem & Rob, 1996; Dionne & Harchaoui, 2007; Lindquist, 2003) found contradictory findings that capital adequacy had an effect of raising bank risk-taking in banks thus increasing the chances of possible failure when they couldn't recover the loans given to customers. Therefore, despite the research into capital adequacy and bank condition there doesn't seem to be a consensus on the effects of capital adequacy on commercial banks' financial performance and condition. The differences could however be as a result of the difference in geographical locations or the period when the study was conducted.

Most of the researches in the banking industry conducted in Kenya on capital focused on financial capital (Gudmundsson et al., 2013; Mathuva, 2009; Mugwang'a, 2014; Mwegu, 2009; Odunga, Nyangweso, Carter, Mwarumba, & Nkobe, 2013; Olweny & Shiphoo, 2011; Ongore & Kusa, 2013; Waweru & Kalani, 2009). This may be attributed to the fact that the Central Bank of Kenya, the commercial banks' regulator, focuses on financial capital (Shareholders' capital) over other forms of capital. It may also be due to the problem of classification of capital from anything other than

financial/economic capital (Coulson et al., 2015). Most researchers found a positive relationship between financial capital and bank performance hence an increase in economic capital (shareholders' capital) leads to an increase in returns (Gudmundsson et al., 2013; Mathuva, 2009; Mweya, 2009; Olweny & Shipho, 2011). This, was due to the availability of increased amounts that a bank can lend in relation to its capital exposure since lending depends on how much shareholders' wealth the bank has available. The increased lending translates to an increase in income through interest payments which were found to be the leading income earners for commercial banks in Kenya (Kiweu, 2012).

There is however little research on social and cultural capital in the banking industry. This may be in part due to the problem of classification of capital, or the minimal number of banks that have adapted to integrated reporting which involves reporting more than just the financial capital. It may also be due to the lack of economic parameters of measurement that are accepted from the CBK. While Njoku found that cultural and social capital had significant impact on bank financial condition, the IIRC held that reporting on other capitals helped to give a holistic view of how a firm was performing in the economy. Schultz and Throsby focused their researches on human capital and found that it had significant influence on the performance of organizations (Schultz, 1961b; Throsby, 1999).

This study adopted the three forms of capital; social, cultural and economic as identified by Bourdieu (Bourdieu, 1986). The classifications of the capitals in the IR framework were adopted (IR Banking Network, 2016). However, while the framework identified six categories of capitals, this study combined intellectual and human capital as measures of cultural capital and social and relationship capital was adopted as a measure of social capital with financial capital representing economic capital. Manufacturing capital and natural capital were not adopted for this study.

1.2. Problem Statement

The primary role of a commercial bank is to provide loans while using both shareholders' capital and customers' deposits (Tarbert, 2000). Given the important role that commercial banks play in any economy as intermediaries of cash to borrowers and lenders, it is crucial to understand the determinants that influence their financial performance (Liu & Pariyaprasert, 2014; Mugwang'a, 2014; Olweny & Shipho, 2011). Instances of financial crises or bank failures raise important concerns to both local and foreign investors in any country especially because banking is a global

industry. Banking crises emerge because banks do not have enough liquidity to meet depositors' needs and cannot access the wholesale money market or because loan losses have built up to the point where financial capital is exhausted or can no longer satisfy the bank's obligations (Barrell, Karim, & Ventouri, 2015; Peterson & Maisel, 1983).

Bank failure has a significant relationship with capital adequacy since undercapitalization has been found to be among the main reasons for most bank foreclosures globally (Elliott, 2010; Liu & Pariyaprasert, 2014; Podpiera, 2004). This has led to an overemphasis by global regulators to ensure that banks maintained appropriate levels of financial capital. However, the decision to monitor financial capital through capital adequacy and liquidity hasn't stopped banks from failing as was witnessed during the global recession (Mensah, 2012; Murphy, 2008), or the fall of Dubai and Imperial Banks (Bank Supervision Department, 2016). In fact, some scholars like Benston & Kaufman, (1996) and Dowd, (2000) argued that capital adequacy, as set by Basel II, was not the solution to bank failures but it in fact led to bank failures since it led to the "moral hazard" problem among bank managers.

The failure of banks despite having appropriate levels of economic capital has led to research into other forms of capital. It also led to the introduction of integrated reporting by the IIRC in 2012 as a way to mitigate the overreliance on financial capital. This was done by introducing ways of measuring other forms of capital so that companies could holistically measure financial and non-financial capitals. The uptake has however been hampered by the fact that banks find it hard to incorporate the capitals in their integrated reports (IR Banking Network, 2016).

Despite this problem, researchers have researched the effect that social and cultural capital has on different institutions albeit without combining the different forms of capital (Baker, 1990; Burt, 1997; Lin, 1999; Prieur, Rosenlund, & Skjott-Larsen, 2008). This has led to findings that social and cultural capital have a significant relationship with financial performance and can't be ignored especially in a world where shareholder theory has been substituted by stakeholder theory.

Those findings influenced this research to establish if there exists any significant relationship between the forms of capital and bank profitability in Kenyan commercial banks. This will help provide more insight to industry stakeholders on whether to incorporate them in addition to the CAMEL and CAMELS model of measuring bank performance and stability.

1.3. Research Objectives

Main objective

The main objective of this paper will be to establish whether cultural, social and economic capital have a significant effect on the financial performance using data from commercial banks in Kenya.

Specific objectives

1. To establish the effect that social capital has on the financial performance of commercial banks in Kenya.
2. To establish the effect that cultural capital has on the financial performance of commercial banks in Kenya.
3. To establish the effect that economic capital has on the financial performance of commercial banks in Kenya.
4. To establish the perception of banks' management on the effect that social and cultural capital has on the financial performance of commercial banks in Kenya.

1.4. Research Questions

The study will seek to answer the following questions:

1. What is the effect of social and cultural capital on bank performance?
2. Would including the social and cultural capitals help to increase bank financial performance of banks?

1.5. Significance of the Study

This study seeks to make a contribution to the banking and macroeconomics fields while enriching the available literature on the forms of capital and bank performance. The findings of the study will benefit the academic community, policy makers in the financial sector and regulators by pointing out the benefits, if any, of social and cultural capital to fiscal policy employed by the governments. This is with regard to ensuring bank performance and minimizing bank failures.

1.5.1. Banks and other financial institutions

By establishing the relationship, if any, between the forms of capital and financial performance, bank managers in Kenya may be able to adequately establish how they should adjust their capital structures so as to incorporate the social and cultural capital.

1.5.2. Regulators

The regulators will be able to know if social and cultural capital are as important as financial/economic capital in the banking industry as they formulate policies to monitor and improve bank performance.

1.5.3. Researchers

There has been some research on capital adequacy in Kenya and this paper would increase the existing literature by providing empirical evidence on the relationship between the other forms of capital, cultural and social, introduced by the Bourdieusian theory and financial performance in banks that will help to build the knowledge on the area of study.

1.6. Scope of the Study

The Kenyan financial system is one of the most developed in Sub-Saharan Africa and includes all types of financial institutions with the largest and most dominant of these institutions being the commercial banks. As at December 31, 2016 Kenya had a total of 42 commercial banks, Chase bank and Imperial bank were in receivership, while Charterhouse was under statutory management (Kibunja, 2016). The research focused on the 41 banks in operation in 2016 so as to help us better understand the effects of the proposal on the whole industry since Charterhouse was under statutory management. This period was chosen because it represented a period after the increase of financial capital by the CBK and also represented a period before regulation by government through the interest rate capping law that was introduced. The law capped the maximum rate of interest that banks could charge thus it was no longer controlled by market forces or competition between banks. The period was also chosen because this represented a period before widespread adoption of integrated reports and sustainability reports in Kenya, thus their focus was mainly on financial capital.

CHAPTER 2: LITERATURE REVIEW

2.1. Introduction

This chapter will present the theoretical framework of this research through analysis of prior studies conducted on financial capital and financial performance of banks both globally and in Kenya. This is so as to show the gap that the research will attempt to fill. It will also analyze the impact of economic, social and cultural capital on society to draw the relationship that may exist with banking.

The chapter is further organized in the following sections: 2.2: theoretical framework; 2.3: studies on the influence of capital on financial performance; 2.4: other variables that influence financial performance; 2.5: summary of literature; 2.6: research gap; 2.7: conceptual framework and 2.8: chapter summary

2.2. Theoretical Framework

This section describes some of the theories that have been found to affect the banking industry over the years, and that will influence my study. As banks are institutions, they are run by managers on behalf of shareholders and depositors and thus the need for governments to monitor their activities. This is so as to protect the rights of the different stakeholders affected by the banks' activities. Therefore, among the theories that will guide the research are; stakeholder, institutional and agency theories. Stakeholder and Institutional theories are branches of the political economy theory that attempts to explain actors in pluralistic societies (Williams, 1999).

2.2.1. Bourdieusian Theory

This theory was developed by Pierre Bourdieu in the 1970s and early 1980s (Njoku, 2014; Siisiäinen, 2000). He went beyond the Marxian concept of class as a system of property ownership and introduced his own concept on class identifying three dimensions of field, capital and habitus with the different capitals being identified as: symbolic, cultural and social (Anheier, Gerhards, & Romo, 1995; Siisiäinen, 2000). While symbolic was the financial capital that has been used to measure wealth in society, social capital was the network that people built through the years and the resources they enjoyed courtesy of the relationships and cultural capital was the form of capital that was accumulated over time by an individual through self-improvement, but that was limited to the ability of the person acquiring it.

While Bourdieu argued that corporations occupy a multi-dimensional field consisting of cultural, social and symbolic capital, he found that symbolic (economic) capital influenced both the social divisions (classes) and the division of cultural and social resources in societies (Bourdieu, 1986). This may justify the basis of emphasis on symbolic capital by regulators in measuring the financial condition of the banking industry. However, he also found that it was important for the economic practices to acknowledge the importance that both social and cultural capital (practices) played in their formation and existence.

