International Journal of Business Management and Processes (IJBMP)
Vol 3. Issue No.2. May, 2018. PP 26-39. ISSN 2616-3209

EFFECT OF ASSET RESTRUCTURING ON RETURN ON EQUITY OF FINANCIALLY DISTRESSED COMMERCIAL BANKS IN KENYA

Rose Kemunto Maroro[1], John Gathii Kamau[2] & Joel Koima[3]

[1]School of Business and Economics, Kabarak University
[2] School of Business and Economics, Kabarak University
[3]School of Computer Science and Bioinformatics, Kabarak University

Received: May 10, 2018
Accepted: May 25, 2018

Abstract

Commercial banks need proper asset restructuring so as to stage a remarkable growth of the banking industry as well as revitalize their management efficiency. These banks must evaluate their performance and where possible restructure their assets to minimize costs and increase efficiency. In developed and developing countries, commercial banks have had asset restructuring being widely used in an endeavor to improve their performances. While in most cases asset restructuring is employed when a given structure becomes dysfunctional, some companies and economies restructure to achieve a higher level of performance and also as a means to survive. Growing competition and globalization along with tightened fiscal policies have caused commercial banks to strive for greater efficiency as well as increased cost effectiveness whose ultimate result is improved financial performances. In many cases, the desired results cannot be achieved without subjecting the corporate strategy and structure to some transformation. In this context, restructuring is no longer just an option but a necessity for survival and growth. This study sought to determine the effect of asset restructuring on return on equity of financially distressed commercial banks in Kenya. Non-performing assets were found to have a regression coefficient of -1.4696 and a p-value of 0.0247<0.05 at 5% significance level. This imply that non-performing assets have negative significant effect on Return on Equity (ROE) of financially distressed commercial banks. Hence, a unit increase in non-performing assets of a financially distressed commercial bank would occasion to 1.4696 decrease in its return on equity. Thus, the null hypothesis that non-performing assets have no significant influence on profitability of a financially distressed commercial bank in Kenya was rejected at 95% degree level of confidence. This could be attributed to the fact that a default of loan facility increases the ratio of bad loans (non performing assets) and force commercial banks to make higher provisions, which means lower profitability.

Keywords: Asset Restructuring, Financially Distressed Commercial Banks, Return on Equity

I.Introduction

Different restructuring strategies are employed by organizations depending on the nature of their businesses, structure and size in order to achieve their desired level of output (Jain& Moreno, 2015). These organizations formulate financial and structural policies so as to achieve their respective desired performance levels. Some common strategies that commercial banks have greatly utilized to enhance their productivity include loan restructuring, mergers and acquisitions, restructure of non-performing assets and written off assets among others (Apostolov, 2014). Heywood and Kenley (2008) claim that organizations that actively manage their business portfolios through acquisitions and divestitures create substantially more shareholder value relative to those kept in a fixed business line up. Asset restructuring is a cost that may occur during the entire process of an organization strategically writing off its assets or sometimes shifting the entire production facility to any new location, shutting down the manufacturing facilities and uniquely laying off all the non-strategic employees.

According to Johnson, Scholes and Whittington (2008), restructuring an organization requires a restructurer's superb ability to identify and maximize the restructuring opportunities in the business line. This calls for an individual who can identify the problem and its root cause or causes, and thus capable of formulating the best approach to counter the problem and any other issue arising out of the problem. Once a company is experiencing trouble at meeting payments of its debts, it will often consolidate and alter the terms of the debt in a debt restructuring, creating a way to pay off its creditors. A company restructures its operations or structure by cutting off costs such as payroll, or sinking its size through the disposal of assets.

The theory of resource-based view emphasizes that internal resources of the organization should be utilized effectively in formulating a strategy aimed at achieving a sustainable competitive advantage in the markets (Gutierrez, Alcaraz, Susaeta, Suárez & Pin, 2015). A firm that possess and exploit resources and capabilities that are valuable and rare will attain a competitive advantage in its operational industry. However, Watve (2014) argue that if an organization is seen to have resources which can be restructured to provide it with competitive advantage, then its perspective does indeed become inside out. In other words, its internal capabilities determine the strategic choice it makes in competing in its external environment. In some cases, organization’s resources may allow it to create new markets and value for its customers. Nevertheless, organizational capabilities involve combinations of human skills, organizational procedures and routines, physical assets, and systems of information and incentives that enhance performance along with a particular dimension (Bertrand, Betschinger & Petrina, 2014).

The banking industry in Kenya has over the past years made great adjustments aimed at improving the industry performance. This should be noted in line with the fact that the banking sector plays a significant role in the growth of economies all over the world, Kenya being not an exception (Bhatt,et al., 2004). However, due to liberalization, globalization, technological advancement and more enlightened customers, the banking sector has been faced with massive non-performing loans, high overhead costs, and challenging operating environment. Therefore, banks have had to restructure their business operations by downsizing, focusing on customers care, tailored/customized products and restructuring of non-performing loans to improve their financial performance and shareholder value (Karanja, 2015).

In developed and developing countries, commercial banks have had asset restructuring being widely used in an endeavor to improve their performances (Laeven & Valencia, 2010). While in most cases asset restructuring is employed when a given structure becomes dysfunctional, some companies and economies restructure to achieve a higher level of performance and also as a means to survive. Growing competition and globalization along with tightened fiscal policies have caused commercial banks to strive for greater efficiency as well as increased cost effectiveness whose ultimate result is improved financial performances. In many cases, the desired results cannot be achieved without subjecting the corporate strategy and structure to some transformation. In this context, restructuring is no longer just an option but a necessity for survival and growth (Schuler & Rogovsky, 2007).

