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Effects of Profitability on Corporate Cash Holdings of Commercial Banks in Kenya

ABSTRACT:

The profitability of commercial banks in Kenya is important to the creditors, owners, employees and management. This study aimed at assessing the effect of profitability on the corporate cash holdings of Commercial Banks in Kenya. Measures of profitability in this study was the return on assets. The population of the study comprised of all commercial banks registered and licensed to operate in Kenya as at 31st December 2017. This study adopted census survey method where all the commercial banks were analyzed. This study heavily relied on secondary data which was obtained from annual reports issued by the CBK Bank Supervision unit. The researcher used data collection sheet where all the variables were entered after extraction from the financial statements of the banks. This was followed by a data summarization and subsequent data cleaning to ensure that data was ready for analysis. A ten-year (2008-2017) data was considered. Descriptive and inferential statistics were adopted in analysing data through the multiple linear regression by using of ANOVA software, and Statistical Package for Social Sciences. The data that was analysed and presented using frequency tables, pie charts, graphs and percentages. The results indicated that profitability of the firms exert a positive effect on corporate cash holdings. Profitability in commercial banks affects corporate cash holdings of the commercial banks to a very great extent. The results shows that investing in cash and marketable securities results into a firm foregoing investment in more productive assets generate opportunity costs. Firms therefore, hold cash because raising funds in capital markets is costlier than having retained earnings. The study thus recommended that adopting a more traditional model such as deposit and loan-based business model allow a bank to optimize profits with a lower level of liquid assets.

Key Words: Cash Holding, Liquidity, Profitability, Net Working Capital, Cash Flows.

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