The concept of capital was traced back to Marx and Brewer by Lin, (1999) to the bourgeoisie who controlled both the proletariat and production. Lin argued that laborers were paid wages to sustain themselves, but not to benefit them. This was because the goods they consumed were produced by the same capitalists paying them and were sold to them at a higher price therefore exploiting their laborers. This would reinforce the conclusion by Bourdieu that symbolic and cultural capital may be used to influence the social classes and to maintain the status quo by institutionalizing the social structures and rewarding those who conformed to their culture, the dominant culture (Lin, 1999; Njoku, 2014). While agreeing that it was influential, Bourdieu differed slightly with the Marxian concept on cultural dominance through economic dominance arguing that some laborers could find themselves in the dominant class by virtue of their cultural integration since some economic capitalists did not possess cultural capital and vice versa (Bourdieu, 1990; Bourdieu & Passeron, 1977). That finding showed that while economic capital could be used to influence cultural capital in society, the two are not perfect correspondents as occasionally one could acquire one without necessarily acquiring the other in abundance.

In his research, Bourdieu argued that all forms of capital could eventually be convertible into economic measures albeit with a lot of assumption and estimation (Bourdieu, 1986). However, he noted that economic capital was the easiest to be directly converted and institutionalized in terms of right to ownership. Cultural capital and social capital could be convertible, albeit not accurately, into monetary gains but could be institutionalized in the form of qualifications and approvals in society because it may be subject to attrition (Becker, 1964; Bourdieu, 1986; Lin, 1999; Prieur et al., 2008). While expounding on his argument for the consideration of the effect that social and cultural capital had in society, (Bourdieu, 1986) added to the findings on the importance of cultural investment by Becker, (1964) who used education qualification in society as an activity that had all three forms of capital and would best explain the forms of capital. They both agreed that

education not only involved the economic investment in terms of paying school fees, but also cultural investment in terms of time and informal education prior to joining schools and social classes. Bourdieu, further expounded on the forms of capital arguing that economic capital could be measured in terms of the cost-benefit analysis of educating a person in society, cultural capital by how much was invested by the family prior to one pursuing their education, that is, the informal education and support that one got from his family, which he described as the “domestic transmission of cultural capital”, and social capital in the different connections that the student could master so as to gain the most out of the network that they had built and the social class that they belonged to in society with poor students not enjoying as many resources as the wealthy ones who enjoyed a larger social network thus more resources from the networks.

If considered in the banking context, economic capital would be easily measurable by the paid-up equity capital by shareholders, which is the focus of regulators globally. This has seen the banks that have the most economic capital lord it over the banks with less capital (Njoku, 2014). However, as banks operate in a multi-dimension environment, cultural and social capital have been found to influence the condition of banks (Portes, 2000; Prieur et al., 2008; Schultz, 1961a; Throsby, 1999; White, 2013).

2.2.1.1. Social Capital

Although some authors have agreed that social relationships have significance in society, they haven't fully agreed on the definition of social capital. While (Baker, 1990) only focused on the relationship network structures, (Bourdieu, 1986; Lesser, 2000; Putnam, 2000) included the potential resources that could accrue from such networks. Bourdieu, (1986), (Putnam, 2000) and (Burt, 2009) came to the conclusion that social capital is comprised of the networks and the benefits that could be mobilized through them. It therefore would be right, in the banking context, to assume that the networks that banks construct in society in turn bring economic benefits in form of cheaper capital and deposits that are then utilized to generate income through interest on loans and advances to borrowers (Njoku, 2014).

Social capital involves a web of networks built over the years and although different authors acknowledged that it would be hard to quantify, some have attempted to provide proxies to measure it (Larsen & Tan, 2015; Njoku, 2014). While Njoku, (2014) used market presence, which represented the share that the commercial bank enjoyed in the banking industry, as a quantitative measure, the Integrated Reporting Committee (IRC), (2015) identified qualitative measures in their

framework; community contribution and inclusion, customer satisfaction and retention, supplier diversification and corporate social responsibility to measure the social and relationship capital by banks. The IIRC however noted that although important in legitimizing banks' operations in society, it would be hard to quantify the social inclusion and corporate social responsibility since they could have both short and long term effects which did not have a universal measure on the economy and banks therefore the banks would mostly report only on the positive activities (IR Banking Network, 2015).

The IIRC requires banks to incorporate the reporting on the different capital resources and the value created by the resources arguing that all forms of capital are important for bank legitimation in the society they operate in (IR Banking Network, 2015; IR Banking Network, 2016; White, 2013). While choosing to leave out social inclusion and corporate social responsibility, they chose to incorporate different measures that include; ethical investments and contributions to communities, customer growth rate, complaint response time, diversification of suppliers and number of meetings and roadshows held (IR Banking Network, 2015; IR Banking Network, 2016).

2.2.1.2. Cultural Capital

Bourdieu viewed cultural capital as a form of capital accumulated over time and acquired through one's own self-improvement over time but was limited because it couldn't be acquired in excess like wealth, nor could it be transferred from one individual to another like possession or title (Bourdieu, 1986; Bourdieu & Passeron, 1977; Throsby, 1999). The levels of education and training acquired before or during the course of working can only be limited by the learner's own limitations (Bourdieu, 1986). He also found that it was hard to quantify cultural capital acquired over time in monetary terms since it is highly subjective with different communities having different cultures and measures and incorporating different investments of culture (Bourdieu, 1986). While the general habit, as understood by economists, has always been profit maximization, Bourdieu, (1986) found that one had to detach themselves from economic measures in order to fully appreciate cultural capital and its effects on society. He argued that in as much as economic capital influenced cultural capital providing a basis for valuation, not all cultural capital could be quantified citing the inability to quantify the effect that early education by parents had on their children.

Several researchers have used proxies to measure cultural capital in society (Njoku, 2014; Prieur et al., 2008; Schultz, 1961a; Throsby, 1999). However, there were contradictory measures that

could be attributed to the different methods of measurement. While Njoku, (2014) used quantitative measures; quality of earnings, market power and deposit structure while Throsby, (1999), the IR Banking Network, (2016) and Schultz, (1961b) used measures of human capital. When guided by Bourdieu's argument, the measurement of cultural capital through deposit structure and market power might not be appropriate measures since they are measures that would best measure social capital as compared to cultural capital because they measure commercial banks' networks and industry strength. This is because a bank's ability to mobilize deposits and control a share of the industry shows how effective they leverage their networks to gain more funds hence deposits structure and market power will not be used in the model as measures of cultural capital since they measure social capital as compared to cultural capital. It is more social than cultural because they depend on their network and not on their employees' efficiency. This has also been highlighted in the IR banking framework as a measure of social and relationship capital (IR Banking Network, 2016). There have been economic proxies that have been used by different researchers to measure management quality which include; operating profit to income ratio cited by (Ilhomovich, 2009) and (Nazir & Sangmi, 2010) and expense to asset ratio that was adopted by (Athanasoglou et al., 2008; Atikogullari, 2009; Liu & Pariyaprasert, 2014). Efficiency of the operations in the bank in an attempt to reduce the cost of operations and ensuring profitability and maximizing of returns was also identified by (Liu & Pariyaprasert, 2014). These measures though economic in nature could be used to measure the effect of education, training and experience as a means of increasing one's skills and expertise and therefore they would conform to Bourdieu's argument. The study thus adopted operation efficiency through the operating expenses to operating income ratio identified by (Liu & Pariyaprasert, 2014; Mathuva, 2009).

The IIRC, in their framework divided cultural capital, as identified in this study, into human and intellectual capital and the measures identified include; innovation of new technologies, number of online customers and transactions, training expenses to employees and the number of hours of training, leadership programs training and employee tenure as some of the measures (IR Banking Network, 2015; IR Banking Network, 2016). This study combined human and intellectual capital as a measure of cultural capital. This shall be measured quantitatively through operating cost efficiency ratios identified for objective two and descriptive statistics from a questionnaire that will incorporate the aspects of human and intellectual capital to measure managers' perception in objective four identified in the IR framework.

2.2.1.3. Symbolic/Economic Capital

Symbolic capital according to Bourdieusian theory was the dominant form of capital that was the embodiment of capitalism and profit maximization (Bourdieu, 1986). This was especially because it made noneconomic forms of exchange unattractive and led the masses to view other forms of capital, social and cultural, as unimportant. The dominance that economic capital enjoyed above other forms of capital ensured that all other forms of capital, though not measurable in economic terms had to be converted. With such dominance, economic capital was embodied as the measure of value and this led to economism, where every capital can be converted to economic capital, and semiologism which argues that not every form of capital is convertible into economic capital (Bourdieu, 1986). Where economism was the case then the situation involved not only having economic factors but also social factors (Bourdieu, 1990). The best depiction given where one would use economic capital in order to secure honor or a position that carries with it social status or cultural value for example a position at a club or a piece of land sold to strangers after years of belonging to a family.

In banking, symbolic capital is economic capital and is more concerned on measuring value in monetary terms equivalent to core capital that should be maintained (IR Banking Network, 2015; Njoku, 2014). The measure that has been approved by the BIS for all banks globally as a standard measure is a bank's core capital and its value in case of a shock (Bank Supervision Department, 2016; Barth et al., 2001). This is also the value that the CBK has set for banks to maintain in order to operate in addition to a 2.5% buffer capital. Therefore this study shall use the shareholders' core capital that is weighed against total risk weighted assets for capital adequacy ratios as a measure of economic capital as used by (Gudmundsson et al., 2013; Liu & Pariyaprasert, 2014; Mathuva, 2009; Mweya, 2009; Olweny & Shipho, 2011; Waweru & Kalani, 2009).

2.2.2. Agency Theory

This theory focuses on the relationship that exists between a principal, the owner of the business, and an agent, to whom decision-making authority has been delegated. This would be observable in banks where shareholders hire managers who undertake the daily operations of maximizing their investments (Jensen & Meckling, 1976). This is in part due to the large number of shareholders or the high cost of monitoring daily operations by each shareholder. The highly sensitive banking information is also an incentive to have competent agents (managers) to

efficiently monitor. However, at times, managers' and principals' goals may not be congruent and this may lead managers to take advantage of the information asymmetry (Eisenhardt, 1989).

This may arise due to the sensitivity of banking information and cost of monitoring where managers may possess more information than shareholders by virtue of handling daily operations (Fama, 1980; Jensen & Meckling, 1976). This may be evident in poorly structured internal lending and the excessive risks that managers may take. In order to reduce these risks shareholders enter into contracts with managers in order to attempt to align both their goals while also establishing a relationship that benefits both parties (Fama, 1980). This theory is best explained in the 'moral hazard' problem where bank managers, while acting as shareholders' agents, decide to take excessively unnecessary risks that threaten the bank's survival, but which may lead to the managers reaping huge profits from such gambles should they become successful. Although principals have attempted to align both parties' interests by use of legal contracts and incentive schemes, these incentives may at times lack motivation to managers. Where they feel that their interests are not well addressed, the managers may make decisions that are to their advantage, thus the agency problem arises.