In recent decades, a significant number of countries have experienced financial distress of varying severity and some have suffered repeated bouts of difficulty (Mulherin & Boone, 2000). Financial distress refers to a situation where an entity cannot meet, or has difficulty paying off, its financial commitments to its creditors, usually as a result of high fixed costs, illiquid resources or incomes sensitive to prevailing economic downturns. A financial institution in financial distress can suffer costs correlated to the situations like more costly financing, opportunity costs of projects and less productive workforce. Employees of a troubled firm normally have inferior morale and advanced stress instigated by the amplified chances of bankruptcy that would render them out of their normal jobs.

Imbo (2014) noted that the best warning signs of financial crises are proxies for the vulnerability of the banking and corporate sector. He showed that full-blown banking crises are associated more with external developments, whereas internal variables are the leading indicators of severe but contained banking distress. He further stated that the most obvious indicators that can be used to predict banking crises are those that relate directly to the soundness of the banking system. Restructuring, Reengineering, transformation, renewal and reorientation are words that describe a change in how business is conducted (Bish, Newton, Browning, O'Connor& Anibaldi, 2014). Only those firms that are ready to embrace restructuring and reengineering can be satisfied in the present world.

Asset restructuring involves re-organization of property, buy-back, corporate restructuring, acquisitions, mergers, joint ventures and strategic alliances (Nazemroaya, 2015). Asset restructuring therefore entail effecting changes on structures to achieve balanced operative results. However, financial reorganization results to bringing balance in assets and equity funds, short-term and long-term financing, to make reduction in finance charges, reduce loss of capital, increase earnings per share, improve market value of shares and lessen the control of financiers on the management of company, among others (Aurora, 2010). The first objective of asset restructuring is to take measures that avert impending insolvency and to ensure the short-term survival of the business. This is the prerequisite for a sustainable restructuring process. The medium and long-term goal of asset restructuring is the reestablishment of a healthy and robust capital structure. Asset restructuring often goes hand in hand with active recapitalization which puts the final prerequisites in place for adequate equity capital and cash flow to fund future profitable growth (Maseno, 2014).

Asset restructuring can also be termed as the process of reorganizing a business' assets and liabilities. The process is often associated with corporate restructuring where an organization's overall structure and its processes are revamped (Barney & Turk, 2016). Many businesses hold liabilities, which are debts or other obligations that arise as a result of past transactions. Economic forces will often have the most significant impact on the success or failure of the business hence asset restructuring is likely to focus on effectiveness while managing assets and reducing liabilities. Asset restructuring involves the infusion of investment to either finance leveraged buyouts or to buy back stocks from equity investors or even to pay dividends. Wilson, Wright, Siegel and Scholes (2012) argue that changes in asset structure can be achieved by recapitalization, conversion of property into equity and stock purchase. According to Decker and Mellewigt (2007), this type of asset restructuring is identified by changes in the firm's asset structure. Changes can include investment for equity swaps, leverage buyouts and even some form of recapitalization. The largest returns in asset restructuring come from leveraged and management buyouts. Increased emphasis on cash flows and changes in managerial incentives can be the common effects of asset restructuring.

When a company, whether operating in the line of financial sector or not, is experiencing trouble while making payments on its debt, it will often consolidate and adjust the terms of the debt in a debt restructuring, creating a way to pay off bond holders. A company restructures its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets. Hoskissonet al., (2004) defined restructuring as the act of reorganizing the legal, ownership, operational or other structures of a company for the purpose of making it more profitable and better organized for its present needs. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, a response to a crisis or significant change in the business such as bankruptcy, repositioning or buyout. Furthermore, they argued that a company that has been restructured will theoretically be leaner, more efficient, better organized and focused on its core business with a revised strategic and financial plan. Restructuring has been adopted by managers in several industries so as to streamline cost, increase productivity and revenues, improve employees' welfare, increase shareholders wealth, enhance efficiency and improve performance among other reasons. Adger (2001) suggests that the banking industry has transformed from predominantly country-centered or government-run agencies to increasingly competitive, innovative and market-led organizations.

Restructured loans simply refer to new loans that replace the outstanding balances on older loans are normally paid over a longer period, usually with a lower installment amount. The loans are commonly rescheduled to accommodate a borrower in financial difficulty and, thus, to avoid a default. They are also known as rescheduled loan. According to Mason and Asher (2010), in throwing lifelines to defaulting companies, banks are giving current loans to enable them to pay interest on old loans and converting working capital outstanding into term loans. Such deals, better known as ever greening of risky loans, are being struck by almost all corporates who are taking refuge in the Central bank of Kenya new norms that allow restructuring of loans. This is often referred to as deep restructuring in the banking setup (Mamatzakis, Matousek& Vu, 2015). Close to a few thousand of loans are at various stages of such broad restructuring. On the bright side, disbursing new money would keep several companies afloat and help banks hide bad loans. Nevertheless, the move could backfire on lenders if borrowers continue to find their fortunes declining (White, 2010).

To restructure an account, a bank gives a borrower longer time to repay the loan and in particular cases, a borrower is given a special dispensation on payment of monthly installments for a fixed period moratorium period (Augustin, Subrahmanyam, Tang & Wang, 2014). However, during this cessation period, the borrower does not require making any payment for the principal part of the loan but has to pay the interest factor. Under the deep restructuring, borrowers are given credit for making payment of interest component. Such loans are known as funded interest term loan. This type of credit is normally given only to those corporates who may not be in a position to service even the interest component. Banks involved in extended funded interest term loans fear that if the corporate defaults post restructuring, Central Bank of Kenya is unlikely to issue a similar scheme on restructuring shortly. A default will increase the ratio of bad loans and force commercial banks to make higher provisions, which means lower profitability (Su &Zhang, 2016).

Consequently, few bankers do not consider that there is anything unusual about funded interest term loans (Taylor, 2009). The only difference is that banks are more active in giving such loans currently as compared to any time in the past. The Central Bank of Kenya rule states that banks have to make full provisions for funded interest term loans thus indicating that they are aware of such practices in the banking system (Wadaki, 2013). However, to avert provisions on funded interest term loans, some commercial banks are carving out working capital loans into term loans. Therefore, a borrower drawing limits on working capital loans are linked to receivables and inventories. Conversely, in the case of term loans, the borrowing need not be backed by stocks (Berger, Cerqueiro & Penas, 2015).

A non-performing asset refers to a classification for loans on the books of financial institutions that are out rightly in default or are in arrears on slated payments of principal or interest. In ordinary commercial banks practice, a debt is categorized as nonperforming when loan payments have not been made for a period of at least ninety days. Non-performing assets may also be referred to as the investment of money in bad assets, which occurs due to the wrong choice of client and/or project (Balasubramaniam, 2012). In the situation where commercial bank loses money or their monies are blocked, the prodigality of bank decreases not only by the amount of non-performing assets but it leads to opportunity cost as much of the profit is invested in some return earning asset. Hence, non-performing assets do affect not only current profit but also future profits, which lead to losing some long-term beneficial opportunity. The capital of commercial banks also reduces due to written-off provision for non-performing assets (Joshi & Joshi, 2009). Non-performing assets cease the income from both interest and principal, which ultimately blocks the cash inflows from the investments (Gopalakrishnan, 2004). It is therefore difficult in the part of the banks to mobilize resources. Therefore new investments cannot possibly be made due to lack of funds to finance it.

According to McKinnon (2010), when funds get blocked, there is a possibility for profit to decrease hence it leads to the lack of enough cash at hand which leads to borrowing money for the shortest period which eventually leads to additional costs to the bank. Various difficulties arising in the operating functions of commercial banks are another cause of non-performing asset due to lack of funds. Therefore, non-performing asset directly affects the liquidity of the financial institution and banks. It also greatly affects the sanctioning of new projects. When a corporation does not have sufficient funds to invest in a new project due to stoppage of inflow of funds because of non-performing assets, it makes it difficult in sanction and disbursement (Andreff, 2015). The operational cost of the corporation also increases due to increase in the non-performing assets as well as making the monitoring cost to be too high. Nevertheless, both the preventive and curative measures for reducing non-performing assets attract high expenses. Furthermore, non-performing asset cease to generate any income from interest hence creating loss through incompetent management. It also affects the goodwill of the organization due to lack of efficiency in management (Wadaki, 2013). Nevertheless, the goodwill of the organization is adversely affected by nonperforming assets of the commercial banks.

A write-off refers to a reduction of the recognized value of an entity's asset. In an accounting perspective, this is recognition of the reduced or zero value of an asset while in income tax statements, a write-off is a reduction of taxable income, as recognition of certain expenses required to produce the income. A write off involves removing all traces of an asset from the balance sheet, so that the related asset account and accumulated depreciation for a fixed asset account are reduced. This is a common situation in commercial banks when a loan is being scrapped because the amount has been rendered irrecoverable. In business accounting, the term "write-off an asset" is used to refer to an investment for which a return on the investment is now impossible or unlikely (Grüschow, Kemper & Brettel, 2015). The item's potential return is thus canceled and removed from the business's balance sheet. Common write-offs in retail include spoiled and damaged goods. In commercial or industrial settings, a productive asset may be subject to write-off if it suffers failure or accident damage that is infeasible to repair, leaving the asset unusable for its intended purpose (Glaister, 2014). Similarly, Le (2016) argued that commercial banks write off their bad debts that are declared non-collectable such as a loan on a defunct business or a credit card due that are in default, removing it from their balance sheets. However, Kosi and Valentincic (2013) posit that a firm can decrease the value of an asset or incomes by the quantity of an expense or loss. Businesses can write off certain expenses that are required to run the business or have been incurred in the operation of the firm and deduct from retained revenues.

II.Research Objective

To examine the effect of asset restructuring on return on equity of financially distressed commercial banks in Kenya.

III.Research Hypothesis

H_{01}: Non-performing assets have no significant effect on the profitability of financially distressed commercial banks in Kenya.