2.3. Studies on the influence of capital on financial performance

There have been studies on the influence of the different forms of capital on bank performance globally albeit not with common measures. This was attributed to the lack of a common measure of social and cultural capital which is subjective to the society or researcher (Bourdieu, 1986; IR Banking Network, 2016; Lin, 1999; Schultz, 1961b; White, 2013). However, the researches were conducted in order to study the effect of the individual forms of capital to financial performance. (Bourdieu, 1984; Burt, 2009; Gomez & Santor, 2001; Grootaert & Bastelaer, 2002; Lin, 1999; Lorrain & White, 1973; Njoku, 2012) studied the effect that social capital has on financial performance, Becker, (1964); Berger & DeYoung, (1995); Bourdieu & Passeron, (1977); Girardone et al., (2004); IR Banking Network, (2016); Mathuva, (2009); Njoku, (2014); Prieur et al., (2008); Szeman & Kaposy, (2010); and Throsby, (1999) researched the effect of human capital and efficiency on financial performance while Athanasoglou et al., (2008); Berger, (1995); Berger et al., (2001); Cecchetti & Li, (2008); Ezike & Oke, (2013); Flamini et al., (2009); Ilhomovich, (2009); Kiweu, (2012); Kosmidou, (2008); Mathuva, (2009); Njoku, (2014); and Tamimi & Obeidat, (2013) researched the influence of economic capital on financial performance.

While using qualitative measures (Burt, 2009; Gomez & Santor, 2001; Lin, 1999; Lorrain & White, 1973) found that in any society, having human networks that one could communicate with who were either from their occupation or social status in society, one had a higher opportunity of becoming more financially successful. This concept was shared with firms which were found to enjoy better financial performance when they had larger networks with stakeholders who directly or indirectly affected their operations. Of the researchers, (Njoku, 2014) deduced quantitative measures, market power from customer deposits, that he used to measure social capital's influence on financial condition of banks in Nigeria. Though they used different measures of social capital, there was a consensus on the significant relationship between social capital and performance and condition of institutions.

Research into cultural capital has been focused on human capital with little being contributed on intellectual capital (Becker, 1964; A. Berger & DeYoung, 1995; Bourdieu & Passeron, 1977; Girardone et al., 2004; Mathuva, 2009; Njoku, 2014; Prieur et al., 2008; Szeman & Kaposy, 2010; Throsby, 1999). This could be because of the limited use of technology during research periods or the lack of a universally accepted measure of intellectual capital measures, for example new technology in business, brand value, online customer base through ecommerce. It could also be because most researchers stuck to the concept developed by Bourdieu, who argued that cultural capital was a form of capital that mainly involved acquisition of skills and their improvement through training, apprenticeship and exposure to one's occupation. Hence the focus on human capital in the workplace and leaving out intellectual capital. He also argued that this skill could not be transferred to other people like social capital (status) or economic capital (wealth) hence the possible reason that researchers maintained human as a measure of cultural capital. Through research they established that an efficient workforce led to reduced expenses and increased income hence the significance of cultural capital in an organization was confirmed through research (Kosmidou, 2008; Mathuva, 2009; Njoku, 2014; Throsby, 1999).

There has been more research on the economic capital both in Kenya and globally by different researchers (Berger, 1995; Cecchetti & Li, 2008; Ezike & Oke, 2013; Flamini et al., 2009; Gudmundsson et al., 2013; Ilhomovich, 2009; Kosmidou, 2008; Mathuva, 2009; Odunga et al., 2013; Olweny & Shiphoo, 2011; Ongore & Kusa, 2013; Waweru & Kalani, 2009). (Mathuva, 2009; Odunga et al., 2013; Olweny & Shiphoo, 2011) focused on operating efficiency, financial performance and capital adequacy while (Waweru & Kalani, 2009) researched on the causes of

bank failures in Kenya, focusing on asset quality, and possible remedies. This shows that there is more interest in the academic field on financial capital and its effect on bank performance. However, there seems to be little interest in social and cultural capital perhaps because of the lack of globally accepted definitions or economic measures. This informed the study in seeking to introduce knowledge on the social and cultural capital and its effect on bank financial performance in a bid to enhance the body of knowledge and further informed the hypothesis to be tested.

2.3.1. Measures of Social, Cultural and Economic capital

2.3.1.1. Social Capital

Market share will be measured through a log of gross loans and advances since it will measure how effective the bank hedges its customer base to be able to increase their capital base through cheap funds in form of customer deposits, which they in turn combine with shareholder capital and funds from the bank market and lend at a premium (Njoku, 2014). This shows how effective the commercial banks have been in building a social network of customers and hedging that network by utilizing both its financial capital and customer network to increase its capability in loan growth (Bank Supervision Department, 2016). The qualitative social capital indicators identified that have been identified by the IIRC and that will be used in the study include; ethical investments and contributions to society and vulnerable groups, number of local employees and suppliers, social inclusion through CSR, sustainability rating and the social diversification of employees.

From the past studies, it was found that social capital had a significant effect on performance in society as was reported by (Bourdieu, 1984; Burt, 2009; Gomez & Santor, 2001; Grootaert & Bastelaer, 2002; Lin, 1999; Lorrain & White, 1973; Njoku, 2014). This therefore informed the hypothesis to be tested:

H₁: There existed a relationship between social capital and financial performance

2.3.1.2. Cultural Capital

Cultural capital would be most appropriately measured through efficiency of the operations in the bank so as to attempt to reduce the cost of conducting operations and ensuring profitability and maximizing of returns through the operating cost to operating income ratio (Liu & Pariyaprasert, 2014; Mathuva, 2009). This is because the measure takes into account the refinement that management undertakes in order to gain operation efficiency. The indicators of human and

intellectual capital that have been identified in the IR Framework by the IIRC would conform to Bourdieu's definition of cultural capital since they focused on the employee's abilities and skills and how best the commercial banks were benefitting from operation efficiency created by technology (Bourdieu, 1986). The measures include; the cost and implementation of IT in the bank, number and diversification of employees, staff tenure and turnover, employee satisfaction, learning and development through training programs and hours of training, employees engaged in leadership programs and the Board's diversification. (IR Banking Network, 2015).

From previous studies it was established that cultural capital had a significant effect on performance of a firm (Benhabib & Spiegel, 1994; Schultz, 1961b; Throsby, 1999). Therefore the study sought to test if there was a significant relationship between cultural capital and commercial bank financial performance hence the following hypothesis.

H2: there exists a relationship between cultural capital and bank financial performance.

2.3.1.3. Economic Capital

Economic capital in banks is measured using capital adequacy ratios (CAR) since they are used to measure how much the bank is allowed to lend. Therefore data from the published financial statements and annual reports shall be compared to the returns' proxies of the banks.

From previous studies, it has been found that economic capital had an effect on financial performance of banks. Therefore this study seeks to test if economic capital has any effect on commercial bank financial performance. This therefore informed the hypothesis:

H3: There exists a relationship between economic capital and bank financial performance.

2.4. Other Variables that influence Financial Performance

There has been research into variables that influence the financial performance of commercial banks (Athanasoglou et al., 2008; Flamini et al., 2009; Kosmidou, 2008; Mathuva, 2009; Olweny & Shiphoo, 2011; Wheelock & Wilson, 2000). (Olweny & Shiphoo, 2011) in their research focused on sector-specific factors and found that bank-specific factors; Capital adequacy, Asset quality, Management, Earnings quality and Liquidity (CAMEL), had a significant impact while market factors; ownership and market concentration, had no significant impact on profitability. (Athanasoglou et al., 2008; Flamini et al., 2009; Kosmidou, 2008), in their researches, found that profitability was influenced by both bank-specific factors and industry-specific factors.

Athanasoglou further argued that decisions made by management such as liquidity level, provisioning level, capital ratios, expense management and bank size have a specific effect on bank performance. This was because banks have different management structures and policies and while they all have one goal, profitability, they endure different market forces that may be unique to them specifically. Mathuva in his research found that performance was affected by efficiency of operations and capital ratios.

This study shall utilize size measured through asset quality in conformity with (Kosmidou, 2008; Mathuva, 2009; Wheelock & Wilson, 2000).

2.5. Summary of literature

The empirical evidence from previous studies indicates that bank performance is an important factor for the economy and therefore the regulator has to ensure positive financial performance in the industry. However, having high levels of financial performance has not stopped banks from failing and this has led to studies on other forms of capital besides financial capital, which has been the emphasis by regulators globally. The studies found that social and cultural capital were significant factors in ensuring that financial performance in a firm remained positive. This therefore influenced the main objective of the study which is to establish whether cultural, social and economic capital have a significant effect on the financial performance using data from commercial banks in Kenya.