IV.Literature Review

Credit Risk Theory

Credit may generally be defined as the provision of goods and services to a person or entity on predetermined terms and conditions, where the payments are to be made at a later date, either with or without interest (Downes & Goodman, 2010). A credit risk is the threat of default on a debt that may occasion from a borrower's failure at making required payments on earlier offered credit service. The risk is normally on the lender and includes lost principal and interest, which definitely results to disruption of cash flows as well as increased debt collection costs. Ordinarily during the contract period, not all debtors (accounts receivables) will repay their dues as and when they fall due. Therefore, if all borrowers (debtors) do not settle their account son the due date, the lender would be exposed to credit risks which may in turn result to subsequent defaults to the business' creditors/accounts payables. Credit risk is therefore, the investor's risk of loss, financial or otherwise, arising from a borrower who does not honour his or her dues as agreed in a contractual terms (Gu & Subramanian, 2012). The theory leads to the main frame discussion on how financial systems work in the banking sector. This concept as brought out in credit risk theory acted as a guide to the researcher while analyzing the preeminent forces occasioning to defaults in loan repayment in the commercial banks in Kenya.

Balance Sheet Decomposition Measure Theory

Based on the theory of Balance Sheet Decomposition Measure, one way of identifying firms' financial distress could be a careful look at the variations befalling their balance sheets i.e. statements of financial position (Kemboi, 2013). The theory employs a Univariate analysis and multiple discriminate analyses while examining variations in the structure of balance sheets. Univariate analysis is simply the application of accounting based ratios and market indicators for the distress risk assessment (Outecheva, 2007). The financial ratios of each company, therefore, are compared one at a time, and the distinction of these enterprises through a single ratio with a cut-off value is used to classify the enterprise as either distressed or non-distressed (Shisia, Sang, Waitindi & Okibo, 2014).

Multivariate analysis on the other hand is a statistical analysis concept where more than one variable are analyzed at the same time (Van der Klein, Plant, Sanders & Weintraub, 2012). The aim of multivariate analysis is to generally eliminate the weakness of Univariate analysis. First of all single ratios calculated by Univariate analysis do not capture time variation of financial ratios. This results to an implication that accounting ratios have their predictive ability one at a time, and it is impossible to analyze, for instance, rates of change in ratios over time. Secondly a single ratio may give inconsistent results if different ratio classifications are applied on the same firm. Thirdly, many accounting variables are highly correlated such that the interpretation of a single ratio in isolation may be incorrect. The original ratio is not able to capture multidimensional interrelationships within the firm. Finally, since the probability of failure for a sample is not the same as for the population, specific values of the cutoff points obtained for the sample will not be valid for the population (Outecheva, 2007).

Therefore, if a firm's financial statements reflect significant changes in the composition of assets and liabilities on its balance sheet, it is more likely that it is incapable of maintaining the equilibrium state. If these changes are liable to become uncontrollable in future, one can foresee financial distress in these firms (Kemboi, 2013). Therefore, by applying the theory of balance sheet decomposition measure, the researcher was critically guided so as to bring a clear understanding of the effects asset restructuring has on the profitability of financially distressed commercial bank in Kenya.

Gambler's Ruin Theory

Gambler Ruin theory was developed by Feller in 1968, who based it on the probability theory where a player wins or loses money by chance. The player starts out with an actual, arbitrary amount of money where the gambler wins a dollar with probability p and loses a dollar with a probability (1-p) in each period. The game continues until the player runs out of money (Eckbo, 2008). A banking firm can be thought of like a gambler repeatedly playing with some probability of loss, continuing to operate until its net worth goes to zero (bankruptcy). With an assumed initial amount of cash, in any given period, there is a net positive that a firm's cash inflows will be consistently negative over a number of years, ultimately leading to bankruptcy (Kemboi, 2013). The major weakness of this theory is that it assumes that a company starts with a certain amount of cash. There are two main difficulties with this theory when predicting bankruptcy, that is, the company has no access to securities markets and the cash flows are results of independent trials and managerial action cannot affect the results (Eckbo, 2008). The gambler ruin theory leads to an understanding of the causes of financial distress by the banks and how asset restructuring affects their profitability levels.

Asset Restructuring

When a company, whether operating in the line of financial sector or not, is experiencing trouble while making payments on its debt, it will often consolidate and adjust the terms of the debt in a debt restructuring, creating a way to pay off bond holders. A company restructures its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets. Hoskisson*et al.*, (2004) defined restructuring as the act of reorganizing the legal, ownership, operational or other structures of a company for the purpose of making it more profitable and better organized for its present needs. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, a response to a crisis or significant change in the business such as bankruptcy, repositioning or buyout. Furthermore, they argued that a company that has been restructured, will theoretically be leaner, more efficient, better organized and focused on its core business with a revised strategic and financial plan. Restructuring has been adopted by managers in several industries so as to streamline cost, increase productivity and revenues, improve employees' welfare, increase shareholders wealth, enhance efficiency and improve performance among other reasons. Adger (2001) suggests that the banking industry has transformed from predominantly country-centered or government-run agencies to increasingly competitive, innovative and market-led organizations.

The standard benefits of asset restructuring that has frequently been cited in studies include improved accuracy and the provision of timely and quick access to information, and the saving of costs (Cascio, 2002). Although it may be possible to identify many of the relevant organizational restructuring costs, according to Cascio, (2002), it is harder to quantify the intangible benefits to be derived from the restructured organization. Beyond cost reductions and productivity improvements, restructuring potentially and fundamentally affects revenue channels.

Mbogo & Waweru (2014) in their study on the corporate turnaround response by financially distressed companies listed on the NSE, surveyed companies that were listed for the entire period of the study (2002-2008). The survey found out that employee layoff was the most preferred course of action being carried out by 63% by the companies. Asset restructuring was the second most preferred turnaround strategy being carried out by 50% of the companies. Debt restructuring and top management change were the least preferred turn around strategies each one of them being taken by one company each.

Riany *et al.,* (2012) in their study on the effects of restructuring on organization performance of mobile phone service providers in Kenya conclude that the three methods of restructuring have a favourable effect on the companies' market share and market growth. Their results indicate that financial restructuring had the greatest impact on a company's market share followed by portfolio restructuring and organization restructuring. It is distinct that organizational restructuring had the greatest impact on market growth rate. Dong, Putterman and Unel (2004*)* studied the implications of restructuring on financial performance in Chinese context and asserted that performance improvements are realized upon restructuring. This is supported by inconclusive evidence from Liang, Cheng, and Lin (2015) study which shows restructuring results in better profitability.

Kale (2015) comparative studies found contradictory results; positive change in performance for firms that adopted portfolio and financial restructuring and negative results for firms that adopted organization restructuring. Similarly, Rao & Jessica, (2017), in their study, 'financial distress, bank restructuring, and layoffs', developed a model of a financially distressed firm to analyze the implications of a bank restructuring when the operational characteristics of the firms project for the post-distress period are endogenously determined as part of the work out. The study establishes a formal link between the debt restructuring and operational actions such as employee layoffs. In this study however, the focus was only firms with simple capital structures, where a single bank provides the outside funds needed by the firm.

Fagbamigbe *et al.,* (2015) studied the implication of restructuring on the performance and long-term competitiveness within the Kenyan banking sector and further, the significance of different modes of restructuring adopted by the banks in influencing performance. Findings revealed that generally, restructuring resulted to improvement in performance in terms of market share growth, competitiveness, growth in quality of products, geographical spread and customer retention. Further findings revealed that banks used different strategies of restructuring which had different motives in influencing performance. The study found mixed and inconclusive results as performance in some cases improved after financial restructuring whereas in other cases it declined. In the case of organizational and portfolio restructuring the study showed an increase in the year of restructuring and the year after though it was at a greater magnitude in the organization mode of restructuring. Maeda *et al. (*2015) studied the impact of capital adequacy on the financial performance of commercial banks Quoted at the

NSE. In his study he showed that capital adequacy has impact on the profitability of the banks and further that, capital adequacy contributes positively to the profitability of commercial banks. Hence, banks must have a sound capital base in order to remain competitive and maintain the confidence of customers. In a similar study, Kale (2015) found that a bank that is undercapitalized is not stable.

Graham, Harvey and Puri (2013) studied the relationship between debt ratios and firms specific variables that influence capital structure such as asset structure, firm size, level of interest rates, profitability, cash flow variability, age of industry, industry class, growth and ownership for all companies listed at the NSE for the period 1987 to 1996. The findings were that asset structure and profitability were positively related to debt ratios. Firm's growth was positively related to capital structure. Siró, Kusano, Norrman, Goutianos and Plackett (2013) in their study on effects of capital structure on the financial performance of firms listed on the NSE found that there was an inverse relationship between capital structure and financial performance of listed firms in securities exchange in Kenya. The findings indicate that the higher the debt ratio, the less the return on equity which therefore supports the need for more equity injection rather than borrowing, as the benefits of debt financing are less than its cost of funding.

Aad *et al.*(2016) while investigating the effect of asset restructuring on the operating efficiency of commercial banks in Taiwan concluded that banks had lower operating efficiency on average during the reform period (2002-2003) compared to the pre-reform period (2000-2001), improved operating efficiency was reflected in the post-reform period (2004). Their results remain unchanged even after controlling for the non-performing loan ratio, capital adequacy ratio, bank ownership, and size. Overall, the results indicate that the improved efficiency in the post-reform period was possibly due to the reduction of nonperforming loans rather than the boosting of capital adequacy in the reform period.

Nkegbe and Ustarz (2015) in their study of the determinants of financial performance of commercial banks in Kenya conclude that bank-specific factors significantly affect the performance of business banks in Kenya, except for liquidity variable. But the overall effect of macroeconomic variables was inconclusive at 5% significance level. The moderating role of ownership identity on the financial performance of commercial banks was insignificant. Thus, they concluded that the financial performance of business banks in Kenya is driven mainly by board and management decisions, while macroeconomic factors have an insignificant contribution.

Karanja (2015) did a study on the effects of asset restructuring on organization performance of mobile phone service providers in Kenya specifically inquiring the frequency with which a group carries out asset, portfolio, financial and organization restructuring, concluded that the four methods of restructuring have a favourable effect on the companies' market share and market growth. Their results indicate that asset restructuring had the greatest impact on a company's market share followed by financial restructuring, portfolio restructuring and organization restructuring. It is distinct that organizational restructuring had the most significant impact on market growth rate. The findings further indicated that a firm's decision to restructure is influenced by a change in the enterprise's objectives, political/legal, technological, economic and socio-cultural factors; with greater weight being set on the firm's objectives, technological change and economic factors.

Ithiri (2014) in his study of corporate restructuring and its effects on Kenya commercial bank's performance found that the primary drivers for restructuring were competition, new company strategy, budgetary cuts, public pressure and change in government policy. The study revealed that increase in competition in the industry, public policy; growth in customer demands forced the organization to restructure itself to remain competitive in the market. The study also revealed that the body structure had changed two times which was a result of competition in the market, regulation by the government, changes in the company's policies.