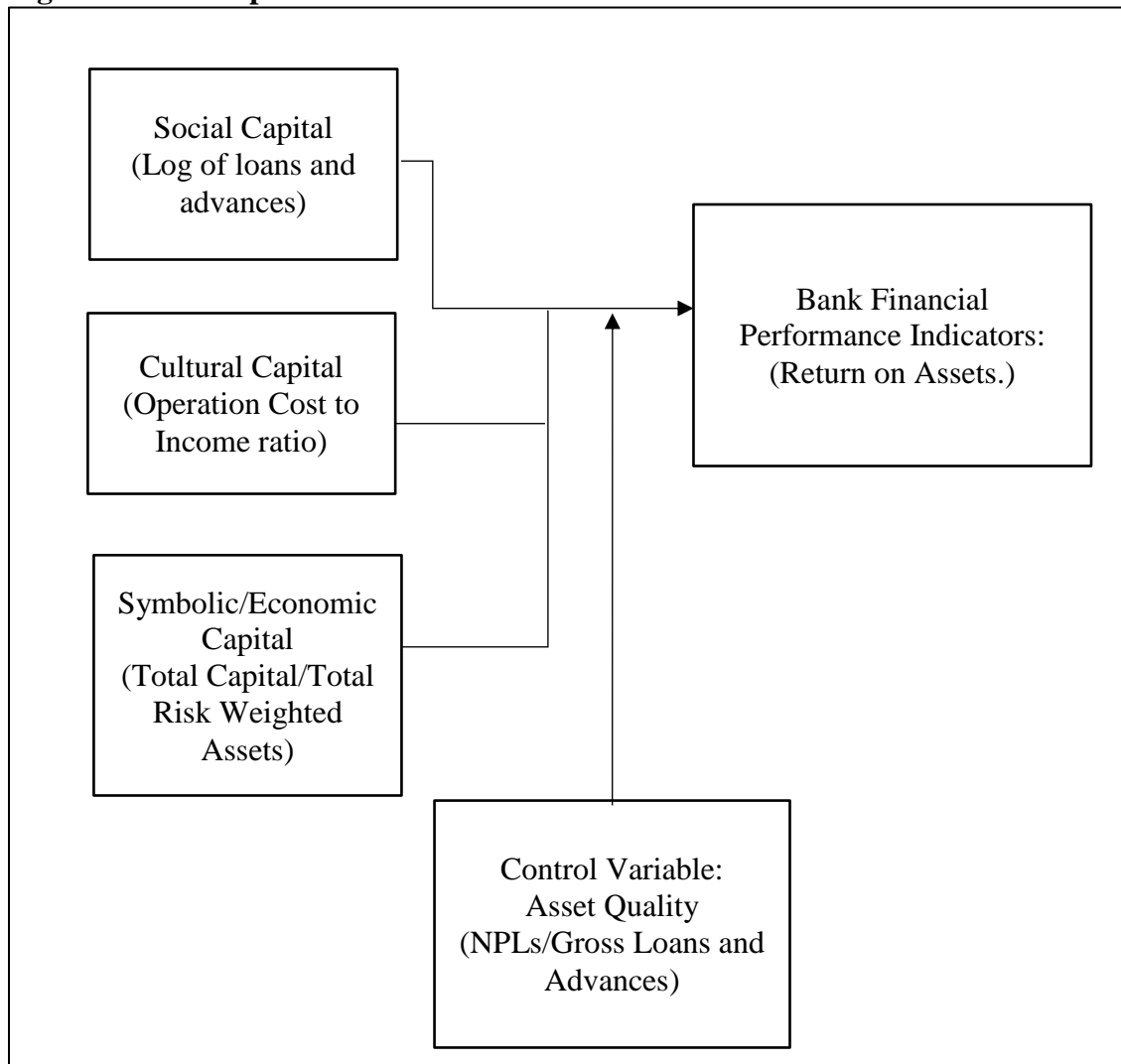
2.6. Research Gap

The effectiveness of financial capital in an effort to ensure positive financial performance of banks has been debated by different researchers with some arguing that adequate capitalization is enough to ensure profitability (Berger, 1995; Hyun & Rhee, 2011; Lartey, Antwi, & Boadi, 2013). However, other researchers argued that even with adequate financial capital, but without prudent and effective management and efficiency of operations, banks may find it hard to be sustainable and may end up facing bankruptcy (Mensah, 2012; Wheelock & Wilson, 2000). This was enhanced by the moral hazard problem that has been identified as a major issue in banks failing. There has also been an introduction of social capital where banks are engaged in community activities through Corporate Social Responsibility, and better lending practices that encourage social investment (Burt, 2009; Lin, 1999). This influenced the researcher's attempt to investigate whether, when combined, the three forms of capital have an effect on financial performance using data from Kenyan commercial banks.

2.7. Conceptual Framework

The conceptual framework is used to categorize concepts, describe them and map out relationships that exist between the dependent and independent variables (Rocco & Plakhotnik, 2009; Sekaran & Bougie, 2009). The dependent variable was established as the most important (Sekaran & Bougie, 2009). The dependent variable in this study was financial performance as represented by return on assets (ROA).

Figure 2.1: Conceptual Framework



Source: Researcher 2019

2.7.1. Measurement of variables

The dependent, independent and control variables that had been identified in the study were measured as shown in the table 2.1.

Table 2.1: Operationalization of key variables

Variables	Measure	Source
<u>Dependent Variable</u>		
Economic Capital	Total capital to Total risk weighted Assets	Audited Financial Statement
<u>Independent Variables:</u>		
Social Capital	Log of loans and advances, ethical investments and contributions to society, percentage of local employees and suppliers, CSR, social diversification of employees	Audited Financial Statement, Integrated Reporting Framework
Cultural capital	Cost to Income ratio, Implementation of IT, diversification of employees, staff tenure and turnover, employee satisfaction, training programs, hours of training, employees engaged in leadership programs, Board diversification	Audited Financial Statement, Integrated Reporting Framework
Asset Quality	Non-Performing loans to Gross Loans and Advances	Audited Financial Statement

Source: Researcher

2.8. Chapter Summary

From the literature on the different researches on the forms of capital that has been conducted, there has been more focus on social issues and they have been fragmented only focusing on specific forms of capital individually. The literature from empirical researches operationalized the determinants of the study. There has been little research on the subject in regards to banking internationally with few researchers combining all three forms of capital. This study therefore sought to bridge the gap through providing evidence of any relationship between the three forms of capital, economic, social and cultural, and financial performance in the Kenyan banking industry.

CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

Chapter three presents the methodology that the research employed in order to achieve the objectives guiding the research. It identified the effect, if any, that social, cultural and symbolic capitals have on financial performance in Kenya.

The chapter is further organized in the following sections: 3.2: research philosophy; 3.3: research design; 3.4: population and sampling; 3.5: data sources and collection methods; 3.6: data analysis; 3.7: research quality; 3.8: ethical issues.

3.2. Research Philosophy

The study adopted both pragmatism and postpositivism philosophical approaches which focus on the cause and effect while also attempting to find solutions to the problem identified (Creswell & Poth, 2017). This informed the study's attempt to establish whether the introduction of social and cultural capital may help to reduce bank failures thus the pragmatic approach. Postpositivist philosophical approach was used to identify the effect that the forms of capital may have on financial condition in Kenyan banks.

3.3. Research Design

The study adopted a mixed design with both inferential and descriptive statistics. Inferential was used to further explain the quantitative data and findings through causal links that may exist between the variables in the study, while descriptive was used to explain the qualitative data collected. Both measures were adopted by the researcher to measure the effect that the forms of capital; symbolic, cultural and social have on financial performance of commercial banks in Kenya. Qualitative analysis was used to measure the opinion of managers while quantitative analysis, through the proxies identified, was used to find if there existed a relationship between the forms of capital and commercial bank financial performance as measured by return on equity/assets.

Through both qualitative and quantitative analysis, the relationship, if any, between the different variables was established as well as identifying the opinion that bank managers had on social and cultural capital.

3.4. Population and Sampling

The target population for the research will be the 41 banks in operation in 2016. The period to be studied was chosen because it fell after the increase in minimum core capital and thus would show the effect that raising the minimum bank capital between 2008 and 2012 had on banks' operations and financial performance. The period was also chosen because it presented the final year before regulation was introduced to cap interest rates which would curtail commercial banks' lending as loans and advances, which were identified as the market share measure (Bank Supervision Department, 2016; Njoku, 2014). The entire population was studied because of the number of banks in operation during the period to be examined hence there was no need to sample. This will ensure accuracy of the results so as to have a general view of the Kenyan banking industry.

3.5. Data sources and Collection methods

The study used both primary and secondary data obtained from Kenyan commercial banks. The primary data comprised of a structured questionnaire to finance and human resource managers to get their opinion on the importance of the different aspects of human capital and also their perspective on the social relationships maintained by banks. The secondary data was collected from the audited financial statements of the operational commercial banks in 2016. Bank specific data for each reporting period comes from two sources; the audited year-end statements of financial position and the annual report. The data consisted of audited accounts which presented a true and fair view of the banks as certified by both the auditors and the BSD of the CBK.

3.6. Data Analysis

To analyze the effect of the forms of capital on financial condition of commercial banks, both primary and secondary data obtained was analyzed using descriptive statistics, and multiple regression. To measure the opinion of managers, a five point Likert scale was used to capture their opinion on the effect and importance of social and cultural capital because of its effectiveness in measuring attitudes and feelings in organization research (Sekaran & Bougie, 2009). Descriptive analysis was used to obtain the means and percentages of the data for purposes of ranking the variable considered most influential by managers. Multiple regression was used to objectively assess the degree of the relationship and character between each independent variable and dependent variables while incorporating the other independent variables in the model (Sekaran & Bougie, 2009). The results of the regression model showed the significance of the relationship

through the p-value which was determined at 5% significance level to test the level of significance of the forms of capital to financial condition of banks. The strength of the model was measured by the R^2 in the equation while the β coefficient was used to show the strength in causality and the direction between the dependent and independent variables.

A multiple regression equation was used to measure objectives one, two and three so as to show the relationship between the independent variable (Social, Cultural and Economic capital) and the dependent variable (Financial Performance of banks) in the equation. This utilized the quantitative data collected through the proxies; log of assets, employee cost to income ratio, capital adequacy ratios, return on assets and asset quality. Objective four was measured using a Likert scale to measure managers' opinions on the effect of the aspects of social and cultural capital measures on bank financial performance and descriptive analysis used to explain the manager's perception. The data from the identified quantitative proxies was used to test if there existed a relationship and if the relationship was significant.

Inferential tests were also conducted on the data which included; test for heteroscedasticity, normality tests, autocorrelation test and tests for multicollinearity to find out if one or more variables in the model are slightly or extremely correlated that they affect the model (Mansfield & Helms, 1982; Sekaran & Bougie, 2009). The test for heteroscedasticity is used to test whether the constant term is violated thus violating an assumption of linear regression and the study used the Lagrange Multiplier (LM) Test to test the assumption. The data was also tested for normality, through the skewness and kurtosis. This would enable testing of the extent of symmetry of the data. Autocorrelation was tested through the Durbin-Watson statistics which should ideally be between 1.5 and 2 for the null hypothesis of no autocorrelation to be rejected. The lack of serial correlation in the data shows that the data was not too correlated that the variables couldn't explain each other's effects without them being correlated to each other. The test for multicollinearity used tolerance values and variance inflation factors (VIF) and is important as it quantifies how much the variance of estimated coefficients is influenced by multicollinearity between variables. While it was important to mitigate against violation of the assumptions being tested, the researcher had to ensure the results from the data were not altered as they would no longer present an objective view of the market situation.

Therefore, from the literature review, the variables expressed to test the effect of bank financial performance as a result of social, economic and human capital could be expressed in a function as follows:

$$FINPERFit = \beta_0 + \beta_1 ECit + \beta_2 SCit + \beta_3 HCit + \sum_{t=n}^n CONTROL + ei$$

Where;

FINPERF represented financial performance at period t as measured through ROA, ROE

EC represented Economic Capital (measured by shareholder capital)

SC represented Social Capital (measured by log of gross loans and advances)

HC represented Cultural Capital (measured by cost to income ratio)

CONTROL represented control variable (measured by the log of total assets)

3.7. Research Quality

3.7.1. Objectivity

The results for this research were based on actual findings from the population being tested and were free from the researcher's own bias. They were also free of ethical-moral value that may be held by the researcher.

3.7.2. Validity

Through literature survey, the researcher had been able to identify the most appropriate methods that have been used to identify and measure the variables to be tested. The research also identified techniques that gave the theoretical and empirical evidence to support the appropriate inferences.

3.7.3. Generalizability

The findings would be applicable to the banking industry in Kenya as data for the research was obtained from Kenyan commercial banks that had been in operation for the research period.

3.7.4. Reliability

In order to measure the reliability of the questionnaire data collected in order to measure the perception of managers towards social and cultural capital measures identified, a Cronbach's Alpha analysis was done. The test is used where researchers are testing the internal efficiency of the different items that are used in the scale used in the data collection tool (Cortina, 1993). A

Cronbach's alpha of 0.756 for the 25 items in the questionnaire indicate a high level of internal consistency of the scale in capturing both the social and cultural capital measures (Cortina, 1993). The research instruments that were chosen for the research were unbiased and had been found to be stable when used in previous studies. This helped to ensure consistency should the instruments be adopted in another period.

3.8. Ethical Issues

The study addressed ethical issues especially for data collection process. The information that was obtained from the population was not intrusive and was of the respondents' volition. Absolute caution was exercised. Finally, the researcher was objective and ensured that no opinion, bias, expectation or assumption was made explicitly and that the research remained non-intrusive.

CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1. Introduction

This chapter presents the interpretation of the data that has been collected and the analysis that was used by the researcher. The results that were obtained are also presented and explained. Data was analyzed based on the main and specific objectives and the financial performance of banks. The specific objectives that the study set out to investigate were; i) to establish the effect that social capital has on the financial performance of commercial banks in Kenya ii) to establish the effect that human capital has on the financial performance of commercial banks in Kenya iii) to establish the effect that economic capital has on the financial performance of commercial banks in Kenya and iv) to establish the opinion of banks' management on the effect that social and cultural capital has on the financial performance of commercial banks in Kenya.

The chapter is further organized in the following sections: 4.2: results of secondary data analysis; 4.3: descriptive statistics for the effect of social, cultural and economic capital; 4.4: inferential tests; 4.5: correlation analysis; 4.6: multiple regression results on the forms of capital on financial performance; 4.7: establishing the relationship between social capital and bank performance; 4.8: establishing the relationship between cultural capital and bank performance; 4.9: establishing the relationship between economic capital and bank performance; 4.10: establishing managers' perception on social and cultural capital has towards bank performance; 4.11: measuring managers perception towards social and cultural capital; 4.12: chapter summary.

4.2. Results of secondary data analysis

Secondary data that was collected from audited financial statements and reports by banks was analyzed using linear regression methods. The descriptive statistics of the models are presented below.

4.3. Descriptive statistics for the effect of social, cultural and economic capital

The summary of the results for each variable considered in the study are presented in table 4.1 the findings show that on average the return on assets is 5.852% for commercial banks. The maximum ROA was 10.28% with a standard deviation of 0.02337.

Table 4.1: Descriptive results for the variables

Variables	Observation	Descriptive Statistics					Normality Tests	
		Mean	Median	Std. Dev	Maximum	Minimum	Skewness	Kurtosis
ROA	37	0.02116	0.06119	0.02773	0.05998	-0.07013	-1.085	1.905
Economic capital	37	0.23397	0.1807	0.08434	0.45735	0.07901	1.090	1.285
Cultural Capital	37	0.7604	0.6675	0.4010	2.1496	0.2057	1.434	2.861
Social Capital	37	4.3986	4.1415	0.5832	5.5717	3.4951	0.415	-1.074
Asset Quality	37	0.0662	0.03130	0.0700	0.3018	0.0000	1.762	3.098

Author: Researcher**4.4. Inferential tests**

The data was analyzed to test the assumptions necessary for a linear regression. The validity tests undertaken included; test for heteroscedasticity, normality, autocorrelation and multi-collinearity.

4.4.1. Test for Heteroscedasticity

The data had to be tested to test if there was a variance of the constant term thus ending up in violation of the assumption of linear regression that it remain constant. This was investigated through the use of the Lagrange Multiplier (LM) Test to measure the level of heteroscedasticity in the model. The LM test compares the values of the test statistic against the tabulated value with the result depicting presence or absence of heteroscedasticity. Where the test statistic is greater than the tabulated value, this depicts heteroscedasticity and the reversal depicts presence of homoscedasticity. The null hypothesis is that the data is homoscedastic. The results for the LM test are indicated in table 4.2 with the findings showing that the tabulated statistics was less than the test statistic. Therefore the null hypothesis was rejected since the data was not homoscedastic.

Table 4.2 Heteroscedasticity tests

Test Statistics $X^{2(m)}$	TR^2
33.744	9.348

Author: Researcher

4.4.2. Normality test

The tests that were used to check the normality of data were skewness and kurtosis. While kurtosis is used as a measure of spread of tails of the distribution, skewness is used to measure the extent that data is not symmetric about the mean (Gujarati, 2003). Data is found to be normal when it is not skewed and its kurtosis is approximately 3 (Brooks, 2008). From table 4.3, the skewness of ROA is negative, indicating that the data was skewed to the left while economic capital, social capital, cultural capital, asset quality and asset quality were found to be positively skewed indicating the data was skewed towards the right. The value of Kurtosis for a normal distribution is 3 (Gujarati 2003). From the data, it is evident that though the data isn't perfectly normally distributed the variables are well distributed along the bell tails. Therefore the data though positively skewed, would appear to be normally distributed even though the kurtosis isn't exactly equal to 3.

Table 4.3: Descriptive Statistics for Normality tests

Descriptive Statistics for Normality tests						
	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
ROA	37	0.02116	-1.085	0.388	1.905	0.759
Economic capital	37	0.23397	1.090	0.388	1.285	0.759
Cultural Capital	37	0.7604	1.434	0.388	2.861	0.759
Social Capital	37	4.3986	0.415	0.388	-1.074	0.759
Log of Assets	37	0.0662	1.762	0.388	3.098	0.759

Author: Researcher

4.4.3. Test for Autocorrelation

Autocorrelation in the model was tested using the Durbin-Watson statistic which is also used to test for first order serial correlation under linear model assumption (Woodridge, 2013). This study used the Durbin-Watson statistic to test for autocorrelation where the null hypothesis of no existence of autocorrelation could not be rejected if the test result range was between 1.5 and 2. Durbin-Watson statistic for the model was 2.088 (Table 4.4) which shows slight autocorrelation of the variables in the model although the slight autocorrelation of the variables would not affect the model.

The finding of the model shows that the coefficient of determination is 90.1% which represents the change in the dependent variable, ROA, which is explained by the independents variables in the model, economic capital, cultural capital, social capital, and asset quality. This represents a strong positive relationship between the dependent and independent variables in the model. The remaining 9.9% is explained by factors not under the study. The p-value (0.000) is less than 0.05 at 95% confidence level. This means that the model is significant at 95% confidence level.

Table 4.4: Test for Autocorrelation

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df 1	df2	Sig. F Change	
1	.955	0.912	0.901	0.00873	0.912	82.732	4	32	0.000	2.088
a. Predictors: (Constant), Average-Economic capital, Cultural Capital, Social Capital, Asset Quality										
b. Dependent Variable: ROA										

Author: Researcher

4.4.4. Multi-collinearity

Multi-collinearity arises where two or more independent variables (predictors) are highly correlated (Gujarati, 2003; Brooks, 2008). Multicollinearity was tested using tolerance values and variance inflation factors (VIF). If tolerance was found to be close to 1, it meant that the correlation between variables wasn't enough to affect the model, but if it was closer to zero it would mean high correlation between the variables. There was little correlation if VIF was less than 10 meant little multicollinearity however if it was above 10 it would imply presence of multi-collinearity.

The results on the VIF and tolerance are presented in table 4.5. The VIF in the model ranged between 1.291 and 1.553 to the independent variables. The tolerance values for the model were between 0.644 and 0.774. This implied that the variables presented no multicollinearity that would affect the model. Cultural and social capital were significant in the model as presented with p-value (0.000) while ROA, economic capital and Asset quality were insignificant at 95% level of confidence since their p-values were above 0.05.

Table 4.5: Multi-Collinearity Statistics

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Economic capital	0.721	1.388
Cultural Capital	0.644	1.553
Social Capital	0.658	1.520
Asset Quality	0.774	1.291

Author: Researcher**4.5. Correlation analysis**

Correlation coefficient is measured through Pearson's correlation coefficient. It explains the relationship between variables, the direction of the relationship and if there exists any correlation (Gujarati, 2003; Brooks 2003). From the research data, the correlation matrix values' figures are shown in table 4.6.

Table 4.6: Correlation Analysis

		ROA	Economic capital	Cultural Capital	Social Capital
Economic capital	Pearson Correlation	0.097			
	Sig. (2-tailed)	0.567			
Cultural Capital	Pearson Correlation	-.925**	-0.214		
	Sig. (2-tailed)	0.000	0.203		
Social Capital	Pearson Correlation	.571**	-.342*	-.381*	
	Sig. (2-tailed)	0.000	0.038	0.020	
Asset Quality	Pearson Correlation	-.443**	-0.219	.446**	-0.200
	Sig. (2-tailed)	0.006	0.193	0.006	0.236
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Author: Researcher

The objective of the study was the relationship between forms of capital and financial performance of banks. From the table the highest correlation is 0.571 which is significant at 99% level of confidence ($0.000 < 0.01$). The correlation is between ROA and social capital which were found to be highly collinear. Correlation between the variables was less than 1 and this implied that the variables were not highly correlated.