Return on Equity

Return on Equity (ROE) is a financial ratio that refers to how much profit a firm earned compared to the total amount of shareholder equity invested or found on the balance sheet. ROE is what the shareholders look in return for their investment (Ronoh, 2015). Return on equity is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. Thus, the higher the ROE, the better the company is regarding profit generation. It is further explained by Abdullah, et. al., (2014) that ROE is the ratio of net income after taxes divided by total equity capital. It represents the rate of return earned on the funds invested in the bank by its stockholders (Brealey, Myers, Allen & Mohanty, 2012). ROE reflects how efficiently a bank management is using shareholders' funds. Thus, it can be deduced from the above statement that the better the ROE, the more effective the management is in utilizing the shareholders capital.

Since Return on capital employed includes long-term finance in the computation, consequently, it is a more thorough test of profitability in addition to return on equity. A higher value of return on capital employed is auspicious indicating that the company creates more earnings per shilling of capital employed. A lower value of ROCE indicates lower profitability (Lins et. al., 2016). A company having less assets but same profit as its competitors have higher value of return on capital employed and thus higher profitability. Profit is the ultimate goal of all commercial banks hence all the strategies, design and activities performed thereof are meant to realize this grand objective. To measure the profitability of commercial banks, there are varieties of ratios used of which return on equity is a major one (Maina & Muturi, 2013).

Profitability ratios are a class of financial metrics that are utilized in financial perspective while assessing an entity's capacity to generate incomes relative to its expenses and other relevant costs incurred over a specified period of time. For majority of these profitability ratios, exhibiting a higher value relative to a competitor's ratio or relative to the same ratio from a previous period is an indication that the company has improved its financial performance. Most publicly traded companies report their net margins both quarterly during earnings releases and in their annual reports (Pradhan et. al., 2015). Companies that are able to expand their net margins over time are generally rewarded with share price growth, as share price growth leads directly to higher levels of profitability of the commercial banks. However, it's a common practice for both banking and non banking sectors' stakeholder to gauge the viability of investment opportunities through application of Return on Equity and Return on Assets of the enterprise in question.

V.Research Methodology

This study employed a longitudinal research design. This design was considered appropriate for the research as it provided an in-depth analysis of the situation as it exists. Moreover, the design studied a sample of the population over a given period of time so as to evaluate their cause-effect relationship. The target population for this study comprised of all the 24 financially distressed commercial banks in Kenya that restructured their assets during the period 1992 -2016. The target population was 24 commercial banks which undertook asset restructuring between 1992 and 2016. The study employed secondary data extracted from the audited financial statements and annual reports of the commercial banks over the 25-year period, 1992 to 2016. The researcher relied on audited and published financial statements of the specific sampled banks to achieve the research objectives. Collected data was coded, accumulated in Microsoft excel and then exported to STATA statistical software for analysis. The unbalanced panel data regression model was adopted in data analysis.

VI.Research Findings and Discussions

The study sought to find out the effect of asset restructuring on Return on Equity of financially distressed commercial banks in Kenya where restructured loans, non-performing assets and written off assets were the predictor variables while ROE was the dependent variable. The goodwill of an organization is predominantly affected by the quality of its assets hence a need for commercial enterprises to restructure loans and advances they offer their customers (Wadaki, 2013). Based on the results, a regression coefficient of 1.1222 and a p-value of $0.0384<0.05$ were obtained hence one can conclude with 95% confidence level that restructured loans positively and significantly affect return on equity of financially distressed commercial banks in Kenya. This means a unit increase in restructured loans would result to 1.1222 units increase in ROE. Therefore the null hypothesis that restructured loans have no significant influence on profitability of financially distressed commercial banks in Kenya was rejected at 5% significance level.

Based on the arguments of Waweru and Kalani (2009) the leading cause of the many financial institutions that collapses in Kenya is due to non-performing assets, mergers and acquisitions, restructured loans and written off assets. On the effect of non-performing assets on return on equity of financially distressed commercial banks in Kenya a regression coefficient of -1.4696 and a p-value of $0.0247<0.05$ were realized. This indicates that non-performing assets have negative significant effect on ROE of financially distressed commercial banks at 5% significance level. It translates to a conclusion that a unit increase in non-performing assets of a financially distressed commercial bank would occasion to 1.4696 decrease in its return on equity. Thus, the null hypothesis that non-performing assets have no significant influence on profitability of a financially distressed commercial bank in Kenya was rejected with 95% degree of confidence. Su and Zhang (2016) attributes this phemomenon to the fact that a default of loan facility increases the ratio of bad loans (non performing assets) and force commercial banks to make higher provisions, which means lower profitability.

The regression coefficient of written off assets and return on equity of financially distressed commercial banks in Kenya was -2.4099 and a p-value of $0.026<0.05$ at 5% significance level. This implies that written off assets have a negative significant effect on return on equity of financially distressed commercial banks. The results could be interpreted to mean a one percent increase in written off assets would result to 2.4099 percentage decrease in return on equity of financially distressed commercial banks in Kenya. Therefore the null hypothesis that written-off assets have no significant effect on profitability of financially distressed commercial banks in Kenya was rejected with 95% degree of confidence.

VII.Conclusion of the Study

Restructured loans of a financially distressed commercial bank have a statistically strong effect on return on equity since a coefficient of 1.1222 and a p-value of 0.0384<0.05 at 5% significance level were obtained. Based on the study findings one can conclude with 95% degree of confidence that non-performing assets negatively and significantly impact on ROE of a financially distressed commercial bank, as evidenced by a regression coefficient of -1.4698 and a p-value of 0.0247<0.05 at 5% significance level.