From the results, ROA had a positive relationship with economic and social capital but a negative relationship with cultural capital and asset quality. This can be explained by the fact that cultural capital is a ratio incorporating operating expenses which would reduce returns if they were high hence the negative relationship. Asset quality also had a negative relationship because an increase in the non-performing loans leads to an increase in the written off loans and thus a decrease in bank income collected through loan interests. From the model, an increase in ROA could be explained by an increase in social capital (coefficient 0.571, p-value 0.000) and a decrease in asset quality (coefficient -0.443, p-value 0.006) which are significant since their p-values are less than either 0.05 or 0.01.

4.6. Multiple regression results on the forms of capital on financial performance

The main objective of the study was to establish the relationship, if any, that the forms of capital had to financial performance of banks in Kenya. Multiple linear regression was performed on data from 2016 which was after Kshs 1 billion core capital requirement on banks but also before most banks adopted integrated reporting and also before there was legislation requiring all loans to be priced equally by the banks. This model was consistent to others used by (Mathuva, 2009) and (Ongore & Kusa, 2013). Results of the models run using the data are presented in the tables below. Table 4.8 shows the results of the multiple linear regression. The tables show the results of the relationship between the independent variables to the dependent variable, ROA.

Table 4.7: Multiple regression results

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df 1	df2	Sig. F Change	
1	.955	0.912	0.901	0.00873	0.912	82.732	4	32	0.000	2.088
a. Predictors: (Constant), Asset Quality (Gross NPLs/Gross Loans and Advances), Social Capital (Log of Gross Loans and Advances), Economic capital (Total Capital to Total Risk Weighted Assets), Cultural Capital (Operating Cost to income Ratio)										
b. Dependent Variable: Performance (ROA)										

Author: Researcher

From the results in Table 4.7, it was found that the four models, regardless of the number of independent variables, were of good fit. This was measured through the F-Statistics which had a significance of 0.0000 which is below 0.05 at 95% level of confidence. The coefficient of determination (R squared) was 90.1%. This means that the independent variables in the models explain approximately 90.1% of the dependent variable in the model. The remaining 9.9% of the dependent variable can be explained by measures that were not included in this research. This shows that there exists a strong relationship between the variables. This is further enhanced since the model has a good fit at 95% confidence level (F=82.732, P value=0.000<0.05). This therefore shows that the independent variables chosen for the model have a high enough relationship to the dependent variable. The results could therefore be used to explain the relationship between the forms of capital and commercial bank performance based on the model and data chosen.

Table 4.8: Coefficients of the variables

	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(Constant)	0.010	0.018		0.567	0.575
Economic capital	0.002	0.020	0.005	0.084	0.934
Cultural Capital	-0.056	0.005	-0.813	-12.433	0.000
Social Capital	0.012	0.003	0.257	3.977	0.000
Asset Quality	-0.011	0.024	-0.027	-0.460	0.648

Author: Researcher

Results of the relationship between the independent variables on bank performance are shown in Table 4.8. This was done in order to test the direction that the variables would affect financial performance and if the effect was significant in the model. The significance of social and cultural capital in the model was significant (t value; -12.433, 3.977, p value = 0.000, 0.000) while economic capital and asset quality was insignificant (t value; 0.084, -0.460, p value = 0.934, 0.648). This may lead one to conclude that where asset quality is a controlling factor in the measure of profitability, economic capital has no significance on bank performance which would contradict findings by researchers who found that banks with huge assets sizes perform better than those with limited assets sizes (Hyun & Rhee, 2011; Njoku, 2014).

A negative relationship means that an increase in the operating expense to operating income ratio would result in the decrease of profitability by 5.6%. Economic and social capital both had positive relationships with performance. This meant that an increase in economic capital (t value = 0.084, p-value = 0.934) would result in an increase in profitability by 0.002. An increase in social capital (t value = 3.977, p value = 0.000) would result in an increase in profitability by 0.012.

The overall model that could be written from table 4.9 would be as presented below:

$$\text{FINPERF} = \beta_0 + \beta_1 \text{ECit} + \beta_2 \text{SCit} + \beta_3 \text{CCit} + \text{CONTROLS}$$

$$ROA = \beta_0 + 0.002EC_{it} + 0.012SC_{it} - 0.056CC_{it} - 0.011AQ$$

Where;

FINPERF represented financial performance at period t as measured through ROA

EC represented Economic Capital (measured by total capital to total risk weighted assets)

SC represented Social Capital (measured by log of gross loans and advances)

HC represented Cultural Capital (measured by operating cost to operating income)

CONTROL represented control variable (Asset Quality)

4.7. Establishing the relationship between Social capital and bank performance

Objective one of the research was to establish the relationship between social capital and bank performance. This was achieved using quantitative proxies that were identified by previous researchers (Kim, Park, & Wier, 2012; Lin, 1999; Njoku, 2014). The proxies were then calculated from the audited financial statements of commercial banks in Kenya in 2016 which was the period under study. The data was then analyzed and there exists a positive significant relationship between social capital and bank performance with a t-value of 3.977 and a p-value of 0.000 which is less than 0.05 which is significant. This is consistent to findings of (Kim et al., 2012; Lin, 1999; Lorrain & White, 1973) who found that social capital had a significant relationship on bank performance arguing that when banks had a larger network, they could draw enough capital from the market, especially from customer deposits which are considered to be cheaper than shareholder's equity. The capital would then be used to increase the banks' capacity to give loan and advances to borrowers which would thus increase income, earned through interest, to the commercial bank.

4.8. Establishing the relationship between Cultural capital and bank performance

Objective two of the research was to establish the relationship between cultural capital and bank performance. This was achieved using quantitative proxies used to measure cultural capital that were identified from previous researches in the literature review. These ratios were then identified from the audited financial statements of commercial banks in Kenya in 2016, which was the period under study. The data was analyzed and showed that there exists a negative relationship between cultural capital and bank performance with a t-value of -12.433 and a p-value of 0.000 which is less than 0.005 at 95% level of confidence. This is consistent with findings of (Kosmidou, 2008; Mathuva, 2009; Odunga et al., 2013) who found that management and operational efficiency were significant factors in bank financial performance. Cultural capital maintained a significant

relationship with ROA when control variables were included in the model therefore showing that operating expenses have to be reduced by managers in order to ensure that profitability was achieved and maintained.

4.9. Establishing the relationship between Economic capital and bank performance

Objective three of the research was to establish the relationship between economic capital and bank performance. This was achieved using quantitative proxies that were identified by previous researchers (Berger, 1995; Flamini et al., 2009; Mathuva, 2009; Ongore & Kusa, 2013). The proxies were then calculated from the audited financial statements and annual reports of commercial banks in Kenya in 2016 which was the period under study. The results of the study were not consistent with previous studies' findings that there was a significant relationship with a t-value of 0.084 and a p-value of 0.984 which is greater than 0.005 (Athanasoglou et al., 2008; Atikogullari, 2009; Berger, 1995; Flamini et al., 2009; Gudmundsson et al., 2013; Kosmidou, 2008; Mathuva, 2009). It however conformed to the findings of Burt, (1997) who argued that while cultural and social capital influenced performance, economic capital did not have a significant enough effect.

4.10. Establishing managers' perception on Social and Cultural capital has towards bank performance

Objective four of the study was to investigate the perception that managers in commercial banks have towards cultural and social capital. This was measured through data collected using a questionnaire with a Likert scale. The questions were formulated using key performance indicators adopted from the IR framework which is a universal tool introduced by the IIRC for integrated reporting in all industries in the world. This ensured that data collected had globally accepted parameters of measurement thus reducing bias of the researcher.

Data collected from the questionnaires was coded and diagnostic test were conducted to measure the reliability of the data. This was important to investigate if the data collection tool used could provide reliable data for the study. The study used frequency tables and descriptives to analyze the various managers' responses in order to understand their perception towards the identified measures of cultural and social capital. The questions were in a scalar form and were close ended. From the scale; 0 represented none at all, 1 represented (0 to 20%), 2 represented (20-40%), 3 represented (40 to 60%), 4 represented (60-80%) and 5 represented (80-100%).

4.11. Measuring managers perception towards Social and Cultural Capital

The questionnaire was divided into two main sections with questions measuring cultural and social capital. The questions were drawn from key performance indicators identified by the IIRC and the respondents were provided with a scale of measurement. Data showing the responses by managers was represented in table 4.9. The mean, median and mode show descriptive statistics together with the frequency statistics percentages for each of the questions addressed in the questionnaire.

Table 4.9: Measuring managers' perception

Descriptive Statistics : Cultural capital and Social Capital				
		N	Mean	Standard Deviation
Q1	Operation budget used for IT purchase & maintenance	20	2.50	0.761
Q2	Operation budget used for IT development (R&D)	20	2.10	1.071
Q3	Customers utilizing online banking	20	3.35	1.040
Q4	Percentage of transactions conducted on online platforms	20	2.90	0.912
Q5	Number of employees with business-related degree	20	3.05	1.234
Q6	Average tenure that employees have worked	20	1.80	0.894
Q7	Employee turnover	20	1.75	0.786
Q8	Operating budget used for employee costs	20	2.50	0.827
Q9	Cost of employee training the bank caters for	20	2.85	1.182
Q10	Total annual hours used for employee trainings	20	1.60	0.883
Q11	Total training sessions expected to be attended	20	3.45	1.638
Q12	Employees with leadership and development training	20	1.40	0.503
Q13	Board membership comprising non-employees	20	2.65	1.565
Q14	Board membership with non-business related expertise	20	1.85	0.988
Q15	Board members who have served in the same committee	20	1.90	0.912
Q16	Loan portfolio comprising contribution to community	20	1.60	0.883
Q17	Loan portfolio to SMEs	20	2.55	0.887
Q18	Proportion of profits used to help society (CSR)	20	1.35	0.587
Q19	Lending with less financial emphasis (ethical investments)	20	2.25	1.650

Q20	Proportion of environmental and social impact on lending score	20	2.90	1.294
Q21	Proportion of local companies and suppliers	20	4.05	0.979
Q22	Women in senior management positions	20	1.95	0.999
Q23	Local citizens in senior management positions	20	4.55	0.510
Q24	Proportion of employees domiciled in the branch location	20	3.65	1.182
Q25	Proportion of CSR committee that are non-employees	20	0.95	1.050

Author: Researcher

The mean helped to present a better understanding on the data showing if the responses were by consensus (mode) or on centered (median). This would show whether managers had the same perspectives towards a certain measure or if their opinions were divided and this presented an area of different philosophical engagement in business. The standard deviation was used to measure how much responses by managers varied between themselves. The responses are represented in table 4.9.

The first question focused on operation budget proportion used for purchase and maintenance. The average response was 2.5 with a deviation from the mean of 0.76 this means that respondents range between 40-60% with a deviation of 0.76. The respondents were then asked about the operation budget used in research and development with average response of 2.1 and a deviation of 1.07. This might be attributed to banks purchasing software that is widely used within the industry and spending less amounts on research and development. The average response about the number of customers utilizing online banking was about 3.35 with a deviation of 1.04. This was similar to the average response on the amount of transactions conducted on online platforms which had a mean of 2.9 with a deviation of 0.912. The average response on the number of employees with a business-related degree was 3.05 with a deviation of 1.23. This showed that most of the employers had a consensus on the importance of business-related degree in the banking sector. The average response on tenure of employees was 1.8 with a deviation of 0.89 and the average response in regards to employee turnover was 1.75 with a deviation of 0.78. This shows that employees in the industry stayed for a similar period in the banks.

The respondents were then asked about training. The average response on the operating budget used for employee costs was 2.5 with a deviation of 0.82. This means that approximately 60% of operating budget was utilized on employee costs. The average response on the cost of employee

training catered for by the bank was 2.8 with a deviation of 0.88. This meant that banks catered for approximately 60% of training costs of employees. The average response of annual hours worked that were used for employee trainings was 1.6 with a deviation of 0.88 which meant that employees spent less than 20% of their total annual hours in training. The average response on total training sessions that employees were expected to attend was 3.45 with a deviation of 1.638 which meant that there was no consensus and different banks required their employees to undergo training sessions which may be attributed to specialization. The average response on employees with leadership and development training was 1.4 with a deviation of 0.5 which signified a similar number of employees with leadership and development training at 20% which may be the senior management. The average response on board members who had never worked in the bank was 2.65 with a deviation of 1.565 which was high and could be interpreted to mean that they ranged between 20% and 80% in different banks hence it is not a moderated factor. The average response on board members without business-related expertise was 1.85 with a deviation of 0.98 which meant that there was a general consensus that around 40% of members to the board comprised of members without business related expertise. The average response rate on the members of the board who had served in the same committee since joining the board was 1.9 with a deviation of 0.91 which meant that board members who had served in the same committee were at less than 20%.

The respondents were then asked questions on loan portfolio. The average response rate on the contribution to the community was 1.6 with a deviation of 0.88 which meant that the banks provided approximately 40 % of their loan portfolio as loans to the youth, women groups and disabled groups. The respondents were then asked about the loan portfolio to small and medium enterprises (SMEs). The average response rate was 2.55 with a deviation of 0.887. This could be translated to mean that banks gave up to 60% of their loan portfolio to SMEs which have been considered to be most profitable segments due to their rapid growth and expansion although they are also considered to be riskier than government securities. The average response rate for the proportion of profits used to help the society in CSR activities was 1.35 with a deviation of 0.587. This meant that although banks engage in CSR activities, they reserve only 20% for CSR from their profits. This is in line with their core business which is profit maximization and may be due to lack of regulation on such contributions. The average response rate for ethical investments which focused less on returns but more on CSR or environmental matters was 2.25 with a deviation

of 1.65. This showed disparity in the ethical investments and could be attributed to the fact that some banks may not be in a position to engage in no-profitable lending due to lack of enough funds or due to constraints placed by shareholders in terms of profit targets. The respondents were then asked about the proportion of environmental and social impact on their lending score with average response at 2.9 with a deviation of 1.29. This shows that while environmental and social impact are important in the loan score, there is a slightly high deviation and thus some banks may not necessarily place emphasis on this.

The average response for the proportion of local companies and suppliers was 4.05 with a deviation of 0.979 which meant that the banks were trading with local suppliers more perhaps due to availability of cheap supplies and labor. It could also be to secure local business since they could then extend favorable terms to the suppliers who would borrow leading to growth in loans and advances thus ensuring the commercial banks continued receiving income from interest. The average response for locals in senior management was 1.95 with a deviation of 0.999 which meant that women have still not been able to penetrate senior management in the commercial banking industry perhaps because it has been regarded as a male-dominated field and therefore change is not easily embraced. The number of women in senior management did not influence the number of local citizens in senior positions with an average respondent rate of 4.55 and a deviation of 0.51. This showed that majority of respondent banks had over 80% of senior management as local citizens. This may be as a result of employees being promoted after long tenures in the bank. The average response of the proportion of employees domiciled in the area that the branch was located in was 3.65 with a deviation of 1.18 which meant that most employees approximately 80% were residents of the county in which the branch they worked at was located. The final question focused on CSR committee membership where members not employees. The average response of 0.95 with a deviation of 1.05 which meant that CSR committees were strictly an internal activity with bank management skeptical of bringing in outsiders to take part in the CSR committee's engagements. This could perhaps be linked to the low proportion of profits set aside for CSR activities.

4.12. Chapter summary

The main objective of the study was to examine the effect that the forms of capital had on financial performance in commercial banks in Kenya. Data was obtained from both primary and secondary sources. Quantitative data was analyzed from 37 banks for the year 2016 and qualitative data was

analyzed from 20 banks. From the findings it was found that social and cultural capital had a significant relationship when regressed against financial performance proxies while economic capital was insignificant. Social and economic capital maintained their positive relationship towards financial performance while cultural capital had a negative relationship towards financial performance. The overall model showed that the variables explained up to 90.1% of financial performance in the commercial banks in Kenya and this showed that there was a strong enough relationship.

CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter summarizes the findings of the study and the discussions that were derived from the data that was analyzed in the previous chapter. The chapter is divided into the following sections; 5.2: summary of study objectives and methods; 5.3: discussion of findings; 5.4: conclusion; 5.5: research recommendations; 5.6: limitations of the study; and 5.7: suggestions for further studies.

5.2. Summary of Study Objectives and methods

The study sought to establish whether cultural, social and economic capital had a significant effect on the financial performance of commercial banks in Kenya. From the empirical literature quantitative determinants that were used to measure the different variables in the study were identified. Qualitative determinants used to measure managers' perceptions were also identified and measured through questionnaires. The effect of cultural, social and economic capital was assessed using a regression model. The model regressed the quantitative proxies identified; capital adequacy ratios, operation cost to income ratio, and log of gross loans and advances with a control variable; non-performing loans to gross loans and advances. The results were presented in tables and inferences were drawn. The data from the questionnaires used in the study was presented using descriptive statistics such as mean, mode, median and standard deviation. Managers' perception was analyzed using descriptive statistics such as mean and standard deviation presented in tabular form. Diagnostic tests were also applied to establish if the model violated any assumptions of regression. The tests carried out on the quantitative data included; multicollinearity, correlation, heteroscedasticity and autocorrelation tests. The questionnaire was also tested for reliability of data collected through Cronbach alpha test.

5.3. Discussion of findings

The objective of the study was to establish whether cultural, social and economic capital had a significant effect on the financial performance of commercial banks in Kenya. The findings of the study were arrived at by analyzing both primary and secondary data. The following is a discussion on the four objectives of the study.

5.3.1. Social capital and financial performance

The study sought to establish the effect, if any, that social capital had on financial performance. This was achieved by using proxies identified from empirical studies conducted before. From the analysis, it was found that when regressed, social capital had a positive significant relationship with return on assets. The findings from the regression conform to those by (Lin, 1999) who found that social capital was a significant determinant in a firm's financial performance.

5.3.2. Cultural capital and financial performance

The study sought to establish the effect, if any that cultural capital had on financial performance in Kenyan commercial banks. This was achieved by using proxies that were identified from prior empirical studies conducted. From the analysis of the data collected, it was found that when simply regressed cultural capital had a negative relationship with return on assets. The relationship was also found to be significant at 95% confidence level. Cultural capital remained significant in the model and this conforms to findings by Mathuva, (2009) who found that banks had to reduce expenses and increase operation efficiency to remain profitable.

5.3.3. Economic capital and financial performance

The study sought to establish the effect, if any that economic capital had on commercial bank financial performance in Kenya. This was achieved by using proxies identified from prior empirical studies conducted. From the analysis of data, it was found that economic capital had no significant relationship with return on assets. The significance contradicted the findings by (Athanasoglou et al., 2008; Berger, 1995; Ezike & Oke, 2013; Flamini et al., 2009) who found that capital adequacy ratios were significant factors of bank financial performance.

5.3.4. Managers' perception on social and cultural capital

The study sought to measure the perception that managers had on social and cultural capital through the use of a questionnaire formed from units of measurement identified by the IIRC in the integrated reporting framework. This included; information technology in the banking industry, employee qualifications, experience and training, board membership and composition, lending portfolio in the society and sustainability index and employee composition within the organization. The first section of the questionnaire featured questions on cultural capital measures identified from the IR framework. They included the use of information technology within the organization. The results showed that most banks have invested in information technology and although the

degree may vary this may be attributed to the size of the organization with larger banks able to invest more in IT than smaller banks. They could also invest in research and development so as to improve their operation efficiency, reduce cost both within and outside the organization and improve operations with most banks trying to push for their clients to transact away from the banking halls. This has been successful in some banks without tellers in certain branches.

The next section covered employee education, experience and training. From the data it was evident that managers value business degree graduates which may be because they possess knowledge of the financial industry. The managers were also asked about the employee tenure and turnover so as to measure the level of experience of the employees. While the managers claimed low levels of turnover, the tenure of employees was contradictory which implied that employees may enjoy relative ease moving between jobs in the banking industry which conforms with Anheier et al., (1995) and Gomez & Santor, (2001) who found that certain professionals enjoyed ease moving within the industry courtesy of their education, experience or networks they had built. It would be worth noting that this data may be considered sensitive by banks thus they may not want to disclose it. The researcher also found that banks invested in training of their staff within their operation budget which may conform to Bourdieu's argument that skills can be passed from one individual to another and training is found to be an effective tool. Managers not only invested in the training programs for their staff but also expected them to attend the trainings. This could also be attributed to the changing dynamics and technology in the banking industry that force employees to be prepared to mitigate any risks that arise from the change in technology. Despite the resources invested in training, the percentage of staff who undertook leadership and development training was relatively low which may indicate that employees were either not willing to take the program since they don't expect to be at the institution or that they feel that they may not learn any new skills after all the years of experience which would conform to Bourdieu's argument that skills can only be acquired to a certain degree beyond which the individual feels that it is no longer beneficial (Bourdieu, 1986; Throsby, 1999).