VIII.Recommendations of the Study

The study recommends that financially distressed commercial banks should develop appropriate policies to reduce the level of non-performing assets hence improve their profitability.

References

1) Abdullah, S., Matthews M., Murnane E. L., Gay G. & Choudbury T. (2014). Towards Circadian Computing:"Early to Bed and Early to Rise" Makes Some of Us Unhealthy and Sleep Deprived. *UBICOMP*, 14 (9), 13-17.
2) Adger, W. N. (2001). Scales of Governance and Environmental Justice for Adaptation and Mitigation of Climate Change. *Journal of International Development, 13*(7), 921-931.
3) Andreff, W. (2015). Governance of Professional Team Sports Clubs: Agency Problems and Soft Budget Constraints. Disequilibrium Sports Economics: *Competitive Imbalance and Budget Constraints*, 4(3), 160-175.
4) Apostolov, M. (2014). Governance and Enterprise Restructuring: the Case of Macedonia. *International Journal of Emerging Markets, 9*(1), 147-156.
5) Augustin, P., Subrahmanyam, M. G., Tang, D. Y., & Wang, S. Q. (2014). Credit Default Swaps – A Survey. *Foundations and Trends in Finance, 9*(1), 1-196.
6) Aurora, D. R. S. (2010). NPA's A Comparative Analysis on Banks & Financial Institutions and its Implications. *Journal of Business and Finance, 2*(2), 93-98.
7) Balasubramaniam, C. S. (2012). Non-performing Assets and Profitability of Commercial Banks in India: Assessment and Emerging Issues. National Monthly Refereed. *Journal of Research in Commerce & Management, 1(6),* 41-52.
8) Barney, J. B., & Turk, T. A. (2016). Superior Performance from Implementing Merger and Acquisition Strategies: A Resource-Based. *The Management of Corporate Acquisitions: International Perspectives, 6*(1), 96-105.
9) Berger, A. N., Cerqueiro, G., & Penas, M. F. (2015). Market Size Structure and Small Business Lending: Are Crisis Times Different from Normal Circumstances?. *Review of Finance*, *19*(5), 1965-1995.
10) Bertrand, O., Betschinger, M. A., & Petrina, Y. (2014). Organizational Spillovers of Divestiture Activity to M&A Decision-Making. *Advances in Mergers and Acquisitions*, *11*(2), 65-83).
11) Bhatt, D. L., Roe, M. T., Peterson, E. D., Li, Y., Chen, A. Y., Harrington, R. A., & Gibson, C. M. (2004). Utilization of Early Invasive Management Strategies for High-Risk Patients with Non–ST-Segment Elevation Acute Coronary Syndromes: Results from the Crusade Quality Improvement Initiative. *Jama*, *292*(17), 2096-2104.
12) Bish, A. J., Newton, C. J., Browning, V., O'Connor, P., & Anibaldi, R. (2014). An Exploration of the Professional Competencies Required in Engineering Asset management. *European Journal of Engineering Education, 39*(4), 432-447.
13) Brealey, R. A., Myers, S. C., Allen, F., & Mohanty, P. (2012). *Principles of Corporate Finance*. New Delhi: Tata McGraw-Hill Education.
14) Decker, C., & Mellewigt, T. (2007). The Drivers and Implications of Business Divestiture–and Application and Extension of Prior Findings. *Economic Risk*, *7*(1), 41-54.
15) Downes, J., & Goodman, J. E. (2010). *Dictionary of Finance and Investment Terms* (9th ed.). New York: Barron's Educational Series.

16) Eckbo, B. E. (Ed.). (2008). *Handbook of Empirical Corporate Finance Volume, 2*. (1st ed.). North Holland: Elsevier.
17) Glaister, K. W. (2014). The Contribution of Management to Economic Growth: A Review. *Prometheus, 32*(3), 227-244.
18) Gopalakrishnan, T. V. (2004). *Management of Non-Performing Advances: A study Concerning Public Sector* Banks. New Delhi: Northern Book Centre.
19) Grüschow, R. M., Kemper, J., & Brettel, M. (2015). Do Transaction Costs of Payment Systems Differ Across Customers in E-commerce?. *ECIS 2015 Completed Research Papers, 64*(1), 16-19.
20) Gu. H., & Subramanian, S. M. (2012). *Socio-Ecological Production Landscapes: Relevance to the Green Economy Agenda*. Yokohama: United Nations University Institute for Advanced Studies.
21) Gutierrez, I., Alcaraz, J. M., Susaeta, L., Suárez, E., & Pin, J. R. (2015). *Managing Sustainability for Competitive Advantage: Evidence from the Hospitality Industry*. Retrieved from https://www.iese.edu/research/pdfs/WP-1115-E.pdf
22) Heywood, C., & Kenley, R. (2008). The Sustainable Competitive Advantage Model for Corporate Real Estate. *Journal of Corporate Real Estate, 10*(2), 85-109.
23) Hoskisson, R. E., Cannella, A. A., Tihanyi, L., & Faraci, R. (2004). Asset Restructuring and Business Group Affiliation in French Civil Law Countries. *Strategic Management Journal, 25*(6), 525-539.
24) Imbo, H. A. (2014). Implementation of Corporate Restructuring at the Independent Electoral and Boundaries Commission in Kenya. Unpublished Masters of Business Administration Thesis: University of Nairobi.
25) Jain, A. K., & Moreno, A. (2015). Organizational Learning, Knowledge Management Practices and Firm's Performance: an Empirical Study of a Heavy Engineering Firm in India. *The Learning Organization, 22*(1), 14-39.
26) Johnson, G., Scholes, K., & Whittington, R. (2008). Exploring Corporate Strategy: Text and Cases. Pearson Education.
27) Joshi, V. C., & Joshi, V. V. (2009). Managing Indian Banks: the Challenges Ahead. SAGE Publications India.
28) Karanja, G. W. (2015). Restructuring Strategy and Performance of KCB Bank Limited (Doctoral dissertation, University of Nairobi).
29) Kemboi, E. K. (2013). The Validity of Altman Failure Prediction Model in Predicting Corporate Financial Distress in Uchumi Supermarket in Kenya (Doctoral Dissertation, University of Nairobi.).
30) Kosi, U., & Valentincic, A. (2013). Write-offs and Profitability in Private Firms: Disentangling the Impact of Tax-minimisation Incentives. *European Accounting Review, 22*(1), 117-150.
31) Laeven, M. L., & Valencia, F. (2010). *Resolution of Banking Crisis: The Good, the Bad, and the Ugly (No. 10-146).* Retrieved from https://www.imf.org/external/pubs/ft/wp/2010/wp10146.pdf
32) Le, T. (2016). The Efficiency Effects of Bank Mergers: An Analysis of Case Studies in Vietnam. *Risk Governance and Control: Financial Markets & Institutions*, 3(2), 14-26.
33) Lins, K. V., Servaes, H., & Tamayo, A. (2016). Social Capital, Trust, and Firm Performance: The value of Corporate Social Responsibility During the Financial Crisis. *The Journal of Finance, 86*(2), 53-79.
34) Maina, G. M., & Muturi, W. (2013). Determinants of the Financial Performance of Commercial Banks in Kenya. *Research Journal of Finance and Accounting, 8*(6), 26-42.
35) Mamatzakis, E., Matousek, R., & Vu, A. N. (2015). What is the impact of bankrupt and restructured loans on Japanese bank efficiency? *Journal of Banking & Finance, 7*(1), 12-25.
36) Maseno, O. P. (2014). *The Effect of Financial Restructuring on the Financial Performance of Commercial Banks in Kenya*. Unpublished Master of Science in Finance Thesis: University of Nairobi
37) Mason, E. S., & Asher, R. E. (2010). *The World Bank since Bretton Woods: The Origins, Policies, Operations, and Impact of the International Bank for Reconstruction and Development and the Other Members of the World Bank Group*. Washington, D.C.: Brookings Institution Press.
38) McKinnon, R. I. (2010). *Money and Capital in Economic Development.* Washington, D.C.:Brookings Institution Press.
39) Mugenda, O. "& Mugenda AG (2003). Research *Methods: Quantitative and Qualitative Approaches*. Nairobi: ACTS.
40) Mulherin, J. H., & Boone, A. L. (2000). Comparing Acquisitions and Divestitures. *Journal of Corporate Finance, 6*(2), 117-139.
41) Nazemroaya, M. D. (2015). *Global Research.* Retrieved from http://www. Global research. ca/is e-of-the-anti-government-flashmobs-first-ukraine-nowvenezuela/5369691.
42) Pradhan, K., Talukdar, P., & Roy, D. (2015). Assessing the Determinants of Net Profit from the Enterprises in West Bengal. Journal *of Crop and Weed, 11*(2), 38-43.

43) Ronoh, N. C. (2015). *Bank Financial Performance and Customer Satisfaction in Kenya*. Unpublished Master of Business Administration Thesis: University of Nairobi.
44) Schuler, R. S., & Rogovsky, N. (2007). Global Realities and Trends: Socially Sensitive Enterprise Restructuring. *Asian Productivity Organization, 2*(1), 7-11.
45) Su, X., & Zhang, L. (2016). A Re-Examination of Credit Rationing in the Stiglitz and Weiss Model. *Journal of Money, Credit, and Banking Department of Economics, 5*(6), 1-18.
46) Taylor, J. B. (2009). *The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong*. Retrieved from http://www.nber.org/papers/w14631
47) Wadaki, N. (2013). *The Effect of Foreign Banks Entry on the Financial Performance of Local Commercial Banks in Kenya*. Unpublished Master of Business Administration Thesis: University of Nairobi).
48) Watve, N. S. (2014). Transforming Human Resources into Strategic Assets: Differential Importance of Various HR Practices. *International Journal of Knowledge Management and Practices, 2(*1), 44-49.
49) Waweru, N. M. & Kalani, V. M. (2009). Commercial Banking Crises in Kenya: Causes and Remedies. *African Journal of Accounting, 4*(4), 12-32.
50) White, B. T. (2010). Underwater and Not Walking Away: Shame, Fear and the Social Management of the Housing Crisis. *Wake Forest Law Review, 45*(3), 960- 971.
51) Wilson, N., Wright, M., Siegel, D. S., & Scholes, L. (2012). Private Equity Portfolio Company Performance During the Global Recession. *Journal of Corporate Finance, 18*(1), 193-205.

How To Cite This Article;
Maroro. R. M., Kamau. J. G., & Koima, J. (2018). Effect of Asset Restructuring on Return on Equity of Financially Distressed Commercial Banks in Kenya. *International Journal of Business Management and Processes (IJBMP)*, 3(2), 26-39.