The final section of questions focused on cultural capital was focused on board membership in an effort to measure the effectiveness of a board in bank operations. It focused on the tenure, expertise and diversification of board members. From the data collected it was established that board members had diverse backgrounds and did not necessarily have to have worked in the bank before or have a business related education. This may be a mitigation against familiarity so as to boost

corporate governance within the bank. While the tenure of board members in the same committee was almost normally distributed, 50% of respondents answered that they had board members in the same committee since they joined the board. This may be in a bid to reduce information dissemination especially in the sensitive areas like the audit committee or attributed to private banks who's board membership isn't regulated by law therefore some members may enjoy permanent membership in some committees where majority shareholders feel their interests may be best looked after.

The investment in cultural capital so as to improve operations shows that managers still invest in components of cultural capital in a bid to improve their operations in a bid to reduce inefficiency and increase financial performance of the institutions since inefficiencies lead to losses.

The following section of the questionnaire focused on identified measures of social and relationship capital from the IR framework (White, 2013). The questions covered areas such as lending portfolio to different groups and ethical lending, local and foreign involvement in the banks' management and operations and corporate social responsibility. These parameters were identified in addition to the social and relationship measures in the IR Framework and introduced so as to measure the impact that bank managers; through their lending, operations, management and social responsibility felt that bank operations influenced the community.

From the data it was found that despite belief that banks are only out to make supernormal profits from clients as was argued by Kiweu, (2012) different managers attempted to diversify to community, represented by women and youth groups, and ethical investments. They also weighed their lending to SMEs and were keen on the social and environmental impact that different clients had in the community. Despite dividing their portfolios to accommodate the different groups and taking other social factors into consideration other than the most profitable ventures, 70% of the respondents answered that they contributed less than 20% of their profits to CSR projects. This finding was further reinforced by the fact that even the CSR committee that identifies the projects to invest in was comprised of mainly employees of the bank. This was identified when most respondents answered that less than 40% of the members of the CSR committee were non-employees. This may indicate that bank managers felt that the accommodation of different groups and criteria when lending was enough contribution to the community as their core business is lending to make profit to meet their obligations (Hyun & Rhee, 2011; Tarbert, 2000).

Respondents were also asked about their interaction with local and foreign suppliers and citizens. Majority of the respondents replied to trading majorly with local suppliers with 90% answering that they traded between 40-100% with local suppliers. This could be attributed to the banks engaging local suppliers in a bid to encourage them to bank their money in their banks so as to shore up their deposits and enable them to lend more (Berger, 1995). Banks' engagement of the local communities was also extended to workforce and senior management. This was evident where 100% of the banks had over 60% of their senior management as local citizens which may be due to the fact that majority of the banks are locally owned albeit privately and the CBK also encouraged banks to have more local senior management as there are more qualified professionals who can hold the positions. The respondents also answered that 90% of their staff resided in the specific counties where their branches were located perhaps an indication that employees opted to work closer to their area of residence or owing to the fact that banks have been able to expand over the years thus they are present in different counties. The final question was on representation in the top management in banks. Approximately 75% of respondents answered that they had less than 40% of women in top management. This could be attributable to the fact that banking was dominated by men and therefore women had found it difficult to penetrate this tight network. It was worth noting that 25% of the respondents said that between 40-80% of their top management were women which could indicate some shift from the predominantly male domain.

From the data collected it was evident that bank managers were considerate of the effect that some of the parameters of social capital and attempted to ensure that they were well addressed in order to keep the communities satisfied so that they could continue to enjoy their social contract.

5.4. Conclusions

The study established that there exists a relationship between financial performance and the individual forms of capital through theoretical literature and empirical studies that had been conducted before. The study found that while social and cultural capital had significant influence on financial performance, economic capital had no significant effect. Therefore the study ultimately found that cultural and social capitals, measured through cost to income ratio and log of total loans and advances, were important factors in determining financial performance in banks in Kenya. The study also established that management ought to reduce costs of operation in order to achieve positive financial performance and further ensure that they maintained adequate levels of social capital.

The study also found that banks had increased the use of technology, level of education and training, corporate governance through board committee membership, corporate social responsibility and employee diversity in an effort to create competitive advantage. This would be in line with their attempts to remain competitive and maintain positive financial performance.

5.5. Research recommendations

5.5.1. Policy recommendations

The study established that there existed a strong enough relationship between social and cultural capital and financial performance. This could be attributed to the fact that banks operate in multi-dimensional environment where they affect and are affected by different stakeholders. There has been adoption of integrated reporting by some commercial banks in Kenya and the regulator should investigate any positive implications of full adoption while also providing guidelines. This will ensure that banks do not simply adopt it for the sake of complying.

5.5.2. Managerial recommendations

The study established that managers' actions are important since they may influence the way the banks maintain positive financial performance. Through effective management of operation costs they should be able to ensure positive financial performance in banks. This may be affected by regulatory capital and their social networks. This is done through advertising themselves, providing services that customers need and in an efficient way for example through use of technology. They should also find ways to ensure that their employees are efficient and have mentorship programs to ensure that skills learnt during training are passed to other employees without them having to undergo the same training sessions. This is because the training sessions may be repetitive thus leading to time and money wastage by both the banks and their employees who may have simply learnt it from predecessors who attended the training.

5.6. Limitations of the study

The study mainly relied on data from audited annual financial statements and annual reports and primary data collected through questionnaires. The number of banks that had provided integrated reports was too small and they could not be used to draw appropriate conclusions regarding the entire industry.

The study also adopted definitions of cultural and social capital from previous studies and adjusted them to the banking industry context. The study considered variables that had mixed results from previous studies conducted in developed markets.

The researcher also encountered limitations while conducting the study particularly during data collection and had to constantly follow up on the questionnaires so that the respondents could provide the data that was sought after. This was done through direct follow-up calls and emails to respondents.

The area of study on assessing the effect that social and cultural capitals have on financial performance is not an eminent area of research with most studies focused on the effect that economic capital has on financial performance. Because of the little research into this area scholarly articles on the area of study in the country scarcely existed. This forced the researcher to rely on publications on social and cultural capital within different industries from other countries and regions.

5.7. Suggestions for further studies

The study relied largely on audited annual reports as the main source of quantitative data. Further studies can examine internal management accounts and other reports, for example integrated reports published by commercial banks.

The study considered banks that were in operation in the year 2016. Additional studies can consider banks that had failed or been acquired or placed under liquidation over an extended period. The studies could also test the possible effect that the new finance act, that introduces rate capping on loans and deposits, may have on the forms of capital in Kenya. The effect of integrated reporting could also be tested as some banks have prepared integrated reports in Kenya and further research can be done to establish if it will have any effect on their performance.

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APPENDIX I: Questionnaire

Part 1: General information

Position held in the organization

Department

INSTRUCTIONS

- I. You are kindly requested not to write your name anywhere on the questionnaire.
- II. The information you give will be treated with confidentiality and used for research purposes only.
- III. Kindly provide answers to the questions as honestly and precisely as possible by indicating appropriately by ticking on the statement that best explains your position (√)

Part 2: The questions in this section will be used to measure Intellectual and Human Capital in the Organization to measure the cultural capital.

1. What proportion of total operating budget accounts for Information Technology (IT) costs? (Purchasing and maintenance)

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

2. What proportion of total operating budget is allocated for Information Technology (IT) development within the organization? (Research and Development)

- 0 to 20% ()
- 20 to 40% ()

- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

3. What proportion of your customer base utilize online banking? (online and mobile banking)

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

4. How much of your transactions are conducted through online platforms? (mobile and online banking, use of agents and ATM withdrawals)

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

5. How many of your employees have a business-related degree?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

6. What is the average tenure in years that your employees have worked?

- Less than 1 to 5 ()
- 6 to 10 ()
- 11 to 15 ()
- 16 to 20 ()
- Above 20 ()

7. What is the employee turnover in your bank?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

8. What proportion of total operating budget accounts for employee costs?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

9. What proportion of the total cost of employee trainings does the bank cater for?

- None at all (0%) ()
- 1 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()

80 to 100% ()

10. What proportion of the total annual hours worked are used for employee trainings?

0 to 20% ()

20 to 40% ()

40 to 60% ()

60 to 80% ()

80 to 100% ()

11. What proportion of the total training sessions are employees expected to attend?

0 to 20% ()

20 to 40% ()

40 to 60% ()

60 to 80% ()

80 to 100% ()

12. What proportion of employees has attended leadership and development programs?

None at all (0%) ()

1 to 20% ()

20 to 40% ()

40 to 60% ()

60 to 80% ()

80 to 100% ()

13. What proportion of the Board membership is made up of non-employees from the bank? (those people who have never worked for the bank as employees)

None at all (0%) ()

1 to 20% ()

- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

14. What proportion of the Board membership is made up of experts from non-business related fields?

- None at all (0%) ()
- 1 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

15. What proportion of the Board membership has served in the same committee since joining the board committee?

- None at all (0%) ()
- 1 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

Part 3: This section will be used to measure Social Capital in Banks through social relationship with stakeholders in the community

16. What proportion of your loan portfolio are contributions to the community? (Youth, Women groups and Disabled groups)

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

17. What proportion of your loan portfolio is lending to SMEs?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

18. What proportion of your profits is used in helping the society? (CSR projects)

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

19. What proportion of your loan portfolio is lending to ethical investment?

(Ethical investment emphasizes more on environmental and social impacts than financial returns, in the selection process)

- None at all (0%) ()
- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

20. In your lending scoring system, which proportion does environmental and social impact take? (where 1 is least and 5 is the most)

- 1 ()
- 2 ()
- 3 ()
- 4 ()
- 5 ()

21. What is your sustainability index rating?

- 1 ()
- 2 ()
- 3 ()
- 4 ()
- 5 ()

22. What has been the rating of the bank in any independent award system?

- 80 to 100 % ()
- 60 to 80 % ()

- 40 to 60 % ()
- 20 to 40 % ()
- 0 to 20 % ()

23. What proportion of your total suppliers are local companies or suppliers?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

24. What proportion of the senior management are women?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

25. What proportion of your senior management are local citizens?

- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

26. What proportion of employees come from the respective counties where the branch is located?

- 0 to 20% ()

- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()

27. What is proportion of the CSR committee members that are non-employees of the bank?

- None at all (0%) ()
- 0 to 20% ()
- 20 to 40% ()
- 40 to 60% ()
- 60 to 80% ()
- 80 to 100% ()